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DISCUSSION OF PRECEDING PAPER

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Recognition to Mr. Myers for a Quarter-Century of Social Security Study

Mr. Myers' long, over-all and detailed familiarity with this subject has practically no parallel among actuaries. This paper rounds out his tremendous output of reports and will be a source of reference for many years. It appears at a crucial moment in political history, when certain delayed consequences of previous action are appearing, so that its timing doubles its importance.

The Mystery and Magic of Federal Social Security

In the Social Security history there are short runs and long runs, and probably intermediate runs, for a structure like OASI that starts by barring the aged—when the benefit purports to be in favor of the aged—takes many decades before it outgrows its exclusions. My paper on "A Matter of Life and Death" discusses the lags involved.

When the British allowed themselves to feel that some of their Social Insurance features had forestalled revolution, it was a short run verdict. In the intermediate run, the adoption clearly seems a part of the revolution. It was in the short run that Bismarck could convince himself that one could ward off socialism by adopting socialistic principles of state control. It is Friedrich A. Hayek's long-run conclusion that it became the road to serfdom. In the two world wars these two nations found themselves expedited on their road to socialistic ways by their social insurance experiences, and rather badly manhandled in the process.

We in the United States initiated Federal Old-Age Benefits in 1935, found it evolving into OASI in 1939, into OASDI in 1956, while in 1959 expansion into hospitalization benefits is under discussion.

In 1937 Old-Age Benefits paid a modest \$1 million in benefits and administrative costs. In 1959 OASI seems sure to pay 10,000 times that modest sum. (Because the disability benefits carry separate taxation and Trust Fund, my continued use of OASI indicates the general exclusion of the new disability account in this discussion.) In 1937 taxes on *individuals* took in a quarter of a billion dollars. In 1959 they may take in something like \$4½ billion dollars—a growth of 17 times. In 1937 practically none of that quarter-billion was required for that year's OASI benefits, and it was available for other purposes. In 1959 all of the \$4½ billion—in fact all of the combined individual and employer taxes of \$8½ billion

—will be used for current benefits, and none will be available for other purposes, and that at a time when the other purposes are most hungry for funds.

In 1937 the Federal subsidy to Public Assistance (which had started a year earlier) used about $\frac{3}{4}$ as much as the employees' Old-Age Benefits taxes, in 1949 as much as all of the employees' OASI taxes, in 1959 as much as 40% of the employees' OASI taxes.

In 1959 all of both personal and employer OASI taxes will be swallowed up in current benefits and administrative costs of OASI. From 1937 through 1959 about $\frac{3}{4}$ of all OASI taxes will have gone into benefits, and the Federal subsidy to Public Assistance will have absorbed more than all the rest.

There is a trust fund of \$22 billion built from the excess of OASI income over outgo for OASI benefits and administrative costs, for the Public Assistance Federal subsidies have not been specifically met from the revenues of the OASI tax, but rather, apparently, from the revenues from taxes in the regular Federal budget or by further borrowing. That \$22 billion Trust Fund can meet only about a third of presumptive future benefit demands from the 12,000,000 OASI beneficiaries of record. These beneficiaries include insured employees, insured self-employed, spouses, relicts, semi-orphaned and fully orphaned children, their widowed mothers, young children of benefit-drawing primary beneficiaries, dependent parents of deceased employee or self-employed taxpayers, and perhaps others advancing funeral expenses—a rather impressive set of categories.

Some 100,000,000 living, covered, once-taxpaying, nonretired persons are also moving onward toward benefit status for themselves and their dependents and survivors. Some 30% of them may currently lack an insured status, and many lose the status, but there has been great ingenuity applied to methods of granting qualification. They have reason to expect the carefully erected bars to fall.

The average primary monthly benefit paid in 1958 seems to be about \$66, $2\frac{1}{2}$ times the average of 1950 and 3 times the average of 1940, the first year to pay monthly age benefits. Last year's \$66 corresponded to an average wage of some \$1,700. Two different average wages should be noted, one matching tax payment, the other, usually somewhat higher, determining benefit level. Since the yearly average wage taxed has ranged from \$900 in the early years of the program up to some \$2,500 in recent years (leaving out the years of nontax-payment), the benefit-determining wage obtained by a method that drops out the earnings before 1951 and the lower earnings since that time, may easily be 50% higher than the tax-determining wage. The procrustean bed is not too rigid. The

Marxian dogma, "to each according to his need," has been effectively corrected to "Them as has, gits." Public Assistance was devised to deal with need. The rules vary widely from state to state. The increased Federal funds allotted by the 1958 Amendments should increase the state ingenuity in tapping Federal funds.

