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**PRESIDENT CLINTON'S FRAMEWORK:
SOCIAL SECURITY AND MEDICARE REFORM--MAINTAINING FISCAL DISCIPLINE**

I. ADMINISTRATION PROPOSAL

- General Overview
- Summary of the President's Proposal
- Benefits of Debt Reduction
- Talking Points on Double Counting Issue
- The Case for Investing in Equities

II. CHARTS AND GRAPHS

- Pie Chart: Use of Unified Surplus
- Pie Chart: Interest Payments Due on Debt
- Graph: Publicly Held Debt, 1980-2014

III. COMMENTARY ON ADMINISTRATION PROPOSAL

- Support for Key Aspects of President Clinton's Proposal
- David S. Broder, "The Greatest Gift to our Kids," *The Washington Post*
- Jacob M. Schlesinger, "Greenspan Backs Clinton's Plan for the Surplus," *The Wall Street Journal*
- Jonathan Chait, "Washington Diarist: Doubletalk," *The New Republic*

**GENERAL OVERVIEW:
PRESIDENT CLINTON'S FRAMEWORK FOR SOCIAL SECURITY AND MEDICARE REFORM,
WHILE MAINTAINING FISCAL DISCIPLINE**

- **Investing the Surplus for Tomorrow: The President's Plan Reserves Nearly 90% of Surplus To Meet Long-Term Retirement Challenge.**
 - Rather than consuming the surplus for today, President Clinton's proposal reserves nearly 90 percent of the projected budget surpluses --almost \$4 trillion --over the 15 years to meet our long-term retirement challenge; 62% of the surpluses are reserved for Social Security, 15% for Medicare, and 12% for USA Accounts.
 - President Clinton's proposal will pay down nearly \$3 trillion of our national debt. As a result, the publicly held debt will be cut by more than two-thirds and, as a share of GDP, will fall from 44 percent today to 7.1 percent in 2014 --its lowest level since 1917.
- **Continuing A Pro-Growth Strategy That is Working vs. Returning To The Failed Policies of Debt and Deficit: The President's Proposal Creates a Debt Reduction Lock-Box for Social Security and Medicare.**
 - In 1993, President Clinton and Congressional Democrats cut the deficit, helping create the longest peacetime economic expansion in history. President Clinton's plan will create a debt reduction lock-box for Social Security and Medicare. This is a pro-growth strategy --maintaining fiscal discipline by cutting the national debt, which will result in higher national savings, lower interest rates, higher private-sector investment, and higher economic growth. We should not return to the failed policies of the 1980s that quadrupled the national debt and led to the highest deficit in the history of our country.
- **President Clinton Believes We Must Meet Obligations To Future Generations First --By Reserving 77% of Surpluses for Saving Social Security and Strengthening Medicare.**
 - Republicans and Democrats agree that investing 62 percent of the surplus to strengthen Social Security is the right thing to do. Some --even those

who agree we should save Social Security --would use the rest of the surplus for tax cuts. President Clinton believes we must meet our obligations to future generations first --that is why must reserve 77 percent of the projected surpluses to save Social Security and strengthen Medicare. The President believes that anyone who hopes to spend the surplus --on tax cuts or spending initiatives --has an obligation to first tell America's families how they plan to preserve and extend the Medicare trust fund into the next century.

- **After We Save Social Security and Strengthen Medicare, We Should Provide Tax Relief for America's Families: President Clinton's Plan To Give Tax Credits for Retirement Savings in USA Accounts Will Mean Larger Tax Relief for Average Families Than The Republican Plan.**

- The Republican tax scheme would disproportionately help the rich. According to the Citizens for Tax Justice, for the one percent of taxpayers making more than \$301,000, the average tax cut would be \$20,697 annually. But, for taxpayers making less than \$38,000, a group that includes 60% of all taxpayers, the average tax cut under the Republican proposal would be \$99 a year --far less than the hundreds of dollars for average working families the President's USA Account proposal would provide.

PROPOSAL SUMMARY:
PRESIDENT CLINTON'S FRAMEWORK FOR SOCIAL SECURITY AND MEDICARE REFORM,
WHILE MAINTAINING FISCAL DISCIPLINE

In His State of the Union Address, President Clinton Put Forward His Framework To Save Social Security and Strengthen Medicare, While Meeting America's Challenges for the 21st Century. The President and Vice President's framework strengthens Social Security and Medicare by:

- **Using The Budget Surplus To Help Save Social Security And Invest A Portion In the Stock Market To Seek Higher Returns.** The President proposes to transfer 62 percent of the projected budget surpluses over the next 15 years --\$2.8 trillion --to the Social Security system. The President proposes to invest less than one-quarter of the transferred surpluses in the private sector to achieve higher returns for Social Security --just as any state or local government, or private pension does --after working with Congress to devise a mechanism to ensure that the investments are made independently and without political interference by private-sector managers with minimum administrative costs.
- **This Framework Will Save Social Security Until 2055 --And the President Will Work With Congress To Save It Until At Least 2075.** Transferring over 60 percent of the surpluses to Social Security and investing a portion in the market will keep Social Security solvent until 2055. The President believes we must work on a bipartisan basis to make the hard-headed but sensible and achievable choices to save Social Security until at least 2075. As part of this effort, President Clinton believes that we must:
 - (1) ***Reduce Poverty Among Single Women.*** Reduce poverty among elderly women --particularly widows, who have a poverty rate nearly twice the overall poverty rate for older Americans; and
 - (2) ***Eliminate The Earnings Test.*** Eliminate the confusing and out-dated earnings test so that we stop discouraging work and earnings among older Americans.
- **Strengthen Medicare for the 21st Century.** The President's framework reserves 15 percent of the projected surpluses for Medicare, securing Medicare until 2020. The President believes that the new resources should be utilized to achieve broader, bipartisan reforms that modernize Medicare, make it more efficient, provide for a long-overdue prescription drug benefit, and keep Medicare safe until

2020.

After Social Security and Medicare Reform Are Secured, President Clinton Proposes To:

- **Provide \$536 Billion in Tax Credits to Create New Universal Savings Accounts --USA Accounts.** The President's framework will reserve 12 percent of the projected surpluses to create new Universal Savings Accounts (USAs) so working Americans can build wealth to meet their retirement needs. To help Americans save, we would provide Americans a flat tax credit to make contributions into their USA account. In addition, we would provide additional tax credits to match a portion of an individual's savings --with more help for lower-income workers.
- **Prepare America for the Challenges of the Future.** The President's framework will reserve 11 percent of the projected surpluses for military readiness and other pressing domestic priorities.

**A FISCALLY RESPONSIBLE PROPOSAL:
PUBLICLY HELD DEBT FALLS TO LOWEST LEVEL SINCE 1917**

- **Debt-to-GDP Ratio Will Fall to Lowest Level Since 1917.** As a share of the economy, the publicly held debt increased from 26% in 1981 to 50% in 1993. Since President Clinton took office, the publicly held debt as a share of GDP has dropped to 44%. And under the President's framework, the publicly held debt will be cut by more than two thirds, and, as a share of GDP, will fall from 44% today to 7.1% in 2014 --its lowest level since 1917.

**BENEFITS OF DEBT REDUCATION:
A PRO-GROWTH STRATEGY
THAT CUTS THE FEDERAL DEBT TO ITS LOWEST LEVEL SINCE 1917**

In the 1980s, The Federal Debt Quadrupled. Under Presidents Reagan and Bush, the debt held by the public quadrupled. As a share of GDP, the publicly held debt increased from 26 percent in 1981 to 50 percent in 1993. When the President took office, the debt-to-GDP ratio was projected to rise to nearly 80 percent by 2003.

Under President Clinton, America's Fiscal House Is Now In Order. Instead of sticking with the failed policies of debt and deficit, President Clinton put in place a bold, new economic strategy to cut the deficit, lower interest rates and spur economic growth. Today, we have the first budget surplus in a generation.

President Clinton's Proposal Will Cut Debt To Lowest Level Since 1917. As a result of President Clinton's fiscal discipline, the publicly held debt as a share of GDP has dropped from 50 percent in 1993 to 44 percent in 1998. Under the President's framework, the publicly held debt will be cut by more than two thirds and, as a share of GDP, will fall from 44 percent to 7.1 percent in 2014 --its lowest level since 1917.

President Clinton's Strategy To Cut the Debt Will Help Strengthen the Economy, Cut Interest Payments, and Ensure that We Do Not Leave A Legacy of Debt to Our Children:

- **President Clinton's Strategy Is A Pro-Growth Strategy.** President Clinton's framework will cut the federal debt, thereby raising national savings by nearly 2 percent of GDP; Universal Savings Accounts will encourage saving even more. Higher national savings will mean lower interest rates, higher private-sector investment, and thus, higher economic growth in the future.
- **President Clinton's Strategy Will Cut Interest Payments on the Federal Debt.**
When President Clinton took office, interest payments on the federal debt were projected to eat up 27 cents of every budget dollar by the year 2014. That would have made it almost impossible for future generations to make basic decisions about how the government should spend their money. Today, interest payments on the debt take up about 13 cents of every tax dollar. *Under the President's proposal, interest payments would shrink to just 2 cents on every dollar by 2014.*
- **President Clinton's Strategy Will Ensure That We Do Not Leave a Legacy of Debt to Our Children.** President Clinton's proposal would cut the debt held by

the public, as a share of the economy, to 7.1 percent in 2014. This would mean that instead of leaving a mountain of debt for our children, we would completely eliminate the national debt by 2018.

CUTTING THE NATIONAL DEBT IS RIGHT FOR AMERICA

- **Alan Greenspan, Federal Reserve Chairman, January 28, 1999:** “[I]ncreasing our national saving is critical. The President’s approach to Social Security reform supports a large unified budget surplus. This is a major step in the right direction in that it would ensure that the current rise in government’s positive contribution to national saving is sustained.”
- **David Broder, “The Greatest Gift to our Children,” *Washington Post*, February 7, 1999:** “[Saving on interest payments due on the national debt] illustrates the single biggest achievement -- and the most important virtue -- of the fiscal policy this government has pursued over the past six years, a policy which Clinton is wisely recommending be continued for the foreseeable future. Thanks to the budget decisions he has made -- some fiercely resisted by Republicans and others urged or embraced by them -- we have gone from confronting deficits as far as the eye could see to the prospect of large budget surpluses. This is a huge gain for ourselves and our children.”

TALKING POINTS ON DOUBLE COUNTING AND DEBT

- **When You Strip Away All of the Accounting Rhetoric, the President's Plan Does Two Things:**

(1) Between now and 2014, the President's plan will cut the publicly held debt by more than two thirds, increasing national savings and strengthening our economy to make it easier for us to meet our retirement challenge and other national priorities.

(2) It gives Social Security first claim on the benefits of debt reduction (by giving new bonds to the trust fund).

- **That Is Why Fed Chairman Alan Greenspan and Top Experts Support the President's Approach to Debt Reduction:**

- **Henry Aaron, Brookings Institution, January 27, 1999:** "The message is simple: the double-counting issue is bogus. The president's address outlined a bold plan that stands in striking contrast to alternative proposals that would use the projected budget surpluses to justify large tax cuts or spending increases."

- **Alan Greenspan, Federal Reserve Chairman, January 28, 1999:** "In this light, increasing our national saving is critical. The President's approach to social security reform supports a large unified budget surplus. This is a major step in the right direction in that it would ensure that the current rise in government's positive contribution to national saving is sustained."

- **The President's Plan Takes Advantage of Our Current Good Times to Set Aside Resources So That We Can Meet Our Existing Obligations.** We already have an obligation to current workers to pay them benefits when they retire, even if they retire in years after 2032. The President's plan does not increase these commitments. Instead, it sets aside resources so that we can meet our existing obligations.

- **Under the President's Plan, We Have the Ability to Pay Benefits Through 2032 and Beyond.** When President Clinton took office in 1993, deficits were exploding and there were serious concerns about how we were going to be able to pay back the Social Security trust fund when it began redeeming its bonds.

Because of the fiscal discipline and tough choices of the past six years, the Clinton Administration is projecting budget surpluses, even after paying back Social Security, until the middle of the next century.

- **The President's Plan Follows the Same Accounting That Has Been Used by Every U.S. Administration since the Johnson Administration.** Since the Johnson Administration, the Social Security surplus has been part of the unified budget surplus, and has been used a second time, almost always for new spending. Many Republicans have called for the surplus to be used a second time for tax cuts, to fund individual accounts, or to pay for the transition to an individual account system. The President's plan uses the surpluses for debt reduction, and to extend the life of the Social Security and Medicare trust funds.
- **The Bottom Line Is Clear: The President's Plan Will Cut the Debt and Keep America's Economy Strong.** Regardless of any claims offered by opponents, the President's plan will cut the debt held by the public by more than two thirds, and as a share of the economy it will fall to its lowest level since 1917. This will raise national savings, lower interest rates, and help keep America's economy strong. The President's plan will lower the burden faced by our children and grandchildren, and leave the country better able to meet the challenges of an aging population.

THE CASE FOR INVESTING PART OF THE UNIFIED SURPLUSES IN EQUITIES

In his State of the Union Address, the President proposed that 62 percent of the projected budget surpluses over the next 15 years be transferred to the Social Security Trust Fund, in order to increase the ability of that Fund to meet promised Social Security benefit obligations. The President further proposed that about a fifth of the transferred surpluses be invested in equities to achieve higher returns for Social Security, helping to extend the life of the Social Security trust fund to 2055. This action does, however, raise understandable concerns about the possible extension of political influence on investment decisions and the risks that this might pose to the economy and the Trust Fund. Any system of collective investment can and must address these concerns. That is why we will work with Congress to design a system that observes five core principles:

1. **Private Sector Managers Selected by Competitive Bidding.** Social Security beneficiaries deserve the same efficient management and market returns that people receive in their private pensions and personal savings. The actual investments should be managed by private sector money-managers selected by competitive bidding.
2. **Independently Managed and Non-Political.** There would need to be wholly independent oversight of investment that was insulated from political influence. The choice of investment managers should be done by an independent board whose sole responsibility would be to pick fund managers so as to maximize the performance of the investments. This would ensure that the investment of funds was carried out with zero government involvement.
3. **Limited.** The share of Trust Fund assets invested in equities ought to be kept at a very modest level --both to limit risk to the Fund and to ensure that collective investments never account for more than a small fraction of the stock market as a whole.
4. **Broad-based, Neutral, and Non-Discretionary.** Assets should be invested proportionately in the broadest array of publicly listed equities, with no room for discretion in adding or deleting companies and no room for active involvement in corporate decisions. Neither the government nor the private sector managers it selects to undertake investment on its behalf should be involved in "stock picking." As a shareholder the Funds should be entirely passive; one way to accomplish this would be to mandate that proxies be voted in the same proportions as other shareholders. Alternatively, if the investments were spread among a number of managers so that no one manager had a large share of the total

market, the managers could vote the shares in the interests of the share holders, just as mutual fund managers do today.

- *No Market Timing or Stock Picking.* In essence, the managers should be on autopilot in investing the funds. They should have little or no discretion in the investment of Trust Fund assets --so they cannot “time the market” or pick individual stocks.

5. **Lowest-Cost.** Collective investment needs to be administratively simple and achieved at the lowest available cost --both to obtain the highest possible returns and to further enhance the system’s transparency and independence.

WHY INVEST PART OF THE SURPLUSES IN EQUITIES?
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1. **Investing Part of the Surpluses in Equities Would Raise the Rate of Return That Workers Would Experience on Their Contributions into the Social Security System.**

- Historically, the Trust Fund has been invested exclusively in government bonds. While these bonds have the upside that they are essentially risk-free, they have the downside that they pay a relatively low rate of return on average. Adding equities to the Trust Fund portfolio would allow the Social Security system to enjoy a higher rate of return, on average. Between 1959 and 1996, the difference between the average annual rate of return earned on stocks and the rate earned on bonds held by the Trust Fund --the “equity premium” --was 3.84 percent.
- Raising the rate of return on the Trust Fund would mean that the Social Security system could be brought into long-term actuarial balance with smaller reductions in benefits, or smaller increases in revenue, or both.
- Investing part of the transferred surpluses in equities accounts for about one-third of the improvement in the actuarial balance achieved under the President’s framework.

2. **Investing Part of the Trust Fund in Equities Would Bring Social Security into Line with the “Best Practice” of Both Private-and Public-Sector Pension Plans.**

- The overwhelming number of private-sector defined-benefit pension plans invest part of their reserves in equities. Among large private-sector defined benefit plans (those with more than 100 participants), more than 40 percent of total assets of were invested in equities.

- Similarly, 65 percent of the portfolio backing the defined-benefit pension plan of the Federal Reserve System is invested in equities.
- In aggregate, state and local pension plans hold fully 10 percent of the overall stock market.

WHY IS EQUITY INVESTMENT BETTER UNDERTAKEN THROUGH THE TRUST FUND THAN THROUGH INDIVIDUAL ACCOUNTS?

1. Administrative Costs Associated with Trust Fund Investment Would Be Much Lower.

- For example, the equity-fund component of the Federal Thrift Savings Plan (TSP) incurs annual investment-management costs of only about one basis point (one one-hundredth of a percentage point). Thus, for every \$100 in equity assets under management, the TSP pays only about one cent per year in management fees.
- By contrast, asset management fees for individual accounts such as IRAs typically run in the neighborhood of 100 basis points or more --or about \$1 per year for every \$100 under management.
 - *The asset management fees associated with IRAs are thus typically at least 100 times larger than the fees associated with centralized investment.*
- Management fees are extremely important in determining the buildup of assets. A fee of one basis point paid every year for 40 years would reduce the accumulated balance by only about 0.4 percent. By contrast, a fee of 100 basis points would reduce the accumulated balance by about 33 percent.

2. Financial Risk Can Be Spread Much More Effectively If Equity Investment Is Undertaken Through the Trust Fund than Through Individual Accounts.

- Financial risk that arises through equity-investment of the Trust Fund can be spread both across the entire population participating in the system at any given point in time, and over time. Indeed, provided equity investment is undertaken through the Trust Fund, the consequences of market fluctuations can potentially be spread over many generations.

- By contrast, in a system of individual accounts, the consequences of market fluctuations must --by definition --be borne by each individual. If the market happens to do well during a certain individual's lifetime, that individual can enjoy a relatively prosperous retirement. If the market does poorly, that individual's financial security in retirement may be jeopardized.

WHY CAN WE BE CONFIDENT THAT TRUST FUND INVESTMENT IN EQUITIES WON'T DISRUPT THE MARKET?
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1. This Is Not Direct Government Investment --It Is Investment Undertaken by Private-Sector Managers Selected by Competitive Bidding.

- A bedrock principle of the President's program is that the government itself should not be a participant in the market. All transactions will be executed by private-sector managers.
- The Thrift Savings Plan selects managers in a similar way, placing its portfolio with managers that bid the lowest cost. These managers also vote the shares of stock they control.

2. Institutional Rules Can Be Established to Create Very Strong "Fire Walls" Against Political Interference.

- The experience of state and local pension funds points to several elements of institutional design that have been essential in that context in helping prevent political interference.
- Investments can be made in a broad-based, neutral, and non-discretionary way. Through passive investing in an index, private-sector managers will not be involved in "stock picking."
- History shows that political influence can be avoided. The overwhelming bulk of assets in state and local plans are invested wisely --not in politically motivated ways.
- For example, the Federal Thrift Savings Plan (TSP) invests \$77 billion in stocks and bonds, with more than half in stocks. Francis Cavanaugh, the first executive director of the Board responsible for TSP investments, says that investments have been made without political interference. Specifically, in a recent news article, Cavanaugh said, "Can it be done? It's been done... We did it."

3. The Equity Holdings of the Social Security System under the President's Program Would Be Modest Relative to the Holdings of Other Major Players in the Market.

- Under the President's program, the Social Security system would hold an average of about 4 percent of the aggregate U.S. stock market.
- The top 10 largest private-sector portfolio managers all have more than one percent of the market under management. Fidelity, the largest such private-sector manager, has about 4 percent of the market under its management.
- By contrast, state and local governments in aggregate already hold about 10 percent of the market.

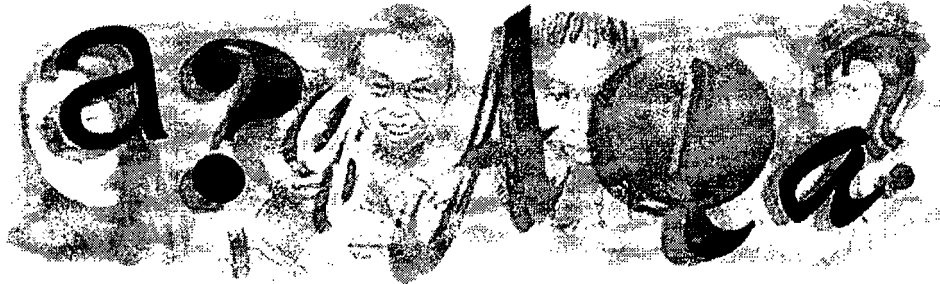
SUPPORT FOR KEY ASPECTS OF PRESIDENT CLINTON'S PROPOSAL

- **Henry Aaron, Brookings Institution, January 27, 1999:** “The purpose of this note is to explain how the president’s proposal would work from an accounting perspective. The message is simple: the double-counting issue is bogus. The president’s address outlined a bold plan that stands in striking contrast to alternative proposals that would use the projected budget surpluses to justify large tax cuts or spending increases. Faced with a once in-a-generation choice about how to spend large and unanticipated surpluses, the nation should confront the big issue “save the surplus or spend it” and not get mired in accounting pettifoggery.”
- **Alan Greenspan, Federal Reserve Chairman, January 28, 1999:** “In this light, increasing our national saving is critical. The President's approach to social security reform supports a large unified budget surplus. This is a major step in the right direction in that it would ensure that the current rise in government’s positive contribution to national saving is sustained.”
- ***Wall Street Journal*, “Greenspan Backs Clinton’s Plan For the Surplus: Diverting General Revenues Toward Social Security Will Cut Debt,” January 29, 1999:** “Federal Reserve Chairman Alan Greenspan defended President Clinton’s plan to divert general revenues into Social Security suggesting that it may be the only politically possible way to use growing budget surpluses to pay down the national debt.... Mr. Greenspan called Mr. Clinton’s plan for the surplus ‘a major step in the right direction.’”
- ***New York Times*, “In the Red. No, Black. Debate Over Social Security Proposal Misfires in Focus on Double Counting,” January 30, 1999:** “[T]he real difference between the President’s plan and that of his critics is not double counting. Some critics want to use the surplus to cut taxes. Many Republicans want to use it to create individual retirement accounts.... The President wants instead to drive down the Federal debt, now about \$4 trillion.”
- ***Washington Post*, “Saving Budget,” February 2, 1999:** “The government’s long-run obligations continue to be much greater than the foreseeable revenues. The mostly conservative fiscal position that the president has staked out is correct.”
- **Jonathan Chait, “Who’s Fiscally Responsible Now,” *New York Times*, January 25, 1999:** “The political genius of Mr. Clinton’s plan is that it marries good policy with good politics. This used to be what Republicans called responsible budgeting. How sad that they now see it as unacceptable.”



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Understanding Social Security



For over 60 years, the Social Security program has been the most successful domestic government program, providing economic protection for Americans of all ages. Demographic changes confronting our Nation require the need for reforms in the Social Security program.

In the President's State of the Union message, he said that we must educate Americans about Social Security and the issues that face it. Americans must understand the Social Security program of today, so they can make informed choices about the Social Security program of tomorrow. Critical discussions about Social Security must take place in family living rooms all across the country.

Social Security Online has numerous online resources that will help you understand the current program and to frame the discussions of the future of Social Security.

Why Did The People of the U.S. Create Social Security?

Read about the legislative and program history of Social Security in our [award-winning history pages](#).

What Benefits Does Social Security Provide?

