APPENDIX A

Summary of Nationwide Survey of Attitudes Toward Social Security

A Report Prepared for the National
Commission on Social Security by
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Retirement Attitudes

Although more Americans look forward to retirement than do not, they tend to have some reservations about the quality of retirement life. Most people are more concerned about not having enough money than about having enough to do in retirement.

Most Americans retire involuntarily. About two out of three of the retirees surveyed say they retired because of poor health or because of a mandatory retirement age or because they lost their jobs.

About one out of two Americans say they find early retirement (at about age 60) appealing. Early retirement is particularly appealing to blue collar workers, to people covered by pension plans, to people between the ages of 35 and 54, and to people with high family incomes (over $17,500).

Early retirement seems less appealing after retirement to people who are retired than to those who have yet to retire.

Only one-third of Americans find the idea of postponing retirement until age 70 appealing. Four in ten people say they would consider late retirement if they could receive significantly higher benefits as a result. In general, the-e is a close relationship between income and attitudes toward retirement; those who have or expect greater financial resources are generally more positive about retirement.

Retirement Income

Nine out of ten non-retired Americans expect to receive Social Security in retirement, and 60% expect it to be a major source of retirement income. Among those already retired, 75% find it to be a major source of income. Only among non-retirees with family incomes over $25,000 is Social Security overshadowed by other sources of expected retirement income. About one-third of retired Americans say their income allows them to live comfortably, about one-third say it is only enough to pay monthly bills and obligations, and a slightly smaller number, 25%, say it is not enough to pay their monthly bills and obligations.

Knowledge of Social Security

Most Americans have a good working knowledge of the Social Security system. Most understand the main features of the system and its underlying philosophy, although some do not know about specific details.

- Most people know that there is a relationship between the amount of Social Security benefits and the amounts of previous wages and salaries.
- Most realize that Social Security is intended to supplement other retirement income rather than to serve as the sole source of income.
- Most are able to volunteer that funds for Social Security come from taxes paid by employees, and when asked directly, about two out of three know that such taxes are paid by employers as well.

- About three out of four know that there is no needs-test to qualify for benefits.
- Most Americans know there have been increases in both Social Security benefits and taxes over the past ten years. They tend to say that benefits have increased "somewhat" and that taxes have increased greatly during that period. They tend to anticipate similar increases in both taxes and benefits over the next ten years.
- Many are aware of non-retirement benefits provided by Social Security, such as disability and survivors' benefits and Medicare.
- About two out of three know that Social Security taxes are not set aside in individual accounts for future retirees, but are used to pay benefits to current retirees.

In two areas, however, substantial numbers of Americans are misinformed.

- Most do not know that Federal employees are not covered by Social Security.
- Most are not aware that Social Security benefits increase automatically with the cost of living.

Satisfaction With Social Security

Most Americans are neither extremely satisfied nor totally dissatisfied with Social Security. Respondents' overall impressions,

however, are favorable. They are able to volunteer more advantages than disadvantages of Social Security and they tend to express a low level of objection to Social Security taxes in comparison with other taxes.

The most frequent complaints are about benefit levels. Although most Americans recognize that benefits are intended to supplement other sources of retirement income, most feel that Social Security alone should provide enough income to meet retirees' basic needs and obligations. Also, many Americans believe that Social Security disability and survivors' benefits are inadequate; this belief is particularly prevalent among those with low incomes, who are unlikely to have other protection against those eventualities. On the other hand, there is no great dissatisfaction with the fact that the system pays higher benefits to those who have earned more and paid more in taxes. About two-thirds of Americans recognize that the system works this way, and they believe that it should.

Confidence in the Future of Social Security

Many Americans are concerned about the ability of the program to deliver future benefits at the levels now authorized. Sixty-one percent of the non-retired have little confidence that funds will be available to pay their retirement benefits. These doubts were expressed by almost three-quarters of those between ages 25 and 44. On the other hand, most Americans indicate that they expect Social Security to provide a significant part of their retirement income.

The large majority of people expresses basic support for Social Security. Only 19% say that, given the choice, they would leave the Social Security program, and fully 75% oppose ending the program altogether; 67% strongly oppose doing so.

Level of Social Security Taxes

In general, only about one in four Americans say that current Social Security taxes are too high, given the retirement, disability, survivors', and Medicare benefits provided by the program. Given the choice of higher Social Security taxes or lower future retirement benefits, higher taxes are selected by 63%. If the choice were between higher taxes and raising the retirement age, only 36% would favor raising the age for full retirement benefits from 65 to 68. A narrow plurality (43% to 35%) would favor financing Medicare from income taxes and other federal tax sources rather than raising Social Security taxes. When the choice is between two revenue sources to pay for benefits, pluralities favor the payroll tax over the federal income tax (49% to 26%) and over a national sales tax (45% to 31%).

Obinion of Social Security Administration

Almost half of all adult Americans have had some contact with the Social Security Administration, and the agency receives high marks from these people in terms of efficiency, service, and courtesy. Respondents tend to rate the Social Security system the same as or better than the other government agencies with which they have had contact.

Appendix B

Common Misunderstandings About Social Security

by Mr. Cohen and Mr. Myers

Many misunderstandings of the nature and operations of the Social Security program are prevalent among the population of the Nation and even among the media. This statement will deal briefly with a number of these misunderstandings.

1. -- In Social Security, each person's taxes are deposited in his or her individual account and then accumulated at interest to purchase his or her benefits.

Social Security is a broad social insurance program which involves pooling of the risks to provide benefits. Benefits are not determined exclusively according to individual contributions as occurs, for example, in a savings bank account or an individual life insurance policy. The Social Security Administration necessarily only keeps a record of covered earnings, and not of taxes paid.

2. -- Social Security is bankrupt, because it has unfunded accrued liabilities of $4 trillion or more.

The concept of "unfunded accrued liability" of a pension plan or a social insurance system is not simple. There are several methods of defining and expressing this element for a benefit plan. None of these can be said to be the only correct one.

Under one concept, it is hypothesized that there will be no new entrants into the system in the future. It is on this basis that the figure of $4 trillion[1/] has been computed. This assumption seems very unrealistic and academic when applied to the compulsory Social Security program. When measured by this criteria, the vast majority of private pension plans also have sizable unfunded accrued liabilities, which, again, are financed by future contributions.

A more meaningful concept of unfunded accrued liability for the Social Security system is to consider the balance between income and outgo over a long-range future period, such as 75 years. When this is done, the unfunded accrued liability is about $850 billion[2/] for the present program. Under the revised benefit structure and contribution schedule recommended by the National Commission, the unfunded accrued liability under this concept would be completely eliminated.

3. -- The assets of the Social Security trust funds are spurious, because the money has already been spent and is not there.

The assets of the trust funds are invested in obligations of the Federal government that are recognized and accounted for in the national debt. If the trust funds had not been invested in such assets, the debt obligations they hold would have to be purchased and held by private investors. Interest is paid on the obligations held by the trust funds, and the principal amount is repaid at maturity.

1/ Statement of Liabilities and Other Financial Commitments of the kited States Government as of September 30, 1979, compiled in accordance with Section 402 of P. L. 89-809, prepared by the Bureau of Government Financial Operations, Fiscal Service, Department of the Treasury, January 1980, Schedule 10.

2/Ibid.

The argument that money paid in as Social Security taxes has been spent for other purposes is equally invalid. All financial institutions do the same. When an individual makes a deposit in a savings bank, the money is not held in cash, but is lent out at interest.

4. -- The original law provided that the system would be fully funded, just as private pension plans and insurance policies are.

This misconception arises from language in the law to the effect that appropriations to the trust fund would be made equal to premiums determined by accepted actuarial principles. The congressional intent, and the actual operations of Social Security, clearly indicated that the appropriations to the trust fund were the tax receipts (on an estimated basis), minus administrative expenses.

In any event, because of the graded tax schedule, and because the benefits initially payable were far larger than justified on an actuarially purchasable basis, the funds accumulated have never been more than a small fraction of the amounts needed to meet the accruing liabilities.

5. -- Social Security will not be here when I retire, and all the money that I put in it will be gone.

According to this view, the Social Security system is bankrupt and will shortly go out of existence. It seems virtually certain that Congress would never let this happen, when about 36 million people are currently receiving monthly benefits. Even more importantly, the current financial problems-have been greatly exaggerated by some, and they are readily capable of solution. The recommendations of this Commission, if enacted, would accomplish this result.

6. -- The disability and survivor benefits are of a "welfare" nature, and thus are of a different character than the retirement benefits and should be financed exclusively from general revenues rather than payroll taxes.

Although Social Security initially provided only retirement benefits, the later additions of survivor and disability benefits merely rounded out and extended the package of benefit protection. The disability and survivor benefits contain as many, or even more, characteristics of insurance than do the retirement benefits. Disability can be described as being early retirement, due to physical or mental conditions. From a purely insurance standpoint, there is more real "insurance" in the disability and survivor benefits, because of the much smaller probability that such claims will arise before age 65 than the probabilities of surviving to retirement age and receiving benefits, especially for those who were near retirement age when they were first covered.

7. -- The original law provided benefits on a strictly actuarially purchasable basis, similar to an insurance policy, and no welfare or social adequacy elements were present.