Now that wages are taxed up to \$4,800 a year, and a potential maximum benefit of \$127 a month established, the history of the last decade of steadily growing into larger and larger benefits would seem to justify expectations of about that maximum for those retiring ten or more years from now. Friendly legislators steadily dangle much larger plums than that before their (the back home voters') acquiescent and believing eyes. A clergyman friend notes that this represents a new magic—perhaps economic, perhaps actuarial.

Actuarial Techniques

The ILO has often invoked that actuarial magic in their sales presentation. Lucien Feraud, avoiding the sense of the magic, wrote a book called *Actuarial Technique and Financial Organization in Social Insurance*. We have had our share in the activity. I admire Mr. Myers' ingenuity and his capacity to crowd much information into small space. I have questioned and continue to question his use of certain tools in this no-man's land of appeal to everyman. The following illustrations of practices that I question will suffice:

1. The assumption that a plan periodically modified, and still subject to change or even abandonment, can safely be viewed as perpetual.
2. The use in his perpetuity computations of discount at normal interest while anticipating but sketchy fund accumulation for earning interest.
3. Tabulated data on an intermediate assumption that is used as though it represented either reality or the most probable situation.
4. Such oversimplified actuarial presentation as allows the Congress to claim improvement in actuarial status, when making dangerous expansions in program.
5. The assumption that Table 5 in this paper in any way proves the basic correctness of the 1958 projected tax schedule.

The Seamy Side of OASI

Frequently political decisions involve snap judgments which avoid expressing any basic philosophy save a temporary expediency. Expediency does not build firm structures. After 22 years of operation, a few of these temporary snap judgments need reexamination in the light of experience and reason. Some are not standing up too well as added weight is piled upon the building blocks. Since this is only comment on a paper, and not a paper itself, the following illustrations are not comprehensive.

1. *The philosophy of "contribution toward" by the individual*

This is also the philosophy of *subsidy for the individual*. In something called "social," aiming at all society, that subsidy could lead to a temporary training period for individual self-reliance and self-sufficiency, or away from free choice of permanent strait jackets for the citizen, as with the ancient Incas or the mob in the original *Brave New World* of Aldous Huxley.

I have been able to rationalize to some extent a minor charity from the Federal taxpayers on a uniform basis, that I called "Social Budgeting." In the long run, it must be regarded as a lesser evil, not a greater good. It should be temporary, inadequate by itself for minimum personal support, a *minor provision*, of less importance than a man's own chosen thrift plans or than those in which he pools his provision with others. The Social Budgeting should not simulate the contractual insurance relationship, with its individual equivalence of premiums and benefits. It should not deepen the subsidy from and dependence on others. But as outright charity from the taxpayers it might represent also a compensatory apology for the evils of inflationary price boosts accompanying too rapidly boosted wages to the working taxpayers.

Mortality rates advance by age—1,000 times the age 10 rate for the survivor to age 100. Level-premium life insurance, to use Henry Jackson's phrase, was "a marvelous invention." Through it a man could aim at a lifetime of protection met by his premium payments. He could meet the family claims in life, even following his death. It was part of the advance from status to contract. But to move from an implement of effective self-reliance, self-sufficiency, to the expectation of perpetual subsidy from others is a slipping back to semipauperism. OASI barred benefits to those who at the start were the logical beneficiaries of social budgeting. Canada learned from our error. Following the complete exclusion of a large group, OASI showered huge windfalls to those awarded benefits in the first 22 years. The surcharges against potential inheritors of the subsidy payment are rather indeterminate. Such a system can become so out-of-balance as to be either silly or sinful.

Whether such State intervention is sponsored by Bismarck or Lloyd George, Lord Beveridge or Abe Epstein, it seems to lead to far-reaching consequences. The State compulsions grow; his field of personal choice narrows, as the citizen sees no end to the encroachment. Lord Beveridge's autobiography, *Power and Influence*, tells how he made a deal with Keynes, as a leading support for the rightness of his plan. Both Schumpeter's *The March into Socialism*, that I heard him give in Cleveland, and have read since, and my autographed copy of Ben Morrell's *To Commu-*

nism via Majority Vote deal with the mood that discards the painfulness of working out logical deductions and lightly leaps to *non-sequitur* conclusions. Morrell, at least, was unhappy about the things men do under that compulsion. The Marxists did not originally approve the use of Social Insurance; they feared it would work too well, making men "satisfied with their chains." Today's more sophisticated collectivists seem to accept the gadget of "contribution toward," perhaps as a step away from personal wholeness and a step toward more statist control. Since there are essentially only individuals to pay the taxes, the subsidizers will be the citizens of tomorrow. The argument that "contribution toward" stimulates self-reliance seems pure hokum.