- [A "Snapshot"](#) - This brief factsheet is a good place to start if you want to know more about the types of benefits that Social Security pays to workers and their dependents and survivors.
- [How You Earn Social Security Credits](#) - This publication defines "credit" and tells you how many credits you need to earn to qualify for benefits.

How Are The Benefits Paid For?

- [Social Security: How It's Financed](#) - A brief overview of where your taxes go.
- [The Trustees Report](#) - The 1998 Trustees Report released on April 28, 1998.

How Much Will I Receive?

As you make plans for your future, one of the questions you'll probably ask is, "How much will I receive from Social Security?" There are several ways you can find out:

- Request a Personal Earnings and Benefit Estimate Statement, or PEBES. Make your request over the Internet and we will mail you a detailed report of your lifetime earnings and an estimate of retirement, disability and dependent benefits;
- Compute your own benefit estimate using a program that you can download for your PC;
- How Your Retirement Benefit Is Figured, A publication that walks you through the formula for computing your retirement benefit.

What is the Future of Social Security?

- Strengthening Social Security: Why We Can't Wait -- Commissioner Kenneth S. Apfel's speech before the National Press Club on strengthening Social Security, delivered December 1, 1998.
- Read our publication, The Future of Social Security.
- In his State of the Union message, President Clinton demonstrated decisive leadership on an issue of great importance to the American people--the long term fiscal health of the Social Security program. See Commissioner Apfel's statement regarding the State of the Union Message.
- Press Release: "Save Social Security First" - The commitment reflected in President Clinton's FY 99 budget proposal for the Social Security Administration.

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Pre-Social Security Period

Traditional Sources of Economic Security

Social Security works because it speaks to a universal human need. All peoples throughout all of human history have faced the uncertainties brought on by unemployment, illness, disability, death and old age. Social Security is designed as a community response to these uncertainties. In the realm of economics, these inevitable facets of life are said to be threats to one's *economic security*.

For the ancient Greeks economic security took the form of amphorae of olive oil. Olive oil was very nutritious and could be stored for relatively long periods. To provide for themselves in times of need the Greeks stockpiled olive oil and this was their form of economic security.

In medieval Europe, the feudal system was the basis of economic security, with the feudal lord responsible for the economic survival of the serfs working on the estate. The feudal lord had economic security as long as there was a steady supply of serfs to work the estate, and the serfs had economic security only so long as they were fit enough to provide their labor. During the Middle Ages the idea of charity as a formal economic arrangement also appeared for the first time.

Family members and relatives have always felt some degree of responsibility to one another, and to the extent that the family had resources to draw upon, this was often a source of economic security, especially for the aged or infirm. And land itself was an important form of economic security for those who owned it or who lived on farms.

These then are the traditional sources of economic security: assets; labor; family; and charity.

The Rise of Formal Systems of Economic Security

As societies grew in economic and social complexity, and as isolated farms gave way to cities and villages, Europe witnessed the development of formal organizations of various types that sought to protect the economic security of their members. Probably the earliest of these organizations were *guilds* formed during the Middle Ages by merchants or craftsmen. Individuals who had a common trade or business banded together into mutual aid societies, or guilds. These guilds regulated production and employment and they also provided a range of benefits to their members including financial help in times of poverty or illness and contributions to help defray the expenses when a member died.

Out of the tradition of the guilds emerged the *friendly societies*. These organizations began appearing in England in the 16th century. Again organized around a common trade or

business, the friendly societies would evolve into what we now call *fraternal organizations* and were the forerunners of modern trade unions.

In addition to the types of economic security provided by the guilds, the fraternal organizations and some trade unions would begin the practice of providing actuarially-based life insurance to their members. The friendly societies and the fraternal organizations would grow dramatically following the Industrial Revolution. By the beginning of the 19th century one of out every nine Englishmen belonged to one of these organizations.

Among early U.S. fraternal organizations that we are familiar with even into the present day were: the Freemasons (which came to America in 1730); the Odd Fellows (1819); Benevolent and Protective Order of Elks (1868); Loyal Order of Moose (1888); and the Fraternal Order of Eagles (1898).

The English "Poor Laws"

As the state began to assume responsibility for economic security, the English began the development of a series of "Poor Laws" adopted to provide help to the poor, as the problem of economic security was seen primarily as a problem afflicting the poor.

The English Poor Law of 1601 was the first systematic codification of English ideas about the responsibility of the state to provide for the welfare of its citizens. It provided for taxation to fund relief activities; it distinguished between the "deserving" and the "undeserving" poor; relief was local and community controlled; and almshouses were eventually established to house those on relief. The law was at once both generous and harsh. Generous in that it acknowledged the government's duty to provide for the welfare of the poor, but harsh in that it viewed the poor as highly undesirable characters and treated them accordingly.

There were a series of changes and "reforms" of the "Poor Laws" over the years, but this essential structure was the tradition the pilgrims brought with them when they journeyed to the New World.

Economic Security in America

When the English-speaking colonists arrived in the New World they brought with them the ideas and customs they knew in England, including the "Poor Laws." The first colonial poor laws were fashioned after those of the Poor Law of 1601. They featured local taxation to support the destitute; they discriminated between the "worthy" and the "unworthy" poor; and all relief was a local responsibility. No public institutions for the poor or standardized eligibility criteria would exist for nearly a century. It was up to local town elders to decide who was worthy of support and how that support would be provided.

As colonial America grew more complex, diverse and mobile, the localized systems of poor relief were strained. The result was some limited movement to state financing and the creation of almshouses and poorhouses to "contain" the problem. For much of the 18th and 19th centuries most poverty relief was provided in the almshouses and poorhouses. Relief was made as unpleasant as possible in order to "discourage" dependency. Those receiving relief could lose their personal property, the right to vote, the right to move, and in some cases were required to wear a large "P" on their clothing to announce their status.

Support outside the institutions was called "outdoor relief" and was looked upon with distrust by most citizens. It was felt that "outdoor relief" made things too easy on the poor who should be discouraged from the habit of poverty in every way possible. Nevertheless, since it was expensive to build and operate the poorhouses, and since it was relatively easy to dispense

cash or in-kind support, some outdoor relief did emerge. Even so, prevailing American attitudes toward poverty relief were always skeptical and the role of government was kept to the minimum. So much so that by as late as 1915 at most only 25% of the money spent on outdoor relief was from public funds.

Old Age in Colonial America

Although the need for economic security affects all ages and classes of society, one particularly acute aspect of this need is the problem of old age and the possibility of retirement after a long life of labor. Retirement, a feature of life we now take so much for granted, was not always readily available, and it was a struggle to develop adequate systems of retirement.

One of the first people to propose a scheme for retirement security that is recognizable as a forerunner of modern social insurance was Revolutionary War figure Thomas Paine. His last great pamphlet, published in the winter of 1795, was a controversial call for the establishment of a public system of economic security for the new nation. Entitled, *Agrarian Justice*, it called for the creation of a system whereby those inheriting property would pay a 10% inheritance tax to create a special fund out of which a one-time stipend of 15 pounds sterling would be paid to each citizen upon attaining age 21, to give them a start in life, and annual benefits of 10 pounds sterling to be paid to every person age 50 and older, to guard against poverty in old-age.

Civil War Pensions: America's First "Social Security" Program

Although Social Security did not really arrive in America until 1935, there was one important precursor, that offered something we could recognize as a social security program, to one special segment of the American population. Following the Civil War, there were hundreds of thousands of widows and orphans, and hundreds of thousands of disabled veterans. In fact, immediately following the Civil War a much higher proportion of the population was disabled or survivors of deceased breadwinners than at any time in America's history. This led to the development of a generous pension program, with interesting similarities to later developments in Social Security. (The first national pension program for soldiers was actually passed in early 1776, prior even to the signing of the Declaration of Independence. Throughout America's ante-bellum period pensions of limited types were paid to veterans of America's various wars. But it was with the creation of Civil War pensions that a full-fledged pension system developed in America for the first time.)

The Civil War Pension program began shortly after the start of the War, with the first legislation in 1862 providing for benefits linked to disabilities "incurred as a direct consequence of . . . military duty." Widows and orphans could receive pensions equal in amount to that which would have been payable to their deceased soldier if he had been disabled. In 1890 the link with service-connected disability was broken, and any disabled Civil War veteran qualified for benefits. In 1906, old-age was made a sufficient qualification for benefits. So that by 1910, Civil War veterans and their survivors enjoyed a program of disability, survivors and old-age benefits similar in some ways to the later Social Security programs. By 1910, over 90% of the remaining Civil War veterans were receiving benefits under this program, although they constituted barely .6% of the total U.S. population of that era.

In the aggregate, military pensions were an important source of economic security in the early years of the nation. In 1893, for example, the \$165 million spent on military pensions was the

largest single expenditure ever made by the federal government. In 1894 military pensions accounted for 37% of the entire federal budget.

But these figures based on the federal budget exaggerate the role of military pensions in providing overall economic security since the federal government's share of the economy was much smaller in earlier times. Also, there were features of the system which meant that many veterans did not receive any benefits. For example, former Confederate soldiers and their families were barred from receiving Civil War pensions. So in 1910 the per capita average military pension expenditure for residents of Ohio was \$3.36 and for Indiana it was \$3.90. By contrast, the per capita average for the Southern states was less than 50 cents (it was 17 cents in South Carolina).

Despite the fact that America had a "social security" program in the form of Civil War pensions since 1862, this precedent did not extend itself to the general society. The expansion of these types of benefit programs to the general population, under Social Security, would have to await additional social and historical developments.

The Company Pension

The idea of a formal pension plan through one's work is a fairly recent innovation in America. Although we now have 401K plans and IRAs and other employment related pensions, the use of these forms of economic security is low. Even today, less than half of America's workers are covered by any type of employment-related pension program (other than Social Security). In the early decades of this century, the percentage of workers anticipating an employment-related pension from their company or their union was only slightly more than 2%. So the company pension was an option not available to most Americans during the time prior to the advent of Social Security.

Prior to the rise of company pension plans, paternalistic companies sometimes "graduated" older workers to token jobs at reduced pay. A few paid some form of retirement stipend—but only if the company was so inclined, since there were no rights to any kind of retirement benefit. Most older workers were simply dismissed when their productive years were behind them.

The first formal company pension plan for blue-collar workers was introduced in 1882 by the Alfred Dolge Company, a builder of pianos and organs. Dolge withheld 1% of each workers' pay and placed it into a pension fund, to which the company added 6% interest each year. Dolge viewed providing for older workers as being a business cost like any other, arguing that just as his company had to provide for the depreciation of its machinery, he should also "provide for the depreciation of his employees." Despite Mr. Dolge's progressive ideas and his best intentions, the plan proved largely unsuccessful since it required a worker to spend many years in continuous employment with the company, and labor mobility, then as now, meant that relatively few workers spend their whole working career with one company. Not only was the Dolge Plan the first formal company pension system in industrial America, it was also one of the first to disappear when the company went out of business a few years later.

State Old-Age Pensions

Following the outbreak of the Depression, poverty among the elderly grew dramatically. The best estimates are that in 1934 over half of the elderly in America lacked sufficient income to be self-supporting. Despite this, state welfare pensions for the elderly were practically non-existent before 1930. A spurt of pension legislation was passed in the years immediately prior to passage of the Social Security Act, so that 30 states had some form of old-age pension

program by 1935. However, these programs were generally inadequate and ineffective. Only about 3% of the elderly were actually receiving benefits under these states plans, and the average benefit amount was about 65 cents a day.

There were many reasons for the low participation in state-run pension systems. Many elderly were reluctant to "go on welfare." Restrictive eligibility criteria kept many poor seniors from qualifying. Some jurisdictions, while having state programs on the books, failed to actually implement them. Many of the state-passed pension laws provided for counties within the state to opt to participate in the pension program. As a result, in 1929 of the six states with operating pension laws on the books only 53 of the 264 counties eligible to adopt a pension plan actually did so. After 1929, the States began enacting laws without county options. By 1932 seventeen states had old age pension laws, although none were in the south, and 87% of the money available under these laws were expended in only three states (California, Massachusetts and New York).

State old-age pensions were also subject to the vagaries of state politics. In Louisiana in 1937, for example, the Governor issued an executive order cutting the old-age pensions of black citizens in half during the months of June and July as an inducement for elderly black pensioners to return to the cotton fields to help with the harvest. In many places throughout the cotton-belt local officials simply closed the relief offices during the harvest season.

America Changes

Despite all of the institutional strategies adopted in early America to assure some measure of economic security, huge changes would sweep through America which would, in time, undermine the existing institutions. Four important demographic changes happened in America beginning in the mid-1880s that rendered the traditional systems of economic security increasingly unworkable:

- The Industrial Revolution
- The urbanization of America
- The disappearance of the "extended" family
- A marked increase in life expectancy

The Industrial Revolution transformed the majority of working people from self-employed agricultural workers into wage earners working for large industrial concerns. In an agricultural society, prosperity could be easily seen to be linked to one's labor, and anyone willing to work could usually provide at least a bare subsistence for themselves and their family. But when economic income is primarily from wages, one's economic security can be threatened by factors outside one's control--such as recessions, layoffs, failed businesses, etc.

Along with the shift from an agricultural to an industrial society, Americans moved from farms and small rural communities to large cities--that's where the industrial jobs were. In 1890, only 28% of the population lived in cities, by 1930 this percentage had exactly doubled, to 56%.

This trend toward urbanization also contributed to another significant shift in American society, the disappearance of the extended family and the rapid rise of the nuclear family. Today we tend to assume that "the family" consists of parents and children--the so-called nuclear family. For most of our history, we lived in "extended families" that included children, parents, grandparents and other relatives. The advantage of the extended family was that when a family member became too old or infirm to work, the other family members assumed responsibility for their support. But when the able-bodied left the farms to seek employment in the cities, often the parents or grandparents stayed behind. And when new immigrants first arrived in our land, it was often the breadwinner who first made the passage and only later could he bring the family over.

And finally, another significant change happened in the early decades of this century. Thanks primarily to better health care and sanitation, and the development of effective public health programs, Americans began to live significantly longer. In three short decades, 1900-1930, average life spans increased by 10 years. This was the most rapid increase in life spans in recorded human history. The result was a rapid growth in the number of aged persons, to 7.8 million by 1935.

The net result of this complex set of demographic and social changes was that America was older, more urban and more industrial, and fewer of its people lived on the land in extended families. The traditional strategies for the provision of economic security were becoming increasingly fragile.

The "Miracle" Of The Market

In the heady days of the Roaring Twenties another idea arose for providing economic security to average Americans--the presumed ever-upward march of the stock market.

From 1927 to 1929 the volume of shares traded on the stock market doubled, with much of it bought on "margin" where investors actually had to pay as little as 10% of the full price of a stock. By late 1929 the amount of stock debt outstanding was nearly three times larger than the total federal budget for that year. And in the 1920s it was not just the prosperous who invested their futures and fortunes in the stock market, many small investors bet their meager incomes on dreams of future riches.

In the spirit of the times people believed that the stock market could only go up. A week before the stock market crash a Yale University economist would say that the stock market had reached "what looks like a permanently high plateau." A major Wall Street financier published an article in the Ladies Home Journal entitled "Everybody Ought to Be Rich" in which he told the Journal's readers that they could be worth \$80,000 in ten years by investing only \$15 a week in the stock market (this was at a time when the average worker's take-home pay was \$1,300 per year). As one historian described the resulting era: ". . .such figures were extraordinary, magical, intoxicating. What was more, any number could play, and as many as a million did. They were, most of them, amateurs. . . .On their lunch hours, they crowded into the customer's rooms of the brokerage houses to watch their money, 'feverish young men and heated elders, eyes intent upon the ticker tape'."

Despite all the promises of unlimited wealth, all the expectations of an endless upward spiral in national income, and despite all those eyes intently watching the ticker tapes, the stock market would crash, and with it the "roaring twenties" would come to a screeching halt, and the economic security of millions of Americans would disappear overnight.

The Stock Market Crash & The Great Depression

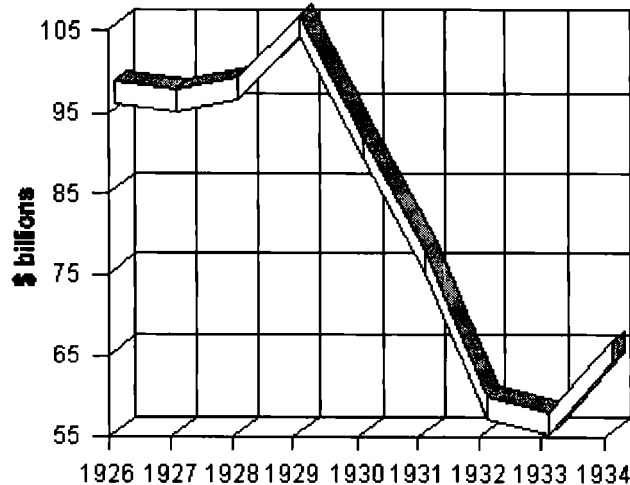
When the New York Stock Exchange opened on the morning of Thursday, October 24, 1929, nervous traders sensed something ominous in the trading patterns. By 11:00 a.m. the market had started to plunge. Shortly after noon a group of powerful bankers met secretly at J.P. Morgan & Co. next door to the Exchange and pledged to spend \$240 million of their own funds to stabilize the market. This strategy worked for a few days, but the panic broke out again the following Tuesday, when the market crashed again, and nothing could be done to stop it.

Before three months had passed, the Stock Market lost 40% of its value; \$26 billion of wealth disappeared. Great American corporations suffered huge financial losses. AT&T lost

one-third of its value, General Electric lost half of its, and RCA's stock fell by three-fourths within a matter of months.

As America slipped into economic depression, unemployment exceeded 25%; nine thousand banks failed; the Gross National Product declined from \$105 billion in 1929 to only \$55 billion in 1932. Compared to pre-Depression levels, net new business investment was a minus \$5.8 billion in 1932. Wages paid to workers declined from \$50 billion in 1929 to only \$30 billion in 1932.

Gross National Product

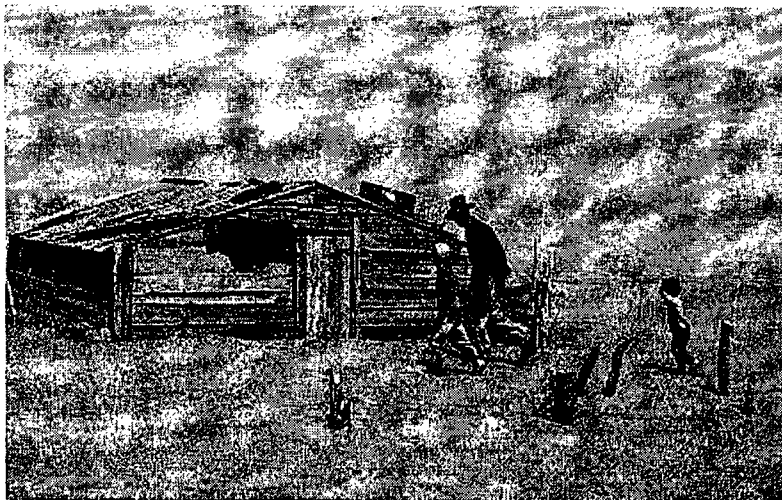


"In that summer of 1929 there was a big boom. But in the fall, the bottom fell out. People didn't believe it could happen, but it did. A few years later I met Will Durant of General Motors, and he told me that in the fall of 1929 he had gone to President Hoover and warned him that the market was going to collapse. But Durant was so anxious to make more money himself, he stayed in the market. That really shows you something. Here was a man who knew enough to tell the president of the United States what was going to happen and then did nothing himself. And that was the case with lots of people."

I.W. "Tubby" Burnham, Wall Street broker for more than 65 years

Radical Calls to Action

The decade of the 1930s found America facing the worst economic crisis in its modern history. Millions of people were unemployed, two million adult men ("hobos") wandered aimlessly around the country, banks and businesses failed and the majority of the elderly in America lived in dependency. These circumstances lead to many calls for change.



This photo of the "dust bowl" in Oklahoma was one vivid example of the suffering of the Depression. Photo by Arthur Rothstein for the Farm Security Administration-1936

Every Man a King:

Huey Long was Governor of Louisiana from 1928 to 1932 and was elected to the U.S. Senate in 1930. A nominal Democrat, Huey Long was a radical populist. He wanted the government to confiscate the wealth of the nation's rich and privileged. He called his program Share Our Wealth. It called upon the federal government to guarantee every family in the nation an annual income of \$5,000, so they could have the necessities of life, including a home, a job, a radio and an automobile. He also proposed limiting private fortunes to \$50 million, legacies to \$5 million, and annual incomes to \$1 million. Everyone over age 60 would receive an old-age pension. His slogan was "Every Man A King."

The Share Our Wealth program immediately became a movement. Clubs were formed in every state in the nation. By 1935 the movement claimed 27,000 local clubs with 7.7 million members.

The Townsend Movement:

Francis E. Townsend was a lean, bespectacled doctor from Long Beach, California. In 1933 he found himself unemployed at age 66 with no savings and no prospects. This experience galvanized him to become the self-proclaimed champion of the cause of the elderly. He devised a plan known as the Townsend Old Age Revolving Pension Plan, or Townsend Plan for short.

The basic idea of the Townsend Plan was that the government would provide a pension of \$200 per month to every citizen age 60 and older. The pensions would be funded by a 2% national sales tax. There were three eligibility requirements:

- the person had to be retired;
- "their past life is free from habitual criminality;"
- the money had to be spent within the U.S. by the pensioner within 30 days of receipt.

Dr. Townsend published his plan in a local Long Beach newspaper in early 1933 and within about two years there were 7,000 Townsend Clubs around the country with more than 2.2 million members actively working to make the Townsend Plan the nation's old-age pension system.

Fire & Brimstone:

Another influence on Depression-era public policy was the Union for Social Justice movement led by a radio preacher by the name of Father Charles E. Coughlin. Father Coughlin had a weekly radio program with 35-40 million listeners which he used to mix a little religion with a lot of politics. His enemies, in addition to the devil himself, were Roosevelt, international bankers, communists, and labor unions, and he was not shy in describing them in interchangeable terms. At the height of his popularity, Father Coughlin had a greater share of the weekly broadcast audience than Howard Stern, Rush Limbaugh, Paul Harvey and Larry King combined.

Although Father Coughlin's main effort was to pillory his enemies, he did have a broad program of social reforms that included a deliberate inflation of the currency and the nationalization of all banks. He was also an anti-Semite and isolationist whose views were so extreme that the Catholic Church finally censured him and forced him to cease his political activities. In 1936, Coughlin, along with Townsend and the remnants of Huey Long's Share the Wealth Movement, would join to form a third party to contest the presidential election in the hopes of preventing President Roosevelt from being re-elected.

A Writer & his EPIC:

Upton Sinclair was a famous novelist and social crusader from California, and an avowed Socialist, who in 1933 was asked by a dissident group of Los Angeles Democrats to help them draft a platform proposal for dealing with the state's economic problems. They were so impressed by Sinclair's plan--which he christened the End Poverty in California, or EPIC plan--that they persuaded him to change his registration to Democratic and to run for the party's nomination for governor in 1934.

Sinclair's EPIC scheme was a 12-point program to remake the Californian economy. It involved the issuance of scrip currency, the creation of large state-run bartering enterprises, a tax on idle land and floating a large state bond for \$300 million. Point 10 of the plan was a proposal to give pensions of \$50 a month to all needy persons over 60 who had lived in California for at least three years. There was a state pension plan in operation in California at the time, but its benefits were very low, and the eligibility requirements were so severe that most elderly Californians could not qualify. (This was true of many of the state pension programs around the country.) Sinclair's pension proposal was very popular because in one fell swoop it reduced the minimum age for pensions by 10 years, almost doubled their value, and eliminated restrictive eligibility requirements.

