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ABSTRACT

This publication is intended as a guide for teaching high school and adult education students about social insurance concepts. Goals of the project are that students: (1) understand the historical context from which social insurance programs emerged; (2) can participate fully as members of a democratic society in making informed decisions about the future of social insurance programs; and (3) understand how these programs affect themselves, their families, and society. There are numerous opportunities to introduce information about the nation's social insurance programs in ways that enrich, rather than supplant, existing curricula. This classroom discussion guide gives a background and history of the U.S. Social Security System and briefly touches on Medicaid and other programs. Forty-eight questions with outlines for class discussions on several current and future issues concerning social insurance are included. A "Teacher's Supplement" section provides model lesson plans covering the first seven chapters. The "Resources for Teachers" section gives 33 references and names and addresses of organizations and agencies for additional information. An index also is included. (AS)

Social Security in the USA

A Discussion Guide To Social Insurance With Lesson Plans

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Social Security in the USA

A Discussion Guide To Social Insurance With Lesson Plans

A Product of
The Nelson Cruikshank
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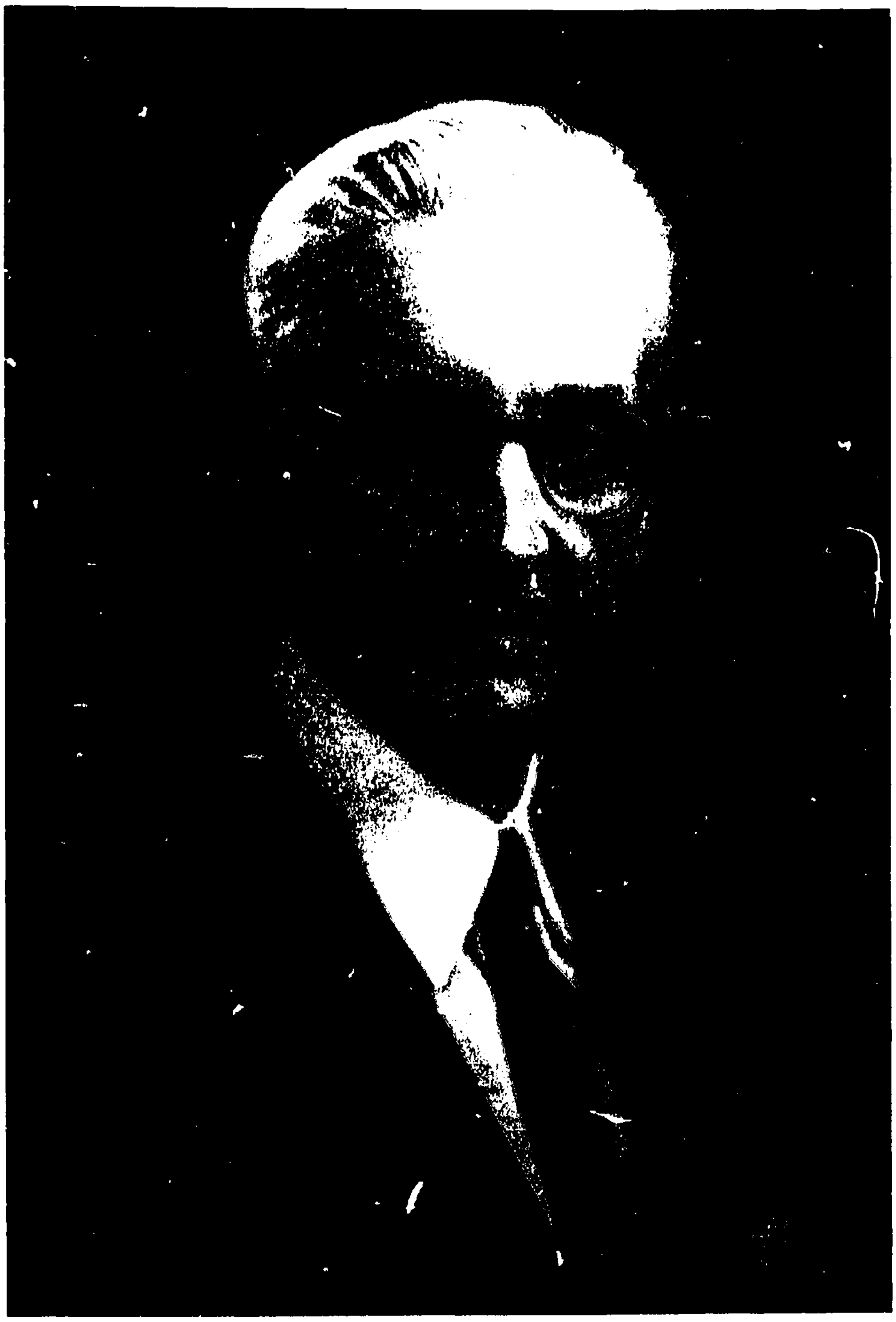

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Nelson Cruikshank

1902–1986

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Preface

About the Social Insurance Study Project

This is the first publication of the Nelson Cruikshank Social Insurance Study Project. Operated under the auspices of the Save Our Security Education Fund, the project seeks to advance the education of high school and adult education (including management, union, and religious) students about social insurance concepts so that they 1) understand the historical context from which social insurance programs emerged; 2) can participate fully as members of a democratic society in making informed decisions about the future of social insurance programs; and 3) understand how these programs affect themselves, their families, and society.

We believe that teaching about social insurance ought not to require the development of new courses or large units of information to replace content in existing curricula. Rather, numerous opportunities exist to introduce information about the nation's social insurance programs in ways that enrich, rather than supplant, existing curricula.

Nelson Cruikshank was a leader in the field of social insurance from 1945 until his death in 1986. As director of the social insurance activities of the American Federation of Labor–Congress of Industrial Organizations (AFL-CIO) for many years, then as president of the National Council of Senior Citizens, and later as President Carter's chief adviser on aging, Nelson Cruikshank was dedicated to and actively involved in improving the nation's social insurance system. He was also keenly aware of the importance of ensuring that our citizens understand social insurance. In his last speech, he discussed Social Security as an outgrowth of basic American values: compassion, mutual aid, independence, and the belief that you must work for what you get. He believed that people of his generation needed to get others to "better understand these underlying principles and how true they are to American ideals." The program and this book are dedicated to him.

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The Advisory Committee to the Nelson Cruikshank Social Insurance Study Project, chaired by Arthur S. Flemming—secretary of the Department of Health, Education, and Welfare (1958–1961) and chair of the Save Our Security (SOS) Education Fund (1981–)—carefully reviewed the many drafts of this manuscript and aided in numerous other ways. This outstanding and committed group, whose names appear as signatories to the preface to this discussion guide, provided fine leadership and contributed a great deal of knowledge and time to the project.

The suggestions of Robert M. Ball—author, lecturer, and commissioner of Social Security (1962–1973)—and of Robert J. Myers—chief actuary of Social Security (1947–1970) and executive director (1982–1983) of the National Commission of Social Security Reform—greatly improved the text. The Social Security Administration was quite helpful in reviewing for factual errors, as was Richard Getrost of the Office of Beneficiary Services of the Health Care Finance Administration. Similarly, we wish to acknowledge the suggestions of others who have improved the book, including Glenn Fiedelholtz, teacher at Bishop O'Connell High School in Arlington, Va.; Eric Shulman, director of Legislative Liaison and Research, National Council of Senior Citizens; Maria A. Steele, district manager of the Social Security office in Framingham, Mass.; and Louise H. Waller, executive editor, Columbia University Press.

The able work of Roberta Feinstein Havel, executive director of the SOS Education Fund, facilitated all aspects of this project. The effective editing of Jane C. Gold greatly improved the organization and flow of the manuscript; Donald G. Fowles of the U.S. Administration on Aging donated his time and talents to develop the graphics; and Carole A. Foerster of the SOS Education Fund and Kevin James and Carole DiFabio of Boston College also lent their assistance to the guide's development. We would also like to thank the National Academy of Social Insurance and Pamela J. Larson, its executive director, for generously allowing use of the academy library; and Kim McQuaid for his assistance in preparing the history chapters. And finally, we are grateful to Pharos Books and Seven Locks Press, both of whom gave permission to us to include some previously published material.

Eric Kingson, associate professor at Boston College Graduate School of Social Work, coordinated the project and is the primary author of chapters 1, 2, 5, 6, and 7; Edward Berkowitz, professor of history at George Washington University, wrote chapters 3 and 4; and Fran Pratt, director of the Center for Understanding Aging in Framingham, Mass., is the primary author of the model lesson plans. Opinions expressed in this discussion guide are the authors' and do not necessarily represent those of other individuals or organizations associated with the project. Similarly, any remaining errors in the text are the responsibilities of the authors.

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Introduction: Why Educate About Social Insurance?

Social insurance is an approach to protecting individuals and their families against risks substantially beyond their control: loss of income due to unemployment, disability, high health care costs, retirement, or death of a wage earner. Social insurance is also a set of government programs—including Social Security, unemployment insurance, Medicare, and workers' compensation—that affect every American. In fact, social insurance is so basic an institution in American society, and yet so frequently misunderstood, that no educational program can adequately prepare young people for the future without paying significant attention to this topic.

This discussion guide identifies the basic concepts and information your students need to know to make informed decisions about social insurance programs, both as participants in a democratic society and as individuals whose lives are affected by these programs. Designed primarily as a resource for teachers, this book discusses

- the social insurance approach to protecting against economic insecurity;
- the purpose, characteristics, and scope of social insurance in America;
- the history of social insurance in America;
- the benefits and costs of social insurance for American families; and
- current and future issues your students must address as citizens.

To provide a few suggestions about how social insurance content might be integrated with existing curricula, we prepared four model lesson plans. Included as a supplement for teachers, each lesson plan contains detailed objectives, guidelines, classroom activities, and handouts. Also, many of the issues presented in a question format in chapter 7 can be used to stimulate class discussion.

We hope you will find the guide useful and informative. It is designed primarily both as a resource for preparing classroom presentations and curriculum on social insurance topics at the high school level and as background for teacher workshops. Persons training school volunteers and conducting postsecondary and adult (including labor, management, and religious) education seminars may also find it useful. In addition, it is intended to serve as a standard against which the adequacy of existing educational efforts can be measured. And finally, it can be used by those who simply wish to know more about social insurance.

Social Insurance Reflects Societal Goals

Including social insurance content in your courses can teach your students much about what our society values and what role our government plays in enhancing family life and the independence of citizens.

The well-being of individuals and their families is subject to risks substantially beyond their control: loss of income due to unemployment, disability, health care costs, retirement, or death of a wage earner. Each society must decide how to protect against such risks—that is, whether individuals, their families, private enterprise, or government can and should bear all, some, or none of these risks. The choices made reflect a society's level of economic productivity and basic value commitments.

In the United States we protect against such risks in various ways. We encourage private savings for retirement and for "that rainy day." Family members often provide personal (and even financial) assistance to disabled or ill members. And individuals use private insurance and private pensions to protect themselves and their families.

We also rely on social insurance (e.g., Social Security and unemployment insurance) as the major public means of protecting against such risks: we pool our resources in response to risks that cannot fully be borne by individual efforts. The social insurance approach gives expression to and reinforces several widely held goals that we, as a society, value:

Enhancing the dignity and independence of individuals. By providing benefits as an earned right while simultaneously protecting individuals and families against economic insecurity, social insurance helps underwrite human dignity. By preventing dependency and expanding the choices of individuals and their families, social insurance increases the autonomy of citizens.

Maintaining the stability of families. Social insurance helps stabilize family life during times of crisis (e.g., unemployment, death of a wage earner) or life course transitions (e.g., retirement). While much care flows to and from family members of all ages throughout their lives, adults prefer not to be financially dependent—not on their children, their parents, or even like-aged family members—during times of financial stress. Instead they prefer to rely on a combination of private savings and social insurance. Without social insurance, events such as unemployment, disability, death of a wage earner, and retirement would be far more likely to overwhelm most individuals and families. Such individuals and families might have no choice but to seek financial or housing assistance from other family members—an occurrence that often strains family relations. Or their families might not be able to help. Moreover, by providing benefits to older family members, Social Security, Medicare, and other retirement programs free up young adult and middle-aged family members to concentrate more resources on their young children and on themselves.

Underwriting social stability. By protecting against some of the risks that accompany a market economy, social insurance helps stabilize society. It also contributes to the stability of the economy because these programs tend to put more money into the economy during recessions.

Social insurance is also one of the common denominators in our society. Rich and poor, well and ill, country and city—virtually everyone shares the costs and benefits of social insurance programs. And by protecting individuals and families from identifiable risks, these programs enhance the quality of life in America, thereby serving the goal of social stability.

Rewarding work. Because the right to a benefit emerges from one's own (or a family member's) employment, social insurance is both consistent with and reinforcing of work ethic values. And because the right to and amount of benefits are related to prior earnings, social insurance exemplifies the value of self-help.

Providing for the general welfare. By seeking to prevent poverty, social insurance programs help provide for the general welfare. They provide benefits so that basic human needs—particularly those arising from risks beyond the control of individuals and their families—can be met.

A Better Understanding Of Social Insurance Is Needed

Because social insurance is such a critical American institution, protecting virtually every family against economic uncertainty and providing over 11 percent of the personal income going to American homes, your students need to understand it. Yet, today, relatively little is known—especially among the young—about the origins of the social insurance concept, the values served, the benefits provided, or the impact on families and society.

Survey data suggest that younger persons consider themselves less knowledgeable and less confident about the future of social insurance institutions than older ones. For instance, a national survey conducted in 1985 by Yankelovich, Skelly, and White, Inc., shows that one-third of persons aged 62 and over compared with almost one-half of persons aged 25-34 do not consider themselves well informed about Social Security. And almost two-thirds of persons 62 and over are confident about the future of Social Security, compared with only one-third in the 25-34 age group.[1]

Increasingly, today's young will be asked to consider new directions concerning the future of Social Security and Medicare, the advisability of long-term care and national health insurance, and the stability of public employee retirement systems and the unemployment insurance system. They will need to assess such questions as whether Social Security responds adequately to the needs of older women, whether Social Security and Medicare are fair to younger generations, whether job retraining and relocation options ought to be incorporated into unemployment insurance, whether social insurance programs have a deleterious or positive effect on the economy, and whether Social Security and Medicare ought to be altered in light of the aging of the post-World War II baby boom generation.

But preliminary investigation indicates that today's students do not have the background necessary for assessing such issues. Not being privy to the public debates and historical circumstances that spawned the Social Security Act, younger persons do not have the experiential advantages that older generations had to learn about the social insurance concept, and they may tend to take social insurance for granted. Further, social insurance as an institution is more complex today.

As Charles Schottland, commissioner of Social Security during President Eisenhower's second term of office, recently observed, the problem is that not only do today's young people

> have inadequate information, but they are often given the wrong information in the textbooks they use in civics classes written by college professors. ... [Many] years ago the Social Security Administration examined the. . .leading textbooks that mentioned social security. Many other texts never even mentioned social security although they had chapters or many pages on relatively insignificant problems of national life. And practically every textbook had a major error. I've examined several texts when I've spoken to grammar school and high school students and these texts not only have major errors, but they also have major biases and prejudices.[2]

Young people need a better understanding of the protections these programs provide as well as of the obligations they entail. Further, they need a basic knowledge of how these programs work, including why they and/or their employers make payroll tax contributions, what happens to these contributions, and how they and their family benefit from these programs.

More importantly, they need to understand the concepts behind social insurance programs so that, as participants in a democratic society, they can make informed decisions affecting the future of these programs and society. To critically assess current and future policy options that could substantially alter existing social insurance programs or result in new ones (e.g., long-term care insurance), they need to understand that social insurance involves more than a conglomeration of programs. Instead, it provides the vehicle by which government and citizens working together can protect individuals and their families against risks to which all are subject.

Finally, to recognize the values that are at stake and range of policy options to which serious attention should be given, citizens also need to understand the history of social insurance: the emergence of the social insurance approach with an industrial society, the forces that gave rise to the Social Security Act during the Great Depression, the expansion and maturation of social insurance programs, and the recurrent themes and dilemmas that are the focus of today's social insurance debates.

An Important Opportunity For Educators

Growing needs for knowledge present new opportunities for teaching. Teachers, especially those in secondary schools, can introduce information about social insurance in ways that illustrate important themes in existing courses, thereby serving to develop basic skills as well as higher-order conceptual skills. For instance, an understanding of the forces leading to the enactment of the Social Security Act can only enhance discussions in *history courses* of the development and significance of the New Deal. Similarly, *global studies courses* can benefit from comparing the ways in which other societies, present and past, have protected their citizens against fundamental risks. No doubt the differences between social and private insurance, as well as their respective roles in underwriting economic security, are an important topic to cover in *business courses*. The education of *home economics* students will be enhanced by knowledge of how programs such as Social Security affect family life. And high school students, and others too, can benefit from exploring the important policy questions and politics that surround many social insurance issues.

By presenting the basic information that citizens need to understand social insurance, we hope to assist teachers in educating about this important topic.

Notes

1. Yankelovich, Skelly, and White, Inc., *A Fifty-Year Report Card on the Social Security System: The Attitudes of the American Public* (Washington, D.C.: American Association of Retired Persons [hereafter AARP], 1985).
2. Charles Schottland, "Social Security: The First Half-Century, A Discussion," in *Social Security: The First Half-Century*, ed. Gerald D. Nash et al. (Albuquerque: University of New Mexico Press, 1988), pp. 59-60.

2

Social Insurance in America: An Overview

In educating about social insurance, it is important that you provide your students with an understanding of how the social insurance approach to economic security works in America, what the common features of most social insurance programs are, and what the major programs are and how they operate.

The Social Insurance Approach To Economic Security

Social insurance is the near universal response of industrial societies seeking practical ways to protect against common hazards and meet human needs. As defined by Robert Ball, U.S. commissioner of Social Security from 1962 to 1973 and chairman of the board of directors of the National Academy of Social Insurance, it is "a form of group insurance operated by government."[1] In exchange for the contributions individuals make (directly and indirectly through their employers) at a relatively modest rate over time, social insurance provides significant protection against large and sudden costs arising from specified risks that would otherwise overwhelm the finances of most individuals and their families. Ball notes that "the purpose of social insurance is to prevent economic insecurity by pooling the contributions paid by covered earners and their employers (and in some systems other sources of income as well) to provide protection against the loss of earned income."[2]

Thus, in accordance with social insurance principles, citizens agree to pool their resources and share their risks (e.g., disability, death of a wage earner) with others. Program costs are estimated for each social insurance program and are then divided by the number of people paying into the program. The amount each person (and/or employer) pays is called the *premium.* On a regular basis, employees and/or employers make premium payments (also called *payroll taxes* or *payroll tax contributions*). Then, when the risks workers and their families are protected against occur, benefits are paid as an earned right.

> On the whole, the social insurance approach to preventing economic insecurity has worked well because in a wage economy it is the right prescription for a large part of the problem. Most people in a wage economy are dependent on income from a job. Thus when work income is cut off, income insurance prevents what would otherwise be widespread poverty and insecurity.[3]

Social insurance programs are an expression and outgrowth of the interdependence of citizens existing in complex societies. As previously mentioned, by protecting against risks to which all individuals and families are subject, these programs stabilize family and community life. Writing on the occasion of the fiftieth anniversary of the Social Security Act, the late Wilbur Cohen, former secretary of the Department of Health, Education, and Welfare and the person considered to be the "father of Medicare," noted that Social Security can be viewed.