2. *The philosophy of employer's contribution*

The frame of mind that can tax a corporation through its corporate unity as well as tax the individual holders of the equity shares—taking half the profits first—can of course be stretched a trifle to add from 1% to 5% of the wage bill under OASI. That tax is probably generally considered part of the wage bill. If it is, it represents another slice of wages over which the employee has no control. Ex-Commissioner Altmeyer has stated that, while levied against the individual worker's wage, the employer's part of the tax did not represent benefit potential to that individual, but was for benefits to the whole system. If sometime, in the need for precedence, priorities are established, those already drawing benefits would come first and, among them, perhaps the oldest would rank above the younger ones.

Under my social budgeting philosophy of charity transfer from the taxpayer to beneficiaries, it would be much simpler to pass the employer contribution over to the employees. The worker's tax would then seem to double, and the self-employed's tax increase by a third. The social budgeting would not bar out the aged and the orphans of the starting years, but it should provide a much smaller monthly grant than the 1958 (and 1960 and later) Amendments envisage. A single tax on individual taxpayers would be more educational, and perhaps more deterrent to welfare-minded legislators.

3. *Varying benefits by wage records*

I can only assume that this feature is designed to expedite persistent increases in the benefit amounts. So far, the benefits have been almost entirely gratuitous. Today, all of the current taxes are promptly going out as benefits. The triple doles of the affluent, when compared with those to the needy minimum-benefit recipient, are hardly "on all fours" with

the basic concern for presumptive need. The adoption of "contribution toward" created wide inequities over time. The varying of the doles creates a more serious one. The British could talk about conscience as exemplified in their nearly flat-rate benefits. We cannot lay that flattering unction to our souls. We make a direct appeal to cupidity, and even provide a further stimulus to the drive for more wages, to give more benefits again. We may do most harm to our previously self-sufficient citizens.

4. *The overloaded machine*

The modern equipment for office administration is a wonder of the age. It tempts to continuous expansion. The equipment in Baltimore for OASI handling is being pushed pretty hard to meet the statistical displays and to get out the bigger checks on time (those bigger checks that make for smaller balances). Some of the records tabulations have been completed through 1954—four years ago. They have never produced certain basic records to show for the individual taxpayer the individual equation of his tax input and, at benefit award time, his potential take. As suggested above, since there is such a range of wage-histories, there should be some rather extensive random sampling here. Some of us have drawn up selected imaginary samples, designed to instill caution in administrators and legislators. They have been used to enhance, for the groundlings, the marvel of something that gives so much and demands so little. Doubtless the staff has been so busy rationalizing the last expansions, and those to come, that they do lack time for basic analysis. The yearly Trust Fund report was mapped out by Mr. Mowbray as an actuarial control, discussed at some length with me. In the early years it seemed to me to slide away from its purpose, and the example once set is hard to break, with the overworked machine.

The machinery can locate most account numbers in less than a minute, but many millions of actual wage report lacked something vital, so that the record could not be posted to the individual account. The other day I learned that, because of the pressure of work, a change in method was postponing the date of award for December items till January, throwing 1958 out of harmony with previous years. Correction might be made later.

The odd-numbered years show much greater benefit increases than do the even-numbered years. So 1958 was a year of lesser increases anyway, but omitting a month's awards can reduce the increase further. Probably people do delay presenting claims until the smoke of pending legislation clears away and they feel they know for what they are applying. Probably this means, in turn, a larger accumulation of back payments. Perhaps

the intense preoccupation of the Administration with "the wild blue yonder" contributes to delay in the legislative years. There were dramatic increases in total benefit payments in 1951, 1953, 1955 and 1957, and there will probably be a record jump in 1959.

The *Actuarial Studies* carry significant information to the initiated. They have led me to the conviction that the yearly accruing liability for expected benefits to covered individuals is at least three times last year's total tax rate (OASI, excluding PTD), that in 1957 the awards of the year represented some $2\frac{1}{2}$ times that year's tax rate and, after the cut of 1958, that 1959 and later years would head upward toward the three times relationship.

In the relationship of largess to personal tax payment, the very selection of those who are to get more and those who are to get less largess, and who is to get none at all, there is basic instability. The complexity has always been so great as to discourage the occupied citizen from attempting to grasp the prickly problem. It remains a functioning enterprise with unformulated philosophy. Against the lower age benefits, the higher PTD benefits suggest that, lowered by intermittent employment before disability proof, the future age grant is apt to be much higher than at present.

The Curtis Subcommittee dug up a lot of things of pertinence, which were unceremoniously buried again before they could enlighten the inquirer. This resulted in somewhat emasculated reports. The OASI structure keeps an army busy, and every enlargement by half-admitted and half-boasted extravagance seems designed to make analysis more difficult.