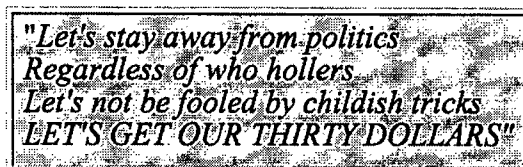
Sinclair's EPIC program, and especially its pension proposal, had a great appeal in Depression-weary California. Sinclair and his supporters organized EPIC clubs, published newsletters, formed ad hoc organizations and found a large chorus of supporters with unlimited enthusiasm for his ideas. In short order, Upton Sinclair's EPIC movement captured the Democratic party and Sinclair became the Democratic nominee for governor in the election of 1934. The party's platform became the EPIC program, including the pension plan.

When the votes were counted, Upton Sinclair got 37% of the vote, the Republican candidate got 48% and a third-party progressive candidate took another 13%. Had it been a two-man race, Upton Sinclair might have become Governor of California and the EPIC pension plan might well have become the California model.

Ham & Eggs:

During the 1930s California was a virtual hot-house for new pension schemes, and one of the most creative (and dubious) of the pension schemes of the 1930s went by the unlikely moniker of "Ham & Eggs." It got this name because one of the plan's organizers once, for no apparent reason, shouted out at a rally "Give us our ham and eggs!" and that struck the crowd as a fine name if ever they heard one.

Ham & Eggs was the brainstorm of a self-promoting huckster inaptly named Robert Noble. The scheme was based on a call for the state government to issue special currency called "scrip" that would be paid each week to every unemployed Californian age 50 and older. Questions about the validity of the economics did not dampen the enthusiasm of the movement's supporters, nor even did the numerous scandals, financial and otherwise, involving the movement's leaders. The eventual form of the plan called for the state to issue "\$30 every Thursday," which became the rallying cry of the movement. The simplicity of the movement was expressed in a bit of doggerel from the organization's newsletter the *National Ham and Eggs*:



*"Let's stay away from politics
Regardless of who hollers.
Let's not be fooled by childish tricks
LET'S GET OUR THIRTY DOLLARS"*

The Ham & Eggs movement had more than 300,000 members--and many more supporters. In 1938 the successful Democratic candidate for governor, Culbert Olson, openly supported the plan and a proposition was placed on the ballot to adopt the Ham & Eggs plan as California state policy. The proposition was narrowly defeated by a vote of 1,143,670 in favor to 1,398,999 against.

The Ham & Eggs movement was based on dubious economics, it was founded and run by a succession of characters of questionable integrity, it suffered from internecine rivalries and frequent scandals, and yet, at the peak of its influence in 1938, more than a million Californians, including the state's Governor, believed that it was the solution to the problem of income security for the aged. That such a poor candidate for a public policy would be so widely embraced is strong evidence of how hungry the public was for action to address the problem of income security for the elderly.

The Establishment Response

If America was to avoid the siren songs of the "radical calls to action," responsible political leaders would need to offer some persuasive alternatives. As the Depression grew, three general approaches emerged: do nothing; rely on voluntary charity; and expand welfare benefits for those hardest hit by the Depression.



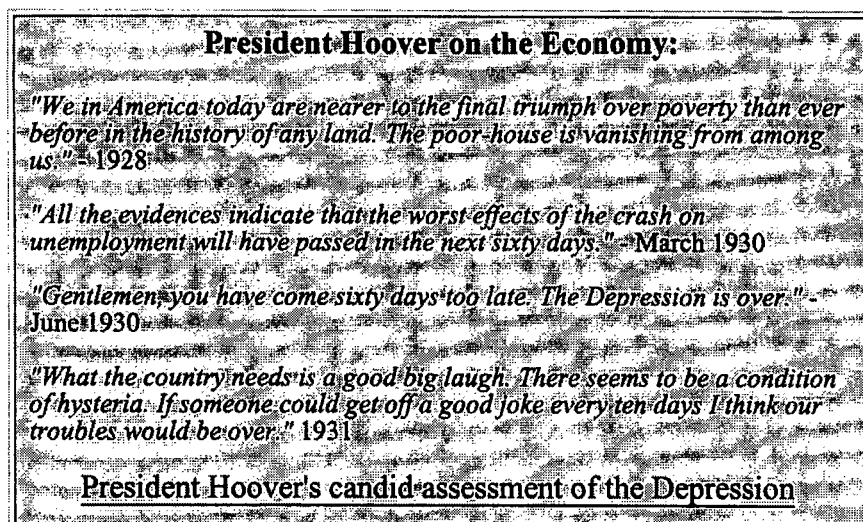
This classic photo of a Depression-era family captured the anguish of the times. Photo by Dorothea Lange for the Resettlement Administration, 1936.

[More photos of the Depression](#)

The Do Nothing Response

It seemed to many politicians and leading public figures that the Depression was just another dip in the economic cycle and that it would right itself soon enough. These voices counseled a restrained response, or no response at all. In the early aftermath of the stock market crash such views were especially common. On New Year's Day 1930, Secretary of the Treasury Andrew Mellon stoically observed: *"I can see nothing in the situation which warrants pessimism."* President Herbert Hoover defiantly stated: *"Any lack of confidence in the economic future or the basic strength of business in the United States is foolish."* And publisher Arthur Brisbane confidently predicated that *"All the really important millionaires are planning to continue prosperity."*

This view that nothing very much was wrong and nothing very much needed to be done, began to fade quickly as the Depression deepened. Even so, it held considerable sway in the early years after The Crash. President Hoover's own innate optimism would also cause him to make several statements about the economic crisis that seemed at considerable variance with the day-to-day experience of most Americans, which undermined the persuasiveness of this viewpoint.



Hoover's "Volunteerism"

President Hoover had a distinguished career in international volunteer relief work, and as an engineer, before becoming president. This gave him two firm convictions: that the economy was a mechanism like any other, that it operated according to principles not unlike the engineering principles behind any machine; and that the most effective way to combat economic insecurity was through voluntary relief. The first view, what we might call Hoover The Engineer, inclined him toward the "do nothing" response because he believed the economy would correct itself, just as any well-designed mechanical device would do. The second view, what we might call Hoover The Volunteer, shaped his other response to the Depression.

Hoover made a name for himself in international relief efforts before and after World War I. He helped feed millions of starving people, through the efforts of voluntary partnerships of government, business and private giving. He knew this kind of "volunteerism" worked, on a massive scale, and he saw no reason why it should not work to solve the problems of the Depression. So although he engaged in some limited federal relief efforts, his main response to the Depression was to advocate voluntary efforts, which never materialized.

The main problem with this strategy was that America was able to help rebuild Europe in the aftermath of World War I because America's economy was basically sound. In the Depression the total wealth of the nation was cut in half during the first three years after The Crash. This made voluntary charity an impossible ideal.

Expand Welfare

Even before the Depression hit, the States had been forced to deal with the problems of economic security in a wage-based, industrial economy. Workers Compensation programs were established at the state level before Social Security, and there were state welfare programs for the elderly in place before Social Security. Prior to Social Security, the main strategy for providing economic security to the elderly, in the face of the demographic changes discussed above, was to provide various forms of old-age "pensions." These were welfare programs, eligibility for which was based on proof of financial need. By 1934, most states had such "pension" plans. Even at the state level, however, these plans were inadequate. Some had restrictive eligibility criteria which resulted in many of the elderly being unable to qualify. The most generous plan paid a maximum of \$1 per day.

In the Congress, the consensus of conventional wisdom was for more old-age assistance like that available in the states. This was an attitude widely shared in both major political parties. Conservatives preferred this approach because it restricted government aid to the smallest

possible number of people (the truly needy) thus restricting the role of government in the provision of economic security. And because it fit with the idea that the Depression was a temporary problem that would soon go away, and when it went away the old-age pensions could go away too--again, reducing the role of government. This became the conservative viewpoint on economic security for the elderly. For example, Alf Landon, the Republican presidential candidate in 1936, advocated replacing Social Security with expanded welfare benefits in his losing presidential campaign.

The problem with this strategy was that the Depression didn't go away, and the underlying challenges to the traditional approaches to economic security were being driven by factors much larger and more permanent than the economic crisis of the 1930s. That is, this approach was based on the belief that nothing fundamental had changed about America and that the old tried and true approaches would continue to work. But as we saw in the section titled "America Changes," there were permanent and fundamental changes in our nation with the coming of the Industrial Revolution.

The "New" Alternative

With the coming to office of President Roosevelt in 1932, and the introduction of his economic security proposal based on social insurance rather than welfare assistance, the debate changed. It was no longer a choice between radical changes and old approaches that no longer worked. The "new" idea of social insurance, which was already widespread in Europe, would become an innovative alternative.

Social insurance, as conceived by President Roosevelt, would address the permanent problem of economic security for the elderly by creating a work-related, contributory system in which workers would provide for their own future economic security through taxes paid while employed. Thus it was an alternative both to reliance on welfare and to radical changes in our capitalist system. In the context of its time, it can be seen as a conservative, yet activist, response to the challenges of the Depression.

The Social Insurance Movement

The Social Security program that would eventually be adopted in late 1935 relied for its core principles on the concept of "social insurance." Social insurance was a respectable and serious intellectual tradition that began in Europe in the 19th century and was an expression of a European social welfare tradition. It was first adopted in Germany in 1889 at the urging of the famous Chancellor, Otto von Bismarck. Indeed, by the time America adopted social insurance in 1935, there were 34 European nations already operating some form of social insurance program. Philosophically, social insurance emphasized government-sponsored efforts to provide for the economic security of its citizens. The tradition of social insurance would come to be seen as the reasonable, practical alternative to the radical calls to action represented by Townsend, Long, Sinclair and the others.

Although the definition of social insurance can vary considerably in its particulars, its basic features are: the *insurance principle* under which a group of persons are "insured" in some way against a defined risk, and a *social element* which usually means that the program is shaped in part by broader social objectives, rather than being shaped solely by the self-interest of the individual participants.

Social insurance coverage can be provided for a number of different types of insured conditions, from disability and death to old-age or unemployment. We may find it obvious to think of death, disability or unemployment as conditions causing loss of income and which can be ameliorated by pooling of risk. It is at first a little odd to think of old-age or retirement in these same terms. But that is precisely how social insurance conceives of retirement, as

producing a loss of income due to cessation of work activity. So in terms of the eternal problem of economic security, social insurance endeavors to solve it by pooling risk assets from a large social group and providing income to those members of the group whose economic security is being threatened.

One of the first American books on social insurance was by a Columbia University economics professor named Henry Seager. Seager explained the principle of old-age security based on social insurance in his 1910 book, *"Social Insurance, A Program of Social Reform"*:

"As changing economic conditions are rendering the dependence of old people on their descendants for support increasingly precarious, so, on the other hand, new obstacles are arising to providing for old age through voluntary saving. . . The proper method of safeguarding old age is clearly through some plan of insurance. . . for every wage earner to attempt to save enough by himself to provide for his old age is needlessly costly. The intelligent course is for him to combine with other wage earners to accumulate a common fund out of which old-age annuities may be paid to those who live long enough to need it."

One of the earliest American advocates of a plan that could be recognized as modern social insurance was Theodore Roosevelt. In 1912, Roosevelt addressed the convention of the Progressive Party and made a strong statement on behalf of social insurance:

"We must protect the crushable elements at the base of our present industrial structure...it is abnormal for any industry to throw back upon the community the human wreckage due to its wear and tear, and the hazards of sickness, accident, invalidism, involuntary unemployment, and old age should be provided for through insurance." TR would succeed in having a plank adopted in the Progressive Party platform that stated: *"We pledge ourselves to work unceasingly in state and nation for: . . .The protection of home life against the hazards of sickness, irregular employment, and old age through the adoption of a system of social insurance adapted to American use."*

The Threshold of Change

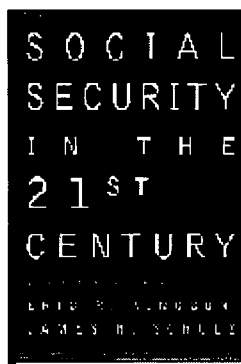
So as 1934 dawned the nation was deep in the throes of the Depression. Confidence in the old institutions was shaken. Social changes that started with the Industrial Revolution had long ago passed the point of no return. The traditional sources of economic security: assets; labor; family; and charity, had all failed in one degree or another. Radical proposals for action were springing like weeds from the soil of the nation's discontent. The social insurance movement, and a new President, would come together at the right moment in time to produce historic change. Social insurance would prove to be an idea whose time had come.



social security history page

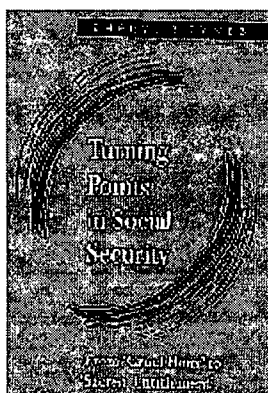
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Books of Interest



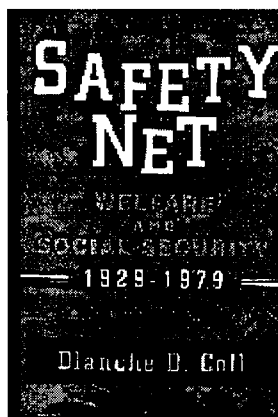
***"Social Security In The 21st Century"* edited by Eric Kingson & James Schulz. Oxford University Press. 1997.**

This book is a collection of thoughtful essays by acknowledged experts on some of the central Social Security policy issues of our time. Of special interest is the essay by Ed Berkowitz, "The Historical Development of Social Security in the United States."



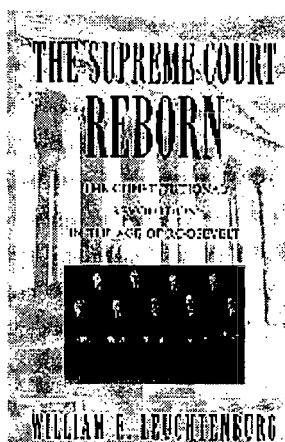
***"Turning Points in Social Security: From 'Cruel Hoax' to 'Sacred Entitlement' "* by Sheryl R. Tynes. Stanford University Press. 1996.**

Professor Tynes traces the development of Social Security from its founding in the 1930s to the 1990s. She provides some rich detail concerning just how controversial the new program was and a discussion of how it grew to become a "sacred entitlement."



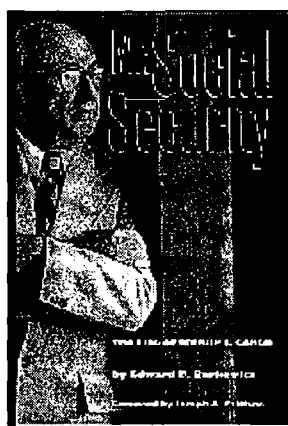
***"Safety Net: Welfare and Social Security 1929-1979"* by Blanche D. Coll Rutgers University Press. 1995.**

This scholarly yet readable history of Social Security focuses on the evolution of welfare policy in America in this century, especially the Aid to Families with Dependent Children (AFDC) program. It contains an excellent overview of the historical context in which the "welfare" provisions of the Act were developed and administered.



"The Supreme Court Reborn: The Constitutional Revolution in the Age of Roosevelt" by William E. Leuchtenburg Oxford University Press. 1995.

This is a highly-readable history of the Supreme Court during the Roosevelt era--including FDR's ill-fated "court-packing" scheme. Leuchtenburg shows that the court-packing proposal led to a change in climate on the Court that set-up the favorable ruling on Social Security.



"Mr. Social Security: The Life of Wilbur J. Cohen" by Edward D. Berkowitz, with a Foreword by Joseph A. Califano University of Kansas Press. 1995

This splendid biography of one of Social Security's most important figures, Wilbur Cohen, recounts not only Cohen's life but also the development of the Social Security program over the first five decades of its existence. ([Read a detailed review by the SSA Historian](#)).



"The FDR Years: On Roosevelt & His Legacy" by William E. Leuchtenburg. Columbia University Press. 1995.

This rich and captivating book contains nine essays on Franklin Roosevelt and the New Deal, by one of the nation's foremost Roosevelt scholars. In addition to interesting material on the development of the Social Security Act, the book contains fascinating material on Huey Long and the Townsend Movement.



Social Security Administration
Disability and Income Security Programs

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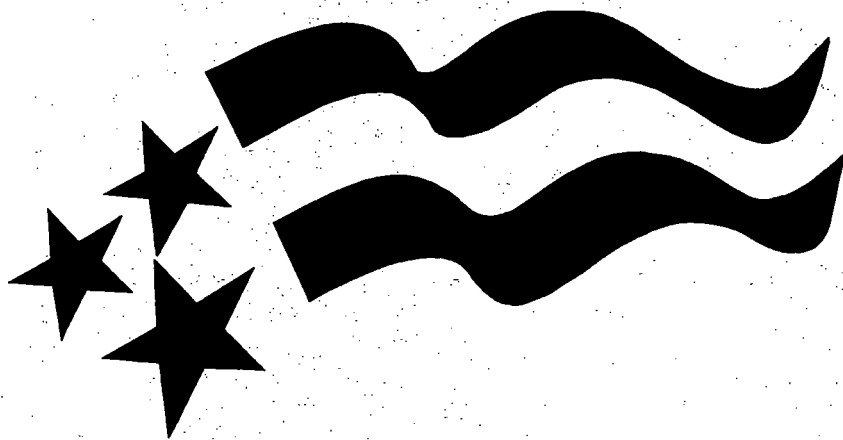
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Status of the Social Security and Medicare Programs

18pgs



Status of the Social Security and Medicare Programs

**A SUMMARY OF THE
1998 ANNUAL REPORTS**

**Washington, D.C.
April 1998**

**Social Security and Medicare
Boards of Trustees**

DI Fund

A "Snapshot"

This factsheet provides a snapshot of the most important features of the Social Security, Supplemental Security Income (SSI) and Medicare programs. If you need specific information about any one of these programs, call our toll-free number, **1-800-772-1213**, to ask for other Social Security publications or to speak to a Social Security representative. You also can reach us on the Internet. Type <http://www.ssa.gov> to access Social Security information.

The Social Security Number

The benefits you'll receive from Social Security will be calculated on the earnings and other information recorded under your Social Security number. So it's important that you always use the proper number. Also, you should make sure the name you use at work is the same as the name shown on your Social Security card. If you ever change your name, you should change the name on your Social Security card, too. Social Security does *not* charge for this service. Even young children have Social Security numbers because parents must show the number on their tax return to claim them as dependents.

Paying Social Security Taxes

If you work for someone else, your employer withholds Social Security and Medicare taxes from your paycheck, matches that amount, sends those taxes to the Internal Revenue Service (IRS) and reports your earnings to Social Security. If you're self-employed, you pay your own Social Security taxes when you file your tax return, and IRS reports your earnings to Social Security. You pay a rate equal to the combined employee/employer share, but there are special deductions you can take that offset your tax rate.

Earning Social Security "Credits"

As you work and pay taxes, you earn "credits" that count toward eligibility for future Social Security benefits. You can earn a maximum of four credits each year. Most people need 40 credits (10 years of work) to qualify for benefits. Younger people need fewer credits to qualify for disability or survivors benefits.

Figuring Social Security Benefits

Your Social Security benefit is a percentage of your earnings averaged over most of your working lifetime. Social Security was never intended to be your only source of income when you retire or become disabled, or your family's only income if you die. It is intended to supplement other income you have through pension plans, savings, investments, etc. Low income workers receive a higher rate of return than those in the upper income brackets, but a worker with average earnings can expect a retirement benefit that represents about 42 percent of his or her average lifetime earnings. To get a free estimate of the retirement, disability and survivors benefits that would be payable to you and your family, call Social Security at **1-800-772-1213**.

Social Security Benefits

There are five major categories of benefits paid for through your Social Security taxes: retirement, disability, family benefits, survivors and Medicare. (SSI benefits, which are *not* financed by Social Security taxes, are discussed in another section.)

Retirement

Full benefits are payable at age 65 (with reduced benefits available as early as 62) to anyone with enough Social Security credits. The age at which full benefits are paid will rise in future years. People who delay retirement beyond age 65 receive a special increase in their benefits when they do retire.

Disability

Benefits are payable at any age to people who have enough Social Security credits and who have a severe physical or mental impairment that is expected to prevent them from doing "substantial" work for a year or more or who have a condition that is expected to result in death. Generally, earnings of \$500 or more per month are considered substantial. The disability program includes incentives to smooth the transition back into the workforce, including continuation of benefits and health care coverage while a person attempts to work.

Family Benefits

If you are eligible for retirement or disability benefits, other members of your family might receive benefits, too. These include: your spouse if he or she is at least 62 years old or under 62 but caring for a child under age 16; and your children if they are unmarried and under age 18, under 19 but still in school or 18 or older but disabled. If you are divorced, your ex-spouse could be eligible for benefits on your record.

Survivors

When you die, certain members of your family may be eligible for benefits if you earned enough Social Security credits while you were working. The family members include: a widow(er) age 60 or older, 50 or older if disabled or any age if caring for a child under age 16; your children if they are unmarried and under age 18, under 19 but still in school or 18 or older but disabled; and your parents if you were their primary means of support. A special one-time payment of \$255 may be made to your spouse or minor children when you die. If you are divorced, your ex-spouse could be eligible for a widow(er)'s benefit on your record.

Medicare

There are two parts to Medicare: hospital insurance (sometimes called "Part A") and medical insurance (sometimes called "Part B"). Generally, people who are over age 65 and getting Social Security automatically qualify for Medicare. So do people who have been getting disability benefits for two years. Others must file an application. Part A is paid for by a portion of the Social Security tax of people still working. It helps pay for inpatient hospital care, skilled nursing care and other services. Part B is paid for by monthly premiums of those who are enrolled and from general revenues. It helps pay for such items as doctor's fees, outpatient hospital visits, and other medical services and supplies.

Supplemental Security Income Benefits

SSI makes monthly payments to people who have a low income and few assets. To get SSI, you must be 65 or older or be disabled. Children as well as adults qualify for SSI disability payments. As its name implies, Supplemental Security Income "supplements" your income up to various levels—depending on where you live.

The federal government pays a basic rate and some states add money to that amount. Check

with your local Social Security office for the SSI rates in your state. Generally, people who get SSI also qualify for Medicaid, food stamps and other assistance.

SSI benefits are *not* paid from Social Security trust funds and are *not* based on past earnings. Instead, SSI benefits are financed by general tax revenues and assure a minimum monthly income for elderly and disabled persons.

When And How To File For Social Security Or SSI

You should file for Social Security or SSI disability benefits when you become too disabled to work and for survivors benefits when a family breadwinner dies. When you're thinking about retirement, you should talk to a Social Security representative in the year before the year you plan to retire. It may be to your advantage to start your retirement benefits before you actually stop working.

To file for benefits, get information or speak to a Social Security representative, call our toll-free number—**1-800-772-1213**. You also can use that number to set up an appointment to visit your local Social Security office. Our lines are busiest early in the week and early in the month, so, if your business can wait, it's best to call at other times.

When you file for benefits, you need to submit documents that show you're eligible, such as a birth certificate for each family member applying for benefits, a marriage certificate if your spouse is applying and your most recent W-2 form (or tax return if you're self-employed).

The Social Security Administration treats all calls confidentially—whether they're made to our toll-free numbers, or to one of our local offices. We also want to ensure that you receive accurate and courteous service. That is why we have a second Social Security representative monitor some incoming and outgoing telephone calls.



Social Security Administration

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Social Security

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Related Links:

- [Social Security Reality Check](#)
- [Advocacy Center for Social Security](#)
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Social Security is not in crisis. It can pay full benefits on time until 2032. Beyond that, Social Security can pay about 75% of benefits promised today in tomorrow's dollars.

Social Security is not an investment program. It's a social insurance program that pools risk. Social Security's valuable protection includes **retirement, disability, and survivor benefits.**

We need a full and open debate on the future of Social Security. Let's not make choices based on a false notion of an imminent crisis. We owe that to our children and grandchildren.

