An Economic analysis of social security and a recommendation for reform

Susanne Marie O'Connor
The University of Montana

Follow this and additional works at: https://scholarworks.umt.edu/etd

Let us know how access to this document benefits you.

Recommended Citation
https://scholarworks.umt.edu/etd/5992

This Thesis is brought to you for free and open access by the Graduate School at ScholarWorks at University of Montana. It has been accepted for inclusion in Graduate Student Theses, Dissertations, & Professional Papers by an authorized administrator of ScholarWorks at University of Montana. For more information, please contact scholarworks@mso.umt.edu.
AN ECONOMIC ANALYSIS OF SOCIAL SECURITY
AND A RECOMMENDATION FOR REFORM

By

Susanne M. O'Connor

B.C.S., Seattle University, 1967

Presented in partial fulfillment of the requirements for
the degree of

Master of Business Administration

UNIVERSITY OF MONTANA
1977

Approved by:

J. Holten Wilson
Chairman, Board of Examiners

Dean, Graduate School

Date: January 1, 1977
TABLE OF CONTENTS

LIST OF TABLES ................................................... iv

Chapter

I. INTRODUCTION ............................................... 1
II. THE ORIGIN AND DEVELOPMENT OF SOCIAL SECURITY ............ 4
   Coverage ................................................. 11
   Benefits ................................................. 12
   Eligibility ............................................. 16
   Earnings Test .......................................... 17
   Medicare ................................................. 17
   Supplemental Security Income ......................  20
   Financing Social Security . . . . . . . . . . . . . . . . 22
   Administration of Social Security ...................... 27

III. CURRENT ISSUES RELATED TO SOCIAL SECURITY ............ 28
   Principle Issues of Social Security .................... 28
   Short-Term Funding ..................................... 29
   Long-Term Funding ..................................... 31
   Regressivity .......................................... 37
   Earnings Test ......................................... 38
   Dependency Test for Husbands .......................... 39
   Women and Social Security ......................... 40
   Social Security and Capital Accumulation .............. 42
   Proposals for Reform ..................................... 43
   Benjamin A. Okner ... 1............................... 43
   Alicia H. Munnell ..................................... 46
   Joseph A. Pechman, Henry J. Aaron and Michael K. Taussig ............................................. 55
   Summary ................................................. 61

IV. A PROPOSAL FOR REFORM .................................... 62
   A Review of the Problem ................................ 62
   The Proposed Role for Social Security ................. 64
   Benefits ................................................. 67

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.
LIST OF TABLES

Table

1. Cash Benefits Payable and Insured Status Requirements
   Under OASDHI, January 1973 .............................. 18

2. Effective Earnings Base and Actual Contribution Rate .......................... 23

3. Possible Wage Replacement Rates ........................................ 69

4. Comparison of Benefit Levels and Replacement Rates
   For Retirees Under Present and Proposed Systems .................. 87
CHAPTER I

INTRODUCTION

In January, 1940, a retired school teacher in Vermont received a Government check for $22.54—the first monthly Social Security check ever issued. In that year, $62 million in benefits were paid to 222,000 persons under the national retirement program which had been established by Congress five years earlier.¹ From that small trickle, the stream of payments have increased to a virtual torrent. Today, 90 percent of the working population is covered under Social Security; there are more than 30 million recipients of benefits; and the program dispenses $78 billion annually in benefits.²

The growth of the program has been especially rapid since 1965. Benefits have increased fourfold, and taxes to finance them have increased by more than five times in these twelve years. The Social Security tax has become the second largest source of federal revenue, exceeded only by the individual income tax.³

Recently, the program has come under considerable attack from many sides. Benefit increases over and above those justified by inflation,

¹"Will the Social Security Bubble Burst?" Nation's Business, November 1974, p. 28.


³Ibid.
changes in the demographic makeup of the nation, and the increasing use of Social Security funds for need-related benefits are threatening the financial soundness of the program. In other respects, the program has been criticized for failing to respond to changes in life styles and social attitudes.

The number of persons affected by Social Security and the degree of this affect, as evidenced by the very size of the Social Security payroll tax, (in 1977, the maximum combined employee-employer tax was $1,930) make this a highly controversial topic impinging on many aspects of the economy. An indication of the attention Social Security has been receiving is the 2½ inch thick computer printout of pending legislation, related to the subject, for the 95th Congress. Bills, addressing all provisions of the multifaceted system, are listed—ranging from proposals for slight changes in eligibility requirements or benefits to those which would completely restructure the system.

The second chapter of this paper will establish historical perspective for current problems of the system, by tracing the evolution of Social Security back to the events leading up to the original legislation. From the initial enactment of the law, the development and sequential legislation of Social Security will be delineated in terms of solving the problems for which the program was intended, and how this legislation led to the present system.

Chapter three will discuss recent developments affecting Social Security and various related issues, that have been the focus of attention by economists in recent years. A representative set of proposals to reform the system will be reviewed and discussed as to their potential impact on the program and feasibility of their implementation.
The fourth chapter describes the author's proposal to reform Social Security. Supporting arguments for the proposal are based on equity and efficiency that the reform will facilitate in meeting desired objectives. This section will also discuss the implementation of the reform and analyze the effects of the proposal on income distribution for different segments of the population.

Primary emphasis of the paper will be on the Old-Age and Survivors Insurance (OASI) portion of the Old-Age, Survivors, Disability and Health Insurance (OASDHI) program. Less attention will be given to the disability and health programs in the system.
CHAPTER II

THE ORIGIN AND DEVELOPMENT OF SOCIAL SECURITY

The Social Security Act was signed into law by President Franklin D. Roosevelt, August 14, 1935. Enactment of the law and the intent of its provisions were in response to a changing life style in the United States and the devastating effects of the Great Depression on some segments of society. The United States, in passing the Social Security Act, followed the example of most developed nations of the world by enlarging the role of government in providing for the welfare of its citizens.

The structure of the original Social Security Act was largely shaped by the history and traditions of the United States. In its early history, the United States was a predominantly agricultural economy. The family was the basic economic unit and the livelihood of the family was derived primarily from the soil, producing most of what it consumed. Economic hardships of personal misfortunes and old age were minimized by the closeness of the family unit and community ties. Because families were large, children could provide for their aging parents when their parents could no longer work.

The plethora of opportunities offered by an abundance of land and rich natural resources allowed many people to accumulate wealth sufficient enough to provide for a lifetime and gave rise to the strong feelings of self reliance and individualism characteristic of 18th and
19th century America. The concept of hard work and thrift as means to provide for future economic needs became an American tradition.

In 1870, more than half of all adult workers were engaged in farming. In the years that followed, however, the nation became increasingly industrialized and, with the development of industry, the population shifted from farms to the expanding urban areas. Factory workers, unlike those engaged in agriculture, were totally dependent on a continuing flow of money income to obtain the necessities of life for themselves and their families. Those that were once self-sufficient became reliant.

The transformation of an agricultural economy into a mechanized interdependent society greatly increased the productive capacity of the nation and brought about an ever-increasing standard of living. The changing economic picture, however, created risks to family security and lessened the ability of families to take care of their own members. In the event the family breadwinner became ill, disabled (or otherwise unemployable), or died prematurely, the family lost its sole source of income. In an agricultural society, several sources of income were usually available, and all family members contributed to the economic well-being of the family unit.

Old age presented a further economic threat. Few jobs were available in the factories for older workers when the young were clamoring to enter the labor force and could work more efficiently. Rarely were families able to save enough from their earnings for a comfortable retirement. The industrial age was accompanied by reduction in the size of families, which meant fewer children to care for their aged parents. At the same time higher standards of living and advances in medicine were
adding to the life span of the population, resulting in a large pro-
portion of older people in the makeup of society.

The only remedies available to the poor were private charities
and/or poorhouses, which were notorious for their unfit living condi-
tions. State studies conducted in the first quarter of the 20th century
revealed one-fifth to one-third of the aged were inmates of poorhouses.\(^1\)
Public disclosure of the inadequacies of such institutions, plus the
increasing magnitude of the problem, motivated some state governments
to adopt various relief and assistance programs for the aged.

Private pensions had been established in the late 1800's by a
few enterprises, primarily railroads, public utilities and large manu-
facturing companies. Retirement programs for certain government employees,
such as teachers, firemen, and policemen developed at about the turn of
the century. The state of Arizona enacted the first public program,
but it was declared unconstitutional. Montana was successful in estab-
lishing the first state pension plan in 1923, and by 1931, eighteen
states and Alaska had such pension plans.\(^2\) These fragmented efforts
toward a public pension system led the United States along the road that
most European countries had traveled decades earlier.

The development of social insurance in the United States gener-
ally lagged behind that of other industrial nations. In Germany, govern-
ment old age insurance was provided in 1889 when Bismarck was Chancellor.

\(^1\)U.S., Department of Health, Education and Welfare, Social Sec-
urity Administration, Social Security Financing, by Mary Costello,
Editorial Research Reports, Congressional Quarterly, Inc., (Washington,

\(^2\)Ibid., pp. 713-14.
At the start of World War I, in 1914, ten European countries and several British dominions had public pension plans.\(^3\)

Several factors contributed to the slowness of the United States to take this step. Labor wages and the United States standard of living were comparatively higher than those in Europe, which served to perpetuate the belief that Americans could provide their own security. Some large labor unions failed to support the legislation, and the private insurance industry was opposed to it.

The growth of social insurance legislation in the United States was also retarded by the relationship of federal and state governments and the limitations on the federal government in this area as interpreted by the Supreme Court.\(^4\) J. Douglas Brown, an author of the original Social Security Act, stated that the chief worry of those drafting the legislation was whether the federal government had constitutional authority to impose such a program on the citizens of the United States.\(^5\)

The economic collapse of the United States in the Great Depression, however, brought dramatic attention to the mounting problems of financial insecurity of the aged and infirm in an urban industrialized society. Poor people were not the only ones to suffer the ill effects of the Depression. Those previously well off saw their savings dissipate through

\(^{3}\)Ibid.


bank failures and depreciated investments and were reduced to either
dependence on their families or relief. 6

It has often been said that the Social Security Act was a child
of the Great Depression, during which one-fourth of the workers
of the nation were unemployed and one-fifth of the nation sub­
sisted on direct relief or work relief. It is certainly true
that the depression convinced the American people of the necessity
for governmental action to relieve the human distress caused by
unemployment, insecurity in old age and widespread poverty. 7

During the 1920's, two basic schools of thought had emerged with
respect to a national social insurance program. One group advocated a
system in which employees would contribute to a fund throughout their
working lives. Abraham Epstein, who in 1927, organized the American
Association for Old-Age Security, was a leading proponent of this form
of social insurance and is credited with the introduction of the term
"social security." 8

Francis E. Townsend, a California physician, organized and led
a second group favoring a government pension financed from the proceeds
of a two percent federal tax on money transactions. The "Townsend
Movement," which began in 1932, offered a pension of $200 a month for
all persons age 60 or older, the only stipulation being that the amount
be spent in 30 days. Thus, the plan would not only provide relief for
the aged, but stimulate the economy as well.9

6Social Security Programs, p. 5.

7Arthur J. Altmeyer, The Formative Years of Social Security,

8Ibid., p. 4.

9Social Security Financing, p. 714.
The Democratic convention of 1932 nominated Franklin D. Roosevelt for president and adopted a platform calling for unemployment and old-age assistance. Roosevelt, upon being elected, appointed a cabinet-level Committee on Economic Security charged with developing "... a comprehensive social insurance system covering all major personal economic hazards ... especially the hazards of unemployment and old age."\(^{10}\)

The immediacy of Roosevelt's action to establish a national social insurance program is said to have been in part to blunt the appeal of the Townsend Plan, which had developed a large and emotionally-charged following, but was expensive and essentially unworkable. Also, however, Roosevelt was a firm believer in government sponsored insurance programs to prevent economic hardships, as he demonstrated in his early political career. As a state senator and later as Governor of New York, he had been a strong supporter of a workmen's compensation law, the state- enacted old-age pension law and unemployment insurance. As President, his timing in introducing the legislation was probably well planned, aimed at selling the program to the American public before the lessons of the depression were forgotten.\(^{11}\)

From the first, the Committee's intent in drafting the legislation was that the plan should be national, compulsory, contributory and provide benefits as a matter of right.\(^{12}\) It was considered necessary that the program be national for the purpose of uniformity and because

\(^{10}\) Altmeyer, *Formative Years*, p. 13.

\(^{11}\) Ibid., pp. 4-14.

of the great mobility of American workers; contributory, because of the widely held belief that individuals should be primarily responsible for their own security and that of their families; compulsory, to prevent adverse selection and the resulting excessive costs per enrollee; with payments as a matter of right so that the program would not carry with it the stigma attached to other public assistance programs or the often degrading means tests required to prove eligibility under such programs.

The Social Security Act of 1935 incorporated all of these criteria and was basically a composite program of social insurance and public assistance. The Act created two social insurance programs—(1) a federal old-age insurance system, now termed the Old-Age, Survivors, Disability, and Health Insurance (OASDHI), and (2) a federal-state unemployment insurance system. The Act also provided for a federal-state public assistance program for needy persons and federal grants to states for child welfare, vocational rehabilitation and public health services.\(^{13}\)

Through numerous amendments, the Act has been modified and expanded in the years following its inception. Generally, coverage was broadened, benefits and existing programs were expanded, and new programs were added.

The original act covered less than 60 percent of the labor force, while today 90 percent of working Americans are covered under the system. Expenditures of the system have increased from $62 million in 1940 (the first year benefits were paid) to an estimated $96.9 billion in 1978.\(^{14}\)

---


Coverage

Initially, only employees in non-agricultural industry and commerce were eligible for coverage. Certain types of employment were originally exempted, including farm and domestic work, self-employment, work for non-profit organizations or for close relatives, railroad workers, and government employment—federal, state and local. Most of these were brought under the program by amendments to the Act in 1950, 1954, 1956, 1960, and 1965.¹⁵

The remaining workers who are still excluded from coverage can be classified into three major categories; (1) those covered under the civil service retirement system and the Railroad Retirement Act; (2) household workers or farm workers who do not work long enough or earn enough to meet certain minimum requirements;¹⁶ and (3) persons with very low net earnings from self employment ($400 or less).

Coverage of state and local government employees has not been made compulsory because of constitutional restrictions on the federal government to tax these governmental bodies. Employees of state and local governments may be covered under agreements entered into between the states and the Secretary of Health, Education and Welfare. At present, about two-thirds of all state and local employees are covered under these agreements.

Provisions have also been adopted for making coverage available to employees of certain non-profit organizations, which have traditionally

¹⁵Social Security Financing, p. 716.

¹⁶Fifty dollars per quarter for household workers and $150 a year (or 20 days working for an employer) for farm workers.
been tax-exempt. Most non-profit organizations have elected to waive their tax-exempt status.

The 1956 legislation extended coverage to the military. Non-contributory wage credits of $160 a month were provided for military wages received in kind—i.e., living quarters and meals—for service during and after World War II up to 1956. Beginning in 1957, basic pay of the military service was covered under the regular contributory provisions of the law. In addition, service personnel became entitled to non-contributory wage credits of $300 per quarter for wages received in kind.

The 1956 additions to the Act also incorporated provisions to make special payments to individuals reaching age 72 with no coverage or very limited coverage.  

Benefits

In addition to the expansion of the Social Security system to include more groups of workers, benefits disbursed from the system have been greatly increased since 1935.

Social Security, as it was originally enacted, differs fundamentally from the system as it operates today. The initial legislation placed emphasis on the principle of "individual equity"—that workers should receive out of the system at least as much as they had contributed to it.' A large reserve fund was thought necessary and was to be accumulated by deferring benefit payments until 1942.  