5. "*The evil that men do*"

OASI has reached the point where its semicommitments are enormous. They are not firm ones, for Section 1104 offers an escape-hatch. But this adds to the capacity for evil since 1104 is rarely mentioned, and all and sundry, including certain insurance companies, have been presenting it as though it were possible to promise what the next generation will do with the debts we bequeath them.

Using the intermediate method I have questioned above, I have developed an "iffish" unfunded accrued liability of \$650 billion. I mention this with some hesitation, lest it be promptly seized upon as the source of further monetization and pump-priming, to take us still further into inflation.

This system surely muddies up the springs of wisdom applied to personal budgeting. With all these pleasant subsidies toward personal insurance, thrift and family provision, any temporary margin seems available

for consumption, or for another baby. It isn't just OASI, but all the subsidized items—housing, medical care, electricity, education—almost everything, it sometimes seems—that alter mature men's hopes of self-reliance.

People misstate their ages to work longer, and later misstate them or correct them to qualify for old-age benefits. We can no longer trust our census figures on the aged, nor the vital statistics derived from them. There has suddenly appeared a sort of mid-Victorian avoidance of naming certain awkward characteristics, as though by avoiding harsh realities they might disappear.

Hurdles are set up, pleasantly low ones, so that the benefits granted in one election year will not really have got into operation by the next one, and the same arguments for extravagance can serve the second time. Now that the percentage at the lower portion of the wage range has passed 60% for a single life, and 90% for two, the percentages give way to a conversion table that might mute down the too-high ratio. The absurdity of calling this extensive table of values a "floor" is patent.

When men are lured to the point of looking to the State for so much, that they spend beyond what should be the spendable part of their income, waste is rampant, prudence disappears. Aldous Huxley's first *Brave New World* showed the scorn of wearing things out and encouraged throwing away to spur business. From the basic false premise of the eternal need of subsidy, we move on to perpetual prodigality, extravagance, perhaps moral decay.

Actuaries are better employed dealing in accounting appraisal than in the justification of dubious experiences. When "uniformity" is uniformity in ignoring imbalance, uniformity becomes inexcusable. The whole welfare state layout hides from the citizen any information as to who, in all reality, pays for his subsidy, how much is paid, and when the burden bears down.

Social Security is part of the subterfuge that results in inflation. In the nation today, the men who saved dollars, particularly through life insurance, find them buying half what they had expected. The thrifter they have been, the greater the loss. We seem first to make them poor, and then to offer them a partial compensation for the evil done them, the most of the bill to be presented to later taxpayers. So very many of these taxpayers, in spite of OASI windfalls, are worse off. They are growingly suspicious of the claims of OASI. The threat that Canada and England, for lack of fuller analysis, might copy the OASI mistakes leads me to the simple advice: "Here is our program. Don't try it."

6. "Pay-as-you-go"

This phrase has been bandied about as applicable to OASI. The taxes this year (last year, too, and the year before that) won't be enough to pay the benefits. The awards of 1957 represented potential outlay of 10% of taxable wage base, ignoring the tendency to enlarge them later. It can run into "more-pay-and-much-more-go" later on. And still later the absence of our right to commit the later taxpayers can result in some considerable backwatering, to our inconvenience and our shame at the earlier casualness in financial matters.

Some Summary Considerations

My comments on this OASI system, made during the course of its development, are rather widely scattered. But the family of Social Security, to which OASI belongs, also has a wide spread. It claims to fulfill the objectives of life insurance, life annuities, health insurance, unemployment compensation, savings plans and relief. It aims at constant enlargement of the sphere of Federal Government control.

One of the most fundamental springs of human action is humanitarian concern for our unfortunate fellow-man—the Parable of the Good Samaritan, the command to "love thy neighbor as thyself." Government take-over and modification of this instinct has given us Social Insurance.

As the huge indemnity paid by the French to the Germans after the loss of the Franco-Prussian War of 1870 was running down in its pump-priming function, Adolf Wagner "sold" Bismarck Social Insurance, a new "shot-in-the-arm."

As the expansion of the British Empire rested on its laurels after the Boer War, the competition among the Christian Socialists, the mainly non-Christian Fabians, Labour, the Liberals and the unblushing Collectivists was interrupted by the collaboration of a still wider group in the Royal Commission of the Poor Law, 1905–1910. Before the last Appendix Volumes were in print (they ran to 36), the initial steps in Britain's experiment in Social Insurance had been taken.

In the United States, we had had our Fraternal and the start of today's huge Group insurance business. The Fraternal's admonition, "keep the reserve in your pocket," and the group one-year term structure with general employer subsidy, seemed Utopian in their discovery of low costs.

