



a report from

A handwritten signature in cursive script that reads "Leo J. Addeo".

2nd congressional district of arizona

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The Future of Social Security

Congress can be an unwieldy, cantankerous bunch of men and women, often capable of finding ingenious ways of imitating the ostrich. At other times, it can act with remarkable, almost astonishing speed to get things done.

As a genuine cross-section of the population of the United States, Congress embodies both the best and the worst of our traits. One of the latter is the American tradition of putting things off until tomorrow. We don't seem to act until moved by a flashpoint, a crisis, and like the hero in an old "Perils of Pauline" serial, we rush to the rescue and ride off into the sunset.

It's been no secret that Social Security, one of our most popular and successful social programs, faces serious financial problems. But Congress has yet to act. Now we are running short on time, and we simply must face up to it: Social Security desperately needs financial reform and it must be done by this Congress.

Beginnings

Social Security began in the 1930s as a simple program. It was to supplement the income of retirees and to provide pensions for widows.

Supplement is a key word here -- because it seems to have become virtually forgotten as the years have gone by. Americans who receive Social Security payments today frequently lament that their checks are not enough to live on. And they are right. But Social Security was never intended to be anything more than a supplement to a worker's other retirement income. Sadly, too many public men and women have contributed to that erroneous concept and too many campaign speeches have lent credibility to the notion that Social Security is supposed to be enough to live on in retirement.

But Social Security, in the beginning, was only designed to offer some measure of security to Americans who faced the prospect of otherwise having nothing at all. It

was a program born of the Depression, a time that showed us the terrible price of not planning ahead.

Prior to Social Security, the prospect of growing old in America could be a grim thing. You might be fortunate enough to have children who were caring enough and prosperous enough to take you in. Or you might be taken in at the county poorhouse -- if the county in which you lived had a poorhouse.

But if those options were not open, there was nothing else. Unless you have managed to save enough for retirement or had belonged to a retirement plan or had been born independently wealthy, the retired American faced a future that was bleak indeed.

Those Good Old Assumptions

In earlier years, while our economy seemed on the verge of finding the secret to the golden fleece, it seemed as though there was no limit on what we would do for our people.

Highly popular economic theories of the day, embraced by men and women of every political stripe in public life, told us that those good old days would never end.

We would keep adding people to the work force. Our Gross National Product would continue to increase. More and more jobs meant more and more tax revenues.

Lyndon Johnson used to enjoy telling visitors that every January 1, he would wake up knowing that government had increased revenues, without any new taxes, by another \$35 billion. He was confident it would always be that way. In his time, it was. But he could not forecast the future, and in the 1970s, our economic assumptions collapsed.

- * In 1973, Americans learned that cheap energy, which had fueled our incredible decades-long boom, was a thing of the past.
- * We found that, contrary to what experts had told us, it was possible to have a recession, unemployment and inflation all at once.
- * The growth of our Gross National Product slowed. Our ever-expanding work force stopped expanding.

Everything changed.

Inflation placed increased demands on Social Security for higher and higher benefits. Unemployment, meanwhile, continued to cut into contributions to the treasury.

Old economic assumptions that had fueled Social Security for so long suddenly collapsed, and economic conditions that the experts said were not possible were placing an incredible strain on the program.

Clearly, changes were in order.

'What About My Money?'

Not too many weeks ago, a Social Security recipient wrote a letter to the editor of one of the Tucson newspapers. He complained that Washington had squandered all the money he had paid into Social Security, and that Congress had no right to spend his money that had been accumulating in his account all these years.

The man's complaint was sincere, but it points to a common and persistent misunderstanding about how Social Security works.

Money paid into Social Security by workers has never been held in an individual account. The government does keep track of how much each worker pays, but the program has never functioned like a bank account, and it never will.

Social Security, while frequently referred to as a trust fund, really is a transfer account.

The gentleman who wrote the letter, for example, paid into Social Security during his working years -- and that money went right back out in the form of benefit payments to people who were retired then.

The money he is receiving today is not the money he paid into the fund. It's the payroll taxes being paid by the young worker at Phelps-Dodge, the waitress at the cafe down the street, the baker, the supermarket clerk and thousands of others.

Social Security has always been a contract between generations -- the generation in the work force helps the generation that is not, and both are constantly changing.

In the beginning, those old economic assumptions I mentioned earlier told us that such a system would work well, forever, and they were proved wrong. We had relied on some other assumptions as well -- that the work force would always outnumber our retirees and our birthrate would keep growing. Those assumptions also collapsed.

- * In 1935, when the Social Security Act became law, the average life expectancy for Americans was 61 years. Today, it is 73.8 years. The average American on Social Security today gets 13 more years of benefits.
- * As our population has grown older, our birthrate has declined. The growth rate of the population in the United States in the 1970s has been the lowest of any decade in history except the 1930s.
- * While general population growth has slowed, the number of older people has increased considerably. The number of Americans 65 and older grew by 27.9 per cent during the 1970s. That group is expected to grow even faster in the 1980s.