Actually, the original law contained many social adequacy features, although not as many as now. The retirement benefits under the original law were heavily weighted to provide relatively larger benefits for low-paid persons and for persons then near retirement age. Furthermore, the contribution schedule was such that lower rates were applicable in the first 12 years of operation

than later, giving those near retirement age an even better "actuarial buy". For example, in 1937-41, a person earning $600 per year (about 2/3 of the average wage) who was covered for five years, received a benefit of $180 a year. A person with the same salary who was covered for 45 years in the future (9 times as long), would receive $420 a year, or only 2.3 times as much. Similarly, a person who was covered for 45 years at the maximum wage of $3,000, or five times the earnings of the $600 earner, would receive an annual benefit of $1,020, or only 2.4 times as large.

8. -- The original law provided that the financing burden would never exceed 1 percent of payroll for both the employer and the employee.

The original law provided that the tax rate of one percent would be effective only for 1937-39. Thereafter the rate would rise by increments of one-half percent every three years until reaching three percent in 1949. The one percent rate was frozen from 1937-49, but the law recognized that the rate would necessarily rise over the years.

9. -- Social Security is a poor buy, because individuals can purchase much larger benefits in the private sector for the same taxes.

Any proper analysis of the worth of Social Security must take into account not only the retirement benefits, but also the disability and survivor ones. The automatic adjustment of benefits for changes

in the cost of living must also be considered. Frequently, analyses on this matter use inconsistent assumptions such as taking a high interest rate (say, nine percent), but assuming a very low Consumer Price Index increase (such as three percent) or ignoring increases in the Consumer Price Index altogether.

Nor is it proper to consider what is actuarially purchasable in the private sector with the combined employer-employee taxes. Although the employer taxes in the aggregate may properly be considered as part of employees' pay, this does not mean that the employer tax is individually assignable to each employee. As in the vast majority of private pension plans and other employee benefit programs, the employer's average per capita cost is not assignable equally to each employee. In a pension plan, the employer cost as a percentage of payroll is generally much higher in a particular year for the worker who is near retirement age than for a young worker.

Studies made by the Office of the Actuary, Social Security Administration, over the years have demonstrated that even the highest-paid, youngest new entrants into the Social Security system receive their money's worth when all benefit provisions and demographic probabilities are taken into account. Even under conditions least favorable to Social Security, such as higher tax rates that will be needed in the distant future, the value of Social Security's benefit protection is not significantly lower than that which could be theoretically purchased with the employee taxes.

10. -- The administrative expenses of operating the Social Security program are so large that the benefits provided are a poor buy.

Although the administrative expenses of the Old-Age, Survivors, and Disability Insurance program will amount to about $1.8 billion in 1981, this represents only 1.3 percent of the benefit payments. Administrative expenses of the Hospital Insurance program are $540 million, representing 1.9 percent of benefits. These relatively low percentages indicate that the vast majority of the taxes collected are, or will be, returned to the beneficiaries as benefit payments. Other types of insurance do not generally have as low administrative expense ratios, although large group insurance operations equal Social Security's ratio when allowance is made for such things as taxes and expenses borne by employers.

11. -- The administrative expenses of the Social Security program are so low that it is a far better buy than benefits available in the private sector.

This is the reverse of the previous misconception. The administrative expenses of the Social Security program are quite low, but they can be closely matched in the private sector (if proper comparability is involved.) The question of how much economic security should be provided through the public sector under Social Security and how much through the private sector is a judgmental and philosophical matter, and should not rest on the question of the administrative expenses involved.

12. -- Social Security provides far more benefit protection than could be purchased with the taxes.

Quite obviously, the Social Security program has no "magical" method for providing more benefits in the aggregate than those actuarially purchasable from the employer and employee taxes combined.

13. -- A retirement age of 65 for full benefits is too high, because life expectancy is about 70 years. Thus people generally get only about 5 years of benefits.

Although the life expectancy at birth is currently about 73 years, this is not relevant because it relates to a new-born baby. The life expectancy for a person age 20 entering the labor force is about 55 years, resulting in age 75 as the average age at death for this group. Even more relevant, the expectation of life at age 65 is slightly more than 16 years.

14. -- The retirement test should be eliminated, and benefits should be paid automatically at age 65, because the worker has "bought and paid for" that benefit -- just as if it had been purchased from an insurance company.

The benefit provided by the Old-Age, Survivors, and Disability Insurance program protects against the risk of not only attaining age 65, but also of not being substantially employed at that age. The basic principle is that a retirement benefit is being provided. Such a benefit should not be paid to persons who are not retired, any more

than private pension plans should pay retirement benefits to individuals who are still working for that employer, or private insurance contracts should pay benefits when the risk insured against has not occurred. Social Security coverage is virtually universal, so that it is reasonable to consider whether individuals are retired from all employment.

At times, the argument is made that benefits withheld because of the earnings test are a "profit" to the Social Security system, and therefore should not be withheld. In fact, the financing of the program (and the schedule of tax rates) is founded on actuarial cost estimates which take the effect of the earnings test into account. If the earnings test were repealed, younger workers and their employers would have to pay a higher tax rate, largely for the benefit of relatively high-paid workers over age 65.

15. -- The operation of the Social Security system has substantially reduced personal savings, deterring capital formation and significantly hampering economic development.

Economists and other fiscal experts differ as to whether Social Security has caused a reduction in personal savings. Some argue that if Social Security had not existed, individuals would have saved the money they paid in payroll taxes, greatly enlarging the Nation's capital structure and increasing productivity. One fallacy with this viewpoint is that, in the absence of the Social Security program, there would very likely have been an enlarged public assistance

program and other programs which would have involved a sizable increase in taxes, or people would have used the taxes saved for consumption instead of savings.

Others have argued that, because Social Security is available as a floor of economic protection, individuals are encouraged to save to build their own economic security on top of it. It is impossible to predict accurately how much people would have saved had there been no Social Security system.

16. -- Certain population groups have lower life expectancy than the average, and so they are unfairly discriminated against by the Social Security program.

There are many counterbalancing features of the Social Security system that favor population groups with lower iife expectancy. Although the value of the retirement benefits may be less for these groups than for the total population in the aggregate, their disability and survivor protection are greater. Even more importantly, it is not the function of the Social Security program to make corrections for social and other discriminations (which should be handled on their own merits), but rather it should provide equal treatment for all, after social conditions have been equalized.

Experience-rating different categories runs counter to the broad pooling nature and social adequacy aspects of the Social Security program. Certainly, none would argue that benefits for female retirees should be

reduced or that benefits for male retirees increased because the latter have lower life expectancy, nor would it be argued that retirees of Japanese descent living in Hawaii should have lower benefits than the average because they have a greater life expectancy compared with the total population.

Appendix C

CHANGING THE ADJUSTMENT FACTORS FOR EARLY AND LATE RETIREMENT UNDER THE SOCIAL SECURITY ACT TO ENCOURAGE DEFERRED RETIREMENT, EMPHASIZE FLEXIBLE RETIREMENT AGE, PROVIDE GREATER EQUITY AND MAINTAIN CASH FLOW TO THE OASI TRUST FUND

BY

David H. Rodgers, Member of the
National Commission on Social Security

Under the Social Security Act, beneficiaries may retire at ages other than 65 and receive benefits at an adjusted rate. The amount of the adjustment depends on the age at which benefits are first claimed. This paper proposes revised adjustment factors which will relate more closely than present factors to the actuarial equivalents of the normal retirement benefit.

The proposed changes would impact the Social Security system in several ways : by encouraging deferred retirement, by providing more equitable treatment among those who first retire at different ages, by maintaining or improving the cash flow to the OASI Trust Fund, and by emphasizing flexibility of the retirement age and deemphasizing a specified "normal retirement age. "

Reduced to its essentials, this program would say to the participants, "Forget age 65 and make your plans to retire any time after age 62. If you defer retirement beyond age 62, your benefits will become progressively more attractive until age 72."

FLEXIBILITY OF RETIREMENT AGE

Flexibility of retirement age is, of course, already a part of the Social Security system. However, in the perception of the general public, age 65 has been the designated retirement age for almost a century. It appears to have been chosen either arbitrarily or through political compromise.

It is proposed that any reference to a "normal" retirement age be eliminated and the flexibility of retirement age be emphasized. This concept is desirable so that the participants are not imbued with the thought that some specific age is the prescribed age for retirement.

The selection of one's retirement time is a very important and very personal decision which is impacted by a multiplicity of factors. Health and vitality, personal financial circumstances and the other factors which determine the appropriate retirement age are different for each individual. They are also difficult for anyone (even the individual) to predict with any certainty.

Within reasonable age limits, it is proposed that the Social Security system leave the time of retirement to individual determination, without emphasizing a particular age or favoring certain age groups at the expense of other age groups.

EQUITABLE BENEFITS

The adoption of the flexible concept leads inevitably to the question of equity. If it is established that the retirement age parameters are to be 62 and 72 (or 65 and 75), all who retire within those parameters should be treated equally regardless of age. The present adjustment factors for early and late retirement favor those who retire before age 65.

The fundamental recommendation of this paper is that the retirement benefit for all ages between 62 and 72 (or 65 and 75) bear a constant relationship to the actuarial equivalents.