Some of those talking about privatizing Social Security mean looking into different ways to invest the Trust Funds. AARP supports investing some percentage of the Trust Fund reserves in investments other than just Treasury bonds provided it is in ways that strengthen, not undermine, Social Security.

A number of proposals have been made for some form of individual private accounts. Some would substitute for the current system; some would be in addition to (or on top of) the current system; others would reduce the current program and partly supplement the current system. Before any adjustments are made, we need to ask a few questions about privatization:

- What if a person lives longer than his/her money?
- What if a person retires at the end of a market downturn or a person's portfolio doesn't sell at the level he/she expects when he/she retires?
- What if a person gets a divorce? Or becomes disabled?
- Will the money be there when a person retires? 401(k) and IRA holders have early access to their retirement funds, and about 75% of lump sums are not saved.
- What about poor or unwise investors? Will we take care of them? How would we pay for that?
- What is the impact on pension and savings plans?

Changing over to a personal individual account system would cost over \$7 trillion according to the Social Security Administration. These costs have to be financed through tax increases and/or additional government borrowing. In effect, current workers will be asked to pay twice -- once to support today's beneficiaries and again to support their own retirement.

Administrative costs will also be high for 140 million individual accounts that will be created. Fees will be particularly large for small accounts resulting in less money actually invested for the individual. Wise investors know the importance of being diversified.

The Social Security solvency discussion focuses on an important issue that deserves thorough review and evaluation in the near future. **Any Social Security Solvency package must:**

- 1. Maintain current features of the program that have contributed to its ongoing viability by:**
 - maintaining the earned-right nature of the benefit (beneficiaries earn the right to a benefit by working a minimum of ten years in Social Security-covered employment)
 - maintaining the link between a worker's pay and time in the labor force and that worker's benefit
 - providing a benefit to all who have contributed to the system and meet the qualifications for a benefit
 - maintaining the self-financed nature of the system and
 - requiring contributions from employers and employees
- 2. Provide a spectrum of benefits to protect workers and their families**
 - maintaining a progressive benefit formula that provides a higher replacement rate for low-wage earners
 - continuing full and automatic adjustments of benefits for changes in the cost of living
 - continuing to provide disability protection
 - continuing to provide protection for families of workers through dependent and survivor benefits and
 - maintaining early retirement benefits that, while reduced, are the actuarial equivalent of the amount received at full retirement age
- 3. Provide Social Security as a base of retirement income for as many workers as possible by:**
 - requiring participation from all workers -- including newly hired state and local workers (prospective only, but provides an opportunity for those workers still in non-covered employment to participate as self-employed Social Security-covered workers for the remainder of their lives in non-covered

- employment)
- maintaining Social Security as a stable defined benefit foundation upon which other components of income security (pensions and individuals savings) can be built.

All who participate in the Social Security system (beneficiaries, employers, and employees) should share the sacrifice that will be required to achieve long-term solvency.

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Questions/Observations/Issues Regarding the President's Social Security and Medicare Funding Proposals as They Relate to Disability

1. The President's proposals are revenue proposals not program reform proposals. There are significant improvements to be made on the expenditure side as well as the revenue side that could affect the future viability of these programs.
2. What's on the table and what is not? Is reform of the SSDI program on the table or has that been put off for now? Directly address this
3. How much of the proposed surplus designated for Social Security would go to the Disability Insurance Trust Fund as well as the retirement fund? accounting matter
4. To what extent could USA accounts also be used to meet the income needs of individuals who meet the statutory definition of disability under the Social Security Act?
5. Would any of the assets resulting from investing in the equities market be available to the disability retirement fund as well as the retirement fund?
6. The earnings test for retirees is to be eliminated? Will there be a change in the earnings test for ~~SSDI~~ SSDI beneficiaries as well? Separate IRM

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Rep. Mace of states -
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Office of Disability and Income Security Programs Seminar
Social Security Solvency and Disability Insurance

Monday, January 25, 1999
Hyatt Regency Washington on Capitol Hill, Washington, DC

Community Respondent Remarks

Bryon R. MacDonald
Benefits Counselor/Community Advocate
The Center for Independent Living Berkeley/Oakland
Co-Chair, Social Security Subcommittee
National Council on Independent Living

There are key guiding principles in this debate that are core

principles of the independent living movement and the National Council on Independent Living (NCIL). NCIL has not yet formally engaged its membership in developing a specific position paper on the solvency issue, so my comments today are mine and not official NCIL position.

**The full inclusion of people with disabilities in our society.
Consumer directed policy development when policy affects people
with disabilities.**

These two NCIL principles necessitate that we have an educated and activist consumer involvement in this debate. In NCIL literature on advocacy, you will find the quote from John McKnight: "Revolutions begin when people who are defined as problems gain the power to redefine the problem." People with disabilities are no longer the problem--we are in the fabric of American life. This is American policy today.

For over three years, the disability community, and many of its members here today, have engaged in policy development and consensus building in and out of government on the issues of employment and health care as they relate to the Social Security Disability Programs. The net result of this initiative over time will be access to the middle class for thousands more people with disabilities. The initiative is symbolized by the Jeffords/Kennedy/Roth/Moynihan Work Incentives Improvement Act of 1999.

I mention this for a specific reason. After three years, we are *still* building the national consensus on this initiative, consensus that we will need for passage of the bipartisan legislation. It is a fact of life in America that we don't get major reform without major consensus building. This is good. Laura Hershey, a Colorado disability advocate, defines advocacy, paraphrasing the real estate credo, as "Education, Education, Education."

Gene Sperling, the president's top economic adviser, said recently: "The only way to get a full Social Security reform accomplished is if we can pull together some form of bipartisan spirit that would allow some of the tougher choices to be made together that may be too difficult for either party to make alone."

While I think we still have a long way to go, I think the solvency debate is in relatively good shape. The disability community has a large number of email list serves that are debating the issue. Women's groups, labor groups, the AARP and the disability community and others are mobilizing their constituents. Representative Matsui of California and a representative from a leading mutual fund both stated on CSPAN this week that the benefits for people with disabilities and dependents must be protected. The rhetoric at least is for protecting the progressive and universal nature of this winning agency. There has not been targeted public debate that the disability programs must go or be jeopardized or anything close to that. However, because everyone's attention is pulled in so many directions, most folks don't get attracted to an issue until they see their self-interest involved or threatened. It is both for people with disabilities. As a community, we must rise to this occasion as activist participants. There is to be a joint House and Senate Hearing in March on the solvency debate. We should be at that table.

Through education, dialogue and participation in all kinds of local forums we can assess our common guiding principles and the solutions we think will work to protect them. Yes, Social Security is a progressive and universal insurance program to assure a base of family income security, available and reliable whenever the need arises due to death or disability. What is clear from Marty Ford's comments from The Arc and her written remarks is that the devil is in most every detail of this debate. There is critical need to reduce the learning curve on this issue through out the disability community. We think the Administration has helped us to do that with our participation at the December 8th White House Conference on Social Security and at this seminar.

What other Social Security strengths do we want to protect? In SSA today the benefit formula, and benefit structure is common to retirees, spouses and people with disabilities. Altering that commonality in structure, even in the professed interest of "protecting" the disability programs' solvency, could be disastrous for people with disabilities.

One event, a death or an onset of disability, in a family can trigger cash benefit payments to a number of individuals. It is hard to see how private and separate individual accounts can assure the same reliability we have today with this package.

In the president's State of the Union address, he stated that what we do not want is quote "drastic" cuts in current benefits. Well, quote "modest cuts" unquote may be part of a single woman's rent money or an adult child with a disability's rent money, his parents being deceased.

If it were left to one statistic to mandate that we develop sound consensus policy on the solvency issue it is this from Framing The Social Society Debate, (NASI, 1998). We learn in Table 2-2 that 66% of FICA paying taxpayers earn less than \$22,799 per year.

Many adults with disabilities who work are well within this category. In the world's richest country, this is not income with a large chunk of discretionary income. I did not save a dime when I made 22K a year, even as a single person. The progressive insurance aspects of Social Security are for every one of those wage earners, an overwhelming majority of American workers. Further, a provocative article in Barron's recently asked this leading question, with 2/3 of current stocks in the stock market now housed in pension funds: "Because stocks earn their value to their owners when they sell them, where are all the buyers when the baby boom retires and sells its stocks to live on?" Are we to add the US government as a new mega stockholder to a new piece of social and economic engineering that has not yet played itself out?

Two other principles under review. From the NASI materials: "Changes in Social Security will also affect Medicare, labor force participation, and savings. Reforming Social security is an urgent priority." There is growing consensus on this point that reform now will be more advantageous than waiting until the reforms necessitate painful decisions. Also, another principle that seems to be receiving wide consensus is that nurturing an expanding economy is a major component of solving these problems.

The Institute for America's Future, an ad hoc coalition on the solvency debate, has developed a Social Security Information project and very helpful email list serv, posting a large volume of articles on the debate from the public media. This coalition of labor, AARP, women's groups, the disability community and others is organizing community forums all over the country in February and March. This information is attached to my remarks.

The devil is in the details with this issue. While I have not outlined a specific reform agenda, if there were a sensible road map to it, I think it would be that the hybrid of many adjustments, in the aggregate, should address the solvency issue. I also think the tax code should offer further incentives for individual savings, especially below certain income levels. I think contributions to the new Roth IRA should be non-taxable going in.

What do we need? We need massive education and outreach with our consumers. We need an activist involvement in the debate, and finally, we need the development of more consensus position papers from the disability community.

Thank you for allowing me to participate today.



Subj: **ssip_list Digest - V01 #36**
Date: 1/22/99 12:03:48 AM Pacific Standard Time
From: ssip_list-request@lists.ourfuture.org
Reply-to: ssip_list@lists.ourfuture.org
To: ssip_list@lists.ourfuture.org
ssip_list Digest Fri, 22 Jan 1999 00:02:42 -0800 V01 #36

Today's topics:
'Illinois Community Summits Info.'

Date: Thu, 21 Jan 1999 03:53:35 -0500
From: "Social Security Information Project" <matzzie@ourfuture.org>
Subject: Illinois Community Summits Info.

Social Security Information Project
Institute for America's Future

January 21, 1999

Community Summits on Social Security are beginning to happen. The idea, outlined in the AFL-CIO action plan we recently sent out, is to hold public meetings around the country which bring together labor activists and other local leaders of churches, women's groups, seniors, civil rights organizations and young people – to discuss a joint effort to save Social Security.

The AFL-CIO reports that one very successful Community Summit was held in Pennsylvania last week, with AFL-CIO Secretary Treasurer Rich Trumka speaking.

Three more Community Summits have been organized in Illinois for early April. If your local leaders in the state want to participate, tell them to call Erica Hade at the Illinois AFL-CIO:
Chicago 312-251-1414
Springfield 217-544-4014

Here are the details on each of the events:

Metro-East (Collinsville)
February 4, 1999
1-4 pm at IBEW Local 309
2000 Mall Street, Rt. 157

Peoria
February 5, 1999
9 am to noon
Peoria Labor Temple, Room 19
400 NE Jefferson

Chicago
February 6, 1999
9 am to noon
Plumbers Local 130
1340 W. Washington

Social Security Solvency and Disability Insurance

**Presentation to
SSA Office of Disability and Income
Security Programs and
National Academy of Social Insurance
January 25, 1999**

**Wendell E. Primus
Director of Income Security
Center on Budget and Policy Priorities
Email: primus@cbpp.org
Tel: (202)408-1080 Fax: (202)408-1056
<http://www.cbpp.org>**

CLASSIFICATION OF VARIOUS INDIVIDUAL ACCOUNT PLANS

- **Carve-Out**

(Portion of current payroll tax devoted to individual accounts.)

- National Commission on Retirement Policy

- Kolbe/Gregg

- Stenholm/Breaux

- Personal Security Accounts

- Schieber/Weaver

- Cato/Heritage

- **Claw-Back**

(Budget surpluses devoted to establishing individual accounts and Social Security benefits reduced by 75% or so when dollars are withdrawn from the account.)

- Feldstein

- Gramm

- **Add-On**

- Mandatory

- Gramlich

- Voluntary

- Ball/Pomeroy

- Moynihan

- Mandatory/ Voluntary -- Administration

- updated from budget surplus with progressive matching requirements for individuals.

DISABILITY AFFECTED IN TWO WAYS

1. Restoring solvency by benefit cuts.
2. Different types of account plans have different effects.

NATIONAL COMMISSION ON RETIREMENT POLICY PLAN

- Proposal developed by panel of Members of Congress and private citizens organized by Center for Strategic and International Studies
- Introduced in Congress by Senators Judd Gregg and John Breaux and by Reps. Jim Kolbe and Charles Stenholm
- Redirects two percentage points of the 12.4 percent payroll tax from the Social Security trust fund to individual accounts managed by the federal government and invested in the private market
- Increases the retirement age to 70 by 2029 and the early retirement age to 65 by 2029. By 2075 the increases would reach 72½ and 67½
- Extends the period over which earnings are averaged for benefit computation purposes from 35 years to 40 years
- Reduces the Cost of Living Adjustment
- Extends Social Security coverage to new state and local employees
- Reduces spouse benefits from 50 to 33 percent of the worker's benefit
- Reduces the amount of wages replaced by benefits for high- and moderate-wage workers
- Provides a minimum benefit of 100 percent of poverty for those who work 40 years and 60 percent of poverty for those who work 20 years
- Eliminates the earnings test
- The two percent carve out increases the long-term deficit from 2.2 percent of payroll to four percent and necessitates reductions of 33 percent in the guaranteed Social Security benefit for the average-wage worker retiring at age 65 in 2025 and 48 percent in 2070.

Major Social Security Benefit Provisions of H.R. 4824 and S. 2313

Provisions	Effect on Disability and Survivors Benefits
Change the formula for calculating the primary insurance amount	Reduces benefits for most beneficiaries, with a reduction of 18.5 percent for a worker earning average wages before becoming disabled or dying
Minimum benefit provision	Protects the benefits of survivors and disabled workers with low earnings and strong labor force attachment
Modify cost-of-living adjustments so they rise more slowly than the current CPI does	Affects benefits of all beneficiaries, including the disabled and survivors
Reduce the number of "drop-out years" and lengthen the wage averaging period	Reduces survivors benefits
Raise the retirement age	Primarily affects retirement benefits and the benefits of survivors of retired workers
Include state and local employees	No effect

Determination of the Monthly Benefit for an Average-wage Worker Who Becomes Disabled Under H.R. 4824 and S. 2313, When Fully Implemented

Formula Using Worker's Average Indexed Monthly Earnings (AIME)	Average-Wage Worker
90% of first \$477	\$429.30
21.36% of AIME between \$477 and \$2,875 (worker's AIME is \$2,162)	\$359.92
10.01% of AIME over \$2,875	\$0
Monthly benefit under H.R. 4824 and S. 2313	\$789.00
Monthly benefit under current law (see Appendix Table 1)	\$968.00
Reduction in monthly benefit	-\$179.00
Percentage benefit reduction	-18.5 %

Special Concern: Adults Who Have Been Disabled Since Childhood Would be Affected Most Adversely

THE FELDSTEIN PLAN

- The government would contribute two percent of payroll (up to the Social Security earnings limit) to individual accounts from general revenues.
- The accounts would be invested in the private market by financial investment companies.
- Upon retirement, the worker's Social Security benefit would be reduced \$0.75 for each \$1.00 of the account the individual withdraws. The account must be annuitized.
- Feldstein proposes that these accounts be financed with the federal budget surplus through about 2015.
- Feldstein acknowledges that after the surplus is exhausted, the individual accounts would have to be financed with new taxes or cuts in the non-Social Security budget through 2030.
- Feldstein asserts that by 2030, the individual account plan would be self-financing *if*
 - national savings grow as projected by Feldstein,
 - corporate taxes paid to the federal government on individual account earnings increase as a result of this growth and
 - corporate taxes are used to pay for the tax credit.

WEAKNESSES OF THE FELDSTEIN PLAN

- **Increasing Retirement Income at the Expense of Other Needs**
 - Increases retirement income of the elderly, especially the affluent elderly
 - Initially uses most of the surpluses and then requires cuts in other programs when surpluses wane unless taxes are raised or government borrowing increases (i.e., deficit spending is used)
 - Reduces the ability of Congress to finance and other needs.
Examples:
 - Medicare's funding gap,
 - education,
 - expanding health care for non-elderly, and
 - basic research to promote productivity
- **Boosting Retirement Income Without Paying for It**
 - Promises more but does not describe how it would be financed
 - CBO rejects claim that plan would pay for itself
 - Social Security actuaries project that the plan would reduce budget surpluses and then increase deficits by \$6.4 trillion over the next 25 years

- **Inequitable Distribution of Benefits**

- Increases benefits much more for the affluent elderly than for those with modest incomes

Wage Earner	Average Monthly Earnings	Social Security Benefit	Monthly Income from Private Account	Total Pension Income Under Feldstein	Change in Pension Income
Low Earner	\$1,000	\$560	\$240	\$620	+\$60/+11%
High Earner	\$5,600	\$1,375	\$1,340	\$1,710	+335/+24%

Source: Henry Aaron and Robert Reischauer, *Countdown to Reform*, p.127.

- **Potential to Undermine Long-Term Political Viability of Social Security**

- Middle- and high-wage workers will receive small Social Security benefits. Why should they continue to support or care about Social Security?
- Social Security has to pay for the benefits of those already retired, disability, and life insurance benefits, and the more adequate benefits provided to retirees with low wages. Since individual accounts have none of these costs, they will appear to many middle-class people to provide a better rate of return even though these accounts are not comparable to Social Security. In the long run, these accounts are likely to undermine the political viability of the Social Security program.
- These problems may be true for any individual account plan; but they are particularly acute under the Feldstein plan because many middle-income retirees would receive a larger benefit from their account than from Social Security.
- 75 percent "tax rate" on income from individual account may be politically unsustainable

- **Would This Plan Boost National Savings? CBO says No.**

- Compared to current law, the plan would likely reduce national saving. The individual accounts would reduce the budget surplus and then increase the deficit once the surplus runs out.
- While workers would be required to save through individual accounts, they would probably reduce their other forms of retirement saving.
- It is unlikely that legislation barring early withdrawal or borrowing from individual accounts could be sustained over time.

CONCLUSION

- 1. Dilemma created by carve-out plans because they are reducing an insurance benefit to pay for a pension plan or retirement benefit.**
- 2. Political sustainability argument and implication for social insurance features of social security.**
- 3. Many of the details are unavailable or have not been thought through.**
- 4. Impacts are substantial.**

Balancing Security and Opportunity:

The Challenge of Disability Income Policy

Jerry L. Mashaw

and

Virginia P. Reno

Editors

Report of the Disability Policy Panel
Washington, D.C.
1996

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The Fit Between Disability and Retirement Policy

Retirement age policy in the Social Security program has been a topic of some debate and that debate has implications for the disability program. Issues of concern are: should the age at which full retirement benefits are paid be raised? If so, should the early retirement age be raised? Or should early retirement benefits be further reduced? In either case, for people facing the decision to claim early retirement benefits, what should be the relationship between disability benefit amounts and early retirement benefits?

RETIREMENT AGE POLICY

Today

The Social Security normal retirement age (NRA) — the age at which full Social Security retirement benefits are payable — is 65. Early retirement benefits are first available at age 62, the so-called earliest eligibility age (EEA). Early retirement benefits, however, are actuarially reduced to take account of

the longer period over which they will be paid.¹ Benefits claimed at age 62 are reduced by 20 percent.² The rationale for the reduction in early retirement benefits when it was first implemented was that the choice to retire early is voluntary. The general idea was neither to penalize nor reward early retirement.

Disability benefits can be claimed at any time up to age 65 and are calculated by the same formula used for retirement benefits that are first received at the NRA. For those who claim benefits between age 62 and age 65, retirement benefits are reduced, while disability benefits are not. This has led to questions about whether the difference in amounts between the two kinds of benefits creates an undue incentive for older workers to claim disability benefits instead of early retirement benefits.

In the Future

The 1983 amendments to the Social Security Act scheduled increases in the age at which full benefits are paid. The NRA is scheduled to rise gradually from age 65 to 66 in the years 2000 through 2005, and then to rise again from age 66 to 67 in the years 2017 through 2022.³

The EEA remains age 62, but the reduction in benefits at that age will be larger. When the age-66 NRA is fully phased in, the reduction in benefits at age 62 will be 25 percent. When the age-67 NRA is fully phased in, the benefit at age 62 will be reduced by 30 percent.

1. That is, when the early retirement option was first made available under Social Security, the reduction in early retirement benefits was set so that a retiree of average life expectancy would receive the same in lifetime benefits whether the benefits were claimed early or at the NRA.
 2. Retirement benefits are reduced by five-ninths of 1 percent for each month they are received before age 65, or about 6.7 percent per year.
 3. The NRA is scheduled to rise by two months per year for those reaching age 62 in the years 2000 through 2005. It then remains at age 66 until it rises again by two months per year for those reaching age 62 in the years 2017 through 2022.

In 1983, the rationale for raising the NRA was two-fold. First, it lowered future benefit costs and was part of a package to restore long-range solvency to the Social Security trust funds. Second, part of the increased future cost of retirement benefits was attributed to increased life expectancy of persons after age 65. Because retirees are living longer, aggregate retirement benefits cost more. Raising the age at which full benefits would be paid was viewed as a way to allocate some of that increased life expectancy to a longer work life, as well as to a longer retirement. If future retirees delayed their retirement by a year or two, their monthly benefit would be equivalent to what it would have been without the policy change.

At the time, the question was considered whether to raise the EEA from age 62 to 63 or 64 along with the NRA. The choice between raising the EEA or keeping it at age 62 and increasing the early retirement reduction had roughly the same effect on long-range costs. The choice was made to keep benefits available at age 62 with the larger benefit reduction.

A second question is whether the scheduled 25-percent or 30-percent differential between disability and early retirement benefits will pose too great an incentive for future workers at age 62 or older to claim disability benefits instead of retirement benefits.

If in the future large numbers of early retirees are awarded disability benefits, the policy of raising the NRA will not yield its expected savings in long-range Social Security costs. This concern has led some to suggest that disability insurance (DI)

benefits should be lowered so as to reduce the disparity between early retirement benefits and disability benefits.

Proposed Changes

Because the Social Security trust funds are not now in long-range balance, proposals have been made to further increase the NRA. This again raises the question of what the EEA should be and how early retirement benefits should fit with disability benefits claimed at or after the early retirement age.

It is not the Disability Policy Panel's charge to recommend changes in retirement-age policy. The Panel does, however, have a disability policy perspective on questions about how disability benefits should fit with retirement-age provisions in current law and with proposals to change retirement-age policy.

DISABILITY AND EARLY RETIREMENT Today

The Panel first examined whether the 20-percent reduction in early retirement benefits in effect today poses a powerful incentive for workers to claim disability rather than retirement benefits between ages 62 and 65.

Current experience with the 20-percent differential suggests it does not appear to. There is no clustering of disability benefit awards around early retirement age; in fact, the number of individuals awarded disability benefits actually declines after early retirement benefits are available (table 10-1). Further, the number of disability awards is small relative to the number of early retirees. For every 100 early retirement benefits awarded at ages 62 to 64, there were four disabled-worker benefits awarded at those ages.

Some of those awarded disability benefits at ages 62 or older had actuarial reductions in their disability benefits. This reduction would occur if they received early retirement benefits before their disability claim was processed and allowed.⁴

4. Under current law, individuals between ages 62 and 65 can file for both early retirement benefits and disability benefits. They can receive reduced early retirement benefits while their disability claims are being processed. If the DI claim is allowed and the effective date for the disability benefits is before the date they began to receive early retirement benefits, they qualify for full benefits. If the effective date for DI is after they began receiving early retirement benefits, their benefit is actuarially reduced for the number of months they received early retirement benefits before the effective date of their disability benefits.