Social Security faces a long-term problem as well, one that will not become apparent until after the year 2000. As the post-World War II babies move through the system and retire beginning at about 2005, there will be a huge load of retirees and a reduced labor force to support them. Today the aged are about 11 per cent of our population; this will rise to about 16 per cent in the first quarter of the next century.

Today there are about three active workers contributing payroll taxes into the system for each retiree; by the end of the first quarter of the next century, the ratio is expected to be 2 to 1.

In 1953, a retiree received 30.7 per cent of his pre-retirement salary from Social Security. Today, he receives 50.8 per cent. When there was once a 12-month reserve of payments in the program, we now are down to a two-month reserve.

In 1940, we had a program paying \$35 million to 220,000 beneficiaries. By 1977, we were paying \$100 billion to 33 million people. We will pay \$164 billion to 36 million people in 1982. And the system will take in about \$159 billion.

In 1981, a retiree could receive \$14,765 a year. At the rate of \$670 a month, he will have received all he paid into the system in his lifetime in just 19 months, and if he's married, in just 13 months.

Today, one in every seven Americans is receiving some sort of Social Security assistance and in 1980, Social Security spending exceeded military spending by \$26 billion.

There can be no denying that Social Security is in trouble. But there is a way to fix the program, if Congress will face up to it and act without delay.

The Answers

How do we set the program straight?

President Reagan first advanced a plan that called for cuts in Social Security benefits for early retirees. That idea set off such a firestorm that the Senate rejected the package, 96-0, before the White House even had a chance to send it to Capitol Hill.

The latest Administration plan would keep all the Social Security programs in place, but would reduce benefits.

We hear much of the "Reagan mandate" these days, and that it means that Congress ought to go along with the President when he sends his legislative proposals to the Senate and the House.

But this "mandate" virtually evaporates when it comes to the President's Social Security proposals, for they have generated the heaviest load of "anti" mail that has come to my office since the days of Watergate and Vietnam. The tone is one of abject fear. Some write of the long-term consequences of reducing benefits without making any other needed reforms and ask, "When we find ourselves in this situation again in a few years, what then? Cut benefits again?"

Judging from the sentiment I've encountered in Southern Arizona, there seems to be room for an alternative plan. I have one.

A couple of years ago, I co-sponsored a bill here in the House called the Social Security Refinancing Act. Despite considerable support, it didn't make it to the House floor. I still believe it to be sound legislation. If Congress does not reactivate this bill, we ought to consider something close to it. Here is what we need to do:

- * First, we should pull Medicare and disability insurance and any other program not directly related to retirement, away from Social Security and pay for those functions with general tax revenue. This is not a revolutionary idea; some tax money already is being pumped into the fund.
- * Second, payroll taxes must be frozen at their present level.
- * Third, Congress should consider phasing out the rule that clamps a lid on earnings for Social Security recipients. We should be able to agree on a plan

that would allow less-prosperous retirees to work full-time, but defer payments to those who have reached the age of eligibility but still are commanding healthy salaries. If employment for older Americans were raised to levels prevailing in 1970, when 25 percent of the older workers were on the job, as against 21 percent today, an estimated \$40 billion would be added to federal, state and local revenues without increased taxes, by the year 2005. I supported legislation in the last Congress that would have started the phase out of the earnings limit. I still believe it would be a good step.

* Finally, we must restore Social Security to the kind of program that was originally intended: a supplemental retirement program, period.

The freezing of the payroll tax would force Congress to stop this delaying game and to act in a solid, responsible way to unsnarl the deeper problems, once and for all.

Phasing out the earnings limit rule could help in a couple of ways -- it would help reduce the decline of our work force, already facing a shortage of skilled workers, and it would mean new revenue for the Social Security fund, without any tax increases, because folks would be allowed to work longer, for more money. Many private businesses already have moved ahead in the expansion of employment opportunities for the elderly. It is a move that merits the full support of Washington.

The final part of my plan would come about automatically -- Social Security, once the other parts of it were separated and financed by general tax revenues, would again be the relatively simple supplemental retirement plan that it was intended to be.

While there is justifiable cause for some concern about the future of Social Security, I don't think there is cause for panic. There is a solid commitment in the Congress to see that the integrity of the system remains intact, and a commitment too, to see that future generations of retired Americans are not cheated out of what is rightfully theirs.

I know from my mail that older Southern Arizonans are downright fearful about the future of their Social Security checks.

And younger Southern Arizonans are having a rough time making ends meet and are voicing legitimate concerns about higher and higher Social Security payroll taxes.

I'm optimistic that we can arrive at some answers that are fair and equitable to both groups -- and to Social Security itself -- and I'm going to do all I can to encourage my colleagues in the House to work toward those answers.

Morris K. Udall

Rep. Morris K. Udall
House of Representatives
Washington, D.C. 20515

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Morris K. Udall

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