ENCOURAGE DEFERRED RETIREMENT

The long term realities of demographics as well as the fiscal integrity of the system dictate that Social Security participants retire later than they do at present. Almost every serious study of the system makes this recommendation. To achieve flexibility and equity, benefit levels should be developed which make deferred retirement more attractive than the adjustment factors of the present system. The adoption of these proposals would not resolve the issue of deferring the retirement age, but they would encourage participants to voluntarily defer their retirement and thus enhance the public's acceptance and understanding of the actions needed to maintain the integrity of the Social Security system.

A "NO-COST" PROPOSAL

Because so few participants are now retiring after 65, the cost of a significant increase in the late retirement credits is very small and can be offset by a very small change in the discount factors for the many who are now retiring early. As the AIMEs (Average Indexed Monthly Earnings) and the CPI increase, retirement benefits increase. The impact of the proposed changes would be to reduce the rate of increase of retirement benefits between the ages of 62 and 65 and increase the rate of increase between 65 and 72 until the retirees at each age were being awarded benefits, the present value of which were equal to the present value of the benefits awarded at every other age between 62 and 72.

The net long-term impact on the cash flow to the trust fund would be zero, or a slight gain. During the transition period there would be an additional "one time" gain in the cash flow.

PRESENT LAW'S ADJUSTMENT FACTORS

The current law discounts the PI A (Primary Insurance Amount) by 5/9ths of 1 percent for each month retirement precedes the beneficiary's 65th birthday. For those who retire after their 65th birthday there is a credit of 1/4th of 1 percent of the PI A for each month retirement is deferred beyond the 65th birthday. Stated as percentages, these factors develop the following table:

TABLE 1

Age at Retirement	Pension as a Percentage of Age 65 Benefit
62	80%
63	86-2/3
64	93-1/3
65	100
66	103
67	106
68	109
69	112
70	115
71	118
72 and over	121

For those who retire between 62 and 65 these factors generate a retirement benefit that is essentially the actuarial equivalent of the amount to which the beneficiary is entitled at age 65. However, for those who retire after age 65, these factors generate benefits which are well below the equivalent level.

Presumably, when Congress adopted the present adjustment factors, the best social and economic interests of the Nation dictated that early retirement be encouraged and, in fact, a substantial majority do elect to quit the work force early rather than late.

In 1976, the latest year for which figures are available, Social Security Administration statistics indicate that 92 percent of the retirement awards were granted to participants who were between their 62nd and their 66th birthdays. At least some of those who received awards between their 65th and 66th birthdays did not retire but sought the award to qualify for Medicare. Thus, 92 percent is on the high side. It is apparent, however, that a substantial majority of the participants retire early rather than late.

RECOMMENDATIONS FOR THE FUTURE

In the early 1980s the situation is much different. Improving mortality experience, low fertility rates, the post World War II baby boom and other demographics dictate that Social Security beneficiaries be encouraged to defer their retirement. The Advisory Council, the President's Commission on Pension Policy, and the NCSS have all recommended that the retirement age be gradually changed to age 68 commencing after the year 2000.

To provide equal treatment and to encourage beneficiaries to postpone their retirement it is recommended that all adiustment factors for retirements between the ages of 62 and 72 bear a constant relationship to the actuarial equivalents. Thus, retirement at any age between 62 and 72 would be as good a bargain as retirement at any other age within those parameters; and those who retire after age 65 would receive pensions substantially greater than provided by present law.

A very important impact of the proposed adjustment factors would be to make deferred retirement more attractive and thus encourage public acceptance of later retirement and public realization that there are potential gains if the retirement age is deferred.

As previously mentioned, most beneficiaries retire before their 66th birthday. The law which was initially sponsored by Congressman Pepper prohibiting forced retirement before age 70 permits people concerned about high inflation to buck the early retirement trend. However, absent a positive incentive for deferring retirement, this attitude is not likely to continue through future downturns in the inflationary cycles--especially if the adjustment factors in the law continue to offer a better bargain to early retirees.

GRAPHIC ILLUSTRATIONS

The attached series of graphs (A through G) should make it relatively easy for the reader to visualize this proposal and relate it to the present adjustment factors. Each successive graph builds on the first one. Once the reader understands Graph "A" the remainder of the graphs illustrate different pieces of the same problem.

Graph "A" plots adjustment factors which are actuarial equivalents. These equivalents indicate the present value (at time of retirement) of future retirement benefits commencing at various ages. They are expressed as a percentage of the benefit that would have been paid at normal retirement age. The curve on Graph "A" plots adjustment factors (actuarial equivalents) which produce retirement benefits of equal value for all participants who commence retirement between age 62 and age 72. Henceforth,, this curve is referred to as the "Equivalent Curve."

A person who retires before normal retirement age, being younger, can be expected to receive benefits for a longer period of time. Thus, the equivalent factors in both current law and this proposal adjust the early retiree's benefit downward to something less than 100 percent of the benefit that would have been paid at normal retirement age.

Conversely, those who retire late receive more than 100 percent of the normal retirement benefit because, being older, they can expect fewer years of benefit payments.

If the Equivalent Curve were substituted for the adjustments in the present law, the early and late retiree would receive benefits of equivalent value--thus, the label "Equivalent Curve." Stated as percentages, the factors which develop the equivalent curve are listed on Table 2 along with the previously listed percentages of the present law.

TABLE 2

Age at Retirement	Percentage of Full Benefit	
	Present Law	Equivalent Curve
62 (65)	80%	79.5%
63 (66)	86.7	87.0
64 (67)	93.3	93.5
65 (68)	100	100.0
66 (69)	103	107.2
67 (70)	106	115.1
68 (71)	109	124.0
69 (72)	112	134.0
70 (73)	115	145.4
71 (74)	118	158.3
72 (75) and over	121	172.9

As we have said before, the present law discounts the PIA 5/9ths of one percent for every month retirement precedes age 65 (normal retirement). However, for deferred retirement the corresponding credit is only 1/4th of one percent. Graph "B" plots these benefit adjustments of the current law on a dashed line.

Graph "C" is a combination of the Equivalent Curve ("A") and the adjustment factors of the present law ("B") plotted on the same graph. It illustrates that the current credits and discounts provide a better bargain for the early retiree than the late retiree.

Between ages 62 and 65 the adjustment factors of the present law are almost identical to the benefit level that would be generated by the Equivalent Curve; but between ages 65 and 72 the dashed line representing current law falls progressively further and further below the Equivalent Curve. "C" clearly illustrates that the current credits and discounts favor the early retiree.

Graph "D" is the essence of this proposal. It introduces what is referred to as the " Incentive Curve. " The Incentive Curve plots adjustment factors which at all ages are offset by 1 percent to 2 percent from the Equivalent Curve of Graph "A" and rounded to develop a smooth curve with logical progressions. For comparative purposes the Equivalent Curve is also plotted on Graph "D." A comparison of these factors with the previously listed factors follows:

TABLE 3

Age at Retirement	Percentage of Full Benefit		
	Present Law	Equivalent Curve	Incentive Curve
62 (65)	80%	79.5%	78%
63 (66)	86.7	87.0	85
64 (67)	93.3	93.5	92
65 (68)	100	100.0	99
66 (69)	103	107.2	106
67 (70)	106	115.1	113
68 (71)	109	124.0	122
69 (72)	112	134.0	132
70 (73)	115	145.4	143
71 (74)	118	158.3	156
72 (75) and over	121	172.9	170

In its Retirement Age chapter, the National Commission on Social Security submitted four sets of adjustment factors for consideration by Congress and the Administration. The incentive factors shown at right, above, are the same as alternative "D" in its report.

Ideally, in seeking both equity and an incentive to defer retirement, one would simply use the Equivalent Curve for the adjustment factors. However, as is shown in Graph "C", this would produce pensions at essentially present levels for those retiring between 62 and 65 but substantially higher than present levels for ages 65 through 72 and, consequently, additional cost to the Social Security system. By offsetting the adjustment factors by 1 percent to 2 percent from the Equivalent Curve for all ages, the cost for higher benefits between 66 and 72 is effectively offset by the gains between ages 62 and 65.

Graph "E" shows how the Incentive Curve from Graph "D" relates to the adjustment factors of the current law from Graph "B."

Offsetting the Incentive Curve from the Equivalent Curve by 1 percent to 2 percent generates gains and losses that produce a small net gain to the cash flow of the OASI Trust Fund. The SSA actuaries have estimated that an offset of about 1 percent would produce a "no cost" proposal. Because so few participants are retiring late, the cost of a significant increase in the credits for late retirement can be balanced by a relatively small change in the discount factors for the many who are retiring early.

If the AIMEs (Average Indexed Monthly Earnings) and the CPI continue to increase, a gradual shift from the current adjustment factors to the proposed factors would not reduce dollar amounts of benefits for those who retire early.

The net impact of these changes would be to reduce the rate of increase of retirement benefits between the ages of 62 and 65 and increase the rate of increase between 65 and 72, until the retirees at each age were being awarded benefits the present value of which were equal to the present value of the benefits awarded at every other age between 62 and 72. EQUITY would have been achieved for all retirement ages without a traumatic change in benefit levels to individuals and with a slight downward adjustment in the total cost of the system.

Whether one uses 0 percent or 1 percent or 2 percent or any other percentage, offsetting the Incentive Curve from the Equivalent Curve by a constant factor at every age has the virtue of strict equity.