Table 10-1. Social Security Benefit Awards by Single Years of Age, 1994

Age in month of award	Number of benefit awards (in thousands)			
	Retired	Disabled workers		
		Total	Reduced	Full
55	—	23.2	—	23.2
56	—	21.8	—	21.8
57	—	24.0	—	24.0
58	—	25.1	—	25.1
59	—	27.9	—	27.9
60	—	25.9	—	25.9
61	—	25.3	—	25.3
62	850.3	21.3	10.9	10.4
63	114.0	12.9	9.3	3.6
64	175.2	9.4	7.6	1.8
65	395.3	0.9	0.8	0.1
DI conversions	169.0	—	—	—
New	226.3	0.9	0.8	0.1

Abbreviation: DI = Social Security disability insurance.

Source: Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin* (Washington, DC: U.S. Government Printing Office, August 1995), tables 6.A4 and 6.A5, pp. 268 and 269.

The most striking findings in the trends in disability and early retirement benefit awards by single year of age are:

- There appears to be a pent-up demand for early retirement benefits at the EEA. By far, the largest number of benefit awards are for retirement benefits at age 62.
- At age 62 and thereafter, the number of persons awarded disability benefits declines quite sharply. Thus, the early retirement reduction does not seem to pose a powerful incentive for older workers to seek and receive disability rather than early retirement benefits.

There are a number of reasons why disability benefits are less attractive than early retirement benefits, despite the fact that early retirement benefits are actuarially reduced. The incentives and

deterrents to claiming benefits are summarized in figure 10-1. Deterrents to claiming disability benefits include:

- A more difficult application process, including the need to provide medical and vocational evidence of disability. Applicants must provide up-to-date medical evidence from their own doctor or undergo an exam by a physician paid by the Social Security Administration (SSA).
- The outcome of the disability claim is uncertain.
- There is a five-month waiting period after earnings stop for disability benefits, but not for retirement benefits.
- Disability benefits are subject to a stricter limit on earnings. DI benefits are fully withheld if earnings exceed \$500 per month, and such earnings may

Figure 10-1. Incentives and Deterrents to Claiming Disability Benefits After Early Retirement Age

	Disability	Early retirement
Incentives to claiming disability benefits		
Benefit level (percent of full benefit)	100 percent	80 percent today (at age 62); 70 percent for those reaching age 62 in the year 2022 and after.
Medicare coverage	Begins two years after benefits start (29 months after onset of disability); if benefits begin at age 63 or later, Medicare is available no sooner under DI than it is for retirees (i.e. age 65).	Begins at age 65.
Deterrents to claiming disability benefits		
Ease of application process	Lengthy and complicated. Outcome uncertain. Must provide all medical evidence of record and/or undergo a medical exam by a physician employed by SSA.	Fast, simple, outcome is certain. Based solely on age and earnings record.
Waiting period	Five months after the onset of the disability and after last earnings that constitute SGA (\$500 per month).	None.
Effect of further earnings on benefits	Earnings in excess of SGA after a trial work period cause full benefits to be withheld.	Benefits are not withheld if under-65 retirees earn up to \$8,280 per year, after which benefits are reduced by \$1 for every \$2 over that amount (the monthly amount, in the first year of retirement is \$690 ^a).
Maximum family benefit	Capped at 85 percent of average pre-disability earnings, but not less than the benefit amount nor more than 150 percent of the benefit amount.	Higher than for DI benefits (formula is complex).
Benefit reduction for workers' compensation	If DI benefits plus worker's compensation exceeds 80 percent of the beneficiary's recent average earnings, DI benefits are reduced.	No offset for worker's compensation.

a. In the first year of receiving benefits, retirees may use a monthly earnings test rather than an annual earnings test if it results in more benefits being paid. Under the monthly test, benefits are paid for any month in which earnings are less than 1/12 the annual amount -- \$690 in 1996 -- but no benefits are paid for any month in which earnings exceed the monthly limit.

Abbreviations: DI = Social Security disability insurance, SSA = Social Security Administration, SGA = substantial gainful activity.

lead to a finding that the person is no longer disabled. Early retirement benefits are subject to partial withholding, and only if earnings exceed \$690 a month in 1996.

- Disability benefits are subject to a lower cap on family benefits.
- Disability benefits are subject to a workers' compensation offset, while retirement benefits are not.

In brief, the 20-percent reduction in early retirement benefits does not appear to pose a powerful incentive for workers to claim and receive disability benefits at age 62. Deterrents to claiming disability benefits appear to have a stronger effect.

In the Future

The Panel then examined whether the scheduled 25- or 30-percent differential between disability and retirement benefits may pose too great an incentive for future older workers to claim disability benefits.

The early retirement reduction is scheduled to increase gradually from 20 to 25 percent for those reaching age 62 in the year 2000 through 2005. It will gradually rise again from 25 to 30 percent for those reaching age 62 in the years 2017 through 2022. Current experience with the 20-percent reduction suggests that deterrents tend to outweigh incentives to claim disability benefits among early retirees. It is not known whether or how much this might change as the reduction in early retirement benefits is increased. Given that the increase is scheduled to phase in gradually, a policy of watchful waiting seems warranted. The Panel sees no evidence of a compelling need at this time to modify disability benefits for future disability beneficiaries of early retirement age.

If retirement-age policy, itself, is to be changed, there are strong arguments for scheduling the change well in advance so that future retirees can plan for the change in what they can expect from Social Security. Since disability is not planned, changes in disability benefit levels do not need lengthy phase-in periods.

If, in the future, large numbers of early retirees do claim disability benefits, policy changes could be implemented at that time.

POLICY OPTIONS IF THE RETIREMENT AGE RISES FURTHER

Proposals to further increase the NRA raise again the issues considered in 1983 about whether the EEA should also be raised, how great should the early retirement reduction be at the EEA and whether the differential between disability benefits and early retirement benefits is a problem.

These proposals are generally evaluated in terms of their impact on retirement behavior, the adequacy of retirement income and long-range Social Security costs. The Panel offers a disability policy perspective on elements of these proposals that affect disability benefits.

Raise the Early Retirement Age

Some proposals would raise the EEA along with the NRA (for example, raising the NRA to age 68 and the EEA to age 65). Such a proposal would maintain the 20-percent reduction in benefits at the EEA that applies today.

As such, the differential between early retirement and disability benefits would be no greater than it is today. It does not appear to pose a problem now. Deterrents to claiming disability benefits seem to outweigh an incentive to avoid up to a 20-percent reduction in retirement benefits.

Lower Disability Benefits

Some have proposed to reduce the differential between early retirement and disability benefits by lowering DI benefits across the board to disabled workers of all ages.

The Panel believes this is not sound disability policy. The rationale for an actuarial reduction in early retirement benefits is that early retirement is, by and large, voluntary. It is meant to offer the retiree a choice of retirement ages without unduly encourag-

Table 10-2. Persons Awarded Disabled-Worker Benefits, by Age at Award, and Average Benefit Amounts
Disabled and Retired Workers Under Age 65, 1994

Age	Percent of disabled worker awards	Average monthly benefit			
		Men		Women	
		Disabled	Retired	Disabled	Retired
Number of persons awarded benefits (thousands)	613.3	379.3	923.4	234.0	690.1
Total percent	100.0				
Under age 45 (subtotal)	35.7		—		—
Under age 25	2.5	\$397	—	\$403	—
25-29	4.5	496	—	454	—
30-34	7.5	590	—	533	—
35-39	10.3	645	—	550	—
40-44	10.9	729	—	536	—
Age 45-54 (subtotal)	28.8		—		—
45-49	12.8	797	—	564	—
50-54	16.0	821	—	521	—
Age 55-65 (subtotal)	35.5		\$754		\$475
55-59	19.9	842	—	547	—
60-64	15.6	863	—	542	—
60-61	8.3	876	—	546	—
62-64	7.3	847	754	538	475

Source: Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin* (Washington, DC: U.S. Government Printing Office, August 1995), table 6.A4, p. 268.

ing or discouraging retirement at any age between the EEA and the NRA. Disability, in contrast, is not voluntary. People expect to retire and can plan and save for early retirement; disability at any age is unpredictable.

Further, when the rationale for raising the NRA is based on the fact that older people are living longer, it is not clear how that applies to young disabled workers. In the case of retirement benefits, the idea is that increased life expectancy should be shared

between longer work lives and longer retirement. If future workers delay their retirement by the amount that the NRA is increased, their monthly benefits would be equivalent to what they would have been without the change in policy and behavior. But workers who become disabled do not have the option to delay their disability onset in order to avoid the benefit reduction.

Young disabled workers are considerably worse off financially than retirees. Men disabled at younger ages have lower Social Security benefits than new retirees.⁵ Because disabled workers have truncated work lives, the earnings on which their benefits are based are less than what they would have been had they achieved their full earnings potential. This is reflected in their benefit levels. Average benefits awarded to individuals under 45 are considerably

5. For women, average disability benefits are higher than early retirement benefits. This occurs because the work history needed to qualify for retirement benefits is less than that needed to qualify for disability benefits. Some women who receive retirement benefits haven't worked for many years. To qualify for disability benefits, an individual must have a recent work history.

Table 10-3. Shares of Aggregate Income of New Beneficiaries from Various Sources, by Age, 1982

Type of income	Disabled					Retired		
	Total	Under 45	45-54	55-59	60-64	Total	62-64	65 & over
Married men and their wives								
Total number of beneficiaries (thousands)	111.1	17.1	29.4	35.7	28.9	573.7	433.9	139.9
Total percent	100	100	100	100	100	100	100	100
Percent of aggregate income from:								
Social Security	45	50	44	44	45	34	34	35
Earnings	24	30	28	22	18	20	19	23
Pensions	11	5	11	16	16	19	21	14
Asset income	10	4	10	11	14	23	23	25
Other income	6	11	8	7	7	5	5	4
Unmarried men								
Total number of beneficiaries (thousands)	39.5	16.9	8.1	8.7	5.8	111.3	87.2	24.1
Total percent	100	100	100	100	100	100	100	100
Percent of aggregate income from:								
Social Security	65	63	66	67	67	40	41	37
Earnings	4	8	3	2	1	15	10	26
Pensions	11	2	12	17	19	20	24	14
Asset income	6	3	9	8	7	20	19	22
Other income	12	23	10	6	8	7	7	4
Unmarried women								
Total number of beneficiaries (thousands)	32.2	8.3	7.8	9.7	6.4	182.4	128.5	53.9
Total percent	100	100	100	100	100	100	100	100
Percent of aggregate income from:								
Social Security	62	62	65	58	63	42	44	40
Earnings	3	7	3	1	2	14	12	19
Pensions	11	3	13	13	12	16	18	14
Asset income	11	3	7	19	13	21	21	22
Other income	14	25	12	9	10	7	6	8

Source: Social Security Administration, *SSA's 1982 New Beneficiary Survey: Compilation of Reports* (Washington, DC: U.S. Government Printing Office, September 1993), table C, p. 9-149; table 12, p. 14-205; and table B, p. 14-212.

Table 10-4. Median Monthly Income of New Beneficiaries, 1982 Dollars

Beneficiary type	Disabled	Retired
Married men and their wives	\$1,230	\$1,500
Married women and their husbands	1,360	1,470
Unmarried men	490	780
Unmarried women	460	760

Source: Social Security Administration, *SSA's 1982 New Beneficiary Survey: Compilation of Reports* (Washington, DC: U.S. Government Printing Office, September 1993), table 11, p. 14-204; and table 11, p. 9-141.

lower than those of older disabled workers (table 10-2). At the same time, data from SSA's New Beneficiary Survey⁶ shows that newly-awarded DI beneficiaries depend on Social Security for a greater share of their income than do new retirees (table 10-3). Such disabled workers have lower median income than retirees; are less likely to have supplemental sources of income from pensions, insurance or savings; and have vastly smaller asset holdings, including home equity (tables 10-4, 10-5, 10-6).

It is well known that Social Security benefits are not meant, by themselves, to provide an adequate level of living. Throughout their work lives, workers are encouraged to acquire pensions and set aside savings for their retirement. Often workers do much of their retirement saving relatively late in their work careers. Disability at younger ages, however, interrupts both earnings and opportunities to save.

In brief, making an across-the-board cut in disability benefits, as a way to avoid incentives for early retirees to claim disability benefits, is not sound disability policy. Other more targeted options are available.

6. Information on the sources of income or total incomes of disabled workers is very limited. Although SSA's New Beneficiary Survey dates back to 1982, it is the only available comparison of income of newly disabled beneficiaries and new retirees.

Change Disability Benefits Claimed After Early Retirement Age

If retirement-age policies are adopted that are believed to pose too great an incentive for early retirees to claim disability benefits, then a number of targeted approaches have been suggested to address that concern. One type of proposal would set the maximum age at which disability benefits could be claimed at some age between the EEA and the NRA. For example, if the NRA were raised to age 68 and the EEA remained at age 62, such a proposal might keep the maximum age for disability benefits at age 65.

Another type of proposal would pay a blended early retirement/disability benefit to persons who qualify for disability benefits after the EEA. For example, when the NRA rises to 67 and age-62 early retirement benefits are 70 percent of the full benefit, full disability benefits could be paid when claimed before the EEA, but disability benefits claimed after the EEA would be gradually reduced, such that benefits claimed at age 63 would be reduced to 90 percent of the full benefit and disability benefits claimed at age 64 would be reduced to 80 percent of the full benefit (the same amount that would be paid to those claiming retirement benefits at that age). Benefits claimed after age 64 would be the same amount as the early retirement benefit available at that age. Such a blended benefit would dilute the incentive to file for DI rather than accept early retirement. It would also limit the protection against loss of income due to a disability that began at older ages without abolishing it entirely.

The New Beneficiary Survey shows that those who claim disabled-worker benefits at ages 60 to 64 (or even at ages 55 to 59) are almost as likely as retired workers to have income from pensions, insurance or annuities, although their median income is still lower than that of new retirees (table 10-5). But despite their similarities in age, they have far smaller asset holdings than retirees and their income from those assets is a smaller share of their aggregate income (table 10-6). Whether this is due to smaller asset accumulation during their work lives, or

Table 10-5. Percent of New Beneficiaries Receiving Income from Various Sources and Median Monthly Income, by Age, 1982

Sources of income	Disabled					Retired		
	Total	Under 45	45-54	55-59	60-64	Total	62-64	65 & over
Married men and their wives								
Total number of beneficiaries (thousands)	111.1	17.1	29.4	35.7	28.9	580.1	438.7	141.3
Percent receiving:								
Pensions	41	17	38	50	53	56	57	53
Insurance, annuities	8	6	11	8	8	3	3	3
Asset income	60	39	56	64	73	83	81	90
Earnings - total	44	50	49	42	36	44	42	48
Disabled or retired worker	3	5	3	2	4	27	24	35
Wife only	40	45	46	40	32	17	18	13
Median monthly income	\$1,230	\$1,160	\$1,250	\$1,240	\$1,240	\$1,500	\$1,410	\$1,820
Unmarried men								
Total number of beneficiaries (thousands)	39.5	16.9	8.1	8.7	5.8	112.5	87.9	24.6
Percent receiving:								
Pensions	18	5	19	32	37	41	41	41
Insurance, annuities	2	2	2	4	4	2	2	3
Asset income	29	21	30	30	47	63	58	78
Earnings	7	17	4	4	4	22	18	35
Median monthly income	\$490	\$430	\$520	\$560	\$600	\$780	\$700	\$1,070
Unmarried women								
Total number of beneficiaries (thousands)	32.2	8.3	7.8	9.7	6.4	183.4	129.3	54.1
Percent receiving:								
Pensions	23	6	24	30	34	30	43	45
Insurance, annuities	4	1	4	6	3	3	3	4
Asset income	39	28	37	45	47	43	70	77
Earnings	6	13	5	1	3	30	29	34
Median monthly income	\$460	\$460	\$450	\$470	\$500	\$760	\$710	\$930

Source: Social Security Administration, *SSA's 1982 New Beneficiary Survey: Compilation of Reports* (Washington, DC: U.S. Government Printing Office, September 1993), table A, p. 9-144; table A, p. 14-208; table B, p. 14-212; and table B, p. 9-147.

Table 10-6. Rates of Home Ownership and Value of Total Assets of New Beneficiaries, 1982

Assets	Disabled by age		Retired
	Under 55	55-64	
Married men and their wives			
Percent who own homes	75	83	87
No mortgage	20	44	60
With mortgage	55	39	27
Median value of all assets			
Excluding home	\$300	\$3,600	\$20,000
Including home	23,000	41,000	68,300
Unmarried men			
Percent who own home	16	30	48
No mortgage	7	20	35
With mortgage	9	10	13
Median value of assets			
Excluding home	\$0	\$0	\$3,500
Including home	0	200	1,700
Unmarried women			
Percent who own home	31	48	58
No mortgage	12	29	43
With mortgage	18	20	15
Median value of assets			
Excluding home	\$0	\$200	\$5,100
Including home	200	6,300	30,000

Source: Social Security Administration, *SSA's 1982 New Beneficiary Survey: Compilation of Reports* (Washington, DC: U.S. Government Printing Office, September 1993), table 7, p. 12-188.

depletion of assets due to unanticipated expenses associated with the onset of disability, is not clear from the data, but the latter is certainly plausible. It is also consistent with the Panel's findings from focus groups with older DI beneficiaries, ages 50 to 61. The focus group members regretted the loss not only of their health but also of their savings on the threshold of retirement.

CONCLUSION

The Panel finds that the existing 20-percent reduction in early retirement benefits does not appear to

pose a powerful incentive for workers to claim and receive disability benefits at ages 62 to 64. Deterrents to claiming disability benefits are numerous and they appear to have a stronger effect. Between the earliest eligibility age and the normal retirement age, there are just four disabled-worker benefits awarded for every 100 early retirement benefit awards.

It remains an open question whether scheduled increases in the early retirement benefit reduction from 20 to 25 percent and then to 30 percent will pose too great an incentive for older workers to

claim disability benefits in the future. The Panel recommends a course of watchful waiting. If a problem emerges as the differential between early retirement and disability benefits increases, DI benefits claimed at or after the EEA could be adjusted at that time. Unlike retirement benefits, changes in future disability benefits do not need to be scheduled in advance, because disability is not planned.

If further changes in retirement-age policy are contemplated, there are two kinds of options to address concerns about incentives to claim disability rather than early retirement benefits: raise the early retirement age, to preserve the existing relationship

between disability and early retirement benefit levels; or change disability benefits for those who claim them between the EEA and the NRA.

The Panel believes it is not sound policy to reduce DI benefits across the board in order to address a problem that emanates from changes in retirement-age policy. It would reduce the incomes of all disabled beneficiaries. Disability is neither expected nor voluntary. Young disabled workers have lower Social Security benefits, less in supplemental income from pensions, insurance or savings and vastly smaller asset holdings than retirees. For these reasons, they depend on Social Security for a greater share of their income than do retirees.

Who Takes Early Social Security Benefits: Results from the Health and Retirement Study

The recent Report of the 1994-1996 Advisory Council on Social Security finds a deterioration in the long range financial condition of Social Security and urges that concentrated action be taken promptly to reverse this trend. Raising the normal retirement age to 68 and the earliest age of retirement to age 65 is one method of accomplishing this result. Two issues arise: 1) would raising the retirement age cause serious and widespread economic hardship to a large number of people? and 2) would it induce a large number of people to stay in the work force longer? This note addresses the first of these issues.

Analytic Issues

In 1961, the earliest age of eligibility for Social Security benefits for men was age 65 and the labor force participation rate of 63-year-old men was 76 percent. Since 1961 men have been eligible to receive early Social Security retirement benefits starting at age 62 and in 1995 two men in three who first accepted benefits did so before age 65. Concurrently, the labor force participation rate of 63-year-old men fell to 45 percent by 1994 (U.S. Department of Health and Human Services 1996; Burkhauser, Couch, Phillips 1996).

Past research suggests that raising both the normal and earliest age of eligibility for Social Security benefits would increase employment among older people and delay acceptance of Social Security benefits.¹ This would both reduce the future liabilities of the Social Security system and increase general economic production. But these advantages of returning the first age of eligibility for benefits to 65 must be weighed against the negative impact on economic security it would cause at ages 62 through 64, especially for those who are limited in their ability to work because of health or who have no employer pension plan to cushion their transition out of the labor force and into retirement.

Policymakers considering an increase in the minimum age for early Social Security benefits need to know how workers currently transition into retirement and to understand the circumstances surrounding this important life event. If early beneficiaries were in good health and could work, or could rely on employer pension income to support their decision to retire earlier than age 65, then such a change, while painful, would be unlikely to have devastating economic consequences. However, for early beneficiaries who are limited in their ability to work because of health or are not eligible for employer pensions, raising the early Social Security retirement age to 65 could cause serious hardship.

¹Under current Social Security rules, the normal retirement age will gradually increase to age 67 over the first part of the 21st century, but the earliest age of benefit eligibility will remain age 62. Burkhauser and Quinn (1994) review the economic literature and conclude that, unless major changes take place in employer pensions, these changes alone will have only a minor effect on employment.

Evidence from the Health and Retirement Study

The HRS is currently following a cohort of men and women who were aged 51 to 61 in 1992 when they were first surveyed. The second wave of data, which contains information on these same people in 1994, provides a first look at the characteristics of early Social Security retirees. Using data from the HRS, Table 1 looks at men and women who turned age 62 between wave 1 and wave 2 and compares the employer pension eligibility, net assets, health, and household pension receipt of those who took Social Security benefits at age 62 (takers) to those who did not (postponers). This is done for the entire population and by race and gender groups.

Key Points of Table 1

- On average, men who take early Social Security benefits at age 62 appear to be as well off financially and as healthy as men who postpone acceptance.
- Overall, women who take early Social Security benefits at age 62 are better off financially but less healthy than women postponers.
- There are clear differences between racial groups. Black men this age have substantially less wealth and poorer health than white men. Black male takers are wealthier but in poorer health than black male postponers. Black women have substantially less wealth than white women. Black women takers are wealthier and healthier than black women postponers.

Table 2 separates takers and postponers based on employer pension and health status within race and gender groups.

Key Points of Table 2

- The typical male early Social Security taker (black or white) also is eligible to receive an employer pension—white males 66 percent, black males 61 percent.
- The typical male taker (black or white) has no health condition that affects his ability to work—white males (79 percent), black males (72 percent).
- Few male takers (black or white) are both in poor health and dependent on Social Security as their only source of pension income—white males (7 percent), black males (11 percent).
- Women takers (black or white) are less likely to have an employer pension than male takers and more likely to be in poor health.

Summary

Early results from the HRS suggest that the majority of men who take early Social Security benefits at age 62 are also eligible to receive an employer pension, are in good health, and have net assets similar to those who postpone Social Security acceptance. It is the rare male taker who is both in

poor health and dependent on Social Security benefits as his sole source of pension income—7 percent for white males, with only a slight increase to 11 percent for black males.

These results do not suggest that raising the earliest retirement age would be painless or that some workers would not suffer major losses in economic well-being. But it does suggest that in 1994, the typical male worker taking Social Security benefits at age 62 was physically able to continue working or was eligible to receive an employer pension benefit and thus unlikely to be devastated financially by legislation raising the earliest age of eligibility for Social Security retirement benefits.

Future Research

These early results from the HRS only begin to reveal the health and economic characteristics of today's older workers as they make the transition between work and retirement. As additional waves of data become available and are linked to previous data waves, as well as to Social Security records, researchers will be able to more fully explore the transition into early retirement from a multi-period perspective. This will allow researchers to see better how the economic well-being of this cohort changes and to measure the degree to which our retirement system protects older people from dramatic drops in economic well-being, or even from a fall into poverty.