> not merely as a government payment but as a mechanism to give individuals greater freedom in

their personal lives when they experience one of the "major vicissitudes of life." It is a way of asserting the dignity and independence of the individual, the integrity of the family, and the stability and purchasing power of the community.[4]

The Characteristics Of Social Insurance Programs

The structure—including the benefits and financing—of social insurance programs usually reflects the following characteristics:

Concern for social adequacy. The driving principle of social insurance programs is concern for adequacy—that benefits meet the basic needs of persons these programs are designed to protect. The emphasis on social adequacy is consistent with societal goals directed at providing for the general welfare, protecting the dignity of individuals, and maintaining the stability of families and society. Robert Myers, chief actuary of Social Security from 1947 to 1970 and most recently executive director of President Reagan's National Commission on Social Security Reform, points out that the real reason for having social insurance programs is "that social benefits on a social-adequacy basis can only in this way be provided to a large sector of the population."[5]

Concern for individual equity. Social insurance programs are also influenced by a concern for individual equity—the principle that the return individuals receive from a social insurance program should be proportional to their contribution (or the contribution made on their behalf). That is, the more they pay into social insurance systems, the more they should get out. This characteristic of social insurance programs is particularly consistent with societal goals directed at rewarding work and encouraging self-help.

A blending of adequacy and individual equity. Much misunderstanding about social insurance derives from a lack of understanding of the respective roles played by social adequacy and individual equity. Most social insurance programs actually involve a blending of these two goals. For example, in Social Security, the provision of benefits for certain family members; the benefit formula, which provides proportionately larger benefits to lower-income workers (and their families); and the annual cost-of-living adjustments (COLAs) all reflect the goal of adequacy. But concern for individual equity is expressed through provisions in the benefit formula that result in workers who earn higher wages and make higher payroll tax contributions generally receiving larger monthly benefits.

Failure to understand that social insurance represents a blending of these two principles often leads to the false criticism that social insurance programs are welfare programs. Paradoxically, it leads to the equally false criticism that social insurance programs do not really assist the poor and are *just* middle-class entitlements.[6] (For discussion of these issues, see questions 38 and 39 in chap. 7.)

Earnings-related benefits. Both the right to benefits and the amount of benefits are related to prior earnings in employment covered under a social insurance program. Thus, the economic security of a worker and his or her family comes from the individual's own work.[7]

Universal and compulsory coverage. With few exceptions, social insurance coverage is compulsory and, ideally, includes nearly everyone in the category of people being protected. In the case of the largest program, Social Security, nearly everyone in the work force is covered—about 95 percent of all workers. Arguments have been put forth that participation in social insurance programs should be voluntary. While this idea is appealing in many ways, careful consideration shows why it would not work. For one thing, since no one is ever rejected from participating in social insurance programs for poor health or other reasons of risk, these programs generally must be compulsory to ensure a fair mix of "good" and "bad" risks. For another, voluntary programs would also greatly increase the costs for those who would choose to participate (see discussion question 41 in chap. 7; also see discussion of the Clark amendment in chap. 3, pp. 20-21).

Progressivity. Reflecting the related concerns of poverty prevention and adequacy, social insurance programs—when the combined effects of taxes paid and benefits received are taken into account—have a progressive impact on the distribution of income in American society. That is, the overall effect of these programs is to reduce the disparity between lower- and higher-income households. The financing of Medicare's Hospital Insurance program is progressive on the tax side in that the payroll tax contribution of a person earning $48,000 in 1989 is three times as much for the same benefits as that of a person earning $16,000. Social Security is progressive on the benefit side because, as explained, lower-income workers (and their families) are generally eligible for proportionately larger benefits than persons with higher earnings. In fact, a recent Census Bureau study indicates that social insurance programs such as Social Security reduce poverty and inequality more than other social programs and more than taxes.[8]

No means tests. Unlike in welfare programs, the right to benefits in social insurance programs does not require proving extreme financial need—that is, it is not *means* *tested.* Benefits are an earned right, not affected by savings or by total income from other sources. This adds to the dignity of social insurance beneficiaries and helps explain the widespread public support for social insurance programs. The lack of a means test also encourages workers to build savings and other forms of private protection as supplements to social insurance since their benefits will generally not be affected by their assets. As with other types of income, social insurance benefits are often countable for income tax purposes. But in fact, while there is no means test, many who benefit have little or no means (see discussion question 40 in chap. 7).

Use of insurance principles. Social insurance, like private insurance, protects against losses from identifiable risks. By identifying particular risks and predicting the likelihood of these events occurring, the insurer—whether public or private—can set premiums (e.g., payroll tax rates) according to the costs of the various types of protection provided in a plan. This allows the individual to share his or her risk with others in the plan. In exchange for a relatively low premium payment, the insurer assumes the risk that would otherwise have to be borne by the individual and his or her family.[9]

Contributory financing. Workers contribute directly to the financing of most social insurance programs, often through a very visible payroll tax contribution as in the case of Social Security and Medicare, and indirectly through the contributions made by employers on their behalf. This reinforces both the receipt of benefits as an earned right and the dignity of beneficiaries. Equally important, because contributions are linked to benefit payments, workers and their employers have a personal stake in the financial stability of these programs, which thereby helps to ensure financial responsibility when benefit increases and other program changes are being considered.[10]

Trust funds. The contributions of workers and their employers to social insurance programs go into dedicated trust funds, earmarked to pay only for social insurance benefits and the cost of operating these programs. The highly visible nature of these trust funds helps ensure that these programs are adequately financed and that these funds are used only for social insurance expenditures. In programs such as Social Security and Medicare, funds not used for current program expenditures help build trust fund reserves and are invested in interest-bearing federal securities.

Foundation for economic security. Social insurance programs serve as the basis upon which individuals and their families can build toward their economic security. Thus, for instance, Social Security is intended to provide a "floor of protection," to be supplemented by income from other employment-based pensions (e.g., private pensions) and personal savings.

Right to benefits clearly defined in law. Rights to social insurance benefits—conditions of eligibility and benefit amounts—are legally defined. The presence of clearly defined standards greatly limits the discretion agencies have when making benefit decisions, although this is less true when eligibility for disability benefits and medical payments is being determined. Social insurance programs also provide legally defined rights of appeal for persons disagreeing with administrative decisions.

Stable financing. Stable financing is a major social insurance principle. The many safeguards that are incorporated include legislative oversight; the establishment of trust funds dedicated to social insurance programs; ongoing review of social insurance programs by actuaries, other financial experts, and independent panels; and legislation when changing economic and demographic conditions necessitate corrective action. Ultimately, however, it is the *authority and taxing power of government* that stand behind the financial stability of social insurance programs.

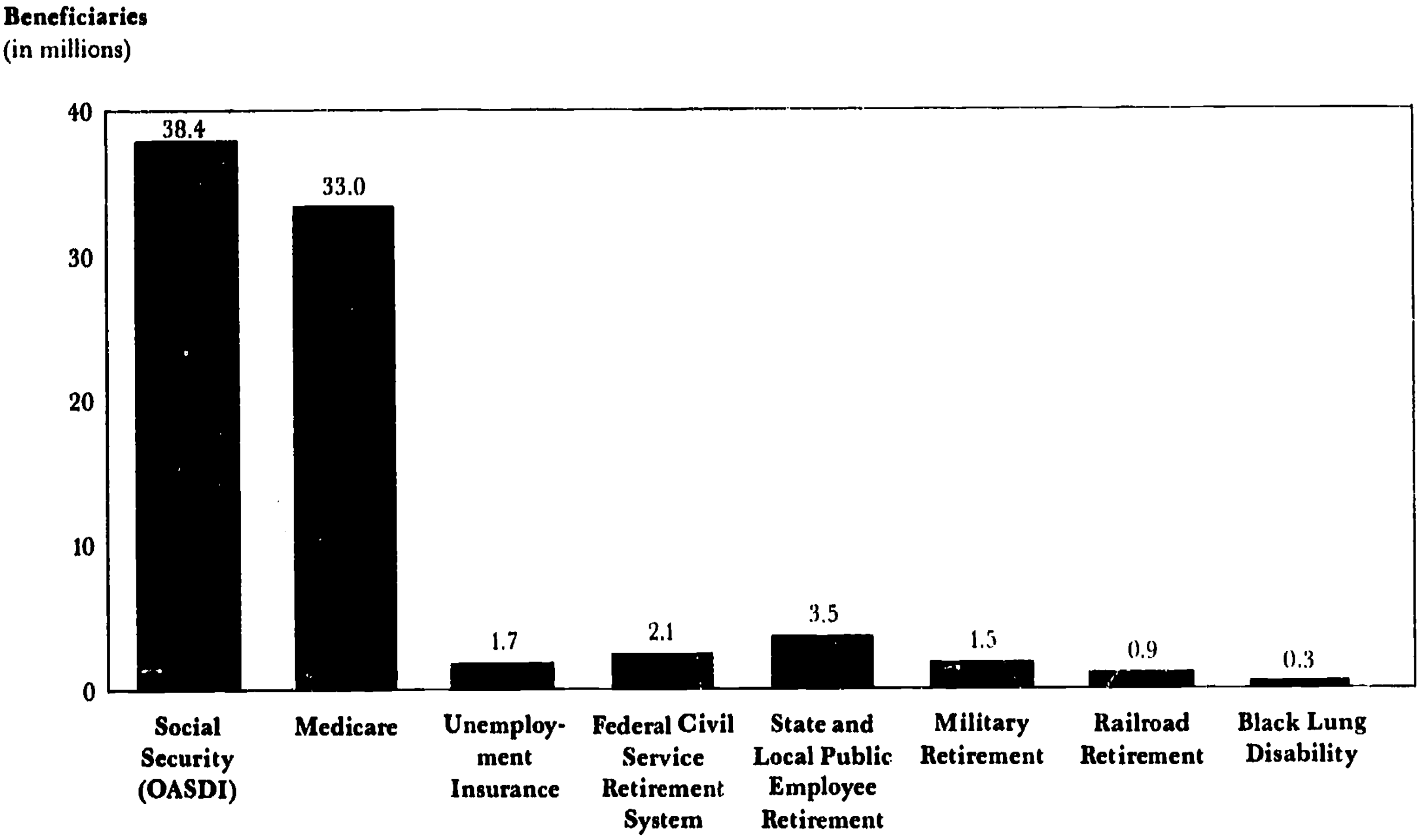
Social insurance programs are often seen as involving a *compact between citizens and their government.* While their specific provisions can be changed, the contributory aspects of these programs help increase the contractual nature of the relationship between government and the citizenry. Such aspects also reinforce the political necessity for government to maintain the continuity of social insurance programs as well as the promised benefits.

Social insurance programs—especially Social Security and Medicare—are also often viewed as involving a *compact between generations.* Present generations of workers pay taxes to support current beneficiaries, with the understanding that the same will be done for them when the risks they are protected against occur. This too helps guarantee that government will maintain the continuity and stability of financing.[11]

A Brief Overview Of Social Insurance Programs[12]

The major social insurance programs provide widespread protection to, or "cover," nearly all workers and their families. This means they provide at least partial protection against particular risks. Each month tens of millions of Americans receive benefits from these programs (see fig. 2.1). Significantly, over 11 percent of all

Figure 2.1—Who Receives Benefits from Selected Social Insurance Programs?



Sources: The numbers of beneficiaries (in millions) as of June 1988 for Social Security, unemployment insurance, Railroad Retirement, the federal Civil Service Retirement System, and the Black Lung Disability programs are drawn from "Selected Social Insurance and Related Programs: Beneficiaries of CashPayments, 1940–88," *Social Security Bulletin* 52, no. 21 (January 1989), table M-2. Medicare data are provided by the Health Care Financing Administration. Data for state and local public employee and for military retirement programs are provided by the Social Security Administration from unpublished data for 1986. Data for workers' compensation are not available.

personal income going to American households today comes from social insurance.

As a nation, we have chosen to make a very substantial investment in social insurance. Total federal, state, and local spending on social insurance programs represents somewhat more than 9 percent of the gross national product. Roughly half of everything that federal, state, and local governments spend on social welfare—including education, housing, welfare, veterans programs, health, social insurance, and other human services—goes for social insurance payments (see fig. 2.2). The major programs are described as follows:

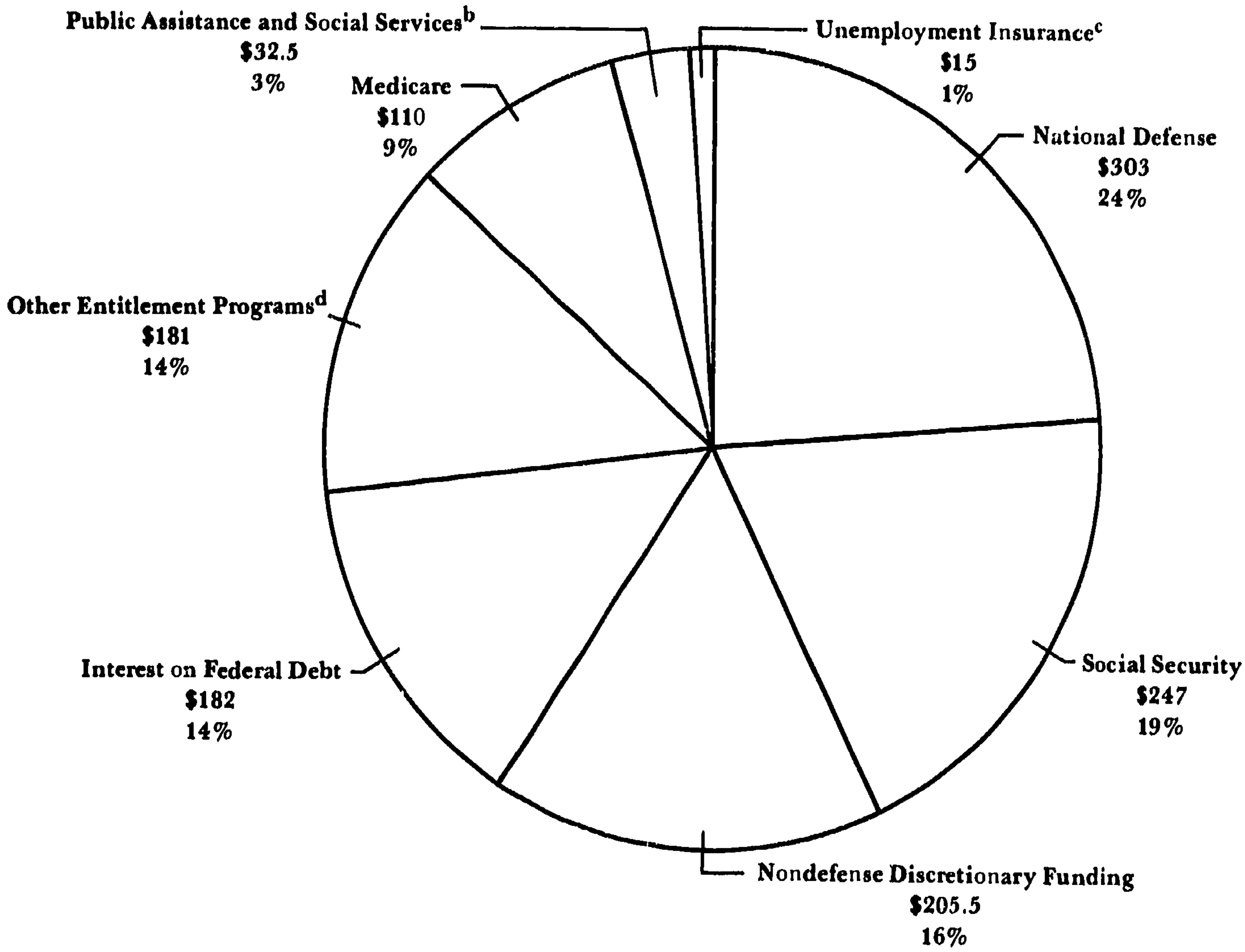
Social Security—that is, the Old-Age, Survivors, and Disability Insurance (OASDI) program—is by far the largest American social insurance program, with the most pervasive impact on individuals and families. Each month, 131 million American workers (and their employers) make Social Security (and Medicare) payroll tax contributions, and over 38 million Americans receive Social Security benefits.

Most beneficiaries are elderly persons, including about 24 million retired workers, 3 million spouse beneficiaries of retired workers, and about 5 million aged survivors of workers—mostly elderly widows. However, a fact not commonly recognized is that *many Social Security beneficiaries are not elderly.* In fact, 2.6 million children under 18—mostly the survivors of deceased workers and dependents of disabled workers; almost 600,000 persons aged 18 and over who have been disabled since childhood and dependent on deceased, disabled, or retired workers; 2.8 million long-term and totally disabled workers and about 290,000 of their spouses, and about 320,000 young widows or widowers caring for young children also receive regular monthly benefits.

Program revenues in 1988 were $246 billion. Interestingly, *only* 1.1 percent of these revenues were used for program administration.[13]

Medicare provided partial protection against health care costs for 33 million beneficiaries in June 1988, including 30 million elderly persons (aged 65 and over),

Figure 2.2—**Projected Federal Spending in Fiscal Year (FY) 1990[a] (in billions of dollars)**



Source: House Committee on Ways and Means, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means* (Washington, D.C.: U.S. GPO, 1989).

Note: This chart does not include offsetting receipts of $61 billion resulting from such sources as premium payments for Medicare Part B, income generated through the National Park Service, and premiums paid by member banks for FDIC and FSLIC protection.

[a] 1 October 1989 to 30 September 1990.

[b] Includes AFDC, SSI, Title XX, earned income tax credit, Foster Care, child welfare programs, and low-income energy assistance.

[c] Includes trade adjustment assistance.

[d] Includes, for example, veterans' benefits programs, federal Civil Service retirement, military retirement, and farm price support programs.

3 million persons with long-term disabilities, and 100,000 persons with permanent kidney failure.

Medicare is actually two programs—the Hospital Insurance program and the Supplementary Medical Insurance program. HI provides substantial protection against the cost of hospital and hospice care, and very limited protection against the cost of home health care and care in a skilled nursing facility. SMI helps pay for inpatient and outpatient doctors' and other medical services.

Together the revenues for these programs—$63 billion for HI and $32 billion for SMI—amounted to $95 billion in 1987. As with Social Security, relatively little of these revenues—2.0 percent—were used to administer Medicare.

Unemployment insurance (also called "unemployment compensation") provides partial replacement of wages for workers who are involuntarily unemployed. Nine out of ten employees, about 93 million people in 1986, are covered by UI. However, the program has deteriorated over the years so that now only about one-third of unemployed workers actually receive benefits (see discussion questions 32 and 33 in chap. 7).

Both the number of people receiving benefits and the costs of the program vary, depending substantially on the overall level of national employment. During 1982, a recession year, UI expenditures totaled $21 billion, with 3.9 million persons receiving benefits each month[14] (compared with $16 billion in 1986, with 2.4 million persons receiving benefits).

Workers' compensation programs cover 84 million employees, about 87 percent of all employed wage and salary workers. State and federal workers' compensation programs provide partial replacement of wages, medical benefits, rehabilitation benefits, and survivors benefits to workers whose disabilities result from work-related injury, illness, or disability. These programs also reduce the liability of employers for on-the-job injuries. In 1985, workers' compensation payments nationwide totaled about $15 billion in cash and $7.4 billion for medical care.[15]

Public employee programs provide retirement, survivors, disability, and, in many cases, health protection for government employees and their families. These programs exist in the federal government for both civilian and military employees in every state and in many localities. In 1987, the federal *Civil Service Retirement System* paid out $24 billion in retirement, survivors, and disability benefits, with 2.1 million beneficiaries receiving payments during a typical month. *State and local public employee retirement programs* made payments of $20.5 billion in 1984, with 2.7 million persons receiving monthly benefits.[16] And during 1985 the *military retirement system* paid $17.4 billion, with 1.5 million beneficiaries receiving benefits during a typical month.[17]

Other social insurance programs provide protections to special groups. Railroad workers receive retirement, survivors, and disability protection through *Railroad Retirement*. In 1986, about $6 billion in payments were made to approximately 950,000 beneficiaries. The *Black Lung Disability Program* protects miners from loss of income and some medical costs due to total disability from black lung disease. In 1985, about 450,000 beneficiaries shared $1.6 billion in benefits. *Temporary disability* programs cover about 19 million employees in California, Hawaii, New Jersey, New York, Rhode Island, and Puerto Rico and in the railroad industry. They provide partial compensation for lost wages due to temporary nonwork-related illness or childbirth. About $1.9 billion in payments were made through these programs in 1985.[18]

Specifying the dollars spent and the number of persons protected only partially delineates the scope of these social insurance programs. As will be discussed in subsequent chapters, the effects of social insurance on individuals, families, and the nation's institutions are more pervasive than even these figures would suggest.

