



a report from

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The Future of the Retired American

" . . among our objectives, I place the security of men, women and children of the Nation first. People want. . . some safeguard against misfortunes which cannot be wholly eliminated in this man-made world of ours. . . "

**--President Franklin D. Roosevelt
Message to Congress, June 8, 1934**

Fourteen months after President Roosevelt made that speech, Congress handed Americans a new kind of basic security -- Social Security, it was called -- designed to make growing old in America a less frightening thing.

Until that time, older Americans had few options. Either they were lucky enough to be born rich or to become rich in their lifetime, or maybe they managed to build a good savings account in the local bank. If those options were closed, they might expect to someday move in with their children -- or they could live their remaining years in a county poorhouse.

A New Option

Social Security, for the first time, opened a new option for every American. It was never intended, by itself, to be complete and adequate, but at least citizens would have a buffer of some sort against the misfortunes that FDR mentioned, a plan that when augmented with savings and perhaps an employer pension plan, offered some basic retirement security.

The plan seemed quite sound, and it seemed to serve us well for a generation.

But what "seems to be" is not always "what is," and Social Security today is in trouble. The plan that had accumulated enough of a surplus in the 1940s to make payments for the next 19 years, dwindled to only a few month's worth of payments in 1977.

Amid cries that it was tottering on the verge of bankruptcy, Congress moved quickly to reinforce Social Security.

As John F. Kennedy once said, "The chickens have come home to roost, and we seem to have moved into the chicken coop."

What happened?

Well, to understand what went wrong, let's go back and take a look at the reasoning that made Social Security such an appealing program to begin with.

This appeal was founded on a notion that seemed to insure a form of perpetual financing, and it was based on two assumptions: first, that the population of the United States would double every 50 years or so, and that our Gross National Product would double every 10 or 12 years.

As long as these two "constants" remained truly constant, as long as the population and the GNP grew and grew, there would always be highly favorable consequences.

There would always be more and more workers, generating more and more profits -- more than enough to spread around to all our retired folks.

Social Security at its most fundamental, is a bargain between generations -- the working generation supporting the dependent generation. And as long as the population grew, the government could afford to have very generous retirement benefits written into law.

The private sector also found this concept appealing. After all, as long as the GNP kept doubling each decade or so, higher profits would keep their retirement programs solvent, too.

And, in time, state, county and city governments followed suit with retirement plans of their own.

All of this went along very well, for a time.

But by the 1950s and into the early 1960s, government at all levels found it easier to settle the economic demands of government unions, not by higher salaries, but by agreeing to future compensation in the form of larger and larger pension proposals, early retirement plans and so on.

To the current mayor or governor or Congress, there was a great advantage to these agreements. If they didn't come up with the money right away, the payments could be deferred.

Two phenomena encouraged this line of thinking: in 20 years, when all these bills came due, you'd have a huge population increase because of our growing birthrate, and we were in a period of incredible growth, one when our GNP was doubling every few years.

But the truth is that those policies, and those great old economic assumptions about population and the GNP, endorsed by good, conscientious Republicans and Democrats and economists -- have landed us in hot water.

We didn't get here all of a sudden. Danger signals began to flash a few years ago.

First, our population isn't growing as fast as our old assumptions told us it would: our birthrate has slid below the replacement level, and our national rate of population growth -- including immigration -- has dropped from 2.1 per cent in the booming 1950s to 1.0 per cent in the 1970s.

Our Gross National Product, similarly, is not growing as fast as those old assumptions told us it would, spinning out higher productivity and more and more taxes and higher and higher profits.

Diminishing Returns

What does all this mean? It means that if we continue to retire everyone at age 65, we soon will reach a point, in the next century, when we will have one working person making Social Security contributions for every one person who is retired.

That won't work.

In the beginning, Social Security worked well because for every retired American, there were 12 Americans working. In those days, the maximum annual contribution was \$38.

From that high point back in the 1930s and 1940s, we slid to a ratio of 7 workers for every retiree in the 1950s, to 4 workers for every retiree in the 1960s -- and now, we find just 3 workers supporting each retired person. Projections tell us that by 2025, there will be just 2 workers for every retired American.

With that kind of ratio, the payments into Social Security are bound to go up -- and they have. Today, the maximum contribution is \$965 a year. This is one part of the problem: fewer workers paying more.

Another part of the problem is that the original Social Security Act, enacted just to give every American a rock-bottom floor for their retirement years, has been amended repeatedly since 1935.

Some of these amendments only complicated a worsening financial situation. For example, the disability provisions written into Social Security enabled, in some cases, a 25-year-old to stay on the rolls for as long as 40 years. The chances are that a person of that age paid very little into the program, but will take a large sum out -- and you can see what happens.

Strain at the Local Level

And local governments are facing similar strains.

For example, a New York policeman who first got an early retirement plan, later gained a more liberal formula for computing retirement based on his last year's salary. If he worked a lot of overtime in his last year of service and coupled that with a cost-of-living escalator, he probably would discover that his retirement pay was much higher than his actual salary.

A different example is the practice that some call "double-dipping." To explain what happened here, let me recount some history:

Years ago, we determined, for good reason, that we needed a young army. If war comes, the United States needs men in their best fighting years.