More importantly, these results begin to identify the critical variables that influence the work/retirement transition. While these results suggest that the majority of workers who retire early do not have work-limiting health conditions and are not significantly worse off financially or from a health perspective from those who postpone early Social Security acceptance, more sophisticated analysis is necessary to estimate the importance of health, employment conditions, and government policy on the retirement decision of older workers. This is the critical unresolved behavioral question. The HRS data will enable researchers to begin to unravel the factors behind the retirement decision by looking at how public policy variables, such as Social Security and employer pension benefit levels, and changes in these levels based on additional work years, interact with health and general economic conditions, which are less affected by public policy, on the retirement decision.

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Table 1. Summary of the Characteristics of All Men and Women First Eligible to Receive Social Security Retirement or Spousal Benefits at Age 62 in 1993 or 1994 by Benefit Status and Race^a

Race	Takers						Postponers					
	Share Taking Benefits at Age 62	Pension Eligible 1992 ^b	Median Household Net Assets ^c		Poor Health 1994 ^d	Household Pension 1994 ^e	Share Postponing Benefits at Age 62	Pension Eligible 1992 ^b	Median Household Net Assets ^c		Poor Health 1994 ^d	Household Pension 1994 ^e
			1992	1994					1992	1994		
Black												
Men	0.29	0.61 (0.50)	\$79,750	\$83,500	0.39 (0.50)	0.58 (0.50)	0.71	0.57 (0.50)	\$54,800	\$55,000	0.26 (0.44)	0.20 (0.40)
Women	0.28	0.40 (0.50)	\$56,850	\$60,000	0.27 (0.45)	0.36 (0.49)	0.72	0.25 (0.44)	\$35,900	\$45,000	0.38 (0.49)	0.29 (0.45)
White												
Men	0.27	0.66 (0.48)	\$185,100	\$181,000	0.22 (0.42)	0.72 (0.45)	0.73	0.63 (0.48)	\$182,500	\$208,550	0.20 (0.40)	0.32 (0.47)
Women	0.32	0.25 (0.44)	\$182,000	\$187,000	0.30 (0.46)	0.61 (0.49)	0.68	0.46 (0.50)	\$162,750	\$186,500	0.24 (0.43)	0.41 (0.49)
All												
Men	0.27	0.65 (0.48)	\$155,500	\$160,200	0.22 (0.41)	0.71 (0.45)	0.78	0.60 (0.49)	\$143,000	\$150,000	0.21 (0.41)	0.30 (0.46)
Women	0.30	0.26 (0.44)	\$147,300	\$151,000	0.31 (0.46)	0.57 (0.50)	0.70	0.39 (0.49)	\$109,000	\$114,500	0.26 (0.44)	0.39 (0.49)

^aStandard deviations for mean values are in parentheses.

^bRespondent reports either receiving private pension income in 1992 or that he or she expects to receive private pension income in the future.

^cIncludes all household assets minus debts. Does not include pension wealth.

^dRespondent reports being in fair or poor health in 1994.

^eRespondent or spouse reports receiving income from employer pension in 1994.

Source: Health and Retirement Study, Gamma version of Wave 1 (1992) and Beta version of Wave 2 (1994). For more details see Phillips (1997).

Table 2. Employer Pension Eligibility, Health, and Household Net Assets of Men and Women Who Take or Postpone Taking Social Security Benefits at Age 62 in 1993 or 1994

Race	Gender	Employer Pension Eligibility ^a	Poor Health 1994 ^b	Takers			Postponers		
				Sample Share [obs]	Median Household Net Assets		Sample Share [obs]	Median Household Net Assets	
					1992	1994		1992	1994
Black	Men	yes	yes	0.18*	---	---	0.07*	---	---
		yes	no	0.43	\$90,000	\$102,500	0.41	\$83,250	\$78,000
		no	yes	0.11*	---	---	0.21	\$2,500	\$105
		no	no	0.29*	---	---	0.31	\$32,900	\$48,000
White	Men	yes	yes	0.15	\$193,000	\$103,750	0.11	\$123,000	\$105,000
		yes	no	0.51	\$180,550	\$202,700	0.50	\$180,250	\$218,465
		no	yes	0.07*	---	---	0.09	\$144,350	\$161,000
		no	no	0.28	\$207,480	\$218,500	0.29	\$203,000	\$194,500
Black	Women	yes	yes	0.03*	---	---	0.07*	---	---
		yes	no	0.35	\$82,750	\$126,750	0.19	\$85,500	\$126,000
		no	yes	0.27	\$7,200	\$33,000	0.29	\$3,100	\$5,750
		no	no	0.35	\$56,000	\$46,900	0.45	\$36,750	\$44,750
White	Women	yes	yes	0.03*	---	---	0.07	\$140,100	\$216,300
		yes	no	0.20	\$153,000	\$198,000	0.36	\$190,000	\$225,000
		no	yes	0.26	\$199,250	\$154,500	0.16	\$92,468	\$77,500
		no	no	0.51	\$187,000	\$191,500	0.40	\$166,150	\$192,750

^aRespondent reports either receiving private pension income in 1992 or that he or she expect to receive private pension income in the future.

^bRespondent reports being in fair or poor health in 1994.

*Less than ten observations. Medians are not reported in these cases.

Source: Health and Retirement Study, Gamma version of Wave 1 (1992) and Beta version of Wave 2 (1994). For more details see Phillips (1997).

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What Explains the Trends in Labor Force Participation of Older Men?

The rapid decline in the labor force participation rate of older men between 1950 and 1985 and its slow rise since 1985 is rivaled only by the equally rapid increase in the labor force participation of women as the most significant change in the demographic make-up of the United States work force in the second half of the 20th century.

If “normal” retirement is the age at which only one-half of men remain in the labor force, then normal retirement age was 70 in 1940 and remained so over the next decade (see Table 1). It was not until the 1950s, as an increasing share of workers became eligible for Social Security retirement benefits, at age 65, that the normal retirement age began to drop.

By 1960 normal retirement had fallen to age 66 and by 1970 it was age 65. However, over the next 15 years it continued to fall, so that by 1985 it was approximately age 62. Hence, between the year just prior to the establishment of early Social Security benefits in 1961 and 1985, the labor force participation of men aged 62 fell from 79.8 to 50.9 percent. While the labor force participation rates of men between ages 55 and 62 have also fallen substantially since 1960, particularly between 1970 and 1985, these declines were not as precipitous as the fall in labor force participation rates of men aged 62 through 65. The trend toward lower labor force participation rates for men aged 62 and over ended in the mid-1980s. Between 1985 and 1995 labor force participation rates increased for most ages over age 61.

The Decline in Labor Force Participation: 1950 to 1985

Health

- The primary reason for retirement given by men aged 65 and over in surveys fielded in 1940 and 1950 were joblessness and health problems. This began to drop in the 1960s and 1970s and by 1980 less than 40 percent of men gave such responses (Quinn 1991). Based on HRS data, in 1994 only 22 percent of men who took early Social Security retirement benefits at age 62 in 1994 reported a health condition affected their ability to work (Burkhauser, Couch, and Phillips 1996).
- While there can be no argument that life expectancy has increased, considerable controversy exists over whether or not this increase indicates improving health. However, to date little evidence exists that **increased** morbidity at aged 55 through 70 is responsibility for declines in male labor force participation (Quinn and Burkhauser 1994; Manton and Stallard 1994; Bound and Waidmann 1992).

Wealth

- As wealth increases, it is likely that more lifetime leisure will be demanded. In 1960 per capita disposable income in the United States in 1992 dollars was \$7,926; in 1995 this value was \$17,400, an increase of 220 percent (Economic Report to the President 1997). However, there is little evidence that increased private savings is an explanation of earlier retirement (Wise 1997).
- Based on the first two waves of HRS data, the median household net wealth of men who first took early Social Security benefits at age 62 between 1992 and 1994 was \$155,500. For white

men it was \$185,100. For black men it was \$79,750. This does not include the asset values of Social Security or employer pensions (Phillips 1997; Smith 1995).

Social Security Policy

- Although the magnitude is controversial, increases in Social Security program generosity play an important role in the labor force participation rate of men. Between 1950 and 1974 Congress enlarged the population eligible for benefits and increased benefits to adjust for inflation. In the 1970s Congress dramatically boosted benefits far in excess of cost-of-living adjustments. More generally, the value of Social Security benefits at age 62 increase for each new group of beneficiaries due to the linkage of benefits to past wages (Anderson, Burkhauser, and Quinn 1986; Costa 1996).
- In addition, the lowering of the earliest age of eligibility for benefits is closely associated with the decline in labor force participation rates of those aged 62 through 64 after 1961. Even if benefits are approximately actuarially fair between ages 62 and 65, for those with less than average life expectancies, or with higher than average discount rates and liquidity constraints, early benefit acceptance is more likely (see Quinn and Burkhauser 1994; Wise 1997).
- Postponement of Social Security benefits past age 65 has throughout most of the history of Social Security led to reduction in the asset value of benefits (see Quinn and Burkhauser 1994; Wise 1997).

Employer Pension and Health Care Provisions

- Employer pensions have become an increasingly important component of the wealth of workers over the past 50 years. In 1976, 31 percent of older households received some form of public or private employer pension income. By 1990, 44 percent of older households received such benefits. Among married couples in 1990, it was 57 percent (Hurd and Shoven 1985; Reno 1993).
- Pension benefit receipts have been increasing among each new cohort of older people. Based on HRS data, in 1994, 71 percent of all men taking early Social Security benefits at age 62 lived in households that also received pension income (Burkhauser, Couch, and Phillips 1996).
- Pension benefits are also common among blacks. Based on HRS data, in 1994, 72 percent of white male early Social Security takers lived in households that received employer pension income, while 58 percent of black males Social Security takers did so (Phillips 1997).
- Employer pensions encourage exit from the job both because they offer an alternate source of income and because most “defined benefit” pension plans contain incentives that encourage job exit past a given age—usually the age of earliest acceptances for benefits (Stock and Wise 1990; Lumsdaine, Stock, and Wise 1994; Quinn and Burkhauser 1994).
- The availability of employer-provided health care as a bridge to Medicare encourages early retirement (Wise 1997).

In summary, the decline in labor force participation of older men between 1950 and 1985 was primarily due to the maturing of the United States “three-legged stool” retirement system. The

wealth necessary to finance earlier retirement ages was provided by increased personal savings, primarily in the form of home ownership; a Social Security system that became nearly universal and provided substantially higher levels of benefits to successive generations of older-people, especially in the 1970s; and an expanded employer pension system that provided new cohorts of men in their late 50s and early 60s with benefits that often matched or exceeded their Social Security benefits. Not only did Social Security and pension benefits add to the stream of income available to nonworkers at these ages but both systems dramatically encouraged job exit past age 65 and in many cases well before that age through nonactuarially fair benefit formulae.

While health clearly plays a role in the retirement decision of older workers and the prevalence of Social Security disability insurance beneficiaries increase substantially between the start of the program in the 1950s and 1985, there is little evidence to suggest that the rapid decline in labor force participation was due to increases in morbidity.

Post-Decline Years: 1985 to 1995

- While Social Security benefits continue to increase in real value for new cohorts of retirees, the Social Security Amendments of 1983 have reduced many of the anti-work biases in the system through increases in the earnings test limits; reductions in the earnings test tax rate; increases in the actuarial adjustment of benefits postponed past age 65, etc. (Quinn and Burkhauser 1994).
- The structures of employer pension plans are transforming from defined benefits to defined contribution. Defined contribution plans are less likely to contain actuarial incentive to the exit a job at given age (Quinn and Burkhauser 1994; Wise 1997).
- The rise in work after retirement from a career job is growing and was facilitated by a growing economy that encouraged the employment of part-time workers (Quinn and Burkhauser 1994).

Conclusions

Additional study is necessary to explain how the current structure of the Social Security and employer pension system is impacting work decisions. The 40 years of decline in the labor force participation of men that began after the Second World War appears to have ended in 1985. Data from the HRS will allow researchers to estimate the importance of current Social Security and employer pension rules on work behavior for the cohort of workers reaching retirement age in the 1990s. Such analysis will be critical in the coming debate about how the retirement system must evolve to accommodate aging baby boomers in the next two decades.

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Table 1. Male Labor Force Participation Rates by Age, 1940 to 1996
(in percents)

Year	Age												
	55	60	61	62	63	64	65	66	67	68	69	70	72
1940 ^a	93.8	85.5	83.6	80.0	80.4	77.0	70.0	68.1	60.3	58.5	56.3	48.6	---
1950 ^a	90.6	84.7	82.3	81.2	79.8	76.8	71.7	67.1	59.4	57.7	54.5	49.8	39.3
1960 ^a	92.8	85.9	81.6	79.8	77.8	71.5	56.8	49.0	42.7	42.0	39.0	37.2	28.0
1970	91.8	83.9	80.1	73.8	69.4	64.4	49.9	44.7	39.4	37.7	34.0	30.1	24.8
1975	87.6	76.9	73.5	64.4	58.3	54.2	39.4	34.2	30.5	23.7	25.8	23.7	22.6
1980	84.9	74.0	69.6	56.8	52.3	48.8	35.2	30.4	27.9	24.1	23.0	21.3	17.0
1985	83.7	71.0	66.5	50.9	44.7	42.2	30.5	26.5	23.7	20.5	19.5	15.9	14.9
1990	85.3	70.5	67.0	52.5	45.5	40.9	31.9	27.2	27.0	23.4	19.0	17.1	16.4
1995	81.1	68.9	62.0	51.3	43.2	40.3	33.5	30.2	25.8	22.4	21.9	20.6	16.0
1996	81.9	67.5	64.8	51.5	45.3	40.6	33.4	31.7	26.5	22.7	22.2	21.3	16.3

^aBased on adjusted U.S. Bureau of the Census labor force participation data. The adjustment is based on the ratio of CPS figures and census figures in 1970.

Source: Labor force participation figures from 1970 to 1996 are based on unpublished data from the *Current Population Survey* (CPS).

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Health, Work, and Economic Well-Being of Older Workers: A Cross-National Comparison of the United States and The Netherlands

Work in the market place is the principal source of income in modern industrial societies, and ameliorating the risks associated with exit from the labor force due either to health or “old age” is a fundamental goal of modern social welfare systems. However, the mix of private and public insurance provided against such risks varies greatly across countries. The resulting structure of retirement institutions and the signals they send with respect to how and when to leave the labor market are more likely to explain the dramatic differences in work at older ages than are the underlying health conditions in those countries.

No two countries better demonstrate the importance of institutional signals on retirement than the United States and The Netherlands. Using the first waves of two extraordinary new data sets—the United States Health and Retirement Study (HRS) and the Netherlands Household Panel Study (CERRA)—that began in the early 1990s to look at the health, work, and economic well-being of men and women transitioning into retirement, we find that in the United States work still dominates the income of men aged 51 to 61, while a large share of men this age have already transitioned out of the labor force in The Netherlands. Based on this first look at the data, we suggest that the dramatic differences in United States and Dutch institutions, rather than the underlying health conditions of Dutch and American workers, are more likely to explain this phenomenon.

Sources of Income for Men Aged 51 to 61 in the United States and The Netherlands

Table 1 shows the employment patterns of men aged 51 to 61 in the United States and The Netherlands in the early 1990s, as well as the primary source of income of those who are not working.

- Work patterns for those aged 51 through 53 appear to be quite similar in the two countries. However, at ages 54 through 61, work is far less prevalent in The Netherlands.
- In the United States, from 3 to 8 percent of men aged 51 through 61 do not work but do receive disability transfer benefits. In The Netherlands, from 8 to 33 percent of men in these single year age groups do not work but do receive disability transfers. At ages 60 and 61 more Dutch men receive disability transfers than work.
- Employer pensions play a more important role than disability transfers in the United States after age 55. Employer pensions follow a similar pattern in The Netherlands, but their prevalence is much higher than in the United States for men passed age 55.

Despite the dramatic difference in work and disability transfers seen in Table 1, recent data from the HRS and CERRA suggest the underlying health of the two age cohorts is quite similar. Table 2 compares alternative measures of health between the two countries.

- Mean activities of daily living (ADL) problem counts or instrumental activities of daily living (IADL) problem counts across the groups described in Table 1 show very similar patterns.

Workers report fewer ADL/IADL problems than nonworkers. Among nonworkers, those receiving disability transfers report the highest mean ADL/IADL problems.

- Outpatient visits and nights in the hospital follow similar patterns in the two countries.
- Self-reported work limitations are substantially higher in The Netherlands than in the United States, but the patterns across groups within each country are the same. It is likely that the lower standard for disability transfer eligibility in The Netherlands, compared to the United States, may influence the level of self-reported health related work limitations in the two countries.

These tables come from Burkhauser, Dwyer, Lindeboom, Theeuwes, and Woittiez (1997) who argue that differences in the relative reward for job exit at these ages in the two countries, rather than differences in underlying health, explain most of the differences in work reported in Table 1. For instance, they show that the median income of those who work at these ages in The Netherlands is much closer to the median income of those receiving either an employer pension or a disability transfer than is true in the United States. The Dutch policy of providing generous disability and employer pensions to those who leave work results in a more equitable society but one in which far fewer people are in the labor force at older ages.

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Table 1. Work and Transfer Benefit Prevalence for Men by age in The Netherlands and the United States
(in percents)

Age	United States				The Netherlands			
	Working ^a	Not Working			Working ^a	Not Working		
		Disability Transfers ^b	Employer Pension ^c	Other ^d		Disability Transfers ^b	Employer Pension ^c	Other ^d
51	82.6	4.1	0.9	12.4	83.3	13.7	0.0	3.0
52	84.9	3.0	2.4	9.9	87.5	8.1	1.9	2.5
53	82.8	3.5	0.5	13.2	81.9	14.1	1.7	2.3
54	84.6	2.9	2.7	9.8	74.6	17.2	1.9	6.2
55	78.5	4.5	1.8	15.3	72.2	16.7	3.5	7.5
56	76.9	5.0	6.3	11.8	59.0	23.9	10.2	6.8
57	80.3	4.6	7.0	8.0	58.7	17.4	15.6	8.3
58	71.5	7.5	9.2	12.0	49.0	25.0	19.0	7.0
59	68.9	6.5	9.3	15.3	44.1	23.2	27.5	5.2
60	67.9	6.1	12.6	13.3	20.9	33.3	42.3	3.5
61	65.9	5.6	16.0	12.5	16.8	26.9	50.5	5.8

^aThose who are working at the time of the interview—1993 in The Netherlands and 1992 in the United States.

^bThose who are not working but are receiving disability transfers at the time of the interview.

^cThose who are not working or receiving disability transfers but who are receiving private pension benefits at the time of interview.

^dThose who are not working and neither receiving disability transfers nor private pension benefits at the time of interview.

Source: Data from The Netherlands are weighted values of the 1993 Wave 1 CERRA Household Survey. Data from the United States are weighted values of the 1992 Wave 1 Gamma Release of the Health and Retirement Survey.

**Table 2. Health Status Measures of Men, Aged 51 to 61,
in The Netherlands and the United States in the 1990s**

	Sample Size	ADL/IADL ^a	Outpatient Visits ^b	Nights in Hospital ^c	Work Limitations (percent) ^d
The United States					
All	4,552	0.44	4.3	1.09	20.4
Working ^e	3,425	0.39	2.8	0.55	10.1
Not Working	1,127	0.43	7.0	3.51	54.7
Disabled ^f	236	0.46	11.0	6.68	93.6
Pensioner ^g	236	0.35	5.4	2.49	36.6
Other ^h	613	0.46	6.1	2.73	48.1
The Netherlands					
All	2,183	0.34	4.4	0.89	36.6
Working ^e	1,261	0.20	3.5	0.49	20.5
Not Working	922	0.53	5.7	1.45	58.4
Disabled ^f	444	0.87	8.3	2.11	94.8
Pensioner ^g	359	0.20	3.2	0.64	21.9
Other ^h	119	0.24	3.8	1.41	33.1

^aThis index counts the number of activities of daily living (ADL) or instrumental ADLs that are problematic, accounting for the hierarchical nature of these symptoms. The value increases with poorer functional status.

^bOutpatient visits in 1991 in the United States, in 1992 in The Netherlands.

^cNights spent in a hospital in 1991 in the United States, in 1992 in The Netherlands.

^dThis dichotomous variable takes a value of 1 if the respondent reports having a health condition that limits the amount or kind of paid work he can do and 0 otherwise.

^eThose who are working at time of interview.

^fThose who are not working but are receiving disability transfers at time of interview.

^gThose who are not working or receiving disability transfers but who are receiving private pension benefits at the time of interview.

^hThose who are not working and neither receiving disability transfers nor private pension benefits at the time of interview.

Source: Data are weighted values the 1992 Wave 1 Gamma Release of the Health and Retirement Study and the 1993 Wave 1 CERRA Household Study.

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SOCIAL SECURITY: Principles and Purpose

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Merton C. Bernstein

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I. Oliver Wendell Holmes, Jr. a law professor, judge and justice of the U.S. Supreme Court, was, like his father before him, a poet. That is, he wrote with intensity, brevity, clarity and insight. He counseled that "a page of history is worth a volume of logic". So, it is logical to start with a brief history of Social Security.

It emerged from the deprivation of the Depression. Millions were out of work. At age 65, the unemployment rate sharply increased. Although several states had old age pension programs, they were broke. Although some employers had private pension plans, they were bankrupt. So, the US needed a nationwide governmental program to rescue older people from economic hardship.

This setting casts some light on the oft-repeated assertion that Social Security was intended to constitute only part of retirement income. Actually, when begun, no other source existed for most people.

II Basic principles

Dependence on current cash pay; social insurance replaces part of loss. By the 1930's, and even more so now, most individuals and families rely on current cash income from work. Social insurance is designed to provide a partial substitute for cash earnings that disappear or diminish because of job loss, retirement, death or disability.

Universality - To cover all employees in industry and commerce. Then a bold idea when U.S. Supreme Court had theretofore limited the commerce power. But, many exemptions: RR, state and local govt, self-employed. So, net coverage about 50% of employed. In 1952, Congress extended coverage, making it close to universal. Only one large group remains outside: about 4 million state and local govt employees. Most such employees are covered. Universal coverage prevents adverse selection by high risk people and cherry picking by insurers.

No needs test- a companion program, Old Age Assistance (OAA), was needs-based; later absorbed into SSI. It provided immediate help. In part a response to "The Townsend Plan", a proposal for a 2% tax on business, dividing proceeds among those 60 and over; one condition - spend it all quickly. For a delightful vignette see E.B. White's One Man's Meat, chapter entitled "Camp Meeting". Other such plans. My favorite, "Ham and Eggs Every Thursday"

Instead of needs (sometimes called means) testing, **presumed need** for income evidenced by long periods of paid work (achieving fully-insured status) and recent paid work (currently insured). CI eliminated in 1967. Measured in quarters - Jan-Mar etc with threshold amt. \$50- now \$400 a quarter needed for credit

Disability Insurance - requires 10 of last 20 quarters - two concepts - a practical measure of dependence on work income and of recent dependence on such income.

Initially, only **retirement** benefits .

1937 Advisory Council - led by J. Douglas Brown, included a famous vp of Met Life. Advocated **auxiliary benefits** - for wives, children, and sometimes parents as dependents and survivors. Again presumed need based on family relationship. Congress adopted and thus expanded the program before first benefits paid. Here we have the introduction of several concepts:

equity - the more one contributes, the larger the benefit; **adequacy** - sufficiency of benefits by taking account of employee's average pay and number of close family members.

benefit formula weighted in favor of low paid determined by **average monthly wage (AMW)** (dropping out 5 poorest years - helps women, helps those with long periods of education and long periods of unemployment) divided by number of years between ages 21 and 62. Formula provides higher % replacement for low pay: Applying benefit formula to AMW produces "**primary insurance amount**". Auxiliary benefits a % of that - 50% spouse ; 100% widow or widower. Family max
These notions put the **social** in social insurance -

Cost-of-living adjustments (COLA) - In 1972 Congress adopted annual COLAs to bring benefits in line with increases in the Consumer Price Index. This was not just generosity. Some advocated COLAs to curb what they saw as overly-generous legislated benefit increases.