The proposals in this paper are not directly related to the question of moving normal retirement from age 65 to age 68--which the writer supports. In order to avoid confusion, the graphs use the term "normal retirement age" rather than a specific retirement age. Whatever set of factors is used the resulting curve on any graph could be moved forward or back with changes in the normal retirement age. Graphs "F" and "G" express graphically how the adjustments of the present law and the Incentive Curve, respectively, would move across the age axis when the retirement age is increased.

Although the Incentive Curve makes late retirement more attractive than the present law, deferring retirement beyond age 72 or (75) would not be particularly attractive because the incentive factor and the benefit increases would stop at that age.

TRANSITION FROM PRESENT FACTORS TO PROPOSED FACTORS

If it is concluded that a shift to the incentive factors in one step would create problems, Chart "J" proposes a four-step program for changing from the current factors to the incentive factors. Where downward change is required (before normal retirement age) the increments have been proposed at or below one-half of one percent which should be more than offset by normal increases in the average PI A. Thus, even while the adjustment factor is being reduced, the actual dollar benefits could be expected to increase but at a somewhat slower rate. Where upward change is required (after normal retirement age) increments are large enough to be noticed and appreciated by potential beneficiaries-- enough to encourage deferred retirement.

PUBLIC'S UNDERSTANDING AND ACCEPTANCE

Earlier paragraphs mention the question of equity. When we consider life expectancy and the time value of money, it seems not only logical, but equitable, that everyone's benefit bear a consistent relationship to the actuarial equivalent regardless of age at retirement. Such an arrangement should appeal to the public's sense of fairness and, thus, be more acceptable in the political arena.

The idea of a flexible retirement age has considerable appeal. Although we already have a flexible system, the public thinks of age 65 as the designated retirement age. The "Incentive Curve" would emphasize the system's flexibility and de-emphasize a predetermined retirement age. It would be a step away from a specified age as preordained by "big brother." If an even more flexible system were desired the age parameters could be expanded to 62/75 limits or 60/72 or even 60/75.

Once the transition has been completed, the adjustment factors could be expressed in a manner much more understandable to the average participant. For example, the factor for the initial age of eligibility for retirement (62 or 65) could be established as the base 1 .OO, and the factors for older ages would be multiples which would be easy to relate to the base. The factor at age 66 (69) would be 1.36, thus expressing to a potential retiree that retirement delayed from age 62 to 66 would provide a pension that was 136 percent of the pension commencing at age 62. (I n addition, the benefit would be impacted by changes in the CPI .) The following Table 4 shows how the factors of the incentive curve would convert to such a system.

TABLE 4

Age at Retirement	Incentive Factors	Converted Factors
62 (65)		
63 (66)		
64 (67)		
65 (68)		
66 (69)		
67 (70)		
68 (71)		
69 (72)		
70 (73)		
71 (74)		
72 (75) and over		

In addition to being easier for the average participant to comprehend, this set of adjustment factors would effectively establish the concept of flexible retirement--eliminating the idea of a "normal" retirement age at 65 or 68.

The adoption of a flexible system (with the initial retirement age factor as the base 1 .00) would be implemented by calculating the PIA (Primary Insurance Amount) as the amount payable at the "initial" retirement age of 62 (65) instead of the amount payable at the "normal" retirement age of 65 (68). This should be relatively easy to achieve by changing the percentage factors in the PIA formula from 90 percent, 32 percent and 15 percent to 70.2 percent, 25.0 percent and 11.7 percent respectively. Corresponding adjustments would need to be made in the factors that determine benefit levels for spouses, widows, children, etc.

Graph "H" illustrates how such an arrangement would work in a situation where the retiree's PIA is $500 on the basis of present law. "H" also shows the initial retirement benefits that would be generated at various ages and the various rates of inflation. A page similar to "H" could be provided to the potential retirees to help them make an informed judgment about their ultimate retirement date.

CHANGING THE RETIREMENT AGE AFTER THE YEAR 2000

Another advantage of this system would occur if retirement ages start moving up after the turn of the century. The complexities of concurrently moving two age cohorts (normal and early retirement) would be eliminated. Chart "I" illustrates how this would occur.

PROPOSED SUBSTITUTES FOR THE TERM "NORMAL RETIREMENT AGE"

Everything considered, it seems advantageous to discard the term "normal retirement age" except as a technical term the actuaries may need as a "target age" for their calculations. Such terminology as "initial retirement age" or "retirement age parameters" would seem more descriptive and thus more understandable to the average participant.

GENERAL COMMENT AND CRITICISM

Because the adjustment factors in the present law encourage early retirement, they would appear to be at cross purposes with the recommendations of the Advisory Council, and the President's Commission on Pension Policy and the National Commission on Social Security to gradually increase retirement age in the next century.

Providing an opportunity for equivalent (thus higher) pensions for those who choose to defer retirement has been questioned because it is claimed that those who retire late tend to live longer and have higher earnings. The actuarial assumptions used to generate the Equivalent Curve have been "age adjusted" to compensate for the greater life expectancy of late retirees.

As to the alleged higher earnings of late retirees, it should be re-emphasized that the higher dollar amounts of pension at older ages are nothing more nor less than equivalents of lower pensions at younger ages. Another consideration is the low replacement rate for those with higher earnings--for those at maximum taxable earnings it is just under 30 percent of final earnings. Increased adjustment factors for deferred retirement gives the late retirees an opportunity to slightly increase their replacement rates.

The graphs may be helpful in understanding this proposal, but in actual practice, the Social Security actuaries would create tables which would indicate the correct adjustment commencing on any specified date at any retirement age measured in years and months. In fact, revision of certain factors (as mentioned earlier) would appear to be the only administrative change required of SSA.

In addition to the permanent gain in the cash flow of the OASI Trust Fund mentioned earlier, there should be a near term gain because the Incentive Curve would encourage people to defer retirements that had been contemplated for the years immediately following its adoption.

PUBLIC PERCEPTIONS AND POLITICAL CONSIDERATIONS

The National Commission on Social Security is recommending that the age for retirement with full benefits be gradually raised to 68 starting after the turn of the century--an action which the writer firmly supports. The Advisory Council has made a similar recommendation and the President's Commission on Pension Policy is expected to do the same.

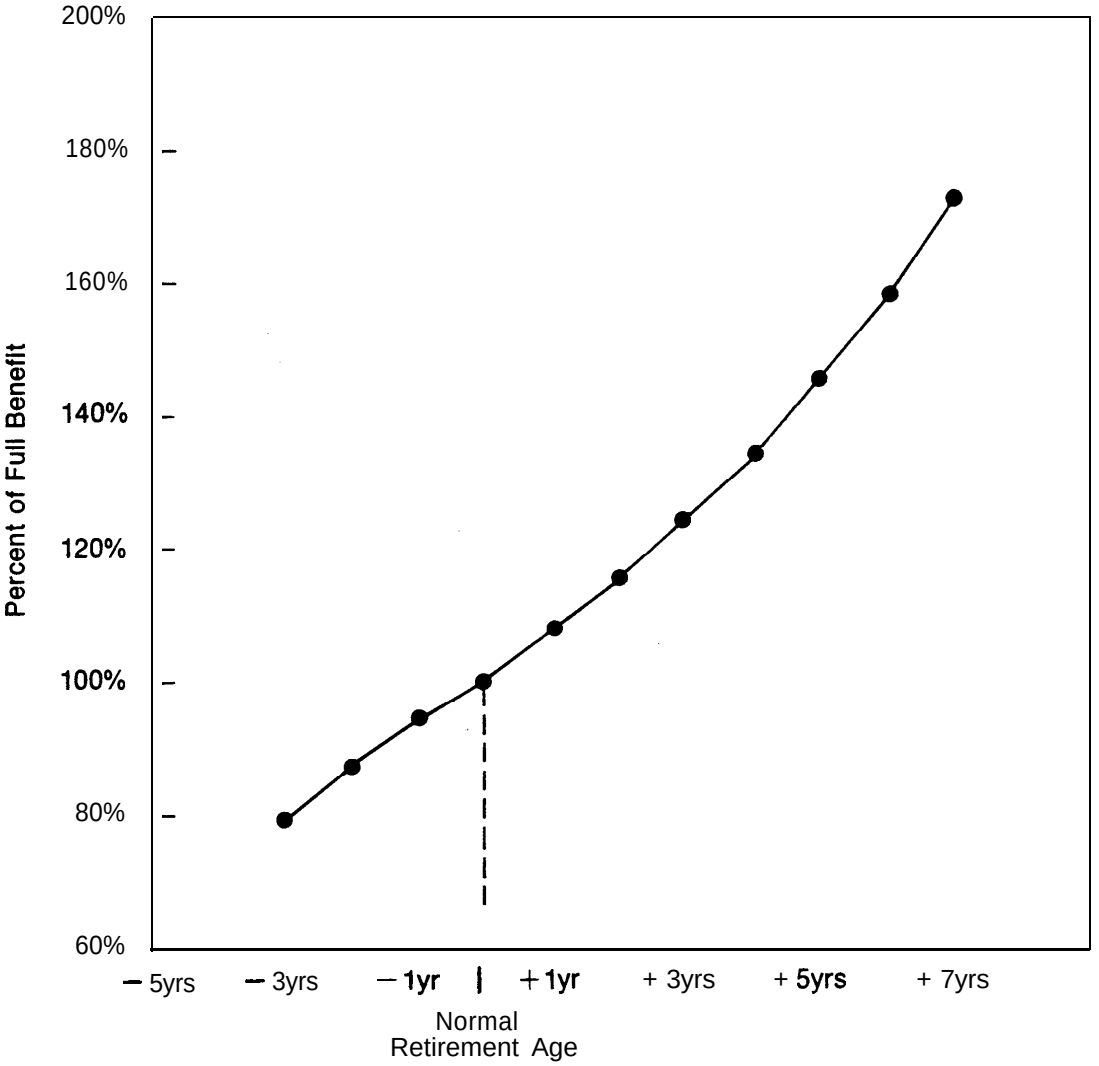
Part of the impetus for this paper is the need for public understanding and acceptance of the reasons for this essential change. The President and the Congress must deal with the retirement age question in a political context. They will be able to act most effectively if there is a measure of public support for the necessary legislation.