---

17 Social Security Programs, p. 25.

The original Act provided only for the payment of monthly cash benefits to retired workers. The amount payable was determined by a worker's lifetime contribution.

The first amendments to the Social Security Act in 1939 marked a turning point in the historical development of the Act, modifying the principle of "individual equity" toward the goal of "social adequacy." In this legislation, benefits were provided for dependents and survivors of covered workers. The law was also changed to tie benefits to average earnings over a minimum period of time and to begin benefit payments in 1940 rather than 1942. These changes were deemed desirable because they permitted immediate payment to families currently in need.

Legislation in the 1950's both increased the value of benefits and broadened the types of benefits in the program. Benefits overall were increased with larger increases for those in the lower salary ranges and benefits for dependents and survivors were raised relative to those for workers. These served to reinforce the "social adequacy" goal of the Social Security system.

In 1956, benefits were added for disabled workers, aged 50-64. In 1960, the lower age limitation was removed and benefits were added for the dependents of disabled workers.

The 1956 legislation also included provisions lowering the age at which women workers were permitted to receive retirement benefits—from 65 to 62 at an actuarial reduced amount. This provision was extended to men workers in 1961. ¹⁹

¹⁹ The reduction for a worker is 5/9 percent for every month below age 65 at retirement. Ibid., pp. 32-43.
A summary of the basic types of benefits under the OASDI portion of Social Security is as follows:

1. The basic old-age benefit—called the **Primary Insurance Amount** (P.I.A.)—is paid to workers retiring at age 65 or over. An additional 50 percent of this amount is added to the benefit if the retired worker is married and the wife (or dependent husband) or divorced wife\(^21\) is over 65, or if the worker has a child under 18.\(^22\) Reduced benefits may be elected at age 62.

The formula effective June, 1976, for determining the primary insurance amount is:\(^23\)

- 137.77% of first $110 of Average Monthly Wage
- 50.11% of next $290 of Average Monthly Wage
- 46.83% of next $150 of Average Monthly Wage
- 55.04% of next $100 of Average Monthly Wage
- 30.61% of next $100 of Average Monthly Wage
- 25.51% of next $250 of Average Monthly Wage
- 22.78% of balance

A worker whose average monthly wage upon retirement, after excluding the five years of lowest earnings, is $450 will receive $320.17 in benefits if single with no dependents.

---

\(^20\) Ibid., pp. 41-44.

\(^21\) Divorced wives may receive benefits if married 20 or more years to the covered worker.

\(^22\) Children in school, ages 18-22, or disabled before age 22 are also covered.

137.77% of $110 = $151.55  
50.11% of 290 = 145.20  
46.83% of 50 = 23.42  

Average Monthly Wage $450  Monthly Benefit $320.17

If the worker is married and his wife is 65 or older, the couple's monthly benefit will be $480.25, that is, 1½ times the primary insurance amount.

2. Disability benefits are paid after a waiting period of five months to workers who are totally disabled. The disability benefit is computed in the same way as the retirement benefit, but payments tend to be larger, on the average, because of stricter qualifying requirements for eligibility which results in the elimination of lower-paid, irregularly employed workers. Benefits are also provided for disabled widows (dependent widowers) and divorced wives.24

3. Survivor benefits are paid to aged widows (dependent widowers) and divorced wives,25 children under 18,26 and dependent parents of deceased workers and are based on the P.I.A.

4. Lump sum death benefits are paid on the death of an insured individual. This payment is three times the monthly primary insurance amount up to a maximum of $255.

24Qualifications for divorced wives for disability benefits are the same as those for dependents of retirees.

25Qualifications for divorced wives for survivorship benefits are the same as those for dependents of retirees.

26Children in school, aged 18-22, or disabled before age 22 are also covered.
Eligibility

To qualify for cash benefits a worker must have demonstrated his attachment to the labor force by a specified amount of time worked in covered employment. The period of time a person must have worked in covered employment is measured in quarters of coverage. Four categories of eligibility status exist.

**Fully insured status** is achieved by having as many quarters of coverage as there are years between ages 21 and retirement. For those that reached age 21 before 1950 the number of quarters required is the number of years between 1951 and retirement age. A worker with 40 quarters of coverage is fully insured for life and needs no further employment to qualify for benefits. For most types of benefits the worker must be fully insured.

**Transitionally insured status** was enacted in 1965 to provide special minimum benefits to those who had reached age 72 before 1968 with little or no quarters of coverage. A person reaching age 72 in 1968 or after needs three quarters of coverage for each year after 1966 and up to the year he reaches age 72 to be eligible for special benefits. In 1966, persons over 72 were made eligible to receive a special minimum benefit even if they had not attained fully or transitionally insured status.

**Currently insured status** is required for survivor benefits to be paid if a worker dies before fully insured status is achieved. An individual is currently insured if he has acquired six quarters of coverage within the 13 quarter period preceding his death.

To achieve **disability insured status** a worker must be fully
insured and have worked in covered employment for at least 20 quarters in the period of 40 quarters preceding disablement. More liberal insured status requirements apply to workers disabled before age 31 or who are blind.27

The insured status required for each of the various benefits paid are listed in Table 1.

**Earnings Test**

After an individual retires or otherwise obtains eligibility for Social Security, there is a limit to the amount of money he can earn through employment and still collect benefits under the program. In 1977, a retiree or other person on Social Security can draw wages or salaries up to $3,000 without any cut in Social Security payments. Above $3,000, payments are reduced $1 for each $2 of wages. Benefits are payable, however, regardless of annual earnings, for any month in which the beneficiary earns $250 or less in wages and does not render substantial services in self-employment. Wages of Social Security beneficiaries over age 72 are not subject to the earnings test. The earnings test does not apply to unearned income such as interest, dividends or royalties.

**Medicare**

The most significant expansion of the Social Security Act came in 1965 with establishment of the Medicare program, which was "... designed to close a major gap in the economic security of the elderly by providing protection against the high cost of hospital and medical care."28


28 "*Social Security 40 Years Later*," p. 4.
**TABLE 1**  
CASH BENEFITS PAYABLE AND INSURED STATUS REQUIREMENTS  
UNDER OASDI, JANUARY 1973

<table>
<thead>
<tr>
<th>Retirement Benefits</th>
<th>If Worker Is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly payments, equal to the primary insurance amount, are payable to:</td>
<td></td>
</tr>
<tr>
<td>A retired worker 65 or over*</td>
<td>Fully Insured</td>
</tr>
<tr>
<td>Monthly payments, equal to 50 percent of the primary insurance amount are payable to a worker’s:</td>
<td></td>
</tr>
<tr>
<td>Wife or divorced wife 65 or over b</td>
<td>Fully Insured</td>
</tr>
<tr>
<td>Dependent child or grandchild under 18, or 18 through 21 if in school</td>
<td>Fully Insured</td>
</tr>
<tr>
<td>Dependent child or grandchild 18 or over who has been disabled since before 22</td>
<td>Fully Insured</td>
</tr>
<tr>
<td>Wife of any age if caring for an entitled child under 18 or disabled</td>
<td>Fully Insured</td>
</tr>
<tr>
<td>Dependent husband 65 or over*</td>
<td>Fully Insured</td>
</tr>
<tr>
<td>Monthly payments, equal to $58 are payable at age 72 to:</td>
<td></td>
</tr>
<tr>
<td>A worker who reached age 65 (62 for women) before 1967</td>
<td>Transitionally Insured</td>
</tr>
<tr>
<td>Monthly payments, equal to $29 are payable at age 72 to a worker’s:</td>
<td></td>
</tr>
<tr>
<td>Wife who reached age 72 before 1969</td>
<td>Transitionally Insured</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Survivor Benefits</th>
<th>If At Death The Worker Is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly payments, equal to the primary insurance amount, c are payable to a worker’s:</td>
<td></td>
</tr>
<tr>
<td>Widow or surviving divorced wife 65 or over</td>
<td>Fully Insured</td>
</tr>
<tr>
<td>Dependent widower 65 or over</td>
<td>Fully Insured</td>
</tr>
<tr>
<td>Monthly payments, equal to 82.5 percent of the primary insurance amount, are payable to a worker’s:</td>
<td></td>
</tr>
<tr>
<td>One dependent parent 62 or over</td>
<td>Fully Insured</td>
</tr>
<tr>
<td>Monthly payments, equal to 75 percent of the primary insurance amount, are payable to a worker’s:</td>
<td></td>
</tr>
<tr>
<td>Widow or surviving divorced wife under 62 if caring for an entitled child under 18 or disabled</td>
<td>Fully or currently Insured</td>
</tr>
<tr>
<td>Dependent child or grandchild under 18, or 18 through 21 if in school</td>
<td>Fully or currently Insured</td>
</tr>
</tbody>
</table>
TABLE 1—Continued

<table>
<thead>
<tr>
<th>Survivor Benefits</th>
<th>If At Death The Worker Is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent child or grandchild 18 or over who has been</td>
<td>Fully or Currently Insured</td>
</tr>
<tr>
<td>disabled since before 22</td>
<td></td>
</tr>
<tr>
<td>Dependent parent 62 or over, when both parents are entitled.</td>
<td>Fully Insured</td>
</tr>
<tr>
<td>Lump-sum payment, equal to the lesser of three times the</td>
<td></td>
</tr>
<tr>
<td>worker's primary insurance amount or $255, paid to the</td>
<td></td>
</tr>
<tr>
<td>worker's:</td>
<td></td>
</tr>
<tr>
<td>Widow or widower, or to pay the burial expense</td>
<td>Fully or Currently Insured</td>
</tr>
<tr>
<td>Monthly payments of $58, payable at age 72 to worker's:</td>
<td></td>
</tr>
<tr>
<td>Widow who reached 72 before 1969</td>
<td>Transitionally Insured</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disability Benefits</th>
<th>If Worker Is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly payments, equal to the amounts payable in retirement, are</td>
<td></td>
</tr>
<tr>
<td>payable to:</td>
<td></td>
</tr>
<tr>
<td>A disabled worker under 65 and dependents</td>
<td>Fully insured and has 20 quarters of coverage in the</td>
</tr>
<tr>
<td></td>
<td>40 quarters ending with the quarter he became disabled.</td>
</tr>
<tr>
<td>A blind worker under 65 and dependents</td>
<td>Fully Insured</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Special Benefits</th>
<th>If The Person Or Couple, Meet:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly payments at age 72 are payable to:</td>
<td></td>
</tr>
<tr>
<td>A single person, equal to $58.</td>
<td>Special requirements for insured status which apply only to</td>
</tr>
<tr>
<td>A couple, equal to $87.</td>
<td>this type of payment.</td>
</tr>
</tbody>
</table>

*Reduced benefits are payable at age 62; benefit amount is permanently reduced by 5/9 of one percent for each month the benefit is paid before 65. Benefit amount is increased by 1/12 of one percent for each month that no benefits are payable between ages 65 and 72.

b Reducert benefits are payable at age 62; benefit amount is permanently reduced by 25/36 of one percent for each month the benefit is paid before 65 (or 28.5% over the full 3-year period).

where a worker was already receiving reduced retirement benefits at time of death, the benefit payable to the surviving widow or widower cannot be more than he (she) would be getting if still alive, except that the benefit amount cannot be reduced to less than 82.5% of the primary insurance benefit for widow or widower aged 62 or over. Certain remarried widows and widowers receive 50% of deceased spouse's primary insurance amount.

Reduced benefits are payable at age 60; benefit amount is permanently reduced by 19/40 of one percent for each month the benefit is paid before age 65 (or 28.5% over the full 3-year period). If disabled, reduced benefits are payable at age 50, ranging from 50% of deceased spouse's primary insurance amount for entitlement at age 50 up to 71.5% at age 60 (the same amount payable to an aged widow or widower at that age).

*Except that benefits for a disabled worker before age 65 are not reduced unless he previously received a reduced insurance benefit.

Same categories as in retirement cases.

Medicare, as enacted, was comprised of two separate insurance programs—Part A, hospital coverage for those 65 or older and Part B, supplementary medical insurance for the aged who elect coverage and pay the premium.

Medicare differs from other Social Security benefits in that it provides primarily a service benefit. Part A coverage applies to inpatient hospital care, inpatient care in a skilled nursing facility and home health care. Almost all of the costs for these services are paid for up to 60 days in the hospital after a deductible ($104 in 1976) has been met. The beneficiary is required to pay a percent of costs after this time. Part B coverage applies generally to doctor services and outpatient hospital care and other health services and supplies not covered by Medicare hospital insurance. Benefits for these services are also subject to a deductible.29

The Medicare program was expanded in 1972 to cover medical expenses for certain individuals under 65, namely: medical expenses for disabled workers entitled to Social Security disability or Railroad Retirement disability benefits, and the treatment of chronic renal disease for Social Security covered workers and their dependents.30

**Supplemental Security Income**

Enactment of the Supplemental Security Income (SSI) program for the needy aged, blind and disabled in 1974, further contributed to the welfare (social adequacy) objective of Social Security. SSI evolved

29 *Social Security Programs*, p. 48.

30 "Social Security 40 Years Later," p. 4.
from the section of the original Social Security Act providing federal-state assistance to the poor (See page 10). Increases in benefits of that section of the Act paralleled the expansion of benefits under the social insurance part of the program. Initially, state-federal programs were designed to provide money payments to the needy aged, blind, and dependent children. The 1950 amendments added disabled adults with insufficient income to those receiving assistance. In 1960, a separate program was added to help the needy aged with medical costs and in 1965 a program to assist all medically indigent, regardless of age, called medical assistance (Medicaid), was begun. 31

Supplemental Security Income pays monthly checks to people in financial need who are 65 or older and to people in need at any age if blind or disabled. The aim of the program is to provide a basic cash income—for one person, $167.80 a month, and for a married couple, $251.80. These amounts are subject to adjustment if the recipient receives income of $20 or more in a month from other sources, such as Social Security, pensions and annuities. People who work can earn as much as $65 in a month without any reduction in their Supplemental Security Income. The Supplemental Security Income amendment allows states to add to the federal payment. In these instances, the payment is increased.

Recipients of SSI may own no more than $1,500 in assets ($2,250 for a couple) in order to receive benefits. This includes savings bonds, stocks, jewelry and other valuables. Recipients may also own a home if its value is less than $25,000 and an automobile with a market value of

31 Ibid.
Supplemental Security Income is financed from general revenues of the U.S. Treasury.  

Financing Social Security

Social Security is financed by a payroll tax of a specified percent levied on employees' earnings up to a maximum taxable wage. Employee contributions are matched by employer contributions. Self-employed individuals are taxed at a rate equal to approximately 1½ times that of the employee rate. In 1937, the first year in which the tax was collected, the combined employee-employer payroll tax rate was 2 percent of earnings up to $3,000. The 1977 employee-employer rate is 11.7 percent on a maximum taxable wage of $16,500 and 7.9 percent for the self-employed up to the same maximum. Table 2 shows the history of increases in the payroll tax rate and the maximum taxable earnings.

Contributions received from taxes are ear-marked for federally administered trust funds. Separate trust funds are set up for Old-Age, Survivors Insurance (OASI), Disability Insurance (DI), and Health Insurance (HI) or Medicare. Table 2 also shows those portions of the total payroll tax which are designated for the separate trust funds. These all combine to comprise OASDHI.

