

Dear Lucy:

So. You're worrying whether you'll collect your Social Security retirement benefits when you qualify. Every retiree or person approaching retirement should be worrying about that, and many are. Young workers, whose social security taxes increased appreciably this year, and their employers, who pay into the system an amount equal to each employee's tax, worry along with you. The subject is of certain interest to adults of all ages because every worker, retiree, survivor, and disabled person wonders if the program is viable. One reason for concern is that neither of the common information sources, the media (newspapers, radio, television, and popular magazines) nor the politicians have made responsible attempts to give people an honest basis for discussion. The First Amendment-protected sources of information say little more than, "The sky is falling." Politicians concentrate on setting up strawmen to knock down.

For the purposes of this letter, we will primarily consider only the most troubled sector, the Trust Funds originally intended to provide pensions for retirees. That segment of the system has at least three major problems. Each different and separate from the others. First, the Trust Funds are being drawn down faster than they are being replenished; this means there may be no funds to pay either current or near-term retirees as early as next December. Second, the system, roughly 50 years old, was designed for today's grandparents, and, like an out-dated suit, no longer "fits" because society's size and shape have changed since the measurements were

SOCIAL SECURITY:

A troubled, antiquated system which desperately needs to be re-designed

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taken. Unless the system is re-designed or significantly altered, it will rip out at the seams. And third, the system unfairly rewards the affluent and penalizes the poor. Built-in rewards/penalties are intrinsic to the design and are most glaringly evident in the percentage cost-of-living adjustments which were tacked onto the garment in 1972 when Congress amended the law to provide for percentage increases in benefits based on the Consumer Price Index.

Let's look at each of these three, in turn. Since the mid-1970s, social security has paid out more dollars in benefits than were collected in taxes earmarked for distribution to retirees and has drawn on the system's Trust Funds, now nearly depleted. In short, it's going broke.

We're left with only two inescapable near-term alternatives: one, a decrease in benefit increases; or two, increases in social security taxes. There's been much loose talk about financing the system from general revenues. This proposal, beloved of liberal politicians, is a fraud. You have only to contemplate the enormous present federal deficit to realize that general revenues already fall short, by scores of billions of dollars, of covering mandated federal expenditures. Putting the social security system at the mercy of this proposal is a cruel hoax to inflict upon the elderly. The system has run out of money mainly because the cost-of-living adjustments have increased payouts faster than payroll taxes and employer taxes have replenished the funds. Right now, the situation is exacerbated by growing unemployment.

Realistic analysis of the Consumer Price Index, the basis for cost-of-living adjustments, reveals an exaggeration of inflation's impact on retirees (and probably on the rest of the public); among other things, for example, that index reflects rising costs of single-family houses. How often does a retiree become the owner of a first home? Certainly not frequently, nor repeatedly. We should recognize, as well, that inflation hits the poorer (and generally older) retirees more severely than the more affluent (and generally younger) because the poor must spend a larger proportion of their incomes on necessities than must wealthier recipients.

Considering these things, the most reasonable solution to the short range problem should be to increase slightly social security taxes for the 115 million working taxpayers (which was effected in January, 1982) and decrease slightly the cost-of-living adjustments for the 36 million retirees covered by social security. Note there would be no decrease in benefits, only in future adjustments. Balancing a small increase in the tax with a small decrease in adjustments would relieve near-term pressure.

As presently designed, social security is unsuitable and unworkable for those 135 million Americans born after WWII during the Baby Boom because the system depends absolutely upon younger generations to support older ones. Funds are collected as pay-out needs arise. The Trust Fund, contrary to the usual interpretation of the term, is but a temporary repository.

This means that 25 years from now when Baby Boomers begin to retire, Baby Busters (now arriving), will be called upon to supply social security retirement benefits for Boomers; 30% to 40% of the Busters' taxable income will be needed to support the retirees. Clearly, putting such a burden upon Busters is unacceptable; some better solution must be found to accommodate conditions forecast for the late 20th and early 21st century.

Predictably, today's young people, who will be in their 60s in only 25 to 35 years, will enjoy better health and live longer than their forebears. Callous although it seems, the longer retirees live, the more it costs to pay them social security benefits. Unlike ordinary life insurance where people pay premiums until they die, people who start collecting social security payments, unless they continue earning, stop paying "premiums." In the 1930s when age 65 was chosen as retirement age, 65-year-old males lived another 12 years and females another 13 years, on the average. When today's young people reach 65, the average male will live 16 more years, the average female, 22 more. If major breakthroughs in health care are achieved, they will live even longer.