If the public perception of the relationship between the retirement age and the cost of the system is a perception of equal treatment and enough flexibility to give each participant a reasonable chance to control his own destiny, the Congressional action necessary to keep the program on a sound basis would have a better chance of adoption in the political arena. The purpose of these proposals is to move toward these objectives.

When we consider deferring retirement age in the context of pension financing, there are two sides of the coin: (1) costs can be reduced; or (2) benefits can be increased without additional cost. The Commission's proposal for raising the retirement age after the turn of the century recognizes the former as a means of keeping costs under control. The latter, however, is not fully recognized by the adjustment factors in the current law because those who first retire after their 65th birthday are awarded benefits which are less than the equivalent of those who first retire before age 65--it is that problem to which this paper is specifically addressed.

Finally, whatever can be done to encourage participants to voluntarily defer their retirement would improve the fiscal strength of the system; and the proposed changes that establish greater equity and emphasize flexibility would enhance the public's acceptance of the actions needed to maintain that strength. Thus, when Congress considers the question of deferring the retirement age (if the pluses and minuses are considered) the proposals should have a better chance of adoption in the political arena.

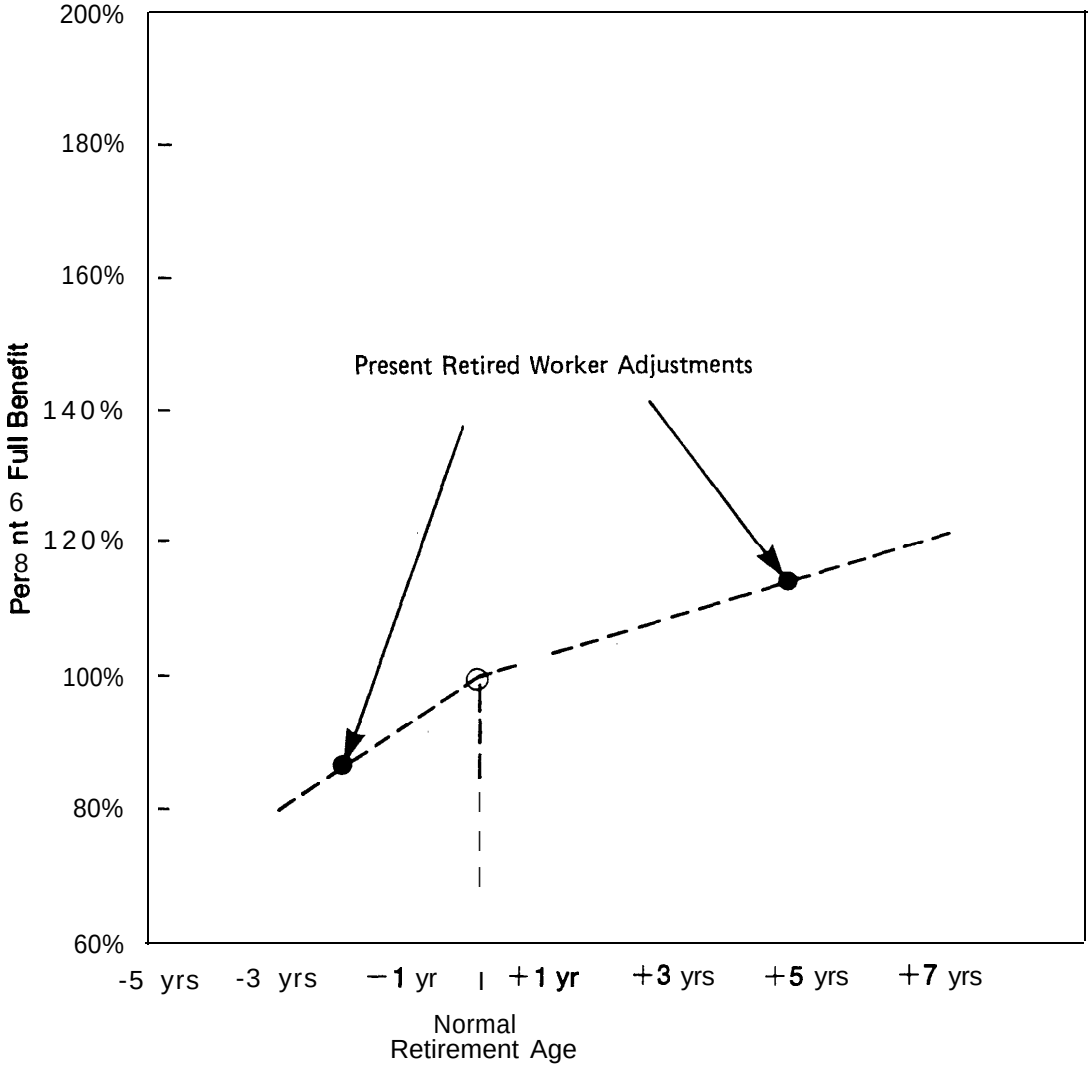
Graph A
Equivalent Curve



Equivalent Curve 2% Real Interest Rate

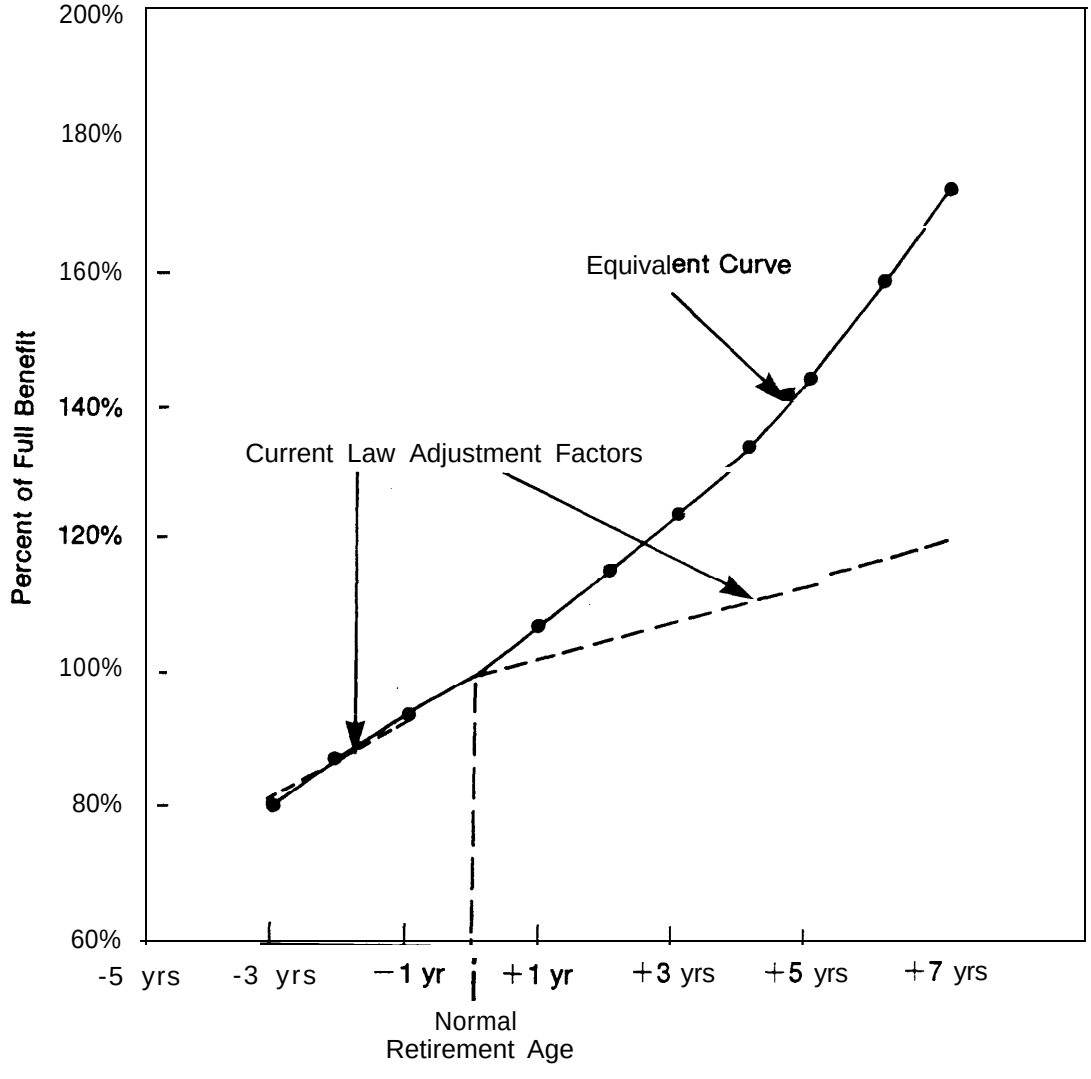
1980 U.S. Life Mortality Table Adjusted for Assumed Level of Mortality According to Chosen Age of Retirement