Money placed in the trust funds can be used only to pay benefits and administrative expenses of the program. All benefits paid out are derived from the OASDHI tax or the trust funds with the exception of:

TABLE 2
EFFECTIVE EARNINGS BASE AND ACTUAL CONTRIBUTION RATE

<table>
<thead>
<tr>
<th>Contribution Rate (percent)</th>
<th>Employer and Employee Each</th>
<th>Maximum Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beginning Earnings Base</td>
<td>Total OASI DI HI</td>
</tr>
<tr>
<td>1937</td>
<td>$ 3,000</td>
<td>1.0 1.0 30.00</td>
</tr>
<tr>
<td>1950</td>
<td>3,000</td>
<td>1.5 1.5 45.00</td>
</tr>
<tr>
<td>1951</td>
<td>3,600</td>
<td>1.5 1.5 54.00</td>
</tr>
<tr>
<td>1954</td>
<td>3,600</td>
<td>2.0 2.0 90.00</td>
</tr>
<tr>
<td>1955</td>
<td>4,200</td>
<td>2.0 2.0 120.00</td>
</tr>
<tr>
<td>1957</td>
<td>4,200</td>
<td>2.25 2.25 142.50</td>
</tr>
<tr>
<td>1959</td>
<td>4,800</td>
<td>2.25 2.25 142.50</td>
</tr>
<tr>
<td>1960</td>
<td>4,800</td>
<td>2.75 2.75 165.00</td>
</tr>
<tr>
<td>1962</td>
<td>4,800</td>
<td>3.125 3.125 206.25</td>
</tr>
<tr>
<td>1963</td>
<td>4,800</td>
<td>3.625 3.625 255.00</td>
</tr>
<tr>
<td>1966</td>
<td>6,600</td>
<td>4.2 3.5 0.35 0.35 82.50</td>
</tr>
<tr>
<td>1967</td>
<td>6,600</td>
<td>4.4 3.55 0.35 0.5</td>
</tr>
<tr>
<td>1968</td>
<td>7,800</td>
<td>4.4 3.375 0.375 0.6</td>
</tr>
<tr>
<td>1969</td>
<td>7,800</td>
<td>4.8 3.725 0.475 0.6</td>
</tr>
<tr>
<td>1970</td>
<td>7,800</td>
<td>4.8 3.65 0.55 0.6</td>
</tr>
<tr>
<td>1971</td>
<td>7,800</td>
<td>5.2 4.05 0.55 0.6</td>
</tr>
<tr>
<td>1972</td>
<td>9,000</td>
<td>5.2 4.05 0.55 0.6</td>
</tr>
<tr>
<td>1973</td>
<td>10,800</td>
<td>5.85 4.3 0.55 1.0</td>
</tr>
<tr>
<td>1974</td>
<td>13,200</td>
<td>5.85 4.375 0.575 0.9</td>
</tr>
<tr>
<td>1975</td>
<td>14,100</td>
<td>5.85 4.375 0.575 0.9</td>
</tr>
<tr>
<td>1976</td>
<td>15,300</td>
<td>5.85 4.375 0.575 0.9</td>
</tr>
<tr>
<td>1977</td>
<td>16,500</td>
<td>5.85 4.375 0.575 0.9</td>
</tr>
</tbody>
</table>

| Self-employed               |                            |                      |                       |
| 1951                        | $ 3,600                     | 2.25 2.25 81.00      | $ 81.00               |
| 1954                        | 3,600                       | 3.0 3.0 108.00       | 108.00                |
| 1955                        | 4,200                       | 3.0 3.0 126.00       | 126.00                |
| 1957                        | 4,200                       | 3.375 3.375 125.50   | 141.75                |
| 1959                        | 4,800                       | 3.750 3.750 155.25   | 180.00                |
| 1960                        | 4,800                       | 4.5 4.125 0.375 0.75 | 216.00                |
| 1962                        | 4,800                       | 4.7 4.325 0.375 0.75 | 225.60                |
| 1963                        | 4,800                       | 5.4 5.025 0.375 0.75 | 259.20                |
| 1966                        | 6,600                       | 6.15 5.275 0.525 0.35| 405.90                |
| 1967                        | 6,600                       | 6.4 5.375 0.525 0.5  | 422.40                |
| 1968                        | 7,800                       | 6.4 5.0875 0.7125 0.6| 499.20                |
| 1969                        | 7,800                       | 6.9 5.5875 0.7125 0.6| 538.20                |
| 1970                        | 7,800                       | 6.9 5.475 0.825 0.6  | 538.20                |
| 1971                        | 7,800                       | 7.5 6.075 0.825 0.6  | 585.00                |
| 1972                        | 9,000                       | 7.5 6.075 0.825 0.6  | 675.00                |
| 1973                        | 10,800                      | 8.0 6.205 0.795 1.0  | 864.00                |
| 1974                        | 13,200                      | 7.9 6.185 0.815 0.9  | 1,042.80              |
| 1975                        | 14,100                      | 7.9 6.185 0.815 0.9  | 1,133.90              |
| 1976                        | 15,300                      | 7.9 6.185 0.815 0.9  | 1,208.70              |
| 1977                        | 16,500                      | 7.9 6.185 0.815 0.9  | 1,303.50              |


NOTE: OASI is Old-Age Survivors Insurance, DI is Disability Insurance, and HI is Health Insurance.
non-contributory wage credits for service personnel, special aged-72 payments, a portion of Medicare Part B,\textsuperscript{33} and SSI benefits. These are paid out of U.S. Treasury general revenues.

Surplus funds are invested in interest-bearing U.S. Treasury securities. A board of trustees, composed of the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education and Welfare is responsible for the trust fund and reports periodically to Congress on its status.\textsuperscript{34}

The Social Security system was originally intended to be self-supporting, and the fund was set up as a reserve fund similar to those required by private insurance companies. Beginning with the 1939 amendments, however, as Social Security moved more toward the welfare oriented goal of "social adequacy," the philosophy as to how the program should be funded necessarily changed. Since the 1950's the program has explicitly operated on a pay-as-you-go basis; i.e., current benefits to eligible non-workers are paid out of the contributions of current workers. These workers—their dependents and survivors—are then supposed to receive benefits out of contributions of workers at some future date. In essence, an intergenerational income transfer takes place and an implicit contract exists between the working population and those receiving benefits, which is continually renewed. The trust fund functions basically as a contingency fund to maintain the solvency of the program in the event of a severe recession.

\textsuperscript{33}Under Medicare Supplementary Medical Insurance, aged persons who choose to enroll in the program, pay a monthly premium and the federal government provides a matching amount out of general revenues.

\textsuperscript{34}\textit{Social Security Programs in the United States}, p. 4.
Because of the pay-as-you-go method of financing, the level of the Social Security tax is set to defray the costs of benefits for those currently retired. As benefits have been liberalized and coverage broadened over the years, taxes have been increased. This usually results in a nearly balanced situation in the trust fund for the first few years, with projections of large surpluses thereafter. Before the surpluses are fully realized, however, Congress acts to further increase benefits, new tax rates are scheduled, and the cycle is repeated.

Overall, the Social Security fund has grown slightly, receiving payments in excess of benefits and, up to the early 1970's this trend was projected into the distant future.35

Through 1956 the OASI trust fund showed a surplus every year as most of the period was characterized by high employment and inflation. Alternating small cash deficits and small surpluses occurred between 1957 and 1965 with larger excesses in 1966 and 1967 at which time the fund was $23 billion.36 Between 1967 and 1975 the combined OASDHI fund continued to increase to $44.3 billion by the end of 1975.37

On February 2, 1976, Secretary of HEW, David Mathews testified before the House Ways and Means Committee that outgo of the fund would exceed income by $4.4 billion in 1976. A constant annual deficit of this amount would deplete the fund in ten years, and many have predicted bankruptcy of Social Security in the near future. The sudden decreases in the fund, following years of payments in excess of benefits,

35Pechman, Aaron and Taussig, Perspectives for Reform, p. 71.
36Ibid., p. 209.
37"Fresh Scare," p. 68.
is often attributed to the length and severity of the recent recession and is thought to be short term in nature.\(^{38}\)

Actuaries are warning, however, of even more serious long-term financing problems facing the Social Security system by the turn of the century. Two factors threaten the solvency of the fund. First, the changing demographic patterns of the nation—most notably the increasing proportion of older persons in the population—will mean increased numbers of persons receiving benefits. The declining birth rate and zero population growth in the early 1970's will result in fewer workers to contribute to the fund. In 1950 the ratio of working age population to aged population was 14 to one. At present this ratio is approximately 7 to one and by the year 2000 the ratio is expected to drop to 3 to one.\(^{39}\)

The second factor is inflation. In 1972 Congress amended the Social Security Act to include an automatic escalator clause to tie benefits to changes in the Consumer Price Index. Beginning in 1975, benefits are automatically increased by the amount of increase in the CPI any year in which this increase exceeds 3 percent. The 1972 law provides for increases in the maximum taxable wage to fund the additional benefits. The law provides, in effect, a double adjustment factor for inflation for future retirees. Each time retired workers get a cost-of-living raise in June, the benefit schedule for future retirees also is raised. The benefit increases trigger increases in the maximum taxable wage.

\(^{38}\)Ibid.

wage, which is the amount used in computing benefits. Consequently, some lower-wage workers may some day be retiring on pensions higher than the highest pay they ever received.  

Administration of Social Security

The Secretary of Health, Education and Welfare has the overall responsibility for all aspects of OASDHI. The Social Security Administration, under the Department of Health, Education and Welfare, administers the various programs, except for the collection of taxes and disbursement of benefits, which are performed by the Department of the Treasury, and the management and investment of trust funds, which are done by the Secretary of the Treasury as Managing Trustee.

An advisory council to the Social Security Administration is appointed every four years and functions to review the status of the trust funds in relation to the long-term commitments to OASDHI and to make recommendations with respect to scope of coverage, adequacy of benefits and all other aspects of the program, including its impact on public assistance. Council members include equal representation of employee and employer organizations, and also represent the self-employed and the public.

40 "Fresh Scare," p. 70.

41 Social Security Programs in the United States, p. 42.
CHAPTER III

CURRENT ISSUES RELATED TO SOCIAL SECURITY

In this chapter the major problems and criticisms of Social Security are examined in light of what various economists have written. The first section introduces the principle issues relevant to Social Security. Section two examines proposals for reform from three sources, which address the different primary areas of concern. The proposal by Benjamin Okner focuses principally on providing for progressivity in the payroll tax and minimizing the payroll tax burdens on the poor.

The proposals by Alicia Munnell in "The Future of Social Security," and economists Joseph Pechman, Henry Aaron and Michael Taussig, in "Social Security--Perspectives for Reform," both advocate an overhaul of the structure of Social Security. Ms. Munnell's proposal, with the advantage of having been written most recently and after the development of the Supplemental Security Income program, sees the goal of Social Security as individual equity. The authors of "Perspectives for Reform," believing a restructuring of the program, though desirable, was not feasible, advocated that certain steps be taken to improve the social adequacy of Social Security.

**Principle Issues of Social Security**

The most dominant and urgent problem facing the Social Security system and Congress—and that which has been the foremost subject of
recent literature—is the financial viability of the system. Many items of evidence point to serious future problems of funding the numerous programs that have come under the realm of Social Security unless major steps are taken to reform and/or to restructure the present system.

Short-Term Funding

In 1976, for the first time in the history of Social Security, a large deficit of disbursements over receipts was predicted. Deficits of decreasing amounts were further predicted through 1980, and under the most realistic of official assumptions of the Social Security Administration, the $6 billion disability insurance trust fund would be exhausted in three years. The Old-Age Survivors Insurance Trust Fund, which currently had assets of $35 billion, was expected to be depleted sometime in the mid 1980's.\(^1\)

These short-term deficits are thought to be the result of the recent recession, as well as benefit increases, enacted by Congress, designed to compensate Social Security beneficiaries for cost-of-living increases. Increased benefits authorized by Congress for the period 1969-1976 actually more than offset increases in the cost of living. The net real rise in benefits for this period was approximately 15 percent.\(^2\) In addition, during this time period, prices rose more rapidly than did wages. Because benefit changes have been tied to the Consumer


Price Index since the 1972 legislation, benefits increased at a higher rate than did tax receipts.

The immediate problems of funding are not thought to be irreparable. A slight increase in the Social Security payroll tax rate, together with minor adjustments in benefits, would serve to stabilize receipts and disbursements of the fund until the beginning of the next century.

In 1976, then President Gerald Ford proposed an increase in the tax rate of three tenths of one percent for 1977, along with two adjustments to curb benefits. Under one, the student exception to the age 18 cut-off of children's dependent benefits would be phased out over a four year period. That is, students, age 18 to 22, would no longer receive benefits in the event that the family breadwinner retired, died or became permanently disabled. ³

The second change proposed by Ford would tighten the earnings limitation rule for Social Security beneficiaries. The limit on earnings a retiree can earn without losing Social Security benefits--$3,000 a year in 1977--would be applied flatly on an annual basis. The present rule provides that the Social Security recipient's benefits will not be decreased for any month in which he does not earn in excess of the specified limit of $250. For example, a beneficiary may earn $20,000 working in the first half of the year, refrain from work in the last half of the year, and still receive his full monthly benefit in those six months in which he was idle. Under Ford's proposal, this

beneficiary would receive no Social Security benefits for the entire year because the earnings limit of $3,000 per year had been exceeded.

Officials estimated that these two benefit changes would yield cost reductions of up to $1.8 billion a year and, together with the tax increase, would turn the operating deficit to a surplus the year following implementation. 4

Long-Term Funding

Although not as immediate, the long-term solvency of Social Security is thought to be considerably more perplexing and serious in nature. In the U.S. Treasury publication, "The Statement of Liabilities and Other Financial Commitments of the U.S. Government," issued in January, 1977, the Social Security system reflected unfunded liabilities of between $2.7 and $4.1 trillion. 5

Other official 1976 projections from the Office of the Actuary, Social Security Administration, estimate that the combined employee-employer cost for the Old-Age Survivors and Disability Insurance (OASDI) portion of Social Security must increase from the current 10.6 percent of taxable payroll to 28.6 percent of taxable payroll in the year 2050 if the current benefit structure is retained. The present OASDI tax rate, excluding Medicare, is 9.9 percent but, as of 1975, this rate has not covered the full costs of benefits. 6

4 Ibid.

5 "Farewell to Ponzi?" p. 7.

Because of the span of time covered in such forecasts issued by the Social Security Actuary (75 years as required by law), these predictions are subject to considerable amount of uncertainty. A slight variation in a factor, such as expected birth rate, can have enormous effects on assumptions as to the size and age of composition of the future population, and hence on the future benefit costs of the program.

Alicia H. Munnell, Assistant Vice President and Economist for the Federal Reserve Bank of Boston, attributes these projected cost increases to two equally important factors. The changing demographic structure of the population is responsible for one-half of the projected increase. Because Social Security is financed on a pay-as-you-go system, costs of the program are highly dependent on the ratio of retirees receiving benefits to the number of workers paying into the program at any given time. The anticipated increase in this ratio, due to the declining birth rate and increased life expectancy, implies an inevitable matching increase in costs. There are now (1976) 30 beneficiaries for every 100 workers. In the year 2050, with a Bureau of Census projected fertility rate of 1.9 children per woman, there would be 51 Social Security beneficiaries for every 100 workers. This 70 percent increase in the relative number of beneficiaries to workers will require a 70 percent increase in the OASDI tax rate if benefit replacement rates are to be maintained. 7

The other half of the projected increase is the result of the unintended double adjustment in benefits for future retirees as provided by the automatic escalator clause in the 1972 Social Security legislation. (See page 26, Chapter II.)