War, depression and revolution are linked catastrophes. Such catastrophes stimulate healthy rebuilding. They offer facilities for action to both builders and destroyers. They stimulate the sale of partially prepared panaceas. "Hope springs eternal."

In 1934 we were in a depression. Not so long before there had been a

war. On all hands were the revolutionaries. The Committee on Economic Security had assembled its staff by October. Its goal was a completed report by Christmas. The big money foundations had been active for nearly thirty years on their job of making the world a better place and they were well represented on the staff of the Committee. North America had been different, but we were looking across to the undeveloped experiments abroad for inspiration. Here the poorhouse was apparently sheltering only about 1% of the population past 65. But in 1934 there were also many who had but recently lost savings, insurance and other property. They were losing courage. We were all forgetting the disciplinary powers of adversity and the resilience of free humans. Extrapolating the dubious present into a potentially more dismal future, the mingled wreckers and builders discarded confidence in individual self-sufficiency and in local benevolence as recuperative forces. They recommended the expansion of the powers of the Constitutionally limited Federal Government into controls that were to make history.

The Social Security Act of 1935 that followed hard upon the Report of the Cabinet Committee on Economic Security, in its old-age benefits and the complementary provisions of Public Assistance, now shows several "Achilles' heels":

1. It deals with a temporary relief emergency by a permanent program, whose long-run costs were to be bequeathed to future generations of taxpayers.
2. It shifted the attention from the humane rehabilitation of the indigent and the inescapable pauper doles, to the dubious goal of making high-grade paupers out of self-reliant citizens.
3. Were the job one of merely aiding existing paupers, getting them accustomed to sharing in the cost of rehabilitation of themselves, such contribution might for them have been an upward step. But to subsidize the self-sufficient, self-reliant citizens, instead of being a step up, was a clipping of the wings which they were prepared to use in upward flight on their own.
4. At the start it discriminated against the persons in the categories to be aided later, barring them from benefits. For a score of years it gave tremendous windfalls to the emerging beneficiaries, a free grant of at least twenty times what the age-benefits share of the individual's tax payments might have secured for him, but a triple largess to the most affluent as against the minimum qualifier. What the relative discrimination against the taxpayers of the distant future may be remains for that future to disclose. The burden piling up for them to shoulder is large.
5. It has tampered arrogantly with the sense of personal budgeting and cost-accounting of the citizens, and the debtor-creditor relationship between them.

The actuaries have been discussing a code of ethics. Here is a field for its practical application.

Postscript

After this set of comments was finished, I asked the opinion of one of my more literate friends on the effectiveness of its presentation. He said that in the paragraph entitled "*Varying benefits by wage records*" more emphasis might be given, and elaborated:

The cycle which you describe is to me the key to the unsoundness of the whole scheme and the dishonesty of it all; it has inflation built into it, and even the supporters—as indicated in the advisory council report—understand that inflation would destroy the whole structure.

With this criticism, I concur.

Moreover the comprehensive Clark Report in Canada, which attempts evaluation of our OASI and Old-Age Assistance programs for the Canadian Cabinet, makes *me* seem almost the only thoughtful critic of the complexities and dangers of OASI. I am naturally apologetic for an inadequate presentation to Dr. Clark on the tie-in between OASI and inflation. Since Dr. Clark himself spoke wisely of the will to halt inflation and voiced basic opposition to creeping inflation, it must have been the recency of his acquaintanceship with our program, and his failure to see a wider representation of our conservative thought, that was responsible for this inadequacy. He probably had not seen my November comments:

We have, in OASI and Public Assistance, engines of inflation, thieves of ambition and self-discipline, manufacturers of superstitions and dubious dogmas, warpers of clear definitions, verification that "power corrupts." With so many factors of disruption, I have seen undue reassurance triumph over warnings. I have seen face-savings and appeasement, when firm opposition was the desirable alternative. I have watched the fallacies of half-truths that deceive win out over the sturdier but less alluring demands for hard work and saving and self-denial to meet later responsibilities, and for reducing the growing mortgage against our common property.

I must have heard from half a hundred patriotic and clear-thinking citizens vigorous criticism of the unanimity of the Advisory Council on Financing the OASI system. The Clark Report has not yet reached these persons, but its conviction that such unanimity of approval exists publicly in regard to OASI has caused me to make more widely available this set of comments just presented to the Society of Actuaries.

I so thoroughly disagree with the over-all assessment of the values of OASI which seem to be accepted by both the Clark Report and the Report of the Advisory Council that there must have been an awkward degree of brain-washing here in the United States. Dr. Clark's casual contacts in cafés and buses and so on allow him to say:

They feel that this is their program and not something the Government does for them. They do not believe that it tends to undermine their self reliance or make them excessively dependent upon the Government. They are proud of contributing to the program and believe they earn the benefits they will get. . . . They like the way in which benefits are related to previous earnings under the Program. . . . They think that the taxes . . . are essentially fair, and they are not worried about the ability of the Nation to honour the promises.