Graph B
Adjustments Made Under Current Law

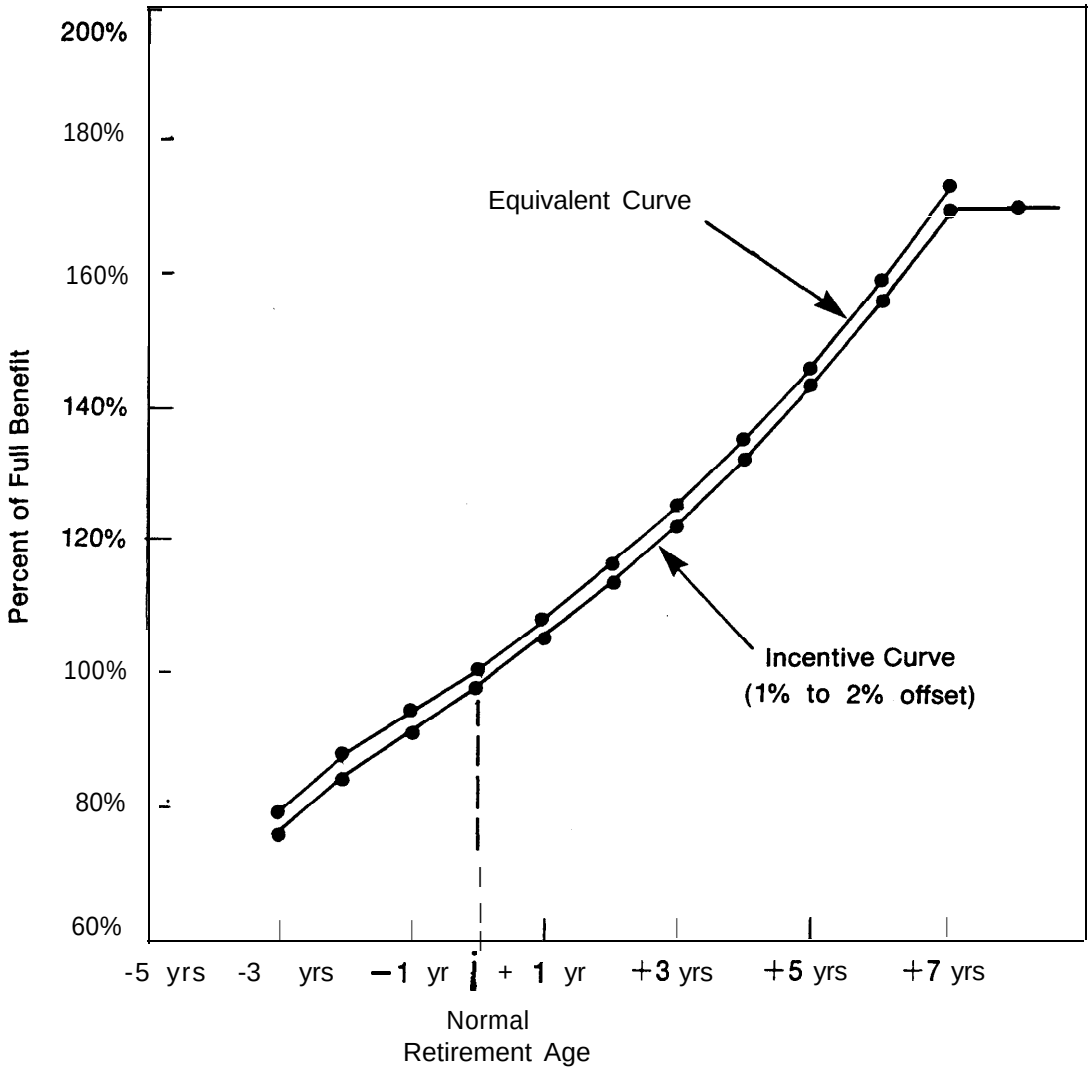


Graph C

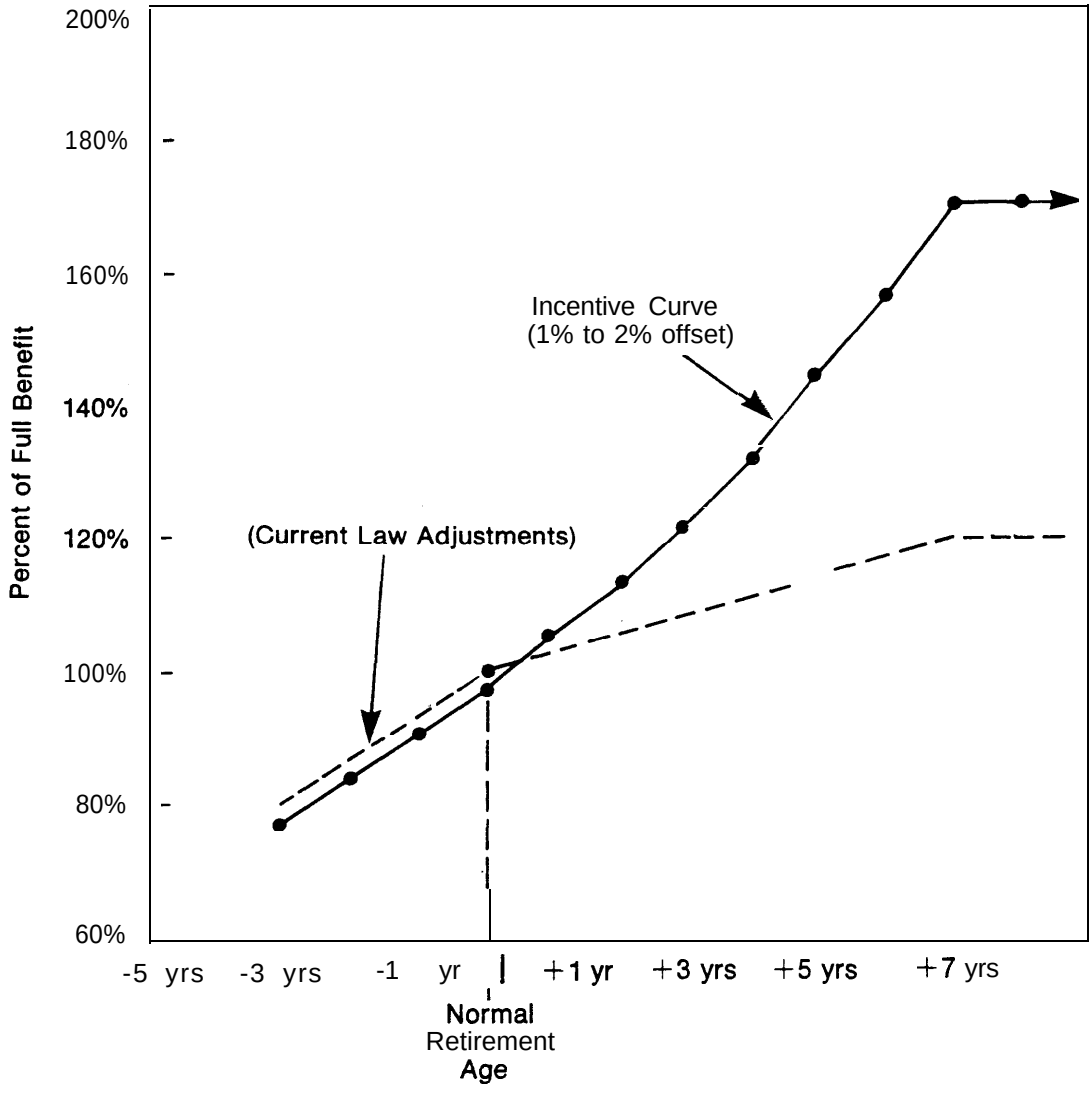
Equivalent Curve and Current Law Adjustments