7 Ibid., p. 8.
Numerous and varied proposals have been advanced to ensure the future adequacy of the program. Most authorities seem to agree on one partial remedy—that the technical error in the current benefit computation formula should be corrected as soon as possible to eliminate the double adjustment of inflation for future retirees. The corrective method supported by many economists is referred to as "decoupling" and would, in effect, provide only a single adjustment for inflation which would stabilize wage replacement ratios (the ratio of benefits immediately after retirement to earnings immediately preceding retirement).

The current "coupled" method for making cost of living adjustments, changes the factors in the Social Security benefit formula by the amount of change in the Consumer Price Index. For example, in June, 1976, the benefit formula in effect at that time, was automatically changed to reflect an increase in the CPI of 6.4 percent the previous year.

Before the cost of living adjustment, the first factor of the benefit formula was "129.48 percent of the first $110 of the average monthly wage." This became 137.77 percent (or 129.48 x 1.064) of the first $110 AMW. The second factor "47.10 percent of the next $290" became 50.11 percent (or 47.10 x 1.064) of the next $290, and so forth through the entire formula, resulting in the present benefit formula. (See page 14, Chapter II.) This adjustment procedure works well for those beneficiaries already retired, serving to maintain the purchasing power of their benefits at their original level.

However, future retirees still in the labor force get, in effect, two adjustments for inflation. The first in the form of higher average monthly wages because, generally, workers receive wage increases to
compensate for inflation, and the second in the inflation adjusted formula used to compute their benefits when they retire.\(^8\)

Under "decoupling," benefit increases would be given for current retirees just as at present. However, benefits for new and future retirees would be calculated using wage-indexed earnings rather than past actual earnings. Decoupling would have little impact in the first few years, but would have increasing results in the future, eliminating about half of the long-term deficit.\(^9\)

Possible solutions to the remaining half of the problem are much more controversial and involve analysis of the fundamental intent of Social Security, individual equity as opposed to social adequacy, and the appropriate scope of the system for the future.

Short-term adjustments, such as a slight increase in the tax rate, and/or decreases in benefits would eliminate a portion of the future deficit and would probably be politically feasible, however, the large increase in the payroll tax rate necessary to fund the program in the next century would quite probably erode the support of the American public. Even under decoupling, the tax rate required to finance benefits for the year 2050 is projected at 19.2 percent.\(^10\) The impact that increasing the tax rate would have on low- and middle-income workers also makes this alternative less than desirable.

An additional alternative to fill the financing gap, given the current structure of the system, is to raise the maximum amount of

\(^8\) Ibid., pp. 8-9.


earnings subject to the tax. This plan is favored by labor unions as it would reduce regressivity and can be justified in historical perspective. When Social Security began, 97 percent of covered workers had all of their wages taxed. Today only 85 percent of covered workers have all of their wages taxed.\(^{11}\)

Arguments in opposition to this alternative cite the already precipitous rise in the maximum by 112 percent (from $7,800 to $16,500) in the past six years. Moreover, the maximum taxable wages will continue to rise without further legislation in line with average wage increases as part of the automatic escalator clause. Also, any boosts in the wage base trigger higher future benefits for those who are affected by the higher taxable maximum. This alternative would increase revenue in the short run, but long-term revenue increases would be offset by higher benefits.

Social Security is often criticized for diverting funds from the private sector, which would otherwise be saved or invested, contributing to a capital shortage. (This subject will be further developed in a later section of the chapter.) Increasing the maximum taxable wage would affect only those in the higher income brackets that have money to invest; consequently, capital accumulation could be affected adversely.

A third option to alleviate the funding shortage would be to supplement the payroll tax with some method of general revenue financing. This idea is thought desirable because it partially substitutes progressive income and corporate taxes for the regressive payroll tax.\(^{12}\)


\(^{12}\)Ibid. Two proposals requiring general revenue financing, which have the objective of providing payroll tax relief to low-income workers, will be discussed later in this chapter.
Critics of general revenue financing—including the past Ford Administration—feel that such a fundamental change in the program would have a detrimental psychological effect, eroding the "earned-right" nature of Social Security. Moreover, financing from general revenues results "... in the loss of the fiscal discipline that the need to rely on earmarked taxes imposes on Congress's generosity." 13

Finally, the projected cost increase for the Social Security program may necessitate a reduction of benefits, although Congress, in the past, has been reluctant to take such steps.

One method of reducing benefits is to reduce the wage-replacement ratio. Current replacement ratios, for single workers retiring at age 65, range between 62 percent for someone who earned $3,400 a year to 31 percent for someone earning $14,100. This could be accomplished by devising a benefit formula which allowed the ratio of benefits to pre-retirement earnings to decline gradually; or, alternatively, by simply maintaining the real purchasing power of today's benefits. Constant real benefits, combined with rising real wages due to productivity gains, would result in declining replacement rates and hence would serve to lower costs of the program. 14

Funding of the various Social Security programs is not the sole problem to be dealt with in the future. The program has been the subject of criticism in many areas especially those relating to administration of the tax and the numerous and diverse benefit provisions. The changes involved in remedying these problems and satisfying the different

13 Ibid., p. 37.

interest groups under Social Security usually require additional revenue for the system—something which is in short supply at present. Consequently, many recognized problem areas have not been acted on by Congress. Some of the more predominant and controversial issues will be discussed here.

Regressivity

An issue which has received considerable attention from economists and social critics is that of the impact of the Social Security tax on the poor. Approximately half of all working Americans pay out more in the Social Security tax than in personal income taxes. In 1975, 15 million of these Americans were too poor to pay any income tax at all. Milton Friedman calls the Social Security tax "the most regressive tax in our tax system." A worker earning $5,000 a year pays 5.85 percent of his income in Social Security tax, while a person earning $50,000 pays less than 2 percent of his salary.

Defenders of the payroll tax method of financing Social Security argue that the regressive tax structure is offset by steeply progressive benefits, which give low-income workers bigger returns on their contributions than higher-income workers. Thus, it is argued, over the life of a worker, equity is achieved. However, studies have indicated that other factors cause the poor to fare less well under Social Security. The poor tend to enter the labor market at an earlier age, so have payroll taxes deducted for a longer period of time. Also, the poor die


16Ibid.
at an earlier age, so receive benefits for a shorter period of time.  

Earnings Test

One of the most emotional issues of Social Security is the retirement earnings test, which penalizes retirees who earn more than $3,000 a year (the limit on exempt earnings is raised each year in line with average wages) or engage in "substantial services" in self employment. The test applies to retirees under age 72 and reduces benefits $1 for every $2 earned. Many believe the test is inequitable because it excludes unearned income such as dividends and interest and thus favors the well-to-do over the poor. It is also thought that the earnings test weakens work incentives of the aged.  

Supporters of the earnings test contend that the test is necessary to be consistent with Social Security goals (income support and earnings maintenance after retirement). The payment of benefits, in addition to earnings, is not to maintain past income levels, but rather to add to existing incomes, which frequently are more than adequate. The Social Security Administration estimated that elimination of the retirement earnings test would cost the program $6 billion a year and would affect only 10 percent of retirees.  

---

17 Ibid. The problem of regressivity in Social Security is addressed in a proposal for reform by Benjamin Okner, which is discussed in the second section of this chapter.

18 "Propping Social Security," p. 43.

19 Pechman, Aaron and Taussig, Perspectives for Reform, p. 147.

Dependency Test for Husbands

A recent Supreme Court decision will eliminate an inequity existing since dependent benefits were first introduced. At that time (1939), the prevailing attitude stereotyped the husband as the principle breadwinner for the family and the wife as dependent upon his income for support. A wife's contribution to the family income was considered minimal. Consequently, benefits were formulated on this basis and the treatment of husbands and wives differed in determining eligibility for Social Security benefits. A husband is required to prove dependency in order to collect benefits on his wife's earnings record, but the opposite is not true. In the same way, widows and widowers of workers are treated differently, with a widower required to prove dependency on his wife's income. Divorced women, who were married a minimum of 20 years, may collect benefits on their ex-husband's Social Security record but divorced men do not have the same privilege whether able to prove dependency or not. 21

On March 2, 1977, the U.S. Supreme Court ruled that differences in the treatment of widows and widowers under Social Security is unconstitutional. This decision will probably be interpreted to mean that it is also unconstitutional to treat wives better than husbands in deciding eligibility for Social Security pensions. The added benefits to widowers are expected to cost $447 million a year. 22

21 Ibid.

Social Security is frequently criticized as discriminating against women workers. Two basic reasons give grounds for this complaint: (1) women workers generally receive lower benefits than men, and (2) the contributions of women workers generate less in benefits for their family members than do those of men. This second point is the result of different eligibility provisions of the Act applicable to men and women as discussed above.

The first point listed is somewhat more obscure. Women workers do receive less in benefits than men. In July, 1975, the average Social Security benefit for retired women workers was $180 as compared to an average of $225 for retired male workers. The reason for this is that a disproportionate number of women work in low-paying and/or part-time jobs even when they are the principle breadwinner for the family. In addition, women's careers in employment outside of the home are frequently interrupted to have and raise children. Because benefits are based on average monthly wages earned between age 22 and retirement (minus the 5 years of lowest earnings), the earnings histories of women workers often have large gaps in years where little or no wages were paid in covered employment. Yet these years with zero wages, to the extent that there are more than five, are included in averaging earnings to compute benefits.  

---

Wives of deceased workers with large families often choose to stay at home to raise children and collect benefits payable to widows with dependent children. These benefits are removed, however, when children reach age 18 or 22, if they are students. The former homemaker is then required to find employment outside of the home, and is often forced to accept low-paying jobs because of her age and lack of employable skills when entering the labor market.

Due to the frequent interruption of careers in covered employment, women are also less likely to qualify for disability benefits, because this requires disability insured status, e.g., 20 quarters of coverage during the 40 quarter period preceding disablement.

The provisions of the Act (other than those relating to eligibility) do not specifically discriminate as to sex. In the beginning, Social Security was primarily oriented toward individual equity, and it was considered necessary that workers prove their attachment to the labor force in order to receive benefits—hence the provisions for computing average monthly wage and eligibility for disability requirements. The provisions have major impact on women because of prevailing social and economic employment habits. Some provisions, such as the progressive benefit formula and the minimum benefit, are designed to help those with low wages and substantial periods of unemployment. The average benefit paid to retired women represents a higher proportion of her past earnings than does the average benefit of retired men. 24

A final criticism of Social Security, with respect to the treatment of women, is the failure of the system to assign any economic value

24 Ibid.
to the role of homemaker. Women, who remain out of the labor force to care for children and manage the household, contribute to the economic welfare of the family but do not receive credit for this under Social Security. Consequently, the homemaker must depend on her spouse's earnings record for Social Security benefits, which may be very meager, or none, if she is divorced before 20 years of marriage.

A bill introduced in Congress in February, 1977, by Representative Donald Fraser of Minnesota, addresses this problem. The bill would provide an option available to all married couples by which the homemaker would share 50-50 in Social Security credits based on the spouse's covered earnings.25

Social Security and Capital Accumulation

Martin Feldstein, professor of economics at Harvard University, has criticized Social Security, because he believes, as many economists do, that it depresses private savings and thus inhibits capital accumulation and investment necessary for satisfactory economic growth.26

An econometric study, which Mr. Feldstein conducted of U.S. savings behavior since 1929, indicated that Social Security does substantially lower private saving. His statistical estimates indicate that Social Security reduces private saving by about 35 percent. In essence, current workers have decided to save less because they expect to receive Social Security pensions. Also, because of the pay-as-you-go method of financing the program, there is very little public saving


to offset this drop in private saving. The 35 percent reduction in private savings implies that, in the long run, capital stock will be 35 percent smaller than it otherwise would be.  

Mr. Feldstein recommends the accumulation of a larger Social Security trust fund by means of a 2-4 percent rise in the tax rate. In conjunction with this, the rate at which benefits are now allowed to increase must be restricted. He estimates a 2 percent rise in the tax rate would produce a surplus in the fund of $15 billion a year, which could be used to buy government debt. The increased capital formation would result in higher production and lower unemployment, and eventually reduce the system's need for tax revenues.

Proposals for Reform

Benjamin A. Okner

Mr. Okner's proposals primarily address the goals of providing payroll tax relief for the poor through the alteration of the proportional Social Security tax to make it progressive.  

Reform within existing payroll tax structure

Okner's first proposal calls for the introduction into the payroll tax of a $1,300 standard deduction plus a $750 exemption for each

---


28Ibid.

dependent as in the personal income tax. These need not be the same as those used in income tax computation and lower exemptions would decrease the amount of revenue loss; however, lower exemptions would also decrease progressivity. If lower exemptions are used, Okner suggests this feature be combined with a progressive rate structure.

Under any one of these options, exemptions may or may not be phased out at higher income levels, i.e., reduction of the exemption of $1 for every $2 that income is above the exemption level. Phasing out the exemption as income rises produces a "hump" in marginal tax rates, i.e., in a family of four, using a standard deduction of $1,300 and a $750 exemption per dependent, the marginal tax rate on earnings below $4,300 is zero; 8.775 percent on earnings from $4,300 to $12,900 5.85 percent on earnings from $12,900 to the ceiling, and zero on earnings from the ceiling up. The alternative is to have the full exemption granted to all taxpayers. If this were done, the "hump" would be eliminated but at a greater revenue loss.

Okner estimated that implementation of these plans in 1975 would have decreased Social Security payroll tax revenue by $5 billion, with the exemption phaseout, compared to $14 billion without the phaseout. Two methods were suggested for recouping this lost revenue through the existing payroll tax—increasing the tax rate and increasing or eliminating the maximum on taxable wages. Increasing the tax rate alone was rejected because of its eventual regressivity. The maximum taxable wage would need to be increased to $19,700 to finance this plan with the phased-out exemption. Even by eliminating the maximum, however, enough revenue could not be generated to finance the plan with the full exemption granted to all.
By comparing the consequences of using various tax rates and various maximum taxable wages, the author determined the greatest amount of tax relief to the poor would be given by increasing the tax rate by 0.77 percentage points and eliminating the taxable maximum. Under these hypothetical changes, allowing a standard deduction of $1,300 and a $750 exemption per dependent, the average payroll tax as a percent of income would drop 87 percent for those with income below $3,000 and 41 percent for those in the $3,000 - $5,000 range.

Partial integration of payroll and income taxes

Okner's second proposal involves the same method of levying the tax—using a standard deduction and exemptions—but financing the additional costs through transfers from U.S. Treasury general revenues. An estimated 3.5 percent surtax on the personal income tax would finance the phased-out exemption reform package. A 9.7 percent surtax would be required without the exemption phaseout.

The average taxes paid by low- and middle-income workers don't differ greatly between the two methods of financing, and are reduced under both methods for those with incomes under $20,000. Average taxes, under both methods of financing, are significantly increased for those with incomes of $50,000 or more. Comparing the two methods, the author favors the use of general revenues to finance the added cost of introducing exemptions into the payroll tax.

Advantages of partially integrating the two taxes in this manner to reduce payroll tax regressivity would be to (1) illustrate the need to consider the combined income and payroll tax burdens of taxpayers and (2) establish a precedent for the future full integration of the two taxes. Okner's final proposal illustrates this alternative.
Full integration of payroll and income taxes

The full integration proposal involves the redistribution of income and payroll tax burdens in the interests of providing tax relief to the poor.

The implementation procedure suggested is relatively simple. The Social Security maximum taxable earnings, tax rate, and benefit computation formula would stay the same. However, the payroll taxes withheld from the employee's earnings during the year would be credited against the employee's personal income tax and any excess refunded.