Entitlement If individual meets criteria set by law, entitled to the prescribed benefits. Entitlement has become a dirty word - but it means the rule of law as contrasted with bureaucratic discretion - the earlier method of providing needs-tested benefits. Angela's Angel gives a sense of the older method in the scene at the St. Vincent de Paul Society - with the women bowing and scraping so as to propitiate the quite arbitrary charity administrators.

Funded by a payroll tax (FICA) on cash wages (not fringes) paid equally by employee and employer. This **contributory** principle embodies several ideas . **Benefits are earned** by work and payroll tax contributions. Both employee and employer contribute equal amounts. **Employee contributions moderate demands** on the system as employees know that more generous benefits require higher taxes.

The program has been self-sustaining, funded almost wholly by FICA revenues. 1983 amnds required Treasury to pay interest at market rates, improving earnings yield on U.S. Treasury obligations held by the OASDI trust funds. Until 1983, the system was essentially pay-as-you-go with a small reserve. The latter to provide a cushion against unexpectedly adverse circumstances and provide funding for a period to consider program adjustments. Since 1983, the system has provided for advance funding

Earned income credits make the financing system more progressive. While FICA taxes are equal at all levels of income, low-paid earners are relieved of all or some of their income tax liability, varying with their earnings. This was meant to prevent a FICA tax income-tax double whammy. To preserve the contributory nature of Social Security, FICA is payable in full by low earners, but they are spared full income tax.

Intergenerational support. Most current FICA taxes get paid out almost immediately in benefits. Thus, each generation pays for the older generation, who reared them and buuilt the economy, and the disabled - and their family members. And, when their turn comes, those who formerly worked obtain their support largely from the FICA taxes paid by the currently employed.

Analogy to family. Parents rear and support children. Children as adults do the same for their parents. Social Security regularizes the process, makes it dependable,. Social Security never calls and says "Mom, we had to pay tuition last month, so we're a little short. Do you mind if our check is a little late?"

Family protection. The program pays more to families with children and, often, to couples. This is another instance of "social" insurance.

Retirement age Initially 65. Many assert that age deliberately set too high, that life expectancy in 1930's was age 63. That was life expectancy at birth. At age 40, life expectancy was 67 for men, higher for women. That means, half of retirees had expectancies above those ages/

Early retirement permitted starting at age 62 - actuarial reduction - so at age 65 - full benefit, age 62 80% of full benefit. Reductions persist throughout retirement. Small delayed retirement credit; 1983 amnds provided that each year of delay will increase benefits by full actuarial value starting in 2008

Disability Insurance added in stages starting in 1956. To provide severely disabled individuals and their families with a partial substitute for lost income. Surprisingly small overlap with workers' compensation.

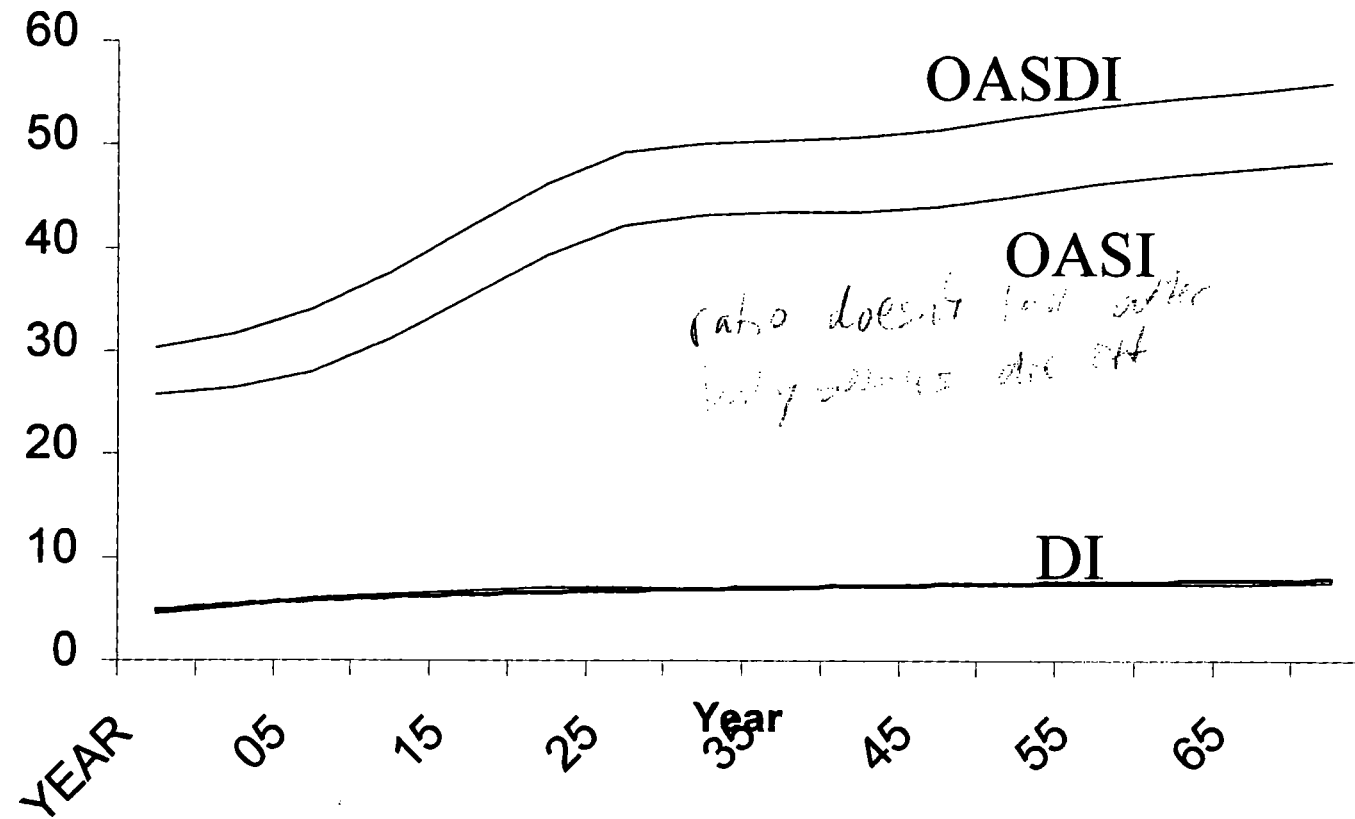
Social Security Financing Equation

$$\text{Tax Rate} = \frac{\text{Total Benefits}}{\text{Total Earnings}}$$

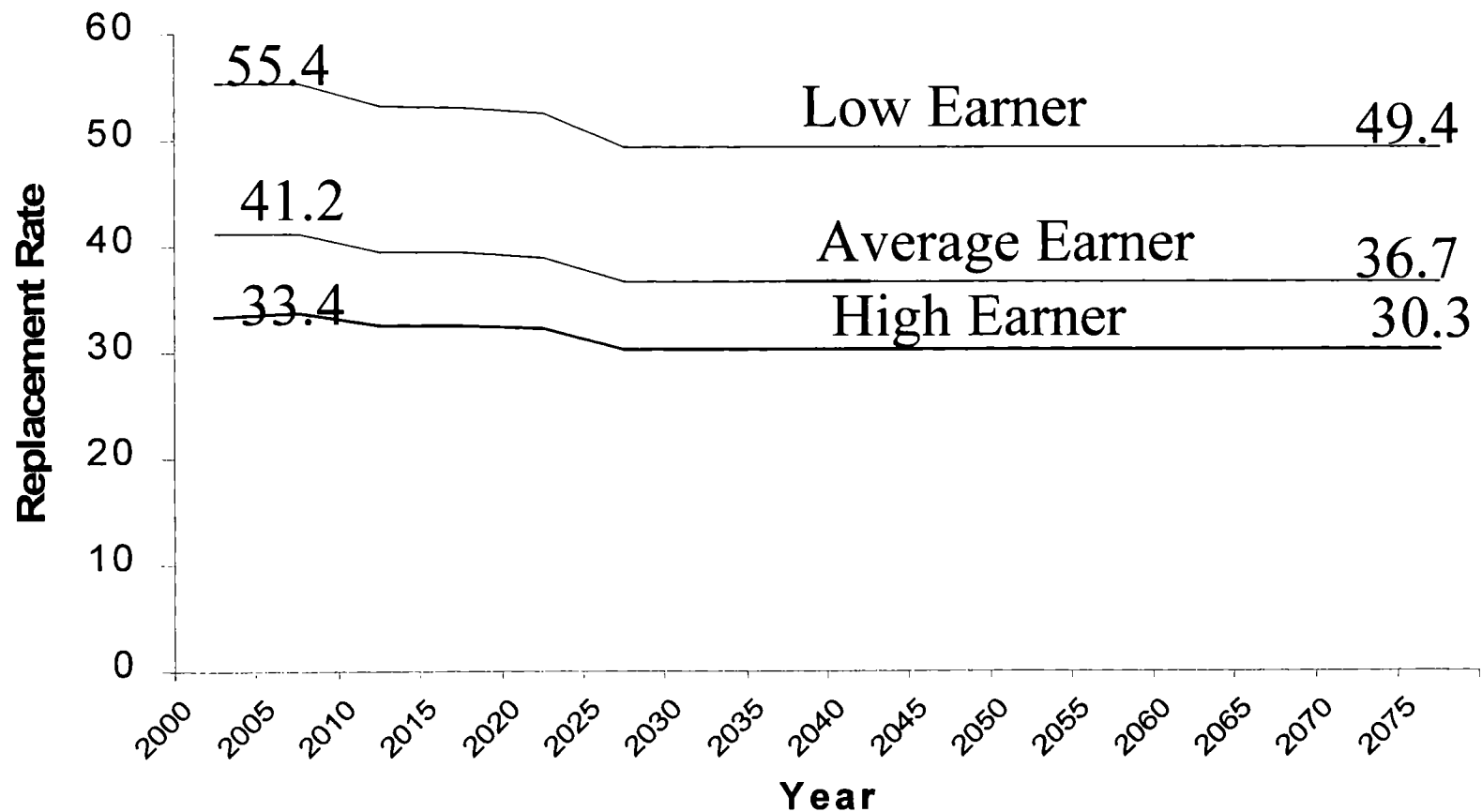
$$= \frac{\text{Average Benefit}}{\text{Average Wage}} \times \frac{\text{No. of Beneficiaries}}{\text{No. of Workers}}$$

$$11.1\% = 0.37 \times .30$$

Ratio of Beneficiaries to Workers

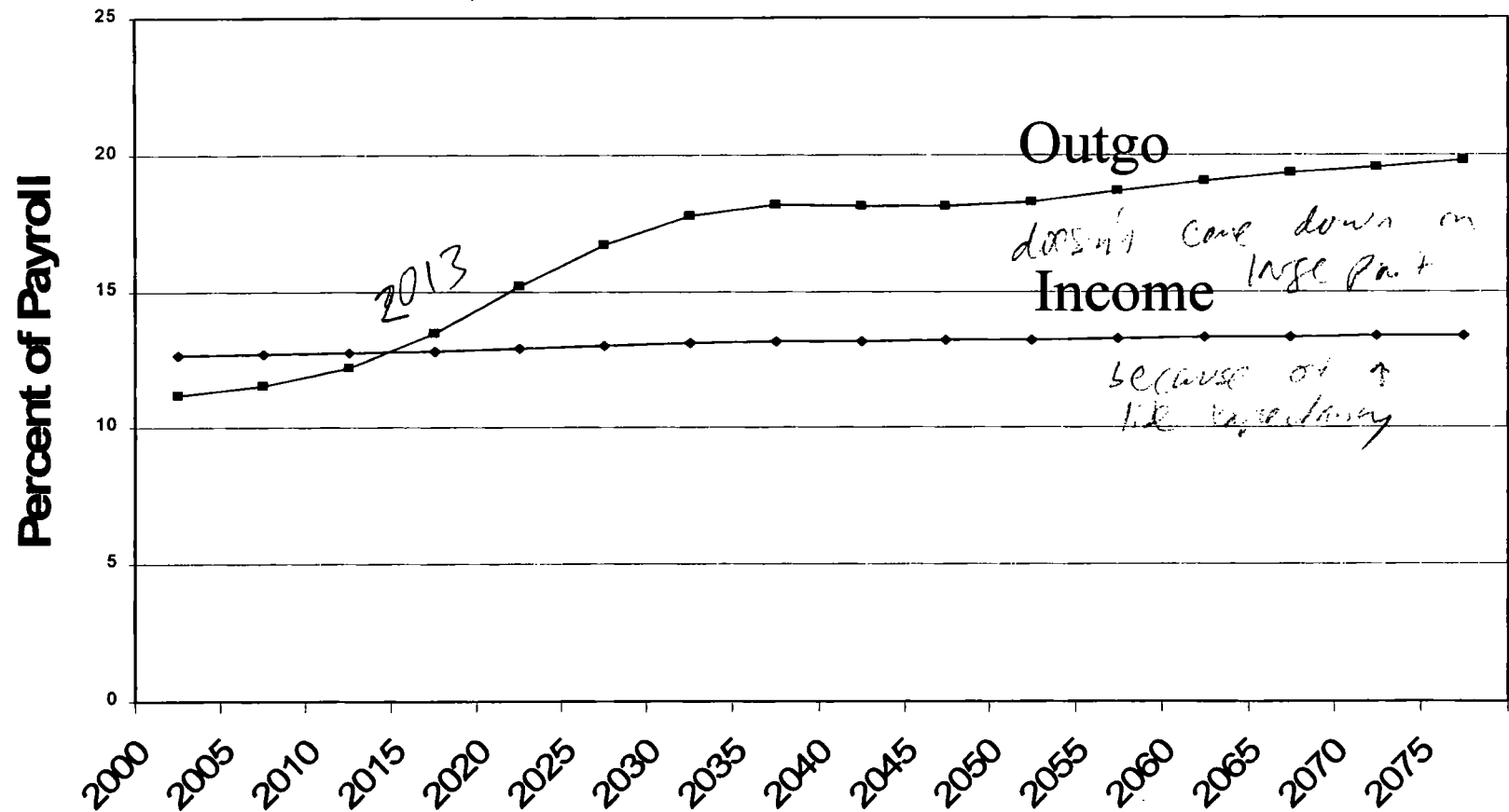


Replacement Rates for Hypothetical Workers (Age 65 Retirement)



Combination of people + age reduction means pay of about 19%

Projected OASDI Costs and Revenues



How to Close The Gap

- Any combination that adds to 2.19% (*challenge 76 years to preserve for*)
- Assume COLA fixes .45
 - Accelerate retirement age increase and index .50 (*index w/ life expectancy*)
 - Increase averaging period to 38 years (*now 35yrs*) .25
 - Cover rest of state and local employees (*vol. butly not under SS*) .20
 - Tax social security like private pension (*not taxed by basic earnings*) .35
 - Increase tax base to 90 percent of earnings .60
 - Increase tax rate by 0.5 each 1.00

Issues Dominating the Debate

- Some increase in revenues or all through benefit reductions?
- Investment in equities?
 - Who controls?
- Individual accounts?
 - How to fund?

*add on? or take
from current program*

*↳ major challenge to MSA ~~with~~ DI +
SI w/ retirement individualized
accounts*

Selected Proposals

(1) Most current benefit promises are met

- Ball *Stock investments*
- Aaron - Reischauer

(2) Individual accounts are added on *get more / new ~~at~~ on the table*

- Gramlich "Individual Account" plan
- Feldstein-Samwick

(3) Individual accounts are carved out

- CSIS
- Moynihan

Seminar on Social Security Solvency and Disability Insurance
January 25, 1999

Table 1. Work and Transfer Benefit Prevalence for Men by age in The Netherlands and the United States
(in percents)

Age	United States				The Netherlands			
	Working ^a	Not Working			Working ^a	Not Working		
		Disability Transfers ^b	Employer Pension ^c	Other ^d		Disability Transfers ^b	Employer Pension ^c	Other ^d
51	82.6	4.1	0.9	12.4	83.3	13.7	0.0	3.0
52	84.9	3.0	2.4	9.9	87.5	8.1	1.9	2.5
53	82.8	3.5	0.5	13.2	81.9	14.1	1.7	2.3
54	84.6	2.9	2.7	9.8	74.6	17.2	1.9	6.2
55	78.5	4.5	1.8	15.3	72.2	16.7	3.5	7.5
56	76.9	5.0	6.3	11.8	59.0	23.9	10.2	6.8
57	80.3	4.6	7.0	8.0	58.7	17.4	15.6	8.3
58	71.5	7.5	9.2	12.0	49.0	25.0	19.0	7.0
59	68.9	6.5	9.3	15.3	44.1	23.2	27.5	5.2
60	67.9	6.1	12.6	13.3	20.9	33.3	42.3	3.5
61	65.9	5.6	16.0	12.5	16.8	26.9	50.5	5.8

15% ability to work 1990s benefit

changed benefit to provide benefits

- + problem: life expectancy - death of baby boomers extended
- + why is it good to increase retirement at 62?
- + what do with the low-end of mental/physical
- * Have to get more capital or more workers into the system

**Table 2. Health Status Measures of Men, Aged 51 to 61,
in The Netherlands and the United States in the 1990s**

	Sample Size	ADL/IADL ^a	Outpatient Visits ^b	Nights in Hospital ^c	Work Limitations (percent) ^d
The United States					
All	4,552	0.44	4.3	1.09	20.4
Working ^e	3,425	0.39	2.8	0.55	10.1
Not Working	1,127	0.43	7.0	3.51	54.7
Disabled ^f	236	0.46	11.0	6.68	93.6
Pensioner ^g	236	0.35	5.4	2.49	36.6
Other ^g	613	0.46	6.1	2.73	48.1
The Netherlands					
All	2,183	0.34	4.4	0.89	36.6
Working ^e	1,261	0.20	3.5	0.49	20.5
Not Working	922	0.53	5.7	1.45	58.4
Disabled ^f	444	0.87	8.3	2.11	94.8
Pensioner ^g	359	0.20	3.2	0.64	21.9
Other ^h	119	0.24	3.8	1.41	33.1

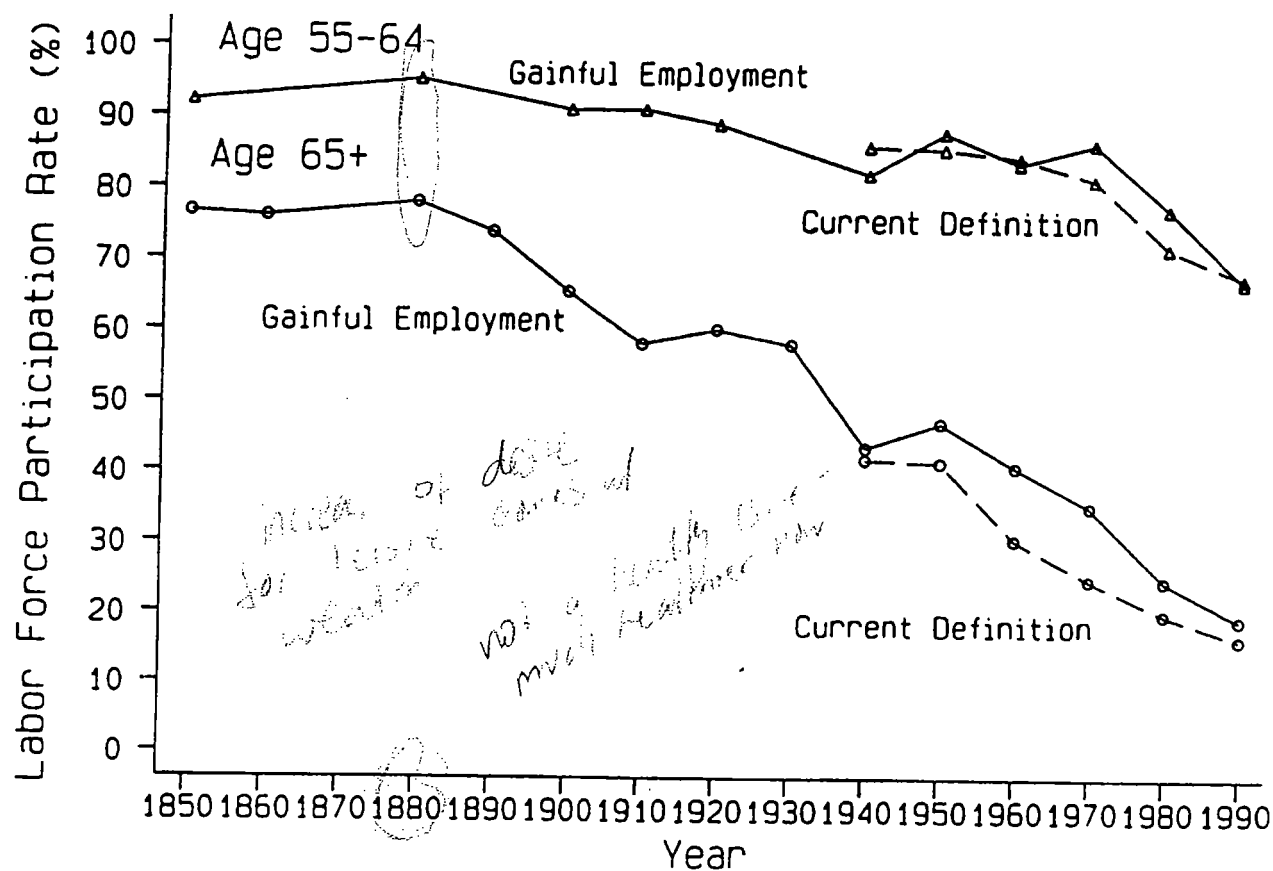


Fig. 2.1 Labor force participation rates of men aged sixty-five or over and of men aged fifty-five to sixty-four

Table 1. Male Labor Force Participation Rates by Age in the United States, 1940 to 1997

Year	Age												
	55	60	61	62	63	64	65	66	67	68	69	70	72
1940 ^a	93.8	85.5	83.6	80.0	80.4	77.0	70.0	68.1	60.3	58.5	56.3	48.6	---
1950 ^a	90.6	84.7	82.3	81.2	79.8	76.8	71.7	67.1	59.4	57.7	54.5	49.8	39.3
1960 ^a	92.8	85.9	81.6	79.8	77.8	71.5	56.8	49.0	42.7	42.0	39.0	37.2	28.0
1970	91.8	83.9	80.1	73.8	69.4	64.4	49.9	44.7	39.4	37.7	34.0	30.1	24.8
1975	87.6	76.9	73.5	64.4	58.3	54.2	39.4	34.2	30.5	23.7	25.8	23.7	22.6
1980	84.9	74.0	69.6	56.8	52.3	48.8	35.2	30.4	27.9	24.1	23.0	21.3	17.0
1985	83.7	71.0	66.5	50.9	44.7	42.2	30.5	26.5	23.7	20.5	19.5	15.9	14.9
1990	85.3	70.5	67.0	52.5	45.5	40.9	31.9	27.2	27.0	23.4	19.0	17.1	16.4
1995	81.1	68.9	62.0	51.3	43.2	40.3	33.5	30.2	25.8	22.4	21.9	20.6	16.0
1996	81.9	67.5	64.8	51.5	45.3	40.6	33.4	31.7	26.5	22.7	22.2	21.3	16.3
1997	83.4	68.3	63.8	52.6	46.1	39.5	32.4	31.5	30.3	24.4	22.8	21.7	17.3

^aBased on adjusted U.S. Bureau of Census labor force participation data. The adjustment is based on the ratio of CPS figures and census figures in 1970.