At the same time, we wanted an armed forces with good morale. To attain that, we had to create opportunities for young men and women to advance. Therefore, rather than pay high salaries during their best years, we promised a pretty good retirement after 20 years.

Hundreds of thousands of Americans made that deal with the government and chose military careers. After their retirement, many took federal jobs and drew both a pension and a salary.

I'm not talking about the case of a retired enlisted man who may be getting \$4,000 or \$5,000 in retirement pay, and perhaps is making \$10,000 or \$12,000 at another job.

What I'm concerned about are the cases involving huge amounts of money, and I think that in these cases, we ought to work out a "top limit" formula that would let us pare these sums to a reasonable size.

And I want to note here, as emphatically as I can, that *whatever we do about double-dipping in the future, we can't go back on the current arrangements, in the cases of either those who already are retired, or those now on active duty.*

But double-dipping should be modified in the future. Let me tell you why -- and why I favor a limit formula.

An extreme case of double-dipping was reported not long ago by *Parade* magazine. It involves California Atty. Gen. Evelle Younger, who, by 1983, will be a "quadruple-dipper" drawing four pensions -- one each for his service as a state official, as a retired Air Force Reserve major general, as a District Attorney and as a judge, of \$53,226 a year -- or \$4,435 a month.

Another extreme case was reported recently by *The Washington Post*, which told of a retired Secret Service agent, now employed by another federal agency, who draws retirement pay of \$31,200 a year, and a salary of \$47,025, for a combined yearly income of \$78,225 -- more than any member of Congress makes, more than Cabinet officers and more even than the Vice President.

These are the examples that concern me.

What has happened is that we have created pension plans to meet social needs -- to maintain an Air Force Reserve, to give judges something to compensate them for the earnings they might have realized in private practice, and so on. But in many cases, no one pays into these retirement plans -- or, if they do, the amount is small compared to what they get back.

If Mr. Younger lives another 15 years, he may collect close to a million dollars -- but he only paid a tiny fraction of that sum into those plans. Who picks up the difference? The taxpayers.

I have cited some extremes here because it is these examples that make the need for future policy change seem urgent.

There is another major point that I want to discuss, and it is the one dealing with the age at which workers should retire.

One side in this controversy says that Americans should retire at 65 -- or even sooner -- regardless of whether they are willing or capable of staying on the job. This process is supposed to clear the way for younger people entering the job market.

But, as I mentioned earlier, our birthrate already is dropping. We have to face a situation of fewer, not more, workers coming on the job.

I believe there is so much to be done in America that we can find work for everybody, and that includes the vigorous 60 or 70-year-old who wants to keep working -- and paying taxes, and contributing to the economy.

And I am supporting a bill, introduced by Rep. Claude Pepper of Florida, that would boost the mandatory retirement age to 70. This legislation, still in conference committee as of this writing, would allow people to continue to work if they want to.

The move by Congress raising the "outside earnings" level for Social Security recipients from \$3,000 to \$6,000 over the next four years, is another good step.

I'm not content with the latest Social Security package, but given our alternatives and faced with the urgency of the situation, I think we can live with it until we can put the program back on truly sound footing.

What will the latest package cost?

There has been a good deal of press coverage noting that the 10-year cost will come to \$280 billion.

While that is true, I happen to believe it is a little misleading because we don't usually calculate costs -- or income or taxes -- by the decade.

For perspective, consider that the cost of our national 'defense will come to *\$1.5 trillion* in the next 10 years -- but surely no one is suggesting that we use a 10-year figure for defense spending as we vote on year-to-year defense budgets.

The latest Social Security package, will amount to an average cost to all workers of about \$1.20 per week, over the next 10 years.

A worker now earning \$10,000 now pays \$605 a year. Two years from now, he will pay \$613 - *- or 3 cents per working day*. By 1987, the \$605 goes to \$715 -- or \$1.10 a week.

The \$20,000 worker now pays \$1,143; he goes to \$1,226 in 1979, or \$83 a year -- or \$1.50 a week.

The cost of something figured in 10-year periods doesn't mean much, unless our comparisons are figured in the same way.

Toward a Sound Future

What I've tried to do in this limited space is to give you an idea of where we've been -- and where we are, and some thoughts about what we can do in the future. Let me sum it up:

I'm talking about a several-pronged attack on our economic ills. Let's take care of our retirees -- when they are honestly ready to retire, and not before. If incentives are needed for firemen, policemen and others, let's pay them now and not make extravagant promises for the future. Let's insure that those Americans who want to continue working are given that chance. Government should do what it can to help the private sector boost productivity, and to get our Gross National Product moving again. And we must take a new look at the top level of our military and other federal retirement plans.

If we can accomplish this -- and I think we can -- then we must return to the business of putting Social Security back in order. One way to do that, which I favor, would be to shift some of the cost to general revenues, which would stop this terrible bind on the payroll tax.

Already, there is a plan to finance one-third of Social Security costs with general revenues. The proposal would lower the Social Security tax rate from 6.13 per cent to 3.9 per cent in 1979, and increase the taxable wage in 1979 to \$100,000. The concept is supported by the nation's leading economists, a series of Social Security Advisory Councils, legislative history, international precedent and the plans of the original founders of Social Security.

Rep. Al Ullman, chairman of the House Ways and Means Committee, has suggested that Congress will have to find "a better financing mechanism" for Social Security in the 1980s.

I think he's right.