Notes

1. Robert M. Ball, *Social Security: Today and Tomorrow* (New York: Columbia University Press, 1978), p. 4.
2. Ibid., p. 5.
3. Ibid.
4. Wilbur J. Cohen, "The Social Security Act of 1935: Reflections Fifty Years Later," in *50th Anniversary Edition: The Report of the Committee on Economic Security of 1935 and Other Basic Documents Relating to the Development of the Social Security Act*, ed. Alan Pifer and Forrest Chisman (Washington, D.C.: National Conference of Social Welfare), p. 13. Note that the phrase "major vicissitudes of life" is paraphrased from President Franklin Roosevelt's statements on Social Security, including his "Message to Congress on Social Security, January 17, 1935" and his "Presidential Statement Signing the Social Security Act, August 14, 1935." Both statements have been reprinted in *50th Anniversary Edition*, pp. 141-149.
5. Robert J. Myers, *Social Security*, 3d ed. (Homewood, Ill.: Richard D. Irwin, Inc., 1985), p. 11.
6. Eric R. Kingson, Barbara A. Hirshorn, and John M. Cornman, *Ties That Bind: The Interdependence of Generations* (Cabin John, Md.: Seven Locks Press, 1986), pp. 72-73.
7. Social Security Administration (hereafter SSA), "Social Security Programs in the United States, 1987," *Social Security Bulletin* 50, 4 (April 1987): 11.
8. See Robert Pear, "U.S. Pensions Found to Lift Many of Poor," *New York Times*, 28 December 1988, p. 1.
9. Excerpted from Eric R. Kingson, *What You Must Know About Social Security and Medicare* (New York: Pharos Books, 1987), p. 14.
10. SSA, "Social Security Programs," p. 11; Kingson, Hirshorn, and Cornman, *Ties That Bind*, p. 71.
11. Kingson, Hirshorn, and Cornman, *Ties That Bind*, pp. 73-74.
12. For more in-depth description of these programs, see chaps. 5 and 6.
13. This may come as a surprise because many people believe the government spends a very large proportion of Social Security revenues on the administration of the program. Given the very low and recent declines in the percent of revenues being used for administration, if anything, there may be a need to spend a somewhat larger proportion of program revenues on administration.
14. In June 1988, 1.7 million persons received unemployment insurance benefits.
15. William J. Nelson, Jr., "Worker's Compensation: Coverage, Benefits, and Costs, 1985," *Social Security Bulletin* 51, 1 (January 1988): 4.
16. In 1986, 3.5 million persons received benefits.
17. SSA, "Social Security Programs," pp. 5-66.
18. Ibid.

3

The Beginnings Of Social Insurance in America

The next two chapters explain the history of American social insurance programs, from their origins in Europe and America to the passage of the Social Security Act in 1935 to the present. We believe students need this historical background to understand the distinctive forms our programs take or to explain why, for example, the states run unemployment compensation programs and the federal government administers old-age insurance. Further, this sort of knowledge is indispensable if our citizens are to evaluate our social policy intelligently. Since one of our educational goals is to develop informed social critics, we encourage teachers to use these chapters as a means of "placing social programs in time" and thus of enriching their understanding and, ultimately, their students' understanding of the programs.[1]

Industrialization: Prerequisite for Social Insurance

Simply put, social insurance programs were initiated in response to a profound change in the world's economy. Often described by the word *industrialization*, this change enabled a substantial number of people to move away from the land and into the cities.

As late as the seventeenth century, all societies lived close to the margins of subsistence. Few countries managed to sustain surpluses for long periods of time. In a world in which most people farmed the land, it made little sense to speak of social insurance: insecurity was endemic to mankind, as exemplified by droughts and plagues that destroyed crops and killed humans. During one fourteenth-century summer, for example, a third of the population of Marseilles, France, died of bubonic plague. In such settings, people had neither the resources nor the inclination to better themselves through social insurance.

The industrial revolution changed people's outlook toward progress. In the simplest sense, this revolution—the substitution of mechanical for human power—raised what economists call "productivity," because a person working with the aid of a machine could produce more than could a person working only with his or her hands. It now took fewer people to produce the same amount of food. The result was that those remaining on the land could produce enough food to support both themselves and those who worked in factories.

As productivity increased, so did society's total wealth, and although the wealth was not distributed equally among the social classes, society's standard of living rose. The quality of life improved, and the length of time a person could expect to live increased.

Different countries industrialized at different rates and at different periods of time, but England, Germany, France, and the United States were among the first. By the end of the nineteenth century, each was regarded as an "industrialized" nation in which a substantial number of workers lived in urban areas and no longer worked on the land.

At this point, a paradox came into play: stated simply, as things improved, they also got worse. Inevitably, expanding national productivity raised workers' expectations. No longer did they feel sentenced to lead a nasty, brutish, and short life; workers now entertained thoughts of personal fulfillment for th nselves and their children. But against these high expectations and the possibility of achieving them can be weighed a new dependency on the part of what came to be called the "working class." Whereas before workers labored at their own pace, now they often labored for someone else. In return for their labor, they received remuneration in the form of monetary wages.

The problem was that nothing in the economic situation guaranteed workers a continuous means of employment. Orders for products could grow slack, and employers might find it necessary to lay off some workers. Other misfortunes that could befall workers included illness, industrial accidents, or the simple fact of becoming old and unable to maintain the pace of the work. Each of these events cut workers off from their wages and produced serious economic hardship. Thus, although workers lived "better" lives as a result of the industrial revolution, they also lived in fear of falling victim to one of these conditions. With heightened expectations, therefore, also came heightened insecurities.

Each new economic risk was defined by industrialization and the related notion of progress. Illness, for example, posed more of a problem in the nineteenth century than before, in part because doctors had learned more about treating it. Similarly, unemployment was a modern notion. Few farmers, after all, could be described as "unemployed"; the wage-related industrial economy brought that notion into vogue. Industrial accidents were the direct results of the machinery used by industry and the fatigue induced by the rhythm of industrial production. Even the nature of old age changed in the industrial economy. Industrial production accommodated older workers less easily than did the family-oriented agricultural production of earlier eras, while the improvements in nutrition, sanitation, public health, and medical care that generally accompanied industrialization enabled more people to reach old age.

Social insurance provided a means of resolving the problems posed by the paradox of widespread improvement and heightened insecurity. Once the risks of industrialism came to be widely recognized, social theorists, government officials, workers, and trade union officials began to speak of devoting some of the new-found societal surplus to protect against these risks, hoping thereby to lessen insecurity. By pooling resources, workers found they could set money aside for emergencies. Unemployed workers might draw money from this fund as they looked for new work or waited to be called back to their factories. Sick and injured workers could use this money to tide them over until they were able to return to work. Older workers might even use this money as a "pension" that would support them after their working lifetime ended. Social insurance was born.

The First Social Insurance Programs

Comprehensive social insurance programs arrived first in the countries that industrialized earliest—notably England and Germany. In each of these countries, however, old habits of thought died hard. Even as the nature of unemployment and sickness came to be understood, people persisted in their earlier beliefs that both represented forms of moral failure. Unemployment continued to be associated with notions of idleness: people who did not work were not applying themselves as hard as they might. In the absence of better medical knowledge, people also persisted in regarding sickness as a form of God's will.

Further, people clung to the preindustrial notion that nothing could really be done to improve conditions. The idle were a plague on society and deserved punishment; the sick were doomed. It took European societies well into the nineteenth century to realize that something pragmatic yet effective could be done to alleviate the problems.

When the German government gave serious consideration to the passage of social insurance measures in 1878, social insurance entered its formative era. Germany took the lead because it experienced the greatest rates of industrial growth in the late nineteenth century and because it saw the rapid development of a labor movement with a socialist orientation. To cushion the impact of industrialism, to subvert the union movement, and to tie the interest of the laboring class to that of the nation-state, the emperor of the Reichstag, Otto von Bismarck, proposed state intervention on behalf of the wage earner through social insurance. By 1884, Germany had begun two social insurance programs. One covered industrial accidents; the other provided benefits in the event of illness.

Other countries soon followed Germany's example and produced social insurance laws that fit their economies and cultural conditions. Between 1919 and 1930, for example, eleven countries adopted compulsory unemployment insurance laws.[2]

Barriers to Social Insurance in America

The United States failed to participate in this first round of the passage of social insurance laws. The reasons had less to do with the development of the U.S.

economy than with the political organization of the American state. Like the European nations, the United States underwent a period of intense industrialization in the late nineteenth century, which brought with it political and economic problems that were just as crucial as those in Europe. Labor conflict exemplified one manifestation of this economic insecurity, and violent labor strikes, such as the Homestead Strike of 1892 and the Pullman Strike of 1894, occurred here as well as abroad. In response, a group of American reformers who paid close attention to events in Germany and England followed the passage of European social insurance laws intently and attempted to interest U.S. state legislatures in such laws.

Why, then, did social insurance arrive later in America than in Europe? One reason was that America had a weaker tradition of central government activity. Whereas Europe was divided into nations, America, a larger mass of land, was divided into states. Until well into the twentieth century, most governmental activity occurred at the state or local levels.

For most of the nineteenth century, the federal government confined its social welfare activities to conferring grants of land upon distinct groups and localities. The only exceptions to this general pattern concerned relatively small groups of people who became "wards of the state," such as Indians who lived at the periphery of white settlement.

The Constitution, which had been ratified in 1787, carefully circumscribed the extent of federal power. Subsequent amendments reserved "nondelegated" powers to the states and prohibited the states and the federal government from "depriving any person of life, liberty, or property without due process of law."[3] Because of these amendments, a law requiring a worker or his employer to contribute to a social insurance fund could be construed by a conservative court as unconstitutional and hence invalid. In fact, many early proposals passed state legislatures only to be held unconstitutional by the courts. Thus, in the absence of a strong Congress or of strong state legislatures, the courts played an important role in public policy during the crucial period of the late nineteenth century when the first social insurance proposals were formed.

Although constraints that prevented the passage of a social insurance law were gradually overcome, the American political tradition of "federalism" guaranteed that states passed social insurance laws before the federal government. A national social insurance law came only in 1935, long after most European states had passed such laws.

Workers' Compensation: The Beginnings of Social Insurance In America, 1911–1920

State workers' compensation laws became the first form of social insurance in America, an early example of international ideas being adapted to American conditions. These laws, passed in every state between 1911 and 1948, applied social insurance principles to the problem of industrial accidents.

To understand these laws, let us assume that a factory worker was injured on the job. In the nineteenth century, an injured worker had three alternatives: ignore the injury; ask the employer for help in meeting medical and other expenses; or sue the employer for money to pay for lost work time, personal suffering, and medical expenses.

In the first half of that century, an injured worker who sued his or her employer experienced considerable difficulties with the legal system. Judges provided employers with broad defenses, leaving many loopholes through which an employer could duck responsibilities. The burden of proof rested on the employee, who had to prove the employer was negligent, rather than on the employer to demonstrate the safety of the plant.

By the end of the nineteenth century, the judicial system for compensating industrial accidents came under heavy attack. Crowded court dockets, which delayed compensation, and the perceived inefficiency of a system that failed to bring an injured worker appropriate compensation bred discontent with the system on the part of "disinterested" reformers. Professing an interest in "good government" that would reduce labor-management friction, professors, social workers, and trade union officials founded the American Association for Labor Legislation (AALL) in 1906. The organization spearheaded the fight for workers' compensation.

Because of the costly and uncertain way in which the courts dealt with industrial accidents, many business leaders and workers' organizations joined in the effort. These proponents of change condemned the court system and pointed out the advantages of workers' compensation. Under the proposed new laws, all industrial injuries would become the responsibility of the employer, who would pay a fixed percentage of the worker's earnings for the duration of the disability. No longer would an injured worker need to take an employer to court. Instead, compensation for an injury would be automatic—an entitlement that had the force of law.

The broad coalition of supporters soon produced results, and workers' compensation laws became a national phenomenon. By 1913, twenty-one states had passed such laws; by 1919, they existed in forty-three states.

The passage of workers' compensation, the first significant American social insurance program, illustrated America's tentative approach toward the provision of social insurance. On the one hand, the laws were a form of social insurance in that they required all employers to pay for industrial injuries, thus changing the process of collecting damages for such accidents from a personal to a societal undertaking. On the other hand, the laws did not spread the risks of paying the costs of industrial accidents very broadly. They operated on the state, rather than the federal, level. They asked only employers, and not employees, to make financial contributions. And they continued to permit private insurance companies to cover the newly defined risk, rather than stipulating that government use its resources to spread the risk across many employers. In practical terms, the laws meant that employers were now legally required to buy insurance against the risk of having to pay the costs of industrial injuries (much as modern drivers are required to buy collision insurance).

As these observations indicate, the laws did not mark a complete break with the past. And once in place, they tended to remain on the books, with the result that we continue to use laws from the beginning of the century to cope with the consequences of industrial accidents. Nevertheless, the passage of workers' compensation meant that most states had a social insurance law in operation as early as 1920. America's experience with social insurance was underway.

Toward the Social Security Act: The 1920s to the Depression

In the 1920s, the movement for social insurance lost some of the momentum it had gained in the previous decade. In the first place, the AALL and other proponents proved unable to extend the social insurance concept beyond workers' compensation. Workers' compensation solved a practical problem: the rising costs of industrial injuries. However, other forms of social insurance, such as health insurance, lacked this appeal to the employer's pocketbook.

In the second place, the twenties marked a high point in the influence of private companies and trade associations over American economic life. Prosperity throughout the decade indicated to many the wisdom of allowing private companies to take the lead in providing social welfare services such as pensions. Scientific management and industrial psychology encouraged employers to regard old-age pensions and other amenities not as costs so much as investments. Spurred by such reasoning, employers began to engage in a movement that was dubbed "welfare capitalism." Its emergence underscored the popular impression that private companies could handle social welfare problems themselves without recourse to governmental social insurance programs. Although the movement was confined to large companies that produced goods for national markets, its popularity in the 1920s undercut support for the extension of social insurance.

Then, beginning in 1930, the Great Depression slowly altered the institutional landscape. It was brutal, crushing the economy, in one historian's image, like a tin can in a vise. More than 15 million Americans lost their jobs. Between 1929 and 1933, the country's gross national product (the value of all the goods and services produced in a given year) fell more than 30 percent; 5,000 banks and 90,000 businesses failed.[4] Out of a feeling of desperation, people conceded to the government an expanded role in maintaining social welfare.

But the depression did not occasion a stampede toward federal social insurance laws. For one thing, the need for immediate relief outweighed the need for long-range social insurance programs. For another, the tradition of state preeminence in social welfare policy (with the exception of veterans pensions) continued to hold sway.

Thus, when Franklin D. Roosevelt became president in March 1933, he did not call for the immediate passage of social insurance laws. Instead, he asked Harry Hopkins, a social worker with whom he had worked as governor of New York, to begin a program of emergency relief. The idea was to help the unemployed and to help them quickly. Looking for a more permanent and less costly solution than the dole, Roosevelt also asked industrial and labor leaders to meet together and, in effect, to agree on measures that would aid economic recovery. This attempt at industrial self-regulation became known as the National Recovery Administration.

If the NRA had worked, there might not have been a Social Security Act. Instead, social benefits would have continued to be the near exclusive concern of businessmen. When the NRA failed to produce the sustained recovery for which Roosevelt had hoped, however, he began to explore other social welfare measures, including social insurance. In the failure of the NRA lay the seeds of the Social Security Act.

Roosevelt Establishes A Study Committee, 1934

Roosevelt had only the vaguest notions of the sort of program he wanted. He envisioned cradle-to-grave insurance that would, at one and the same time, be self-supporting and securely financed, and would leave maximum discretion to individuals and to the states. As this sketchy and contradictory blueprint suggested, Roosevelt wanted to preserve his options.

In early summer 1934, Roosevelt decided to have his administration prepare an economic security bill, covering both old-age and unemployment, in time to present to Congress early in 1935. In essence, Roosevelt's actions, coming as they did near the peak of his popularity, took control of social insurance proposals away from Congress, which was debating old-age benefit and unemployment compensation bills, and brought it to the executive branch.

For advice on how to proceed with a comprehensive social welfare law, the Roosevelt administration turned to technical experts in the field of social insurance, to administrators of the few existing social welfare programs, and to businessmen and labor leaders with innovative ideas.

The first step in the policy process was the establishment of the Committee on Economic Security, composed of cabinet members and cabinet-level advisers specially appointed by Roosevelt to study the problem and issue specific recommendations. The principal participants—Labor Secretary Frances Perkins; Harry Hopkins, Roosevelt's trusted adviser and administrator of the Federal Emergency Relief Agency; Treasury Secretary Henry Morgenthau; and Agriculture Secretary Henry Wallace—performed little of the actual work. That task fell to the committee's staff and to a technical committee from within the federal bureaucracy. Later, the CES and the president established an advisory council composed of business, labor, and academic leaders. Perkins took the lead in setting up the apparatus, relying heavily on Arthur Altmeyer, who served as assistant secretary of labor. Altmeyer, a former secretary of the Wisconsin Industrial Commission, recruited Edwin Witte, another Wisconsin official associated with both the state government and the state university's economics department.[5]

The Study Committee Debates Unemployment Compensation

Everyone agreed that unemployment represented the most important subject to be considered. Not only did it constitute the most serious problem the country faced, but it also was the most controversial. The controversy stemmed from a debate that had developed among experts in the universities, state governments, and private think tanks over the best design for unemployment compensation.

The AALL's 1930 model proposal for unemployment compensation contrasted sharply with the suggestions in a 1932 Ohio commission report. The AALL emphasized preventing unemployment by making each employer responsible for the "deferred compensation" that would be paid to his or her unemployed workers. Under this method, each employer would, in effect, be charged only for his or her own unemployment and not for that of another employer. The employer who seldom laid off workers would pay less in unemployment compensation than would the employer who often dismissed employees.

In contrast, the Ohio report emphasized a broad pooling of unemployment's costs. The method behind this approach was simpler: money would be raised from employers and employees and used to compensate laid-off workers.

The AALL favored plant or industry funds, with each employer's contributions being separate (see discussion of the Wagner-Lewis bill below); supporters of the Ohio approach wanted a single unemployment fund to cover the entire state. The AALL placed heavy emphasis on the adjustment of an employer's premium to reflect his risk—a concept known as *experience rating;* supporters of the Ohio approach preferred a universal rate that applied to all employers alike. By increasing the cost of unemployment to the employer, the AALL hoped to reduce unemployment. Supporters of the Ohio approach thought such concerns were irrelevant to the pressing problems of the depression.

When the Roosevelt administration turned to the social insurance experts in 1934, it therefore found conflicting advice. But those sympathetic with the AALL approach had already succeeded in passing a law in Wisconsin two years earlier, and Wisconsin officials had already convinced Labor Secretary Perkins, the first woman cabinet member in American history and the single most important person in the Social Security Act's creation, to support a federal bill that would allow the state of Wisconsin to retain its law and encourage other states to pass unemployment compensation laws.

The Wagner-Lewis Bill, 1934

In early 1934, the Wisconsin officials suggested that the federal government should legislate a tax on all employers, 90 percent of which could be offset if the employer paid into a state unemployment fund. By February, Sen. Robert Wagner (D-N.Y.) and Cong. David Lewis (D-Md.) had introduced legislation along these lines. This was known as the Wagner-Lewis bill.

Although the technical details of the offset provision made the bill difficult to explain, it simply amounted to an inducement for states to pass their own unemployment compensation laws so local businesses could avoid the federal tax. If the states failed to pass a law, the tax would still be collected from local businesses and treated as government revenue. Clearly, business would prefer to use the tax toward payment of unemployment compensation benefits.