The proposal would result in an 80 percent drop in total taxes for those having income of $3,000 or less, the same or lower tax liabilities for those earning less than $25,000. Tax liabilities for those in the highest income class ($1 million and over) would increase 30 percent.

The author argues that the totally integrated income and payroll tax system is the best way to increase progressivity and provide tax relief to the poor; however, such a radical departure from the existing structure may not be acceptable to the American public. The primary objection would be the drastic increases in tax rates required. Estimates of rate increases from 45 percent to 65 percent have been projected. Total individual income taxes would have to rise 30 percent to consolidate the two taxes. Such an increase, according to the author, implies increases in marginal tax rates to as much as 92 percent which may serve to reduce work and investment incentives.

Alicia H. Munnell

A proposal by Alicia Munnell involves a redefining of the role of Social Security, a reduction in the wage replacement ratios and an increase
in the retirement age, which together would reduce the long-term financial requirements of the program. 30


Since its inception, Social Security has been assigned two, not necessarily complementary, roles—that of (1) providing a wage-related retirement earnings replacement program (individual equity) and (2) income support for the needy, aged and disabled, and their dependents (social adequacy). The program has increasingly leaned more toward the latter role through such additions as minimum benefits, dependent's benefits, and a steeply progressive benefit formula.

Prior to 1974, further assistance to the needy, aged, disabled and blind was provided through state administered, federally subsidized welfare programs. Because these programs were largely independent of the federal government, benefit levels and eligibility requirements varied widely among states and did not appear to lessen the social adequacy roles of Social Security.

The Supplemental Security Income program replaced the network of state systems with a uniform federally administered welfare program. In addition, Supplemental Security Income, by furnishing need-related benefits to the low-income elderly, preempted the social adequacy function of Social Security. Munnell argues, that since SSI provides a floor

---

beneath which no elderly persons' income can fall, the rationale for having welfare programs in Social Security is weakened; therefore, Social Security benefits can be restructured along less progressive lines.

Evidence that Social Security and SSI are attempting to fulfill the same role for the same population is apparent from the fact that 70 percent of aged SSI recipients also receive Social Security payments. However, SSI is thought to be more efficient in this role because the means test ensures that benefits go only to those with a demonstrable need. Munnell concluded that all welfare provisions for the elderly under Social Security should be transferred to an expanded SSI program.

In the same way that the existence of SSI precludes welfare-related benefits at low-income levels, recent growth and strengthening of private pension systems indicates that benefits at higher-income levels should also be limited. In 1974, about 30 million workers were covered under private employer-financed retirement programs. Coverage under private plans had doubled from 22.5 percent of the labor force to 44.0 percent between 1950 and 1974. Private pension contributions in 1974 equaled approximately half of the $48 billion payroll tax paid into the OASI trust fund in that year. Six million retirees and survivors were receiving benefits from private pensions in 1974, as compared to 19 million receiving old-age survivors benefits under Social Security.

Congressional investigations in the 1960's and 1970's revealed, however, that many private plans were underfunded, or mismanaged, or had such stringent vesting requirements as to be of no value to many employees. ERISA, as enacted in 1974, set up minimum vesting and portability standards for private pension plans. The Pension Benefit Guaranty Corporation
was created, which is empowered to pay up to $750 to a retiree whose pension plan fails to meet its obligation. The Act also introduced individual retirement accounts (IRA) for workers not covered by a company or union plan. Under this provision, workers may set aside up to 15 percent of their annual income (or $1,500, whichever is less) for retirement. Contributions and interest received from the account are tax exempt until retirement. Self-employed individuals may deduct up to $7,500 a year towards retirement.

Availability of private pension plans and IRA programs primarily affect middle and upper-income workers, and provide a way for them to supplement Social Security benefits. Munnell believes, therefore, that additional Social Security benefits for these income groups are unnecessary, undesirable, and would interfere with private initiative to save.

As a result of these developments, Social Security can occupy a unique role in the three-tiered retirement system—grounded at the bottom by SSI and at the top by the funded private pensions and individual savings. Munnell's suggestion for reform would retain the payroll tax as the means for financing Social Security, restructure the benefit formula to provide benefits proportional to wages, and eliminate welfare-oriented provisions, returning the entire program to a wage-related retirement system.

Benefit Formula

Under the present Social Security benefit formula, low-wage workers receive benefits, which are a higher proportion of their pre-retirement earnings than those with higher income. This is the case regardless of whether their low average wage is due to low wage rates
or short periods of time spent in covered employment, i.e., government employees after retirement may work the minimum amount of time in covered industry employment—40 quarters or 10 years—and qualify to receive Social Security benefits in addition to their civil service pension. The result is that progressive benefits often serve to augment the income of elderly persons, who are comparatively well-off because of unearned income or additional pension, and many individuals, who would otherwise be ineligible for welfare, receive benefits designed for the needy. For these reasons, Social Security is believed to be an inefficient vehicle in the role of providing social adequacy.

Instead, Munnell proposed that the present benefit formula should be reworked to make benefits proportional to contributions for all retirees. Supplementary benefits would be provided for low-income workers through SSI. In this way, the two goals of retirement earnings replacement and income maintenance would be in two completely separate programs.

The earnings replacement function would be performed by Social Security with wage replacement ratios equal across all earnings levels. A possible replacement rate suggested was 40 percent of preretirement earnings.

Elimination of the minimum benefit

In 1939, the minimum Social Security benefit was introduced to provide a base under which no worker's benefit could fall. Over time, in response to criticism that it was inadequate to meet basic needs, it has been increased twice as fast as average benefits. SSI, however, has eliminated the need for this benefit and Munnell feels it should be
phased out. The minimum benefit is not consistent with a wage-related benefit structure. Moreover, it is believed that many of those receiving the benefit are individuals who spent only a short period of their working lives in covered employment and are not primarily dependent upon Social Security in retirement (i.e., civil service retirees, as discussed above).

Working women and dependent benefits

Married couples, in which both the husband and the wife are employed outside the home, now comprise the majority of families. In 1974, a study of families in the United States in which the husband was between 25 and 65, indicated that in 51 percent of the families, both husband and wife worked in covered employment. By 1970, 68 percent of women 45-49 years of age had enough quarters of coverage to qualify for their own primary benefit under Social Security. It is predicted, in the year 2020, that 70 percent of aged wives of retired worker beneficiaries will be entitled to benefits on their own earnings record.

Increased participation of women in the labor force raises the possibility of phasing out dependent benefits for spouses. Dependent benefits are the source of many inequities in Social Security. The most apparent inequity is the treatment of a single retired worker as compared to a married retired worker. Although two workers are the same age with identical wage histories and retirement dates, the married worker will receive 1½ times the single worker's benefit.

A more serious inequity exists in the two-earner couple, where the wife contributes to Social Security through the payroll tax, but received a dependent benefit based on her husband's earnings (if it is
greater than the benefit she would receive from her own earnings record). In this way, a two-earner couple can contribute the same amount to Social Security as an identical couple, in which only the husband works, and receive less in benefits.

Such inequities are not consistent with the wage-related retirement program as formulated. However, some provision must be made for retirement income of aged women who do not participate in the labor force if these benefits are to be phased out. A possible solution is the mandatory division of a married couple's contribution credits. In this way, a wife would have an earnings record of her own on which to receive benefits. Another postulated solution is to have married workers contribute 150 percent of the tax of a single worker in order to receive an additional 50 percent benefit for a nonworking spouse.

**Extending the retirement age**

Another issue addressed in the proposal and a possible way to reduce Social Security costs is by gradually introducing a later age at which retirement benefits will be payable. Munnell suggests a new retirement age of 68 and cites the following statistics as rationale for this change: The average life expectancy at age 65 increased 25 percent between 1930 and 1970, rising from 12.2 to 15.2 years. Also, between 1958 and 1974 the number of days of restricted activity for persons aged 65 and over declined from 47.3 to 38.0 days. By phasing in a retirement age of 68 between the years 2005 and 2023, the combined Social Security tax rate could be reduced 1.5 percentage points by 2050.

Prevailing social and economic forces are now directed toward lowering the retirement age because of a growing work force. However, in 2005, the workforce will be smaller—because of the current zero
population growth—and the number of retirees greater, so phasing in a lower retirement age would be desirable.

The payroll tax

A recurrent criticism of Social Security, as noted earlier, is the regressivity of the payroll tax. Low-income workers pay a higher proportion of their total income because (1) the tax is levied only on earned income and (2) wages above the maximum taxable are exempt from taxation. Munnell argues, however, that the regressivity of the payroll tax is partially offset by the earned income credit, a feature introduced into the personal income tax by the Tax Reduction Act of 1975. The earned income credit is available to low-income workers who have dependent children and maintain a household. Credit on their individual income tax return is given of 10 percent of the first $4,000 of earned income. The credit is reduced by 10 percent of taxpayer's adjusted gross income in excess of $4,000.

The effect of the earned income credit is to reduce the individual's personal income tax by the amount of his contribution to the OASDI portion of Social Security (9.9 percent under the assumption that labor bears the employer's share of the tax through lower wages or higher prices). The OASDI tax is then progressive for wages between $4,000 and $8,000, proportional from $8,000 to $16,500, and regressive thereafter.

The payroll tax, when considering Social Security in the framework of a savings for retirement plan, is an appropriate method to finance the program. However, the earned-income credit for low-income workers is a necessary accompaniment because a compulsory savings program for a family existing at bare subsistence levels cannot be justified.
The earned income credit should be expanded to include all low-income families and would then serve to lessen the burden of the Social Security tax on low-income workers.

Supplemental Security Income

Ms. Munnell recommends that the SSI program be expanded and modified for it to function best in the welfare role of income maintenance. The means test, which currently reduces the SSI payment $1 for every $1 payment of Social Security benefits (or unearned income) over a $20 limit, would be lowered to a 50 percent reduction of benefits for every dollar. This would extend assistance to a somewhat higher income level and serve to make the cutoff point for SSI less abrupt, thereby eliminating inequities between those who qualify for SSI and those reliant on Social Security. In addition, the 50 percent reduction would ensure that individuals who had earnings deducted for Social Security would receive some return on their contribution.

Summary

The proposal for reform by Alicia Munnell suggests that the functions of Social Security, as the program exists today, be separated between earnings replacement and income maintenance.

The earnings replacement function would remain in the Social Security program. Social Security benefits, which would be strictly related to past contributions, would be appropriately financed through the payroll tax. The proportional benefit structure would guarantee that future retirees receive a positive return on their contributions. The tax would be identified as compulsory savings, which are a part of net wages rather than just another tax which reduces take-home pay.
Welfare-related provisions of Social Security would be dropped because benefits provided by an expanded SSI program would eliminate the need for them. SSI would be financed out of general revenues. The primary function of SSI would be the redistribution of income from the relatively affluent to the poor. General revenues, as derived mainly from the progressive personal income tax, would be more efficient in this function than the regressive payroll tax, in which most revenue is obtained from the contributions of low- and middle-income workers.

This proposal would reduce long-run costs of the Social Security program by phasing out secondary dependent benefits to spouses and the minimum benefit and raising the retirement age. Costs for welfare-related provisions of Social Security would be shifted to SSI but probably not reduced, and the tax burden to support them would be similarly shifted from the payroll tax to the personal and corporate income taxes. Overall, the major advantage of this proposal is greater efficiency in achieving the goals of retirement earnings replacement and income maintenance.

Joseph A. Pechman, Henry J. Aaron and Michael K. Taussig

"Social Security: Perspectives for Reform" gives a comprehensive history and analysis of Social Security. Shortcomings and inequities of the system are analyzed, and the authors offer proposals for reform of the system.

A major deficiency of this work, however, is that it was published in 1968, and thus predates the onset or the recognition of the

31 The following material is taken from Pechman, Aaron and Taussig, Perspectives for Reform, pp. 214-227.
most serious problem confronting Social Security—that of future solvency. Consequently, some of the authors' suggestions are not feasible now in light of the bleak financial outlook for the system. Legislative action has since been taken on some of the problems they have discussed. Two of the authors' recommendations for reform were implemented in 1972 (that the benefit formula and the maximum taxable wage be automatically adjusted for changes in the Consumer Price Index; and, that a widow's benefit be raised to 100 percent of the worker's benefit). Many more of the problems and reforms discussed are contemporary and as pertinent now to Social Security as they were at that time.

The proposals for reform of the system are divided into two sections: concepts for total reform as a long-range goal and partial reform provisions to correct major inadequacies and inequities, while leaving the basic structure intact.

**Total reform**

The proposal for total reform addresses the basic dilemma of Social Security—attempting to solve two problems with one instrument. These are to prevent destitution among the aged poor and to assure people, having adequate earnings before retirement, benefits related to their previous standard of living. The need for two separate systems to handle these two problems has been discussed at length in this chapter as part of Alicia Munnell's proposal for reform.

The authors of this work and Munnell both propose to retain Social Security to perform the earnings replacement function and finance the income support function through general revenues. This work goes a step further, however, and recommends a negative income tax be used in conjunction with the income support plan.
Under the proposal, the negative income tax or public assistance payment would be payable to all households with income below specified levels. The minimum allowance provided would be equal to a minimum subsistence standard of living for families of all sizes.

Allowances for the aged would be financed out of general revenues, but administered by Social Security. For the aged, the plan would require two calculations— one for the retirement benefit determined by past earnings, the other for a negative income tax based on total money income. The beneficiary would choose the most advantageous benefit. If the beneficiary chose the negative income tax benefit, the right to the earnings related benefit would be waived and a beneficiary would be subject to the tax rate on all income except a basic allowance. If the beneficiary chose the earnings-related benefit, he would be required to pay a positive income tax on the benefit and on all his additional income.

The value of a dual system, such as this, is in efficiency and flexibility. Under the present system, any attempt to improve benefits for income support purposes usually requires substantial benefit improvements in earnings replacement, which may or may not be necessary. Since the two functions are separated in the proposal, either part can be altered independently of the other and costs of the two functions could easily be identified.

Partial reform

Pechman et al., suggested that changes in the structure of Social Security and the negative income tax would not be acceptable to the American public for some time in the future. For this reason, the authors enumerated several proposals to correct what they perceived to be most
severe deficiencies, which were to be implemented over 10 or 20 years. Some of the more currently relevant of these will be discussed here.

The combined earnings of both the husband and wife should be included in average earnings for the purpose of computing benefits. Since living standards before retirement often depend on salaries or wages from both when both are employed outside the home, the retirement benefit should depend on the contributions of both. The authors suggest that the retirement benefit should reflect the wife's earnings to the extent that the husband's falls short of the maximum taxable earnings.

The use of a maximum, set on taxable wages, would be retained. At the time this argument was developed (1968), the maximum was close to the median family income. The authors suggested the maximum taxable wage level be allowed to rise with the median family income. Since the benefit for couples should be higher than that for single persons, (but, the authors suggest, possibly not \(1\frac{1}{2}\) times the single benefit) the maximum taxable wage for couples should be higher by an amount equal to the extra income couples require to achieve a given standard of living.

The benefit formula should reflect preretirement standards of living as indicated by family earnings and size of the family; therefore, the authors recommend the elimination of the maximum limit on family benefits. Under the present system, a family of three and a family of eight, which survive workers with similar earnings histories, receive the same amount in benefits. The present benefit structure does not reflect the fact that needs increase with the family size.

The authors' studies indicated that each additional person in a household required an approximate increase of 30 percent of the income of a single person to maintain an equivalent standard of living. Based
on this data, the existing 75 percent of the primary insurance amount is too generous for a surviving dependent and the family maximum for large families is inadequate. Moreover, in large families, the surviving spouse is less able to earn income outside the home. To remedy this inequity, the authors suggest that a flat dollar amount be added to the basic benefit for each surviving dependent. In the same way, a flat dollar amount would be added to the primary insurance amount for the spouse of a retired worker, rather than a 50 percent increment.