He notes the inadequacy of the knowledge of his informants. But calling this acceptance "well-deserved" evokes this comment.

ABRAHAM M. NIESSEN:

Mr. Myers' present paper is much more than a discussion and analysis of the 1958 social security amendments. It is a self-contained and valuable reference work on the social security law as it now stands. The author should be highly complimented for being able to condense so much information in so little space without sacrificing clarity and accuracy in the process.

One aspect of the 1958 social security amendments should be a source of comfort to all adherents to the principles of actuarial soundness in retirement plans. This is that the 1958 legislation specifically listed strengthening of the actuarial condition of the OASDI program among its major objectives. With an actuarial deficiency for the combined OASDI system under the 1956 law of less than $\frac{1}{2}$ percent of payroll, it was not obvious that the Congress would seriously consider the need for additional financing. It is possible that the widely publicized decline in the OASI trust fund during 1957 had a sobering effect, but this by itself would hardly have been sufficient to actually provide "surplus" financing for the 1958 social security amendments. Apparently, the actuarial point of view had been presented to the legislators with great skill and persuasion. All persons responsible in whole or in part for this successful presentation deserve a good deal of credit for a job well done.

The paper makes several references to the railroad retirement system, including illustrative projections of funds expected to flow to the railroad retirement account from the OASDI trust funds and vice versa. These transactions would result from the financial interchange between OASDI and railroad retirement to which Mr. Myers refers only by name without attempting to explain it. To this reviewer, the financial interchange is naturally a matter of great concern because of his association with the Railroad Retirement Board. It is also believed that this particular financial interchange may be of some general interest because of its uniqueness

and because of the perplexing actuarial problems which it raises.¹ Accordingly, the balance of this discussion will be devoted to certain special problems arising from the financial interchange between the railroad retirement system on the one hand and the OASDI system on the other.

First, what is this financial interchange?² Essentially, it is a scheme whereby the railroad retirement system pays OASDI taxes on railroad payrolls at the social security rates and in return receives the additional benefits (and administrative expenses) which OASDI would have to pay on the basis of railroad earnings. The arrangement has been made retroactive to January 1, 1937.³

The second question deals with the long-range estimates of the net effects of the financial interchange. Will this arrangement benefit or hurt the railroad retirement system and what will be the extent of the gain or loss, as the case may be?

Tables 9 and 10 of Mr. Myers' paper include intermediate projections of the financial interchange for the OASI and DI trust funds, respectively. When the two are combined, the net effect according to these projections is a slight gain to the OASDI funds. Specific statements to this effect are contained in the cost reports which Mr. Myers prepared for the Congressional committees. This opinion has been held by Mr. Myers ever since the enactment of the financial interchange provisions late in 1951, except that the estimate of the extent of the gain to OASDI has undergone revisions as a result of the several amendments to the social security law which have been enacted in the meantime.

The actuaries of the Railroad Retirement Board (Mr. Joseph Musher and this discussant) have not concurred with Mr. Myers' estimates regarding the effect of the financial interchange on the railroad retirement system. Their estimates have also undergone considerable revisions as a result of the several social security amendments, but the view is still held (responsibility for the current view is assumed by this discussant alone) that the financial interchange will benefit the railroad retirement system to the extent of 1.24 percent of taxable railroad payrolls, which is equivalent to \$63 million a year on a level basis. It might be of interest to note that the

¹ See "Measure of Actuarial Soundness in a Pension Plan of the Railroad Retirement Type," by A. M. Niessen, *TSA* VI, 34.

² For a more detailed description see "Railroad Retirement Act Amendments of 1951: Financial and Actuarial Aspects," by Robert J. Myers, *Social Security Bulletin*, March 1952.

³ For the progress of the financial interchanges up to June 30, 1957 see (1) "Experience Under Financial Interchange, OASDI and Railroad Retirement System," *Social Security Bulletin*, September 1958 and (2) Actuarial Valuation, Appendix A of the 1958 annual report of the Railroad Retirement Board, p. 104.

Railroad Retirement Board's estimate for the 1956 social security law was 1.49 percent of payroll, or \$76 million a year. The reduction by .25 percentage points is attributable to the 1958 social security amendments which provided for more additional financing than was needed to pay for the additional benefits. Curiously enough, the .25 percent of payroll loss to the railroad retirement system is in the neighborhood of the .18 percent of payroll "surplus" financing provided by the 1958 social security amendments (.25 percent of railroad payrolls with a limit of \$350 per month is equivalent to .22 percent of such payrolls with a limit of \$4,800 a year), but this is more a matter of accident than of anything else.