Noting that, if passed, the Wagner-Lewis bill would grant the states considerable latitude, Witte, the former Wisconsin state employee and now the staff director of the CES, commented:

> The States are given complete freedom to establish any kind of unemployment compensation system they wish. They may or may not permit separate industry and plant accounts, and may or may not require employee contributions in addition to the contributions paid by the employers. They can fix their own benefit rates, waiting periods, and so forth.[6]

Proponents of this approach accordingly argued that it would induce constructive experimentation. Wisconsin would continue its law while Ohio could pass a law that pooled the business contributions in a general fund. And if the federal laws were declared unconstitutional, the state laws would remain on the statute books.

Despite its compatibility with the Wisconsin law and its head start in Congress, the Wagner-Lewis bill was not the automatic choice of the CES. Business and labor leaders who served as advisers to the committee raised objections. Marion Folsom, treasurer of the Eastman Kodak Company, spoke for many large employers when he argued that a national, rather than a state, system would make administration easier for companies doing business in several states. Folsom tended to favor an alternative plan, known as the subsidy plan, under which the federal government would collect money for unemployment compensation and then give it back to the states in the form of grants. He believed such a plan would prove favorable to business because it would include national standards, such as the possible requirements that employees contribute toward unemployment compensation and that employers with better employment records pay lower tax rates. (This last standard was one that would benefit Eastman Kodak, which had learned how to stabilize employment through the year and avoid laying off workers after the summer rush when people sent in rolls of vacation films to be developed; at the time, much of Kodak's business involved the development of pictures.)

Further, the constitutionality of the subsidy plan troubled business leaders little. If the law were declared unconstitutional, it would mean lower taxes. Similarly, if Congress decided not to renew the program, as it had with earlier grant-in-aid programs such as the Sheppard-Towner infant and maternal health act, it would be to business's advantage.

Labor leaders had their own reasons for being wary of the Wagner-Lewis approach. William Green of the American Federation of Labor noted:

> If we leave it to the States, we will have some States with a pool fund, we will have other States with reserve plant funds, and it will be just like our workmen's compensation laws, hit or miss, here and there, with the worker going from one state to another being subjected in one State to a plant reserve and to a pool fund in another.[7]

Green objected to individual company reserves, fearing that the funds would be used as a weapon against organized labor. Employers "might offer slightly higher benefits or pay benefits for a longer period, upon the understanding that their employees remained unorganized; they could use their unemployment reserves. . .to build a company union, and thus prevent the growth of bona fide trade unions."[8]

Sympathetic to these arguments, Perkins nevertheless decided on the Wagner-Lewis approach, and her opinion swayed the other committee members. From her Washington perspective, she feared that states righters (Southern Democrats) in Congress would become entangled in extensive debate over the specifications of an unemployment insurance bill and that that would indefinitely delay the passage of the Social Security Act. Perkins also worried about the attitude of future presidential administrations toward any standards that might be included in a grant-in-aid bill. She viewed state laws as a "safer" course to follow. "I am more than ever convinced that any law which intimately affects the daily lives of people must have a considerable proportion of state and local opinion back of it," she wrote a correspondent who urged her to recommend national, rather than state, standards for unemployment compensation.[9]

By the end of December 1934, the CES had decided to recommend state unemployment plans through legislation similar to the Wagner-Lewis bill.[10] Since Congress acquiesced in this decision and never changed it, workers still apply to state governments, rather than to the federal government, for their unemployment compensation.

The Study Committee and Dr. Townsend Discuss Old-Age Insurance

As the experts conducted their specialized debate on unemployment, other staff members of the CES struggled to put together a plan to cover elderly people. They worked in relative freedom, almost ignored. Describing his duties as a member of the CES staff, Princeton labor economics professor J. Douglas Brown wrote, "we were left largely alone to work out a national system of old-age insurance."[11] Staff director Witte, his hands full with the battles over unemployment insurance, showed little interest in Brown's plans.[12]

Witte's indifference formed a vivid contrast to the intense enthusiasm of elderly persons themselves. Many interested citizens saw the primary matter before the CES as designing an old-age retirement program rather than creating an unemployment insurance program.[13] At the time, there was no magic in the word *insurance.* Elderly persons needed income, and it mattered little to them how this money was provided. Indeed, it was, almost by definition, too late for them to contribute toward their own retirement pensions. They would instead require direct aid from the government.

Elderly persons organized to express this message. Led by Francis Townsend, a retired doctor living in California, the Townsend movement enrolled tens of thousands of elderly members. Townsend vociferously demanded that anyone over the age of 60 be paid a flat pension of $200 a month from the federal Treasury on condition that the recipient retire from the labor force and spend the entire amount of money within a month.[14] Moreover, he managed to base his claim that elderly persons deserved special consideration on the notion that, by helping them, Congress would also promote economic recovery. Because elderly persons would spend their government grants, they would also put more money into circulation, bid up the price of goods and services, and restore prosperity. Thus, special interest legislation could be perceived as being in everyone's interest. "This plan is only incidentally a pension plan," Townsend said. "The old people are simply to be used as a means by which prosperity will be restored to all of us."[15]

There was an intuitive appeal to Townsend's approach. One of the popular explanations for the depression centered on an "oversupply" or "overproduction" of goods and services. Under Townsend's plan, elderly people would consume some of those products. Unlike other demographic groups, they had relatively little incentive to save for a rainy day; their rainy day had already arrived. Besides, in a stagnant economy with only "sterile" investment outlets, savings achieved little. So elderly persons would consume rather than save. Moreover, they would also make room for the young in the labor force since the plan would, in Townsend's words, "create a scarcity of labor through this retirement system so that those people who are not old enough to retire will be in a position to demand and receive decent wages."[16]

The Townsend movement attracted the nation's attention at the precise moment that the CES began its work. The staff members on the committee regarded Townsend as a mixed blessing. On the one hand, he called attention to the need to include the elderly population in the administration's economic security bill. Congress, feeling the heat from its elderly constituents who, not coincidentally, voted in large numbers, would insist on some provisions for those constituents. On the other hand, Townsend did not favor social insurance; it was irrelevant to him. Thus, the Townsend movement did little to further the cause of social insurance; and without a social insurance approach toward old-age retirement, CES staff members realized, appropriations would be at the mercy of Congress. If, as might well happen, the fervent liberalism of the 1930s gave way to the wary conservatism that had characterized the 1920s, elderly persons would suffer. Generous provisions would become meager just when the elderly population had learned to depend on the government's generosity. It would be far better, staff members believed, to adopt an approach that would permit orderly social planning by allowing the costs of old-age pensions to be budgeted for in advance; far better to reduce the burden on the federal government and the uncertainty of congressional appropriations by having workers and their employers contribute toward their eventual retirement pensions.

Townsend scoffed at the idea of orderly social planning. He put his case much more plainly:

> For the past five years [he said in 1935], the people of the United States have been living in depression. They have been starving in the midst of plenty. They have seen experiment after experiment tried out; experiments which bore the recommendations and hearty approval of men we call "economists." I have said to the people of America that it is time we tried a new experiment; an experiment which has not had the blessing of the so-called "economists" and is therefore dubbed "fantastic" by them.[17]

The economists regarded the Townsend scheme as fantastic because they believed it to be impractical. As Secretary Perkins noted, "two hundred dollars a month to every person now over 60 years of age would amount to something considerably more than one half of the national income of the USA, and it seems almost fantastic to estimate a solid, substantial insurance scheme in any such terms as that."[18]

Although the Townsend plan created popular pressures for the passage of an old-age pension law of some sort and although the CES staff favored a social insurance approach, it proved difficult to create a feasible insurance plan. Unaccustomed to thinking about federal programs, the staff at first proposed to have the states or private companies administer old-age insurance. Worried about the constitutionality of a social insurance program, they hesitated to recommend compulsory (rather than elective or voluntary) coverage. By November 1934, however, the CES members had decided on a compulsory federal old-age insurance plan.[19]

In deciding to bypass the states at a time when other CES staff members were recommending a state approach to unemployment compensation, the CES experts assigned to study old-age insurance followed administrative logic to its limits. Brown later noted that they deliberately stressed the problems of establishing separate state old-age insurance systems, writing memos to the other staff members with "awesome descriptions of the complexities."[20] They realized that the opinions of the AALL and the existence of the Wisconsin unemployment law made it difficult for the CES to recommend a national approach to unemployment compensation; however, fewer roadblocks stood in the way of recommending a national system of old-age insurance.

Such a recommendation raised three pressing problems. One concerned the measures that would be taken to solve the problems of those already old and already retired. As Townsend and his followers knew, social insurance could do nothing for this group. The second problem involved the difficult matter of designing a plan to finance old-age insurance. The third had to do with coverage. Would such insurance include, for example, the self-employed, such as a store owner, or someone who worked for many employers, such as an itinerant laborer?

To solve these problems, the CES recommended three programs for old-age security. One called for the establishment of an old-age insurance program, with a complicated and detailed financing plan; another proposed that the federal government help to fund state relief programs for the low-income elderly; the third suggested that, for those people who Congress decided would not be eligible for the old-age insurance program, a voluntary program be established that would allow them to buy old-age annuities directly from the federal government. In executive director Witte's estimation, this amounted to a comprehensive solution to the problem of old-age security. Each of the three parts of the system complemented the other parts.

"The federal grants-in-aid for pensions paid by the States are designed to stimulate all States to enact liberal old age pension laws for the support of people now old who are in need," Witte said.[21] As matters stood, old-age pensions existed in twenty-eight states, and more than 180,000 people received them. But fourteen states had a 70-year-old age limit and required the recipient to have lived in the state for at least ten years. None of the states paid pensions to a person who had more than $3,000 worth of property, and the most any state paid was a dollar a day.[22]

Nor were these pensions free of political influence. As one Republican congressman complained, "Out in Minnesota where we have a radical administration in power now, it is almost impossible for indigent Democrats and Republicans to qualify for relief, and the result is that they are all joining up with this radical party in order to get relief and relief work."[23] The grants-in-aid would make state old-age pensions more adequate and less subject to political abuse.

Adequacy and nonpartisan administration came at a high price. Since so many elderly were in need and since they would not be required to bear part of the expense or join a political party to get the pensions, costs would be high. To reduce the future costs of these "gratuitous" pensions, the federal government would also pay "earned" pensions through what Witte called a "compulsory contributory annuity system designed to enable younger workers, with the help of their employers, to make their own provisions for old-age."[24]

The creation of contributory pensions raised extraordinarily difficult problems of social engineering. The basic consideration was the rising cost of the pensions. As time passed, their total cost would increase, even without an increase in the generosity of the benefits. The reason was that, whether or not there was an extension of coverage, the percentage of the retired population eligible to receive Social Security would rise over time. Whatever else happened, old-age insurance would cost more in the future than when it started.

The next consideration was the low value of the pensions that older workers could earn through their contributions. Assume, for example, that a worker who received an average monthly wage of $50 paid into the old-age insurance fund at the rate envisioned by the CES for five years. Together, his and his employer's contributions would entitle this worker to an "earned" pension of only 24 cents per month. Ten years of contributions would make the worker eligible for 75 cents a month.

Further, a system of earned pensions would mean that the old-age pension plan would build up a huge reserve in the early years of the system to meet the costs that would arise in later years. The CES estimated that a "fully funded" pension plan could lead to the creation of a reserve fund as large as 70 billion dollars in 1975. The problem here was that some conservative congressmen believed that the government would be tempted to spend those reserves to meet current expenses and some economists doubted the government's ability to invest such a large reserve prudently.

To solve these problems, the committee recommended an initial delay of five years between the first year of contributions into the system (from a payroll tax borne equally by employers and employees) and the first payment of regular benefits; a system of gradually rising tax rates, which would handle the problem of long-range costs; and an eventual subsidy from general revenues, which would allow those already old to receive "unearned" but not "gratuitous" pensions and also reduce the size of the required reserve. Witte explained the complicated system that resulted:

> The plan is designed so that people who start contributions after the 5 percent rate is in effect (the highest tax, scheduled to take effect in 1949) will pay their own pensions. People who are now past middle age will not pay their own pensions entirely. These unearned pensions will in the long run be paid by the United States government, but the United States government will not be required to make any contributions for many years to come—for 30 years, not until 1965.[25]

As for the voluntary annuities, the third aspect of the plan, they were intended, according to Witte, "to give self-employed people, housewives and so forth, the same opportunity to make their own provisions for old-age that the employed persons are required to make."[26]

Witte and the other committee members used the word *pension* to describe all three of the old-age programs. Both the state-run welfare program and the federally run compulsory old-age insurance program would, for example, pay pensions. The difference was that the states would pay "unearned" pensions, and the federal pensions would be "contractual and free from any means test."[27]

Yet many people wondered if this elaborate system was worth the trouble. As one congressman asked rhetorically, "If it costs the government more to have a combined contributory annuity plan and an old-age non-contributory pension plan, what is the advantage of having the contributory annuity plan?"[28] In its defense, the committee looked toward the long run. "Only through the method of preventing dependency through some form of cooperative thrift can the cost of relief be kept down," the CES staff members wrote.[29]

In looking toward the long run, the committee hoped to create a system of unemployment compensation, old-age insurance, and welfare that was beyond the reach of partisan politics. Politicians, even more than economists, appreciated the wisdom of the English economist John Maynard Keynes when he said, "In the long run, we are all dead." These politicians realized their dependence on present-day voters, and the depression put an increased premium on immediate rather than long-run action. But the CES asked Congress to put aside its present-day concerns and create a program that would be financially secure far into the future. It requested that Congress avoid legislating large benefits for elderly persons today so that the system would not go bankrupt tomorrow. Further, it wanted Congress to leave the administration of the program to trained professionals, who would resist taking actions solely for political gains. The committee envisioned the establishment of a social insurance board that would be a "nonpolitical organization, protected as far as possible from political influence, even such as might arise from an executive department under a politically minded administration."[30]

Congress Considers The Social Security Bill, 1935

In January 1935, Roosevelt presented Congress with an omnibus measure that combined programs covering children, the unemployed, and the elderly in a single legislative package. The administration bill included the unemployment compensation plan modeled on the Wagner-Lewis bill, the three programs for elderly citizens, and a program in aid of dependent children, as well as provisions for infant and maternal health care, child welfare, vocational rehabilitation, and public health. It was, by far, the most comprehensive social welfare bill that any Congress had ever been asked to consider.

Because the legislation sought to establish a tax for unemployment compensation benefits and another tax for old-age insurance, Congress handled it as it did other forms of tax legislation. Tax bills began in the House of Representatives and then were debated in the Senate. Congress used special standing committees to analyze such legislation. Hence, the Committee on Ways and Means in the House and the Committee on Finance in the Senate held lengthy hearings on the legislation in the winter and spring of 1935.

The bill prepared by the CES faced intense scrutiny in the congressional committees. Such scrutiny was particularly critical in the House since that body tended to follow the recommendations of the Committee on Ways and Means closely. In the case of the Social Security Act, as the measure came to be known, Congress accepted all the committee's suggestions.

The Ways and Means Committee deleted the section of the bill calling for voluntary annuities and showed only marginal interest in the old-age insurance section. In an executive (closed) session of the committee, supporters of the administration agreed to eliminate the voluntary annuities in return for the committee's support for the compulsory old-age insurance program.[31]

As for old-age insurance (Title II of the bill), a complication arose when the administration decided at the very last minute that it could not tolerate a deficit in the old-age insurance plan, even though the deficit was not scheduled to arise until the 1960s. Roosevelt dispatched Treasury Secretary Henry Morgenthau to appear before the House Ways and Means Committee with a new plan that would make the program "fully funded," without the need for general revenues.[32] Many objections were raised. Businessmen realized, for example, that the president's fully funded plan meant higher tax rates than the original CES proposal. They objected both to the higher tax rates and to the large reserves (money collected for Social Security but not spent immediately) that the president's plan entailed.[33] But despite these objections, Roosevelt got his way on the funding provisions of the old-age insurance law.

Meanwhile, the Townsend plan continued to attract a great deal of attention. Its chief congressional proponent contrasted its generosity with the inadequacy of the administration's bill. Like many of his fellow legislators, the congressman ignored the bill's old-age insurance completely since benefits were not scheduled to begin until 1942. Instead, he concentrated on its relief features, which he said offered a "pauper's dole" to "God's beloved old people, who have read newspapers, who have studied the Bible, who have read books, who are intelligent, but who are pitifully helpless in their old-age. . . . I want to say these old people will resent it, and they will resent it bitterly," the congressman said.[34]

It was the old-age relief section of the bill, however, that became its most popular feature. As one member of Congress announced, "Let me say frankly at the outset that the only part of the President's economic security bill that I am very greatly interested in for the moment, or that many Members are very greatly interested in, is section 1 of that bill [the relief section]."[35] Witte later suggested that if this section had not been included, the bill might never have passed.[36] The reasons why this measure was so popular were not difficult to discern. The bill did not challenge the primacy of state and local administration, and it provided a ready source of federal funds that could be distributed almost immediately. Congress gratefully accepted these provisions, as it did similar provisions in aid of dependent children.[37] Old-age relief, in a sense, was the administration's and the CES's response to the Townsend plan.

Sensing the popularity of old-age relief, Cong. Allen Treadway (R-Mass.), the ranking Republican member of the House Ways and Means Committee, sponsored an amendment on the floor to make the noncontributory pensions more generous. By way of contrast, he called the old-age insurance program the "worst title in the bill, . . . a burdensome tax on industry." Taking advantage of old-age insurance's *lack* of popularity, Cong. Thomas Jenkins (R-Ohio) said the government would "seek to compel every wage earner to pay for an insurance policy even though he cannot afford it. . . . The Government, by virtue of the passage of this act, will have wrung out of the poor people of this coming generation the greatest surplus ever contemplated by the brain of any business man. . . . Mr. Chairman, what is the hurry? Nobody is going to get a dime out of this until 1942. This will not put anybody to work. This will not buy bread for anybody now."[38] And Cong. Daniel Reed (R-N.Y.), later chairman of the Ways and Means Committee, argued that both the old-age insurance and the unemployment compensation programs should be eliminated. "They are not relief provisions, and they are not going to bring any relief to the destitute or needy now nor for years to come," he said.[39]

Despite these efforts to defeat the old-age insurance sections of the bill, the House followed the lead of the Ways and Means Committee, passed the measure without further amendment, and sent the bill to the Senate.

Unlike the House, the Senate spent a great deal of time on the old-age insurance sections. Fifteen senators, including Walter George (D-Ga.), who would subsequently become chairman of the Finance Committee, voted to eliminate old-age insurance from the bill. It did not amount to a ringing endorsement.

Although the Senate eventually voted in favor of old-age insurance, it included an amendment that, if the House had concurred, would have seriously affected the program. It concerned the right of employers and employees who already had old-age pensions to opt out of the federal law. This proposal, drawn up by Sen. Bennett Champ Clark (D-Mo.) and known as the Clark amendment, remained in the bill until it was finally deleted by the conference committee charged with reconciling the House and Senate versions of the bill.[40]

The Senate devoted more attention to the Clark amendment than to any other single subject. Sen. Alben Barkley (D-Ky.) (later Truman's vice president) wondered if Clark's amendment would create a "competitive situation between the Government and private annuity or insurance companies, so that a lot of high-pressure salesmanship would be brought to bear on employers by private companies to adopt a private system in competition with the national system." Barkley speculated that adoption of the Clark amendment would leave the federal system with the older employees, who, by the terms of the law, received subsidized pensions.[41] Such a situation might bankrupt the federal plan. Sen. Thomas Connally (D-Texas) agreed: "All the prosperous businesses will build up their own little plan, thinking they can save money by it, and there will be only the little wobbling, crippled corporations to participate in the Government plan," he said.[42]

Senator Clark disagreed. "If the high-pressure salesmanship led to employers extending more generous treatment to their employees, I do not see that there would be any disadvantage to anybody," he said. He also called attention to the fact that some of the private pensions were more liberal than the proposed old-age insurance program since they had earlier retirement ages (particularly for women), disability protection, joint annuities for wives, and provisions for past service.[43]

Although businessmen and other conservatives supported the Clark amendment because they wanted to promote competition between the federal government and private insurance companies, the federal planners who had worked for the CES strenuously objected. Just like Senators Barkley and Connally, they argued that the Clark amendment would leave the federal plan with the worst risks to insure: relatively old workers who would not have many years in which to make Social Security contributions. The private sector could simply refuse to insure such workers and leave the load to the public sector, which would then face prohibitive costs. Social Security taxes would have to rise to cover the costs, driving more workers away from the system. Support for Social Security would be undermined by the fact that many workers would have chosen not to participate.[44]

In the end, Franklin Roosevelt insisted on the withdrawal of the Clark amendment for "further discussion." As he did on other aspects of the legislation, the president got his way.[45]

Social Security Becomes Law, August 1935

In August 1935, President Roosevelt signed the Social Security Act into law. Its contents amounted almost to a catalogue of America's social welfare programs. First, the bill established a federal-state unemployment insurance program based upon the Wagner-Lewis bill. Second, it initiated federal grants to the states for welfare payments. Money from these titles would be awarded by local welfare departments to needy dependent children, blind people, and elderly citizens. Third, the act granted the states funds for such activities as vocational rehabilitation, infant and maternal health care, programs to aid crippled children, and public health programs. Fourth, and most important, the act created an old-age insurance program. In other words, the 1935 Social Security Act, with the significant exceptions of disability and health insurance, laid the basis for this country's modern social welfare system.