A further problem is the span of time over which the average monthly wage is determined in calculating benefits. Currently, benefits are based on earnings since 1951 or from the time the worker reaches age 22, eliminating the five years of lowest earnings. Such a formula gives too much weight to years in which wages are significantly below wage levels of years in which benefits are paid. Instead, the authors propose that earnings should be adjusted to reflect the relative earnings level in each year income was received; or, alternatively, earnings might be computed on the highest 5 years in the previous 15-20 years of employment.

The subject of age for retirement was also addressed. With the improvement of health and increased longevity, the authors believe there is no need to encourage early retirement, and benefits to early retirees should be suspended in the future. Problems of those too young to retire but unfit to work should be handled via the disability provisions of the program, unemployment compensation, or both. Moreover, incentives should

The family maximum generally prevents surviving families of three or more members from receiving benefits larger than the benefit would be for a family of three.
be provided to encourage later retirement. A possible way to do this would be to exempt those over 65 from the payroll tax. This would also encourage employers to hire workers over 65 as they would not be required to pay their share of the payroll tax. In addition, provisions could be made to permanently increase benefits for individuals working beyond age 65. The authors did not believe the earnings test limit should be increased, or dropped altogether, in this behalf.

Finally, the payroll tax is discussed as a device to fund Social Security. The authors propose that Social Security, as it exists today, is primarily a tax-transfer system. The payroll tax is an inferior device to function in this capacity because the tax is levied on earned wages only, takes no account of family size or unusual medical expenses, and is regressive at upper income levels. Furthermore, the relationship between taxes paid and benefits received for any worker is remote, at best.

The payroll tax should eventually be replaced by income taxes. The two taxes would be integrated in somewhat the same fashion as is described in Benjamin Okner's proposal for total integration. The payroll tax for employees might be retained for psychological reasons, e.g., to indicate to workers that they have a claim to future support from the system. The tax paid by the self-employed should be the same as that for wage and salaried workers. The employer's tax should be paid out of general revenues, because it is generally agreed that the employer shifts this tax, either to the consumer in the form of higher prices, or to the worker by way of lower wages.

The proposed alternative solution would be to eliminate the regressivity of the tax by incorporating the exemption and minimum
standard deduction features of the personal income tax.\textsuperscript{33}

\textbf{Summary}

Social Security faces two challenges—the first, that of short-term funding, which demands immediate attention. The second is more long-term in nature, requiring a restructuring of the present system to meet the objectives of income maintenance and earnings replacement for the aged.

There are many arguments advanced as to which function—income maintenance or earnings replacement—Social Security was intended to perform. Those that believe it was originally income maintenance (Pechman et al.) propose changes to enhance the welfare provisions of Social Security. Those believing the program should be oriented toward earnings replacement (Munnell) see Social Security, in the future, as a government sponsored compulsory savings plan. The proposals for reform range from drastic restructuring and expansion of Social Security to a complete phasing out of the system—a position advocated by economist Milton Friedman. The following chapter will state this author's proposal for reform of Social Security, given the goals of income maintenance and earnings replacement, and the criteria of efficiency and equity.

\textsuperscript{33}See Okner's proposals for further elaboration on this alternative.
CHAPTER IV

A PROPOSAL FOR REFORM

A Review of the Problem

Social Security, as enacted in 1935, was an experiment for the U.S. Government in social legislation. Changing life styles, as the nation moved from a rural to an urban industrialized society, adversely affected the economic welfare of the aged. Standards of living had greatly improved, allowing for increases in longevity. At the same time, the family unit, which had previously supported its aged members, began losing its cohesiveness with the migration to the cities. In the industrialized cities, most means of support were derived from current cash wages. Many of the aged, upon retirement, were not financially prepared for withdrawal from the labor market and consequent loss of regular income. Ensuing conditions of widespread poverty among the aged were further affected by the impact of the depression.

The problem as perceived by government from these conditions, was a lack of financial security among the aged. President Roosevelt's solution to this problem, and that enacted by Congress, was the Social Security program. The original intent of the legislation was to provide a mandatory government sponsored and administered retirement plan, financed by employer and employee contributions. The prevailing national sentiment of individualism and self reliance was in large part responsible
for the contributory aspect of Social Security. The fact that all were required to contribute equally to Social Security created a feeling of earned right to benefits of the program. Primarily because of this psychological accomplishment, the program has generally been popular and widely accepted by the American public.

Social Security, however, did not remain in its original form for long. Even before any benefits were paid out of the trust fund, the nature of the program began changing from a contributory retirement program to a system of programs attempting to meet many social welfare needs. The U.S. had generally lagged behind other industrialized nations in social welfare legislation, and when the need for such programs became evident, Social Security became an expedient means to provide them. Legislation adding welfare-related benefits served to justify even further additions of such benefits, which, in turn, has resulted in a patchwork of welfare-related provisions superimposed upon the national retirement program.

In many instances, under the existing program, it is evident that individual equity has been sacrificed for social adequacy (e.g., the dependent spouse benefit which sometimes allows two-earner couples to pay more into Social Security but receive less in benefits than a single-earner couple with the same income). Because of the numerous provisions to ensure adequate benefits to all income classes, the link between benefits received and taxes paid into the program is very weak at best. Moreover, in attempting to have Social Security function both in the role of earnings replacement for retirees and income maintenance for the needy, the program has, in the past, done a less than equitable job of the former and an inadequate job of the latter. In recent years,
benefits have been substantially increased to better perform the income maintenance function, but this has resulted in excessive costs, and the program under the current method of financing, through the payroll tax, is destined for bankruptcy in the near future.

In other instances, changing economic, social and institutional conditions have outmoded many of the provisions of Social Security, i.e., because Social Security was instituted at a time when men constituted the bulk of the workforce and were considered the major family breadwinners, a man's contributions to the OASDI tax was geared to generate more benefits than a woman's contributions; yet women now constitute 45 percent of the paid workforce and 22 percent of all households are headed by women.¹

These conditions all point to the need for restructuring the Social Security system in terms of basic objectives, and redesigning the system to accomplish these objectives in a more equitable and efficient manner.

The Proposed Role for Social Security

Equity and efficiency can best be achieved by redefining the limits of Social Security. Enactment of Supplemental Security Income (SSI) legislation in 1972 and the Employee Retirement Income Security Act (ERISA) in 1974 serve as major steps in this behalf. SSI, which guarantees a minimum income to the needy aged, can better provide welfare related benefits than Social Security because applicants to this

¹U.S., Congress, House, Senator Donald M. Fraser speaking for the bill to provide equity in Social Security for individuals and families, 94th Cong., 2nd sess., 1 June 1976, Congressional Record, 122: 82.
program must prove need by conforming to certain income and asset limitations. In addition, since SSI is financed out of general revenues derived primarily from the progressive personal income tax, redistribution of income is more efficient than is possible through the OASDI tax, which comes mainly from the contributions of low- and middle-income wage earners. The existence of SSI thus provides rationale for dispensing with the income maintenance function of Social Security and hence, the steeply progressive benefit structure and other need-related benefits.

In the same way, the presence of laws strengthening the private pension system (ERISA) provides an upper limit beyond which Social Security need not extend benefits. ERISA will enable many middle- and upper-income workers to supplement their Social Security retirement benefits through private pension plans or individual retirement accounts (IRA's).

The role for Social Security thus circumscribed by SSI and ERISA is that of providing a floor of income protection for retirees. Those individuals whose Social Security benefits are not adequate to bring their total income above the specified poverty level would be eligible for SSI benefits. The accessibility of private pension plans and IRA's would allow individuals with additional resources during their working years to add to this floor of income protection to the degree that they desire and are able to finance personally.

The scope of Social Security should also be narrowed to exclude health insurance. The Medicare trust fund currently receives a 1.8 percentage point share of the 11.7 percent combined employee-employer payroll tax. Unlike retirement benefits, which are figured on a worker's average monthly wage, Medicare (Part A) hospitalization and related
health care payments are determined by the providers of these services. Under these circumstances, the financing of such costs through the payroll tax is inefficient and serves to further weaken the connection between taxes paid and benefits received. These costs should, instead, be financed through general revenues as are a portion of Medicare Part B costs. Moreover, quite probably in the next few years, some form of national health insurance will be enacted by Congress. Several proposals are currently under consideration and President Carter has indicated national health insurance to be a major goal of his administration. Any such plan would likely supersede the function of Social Security in health insurance.

With the role of Social Security thus limited, the program can revert to an actuarially sound national pension plan in which contributions made throughout a worker's career determine the benefits received upon retirement. In essence, Social Security would become a mandatory savings plan forcing workers, who would not otherwise do so, to set aside a portion of their wages for their old age.

The proposed changes and adjustments to the present program required for such restructuring are significant. These will be examined in terms of equity and efficiency achieved in providing for financial security of the aged, economic impact and political feasibility.

---

2 Supplementary Medical Insurance (Medicare Part B) is financed through contributions of those wishing to participate in the program, with these funds matched by the federal government out of general revenues.
Benefits

The Benefit Formula

Because Social Security would be a wage-related retirement program, the benefits based on welfare considerations which are presently paid would be eliminated. The benefit formula in effect in 1977 contains seven factors which are used, along with a worker's career average monthly wage, to determine the worker's primary insurance amount—from which almost all other benefits are calculated. The formula is structured in such a way that low-wage workers receive a considerably larger proportion of their average monthly wages in benefits than do those in higher income brackets, ranging from 137.77 percent for the first $100 of a worker's average wage to 22.78 percent when average wages exceed $1,000 (see Chapter II, page 14).

The author's proposal would replace this progressive benefit formula with a proportional earnings replacement ratio. The wage replacement rate would be equal at all income levels, and benefits would be strictly related to contributions made to Social Security. A wage replacement rate considered desirable would be between 50 and 60 percent of preretirement gross earnings. This low rate can be justified by the fact that living and work-related expenses decline following retirement. In addition, Medicare pays for most medical expenses of the elderly, and some retirement income, including Social Security, is tax exempt. It is anticipated that such a replacement rate will not be adequate for all retirees. Low-income workers, partially dependent upon welfare programs prior to retirement, generally will find Social Security benefits inadequate and will be reliant on SSI to supplement these benefits. Higher
income individuals, whose wages consistently exceed maximum taxable earnings, would be required to have additional sources of retirement income in order to maintain their accustomed standard of living.

The current method of computing benefits averages monthly wages over the working life of an individual (from 1951 or age 22, whichever occurs later, until retirement age), leaving out the 5 years of lowest earnings. The primary insurance amount (PIA) is then determined using this average and the benefit formula in effect at the time. Under the proposal, records of actual contributions would be kept for Social Security participants over their working lives. Upon retirement, the worker's benefit would be determined based on these contributions and the appropriate actuarial factors, such as life expectancy at the age of retirement and earnings of trust fund investments.

The following table lists wage replacement rates possible under varying conditions of number of years spent in covered employment and the rate of interest obtained from investments of trust funds. The rates, 2.5 percent, 3 percent and 3.5 percent in the table, represent possible net earnings of the Social Security trust fund. Overall return on Social Security funds in fiscal year ending June 30, 1976 was 6.5 percent; however, Alicia Munnell states that net earnings on the Social Security trust fund are between 2 and 3 percent. The variance between these rates is assumed to be administrative costs of the system. Under the proposed

---

3 This rate reflects a combination of securities purchased at varying rates. The Treasury rate, at the time this article was written, was 7 1/4 percent, but the average rate is depressed by securities purchased some time ago at rates as low as 2 3/4 percent. "What Happens to your Social Security Taxes?" U.S. News & World Report, 1 March 1976, p. 7.

reform, requiring Social Security to be actuarially sound, the trust fund should increase; consequently, administrative expenses will be a smaller proportion of investment revenue and net rate of return on earnings of the fund will increase. For these reasons, 2.5 to 3.5 percent would seem to be conservative estimates for use in this computation.

**TABLE 3**

**POSSIBLE WAGE REPLACEMENT RATES**

<table>
<thead>
<tr>
<th>Years Worked in Covered Employment</th>
<th>Interest Rates on Trust Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.5%</td>
</tr>
<tr>
<td>15</td>
<td>15%</td>
</tr>
<tr>
<td>20</td>
<td>20%</td>
</tr>
<tr>
<td>30</td>
<td>32%</td>
</tr>
<tr>
<td>40</td>
<td>45%</td>
</tr>
<tr>
<td>50</td>
<td>59%</td>
</tr>
</tbody>
</table>

In obtaining these ratios, it was assumed that the real rate of growth in average wages is 1.5 percent per year. This rate reflects only wage increases due to increased productivity and eliminates the effects of inflation on wages. It was also assumed that real increases in the maximum taxable wage will be 1.5 percent per year and that the life expectancy of workers, at the time of retirement, is 13 years. Under these assumptions and based on this table, a wage earner who has worked 40 years in Social Security covered employment and has a monthly taxable salary of $1,375, can expect monthly retirement benefits of $687.50 if the funds have earned 3 percent interest or benefits of $770 at 3.5 percent interest on the trust fund.
Need-related Benefits

Certain benefit provisions, which have been incorporated into Social Security to ensure social adequacy, are inconsistent in a wage-related retirement system such as the one proposed. Two such provisions are the minimum benefit and the special minimum primary insurance amount. The minimum benefit was introduced as a base under which no worker's benefit could fall. Up to 1972 it rose twice as fast as other benefits, and under the 1972 amendments to the Social Security Act, this benefit became governed by the automatic escalator clause, as other benefits. The minimum benefit is currently $107.40.

The special minimum primary insurance amount was enacted in 1972 and is designed to help people who have worked in covered employment for many years, but have low earnings. The special minimum PIA is applied when it is higher than the PIA related to average monthly wages.

Because the minimum benefit and the special minimum PIA have no basis in contributions into the system, and are solely a means to ensure adequate retirement income for low-wage workers and/or workers who have spent little time in covered employment, these provisions would be eliminated under the proposed reform. Inadequate retirement income can be supplemented more efficiently through Supplemental Security Income.

---

5 Effective March, 1974, the special minimum PIA equals $9 multiplied by the number of years of coverage the person has in excess of 10 years, up to a maximum of 30 years. Thus, the highest benefit under the provision is $180 a month. U.S., Department of Health, Education and Welfare, Social Security Administration, Amendments Chart Booklet: OASDI, (Washington, D.C.: Government Printing Office, 1972), p. 4.
Dependent Spouse Benefits

Dependent spouse benefits, as noted in Chapter III, are the source of major inequities in Social Security. The primary reason for this is that the OASDI payroll tax is levied on the individual worker; whereas, the benefits generated by this worker's wage history are determined by the family unit. Single persons and married two-earner couples receive less proportionally in benefits than do married couples in which only the husband has worked, even though taxes paid may be as much or more. Further inequities stem from social and economic conditions that prevailed during the early development years of Social Security. Men were considered the family breadwinners and women, the homemakers, dependent on their husbands' income; consequently, the nature of retirement benefits followed the same pattern. The husband's work history determines the benefits for both. Since the wife's benefit is derived from the husband's work record, the structure of Social Security depends to a large part on the institution of marriage and its permanence. However, as women's participation in the work force increases and the national divorce rate ascends to an all time high, different assumptions

Dependent spouse benefits to a divorced woman are not payable unless the marriage lasted at least 20 years. Under these circumstances, a woman is not eligible for benefits derived from her ex-husband's earnings history until he reaches age 65 and retires. Thus, a woman who is older than her ex-husband cannot receive retirement benefits or Medicare until past the normal retirement age. U.S., Congress, House, Subcommittee on Aging, Social Security Inequities Against Women, Tish Sommers, 94th Cong., 1st sess., (Washington, D.C.: Government Printing Office, 1975), p. 6.