Expecting that today's healthier young people will remain in the active workforce longer than did their grandparents is entirely reasonable. Those who choose early retirement may use voluntary retirement plans (private pensions, Keoghs, and IRAs) all of which were virtually non-existent forty years ago. Today these plans are well developed and the future should offer more such options. Any new pattern drawn for the social security system must protect today's young people when they attain the extended age of retirement.

Even today, many retirees receive other pension income in addition to social security benefits; as a result, some are quite well-to-do. To meet current and future demands on the trust fund, it may become necessary to tax as income the one-half of the social security tax employers pay, provided a retiree's annual gross income is in excess of a certain generous amount — in today's economy, say \$20,000. Obviously, the poorer retirees would be unaffected by this tax on higher incomes. Part of the savings realized could rebuild trust fund reserves; part could provide more adequately for poor retirees.

It is argued that redistributing the portion of social security taxes paid by employers would turn the social security system into a welfare program. The alternative may well be forcing millions of retirees into the already overburdened welfare system. Do pensioners who earned hundreds of thousands of dollars a year during their productive years, in some cases, truly need tax-free income from social security? Or do retirees who have little or no income other than social security have greater needs, needs this

nation is committed to fill one way or another?

Earlier in this letter I mentioned the unfairness of the **percentage** cost-of-living adjustments made to social security recipients. Let's look at some numbers. A person age 65 in 1981, who always earned the maximum annual salary base upon which maximum social security taxes were levied, can retire today with just over \$750 a month tax-free social security income. Many elderly, who retired ten, 15, or even 25 years ago, receive much lower social security benefits because their payments are computed on their earnings. Their earnings were lower during their productive years because the value of the dollar was higher. Assume those elderly recipients receive an average of \$200 a month.

When a cost-of-living adjustment is made in the social security benefits paid, a percentage is applied across the board. Now, if the newly retired person with a monthly social security income of \$750 gets a 10% cost-of-living increase, he (or she) receives \$75 more each month while the older and poorer retiree's social security check is increased by 10% of \$200, or \$20. Is this fair? Remember this is a cost-of-living adjustment. Both retirees pay the same price for a kilowatt of electricity, a gallon of heating oil, or a loaf of bread. These are some of the items making up the Consumer Price Index. We're not talking about the cost of luxuries, here; increases in costs of a Mercedes sedan or a Broadway show are not our concern.

Clearly, the older, poorer, more needy retirees are not receiving equitable treatment. A fairer way would be to provide every social security recipient with an **equal** (rather than a percentage) cost-of-living increase.

How could this be done? Suppose the total **national** payout for cost-of-living adjustments increased 10% and this sum were divided equally among recipients. The numbers look like this: 36 million social security retirees receive an average of \$400 a month. Multiply 36 million by \$400 for a total of 14 billion, four hundred million dollars per month. Divide the total by the number of retirees (36 million) to arrive at the increase each would receive, or \$40 per month, without regard to the amount of his previous social security check.

This would be fairer to the elderly poor who, under the present percentage method, receive a much smaller cost-of-living increase while facing rising living costs that consume a far greater percentage of their incomes than the more affluent must spend on necessities.

Cost-of-living adjustment dollars distributed to retirees total the same, however they are disbursed. A significant number of retirees receiving top social security payments also supplement that income with corporate pensions, personal investments, and even consultant fees; many are in far less need of social security income than the elderly who attempt to survive on \$200 a month.

Attempts to overhaul social security have met with such strong opposition that politicians quail; yet, unless changes are made, the system will founder. A recommendation that the cost-of-living adjustments be based on the wage scale, rather than the consumer price index, has been ignored, so far, by the Reagan administration. Implemented, that suggestion would have saved the trust fund between a billion-an-a-half to two billion dollars this year alone, and would have cost the average retiree only \$6 a month.

If Congress were to combine both these proposals, the near-term problem, that of totally exhausting the funds available for distribution to recipients of retirement benefits, might be solved for some years to come.

This has been a long letter, Lucy, but an important one. Legislators are now hoping people will be lulled into false security until after next November's elections. As long as social security checks continue to arrive on schedule, that's a real danger. People tend to ignore problems until they feel the big squeeze themselves. In this instance, the big squeeze will be a crushing blow not only to retirees, but to the entire economy. You, and all of us, have good cause for worry, and I hope you will write to your Congressman and tell him we must have immediate action to protect American retirees. I've written to mine.

Love,
Oliver