The fourth element of the Social Security Act was the most revolutionary. Unlike the other provisions, the old-age insurance program relied on direct federal provision of a service, involving no local or state intermediary. The states and localities administered welfare payments; the states administered unemployment insurance. The federal government alone would administer old-age insurance. As we have seen, it required considerable political energy to enact this part of the Social Security Act into law.

Educational Considerations

This chapter contains some detailed and highly technical material. Nonetheless, we believe it holds important classroom lessons. The material on the advent of industrialism encourages students to practice history as a sympathetic act of the imagination. The preindustrial world represents, to use one historian's pretty phrase, the world we have lost. It might be worthwhile, therefore, for teachers to ask students to confront the realities of this world. What threats did it pose to the average citizen's security? A good comparison could be made between the droughts of the preindustrial world, which caused harvests to fail and people to die, and the drought of the summer of 1988, which, although it reduced farmers' incomes, merely reduced our surplus of grain. The margin of subsistence has clearly widened.

That, in turn, invites students to think about how industrialization changed the world—how some people were able to leave the land, move to cities, and work in a transformed environment. Students might want to know about the new threats to security that industrialism posed. Women and children in Lowell, Mass., worked for long hours under what many would regard as dangerous conditions. The gears and teeth of the machinery—and here some visual aids might be in order—were left exposed so that clothing and, at times, fingers, could get caught in the machines, often with tragic results. Yet when these workers tried to obtain compensation for their injuries, as the chapter details, they often found their way blocked by a recalcitrant legal system.

Part of the complexity in the chapter stems from the complexity of our political system. The possibilities for creative discussion are abundant. Students might want to know just how we have divided responsibilities among the various levels of government. To see their government in action, students might also want to visit a local welfare or Social Security office.

Additionally, a study of Social Security provides a splendid opportunity for students to learn about the legislative process. A class project might involve tracking the fate of a particular bill: its inception, the various hearings, the committee reports, the debate as reported in the *Congressional Record,* and the president's statement upon signing it into law. Students with strong research skills might wish to use the microfilm edition of the *New York Times* to do research into the passage of the Social Security Act itself.

Economics also comes into play in considering the development of the Social Security Act. Here the class might try to recreate the dilemmas that faced the founders of the system in an exercise that would enable them to appreciate the system's rising costs over time and the need to prepare for future contingencies by either building a reserve or raising taxes. Students can find tangible evidence of the Social Security system by examining a pay stub or talking to a elderly person, who, more likely than not, is a Social Security beneficiary.

Students with strong analytic skills might be asked to explain the differences between old-age insurance and old-age relief, and to decide how they might have divided responsibilities between the two types of programs had they been in charge of the Social Security Act.

Notes

1. We borrow the idea of "placing a program in time" from Richard Neustadt and Ernest May, *Thinking in Time: The Uses of History for Decision Makers* (New York: Free Press, 1986), esp. p. 159.
2. For a good introduction to unemployment compensation laws, see Daniel Nelson, *Unemployment Insurance: The American Experience, 1915-1935* (Madison: University of Wisconsin Press, 1969), pp. 6-9.
3. These prohibitions are included in the Tenth and Fourteenth Amendments, respectively.
4. For a good picture of the effects of the depression on America, see W. Andrew Achenbaum, *Social Security: Visions and Revisions* (New York: Cambridge University Press, 1986), p. 16, and Irving Bernstein, *A Caring Society* (Boston: Houghton Mifflin, 1985), p. 18.
5. Arthur J. Altmeyer, *The Formative Years of Social Security* (Madison: University of Wisconsin Press, 1966), pp. vii-x, 3; Arthur J. Altmeyer, "The Industrial Commission of Wisconsin: A Case Study in Labor Law Administration," *University of Wisconsin Studies in the Social Sciences and History* 17 (1932); Wilbur J. Cohen and Robert J. Lampman, "Introduction," in Edwin Witte, *Development of the Social Security Act* (Madison: University of Wisconsin Press, 1963), p. xi.
6. Testimony of Edwin Witte before House Ways and Means Committee, in *Economic Security Act: Hearings Before the Committee on Ways and Means* (Washington, D.C.: U.S. GPO, 1935), p. 4.
7. Testimony of William Green in *Economic Security Act: Hearings,* p. 394. For a critical review of the debate over unemployment compensation, see Edwin Witte to members of the Technical Board, 9 November 1934, Murray Latimer Papers, George Washington University Library Special Collections, Washington, D.C.
8. Green, *Economic Security Act: Hearings,* p. 394.
9. Frances Perkins to Paul Kellogg, 28 February 1935, Kellogg Papers, Social Welfare History Archives, University of Minnesota.
10. Altmeyer, *Formative Years,* pp. 21-22; Witte, *Development of the Social Security Act,* pp. 111-142.
11. J. Douglas Brown, *The Genesis of Social Security in America* (Princeton, N.J.: Princeton University Library, Industrial Relations Section, 1969), p. 4.
12. Ibid.
13. Wilbur Cohen to Ervin I. Aaron, 13 March 1935, Records of the Social Security Administration, Record Group (RG) 47, National Archives.
14. Kelley Loe, *An Army of the Aged* (Caldwell, Ind.: Caxton Printers, 1936); Committee on Old-Age Security, *The Townsend Crusade* (New York: Twentieth-Century Fund, 1936); Allen Brinkley, *Voices of Protest* (New York: Vintage, 1982).
15. Testimony of Dr. Francis Townsend before House Ways and Means Committee, in *Economic Security Act: Hearings,* p. 680.
16. Ibid.
17. Ibid., p. 678.
18. Testimony of Frances Perkins before House Ways and Means Committee, in *Economic Security Act: Hearings,* p. 200.

19. Brown, *Genesis;* "Contributory Old-Age Pension Plan: Receipts and Payments," Altmeyer Papers, CES File 1, Box 1, Wisconsin State Historical Society; "The Dead Sea Scrolls of Social Security," in personal possession of Robert J. Myers, Silver Spring, Md., contains a detailed list of the various plans that were considered.
20. Brown, *Genesis,* p. 8; J. Douglas Brown, *An American Philosophy of Social Insurance: Evolution and Issues* (Princeton, N.J.: Princeton University Press, 1972), pp. 10-12.
21. Testimony of Edwin Witte before House Ways and Means Committee, in *Economic Security Act: Hearings,* p. 6.
22. Ibid., p. 83.
23. Ibid., p. 138.
24. Ibid., p. 6.
25. Ibid., p. 90.
26. Ibid., p. 6.
27. Ibid.
28. Testimony of Congressman Hill before House Ways and Means Committee, in *Economic Security Act: Hearings,* p. 103.
29. *Social Security in America: The Factual Background of the Social Security Act as Summarized from Staff Reports to the Committee on Economic Security* (Washington, D.C.: U.S. GPO, 1937), p. 197.
30. Ibid., p. 209.
31. *Report to the President of the Committee on Economic Security* (Washington, D.C.: U.S. GPO, 1935), p. 34; Witte, *Development of the Social Security Act,* pp. 93-94; Carolyn Weaver, *The Crisis in Social Security* (Durham, N.C.: Duke University Press, 1982), p. 88.
32. Barbara N. Armstrong to Murray Latimer, 22 January 1935, Murray Latimer Papers.
33. Arthur J. Altmeyer to Frances Perkins, 9 May 1935, Box 11, Chairman's Files, RG 47, National Archives.
34. Congressman McGroaty in *Congressional Record* (hereafter *Cong. Rec.*), 74th Cong., 1st sess., 1935, pp. 5794-5795.
35. Congressman Mott in *Cong. Rec.*, 74th Cong., 1st sess., 1935, p. 5457.
36. Witte, *Development of the Social Security Act,* pp. 78-79.
37. In the Senate Finance Committee, a provision for aid to the blind was added. This followed a direct appeal from representatives of the blind during that committee's hearings. Neither the CES nor the House Ways and Means Committee had wanted to start a welfare program for the blind, on the theory that many other groups were worse off. Nor did it make much sense to include one "impaired group" rather than another. Here was a clear case of politics triumphing over the CES's vision of orderly social planning.
38. Cong. Thomas Jenkins in *Cong. Rec.*, 74th Cong., 1st sess., 1935, p. 5993.
39. Cong. Daniel Reed in *Cong. Rec.*, 74th Cong., 1st sess., 1935, p. 5990.
40. "Companies Known to Favor Clark Amendment to Social Security Act," in Rainard B. Robbins, "Confidential Material Collected on Social Security Act and Clark Amendment," 11 July 1935, Murray Latimer Papers. It is worth noting that the conference had to meet on two separate occasions to resolve the matter.
41. Sen. Alben Barkley in *Cong. Rec.*, 74th Cong., 1st sess., 1935, p. 9512.
42. Ibid.
43. Ibid.
44. Paul Douglas, *Social Security in the United States* (New York: McGraw Hill, 1936), pp. 271-291.
45. Rainard B. Robbins, "Supplementary Report on the Proposed Substitute for the Clark Amendment to the Committee on Social Security of the SSRC," 27 May 1936, Murray Latimer Papers.

4

The Development Of Social Insurance Since 1935

Although, as we have just seen, old-age insurance was far from a popular program when it was enacted in 1935 and Congress instead focused most of its attention on old-age relief, old-age insurance is, in fact, the government's largest and most popular program today. That raises an intriguing question that is susceptible to historical analysis: how did old-age insurance acquire its popularity? Further, what were the fates of the other social insurance programs, such as unemployment compensation? How did these programs develop over time? Thus, we turn our attention now to the broad contours of the development of social insurance programs in modern America—in particular, the 1939, 1950, and 1983 Social Security amendments, as well as the creation of disability insurance and Medicare, and the postwar development of unemployment compensation (see fig. 4.1).

Figure 4.1—**Milestones in the History of Social Insurance and Related Publir Assistance Programs**

1878	Germany debates first national social insurance program
1911	England adopts an unemployment compensation program
	Wisconsin starts first constitutional workers' compensation program
1920	Vocational rehabilitation program begins
1933	Franklin Roosevelt begins first term
1934	Committee on Economic Security begins its work
1935	Passage of the Social Security Act, establishing two social insurance programs—Social Security and unemployment insurance—and three public assistance programs—Aid to Dependent Children, Old Age Assistance (OAA), and Aid to the Blind (AB)
	Passage of the National Labor Relations Act
1938	Fair Labor Standards Act sets a national minimum wage
1939	Comprehensive Social Security amendments, including survivors and dependents benefits, are enacted
1950	Congress extends Social Security coverage to most groups of self-employed
	Aid to the Permanently and Totally Disabled (APTD) program is enacted
1954	Disability freeze is passed
1956	Disability insurance begins
1960	Kerr-Mills program for the medically indigent begins
1965	Congress passes Medicare and Medicaid
1972	Social Security benefits are indexed to the rate of inflation
	Disability insurance beneficiaries receive right to Medicare
1974	Supplemental Security Income program begins, replacing OAA, AB, and APTD
1977	Congress passes Social Security financing legislation, raising Social Security taxes and adjusting benefit formula
1981	Substantial cuts are enacted in major social welfare programs, including the phasing-out of student benefits and minimum benefits in Social Security
1983	Social Security compromise resolves financing problems for the foreseeable future
1984	Disability reform legislation responds to the controversy of people being removed from the disability rolls
1985	Fiftieth anniversary of the Social Security Act
1988	Long-term care becomes a presidential campaign issue

The Debate over Financing Resurfaces: The 1939 Amendments

When old-age insurance began, it was a politically vulnerable program. Its most serious test came over its financing provisions. In the first place, the plan would not pay regular pensions to anyone until 1942. That meant people would pay into the system for five years without any real assurance of ever getting anything back. By contrast, the welfare programs of many states were ready to pay immediate pensions to elderly persons on terms as generous as those provided by old-age insurance.

In the second place, the reserves required to fund the program still caused considerable stir. The reserve plan rested on complicated and intimidating computations. In 1937, for example, $511 million went into the Social Security account, only $5 million of which was required for current expenses; therefore, most of the Social Security money rested in what government officials called the "reserve account." Officials anticipated that in 1967, with the system much further along the road to maturity, the collection of Social Security taxes would amount to more than $2 billion. By then, however, benefits for the first time would cost more than the amount taken in, and money from the interest on the more than $38 billion that had accumulated in the reserve account would make up the difference. By 1980 the amount of money held in reserve for Social Security would reach over $46 billion.[1]

As nearly everyone realized, that was a lot of money. In 1936, Republican presidential candidate Alfred Landon expressed the fears of many when he said, "We have some good spenders in Washington. With this social security money alone running into billions of dollars, all restraint on Congress will be off."[2] In a rare show of unanimity, the Brookings Institution, the American Federation of Labor, the Chamber of Commerce, the heads of most insurance companies, and the editorial board of the *New York Times* all agreed with Landon on this issue.[3]

In February 1939, *Harper's* ran an article that was typical of press coverage of the reserve question. Headed the "The Social Security 'Reserve' Swindle," the article had a pungent lead: "In January 1942, a long, angry howl of disappointment will be heard rumbling throughout the length and breadth of the land." The article claimed that the small pensions would disappoint people who expected to get as much from old-age insurance as other elderly citizens were getting from welfare. When told that the insurance pensions were low so as to build up a huge reserve fund, they would be doubly disappointed.

Even Arthur Altmeyer, the former Wisconsin state official now entrusted with running the old-age insurance program, began to see the reserve's limitations. Altmeyer continued to stress responsible financing: people should be aware of the system's long-term liabilities. Expanding benefits could, for example, create unmanageable long-term consequences when the bulk of the covered population began to retire. Nor would an expansion of relief handle the problem since the elderly were expected to constitute 16 percent of the population in 1980 (they actually constituted 11.3 percent of the population in 1980, but depression planners could not have foreseen the postwar baby boom, which unexpectedly increased the total population).[4]

At the same time, Altmeyer agreed that the reserve method of financing had failed to give the American people "a clear picture of the financial aspects of this old-age insurance system, and it [had] failed, apparently, to impress many people with the sort of budgeting that is provided."[5] Created to remove Social Security from the pressures of partisan politics, the financing system had, in fact, led to political conflict. A system of advance budgeting had proved impossible to implement.

As early as 1937, a consensus had begun to emerge in favor of changing the old-age insurance program so that the huge reserves did not form.[6] Arthur Vandenberg, an influential Republican senator from Michigan, recommended that the payments of benefits begin sooner than 1942, that the initial benefits be more generous, and that the payroll tax increase scheduled for 1940 be postponed. If the reserves were abandoned, sound finance and more liberal benefits could be achieved simultaneously.

Ultimately, the financing issues were debated in a special Social Security advisory council established in 1937 by Vandenberg and Altmeyer. Appearing before the council, Abraham Epstein, a social insurance expert who had become an outspoken critic of the Social Security program, said the fundamental flaw of the old-age insurance program was its slavish imitation of private insurance. "The entire conception of large reserves is derived from the fact that the framers of the Act have never understood the basic principles of social insurance. . . . It is obviously ridiculous to have a governmental plan follow the principles of a private insurance company," Epstein said.[7]

In a much more tempered way, Reinhard A. Hohaus, an actuary for the Metropolitan Life Insurance Company, argued along similar lines. He attempted to explain, just as Epstein had, the differences between public and private insurance. Private insurance, he noted, was voluntary, and within it, the principle of *actuarial equity* (the greater the risk, the higher the premium) was crucial. The federal government, by contrast, had the power to tax and therefore should emphasize what Hohaus called "adequacy."[8]

Using these justifications, Social Security officials proposed and the advisory council accepted recommendations that, when adopted by Congress, radically changed old-age insurance. During the April 1938 meeting, J. Douglas Brown, former CES staff member and now chairman of the advisory council, unveiled a plan that contained provisions for benefits to be paid to the dependent children of a deceased worker. Further, these benefits were to be based on a worker's "average" wages.

In the original Social Security Act, all benefits were based on the total wages on which taxes were payable, (called "credited wages," in the jargon of Social Security). The new plan suggested revising this provision. So that benefits paid to dependent children were adequate, they would now be based more closely on what the worker had been making at the time the worker died. If relatively little had accumulated in his or her Social Security pension fund because of youth, the new provision lessened the resulting penalty on the worker's survivors.

The move reduced the similarity in treatment between two workers with the same wage records. Because planners now contemplated paying benefits to dependent children, workers' spouses, and workers' widow(er)s, the worker who died and left behind dependent children would get back more on his or her Social Security investment than would the worker who lived until old age, never married, and never had children.

Here then was a shift toward a system that recognized certain social problems as more pressing than others and took steps to solve them. This was a new approach to Social Security, one that began to divorce public sector social insurance programs from private insurance models in a very significant way. (It should, however, be recalled that not everyone "paid" for their benefits under the 1935 formula, which favored the poor and the elderly by increasing the returns on the first dollars paid into the fund relative to the returns on subsequent dollars.) Endorsed by the advisory council, this approach was ultimately embodied in the 1939 amendments to the Social Security Act.

Altmeyer regarded the essential concept behind the 1939 amendments as the creation of family protection. No longer was social insurance limited to the economic insecurity workers faced when they reached old age. Now it would protect against other significant risks as well, such as the death of a wage earner. Now it would reflect the circumstances of a family.

Moreover, by creating family protection, these amendments would also help to change the politics of social insurance from a near total absorption with the welfare of elderly citizens toward a new focus on the problems that affect people of all ages. "The whole thing ties together, we think, to furnish a better pattern of protection to all of the people who are covered under the insurance system," Altmeyer said.[9]

Altmeyer also believed the 1939 amendments would help to ensure the survival of social insurance at a time when its survival remained in doubt. Between 1935 and 1939, the Townsend plan had, if anything, gained in popularity, and congressional debate continued to be dominated by its supporters. In addition, the old-age relief programs (the state noncontributory welfare programs) had acquired a political following since they, unlike the old-age insurance program (the federal contributory old-age insurance program), were already paying benefits. Making old-age insurance more adequate also made it more politically attractive.

Still, Altmeyer and other supporters of old-age insurance had to walk a fine line. Thoughtful individuals inside and outside Congress realized that making social insurance more adequate so that it could compare favorably with relief would, in fact, undermine the contributory features that distinguished social insurance from welfare. The more benefits were raised, the weaker the relationship between benefits and contributions. As Cong. Jerry Voorhis of California (a state whose politics owed much to the Townsend plan) noted, "a broad floor will be necessary under old-age insurance benefits." But as soon as that floor appeared, the system would no longer be insurance. Instead, it would be a cross between welfare and social insurance. Far better, he argued, simply to pay a pension to a broad group of citizens, financed, if necessary, from general revenues.[10]

Altmeyer, Brown, and other social insurance supporters disagreed with this approach. As Brown told the House Committee on Ways and Means,

> Relief is bound to involve mounting costs, mounting dependency, and the impairment of. . . independence and incentive. . . . Relief leads to paternalism . . . because the less a person has as he approaches old-age, the more assistance will be given. It is an arrangement whereby an older person must of necessity become the ward of the state.[11]

Brown contrasted relief with contributory insurance. Social insurance prevented dependency, preserved thrift and self-reliance, and maintained "the dignity of human personality."

