Social Security Perspectives

by ROBERT M. BALL*

TWO BROAD POINTS can be made about the old-age, survivors, disability, and health insurance program on this 33rd anniversary of the Social Security Act. The first is that our national social insurance system as we have it today—with all the need there is for improvement—is a tremendously successful program, which has changed the face of America in one short generation. People who would otherwise be among our most economically vulnerable groups: the retired aged, widows and orphans, and the totally disabled have income they can count on month after month as a matter of right. This has been accomplished with the enthusiastic acceptance of the vast majority of Americans.

The change from the situation just 33 years ago, when few had pension rights of any kind and few had continuing income protection for their families in case of death or disability, to the situation today—when just about all have pension rights, when $940 billion in face value of survivors insurance is in effect, and when 24 million people are getting benefits each month—is a change that is nothing short of revolutionary. Yet the methods used have been anything but revolutionary; rather they are built on traditional values and concepts—self-help, mutual aid, insurance, incentives to work and save. These fundamental principles appeal strongly to workers everywhere. People like to earn what they get and even more they like to have other people earn what *they* get. This principle explains much of the great strength of contributory social insurance.

Our social security system is a universal system. At the same time it has been our most effective weapon in the war on poverty to date. Following the rise in benefits resulting from the 1967 amendments, we estimate that nearly 10 million people are kept out of poverty because they are getting social security benefits. About 7.5 million beneficiaries, while still below the poverty line, are primarily dependent on social security.

Only about a fourth of the beneficiaries have incomes sufficient to keep them above the poverty level without social security benefits. And for a high proportion of this group, the source of income that makes the difference is continuing earnings from someone in the family—income which in the case of older people will stop on retirement. There are many people in this group too, who, sooner or later, will be looking to social security benefits to keep them out of poverty.

We have, then, a system of universal usefulness, relied upon by people at various income levels; at the same time, a very high proportion of the people drawing the system's benefits would be below the poverty line in the absence of these benefits.

Although the benefit formula is geared to do the most for low-income people in relation to contribution made, the program is also of great importance for the average and above-average worker. This fact has been brought home to me very clearly by the reaction that I now get in talking to audiences of businessmen and executives, compared with the reaction from such groups in the 1940's. In those days the questioning made clear that the audience was interested in the program solely from the standpoint of social policy; their questions related in a very impersonal way to the nature of the institution and what it might do for others. Today a high proportion of the questions from such a group show clearly that they are interested as well and, frequently, perhaps more interested in what the system will do for them and their friends as individuals. Indeed, with one out of every nine Americans getting a benefit every month and just about everyone else insured for future benefits, this is the one government program of personal interest to practically every American family.

The second point I would like to make on this anniversary is that several important issues are coming up for discussion and that in the next few years decisions will be made about the Federal social security program that will profoundly affect the future. I would like to select for a brief

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comment those issues that I believe are of major importance.

BENEFIT ISSUES

The successful social security experience in meeting needs of both the poor and the nonpoor reinforces my conviction that the poor are generally served best when served by the same institutions as the rest of the community rather than separately. Sometimes such separation is necessary, but I would argue that for the sake of the poor we should avoid it where we can. Our interest, as individuals and as a people, in institutions in which we all have a personal stake seems to hold up better than our interest in institutions designed to help "other people." We want the institutions that serve all of us to be good all the time; our interest in institutions specially designed for the poor tends to be sporadic and occasional.

This means to me that to the extent feasible we should plan to use our going social insurance machinery to prevent poverty among low-income people while keeping the system strong and keeping it acceptable to the community as a whole. We have here, I believe, one of two basic theoretical social insurance problems on the benefit side. How far should we go with the concept of partial replacement of the loss of work income? At what point does a weighted-benefit formula or a high minimum-benefit endanger the fundamental values of a wage-related contributory system and risk the general support that such a system now has?

As far as the steady worker who earns low wages during most of his lifetime is concerned, I believe we can easily handle the matter through contributory social insurance. In fact, to a very large extent, we are doing so through the benefit increases voted in 1967. It is not so easy to handle the problem, however, for people now retired or about to retire who had a major part of their earnings in jobs that were not covered under social security until the past 10 or 15 years. These people have low-covered wages that result in minimum or near-minimum benefits because their main jobs were not covered under the program soon enough. People who have earnings patterns like theirs in the future will get adequate benefits, but in this first generation of covered workers there are many who have very low benefits for this reason.

Then there remains the long-term problem of the truly marginal worker, the in-and-outer with only a slight connection with the labor force over a large part of his working life. Here the method of social insurance is not entirely applicable, at least for the extreme case. The problem can be mitigated, however, and has been by special provisions in social insurance, such as dropping out years of low earnings or no earnings in figuring benefits. Perhaps some liberalization of the "disability freeze," which protects the benefit level during periods when an individual is unable to work because of disability, would also help in this area, as would computing benefits not up to 65 for men but up to 62 as is done now for women.

Undoubtedly, however, there is a point at which it is unwise to provide fully sufficient benefits through a contributory system for people who have been under the program very little. In the long run I do not believe that this is a problem involving very many people, but to the extent that it exists it could be met either by adding a minimum benefit supported from general revenues and available to all in a given age group, or through improvements in the public assistance program. Incidentally, a good public assistance program, to which people can turn as a reasonably acceptable alternative to social insurance, can help to preserve the values and principles of the contributory program by making it unnecessary for social insurance to try to do the whole job. Whether this should be a national assistance program or a Federal-State program with some minimum standards is a separable question.