According to the February, 1976 Monthly Labor Review, the average worklife of the 18-year-old female in 1970 was 33.9 years. Donald M. Fraser, "Equity in Social Security," Congressional Record.
need to be made with regard to dependent benefits, and the Social Security system must be adjusted accordingly.

These assumptions are that: (1) marriage is, in part, an economic contract between two equal persons which may or may not last a lifetime; (2) work records of individuals are not always static; and (3) taxes and benefits, to be equitable, must be based on the same economic unit.

The author's proposal to reform this aspect of Social Security follows the lines of legislation introduced into the U.S. House of Representatives by Representative Donald M. Fraser (D. Minnesota). It has been modified somewhat to accommodate the author's basic premise that Social Security should be a wage-related retirement program.

Under this proposal for reform, derivative benefits (benefits received through the wage record of another) of spouses will be phased out. Instead of dependent benefits, each adult will obtain a Social Security wage record of his/her own on which to collect benefits. Basic to this provision is a recognition that the wife who remains in the home as a "homemaker" contributes to the economic well-being of the family on an equal basis with the husband; and, should consequently share in retirement benefits made possible through the efforts of both.

The changes proposed will affect (1) married couples in which both the husband and wife are employed outside of the home; and (2) those couples in which only one member works in covered employment. In the case of the former, Social Security contribution credits earned in covered employment by both individuals will be combined and split evenly between husband and wife. This can be facilitated through the individual federal income tax return. At the end of each year, when tax returns
are filed, information on Social Security contributions can be taken from the W-2 forms submitted. Since Social Security identification numbers of husband and wife are included on the tax form, the contributions can be easily posted from this source to each Social Security record on the proposed equal share basis. (Use of the federal tax form in this manner would, in no way, affect the federal tax payment. It is suggested here as a convenient method to ensure the proper record-keeping of Social Security contribution credits, upon which future benefits are based.)

In the same way, couples in which only one member worked in covered employment, would have Social Security contribution credits obtained by this worker split equally between husband and wife and posted to both individual Social Security records annually via the federal income tax return. The division of contribution credits would be mandatory; that is, if the box indicating marital status on the IRS form is checked "Married," (filing either jointly or separately), Social Security tax contributions would automatically be divided equally between husband and wife. Employers' share of the Social Security tax would be similarly credited, based on each employee's reported marital status.

In this way, every adult who had ever worked in Social Security covered employment or who had been married to an individual in covered employment, would have a Social Security record for benefit purposes. This record would be portable. It would stay with the individual as a claim to future benefits regardless of marital status—an individual may marry, be widowed, divorce or remarry without losing benefits. The Social Security record would belong to the individual rather than the marriage. Because virtually all adults would have Social Security contribution
credits, the need for derivative spouse benefits would cease. In the same way, this proposal would result in virtually all adults being eligible for disability benefits. Currently, eligibility for disability coverage required substantial recent attachment to covered employment. Many workers—and especially females—are unable to obtain these benefits because they do not have static work records. Several factors may contribute to the interruption of careers of one or the other partner in a marriage, i.e., factors related to having and raising children; continuing of education; and the lack of job opportunities for one partner in the geographical area in which the other is employed. With the portability and sharing of work records in this proposal, adverse affects of these non-static work records will be minimized. As long as one spouse is employed, both would have current Social Security contribution credits, and thus be eligible for disability benefits.

Under this provision, dependent surviving children would be able to claim survivorship benefits based on either parents' tax contribution record or both in the event that both are deceased. The proposal would also provide survivor benefits for the spouse over 50 years old with no record of covered employment, because it is recognized that such individuals would have considerable difficulty entering the labor force at this age with no prior work experience or employable skills. These benefits would be based on the deceased spouse's contribution record and would be payable until retirement age. At this time, retirement benefits would be payable based on the individual's own Social Security record. Benefits received based on a deceased spouse's contribution record would need to be subject to Social Security tax in order for the surviving spouse to maintain disability coverage. Such taxes would also increase retirement benefits, but a provision such as this should be optional.
This proposal, by requiring that contributions be divided between both spouses in a marriage, will serve to equalize retirement benefits between men and women. (Currently, average Social Security benefits for retired women are 80 percent of those for retired men.) This proposal would minimize a woman's dependence on her husband or on the longevity of their marriage for Social Security purposes. Neither women nor men would have advantageous rights to benefits as under the present law where men are required to prove dependency to receive derivative benefits for which women are automatically eligible.

This proposal would serve to increase work incentives. Under the current system, the Social Security taxes paid by a wife while engaged in covered employment often add nothing to the benefits the couple will eventually receive. This will be the case if her average monthly wage amounts to less than one-half that of her husband's—a common occurrence because of the non-static nature of a married woman's career. In these instances, the desirability of the wife holding a job in outside employment diminishes under the realization that retirement benefits for the couple are the same whether she works or not. Under the proposed system, each person would receive a positive return on his or her contributions. If both husband and wife worked in covered employment, Social Security benefits would be increased for both by the incremental amount of taxes paid. Equity would be achieved for single workers because they would no longer be subsidizing the dependent benefits of their fellow married workers.

Financing Social Security

The Social Security payroll tax, viewed as a means to redistribute income from the affluent to the poor—a role currently assigned to
Social Security—is not an effective mechanism for this purpose. The tax is levied without regard to ability to pay or provisions for number of dependents or unusual medical expenses. Furthermore, it taxes only earned income and exempts wages over a maximum. However, by redefining the goals of Social Security, transferring income redistribution functions to the SSI program, the OASDI tax becomes an adequate and equitable means to finance a compulsory savings-for-retirement plan. As benefits are to be proportional to taxes paid and hence to earnings (beneath the maximum taxable wage), benefits received upon retirement would reflect an individual's relative standard of living prior to retirement.

Financing Social Security through the payroll tax fulfills the criterion of individual equity. Under this proposal, a distinct relationship exists between taxes and benefits—in order to provide financial viability to the program and also as an important psychological device to demonstrate to recipients an earned right to benefits. A significant problem among the aged is that of dependency. Dependence, whether on the charitable nature of relatives or societal institutions, tends to erode self esteem and create feelings of worthlessness. Since Social Security is first and foremost a retirement system for the aged, such problems should be considered in redesigning the system. Retirement benefits derived directly from "savings" over the years of employment establishes financial independence for the elderly. For these reasons, the author feels it is important to retain the OASDI tax to finance Social Security.

Because benefits will be dependent upon contributions, most of the current and future financing problems of Social Security will be resolved. The problem of over-adjustment of benefits for effects of
inflation will no longer be relevant. Elimination of the steeply pro
gressive benefit formula and minimum benefit provisions will further
lessen the burden of Social Security. The worst financial threats to
the program, under the proposed reform, would be those faced by private
insurance companies—-inaccurate actuarial assumptions and losses suf
fered by declining investment values. The latter factor would not
adversely affect Social Security because of the nature of investments—
U.S. Government securities. Although such investments yield a lower
rate of return than corporate stocks and bonds, they are thought prefer
able because of their soundness. Investment of Social Security funds in
corporate securities would be undesirable because of the control it would
give the federal government over private enterprise.

The Social Security "contingency" fund will revert back to a
"trust" fund--as was originally intended--of the type insurance companies
maintain to provide for future liabilities. Because Social Security will
no longer be financed on a pay-as-you-go basis, the fund, fed by OASDI
receipts, will begin increasing, reflecting the fact that need-related
benefits are being funded from general revenues. A large trust fund will
mean more money available for capital accumulation and investment, revers
ing the trend toward a potential capital shortage, which many economists
believe is partially caused by the Social Security system in its present
form. Increased investments generated by Social Security trust funds
will result in a higher rate of economic growth.

Under the premise that contributions into the OASDI trust funds,
over an individual's career, will yield a floor of income protection at
retirement, and that contributions and benefits should be proportional
at all income levels, certain adjustments need to be made to the existing
payroll tax structure.
The current tax rate of 5.85 percent for employees and employers alike would be retained and held constant. The author's studies have shown that contributions at this rate, over the average work life of an individual are adequate to provide a "floor" of income protection after retirement. The tax rate for self-employed individuals will need to be increased from the present 7.9 percent to 11.7 percent, in lieu of the employer's share of the tax, in order to accumulate benefits commensurate with benefits of those employed by others. This is equitable under the assumption that employers pass on their share of the payroll tax to labor in the form of higher prices or lower wages to employees.

A similar problem exists with regard to the tax rate on a married worker whose spouse is not employed in covered employment. Under the current system, equal tax contributions by single and married individuals result in different benefit amounts—that for the married individual being 1½ times that for the single person. In this proposal the married worker, whose spouse is not employed, will be, in effect, earning Social Security credits for two future retirees. If the taxes paid by this individual are relatively the same as those paid by a single person, the presence of the taxable maximum on earnings may prevent the accumulation of sufficient retirement income to support husband and wife at the same relative standard of living as before retirement. A possible remedy would be to require the single-earner couple to contribute to a higher maximum taxable wage or at a higher rate than that for a single person (or married persons where both work in covered employment). The former alternative is thought preferable so as not to increase the tax burden on low-income workers. Increasing the maximum taxable wage of the employee by only 60 percent would result in an incremental increase
in benefits of 30 percent. (This is in line with studies conducted by Pechman, Aaron and Taussig that determined each additional person in a household required an additional 30 percent of the income of a single person to maintain an equivalent standard of living. See Chapter III, pages 58-59.)

In order to maintain benefits at a level consistent with real increases in wages and changes in the cost of living, the maximum taxable wage will have to be adjusted periodically to reflect these changes. The method suggested to accomplish this is an automatic escalator provision similar to that in the 1972 amendments. However, this escalator provision will not affect benefit computation--rather, it would allow the maximum taxable wage to change with average taxable wages. In this way, contributions and ultimate benefits will keep pace with inflation and productivity increases.

Since benefits will be strictly proportional to contributions under this proposal, it would be possible to pass legislation to allow individuals the alternative of dropping out of Social Security; however, it would be necessary to require individuals, who so chose, to furnish proof that they had accumulated funds of the same amount or greater for retirement purposes elsewhere in a fund which would only be accessible upon retirement. These individuals would be required to contribute to

---

8 The incremental benefit is one-half the additional contribution because only the employee would be required to pay taxes to a higher maximum. The maximum taxable wage for the employer's share of the tax would be unaffected.

9 This could be done by taking a ratio of average taxable wages in the year of determination to the year in which the last adjustment was made, and changing the maximum taxable wage by the percent arrived at.
Social Security throughout the year (as would their employers) but would receive their contribution back at the end of the year as a refund through the individual income tax return. This provision would allow the trust fund use of these taxes for a year and also serve as a disincentive (in the form of inconvenience) for those considering leaving the program. The employer's share of taxes for these persons would remain in the trust fund, ensuring some Social Security retirement benefits for them. Those persons who choose to save via a private means would contribute to the accumulation of savings for capital formation.

**Earned Income Credit**

A necessary accompaniment to the payroll tax in a compulsory savings plan, such as that proposed, is an expanded earned income credit provision in the federal individual income tax. This is desirable to provide tax relief for low-income workers. It is unreasonable to require poor persons to save for their retirement if such reduction in take home pay compels them to borrow at exhorbitant rates in order to subsist from day to day. The effect of the earned income credit is to reduce the federal income tax of low-income workers by the amount of their contribution to the OASDI portion of Social Security, up to earnings of $8,000. The amount of the earned income credit should be adjusted periodically for changes in the cost of living so that it will reflect constant 1977 dollars. The earned income credit currently applies only to workers who have children and maintain a household. This should be extended to include all low-income families, but at a lower income level to reflect less need for this credit.
Retirement Age

The trend in recent years has been to encourage retirement at earlier ages. This trend, coupled with the effects of increased longevity and an increase in the proportion of aged persons in the population are the basis for a significant portion of the projected deficits in Social Security. The author believes Social Security has been a major factor in establishing the normal retirement age by specifying 65 as the age at which retirement benefits are payable and requiring recipients of benefits to satisfy an earnings test. The introduction of actuarially reduced benefits at age 62, has served to further lower the retirement age. Social Security probably has also acted to set standards for other retirement programs and has conditioned social attitudes toward retirement.

The encouragement of early retirement can be rationalized under past and current demographic conditions. The substantial increases in births following World War II, and continuing up through 1960, have resulted in a relatively large labor force as this segment of the population reaches working age. Because there are many workers for a limited number of available jobs, it appears desirable to provide for early retirement of older, less productive workers--freeing up jobs for the young entering the labor market. However, the author believes the present is not indicative of the future. The post-war baby boom was an isolated deviation in the demographic trend which has persisted since the year 1800. In this time period, fertility or birth rates declined from a little more than 7.0 in 1800 to 3.7 in 1960. Since 1960, the fertility rate was cut in half to 1.8 in 1975. Official projections of the Social
Security Administration in 1976 assume that this downward trend will be checked at 1.75 in 1977, to begin a gradual upswing. The fertility rate is expected to reach 1.9 by the year 2005, where it will remain constant, generating a slowly declining population.¹⁰

Based on these assumptions, the age composition of the population will undergo a significant change in the 21st century as the ratio of non-working aged persons to those persons of working age increases. By the year 2010 this ratio should approximate 1 to 3.¹¹ Two circumstances are responsible for this change: (1) those born during the baby boom years will be reaching retirement age; and (2) those born in the current period, when the birth rate is less than what would be required for zero population growth, will be the working population.

Under these assumptions and events affecting demographic make-up, it is readily apparent why future Social Security taxes will need to be increased considerably, given the current pay-as-you-go method of financing—fewer workers will be required to support more receiving retirement benefits. However, in the same way, because there will be fewer persons of working age, there is also less justification, on the grounds of job availability, for continuing to encourage earlier retirement.

Moreover, because of increases in longevity (between 1930 and 1970, life expectancy at age 65 increased from 12.2 to 15.2 years), and relatively better health of those individuals at retirement age, the


¹¹Currently this ratio is 1 to 7. See Chapter II, page 26.
author believes a later retirement age should be gradually phased in. A method of doing this would be to increase the age of retirement by one month every six months beginning in 2005 and ending in 2023, at which time the retirement age would be 68.

Extending the retirement age would better the economic welfare of the aged in two ways: (1) by allowing the aged to continue their working lives longer, the period over which they suffer reduced retirement income would be decreased; and (2) a longer work history would generate larger retirement benefits payable upon reaching age 68.

Slowly phasing in a later age at which retirement benefits are paid will serve to gradually condition workers to the fact of extended work careers. It is not necessary that all workers postpone retirement until age 68. Many will probably have private pension plans that provide benefits at earlier ages. (Organized labor contracts now often call for mandatory retirement at age 60.) Early retirement under other pension plans will in no way affect the payment of Social Security benefits at age 68—except that benefits will be lower than if workers had paid into the fund for more years. In the same way, individuals who wish to work will not be required to cease their careers at 68 in order to obtain benefits. Since benefits are determined by contributions and have their basis in individual equity rather than social adequacy, an earnings test determining need is inappropriate and would be eliminated under this proposal. Doing away with this highly unpopular aspect of Social Security would encourage even later retirement—past 68 for those who wish and would generally improve the economic welfare of these individuals.
Those persons unable to continue work to the proposed retirement age because of physical impairments would be eligible to receive benefits through disability provisions of Social Security. Procedures to determine eligibility for disability coverage under Social Security may be set up in such a way that requirements are liberalized with increasing age, i.e., permanent and total disability as a condition for payment of Social Security benefits under age 60; 60 to 70 percent disability, a condition for benefits between the ages of 60 and 65; and 50 percent disability required from age 65 to 68.12 Disability benefits would necessarily be lower than those payable at retirement because of fewer years of contributions, and would possibly be further reduced by actuarial assumptions, as to life expectancy, at the age that benefit payments begin. Because of this, these individuals may be eligible for benefits under the disability provisions of SSI13 and/or federal and state unemployment programs.