Beyond these intangible appeals to American values, social insurance enjoyed another advantage over relief. Unlike the state relief systems, the federal old-age insurance program was relatively isolated from the payment of benefits based on political loyalty or expediency. The political system tended to play favorites with needy groups, assuring the well-organized elderly persons an advantage over the less politically powerful families with dependent children. By 1939, for example, all the states had joined the old-age relief program, compared with forty states that had begun programs in aid of dependent children. The number of elderly recipients exceeded the number of dependent children receiving aid by a factor of nearly 300 percent; in terms of federal dollars spent, the differential was even greater. Yet even the relatively generous payments to elderly persons varied greatly from state to state, ranging from $6.15 in one state to $32.43 per elderly person per month in another.

Political abuse in the state of Ohio, where the governor arbitrarily raised the old-age pensions by $10 a month, led the federal government temporarily to suspend welfare payments in that state. Questioned about the propriety of witholding $1,250,000 from the elderly in Ohio, Altmeyer replied that it was an "administrative" matter handled by a bipartisan board that had special knowledge of the law and its operations. Such administrative actions were necessary to prevent situations in which political candidates deluged old-age pension recipients with "campaign literature and promises, counterpromises, and warnings and counterwarnings."[12] A social insurance system would help to end this sort of political abuse.

By 1939, America had begun to produce a social insurance system that, although still less generous than the relief programs of some states, provided protection against some of life's major hazards. With the blending of adequacy and equity, the American social insurance system had come of age. We owe our modern old-age insurance program as much to the 1939 amendments as to the original 1935 law.

Expanding Social Security Coverage: The 1950 Amendments

Although the 1939 amendments marked a significant step in the creation of America's social insurance programs, crucial elements were missing. One was broad coverage under old-age insurance since the program failed to cover farmers, the self-employed, and others outside of the industrial or commercial labor force. Another was benefits that reflected America's postwar prosperity and the accompanying higher prices. A program created in the depression needed to be modified for a time of prosperity. After delaying the reform of old-age insurance through the war years and through the postwar conservative resurgence, Congress remedied these defects in 1950 and passed the most important amendments to the Social Security Act since 1939. As a result of the 1950 amendments, the old-age insurance program became America's most successful social welfare program.

As we have indicated, that had not been the case earlier. As late as 1940, federal social welfare programs, such as Social Security, remained relatively small. In 1940, for example, the nation spent more than six times as much on state workers' compensation payments as on federal Social Security. Veterans programs cost fifteen times as much as Social Security.[13]

Further, within social welfare policy, social insurance played a distinctly secondary role. By the end of the 1940s, just over a fifth of the elderly received old-age assistance payments; in a few states, it was over half. The average monthly welfare payment was $42 in 1949, compared with an average Social Security benefit of $25.[14] And as late as 1950, more than twice as many people were on the state welfare rolls receiving old-age assistance than were receiving retirement benefits from the federal government under Social Security.

In agricultural states, the disparity between old-age insurance and relief was extreme. In 1947, for example, Oklahoma had 575 elderly people on relief for every 1,000 elderly residents, compared with a Social Security beneficiary rate of 50 per 1,000. Nebraska, Arkansas, New Mexico, South Dakota, North Dakota, and Mississippi—all heavily agricultural states—each had very low levels of participation in the Social Security program. Moreover, fewer people received old-age insurance protection in agricultural states than in industrial states—hence the wide differentials in the receipt of Social Security between Massachusetts and Mississippi. That put a huge burden on Mississippi since it was required to contribute toward the cost of old-age relief, whereas Massachusetts, a richer state than Mississippi, paid less for old-age pensions. Such a system distributed resources in a far from equitable manner.

As the statistics indicated, America had not yet come to accept social insurance as its primary means of providing aid for elderly persons, and a strong possibility existed that a different form of pension, one based more directly on need, would replace social insurance principles. That in turn would make it more difficult to extend Social Security into new areas, such as health insurance. It made little sense to provide health insurance through the Social Security program when many people were not covered by Social Security.

Congress proceeded as it had in passing the 1939 amendments. It appointed an advisory council to study the situation and produce concrete recommendations. This council met in 1948 and issued a report that had a major impact on the future of social insurance.

The council took as its goals the prevention of dependency and the reduction of the need for public assistance. The chosen method to reach these goals, not surprisingly, was the extension of social insurance. The council members looked forward to universal coverage under old-age and survivors insurance, believing that "the character of one's occupation should not force one to rely for basic protection on public assistance rather than insurance."[15]

However, extending social insurance coverage and raising benefit levels posed considerable problems not unlike those faced in 1935. If a new group entered the system, for example, its elderly members would not be able to "pay" for adequate pensions. In response, the council adopted a similar solution to that adopted in 1935. In effect, it recommended a new start for the system that required the same qualifying period for an older worker as was required for a person who was the same age when the system began operation in 1937. Hence, a self-employed person who was 55 in 1950 would be given the same special treatment as had been enjoyed by a 55-year-old factory worker in 1937.

Another dilemma concerned the proper rate to charge the self-employed. Since they were both employer and employee, they might be asked to pay the combined tax rate. In the end, a "reasonable" compromise prevailed in which the council recommended, and Congress adopted, a rate of 1-1/2 times the employee contribution rate rather than the combined employer and employee rate. The council cited various reasons for its choice, such as that the income of the self-employed reflected income from capital investment as well as income derived from personal services. The council also felt the self-employed would have a retirement age higher than that of industrial workers and thus would end up paying into the system for a longer period of time.

These decisions reflected the difficulty of blending adequacy and equity into a mature social insurance program. Reinhard Hohaus used a frivolous but apt metaphor to explain the blend. He cited the analogy of the formula for a dry martini: "While it seems to be generally agreed that much more gin (adequacy) should be used than vermouth (equity), there are decided differences of opinion as what the ratio of adequacy to equity should be."[16] Creating its own mixture of adequacy and equity in 1950, Congress substantially modified the Social Security program. Eight million workers, most of whom were self-employed, were brought into the system; and average benefits were increased by about 80 percent.

The Social Security system revived. In February 1951, for the first time, the number of its beneficiaries exceeded the number receiving old-age relief.[17]

The Success of the Social Insurance Model: 1950–1980

The old-age insurance program seemed to pass beyond controversy within a few years of the passage of the 1950 amendments. Major ideological issues diminished in their intensity so that Brown could write in the 1950s:

> The early issue between "pay-as-you-go" and "large reserves" seems to have faded into the background. In old-age and survivors insurance, we have let the actuaries worry about the problem of balancing income and outgo over time. Perhaps this is a mark of financial sophistication. We trust specialists in most aspects of life, why not in the planning of the financial aspects of social insurance?[18]

It was almost as if the program was following the nonpartisan blueprint that Arthur Altmeyer, Douglas Brown, and others had intended for it.

In a similar vein, a 1959 essay by Wilbur Cohen, a University of Michigan professor who had been Altmeyer's chief assistant and would later become secretary of Health, Education, and Welfare, enthusiastically described the growth and scope of the program. Cohen began on a cautionary note. "It is important to remind ourselves that just a few years ago old-age insurance was a relatively small program," he wrote. Then he launched into a full-scale tribute.

> Today, our [program] is the largest social insurance program in the United States, dwarfing any other social insurance program and even the veterans' programs. In protection afforded to employees and their wives, it exceeds the coverage of all private pension plans in the United States and is equivalent to about one-half of the face value of all the life insurance protection—public and private—in the nation. And, moreover, it does this in a way which has not adversely affected initiative, thrift, or voluntary pension plans, has preserved emphasis on self-responsibility and wage differentials, and has operated at the phenomenally low administrative cost of only 2 percent of basic payments, while disbursing benefits totaling nearly $40 billion in the past twenty years on an efficient basis without any taint of political manipulation or scandal.[19]

As we have seen, Social Security's success came gradually. The program did not begin operations until 1937 or pay its first pensions until 1940. As late as 1950, welfare to the elderly cost more and reached more people than did Social Security. Soon afterwards, however, social insurance skyrocketed ahead of the other programs. By the mid-1980s, the Social Security Administration (SSA) operated 1,300 offices and maintained ten regional headquarters. The employees in these locations sent 432 million checks to Social Security recipients per year and met with countless individuals who wanted information about the program.[20]

Ideology has played a part in social insurance's success, as have more mundane factors related to the economy, politics, and demography. Robert Ball, who, as commissioner of Social Security, piloted the program from 1962 to 1973, captured its ideological appeal when he referred to its "self-help approach." In social insurance, Ball noted, people demonstrate something "positive—that they have worked sufficiently to be eligible and thus have an earned right to the payment." Welfare forces applicants to prove something "negative—that they do not have enough to get along on."[21]

The striking thing about Social Security is that it harnessed the growth of the American economy to its advantage. In his *Newsweek* column in 1967, Nobel Prize-winning economist Paul Samuelson called Social Security the "most successful" program in America's welfare state because it is based on "the eighth wonder of the world—compound interest." Other commentators have echoed Samuelson's faith in the program. Edwin Dale wrote in the *New York Times* in 1972 that, "unless the world blows up or the country goes bankrupt, it is highly likely that current workers will get back from Social Security more than they paid in."[22]

These commentators have understood the full implication of America's recovery from the depression. When the Social Security old-age insurance program began in 1937, experts expected many old people and relatively few young people to be in the population in the second half of the twentieth century. They failed to foresee the prosperity of the war and postwar eras and the baby boom that accompanied this prosperity. The combined result of these events was more money coming into the system than predicted. With unemployment down, more workers paid into the system; and fears about the system's future were eased by the realization that, beginning in the mid-1960s, the children of the baby boom would begin to enter the labor force and pay into Social Security accounts. No wonder, then, that Congress decided to increase Social Security benefits and hold down Social Security taxes, as benefit increases in 1952, 1954, 1958, 1968, and 1972 illustrated.

Unlike the social welfare programs that preceded it, Social Security old-age insurance was conceived to function as an entitlement, in which benefits are mandated by law and money to pay for it comes from payroll taxes that are collected automatically. After the early 1950s, few members of Congress wanted to change the system. Most praised its success.

Disability Insurance (1956), Health Insurance (1965), And Unemployment Compensation

Although most people approved of old-age insurance after 1950, many hesitated to expand it to cover the risks of disability and ill health. The battles over enactment of these measures proved to be among the hardest fought in America's political history. Unemployment compensation, as it developed in the postwar era, also posed many political and administrative dilemmas for which policymakers could find no easy answers.

Disability insurance illustrated the incremental approach that policymakers took toward the expansion of social insurance in the 1950s. At first, Congress refused to support the payment of retirement pensions for the disabled even though the advisory council had recommended such a measure in 1948. Then, in 1952, the House of Representatives voted to initiate a "disability freeze," in which a disabled worker could have his benefit record "frozen" and still receive retirement benefits at age 65. The Senate failed to concur, and the measure died.[23] In 1954, however, the disability freeze was again debated, and due, in part, to the expert lobbying of Nelson Cruikshank and Andrew Biemiller of the American Federation of Labor staff, this time it passed. The measure allowed states, acting through such agencies as the vocational rehabilitation program, to perform the administrative task of determining that a worker was "unable to engage in substantial gainful employment" (earn a minimum amount of money). Finally, in 1956—again with strong support from the AFL-CIO—Congress initiated a disability insurance program under which workers were allowed to receive a disability pension at age 50. In time, this program became modified so as to permit workers of all ages and their dependents to receive both a disability pension and subsidized medical care as well.

The fight over disability insurance served as prelude for the political battle over health insurance. In 1935, despite concern over the costs of medical care and a realization that these costs could be reduced through what reformers called "group budgeting," the framers of the Social Security Act failed to include health insurance. The reasons were many and varied. Most believed that unemployment and old age constituted more immediate risks than did the inability of workers and their families to pay for medical care. Some also believed that medical doctors might oppose a measure that would affect the way in which medical care was financed. At the time, as already noted, Social Security failed to cover many of the people in most need of national health insurance, and reformers consequently envisioned a program of federal grants to establish state-run health insurance programs.

In the 1940s, President Truman decided to make the passage of national health insurance a legislative priority. But although he pressed his case after his victory in the 1948 elections, he failed to reach an agreement with the American Medical Association over how a health program would be run. Meanwhile, the private sector, acting through nonprofit community-based Blue Cross hospital benefit programs and through insurance plans subsidized by employers and labor unions, experienced a revolutionary expansion in health care coverage. By 1954, for example, unions were responsible for purchasing a quarter of the nation's supply of health care.

Surveying the situation, Social Security officials began to concentrate their efforts on workers who had been left behind by the explosion in private health insurance. In 1951, planners in the Federal Security Agency, the forerunner of the Department of Health and Human Services, explored the idea of health insurance aimed at people who had already retired. Such people experienced particular difficulty in securing adequate coverage against the risk of ill health for two reasons. First, elderly persons who had already retired seldom received health insurance through their former employers. Second, Blue Cross and the private health insurance industry hesitated to extend coverage to the elderly because, in the jargon of insurance, they were "bad risks." Social Security, by way of contrast, could use its broad base and pool the risk of ill health across many individuals. In essence, this meant it enjoyed a comparative advantage over private insurance in financing health insurance.

The Medicare idea gained popularity slowly during the 1950s. At first, Congress and others interested in Social Security concentrated on the passage of disability insurance. With this accomplished in 1956, however, their attention shifted to health insurance.

As with disability insurance, America took an incremental path toward national health insurance. In 1960, for example, Congress enacted a program that allowed states to fund medical programs for the elderly who were "medically indigent." These programs followed a "public assistance" format, which meant that they included a means test to determine whether the person applying for help was truly indigent. States were allowed considerable freedom in administering the programs; many failed even to establish such a program.

Social Security officials persisted in their argument that a social insurance approach would both protect the dignity of the nation's elderly people and avoid burdening the general taxpayer with the cost of their health care. Wilbur Cohen, by now a high-level official in the Kennedy and Johnson administrations, devoted a considerable amount of his time to formulating this argument and getting it heard in Congress. Throughout a long career (which ended with his death in 1987), Cohen proved to be one of the most influential advocates on social insurance's behalf. The eventual passage of health insurance owed a great deal to his efforts.

The labor movement and Cohen, concerned about obtaining health benefits for union retirees and eager to extend social insurance coverage, worked together in efforts to pass health insurance. Nelson Cruikshank of the AFL-CIO lobbied particularly hard for the passage of Medicare, as he did on nearly every other important piece of social insurance legislation passed between 1945 and 1984.

Medicare reached passage in 1965, the heyday of the Great Society. It formed part of a broad health package that included three major items: Medicaid, subsidized medicine for welfare recipients; hospital insurance, or Medicare, intended for Social Security retirees; and the supplementary program known as "Part B of Medicare," which paid the doctor's bills and was also intended for retirees. This third program was optional, and beneficiaries had to pay extra for it. Unlike "Part A of Medicare," it involved the use of general revenues and did not depend solely on contributions from workers and their employers.

Disability insurance, Medicare, and unemployment compensation resembled one another in an important way. Unlike similar European programs, they illustrated the American dependence on private and state intermediaries in the administration of social insurance programs. Disability insurance, for example, relied on federally funded state administrators to make the initial determination of eligibility. Medicare used "fiscal intermediaries" and local "carriers" to make payments to hospitals and doctors. Unemployment compensation operated under state control with federal financial assistance. Taken together, these programs revealed the complex state-federal, public-private partnerships that characterized American social welfare programs.

Unemployment compensation was an important case in point. This program provided temporary and part wage replacement to laid-off workers. Efforts to bring this state-run program under federal administrative control, which were vigorously pursued in the 1940s, proved unavailing. Instead, the program depended on a complex fiscal arrangement. Employers paid a federal unemployment tax; a portion of the money collected remained with the federal government while a larger portion was returned to the states to establish unemployment compensation funds and make payments to unemployed workers. The federal government used the funds it retained to pay the states' administrative expenses and to make loans to the states' unemployment trust fund accounts.

The contents of the program varied significantly from state to state. Most states allowed workers to collect twenty-six weeks of benefits, yet these benefits contained wide variations. In 1986, for example, minimum weekly benefit levels varied from $10 to $62.

In the development of the modern unemployment compensation program, World War II marked an important turning point. During the war, unemployment rates remained low and states used the device of experience rating to lower employers' tax rates. In contrast to 5 million beneficiaries in 1940, only 500,000 persons drew benefits in 1944. Nor did the federal-state unemployment insurance program have to bear the full brunt of the postwar economic readjustment: in 1944, Congress enacted the Serviceman's Readjustment Act, and of 15 million veterans, more than 9.5 million filed unemployment claims for "readjustment allowances" under this act between 1944 and 1949. Their benefits during this period totaled $3.8 billion paid out of general revenues.

Within two years of the end of the war, all states had adopted experience rating. By that time, the average employer's tax rate was about 1.4 percent of payroll, instead of the standard rate of 2.7 percent that had been legislated in the Social Security Act. That meant that most employers had received "discounts" based on their good employment records. As always, however, individual states varied significantly, with the average tax rate in 1946, for example, ranging from 0.3 to 2.1 percent.

Once having gained lower tax rates, employers lobbied to keep them, and lower tax rates began to press against the adequacy of the benefits. Wilbur Cohen and William Haber, a University of Michigan labor economist, wrote in 1960 that "experience rating should not be permitted in a manner which may interfere with the basic objectives of unemployment insurance. It seems to have done so." They cited experience rating as one of the reasons for liberal disqualification and tough eligibility standards, as well as low benefit levels, in many states.[24]

Employers were sustained in their efforts to reduce unemployment compensation payroll taxes by scattered yet highly effective reports on abuse of unemployment benefits. In 1960, the widely circulated *Reader's Digest* ran an article that cited the case of the Wisconsin mine-hoist operator who demanded sick leave for arthritis only to go touring country fairs as a sulky-driver in harness races. Eight weeks later, when he showed up for work, he was fired for misconduct. At that point he applied for benefits, and it was finally ruled that his behavior should not prevent him from receiving compensation. Such cases induced the American public's ambivalence toward unemployment benefits: the suspicion of malingering hovered near the surface of public discussion.

For all the difficulties and inconsistencies in this state-run program, however, it, like old-age insurance, enjoyed considerable success in the postwar era. President Eisenhower's 1959 Economic Report called attention to unemployment compensation's stabilizing effect on the economy: unemployment benefits sustain "the aggregate purchasing power of consumers at a level higher than would otherwise prevail" and thereby "contribute significantly to the stabilization of the whole economy."[25] The payments, the report noted, made the 1957–1958 recession much less severe than it would otherwise have been.

Disability, health insurance, and unemployment compensation reflect the complex activities of a modern Social Security system. Health insurance, in particular, stands at the cutting edge of the modern debate over social policy. Whatever the outcome of the current debate, the health and disability features of Social Security reflect both the influences of Social Security's popularity in the 1950s and 1960s and the search for compromise that accompanies the resolution of controversial issues. Unemployment compensation reveals the persistence of state administration in American social welfare programs, as well as the significant effects that such programs can exert on the economy.

The Modern Crisis in Social Security and Its Resolution: The 1983 Amendments

By any measure, social insurance became the nation's largest and most successful social welfare technique in the period between 1950 and 1980. Expansion of the Social Security program to cover the disabled (1956) and enactment of Medicare's hospital insurance program (1965) testify to this success. So does the ninefold increase in unemployment insurance expenditures between 1950 and 1980.