The \$63 million a year previously referred to would amount to only .02 percent of the equivalent level OASDI taxable payroll, so that from the point of view of that system it is practically negligible. However, for the railroad retirement system, the expected gains from the financial interchange are a quite significant actuarial cost item. The receipt of some \$124 million under the financial interchange in 1958 made the difference between an accounting deficit and an accounting surplus for the year. Similarly, fairly large receipts under the financial interchange in the next several years will prevent a rapid depletion of the railroad retirement account, something which without the financial interchange would have already been well under way.

The main reason for the disagreement in the estimates for the financial interchange lies in the different appraisal of the effect of dual benefits. By "dual benefits" we mean benefits paid simultaneously to the same individual by the Railroad Retirement Board and the Social Security Administration. Whenever dual benefits are paid, OASDI is charged under the financial interchange only for the difference between the benefit it would have paid on the basis of railroad retirement and social security earnings combined and what it is actually paying on the basis of social security earnings alone. Since the social security benefit formula is heavily weighted in favor of low wages and short service, the separate social security benefit takes up a disproportionate part of the gross benefit which would have been available on the basis of combined credits and thus strongly reduces or even wipes out the benefit reimbursement to the railroad retirement system. We at the Railroad Retirement Board feel that we have allowed enough for the effect of dual benefits, whereas Mr. Myers is of the opinion that we have not allowed enough. A substantial increase in the allowance for dual benefits could bridge the gap between Mr. Myers' and our estimates.

Our current assumptions regarding the extent of dual benefits are shown in the accompanying table. It will be noted that even for young

new entrants (ages at entry under 26) we assumed about 60 percent entitlement for dual benefits. It should be remembered that the table refers to employees who will have at least 10 years of railroad service and who will therefore be entitled to benefits under the Railroad Retirement Act. The percentages for present (1956) employees are graded downward according to the duration of their railroad service, but are still, in our opinion, very substantial. Only employees with prior service (those who entered railroad work before 1936 and were still at work in 1956) are assumed to have a relatively low incidence of entitlement to dual benefits, and this is because these employees have been in railroad service since

**ASSUMED PERCENTAGES OF FUTURE RETIREMENTS UNDER THE
RAILROAD RETIREMENT ACT WHO WILL ALSO BE ELIGIBLE
FOR A SOCIAL SECURITY OLD-AGE BENEFIT**

A. EMPLOYEES WITH SUBSEQUENT SERVICE ONLY

CENTRAL AGE AT ENTRY	FUTURE ENTRANTS	1956 EMPLOYEES WITH CENTRAL DURATION*					
		0	1	3	7	12	17
18.....	58%	57%	56%	55%	55%	54%	47%
23.....	60	59	58	56	54	53	45
28.....	71	68	65	62	60	58	48
33.....	85	78	75	70	66	62	52
38.....	90	83	80	74	68	64	52
43.....	93	85	81	75	69	63	51
48 and above....	96	87	83	76	69	63	50

B. EMPLOYEES WITH PRIOR SERVICE

AGE IN 1956	AGE RETIREMENTS	DISABILITY RETIREMENTS
Under 45.....	12.5%	17.5%
45-49.....	15.0	20.0
50-54.....	15.0	20.0
55-59.....	15.0	20.0
60-64.....	15.0	20.0
65-69.....	17.5

* Duration equals 1956 minus calendar year of entry.

- NOTES: 1. All deferred retirements are assumed to be eligible for a separate social security old-age benefit.
2. Deferred retirements are included in section A but not in section B.
3. The data are for employees with at least 10 years of creditable railroad service.

before the Social Security Act became operative. In any event, all percentages shown in the table are substantially higher than the 1956 percentages of railroad employees with substantial numbers of social security quarters of coverage as determined from special studies made by the Board.

A disagreement also exists in relation to dual benefit offsets in cases of wives' and widows' annuities payable under the Railroad Retirement Act. In the case of wives' benefits, there may be two reasons for offsets: (1) for a separate wife's benefit actually payable under the Social Security Act and (2) for an old-age insurance benefit to which the wife of the retired railroad employee is entitled on the basis of her own social security earnings. Insofar as aged widows' benefits are concerned, the dual benefit offset will be only for old-age benefits in the widow's own right, since once a survivor benefit is payable under the Railroad Retirement Act, no similar benefit may be payable under the Social Security Act.