The Role of Supplemental Security Income

The enactment of SSI, in 1972, marked a major turning point in the philosophy governing Social Security and the OASDI tax. Prior to that time, federally sponsored need-related programs had been assimilated into Social Security under the apparent assumption that OASDI tax revenues were unlimited. The results were the necessary increases in this tax and the current projections for insolvency. By providing

12 Pechman, Aaron, and Taussig, Perspectives for Reform, p. 141.

13 SSI provisions for the blind and disabled of any age are the same as those provisions for the aged.
benefits strictly determined by need, SSI indicates an avenue by which the income maintenance burden of Social Security can be removed. Although SSI is under the Social Security Administration, it is fully funded through general tax revenues and, consequently, can be maintained without further increases in the regressive OASDI tax.

It is the author's belief that SSI will provide the basis upon which additional income maintenance programs are structured, replacing the fragmented network of state-run welfare programs and need-related provisions of Social Security. Since SSI guarantees a monthly income of $167.80 per month for an aged (or blind or disabled) person and $251.80 for a couple, the rationale for the Social Security minimum benefit ($107.40) and the special minimum PIA (ranging from $9 to $180) is virtually eliminated. Other need-related provisions of Social Security, such as those met by the progressive benefit formula, can be similarly transferred to a modified SSI program. SSI should be broadened to better interface with Social Security under the proposed reform.

Currently, SSI benefits are reduced $1 for every $2 in earnings over $65 a month and reduced dollar for dollar for other unearned income over $20, which includes Social Security benefits, workmen's compensation, veterans pensions, annuities and gifts. This implicit tax on other unearned income should be reduced to 50 percent as it is for earnings, i.e., for every $2 of other income, the SSI benefit is reduced $1. (The $20 deductible does not seem to be of material importance, under the proposed modification, and should be eliminated.) This would extend benefits to a higher income level. In this way, those low-wage earners, who benefit from the current progressive Social Security benefit structure, will be
protected against a decline in retirement income by the introduction of the proposed proportional benefit structure.

Table 4 illustrates how the expanded SSI program would interface with the proposed Social Security benefit structure to guarantee income protection to all retirees. Income protection provided by the present Social Security and SSI provisions is also shown for comparison purposes. The wage replacement rate used in illustrating the proposed system is 50 percent, which is the replacement rate possible on contributions into Social Security for 40 years, assuming earnings grow in line with the real rate of growth in average wages and investments of the trust fund earn at least 3 percent interest (see page 69).

Implementation of the Reform

The changes in Social Security called for in this proposal are radical. In some instances, implementation will need to be over several years. An initial step in bringing about the proposed reform is the elimination of minimum benefit and special minimum primary insurance amount (PIA) provisions. This action, however, will need to be taken concurrently with the recommended changes in the Supplemental Security Income (SSI) program. An expanded SSI program will then also protect the income of those individuals who currently gain from the steeply progressive Social Security benefit formula, and thus facilitate the elimination of this method of figuring benefits.

Changing the computation of benefits from a formula based on average monthly wages to one directly determined by contributions will require a phasing-in stage. During this time, figuring benefits for newly retired persons would require two computations: one under the
### TABLE 4

**COMPARISON OF BENEFIT LEVELS AND REPLACEMENT RATES FOR RETIREES UNDER PRESENT AND PROPOSED SYSTEMS**

#### Present System

<table>
<thead>
<tr>
<th>Earnings(^b)</th>
<th>Monthly (^c) Earnings</th>
<th>Social Security Benefit</th>
<th>Replacement Rate</th>
<th>SSI(^e) Benefit</th>
<th>Combined Benefit</th>
<th>Combined Replacement Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>60 Percent of Minimum Wage</td>
<td>$219.00</td>
<td>$165.00</td>
<td>.76</td>
<td>$12.20</td>
<td>$177.70</td>
<td>.81</td>
</tr>
<tr>
<td>Low</td>
<td>286.58</td>
<td>178.50</td>
<td>.62</td>
<td>-0-</td>
<td>178.50</td>
<td>.62</td>
</tr>
<tr>
<td>Lower Middle</td>
<td>487.25</td>
<td>238.20</td>
<td>.49</td>
<td>-0-</td>
<td>238.20</td>
<td>.49</td>
</tr>
<tr>
<td>Median</td>
<td>687.92</td>
<td>298.50</td>
<td>.43</td>
<td>-0-</td>
<td>298.50</td>
<td>.43</td>
</tr>
<tr>
<td>Higher Middle</td>
<td>931.46</td>
<td>329.30</td>
<td>.35</td>
<td>-0-</td>
<td>329.30</td>
<td>.35</td>
</tr>
<tr>
<td>High</td>
<td>1,175.00</td>
<td>364.00</td>
<td>.31</td>
<td>-0-</td>
<td>364.00</td>
<td>.31</td>
</tr>
</tbody>
</table>

#### Proposed Proportional Benefit System

<table>
<thead>
<tr>
<th>Earnings(^b)</th>
<th>Monthly (^c) Earnings</th>
<th>Social Security Benefit</th>
<th>Replacement Rate</th>
<th>SSI Benefit, 50 Percent Implicit Tax, No Deductible</th>
<th>Combined Benefit</th>
<th>Combined Replacement Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>60 Percent of Minimum Wage</td>
<td>$219.00</td>
<td>$109.50</td>
<td>.50</td>
<td>$102.95</td>
<td>$212.45</td>
<td>.97</td>
</tr>
<tr>
<td>Low</td>
<td>286.58</td>
<td>143.29</td>
<td>.50</td>
<td>86.06</td>
<td>229.35</td>
<td>.80</td>
</tr>
<tr>
<td>Lower Middle</td>
<td>487.25</td>
<td>243.63</td>
<td>.50</td>
<td>35.89</td>
<td>279.52</td>
<td>.57</td>
</tr>
<tr>
<td>Median</td>
<td>687.92</td>
<td>343.96</td>
<td>.50</td>
<td>-0-</td>
<td>343.96</td>
<td>.50</td>
</tr>
<tr>
<td>Higher Middle</td>
<td>931.46</td>
<td>465.73</td>
<td>.50</td>
<td>-0-</td>
<td>465.73</td>
<td>.50</td>
</tr>
<tr>
<td>High</td>
<td>1,175.00</td>
<td>587.50</td>
<td>.50</td>
<td>-0-</td>
<td>587.50</td>
<td>.50</td>
</tr>
</tbody>
</table>

\(^a\)The data in the top portion of this table is taken from Alicia B. Munnell, "The Future of Social Security," p. 20.

\(^b\)It is assumed these individuals had a smooth annual income growth.

\(^c\)These persons' AMW's are $157, $184, $313, $442, $514, and $586, respectively, under the present system.

\(^d\)Social Security benefits are figured on the January, 1976 benefit formula.

\(^e\)SSI benefits are figured on the benefit amounts effective January, 1976.
current benefit formula and the other based on total contributions used in conjunction with an expanded SSI program, as proposed. The retiree would then be entitled to the larger of the two amounts. Payments to retiring persons, ineligible for additional benefits under SSI, will not be affected by the proposal for some time in the future. Nor would payments to those persons already retired change. This is because the 1977 Social Security benefit formula currently provides an individual with considerably larger payments than those possible through the investment of his OASDHI tax payments from the program's inception. For example, under the proposal, a man retiring in December, 1976, at age 65 would be entitled to a benefit of only $135 per month. This assumes that he has contributed to Social Security to the maximum amount every year since the tax was initiated (40 years), and trust fund monies have earned a net return of 3 percent per year. This compares to a PIA for this same person of approximately $398 under the June, 1976 benefit formula.

The low benefit obtained under the proposal is due to low maximum taxable amounts and tax rates in the early years of Social Security, e.g., $60 was the largest possible combined employee-employer contribution for the first 13 years that the OASDI tax was levied, (see Chapter II, page 23). Consequently, the proposed benefit calculation will not improve the payments to most persons until beyond the turn of the century when persons retiring would have paid taxes for many years at the rates and taxable levels introduced in the 1970's. Between the years 2010 and 2020, full implementation of benefits based on contributions can begin.

On the other hand, the benefits to persons with low wage records will generally be higher under the author's proposal than under the current system, because of the expansion of the SSI program to extend
these payments to higher income levels; therefore, it will be advantageous for these persons to have benefits computed under the proposal.

It is important, during the years of transition, that the legislation providing for automatic escalation of Social Security benefits be rescinded, and that no further benefit increases be made—to minimize costs of the program. The income of retirees with low benefits will be protected against inflation by SSI payments, periodically adjusted for changes in the cost of living. The benefits of new retirees will reflect increases in the cost of living, since this proposal provides for the automatic adjustment of the maximum taxable wage (assuming that their preretirement wages had also increased to reflect cost of living changes and their contributions to Social Security had thus increased.)

The author feels that the earnings test should be dropped immediately to establish Social Security as unrelated to welfare programs. The additional expense resulting from this will be offset by the elimination of minimum benefit provisions.

An SSI program, expanded to take over the welfare functions of Social Security, will require increased general revenue funding. Some of these funds can be obtained from reductions in child welfare payments thought possible because of the recent decline in birth rates, which will result in proportionally fewer young people. In addition, welfare costs, under the Aid to Families with Dependent Children program, are expected to be cut substantially. Recent legislation, which provides more efficient methods of tracing absentee fathers of children on welfare and forcing them to support their children, is expected to lower
these costs by $1 billion a year. The author believes SSI is an appropriate alternative use for these funds.

The changes in record keeping, which provide for the sharing of Social Security contribution credits by both partners in a marriage, should begin at once. These changes should also be applied retroactively—both for those of working age and those individuals currently retired. Benefits for retirees should then be recomputed under the effective benefit formula. When the recomputed amount is more than the benefit being received by an individual, the retiree will be entitled to the recomputed amount. Benefits for newly retired persons will be similarly computed twice with the retiree entitled to the larger of the two amounts. This provision can be fully implemented and derivative spouse benefits eliminated at a time to coincide with the changeover in methods of computing benefits as described above.

The shared-contribution provision should increase the retirement benefits of women overall in relation to men's benefits; however, putting Social Security on an actuarially sound basis will probably offset this change somewhat because of the longer life expectancy of women. Those persons benefiting primarily from this provision will be divorced persons, married less than 20 years who, under the current record keeping method, have little or no wage credits; and married couples, where both are employed outside of the home. Single-earner couples will have benefits reduced somewhat, and those with higher incomes will have to pay more in contributions because of higher maximum taxable wages.

---

CHAPTER V

CONCLUSION

In studying Social Security— noting the numerous criticisms of the system and predictions of financial collapse in the near future— it was reasonable to speculate on abandoning Social Security altogether. Economist and Nobel Prize winner, Milton Friedman, advocates such action, and would replace Social Security and current income maintenance programs with a negative income tax, which would guarantee a minimum income to all, based on the cost of living. Such a program has merits in efficiency and simplicity— one device to relieve everybody's financial woes— and is a suitable method for providing of pure need-related payments. However, the problems and needs resulting from reduced earning power of the elderly who have always been self-sufficient are different from those of persons reliant on society's support most of their lives. Consequently, these problems should be treated differently. Substituting a negative income tax for Social Security ignores a factor which was of primary importance to the drafters of the original Social Security Act, and one which the author believes is still relevant now and will be in the future— the American belief that individuals should be able to provide for their own support. Social Security, because it is contributory, exemplifies this belief and projects to recipients the feeling of an earned right to benefits. The author believes this concept of earned right serves an important psychological function and has contributed a great deal to the wide acceptance of Social Security.
Social Security has many other features which make it attractive to the American public. The program has complete portability of covered service and pension rights, i.e., earnings with different employers are combined to compute a worker's retirement benefit. Unlike a private pension plan, there is little incentive to change jobs or remain in one because of losing or gaining rights to Social Security. Social Security is available to nearly all workers and provides a floor of income protection for them upon retirement. Moreover, participation in Social Security generates many other benefits—survivors, disability and health.

In sum, the author believes the advantages of such a national contributory retirement plan are valuable enough to justify its retention; however, the potential bankruptcy of Social Security, its inequities, inadequacies and outmoded provisions necessitate a comprehensive reform of the program.

Two objectives were predominant in formulating this proposal for reform of Social Security: (1) to ensure the financial viability of the program for future generations of retired Americans; and (2) to ensure its political viability and continued support by the American public.

Under this reform proposal, the conglomeration of benefits which currently comprise the Social Security system would be split up based on the function they are intended to perform. Those benefit provisions which serve primarily as income maintenance for the poor would be transferred to an expanded SSI program in order to perform this function most efficiently and adequately. As part of SSI, these benefits would be financed through general revenues. Those benefit provisions, which serve the purpose originally intended for Social Security—that of earnings replacement for retired workers—would be retained as Social Security
and be financed through the OASDI tax. Under the proposal, these benefits will be modified to accommodate changed life styles and to ensure equitable treatment of all persons who participate in Social Security.

This proposal recommends that a later age at which retirement benefits are paid should be gradually phased-in to provide more substantial benefits during retirement years. This provision would significantly improve the economic well-being of the elderly, along with the recommended elimination of the earnings test, and can be further justified by demographic trends and increased longevity. It is also desirable to expand the earned income credit, under the federal income tax law, to provide tax relief to the poor.

Under the reform proposal, many of the defects of Social Security are eliminated by patterning certain aspects of the program after private pension plans. Benefits will be strictly determined by an individual's contributions. Contributions to the program through the OASDI tax will be maintained in a trust fund, which together with investment earnings, will be sufficient to meet future liabilities. Yet, Social Security will still have many of the advantages only a public-administered program can provide--portability, uniformity, and a greater degree of "security" and permanence than is possible in a private insurance plan. In essence, Social Security will be a national compulsory savings plan, in which taxes paid in during an individual's working years are returned to the individual, together with interest, upon retirement.

The Social Security system is currently at a critical point in its 40 year life. The impending financial collapse and increased criticism of the program could together spell its doom. Before 1980, increased
expenses will require either additional funds—from general revenues or tax increases—or cuts in benefits. While these decisions are being formulated, a careful analysis of the entire system should be made with attention to the long-term viability of the program.

Social Security has mushroomed into an enormous program affecting nearly all Americans and many aspects of the economy; and, as such, no small changes will provide lasting solutions. Patchwork repairs of the system will no longer suffice. Comprehensive changes must be made in (1) the financing of Social Security to make it self-supporting; and (2) assumptions and provisions of the program to make it responsive to social changes. Careful planning of these changes can assure the future financial viability of Social Security and its continued support by the American public.
SELECTED BIBLIOGRAPHY

BOOKS


JOURNAL AND MAGAZINE ARTICLES


PUBLIC DOCUMENTS


________. House. Representative Donald M. Fraser, speaking for the bill to provide equity in Social Security for individuals and families. 94th Cong., 2nd sess., 1 June 1976. *Congressional Record,* vol 122.


NEWSPAPERS


Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.