In recent years, however, Social Security has passed through a crisis of confidence that has little to do with health and disability insurance or with unemployment compensation. Instead, it has centered on the old-age and survivors part of the program.

In thinking about this crisis, we should note that it took a long time to arrive. As early as 1939, SSA bureaucrats had realized a day would come when the system would spend more in benefits than it received from payroll taxes. At that time, the advisory council asked Congress to recognize the need for general revenues to supplement worker and employee contributions. In the 1940s, worried about a possible postwar depression, Congress even wrote this principle into the law, yet it soon thought better of the idea and repealed a provision that called for the federal government to make up deficits in the program through general revenues.[26]

In the affluent 1950s and 1960s, no one gave this matter a great deal of thought. Any crisis appeared to be a long way off and could be averted through careful planning and timely increases in payroll taxes. In the meantime, the program continued to enjoy the benefits of new groups entering the system and of larger than expected increases in wages, both of which increased total contributions into the Social Security accounts.

The crisis in Social Security financing began during the mid-1970s, when Congress decided to end the bidding to raise Social Security benefits before elections and to increase benefits scientifically. Led by conservative members who wanted to contain Social Security costs, Congress opted to "index" the program to the rate of inflation as measured by the consumer price index (CPI). If prices rose, benefits would rise. It seemed a safe bet for the program's solvency since conventional wisdom held that wages, which determined the money coming into the trust funds, always increased faster than prices, which would now determine money going out of the funds.

It seemed a safe bet, that is, until stagflation—simultaneous inflation and unemployment—changed the conventional economic wisdom. Beginning in the 1970s, the CPI, which contained costly items such as housing and gasoline, increased faster than average wages. Since Social Security benefits are tied to the CPI, their cost began to rise at a faster rate than expected. And since Social Security revenues are tied to a tax on wages, the program's income (relative to outgo) was less than anticipated. Adding to the problems, unemployment rose at the same time as prices did, a near impossibility in the standard economic analysis. That meant even less money coming into the system than expected.

The result was a crisis. As one Social Security official explained, "our 1972 estimates turned out to be very wrong, very quickly. But if we had predicted what actually happened in the 1970s, we would have been practicing in an asylum."[27]

In response to the crisis, Gerald Ford (and Jimmy Carter and Ronald Reagan after him) scrambled to keep the program solvent. A technical flaw in the indexing formula made the financial problems even more pressing by creating large and irrational benefit increases. And demographic changes, including increased life expectancies and declining fertility rates, also added to the financing problem. In 1977, after a painful political battle, President Carter convinced Congress to raise both the percentage of the Social Security tax and the amount of income subject to that tax. Benefits were also scheduled to be reduced slightly to bring them closer to what Congress had intended in 1972 (before the technical problem in the benefit formula arose).

Inflation continued into the Reagan administration. When the president tried to correct the resultant problems with a tight money policy, a severe recession broke out. Once again, lingering inflation combined with widespread joblessness brought new problems to the Social Security system.

Questions arose just when alternative private sector investments, such as the much-touted Individual Retirement Accounts, appeared particularly attractive because of the high interest rates. Those with money in their pockets looked beyond Social Security for financial help. They compared private sector plans with a public sector plan they were accustomed to think about in private sector terms. Predictably, they found the latter wanting. It became fashionable to "zero it out"—that is, to assume it would not provide any benefits—in sessions between the young and their financial advisers.

Despite the growing criticism of Social Security, Congress and the administration joined forces to "save" the program. In December 1981, Reagan appointed a bipartisan commission, the National Commission on Social Security Reform, to propose solutions to the Social Security problem and report to the president at the end of 1982. The commission's task was to find enough money to get through immediate financial problems and build a cushion for the future. Its proposal did just that. Other than that, the commission firmly believed that "the Congress in its deliberations on financing proposals, should not alter the fundamental structure of the Social Security program or undermine its fundamental principles."[28]

For their own reasons, representatives of both political parties on the commission wanted to save Social Security.

Daniel Patrick Moynihan (D-N.Y.), the ebullient senator who served on the commission, argued that the key was getting the Republicans to agree that Social Secu ity could be saved through "a combination of relatively modest steps." The alternative—a bankrupt Social Security system—was intolerable to officials who despaired over the fact that polls showed that half the nation did not think it would receive Social Security benefits. Moynihan asked readers of the *Washington Post* to think of what such a default implied: "That government is lying. That government is stealing. That government cannot be trusted. . . .We began to accept the idea that there are fundamental issues that our system cannot resolve. . . .We have got to stop that. There is a center in American politics. It can govern."[29]

Democrats Moynihan, the late congressman Claude Pepper (D-Fla.), former congresswoman Martha Keys, AFL-CIO president Lane Kirkland, and former Social Security commissioner Robert Ball worked with Republicans Alan Greenspan (currently the chair of the Federal Reserve Board), Robert Beck (president of the Prudential Insurance Company), Sens. Robert Dole (R-Kans.) and John Heinz (R-Pa.), and Cong. Barber Conable (R-N.Y.) and, together with administration figures such as White House chief of staff James Baker, budget director David Stockman, and others, fashioned a compromise. It should be emphasized again that the 1983 compromise left the program largely intact. Essentially, the experts agreed that the short-run financing problem—while serious and requiring mediation—would take care of itself in time. In the 1990s, they argued, the system would enjoy a breathing spell, even without the 1983 amendments. The retirement of the depression generation and the continued employment of the baby boom generation would generate an impressive surplus in the program during the 1990s and through the first fifteen years of the next century. The retirement of the baby boom, everyone admitted, posed serious problems, but those problems could be handled by careful planning.

Each side sacrificed something. In the spirit of compromise the Democrats, led by Ball, accepted a permanent six-month delay in the annual cost-of-living adjustment—in effect, a roughly 2 percent reduction of benefits for all current and future beneficiaries. The Republicans acquiesced to small increases in Social Security taxes achieved by initiating already-legislated payroll tax increases earlier than scheduled. In addition, the commission recommended that the self-employed pay essentially the same amount as the combined rate for workers and employers. Both sides agreed to the treatment of up to one-half of Social Security income as taxable income for middle- and higher-income beneficiaries and to the extension of coverage to new federal employees.

In its deliberations, Congress used the work of the commission as the basis of the 1983 amendments. Additionally, Congress incorporated into those amendments a provision that will gradually increase the normal retirement age from 65 to 67, beginning in the next century. As a result of these amendments, Social Security is now financially sound for many years into the future. The Social Security trust funds are expected to continue to grow for the next thirty years, thereby providing much lead time in which to respond to financing problems that could arise as the children of the baby boom generation reach retirement age (see discussion questions 1-3 in chap. 7).

Educational Considerations

Today, we have a full array of social insurance programs. Some cushion the impact of unemployment and work accidents. Others provide aid to retirees in the form of income maintenance and health insurance. Americans have an obligation to understand how these programs originated and how they have developed over time. Teachers will find that the history of social insurance encourages students to confront fundamental aspects of America's political and economic history.

Mastery of this material will enable students to analyze some of the major issues of our time. Congress has recently passed a new "catastrophic" health law that liberalizes some of the provisions in Medicare. Others, such as Claude Pepper, in cooperation with Arthur Flemming, the past secretary of the Department of Health, Education, and Welfare, have drawn up plans to extend social insurance to cover the risk of long-term care, and still others are pondering ways to maintain the solvency of the Medicare trust funds. In addition, the state of Massachusetts is in the process of implementing its new "health insurance for all" program designed to extend coverage through businesses and the state to nearly all uninsured Massachusetts residents. Each of these social insurance issues concerns a vital part of America's future. In this area of social policy, as in so many others, an intelligent approach to the future involves a sympathetic understanding of the past.

But there are many other specific lessons to be drawn from this chapter. In particular, the case study of the 1939 and 1950 amendments allows us to confront what historians call the "whig" theory of history—a form of history that focuses only on winners and assumes that their triumph was inevitable. The triumph of Social Security, as we have shown, was far from inevitable. The program did not emerge from the mind of the Committee on Economic Security staff as a full-grown sacred cow. As late as 1950, welfare remained every bit as popular as old-age insurance. Yet, in time, Social Security became our most popular social program. We would argue that this outcome is as it should be, but it is a matter for teachers and students to decide for themselves. What is less a matter of debate is the need to understand the history clearly and to gain a sense of how circumstances changed between the depression and the postwar eras. Social Security provides an ideal topic to compare and contrast these two eras: the low-birth, depressed thirties and the high-birth, prosperous forties and fifties.

Students with considerable economic sophistication might wish to compare and contrast our unemployment and old-age insurance programs. Both represent forms of social insurance, but one is run by the states and the other by the federal government. Old age represents a "future" risk; we save now for our eventual retirement. Unemployment represents a "current" risk; we could be unemployed at any time. Old-age insurance involves a transfer of money from one generation to the other; unemployment insurance involves a transfer of money from the working population to the unemployed. We pool one risk broadly and do not permit any "discounts." In unemployment compensation, we try to encourage the stabilization of employment through the device of experience rating. Students might consider if we go about these programs in the proper manner and, if not, how they might be changed.

Having surveyed the history of social insurance programs in considerable detail, we turn now to how the programs function today. The next two chapters provide a teacher's handbook for understanding the operations of Social Security and other social insurance programs. It is our hope that these historical chapters have provided a solid preparation for what follows.

Notes

1. "Cumulative Tax Collections, Benefit Payments, Net Excess of Tax Collections" (n.d.) and "Annual Appropriations, Benefit Payments and Reserves" (n.d.), File 025, Chairman's Files, RG 47, National Archives.
2. "Text of Governor Landon's Milwaukee Address on Economic Security," *New York Times*, 26 September 1936, p. 31.
3. Mark Sullivan, "Security or Income Taxes," *Washington Star*, November 1937, in File 705, Old-Age Reserve 1937, Chairman's Files, RG 47, National Archives; Paul Mellon, "News Behind the News," Cleveland Plain Dealer, 28 February 1938; "The Reserve Fund," New York Times, 5 September 1938, p. 14; Jay Iglauer to Douglas Brown, 7 March 1938, File 025, RG 47, National Archives.
4. See House of Representatives, *Social Security: Hearings Relative to the Social Security Amendments of 1939 Before the Committee on Ways and Means*, 3 vol., 76 Cong., 1st sess., 1939, pp. 1214-1215.
5. Ibid., p. 2205.
6. The following account of the 1939 amendments is drawn from Edward D. Berkowitz, "The First Advisory Council and the 1939 Amendments," in *Social Security After Fifty: Successes and Failures*, ed. Edward D. Berkowitz (Westport, Conn.: Greenwood Press, 1987), pp. 55-79.
7. Abraham Epstein, "Statement Before Advisory Council," 10 December 1937, Box 13, RG 47, National Archives.
8. R.A. Hohaus, "Memorandum for Meeting with Social Security Advisory Council," 10 December 1937, Box 13, RG 47, National Archives.
9. House of Representatives, *Social Security: Hearings, 1939*, p. 2199.
10. House of Representatives, *Social Security: Hearings, 1939*, p. 230.
11. Ibid., pp. 1214-1215.
12. Ibid., p. 2407.
13. *Social Security Bulletin: Annual Statistical Supplement, 1981* (Washington, D.C.: Department of Health and Human Services, 1981), pp. 53, 54.
14. Altmeyer, *Formative Years*, pp. 169-170; Mark H. Leff, "Historical Perspectives on Old-Age Insurance: The State of the Art on the Art of the State," in *Social Security After Fifty*, ed. Berkowitz, p. 42.
15. Quoted in *Readings in Social Security*, ed. William Haber and Wilbur J. Cohen (New York: Prentice-Hall, 1948), p. 255.
16. Reinhard A. Hohaus, quoted in *Social Security: Programs, Problems, and Policies*, ed. William Haber and Wilbur J. Cohen (Homewood, Ill.: Richard D. Irwin, 1960), p. 78.
17. Altmeyer, *Formative Years*, p. 185; Achenbaum, *Social Security*, p. 45.
18. Quoted in *Social Security: Programs, Problems, and Policies*, ed. Haber and Cohen, p. 71.
19. Ibid., pp. 214-215.

20. Achenbaum, *Social Security,* p. 4.
21. Robert M. Ball, "The Original Understanding on Social Security: Implications for Later Developments," in *Social Security: Beyond the Rhetoric of Crisis,* ed. Theodore Marmor and Jerry L. Mashaw (Princeton, N.J.: Princeton University Press, 1988).
22. Paul Samuelson and Edwin Dale, as quoted in Achenbaum, *Social Security,* pp. 54, 61.
23. Actually, the outcome was more bizarre than that. Congress passed the disability freeze but ruled that it should expire before applications could be taken.
24. Quoted in *Social Security: Programs, Problems, and Policies,* ed. Haber and Cohen, p. 253.
25. *Economic Report of the President* (1959), as cited in William Haber and Wilbur J. Cohen, "The Present Status of Unemployment Insurance in the United States," in *Social Security: Programs, Problems, and Policies,* ed. Haber and Cohen, p. 248.
26. See Mark H. Leff, "Speculating in Social Security Futures" (Unpublished paper).
27. Paul Light, "The Politics of Assumptions" (Unpublished paper); see also Paul Light, *Artful Politics: The Politics of Social Security Reform* (New York: Random House, 1985), p. 50.
28. Quoted in Robert Ball, "The Original Understanding on Social Security."
29. Daniel Patrick Moynihan, "More Than Social Security Was at Stake," *Washington Post,* 18 January 1983, p. A-17.

5

Social Security Explained

Your students can benefit from knowing how social insurance programs directly affect their lives and the lives of those around them. Although, admittedly, programmatic details—such as how these programs operate, what costs they entail, what benefits they confer, and how to apply—can be a "snore," learning a few of the details about social insurance programs can also make these programs come alive, for in the final analysis it is what these programs do or fail to do for individuals that really counts. Programmatic knowledge can also help answer questions such as whether Social Security provides benefits to children and whether Social Security really protects today's baby boomers. And the families of your students might benefit from the knowledge they take home.

The goal here and in chapter 6 is not to make you a benefits expert, but to provide easy access to benefits information, especially for Social Security and Medicare, the nation's largest social insurance programs.

Social Security

Social Security—the Old-Age, Survivors, and Disability Insurance (OASDI) program—protects nearly every American, young and old, against loss of income due to retirement, disability, or death of a wage earner.

The program is administered by the SSA, which is part of the federal Department of Health and Human Services. About 1,320 local Social Security offices—covering every state, the District of Columbia, Puerto Rico, the Virgin Islands, and more—and 3,400 small contact stations—for rural and isolated communities—handle OASDI applications as well as those for Medicare and Supplemental Security Income (SSI) (the welfare program for low-income aged, blind, or disabled persons). Inquiries and applications for benefits can be made in person at any Social Security office or, in many cases, by telephone or through the mail. People usually apply when 1) they are 62 or older and want to begin receiving retirement benefits, 2) they are unable to work due to an illness or injury expected to last at least twelve months or to result in death, or 3) there is a death in the family.

Workers build protection for themselves and their families through employment covered by the Social Security system, receiving a "quarter of coverage" in 1989 for each $500 dollars earned in a job covered by Social Security, up to four quarters per year. To be potentially eligible for retirement and survivors benefits, workers generally need one quarter of coverage for each year after 1950 or, if starting work in covered employment after 1950, for each year after age 21 and before reaching age 62, or dying or becoming disabled before age 62. At least six quarters are needed but never more than forty. To be potentially eligible for disability benefits, workers also generally need credit for twenty out of the last forty quarters (five out of the last ten years), unless disabled before age 31, in which case fewer quarters are needed. For example, a person who is disabled just before age 27 will only need twelve quarters.

No source of retirement income is more important than Social Security, now and for the foreseeable future. This is especially so for moderate- and low-income elderly persons. According to 1986 Census Bureau data, elderly persons[1] report that Social Security provides about 38 percent of all the income going to their households (see fig. 5.1) and more than 75 percent for households with incomes under $10,000. Other sources of income are important—especially asset income and earnings for the higher-income elderly—but none approaches Social Security in terms of its widespread impact across all income groups.[2] In fact, as previously noted, a recent Census Bureau study indicates that social insurance programs such as Social Security reduce poverty and inequality more than other social programs and more than taxes.[3]

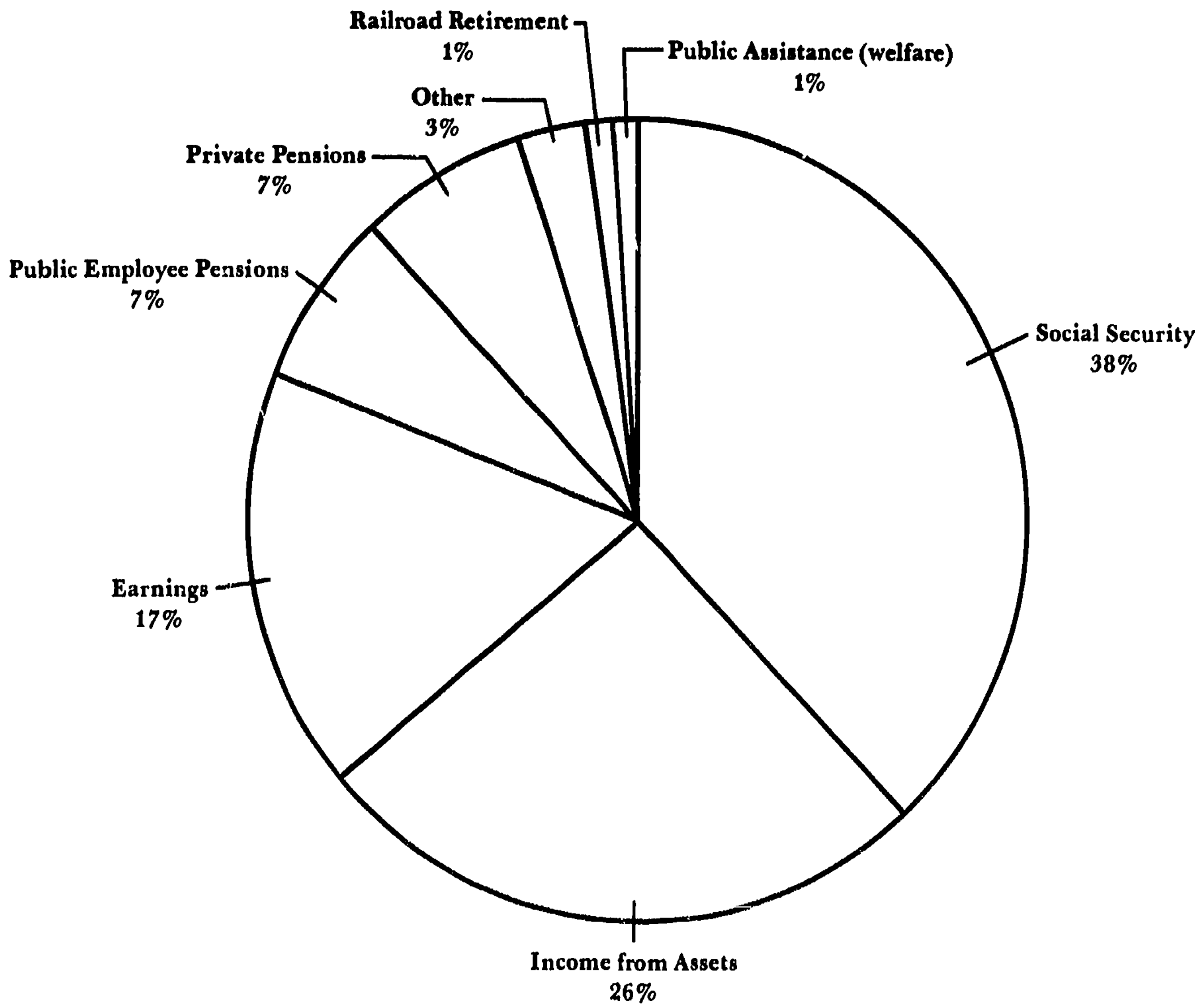
Not only is Social Security the cornerstone of the income for today's elderly persons, but those who have studied the question carefully have concluded that it will remain so in the future:

> The 1981 National Commission on Social Security reviewed alternatives to Social Security and concluded that none could provide the same certainty of benefits and widespread protection as Social Security. . . . Similarly, the 1979 President's Commission on Pension Policy endorsed Social Security's current role as the cornerstone of the retirement income system.[4]

And the 1982-1983 bipartisan National Commission on Social Security Reform, convened by President Reagan to resolve the financing crisis of the early 1980s, unanimously concluded that the principles and structure of Social Security remained sound, and that Congress

> should not alter the fundamental structure of the Social Security program or undermine its

Figure 5.1—**Where Total Money Income Going to Elderly Households Came From in 1986**



Source: Susan Grad, *Income of the Population 55 and Over*, SSA (Washington, D.C.: U.S. GPO, June 1988).

fundamental principles. The National Commission considered, but rejected, proposals to make the Social Security program a voluntary one, or to transform it into a program under which benefits are a product exclusively of the contributions paid, or to convert it into a fully funded program, or to change it to a program under which benefits are conditioned on the showing of financial need [means-tested].[5]

Financing Social Security

Social Security is financed primarily through payroll tax contributions into two Social Security trust funds—the *Old-Age and Survivors Insurance Trust Fund* and the *Disability Insurance Trust Fund.* (About one-fifth of the payroll tax contributions go into Medicare's *Hospital Insurance Trust Fund.)* The trust funds also receive revenues both from the money paid as taxes on a portion of some higher-income persons' Social Security benefits and from trust fund investments.