Graph D
Incentive Curve

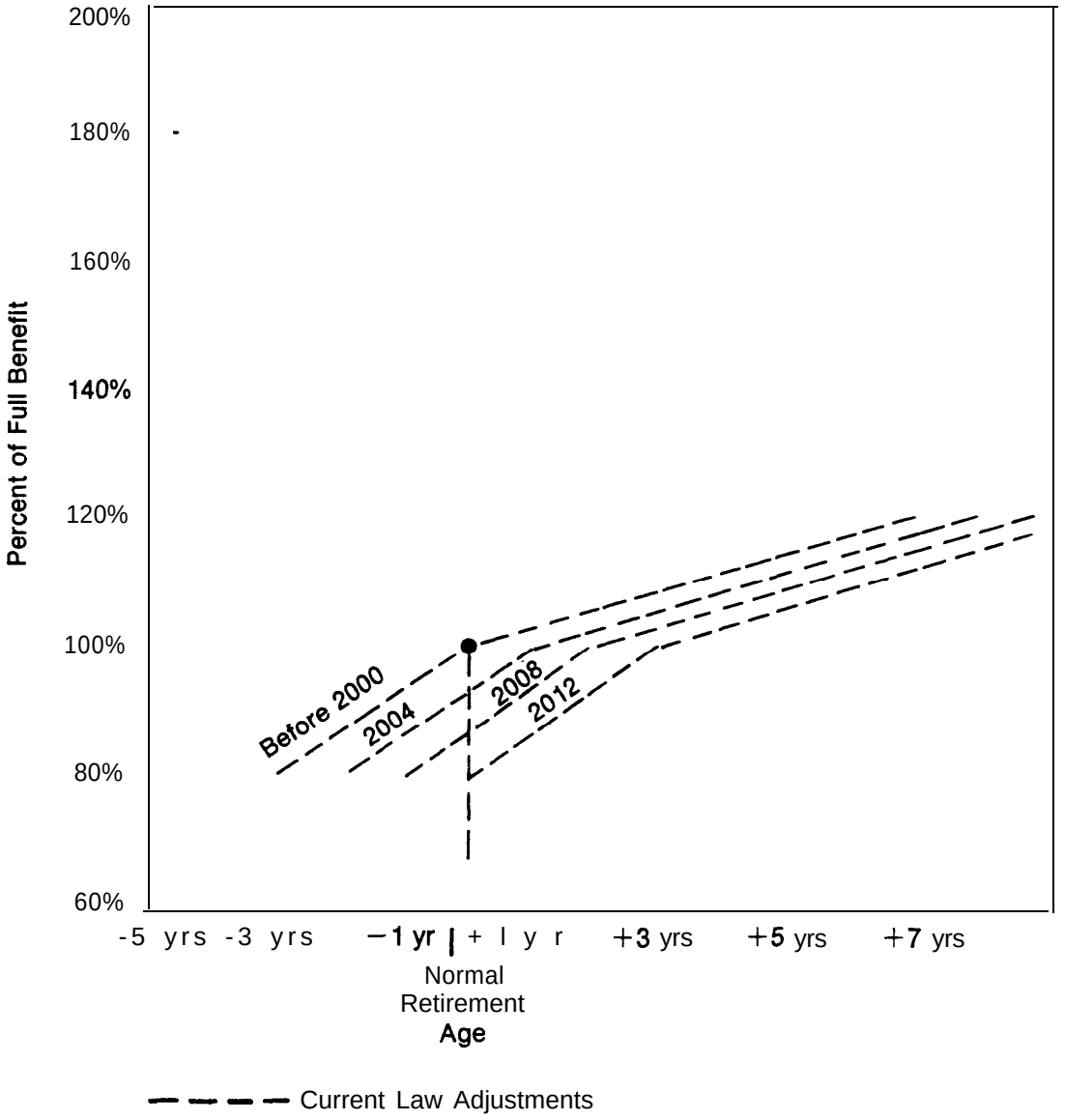


Graph E
Incentive Curve and Current Law



Graph F

Movement of Retired Worker Benefits After the Year 2000



Graph G
incentive Curve Moved Forward Three Years Between the Years 2000 & 2012

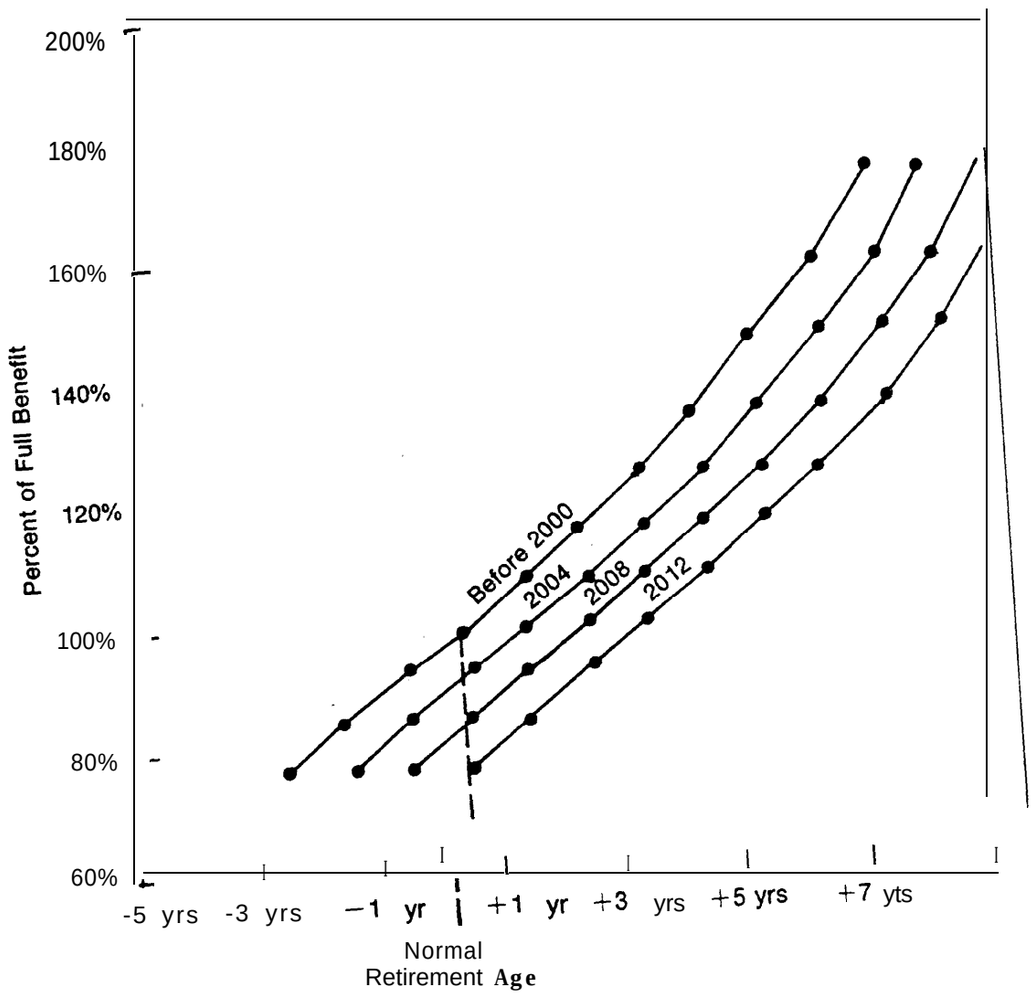


Chart H
Initial Retirement Benefits at Various Ages and Various Rates of Inflation
Assuming the Primary Insurance Amount to be $500*

Age When Benefits Commence	Converted Factors	Incentive Factors	Inflation Rates 0%	3%	6%	9%	12%
62 (65)	1.00	78%	$ 390	—			—
63 (66)	1.09	85	425	$438	$451	$463	$476
64 (67)	1.18	92	460	488	517	547	577
65 (68)	1.27	99	495	541	590	641	695
66 (69)	1.36	106	530	597	669	748	834
67 (70)	1.45	113	565	655	756	869	996
68 (71)	1.56	122	610	728	865	1023	1204
69 (72)	1.69	132	660	811	992	1207	1459
70 (73)	1.83	143	715	906	1140	1425	1770
71 (74)	2.00	156	780	1018	1318	1694	2163
72 (75)	2.18	170	850	1142	1522	2012	2640

* PIA of $500 is developed by present law (1980)

Chart I
Incentive Curve Factors Applied to Retirement Age Transition Between Years 2000 and 2012
from Age 62/72 Parameters to Age 65/75 Parameters