Source: Labor force participation figures from 1970 to 1997 are based on unpublished data from the *Current Population Survey* (CPS).

from 70 yrs. to 62 yrs. for 50% retirement

↑
young
hard
now

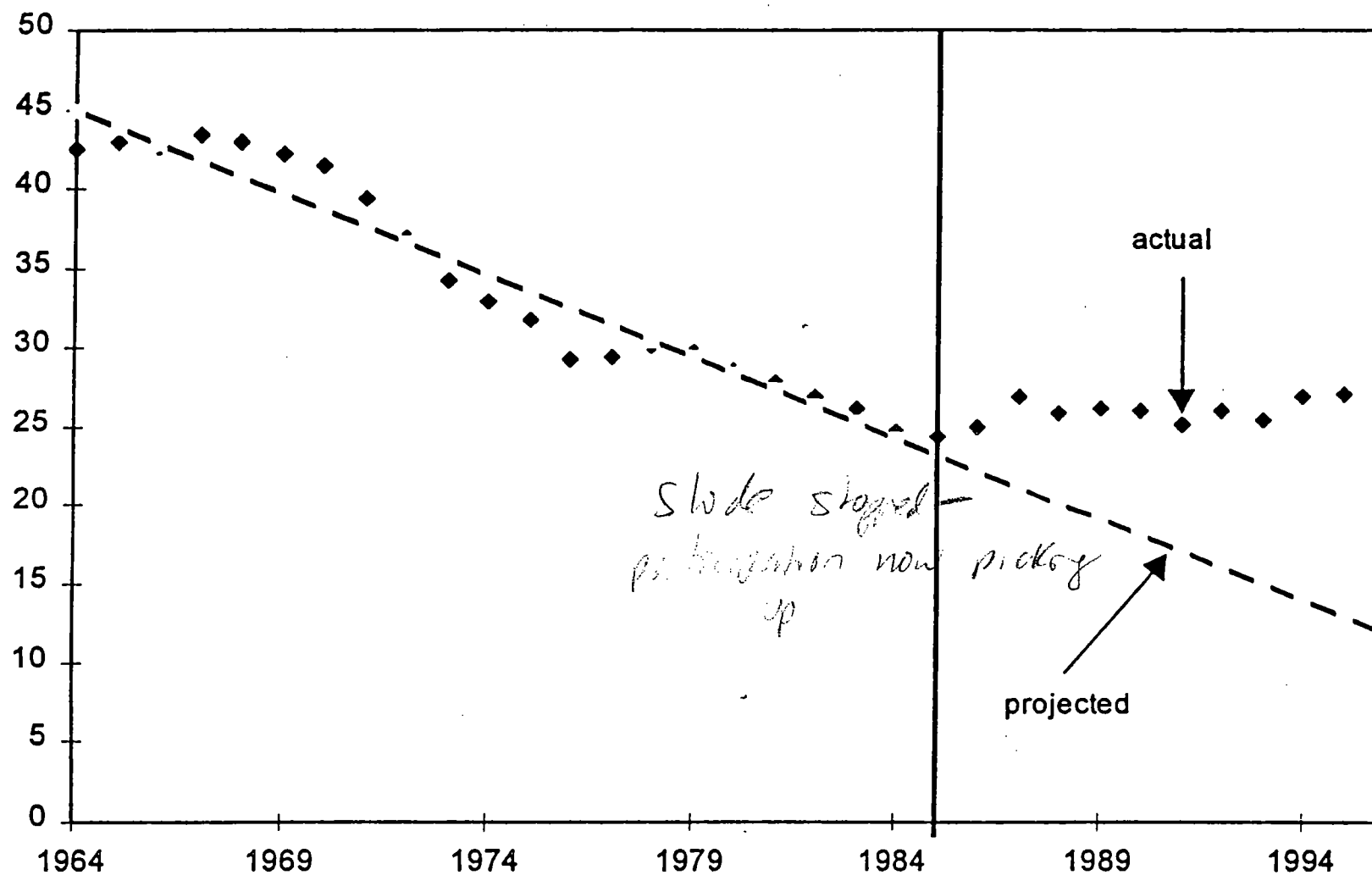


Figure 2 Labor Force Participation Rates of Men Aged 65-69 in Years 1964-1996. Source: Quinn 1997.

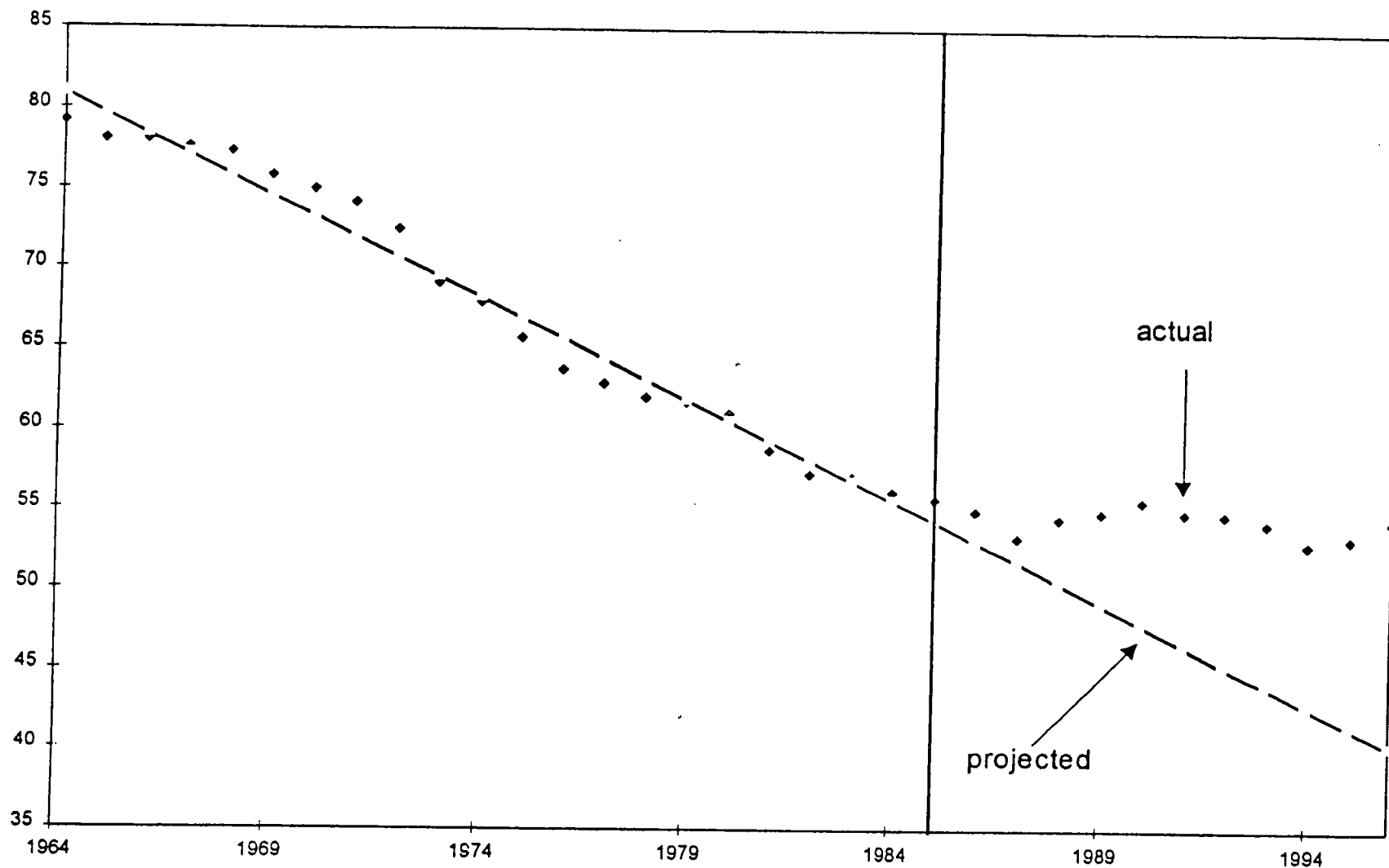


Figure 1 Labor Force Participation Rates of Men Aged 60-64 in Years 1964-1996. Source: Quinn 1997.

Table 1. Summary of the Characteristics of All Men and Women First Eligible to Receive Social Security Retirement or Spousal Benefits at Age 62 in 1993 or 1994 by Benefit Status and Race^a

Race	Takers						Postponers					
	Share Taking Benefits at Age 62	Pension Eligible 1992 ^b	Median Household Net Assets ^c		Poor Health 1994 ^d	Household Pension 1994 ^e	Share Postponing Benefits at Age 62	Pension Eligible 1992 ^b	Median Household Net Assets ^c		Poor Health 1994 ^d	Household Pension 1994 ^e
			1992	1994					1992	1994		
Black												
Men	0.29	0.61 (0.50)	\$79,750	\$83,500	0.39 (0.50)	0.58 (0.50)	0.71	0.57 (0.50)	\$54,800	\$55,000	0.26 (0.44)	0.20 (0.40)
Women	0.28	0.40 (0.50)	\$56,850	\$60,000	0.27 (0.45)	0.36 (0.49)	0.72	0.25 (0.44)	\$35,900	\$45,000	0.38 (0.49)	0.29 (0.45)
White												
Men	0.27	0.66 (0.48)	\$185,100	\$181,000	0.22 (0.42)	0.72 (0.45)	0.73	0.63 (0.48)	\$182,500	\$208,550	0.20 (0.40)	0.32 (0.47)
Women	0.32	0.25 (0.44)	\$182,000	\$187,000	0.30 (0.46)	0.61 (0.49)	0.68	0.46 (0.50)	\$162,750	\$186,500	0.24 (0.43)	0.41 (0.49)
All												
Men	0.27	0.65 (0.48)	\$155,500	\$160,200	0.22 (0.41)	0.71 (0.45)	0.78	0.60 (0.49)	\$143,000	\$150,000	0.21 (0.41)	0.30 (0.46)
Women	0.30	0.26 (0.44)	\$147,300	\$151,000	0.31 (0.46)	0.57 (0.50)	0.70	0.39 (0.49)	\$109,000	\$114,500	0.26 (0.44)	0.39 (0.49)

* suggests could raise age of entry into workforce

* advocates age increase - guarantees more workers will get increase in disability, etc, but increase in overall employment

Table 2. Employer Pension Eligibility, Health, and Household Net Assets of Men and Women
Who Take or Postpone Taking Social Security Benefits at Age 62 in 1993 or 1994

Race	Gender	Employer Pension Eligibility ^a	Poor Health 1994 ^b	Takers			Postponers		
				Sample Share [obs]	Median Household Net Assets		Sample Share [obs]	Median Household Net Assets	
					1992	1994		1992	1994
Black	Men	yes	yes	0.18*	---	---	0.07*	---	---
		yes	no	0.43	\$90,000	\$102,500	0.41	\$83,250	\$78,000
		no	yes	0.11*	---	---	0.21	\$2,500	\$105
		no	no	0.29*	---	---	0.31	\$32,900	\$48,000
White	Men	yes	yes	0.15	\$193,000	\$103,750	0.11	\$123,000	\$105,000
		yes	no	0.51	\$180,550	\$202,700	0.50	\$180,250	\$218,465
		no	yes	0.07*	---	---	0.09	\$144,350	\$161,000
		no	no	0.28	\$207,480	\$218,500	0.29	\$203,000	\$194,500
Black	Women	yes	yes	0.03*	---	---	0.07*	---	---
		yes	no	0.35	\$82,750	\$126,750	0.19	\$85,500	\$126,000
		no	yes	0.27	\$7,200	\$33,000	0.29	\$3,100	\$5,750
		no	no	0.35	\$56,000	\$46,900	0.45	\$36,750	\$44,750
White	Women	yes	yes	0.03*	---	---	0.07	\$140,100	\$216,300
		yes	no	0.20	\$153,000	\$198,000	0.36	\$190,000	\$225,000
		no	yes	0.26	\$199,250	\$154,500	0.16	\$92,468	\$77,500
		no	no	0.51	\$187,000	\$191,500	0.40	\$166,150	\$192,750



"Bourke, Bob" <BOURKR@DSHS.WA.GOV>
12/04/98 12:31:44 PM

Record Type: Record

To: Jonathan M. Young/WHO/EOP

CC:

Subject: RE: SS Conference Call Today, 4-5 pm

I can not participate but have these suggestions for today and or the conference:

Eliminate the Marriage Penalty

In relation to SSI, I have two participants who just married and they found out after the fact that instead of each receiving \$500 per month (which is hard enough to live on, they now have to live on approximately \$750). Unfortunately they did not let me know in advance about their plans or I would have told them about the "cruel facts of life" involved, and they could have factored that into their decision making process. Since there is a conference coming up on Social Security, it should be brought up as a major issue to not penalize people for doing what society otherwise encourages. They may lose their house(an affordable place in a small rural town) partly over this issue. I know others who have been in similar situations who chose not to marry.

Increase incomes, not subsidies for housing

In addition, it has been a cruel trick really that subsidized housing is used as a way to manage poverty when it really meets the needs of a small percentage (of not only all categories of low income people) people on SSI. How about a truly revolutionary idea of actually increasing the \$ amount of SSI for people, as well as increasing incentives for employment(as in the Kennedy Jeffords Bill).

While the recent announcement by the President of new initiatives in subsidized housing are welcome. It will probably not overcome what has happened to people who find that previously available subsidized housing is no longer available at all(due to end of HUD contracts after 20 years) or that it is now only available to Senior Citizens.

Thank You!

Bob Bourke
Independent Living Counselor
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Division of Vocational Rehabilitation-DSHS
Bourke@dshs.wa.gov <Bourke@dshs.wa.gov>



Soulvoice @ aol.com
12/31/98 11:16:02 AM

Record Type: Record

To: SylviaC @ netcom.com
cc: See the distribution list at the bottom of this message
Subject: White House Conference on Social Security

Sylvia, Happy New Year. Could you please post this longer description of the White House Conference on Social Security on Madness please:

White House Conference on Social Security, Dec. 8, 1998
By Daniel Fisher

I attended the White House Conference on Social Security Dec. 8, 1998. The conference was convened by President Clinton to achieve consensus on the best reforms to maintain Social Security solvency. It has been projected that unless steps are taken in the next several years, the Social Security trust Fund (which pays out retirement, survivor, and SSDI benefits) would reach zero by the year 2032.

It was a high powered, exciting meeting, with most of the big players in attendance, including 10 representatives from the disability community, the Presidents of AFL-CIO, NOW (National Association of Women), and AARP (Association of Retired Persons), and Senators and Congressmen. A strong disability contingent was there thanks to the efforts of Jonathan Young who is in the White House Office of Public Liaison, the disability department. There were opening remarks by President Clinton in which he listed as one of the principles of Social Security reform that the safety net for people with disabilities should be preserved.

One of the biggest reform issues presently under consideration is whether to privatize Social Security. One aspect of privatization would be to allow people to contribute part of their Social Security deduction into personal savings accounts. This proposal would benefit those persons who could work a full lifetime and have high earnings but would unravel the safety net aspects of Social Security for everyone else. There was general consensus among those of you who contacted me that the safety net of Social Security, which provides vital financial support for people with disabilities, women, children, and minorities in addition to retirees, should be preserved. Most c/s/x s also agreed that privatizing Social Security by creating such personal savings accounts was a mistake. I passed these opinions on to the Conference and our ideas were well received. We were joined in our appeal by women's groups, groups representing people of color, and the AFL-CIO. Another aspect of privatization, namely keeping Social Security intact but investing part of the Social Security Trust fund in the stock market was more generally supported. Other proposals meant to improve the solvency of Social Security were to increase the retirement age to 70 (over time), remove or raise the cap on FICA tax on income above the present level of \$68,000, and reducing the cost of living increase each year by a small amount. Generally, no politician wants to go on record as having said they want to raise taxes or cut benefits. The

debate on the future of Social Security will unfold in congress and the White House over the next several months. Since neither side has come up with a plan. Robert Ball, former Commissioner of Social Security under Kennedy, Johnson, and Nixon! has proposed a plan which would preserve benefits, insure solvency for the next 75 years and not involve personal savings accounts. This proves that the system can be saved in its present form without resorting to dramatic measures. This debate as well as that regarding Medicare's future will continue for several years.

The following is an analysis of the impact which personal savings accounts would have on disability benefits:

Released Dec. 15, 1998: new analysis examining the impact of various reform proposals on people with disabilities and survivors. This new report, by Kathy Larin and Robert Greenstein of the Center on Budget and Policy Priorities, finds that, "proposals that shift revenue from the Social Security trust funds to private accounts generally entail large reductions not only in Social Security retirement benefits, but also in Social Security disability and survivors benefits."

This is an important analysis that must be emphasized during the Social Security debate. The Title of the Report is "Social Security Plans That Reduce Social Security Retirement Benefits Substantially Are Likely to Cut Disability and Survivors Benefits as Well." The report is available on the web at www.cbpp.org or by calling the Center at (202)408-1080.

Other good sources of information on Social Security Reform Are:

1. New Century Alliance for Social Security is organizing a coalition of groups to preserve the safety net aspects of Social Security. Their web site is www.ourfuture.org and tel. 202-955-5665

2. National Academy of Social Insurance has conducted a study, "Evaluating the Issues in Privatizing Social Security" which is available at their web site: www.nasi.org or by phone, 202-452-8097

Message Copied To: _____



starbird42393 @ webtv.net (Wilson Hulley)
12/28/98 05:34:48 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: Clinton Social Security OK session

Thank you very much for including us for this critical session. Our followup meeting in your office produced valuable discussion as to critical next steps.

The social security issue is a key national program that the disability population depends on for education and living expenses. You are on the right track. Any issue demands a focus point that gets everyone's attention. Social security is a good "jump off" for a discussion on removing disability barriers, improving educational opportunities for all Americans. And at some point, we must get over the separate and not equal educational structure in our country. Too many school districts are not complying with federal educational standards; issues that DOJ and DOE needs to address. Of course, we need to keep the discussion consumer friendly and simple english to gain the support of all Americans.

The problem is that the vast majority of Americans care only about the ten second sound bit and only take notice when the issue directly impacts their household. And there is the real problem - to recapture the will of the American people to "give a damn" about their surroundings and institutions, ie. education and social security.

I look forward to your outline at which time I will get John to comment on when he returns next week.

Oh - how can we ensure that each public exposure of the President, even inside The White House, will have interrupters on the stage with him. We can not allow the hearing impaired community start up their "He don't care about us".....that visible sign language person is critical to insure that all Americans realize that part of our population requires accommodations.

Thanks again and have a good evening.

Wilson & Star

**The Arc of the United States
Governmental Affairs Office**

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(202) 785-3388 • FAX (202) 467-4179 • TDD (202) 785-3411-4179
E-mail: arcga@radix.net

FAX FORM (COVER SHEET)

SENT BY:

____ Paul Marchand

____ Evelyn Powell

☐ URGENT

✓ Marty Ford

____ Brenda Walker

☐ PLEASE COMMENT

____ Kathy McGinley

☒ FYI

____ Kim Musheno

DATE: 11/10/98TO: Jonathan YoungFAX #: 456-6218NUMBER OF PAGES (INCLUDING COVER SHEET): 2

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REMARKS: _____



*a national organization
on mental retardation*
formerly Association for
Retarded Citizens of the United States

**The Arc of the United States
Governmental Affairs Office**

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November 10, 1998

The President
The White House

Mr. President:

As you know, people with disabilities, including people with mental retardation, are keenly interested in the potential outcome of the debates regarding the solvency of the Social Security Trust Funds. The Arc is heartened that you have pledged to "save Social Security first" and that you have cited the interests of people with disabilities in noting the strengths of the insurance provided through the Social Security system. We are also vitally concerned with the outcome of the White House Conference on Social Security that is scheduled for December 8 and 9.

We respectfully request that The Arc of the United States be represented at the White House Conference to represent the interests of people with mental retardation. While people with mental retardation and their families share the perspective of people with other disabilities regarding the Social Security system, they also have the unique perspective of beneficiaries who must rely on the survivors and dependents programs. We believe that this is a perspective that is too often lost in the public debate. We urge you to ensure that it is brought to the table.

Respectfully yours,



Brenda Doss
President



*a national organization
on mental retardation*

formerly Association for
Retarded Citizens of the United States

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PEOPLE WITH DISABILITIES HAVE A STAKE IN SOCIAL SECURITY REFORM

Old Age, Survivors, and Disability Insurance

A common myth is that Social Security is just for people who have retired. The public debate has centered almost exclusively on Social Security retirement. However, the impact that any Social Security reform might have on the disability insurance program and the protections for survivors and dependents must also be included in any discussions concerning the future of Social Security.

People with disabilities believe it is critical to remember that the Title II old age (retirement), survivors, and disability insurance programs are **insurance programs**, earned through payment of FICA taxes, designed to remove risk from certain life events for the individual. They insure against poverty in retirement years; they insure against disability limiting a person's ability to work; and they insure dependents and survivors of workers who become disabled, retire, or die by providing a basic safety net. While retirement years can be anticipated, disability can affect any individuals and families unexpectedly at any time.

People with disabilities benefit from the Title II trust funds under several categories of assistance. Those categories include:

- disabled workers, based on their own work histories, and their dependents;
- retirees with benefits based on their own work histories;
- adult disabled children of disabled workers;
- adult disabled children of retirees; and
- adult disabled children who are survivors of deceased workers or retirees.

In fact, more than one-third of all Social Security benefits are paid to non-retirees: people with disabilities, children, and widow(er)s. For the average wage earner with a family, Social Security insurance benefits are equivalent to a \$300,000 life insurance policy or a \$200,000 disability insurance policy.

Beneficiaries with disabilities depend on Social Security for a significant proportion of their income. About 21 percent of beneficiaries with disabilities live in poverty, compared with rates of 13 to 15 percent for the general population in the early 1990s. The recently conducted National Organization on Disability - Harris Poll revealed significant data on employment of people with disabilities: 71 percent of working age people with disabilities are not employed, as compared to 21 percent of the non-disabled population. The capacity of beneficiaries with disabilities to work and to save for the future and the reality of their higher rates of poverty must be taken into consideration in any efforts to change the Title II programs.



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Privatization Proposals

Privatization of the Social Security trust funds would shift the risks that are currently insured against in Title II from the federal government back to the individual. This could have a devastating impact on people with disabilities and their families as they try to plan for the future. The basic safety nets of retirement, survivors, and disability insurance would be substantially limited and individuals, including those with limited decision-making capacity, would be at the mercy of fluctuations in the financial markets. (Some policymakers have suggested that the federal government should take the responsibility of investing a portion of the retirement and disability trust funds in the private market with careful controls on decision-making. Since this proposal would not shift investment risk to individuals, we do not consider this "privatization" and have not opposed such investment.)

In addition, many proposals to address the very high transition costs associated with privatization would negatively affect the disability programs. Some of the proposals would make drastic cuts in benefits in the disability insurance program and significantly reduce, if not eliminate, the value of protections for the dependents and survivors of covered workers. Other proposals simply do not address the disability programs and seem to ignore the impact of other changes on people with disabilities, such as changes in the benefit formula.

Proposals to Reform Social Security

As discussions move forward, regardless of the proposal, people with disabilities must be included in analysis of the impact. It is imperative that policymakers ensure:

- Meaningful inclusion of people with disabilities and their families in discussions about the solutions to the Social Security Trust Funds projected shortfall.
- Preservation of the guarantees inherent in the disability insurance program and the protections for survivors and dependents in the Old Age, Survivors, and Disability Insurance programs of Title II of the Social Security Act.
- Protection of the integrity of the benefits provided (benefits must be at a reasonable level for support) and protection of the value of benefits (benefits must be indexed for inflation to protect their buying power).

Other Concerns

Finally, people with disabilities are concerned that the Supplemental Security Income program could potentially be affected by whatever actions are taken regarding the Title II benefit programs. For example, if there were reductions in benefits for retirees and people with disabilities, under current law, the SSI program would have to step in to support many of those who are forced further into poverty. We urge great caution in changes which might affect the SSI program

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NOTE: This statement also reflects the position of the **Consortium for Citizens with Disabilities** Task Force on Social Security. Approximately 100 national organizations participate in CCD; 45 national organizations participate in the CCD Social Security Task Force.