One question then is the extent to which social insurance can be expected to take care of the particularly disadvantaged. The other basic issue on the benefit side is how much social insurance should do for middle-income and higher-paid people. To what extent is the Federal system to be thought of not as guaranteeing a minimum level of living but designed to maintain in retirement a reasonable relationship of income to the past earnings of workers at all levels—middle and higher earnings as well as low-income levels?

With its universal coverage, its portability of credits, its just-about-complete vesting of benefit rights, its safety in terms of benefit promises, its ability to raise benefits as prices and wages rise as a result of its financial design being based on a percentage of payroll—with all these advantages, to what extent is the system to be thought of as a more efficient way of meeting the same goals as private pension plans for at least the average worker, with private plans building on social security primarily for those earning above the average?

Of course, it may well be that in America we will want to increase benefits substantially more than this.

Another possibility to consider is whether we might allow the contribution rates to go higher than those now proposed for people earning, say, $3,000 and above and use a government subsidy to make up the difference between rates now proposed for the lowest wage earner and the new higher rates that would apply to others.

REVENUE ISSUE

The issue of an eventual government contribution to the system comes up in connection with both of the matters already discussed, that is, the role of the system in the war on poverty and the role of the system for average and above-average earners. If benefits at the lower wage levels are to be substantially higher than they are, the most disadvantaged need more of a subsidy. And those at average and above-average earnings levels do not want too much of the subsidy to come from payroll contributions that would otherwise be available for benefits of one kind or another to them.

One of the most important issues in connection with long-range financing of the social security program is whether, if benefits are to be raised substantially, we are willing to have the contribution rate—which applies equally to lower-paid and higher-paid workers—raised sufficiently to cover the cost or whether some of the additional financing should come from general revenues.

There is some leeway for improvement in the future without a Government contribution and without increasing the contribution rate. First of all, the base to which the rate is applied can be significantly increased, an approach that would have the additional effect of making the program more effective for the somewhat above-average earner. But leaving this point aside, I don't believe there is general realization of the extent to which the *present* financing would allow for increased benefits as wage levels rise. Because of the weighted benefit formula, if the maximum earnings base is increased somewhat from time to time, contribution rates in present law will produce sufficient income to considerably more than keep benefits adjusted to future increases in prices.

OTHER ISSUES

There are other important issues that will need to be considered in the next few years.

One of these is early retirement. There is as yet no adequate understanding of the extent to which we are developing a problem of low benefits under social security arising out of the provisions for actuarial reduction of benefits when people retire before age 65. More than half of all people now retiring do so before age 65 and therefore get reduced benefits. The amounts are very substantially below what they would get if they waited until they could receive their benefits in full. The evidence indicates that generally they claim benefits early because they cannot any longer secure employment or are in ill health and unable to continue at their regular occupation, and they thus have little real choice.

In the long run, if allowed to continue, such a situation might actually reverse the long-range trend of reduction in the old-age assistance rolls. On the average, the longer a person is in retirement, the more likely he is to have used up whatever resources he took with him into retirement, and the more he becomes wholly dependent on his social security income. Thus, those people taking early benefits may later on have to apply in increasing numbers for assistance. Since 1950, largely because of social security, the proportion of the aged receiving assistance has been more than cut in half, dropping from 22 percent to about 10 percent today. It would be tragic to have this trend reversed.

The low benefits paid to those retiring early is a serious and developing problem. It may require some modification of the actuarial reduction provisions, or perhaps some liberalization in the disability program as it applies to older workers would be helpful.

Another issue involving the disability program is whether it should take on somewhat shorter-term illness, say by reduction in the waiting period for disability benefits from 6 to 3 months and dropping the requirement that the disability must be expected to last for at least 12 months.

Health insurance is, of course, very new. We have recommended the inclusion of the disabled social security beneficiary. Should other social security beneficiaries—widows and orphans—be included later on? Is extension of the program to cover prescription drugs feasible and desirable? What can be done about incentives for efficiency in the delivery of quality service by institutions? What can be done about helping to control the increasing cost of medical and hospital care?

It seems likely that the basic protections provided by the social security system will continue to be adjusted to economic changes in the future as they have been in the past. We have not as yet, however, resolved the important question of whether or not the adjustment process is to be entirely on an *ad hoc* basis as in the past, or whether the adjustments should, in part, be made automatic by relating benefits not to a career average but to, say, a high 5 or 10 years, or perhaps even by introducing automatic increases in benefits after people come on the rolls.

This by no means exhausts the list of issues confronting social security in 1968. Like the founding fathers who went to work to launch the new program created by the Social Security Act of 1935, we have plenty of work to do. We have the great advantage of being able to build upon a going system of universal application, based upon principles that have wide acceptance and have proven enduring. I believe that the method of social insurance will in the years to come be called upon to do an even bigger job than it is doing today. In conjunction with other programs —public and private—it can move toward a society in which income deficiency is largely eliminated and economic security becomes a reality even beyond what was envisaged by the original framers of the Social Security Act.