Age	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
62 Years	1.0000												
3 Mos	1.0225	1.0000											
6 Mos	1.0450	1.0225	1.0000										
9 Mos	1.0675	1.0450	1.0225	1 .0000									
63 Years	1.0900	1.0675	1.0450	1.0225	1.0000								
3 Mos	1.1125	1.0900	1.0675	1.0450	1.0225	1.0000							
6 Mos	1.1350	1.1125	1.0900	1.0675	1.0450	1.0225	1.0000						
9 Mos	1.1575	1.1350	1.1125	1.0900	1.0675	1.0450	1.0225	1.0000					
64 Years	1.1800	1.1575	1.1350	1.1125	1.0900	1.0675	1.0450	1.0225	1.0000				
3 Mos	1.2025	1.1600	1.1575	1.1350	1.1125	1.0900	1.0675	1.0450	1.0225	1.0000			
6 Mos	1.2250	1.2025	1.1600	1.1575	1.1350	1.1125	1.0900	1.0675	1.0450	1.0225	1.0000		
9 Mos	1.2475	1.2250	1.2025	1.1600	1.1575	1.1350	1.1125	1.0900	1.0675	1.0450	1.0225	1.0000	
65 Years	1.2700	1.2475	1.2250	1.2025	1.1800	1.1575	1.1350	1.1125	1.0900	1.0675	1.0450	1.0225	1.0000
3 Mos	1.2925	1.2700	1.2475	1.2250	1.2025	1.1800	1.1575	1.1350	1.1125	1.0900	1.0675	1.0450	1.0225
6 Mos	1.3150	1.2925	1.2700	1.2475	1.2250	1.2025	1.1800	1.1575	1.1350	1.1125	1.0900	1.0675	1.0450
9 Mos	1.3375	1.3150	1.2925	1.2700	1.2475	1.2250	1.2025	1.1800	1.1575	1.1350	1.1125	1.0900	1.0675
66 Years	1.3600	1.3375	1.3150	1.2925	1.2700	1.2475	1.2250	1.2025	1.1800	1.1575	1.1350	1.1125	1.0900
3 Mos	1.3825	1.3600	1.3375	1.3150	1.2925	1.2700	1.2475	1.2250	1.2025	1.1800	1.1575	1.1350	1.1125
6 Mos	1.4050	1.3825	1.3600	1.3375	1.3150	1.2925	1.2700	1.2475	1.2250	1.2025	1.1800	1.1575	1.1350
9 Mos	1.4275	1.4050	1.3825	1.3600	1.3375	1.3150	1.2925	1.2700	1.2475	1.2250	1.2025	1.1800	1.1575
67 Years	1.4500	1.4275	1.4050	1.3625	1.3600	1.3375	1.3150	1.2925	1.2700	1.2475	1.2250	1.2025	1.1800
3 Mos	1.4775	1.4500	1.4275	1.4050	1.3825	1.3600	1.3375	1.3150	1.2925	1.2700	1.2475	1.2250	1.2025
6 Mos	1.5050	1.4775	1.4500	1.4275	1.4050	1.3825	1.3600	1.3375	1.3150	1.2925	1.2700	1.2475	1.2250
9 Mos	1.5325	1.5050	1.4775	1.4500	1.42'5	1.4050	1.3825	1.3600	1.3375	1.3150	1.2925	1.2700	1.2475
68 Years	1.5600	1.5325	1.5050	1.4775	1.4500	1.4275	1.4050	1.3825	1.3600	1.3375	1.3150	1.2925	1.2700
3 Mos	1.5925	1.5600	1.5325	1.5050	1.4775	1.4500	1.4275	1.4050	1.3825	1.3600	1.3375	1.3150	1.2925
6 Mos	1.6250	1.5925	1.5600	1.5325	1.5050	1.4775	1.4500	1.4275	1.4050	1.3825	1.3600	1.3375	1.3150
9 Mos	1.6575	1.6250	1.5925	1.5600	1.5325	1.5050	1.4775	1.4500	1.4275	1.4050	1.3825	1.3600	1.3375
69 Years	1.6900	1.6575	1.6250	1.5925	1.5600	1.5325	1.5050	1.4775	1.4500	1.4275	1.4050	1.3825	1.3600
3 Mos	1.7250	1.6900	1.6575	1.6250	1.5925	1.5600	1.5325	1.5050	1.4775	1.4500	1.4275	1.4050	1.3625
6 Mos	1.7600	1.7250	1.6900	1.6575	1.6250	1.5925	1.5600	1.5325	1.5050	1.4775	1.4500	1.4275	1.4050
9 Mos	1.7950	1.7600	1.7250	1.6900	1.6575	1.6250	1.5925	1.5600	1.5325	1.5050	1.4775	1.4500	1.4275
70 Years	1.8300	1.7950	1.7600	1.7250	1.6900	1.6575	1.6250	1.5925	1.5600	1.5325	1.5050	1.4775	1.4500
3 Mos	1.8725	1.8300	1.7950	1.7600	1.7250	1.6900	1.6575	1.6250	1.5925	1.5600	1.5325	1.5050	1.4775
6 Mos	1.9150	1.8725	1.8300	1.7950	1.7600	1.7250	1.6900	1.6575	1.6250	1.5925	1.5600	1.5325	1.5050
9 Mos	1.9575	1.9150	1.8725	1.8300	1.7950	1.7600	1.7250	1.6900	1.6575	1.6250	1.5925	1.5600	1.5325
71 Years	2.0000	1.9575	1.9150	1.8725	1.8300	1.7950	1.7600	1.7250	1.6900	1.6575	1.6250	1.5925	1.5600
3 Mos	2.0450	2.0000	1.9575	1.9150	1.8725	1.8300	1.7950	1.7600	1.7250	1.6900	1.6575	1.6250	1.5925
6 Mos	2.0900	2.0450	2.0000	1.9575	1.9150	1.8725	1.8300	1.7950	1.7600	1.7250	1.6900	1.6575	1.6250
9 Mos	2.1350	2.0900	2.0450	2.0000	1.9575	1.9150	1.8725	1.8300	1.7950	1.7600	1.7250	1.6900	1.6575
72 Years	2.1800	2.1350	2.0900	2.0450	2.0000	1.9575	1.9150	1.8725	1.8300	1.7950	1.7600	1.7250	1.6900
3 Mos		2.1800	2.1350	2.0900	2.0450	2.0000	1.9575	1.9150	1.8725	1.8300	1.7950	1.7600	1.7250
6 Mos			2.1800	2.1350	2.0900	2.0450	2.0000	1.9575	1.9150	1.8725	1.8300	1.7950	1.7600
9 Mos				2.1800	2.1350	2.0900	2.0450	20000	1.9575	1.9150	1.8725	1.8300	1.7950
73 Years					2.1800	2.1350	2.0900	2.0450	2.0000	1.9575	1.9150	1.8725	1.8300
3 Mos						2.1800	2.1350	2.0900	2.0450	2.0000	1.9575	1.9150	1.8725
6 Mos							2.1800	2.1350	2.0900	2.0450	2.0000	1.9575	1.9150
9 Mos								2.1800	2.1350	2.0900	2.0450	2.0000	1.9575
74 Years									2.1800	2.1350	2.0900	2.0450	2.0000
3 Mos										2.1800	2.1350	2.0900	2.0450
6 Mos											2.1800	2.1350	2.0900
9 Mos												2.1600	2.1350
75 Years													2.1800

Chart J
A Suggested Program for Moving from the Adjustment Factors of the Present Social Security Law to a Set of Incentive Factors

Age at Retirement	Present Adjustment Factors	Suggested Intermediate Steps: Step One (1982)	Step Two (1984)	Step Three (1986)	Incentive' Factors (2% offset) (1988)	Increments
62 (65)	0.8000	0.7950	0.7900	0.7850	0.7800	(-0.0050)
63 (66)	0.8667	0.8625	0.8583	0.858 1	0.8500	(-0.0042)
64 (67)	0.9333	0.9300	0.9267	0.9234	0.9200	(— 0.0033)
65 (68)	1 .0000	0.9975	0.9950	0.9925	0.9900	(— 0.0025)
66 (69)	1.0300	1.0375	1.0450	1.0525	1.0600	0.0075
67 (70)	1.0600	1.0775	1.0950	1.1125	1.1300	0.0175
68 (71)	1.0900	1.1225	1.1550	1.1875	1.2200	0.0325
69 (72)	1.1200	1.1700	1.2200	1.2700	1.3200	0.0500
70 (73)	1.1500	1.2200	1.2900	1.3600	1.4300	0.0700
71 (74)	1.1800	1.2750	1.3700	1.4650	1.5600	0.0950
72 (75)	1.2100	1.3325	1.4550	1.5775	1.7000	0.1225

***incentive Factors = Equivalent Factors Reduced by 1% to 2%**

Age at Retirement	Equivalent • • Factors
62 (65)	0.7950
63 (66)	0.8700
64 (67)	0.9350
65 (68)	1 .0000
66 (69)	1.0720
67 (70)	1.1510
68 (71)	1.2400
69 (72)	1.3400
70 (73)	1.4540
71 (74)	1.5830
72 (75)	1.7290

"As Plotted on Graph A

APPENDIX D

GENDER-BASED DISTINCTIONS IN THE SOCIAL SECURITY LAW

In a few instances, the Social Security Act provides different treatment for men and women in similar circumstances. This appendix tists those remaining gender-based distinctions in the law which the Commission believes should be abolished.

Currently the Social Security Act provides that men and women receive different treatment in the following circumstances:[1/]

1. Transitional Insured Status: When Congress enacted the transitional insured status provisions in 1965 to provide special payments for persons who had not been able to work in covered employment long enough to qualify for benefits, wife's and widow's benefits were included in the provisions, but husband's and widower's benefits were not (Social Security Act, Section 227);

2. Special Age-72 Benefits: When both members of a couple are receiving special age-72 payments, the wife's payment is equal to one-half of the husband's payment even though each member must qualify for the payment individually (Social Security Act, Section 228(b));

3. Benefits For Spouses of Disabled Beneficiaries: If a disabled male beneficiary who is married to a dependent or a survivor beneficiary ceases to be disabled, the benefits of his spouse are terminated ; however, if the disabled beneficiary is a female whose disability ends, the benefits to her spouse do not end[2/] Social Security Act, Section 202(d)(5) et al);

4. Determination of I llegitimacy: In the few jurisdictions in which illegitimate children do not have the right to inherit the intestate personal property of their mothers, a woman's illegitimate child cannot qualify for Social Security benefits under the same conditions as a man's illegitimate child can (Social Security Act, Section 216(h)(3));

[1/] It should be noted that some of the gender-based distinctions remain in the statute, but are no longer implemented in fact because of successful challenges in the courts.

[2/] For example, where two beneficiaries who have been disabled since childhood marry, their benefits continue; if the male recovers from his disability both benefits are terminated, while benefits for the male continue if the female recovers. Similarly, where a disabled worker is married to an aged survivor and recovers from his/her disability, termination of the spouse's benefits depend on the sex of the worker.

5. **Waiver of Civil Service Survivor's Annuity: A widow can waive payment of a Federal benefit attributable to credit for military service performed before 1957 to be able to have the military' service benefit, but a widower cannot (Social Security Act, Section 217(f)); and**

6. **Self-Employment in Community Property States: The income from a business operated by a husband and wife in a State which has a community property statute is deemed to belong to the husband unless the wife exercises substantially all of the management and control of the business (Social Security Act, Section** 211(a)(5)(A)).