For wives' benefits, we allowed reductions on account of separate old-age benefits ranging from a few percentage points for beneficiaries on the rolls up to $22\frac{1}{2}$ percent for wives of future entrants. This is in addition to the reduction for simultaneous wives' benefits under the two systems. For aged widows, the reductions for separate social security old-age benefits ranged also up to $22\frac{1}{2}$ percent. In both instances, Mr. Myers seems to feel that the reductions taken by us are not sufficient.

It is possible (although we at the Railroad Retirement Board do not consider it likely) that our assumptions regarding dual retirement benefits to employees and dual benefits to dependents and survivors will prove inadequate and that Mr. Myers' appraisal of the situation will turn out to be more realistic. But it will take many years before sufficient experience bearing on the subject becomes available. We hope that in the meantime enough additional evidence will become available to bring the estimates closer together.

The experience under the financial interchange to date has been rather favorable to the railroad retirement system. For the period January 1, 1937 to June 30, 1957, the benefit credits (with interest) exceeded the payroll taxes (also with interest) by some \$90 million.⁴ This is in contrast to the whole OASDI coverage for which taxes exceeded benefits (both considered with interest) by some \$22 billion. It can therefore be said that over the past 20 years the railroad workers proved to be a higher-cost group than the average for the whole social security coverage. We believe that this situation will continue into the future at least when viewed from the standpoint of level costs. Be it as it may, the financial

⁴ See footnote 1.

interchange with OASDI will be for the next 15 or 20 years a great help to the railroad retirement system while at the same time being equitable to the social security system.

(AUTHOR'S REVIEW OF DISCUSSION)

ROBERT J. MYERS:

Mr. Williamson and Mr. Niessen have made very interesting discussions of my paper, adding certain supplementary pieces of information.

Mr. Niessen, in my view, brings out one of the most important features of the 1958 Amendments, namely, the cost-consciousness of Congress in bringing the system more closely into actuarial balance by providing, over the long run, for more additional income than the additional outgo due to the liberalized benefit provisions. Here, I am using "cost-consciousness" in the sense of recognizing (and meeting) costs, rather than of holding down costs.

As to the long-range cost effect of the financial interchange provisions with the railroad retirement system, I quite thoroughly agree with Mr. Niessen that there is considerable room for differences of opinion. Since differentials are involved, small absolute swings can make relatively large variations in the net result. A very important factor is the future status of the railroad industry. Obviously, if it continues to decline, the result under the financial interchange provision will be less favorable for OASDI—but then the railroad retirement system will have even greater problems of its own. At any rate, considering current trends, I can well see the possibility that, over the long range, the financial interchange provision may be more favorable to the railroad retirement system than indicated in our original estimates. Although, as pointed out by Mr. Niessen, this may be of great cost significance to the railroad retirement system, it represents a relatively low "increased cost" to OASDI.

Mr. Williamson's lengthy discussion deals primarily with his philosophical views on the objectives of social security. Since my presentations are intended to be primarily of a factual nature, I shall not take up in detail this portion of his remarks.

Mr. Williamson raises five questions on "Actuarial Techniques." I do not agree entirely with his points; at least, I raise a question as to methods of improvement. His first point is that even though the plan has been periodically modified (and undoubtedly will continue to be), it cannot safely be viewed as "perpetual." But is it not better to show the long-range cost effects on this basis than to present no estimates?

As to his second point, the use of interest discounts into perpetuity, this is only one of several methods of presentation. The interest earned

by the system is valid and has an appreciable effect on the financing of the program. Both in the short range and in the long range, about 10% of the benefit cost is estimated to be met from interest earnings.

Mr. Williamson's third point is about the use of the intermediate estimate. We have always shown a range, as well as intermediate figures, but the latter are necessary to develop a long-range contribution schedule. After all, is it not better to have a long-range schedule in the law so that people can possibly realize that today's tax rates are not as large as will be required to finance the program, rather than to have only low-cost and high-cost estimates that will not give Congress a specific answer for a future tax schedule? If the latter procedure were followed, the result might be that Congress would not provide scheduled future tax increases, and the public would think that the system could be fully supported by the current rate.

As to Mr. Williamson's fourth point, about whether the actuarial status of the program was improved, I am firmly convinced that this was accomplished by the 1958 Amendments. Furthermore, this has been a great aid in the direction of soundness, and I believe that this would not have been accomplished had only the vague cost presentation eliminating all the methods criticized by Mr. Williamson been made. As to his fifth point, criticizing my Table 5 that shows a subdivision of the level-premium costs, I can only repeat that there would have been less cost-consciousness on the part of Congress and others if this type of presentation were not made available. Of course, Mr. Williamson and I proceed from different starting points, since his basic belief seems to be that the present system should be completely revised, whereas I am operating from the base that we have the present system and, accordingly, must consider how best to present the cost analysis so that there will be sound financing of the program and an understanding thereof.