The payroll tax contributions of wage and salary workers are made under the Federal Insurance Contributions Act. This is why most pay stubs have a category called "FICA," which records the dollar amount withheld from earnings for Social Security and Medicare. In 1989, employees will make payroll tax contributions into the OASI, DI, and HI trust funds of 7.51 percent (6.06 percent for OASDI and 1.45 percent for HI) of earnings up to $48,000, and employers will match these contributions. The average earner in 1988 paid about $1,398, and workers earning at or above the maximum taxable earnings base ($45,000 in 1988) paid $3,379.50. Self-employed persons make contributions under the Self-Employment Contributions Act (SECA) at a rate that is essentially the same as the combined rate paid by employers and their employees.[6]

The combined OASDHI tax rate is scheduled to increase from 7.51 percent to 7.65 percent of taxable payroll in 1990 and remain at that level thereafter. Also, the taxable earnings base is adjusted automatically each year as average wages increase. Without this automatic increase, a smaller and smaller proportion of earnings would be subject to taxation as inflation and economic growth resulted in increases in wages.

Once collected, most payroll taxes and other revenues for Social Security (and Medicare) are paid out in benefits. As noted, only about 1.1 percent of Social Security revenues (and 2 percent of Medicare revenues) are used for administrative expenses.

Each year Social Security's Board of Trustees (the secretaries of the Departments of Treasury, Labor, and Health and Human Services, and two public trustees appointed by the president) issues a report on the financial status of Social Security. The 1989 report indicates that for the past six years Social Security has actually been building its cash reserves and is expected to build very large reserves during the 1990s and the first few decades of the next century. Based on the most commonly accepted assumptions about economic and population trends, a small deficit (a roughly 5 percent shortfall) is projected over the seventy-five-year period for which cost estimates are made.[7] The program is adequately financed for at least the next thirty-five to forty years. Adjustments may need to be made in the program's financing thirty or forty years into the twenty-first century (see discussion questions 1-3 in chap. 7).

Social Security Benefits

Persons working in employment covered by Social Security earn retirement, survivors, and disability protection for themselves and their families. Benefit amounts vary depending on the type of benefit received, the earnings in jobs covered by Social Security, and sometimes the age at which a beneficiary first receives benefits (see table 5.1).

Table 5.1—**The Value of Social Security in January 1989 (in dollars)**

Average monthly benefits*	
All retired workers	$537
Aged couple	$921
Widowed mother and two children	$1,112
Aged widow alone	$492
Disabled worker with children, spouse	$943
All disabled workers	$529

Maximum benefits for worker retiring at age 65 in 1989	
Retired worker	$899
Total family maximum on retired worker's earning record	$1,575

Maximum benefits for worker retiring at age 62 in 1989	
Retired worker	$668

Source: SSA Press Office, *Fact Sheet: 1989 Social Security Changes.*

* Benefits can be higher or lower. For instance, the maximum benefit for a worker first retiring at age 65 in January 1988 was $838.

Social Security benefits are generally defined as a certain percentage of the primary insurance amount, or PIA. Think of the PIA as the benefit a worker is entitled to if he first accepts retirement benefits at the normal retirement age (currently age 65). Social Security's benefit formula translates lifetime earnings in jobs covered by Social Security into a worker's PIA. As noted, the benefits that the worker or others may claim based on the worker's earnings record are generally a function of the PIA. For example, surviving children's benefits are 75 percent of the covered worker's PIA (subject to maximum family benefit limitations), and the monthly benefit for workers accepting retired workers benefits at the earliest possible age is currently 80 percent of the PIA (subject to the earnings test).

Actually, several benefit formulas exist, but the most widely used for covered workers reaching age 62 in 1979 and later is the "wage-indexed" benefit formula. Because this method ensures that Social Security benefits reflect changes in the prevailing wages over a person's life, it helps maintain prior standards of living for retired workers as well as for disabled workers and surviving beneficiaries (see table 5.2).

The benefit formula replaces a higher proportion of previous earnings for low- and modest-income workers, but high-income workers receive larger benefits. Because Social Security is earnings-related, higher earnings during working years generally result in larger benefits. Social Security is also concerned, however, with assisting individuals and their families to maintain adequate incomes. It does this 1) by providing survivors and family benefits, 2) through the benefit formula, which provides workers who have worked consistently at lower-paying jobs with proportionately larger benefits (although higher-income workers in fact generally receive larger benefits), and 3) through the annual cost-of-living adjustment. The COLA is one of the most valuable features of Social Security. Once benefits are received it guarantees their purchasing power, thus providing Social Security beneficiaries with substantial protection against inflation.

Retirement Benefits

The major benefits for retired workers are as follows:

Normal retirement benefits. If born before 1938, workers are eligible for full retirement benefits, 100 percent of the PIA, at age 65. The normal retirement age will increase gradually to 67 between 2003 and 2027, with increased reductions in benefits for early retirement phasing in gradually beginning in 2000. Thus, normal retirement age for all people born after 1959—which includes virtually all of today's high school students—will be 67 (see discussion question 12 in chap. 7).

Early retirement benefits. Today, most retirees actually begin receiving benefits before age 65. If a person claims benefits early—whether by choice or due to unemployment or ill health—the benefits are permanently reduced for each month of retirement before the normal retirement age. That works out to a benefit of 80 percent of the PIA if benefits are claimed before 2000 at the earliest possible age—62. The reduction in benefits will be slightly larger for persons claiming early retirement benefits after 2000.

Delayed retirement benefits. Today, benefits are increased somewhat for workers who choose to claim their retirement benefits after the normal retirement age; the increase amounts to about 3 percent a year up to age 70. The delayed retirement credit will be increased so that, by the time most of the parents of today's students reach normal retirement age (2009 and later), benefits will be increased by 8 percent a year for workers who delay their retirement past normal retirement ages, up to age 70.

Table 5.2—**Who Gets Social Security Benefits (as of September 1988)**

Type of Beneficiary	
Retired workers	23.8 million
Spouses of retired workers	3.1 million
Aged widows and widowers	4.9 million
Children under 18 of deceased, disabled, and retired workers	2.6 million
Students aged 18-19[a]	0.1 million
Disabled adult children	0.6 million
Widowed mothers and fathers with dependent children	0.3 million
Disabled widows and widowers	0.1 million
Elderly dependent parents of deceased workers	7,300
Disabled workers	2.8 million
Spouses of disabled workers	0.3 million
TOTAL	**38.5 million**

Source: Social Security Bulletin (December 1988).

[a] Specifically, this category includes students aged 18 to 19 and two months who are children of deceased, disabled, and retired workers, and who are full-time elementary or secondary school students.

Special minimum benefits. This benefit, an alternative way of computing the PIA, is designed to help workers who have worked consistently, but at low wages, in jobs covered by Social Security. It results in the payment of a somewhat higher benefit than the person would have received if the regular benefit formula had been used.

Family members of living retired (and disabled) workers may be eligible to receive the following auxiliary benefits:

Benefits for older spouses. Spouses aged 62 and over may be eligible to receive either a benefit based on their own earnings or a benefit currently equal to between 37.5 percent and 50 percent of the retired worker's PIA, whichever is higher. Spouse benefits are permanently reduced for each month of receipt before age 65. (Spouses are usually eligible for Medicare at age 65.)

Spouse benefits for fathers and mothers. Regardless of age, the spouse of a retired (or disabled) worker who is exercising parental responsibility for a child under 16 or 16 and over (including adult ages) and mentally disabled, or who is regularly performing personal services for a physically disabled child 16 and over (including adult ages), is eligible for a spouse benefit equal to 50 percent of the retired worker's PIA. (For those caring for a disabled child, eligibility for spouse benefits requires that the child's disability must have begun before age 22.)

Retirement benefits for divorced spouses. Divorced spouses are generally eligible to receive the same spouse benefits based on the earnings histories of their former spouses as long as they had been married to the eligible retired worker at least ten years.

Children's and grandchildren's benefits. Unmarried dependent children under 18 (or up to age 19 if a full-time student) and certain dependent grandchildren under age 18 (or up to age 19 if a full-time student) may be eligible for a benefit equal to 50 percent of the retired or disabled worker's PIA.

Adult disabled children's benefits. The same benefits—50 percent of the PIA—may be payable in certain cases to the unmarried dependent disabled children of retired or disabled workers who are at least age 18, if the disability began before age 22. (They may also receive Medicare benefits after a twenty-four-month waiting period.) Adult disabled children's benefits generally do not terminate if the beneficiary marries another Social Security beneficiary.

Limits on amount of benefits. There is a ceiling—the *family maximum*—on the amount of monthly benefits that can be paid on a worker's earnings record. Without this ceiling, the benefits paid to large families might be very high—in some cases, much larger than the earnings Social Security is designed to replace.

Benefits are also subject to an *earnings test*—one for nondisabled beneficiaries below age 65 ($6,480 in 1989) and one for people aged 65 through 69 ($8,880 in 1989) (see discussion question 13 in chap. 7). Beneficiaries aged 70 or older can earn as much as they want, and it will not affect their benefits. But a retired worker under age 70 or a spouse, widow(er), or dependent child beneficiary will lose one dollar for every two dollars of earnings in excess of the earnings ceiling. Beginning in 1990, benefits will be reduced by one dollar for every *three* dollars in excess of the earnings ceiling for persons who reach full retirement age (65 in 1990).

Retirement benefits in the future. While not intended to replace all earnings lost, Social Security will go a long way toward enabling today's young workers and their families (even today's children) to maintain their earlier standard of living in retirement. For workers at different earnings levels, the benefit formula guarantees a pension that replaces a relatively constant proportion of preretirement earnings. And Social Security also maintains its purchasing power because benefits are adjusted automatically for changes in the cost of living.

For younger workers, this means that even before these benefits are received, their value is kept up-to-date with rising wages and the changing standard of living. And it means the growth in a younger worker's wages will be translated into larger benefits (although tax contributions will be larger, too) (see discussion questions 4-6 in chap. 7).

Survivors Benefits

Each month Social Security provides checks to over 7 million survivor beneficiaries: young children, surviving widowed mothers and fathers, aged widow(er)s, certain disabled widow(er)s, and in some rare instances, surviving parents. The major benefits for survivors are as follows:

Widow(er)'s benefits. Spouses aged 60 and over and divorced spouses of workers covered under Social Security may be eligible for aged widow(er)'s benefits upon the death of the worker. Currently, the benefits generally range between 71.5 percent and 100 percent of the PIA. Taken at the earliest age today (60), widow(er)'s benefits are permanently reduced to 71.5 percent of the deceased worker's PIA. This percentage increases to 100 percent if the benefits are first taken at age 65.

Disabled widow(er)'s benefits. Even without dependent children, widow(er)s and divorced widow(er)s aged

50 through 59 can receive monthly benefits equal to 71.5 percent of the PIA, but only if they, themselves, are disabled. They must meet disability requirements that are more strict than those applied to disabled workers. After a two-year waiting period, disabled widow(er)s are eligible to receive Medicare benefits as well.

Surviving mother's and father's benefits. A widow or widower (of any age) of a covered worker may be eligible to receive surviving mother's or father's benefits of 75 percent of the deceased worker's PIA if caring for a child of the worker who is either under age 16 or disabled and entitled to survivor's benefits on any worker's record. Divorced surviving mothers or fathers must be caring for a natural or adopted child who is entitled to a child's benefits on the worker's record.

Benefits for divorced and remarried spouses. The qualifications for benefits for divorced aged widow(er)s and disabled widow(er)s are essentially the same as for nondivorced survivors except that the marriage must have lasted for at least ten years.

Surviving children's benefits. Surviving children under age 18, surviving children of any age who were disabled before age 22, and surviving children aged 18 and, in some cases, 19 who are full-time elementary or secondary school students are eligible for monthly benefits if a parent or, in some cases, grandparent was insured by the program at the time of death. Surviving children receive benefits equal to 75 percent of the deceased worker's PIA. Parents do not have to have been married for their children to be eligible.

Surviving parent's benefits. Under certain circumstances, the dependent parent aged 62 or over of a fully insured deceased worker is also eligible for survivors benefits.

Disability Insurance Benefits

Social Security protects against loss of income because of long-term and severe disability as defined according to Social Security criteria.

Defining disability. To be eligible for Social Security disability benefits, workers must be unable to engage in any *substantial gainful activity* by reason of any medically determinable physical or mental impairment that has lasted or can be expected to last at least twelve months or that can be expected to result in death. In July 1989, substantial gainful activity was defined as the ability to earn more than $300 a month ($740 for blind people).[8] A worker does not actually have to *earn* this amount to be ineligible for benefits; he just must *be able* to earn it.

A worker must be unable to do any kind of work that exists in significant numbers in the national economy. The availability of jobs is not taken into consideration although age, education, and previous work experience are.

Eligibility for DI benefits is reviewed periodically to see if the person's medical condition has improved and if the person is now able to work. Workers have the right to appeal within sixty days of receiving notice from Social Security if their application for DI benefits has been rejected (or if they are notified that their benefits will be terminated after a periodic review).

Benefits stop if a worker recovers from the disabling condition and is therefore able to work. However, DI beneficiaries who are still disabled may have a nine-month trial work period, during which there may be no loss of benefits. Also, Medicare benefits may continue for three years after DI benefits cease because of return to work.

Benefits for disabled workers. When workers covered under Social Security become disabled, after a five-month waiting period they may be eligible to receive monthly DI benefits for the duration of the disability. After twenty-four months of entitlement to such benefits, disabled workers (as well as disabled widows and widowers aged 50 through 64, and adult disabled children aged 18 or over who were disabled before age 22) are eligible for all Medicare benefits. Medicare does not, however, cover other family members (except for a spouse who is 65 or over).

Benefits for family members. Children under age 18, a child aged 18 or older who became disabled before age 22, a spouse who is caring for a child under 16 or for a disabled child, or a spouse (or divorced spouse) aged 62 or over may be eligible for monthly benefits. Benefits for family members of disabled workers are identical to those for family members of retired workers except that the maximum amount a disabled worker's family can receive is generally lower.

Notes

1. Defined as persons aged 65 and over.
2. Susan Grad, *Income of the Population 55 and Over,* 1986, prepared for the SSA (Washington, D.C.: U.S. GPO, June 1988).
3. See Pear, "U.S. Pensions, p. 1.
4. Kingson, Hirshorn, and Cornman, *Ties That Bind,* pp. 89-90.

5. National Commission on Social Security Reform, *Report of the National Commission on Social Security Reform* (Washington, D.C.: U.S. GPO, 1983), p. 2-2.

6. Beginning in 1984, the self-employment tax rate became essentially the same as the combined payroll tax rate paid by workers and their employers. In 1989, a tax credit of 2.0 percent of net earnings from self-employment is being provided against OASDI and HI contributions. After 1989, self-employed persons will be allowed a federal income tax deduction equal to half of the combined OASDI and HI contributions they pay.

7. Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund, *1989 Annual Report of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (hereafter referred to as Board of Trustees, *1989 Annual Report)* (Washington, D.C.: U.S. GPO, 1989).

8. Substantial gainful activity is likely to be raised in the near future and periodically thereafter.

6

Medicare and Other Programs Explained

Medicare is actually two programs: *Medicare Part A, Hospital Insurance (HI)* and *Medicare Part B, Supplementary Medical Insurance (SMI)*. Together they provide benefits to the aged (65 and over), blind, and disabled, and to persons with permanent kidney failure. The right to benefits is established primarily by payroll tax contributions, monthly premium payments by beneficiaries, and, beginning in 1989, a new income-related supplemental premium primarily affecting upper-middle and higher-income beneficiaries. The benefits are mainly for the treatment of acute illness, generally in hospital settings. (Medicare is sometimes confused with Medicaid, the means-tested public assistance program for certain low-income persons.)

Medicare is administered by the Health Care Financing Administration, a federal agency that is part of the Department of Health and Human Services. Local Social Security offices handle applications, although claims are filed differently.

Financing Medicare*

As with Social Security, HI is funded primarily through the payroll tax contributions into the HI Trust Fund. Workers and their employers each contribute 1.45 percent of earnings up to the taxable earnings base—$48,000 in 1989.

Additionally, beginning in 1989, people who are eligible for HI may have to pay an additional income-related premium to help pay for new catastrophic and prescription drug benefits and other benefits. The new supplemental premium places increased responsibility on higher-income beneficiaries to pay for the program's benefits. The premium rate is set at $22.50 in 1989, $37.50 in 1990, $39.00 in 1991, $40.50 in 1992, and $42.00 in 1993 per $150 in federal income tax liability. The maximum supplemental premium that a beneficiary will have to pay is limited to $800 in 1989, $850 in 1990, $900 in 1991, $950 in 1992 and $1050 in 1993.[1] However, beneficiaries who do not have any income tax liability will pay nothing.

A little more than one-quarter of the cost of SMI is funded by voluntary premium payments—set at $31.90 a month in 1989—into the SMI Trust Fund; the rest is funded by government contributions from general revenues, which create a strong incentive for people to participate in this program.

Financial estimates for Medicare are made in much the same way as for Social Security. But these estimates are even harder to make because they must incorporate various medical cost assumptions (e.g., hospital costs, average length of stay in hospitals). Medical costs, especially hospital costs, have been so volatile that it is very hard to make accurate estimates even a few years into the future.

Rising health care costs, the need for medical services among a growing aged population, and a general lack of cost controls across the entire health care system

* As this manuscript goes to press, it appears likely that legislation will be passed substantially altering some of the financing and benefit changes that were implemented by the 1988 Medicare Catastrophic Coverage Act.

will—barring remedial legislation—result in the depletion of the HI Trust Fund, most probably right after the turn of the century. Of course, it is inconceivable that Congress will not act to remedy this problem before then (see discussion question 19 in chap. 7). As for SMI, although program costs are growing rapidly, it is financially sound because premiums and government revenues from the general treasury are set to equal expenditures.

Medicare Benefits

The great bulk of Medicare expenditures goes to pay for hospital costs for aged and disabled beneficiaries. To be eligible for reimbursement for hospital costs, a beneficiary must need hospital care, have it prescribed by a physician, and be treated in a hospital that participates in Medicare. (Nearly all hospitals do, but it is wise to check.)

Hospital Insurance benefits.[2] Under the new Medicare provisions beginning in 1989, beneficiaries are responsible for paying only one deductible per year for hospitalization—estimated at $560 in 1989. After that, Medicare pays the rest of the cost for inpatient hospital care, including a semiprivate room, meals, special care units (e.g., intensive care), operating and recovery room costs, X rays, lab tests, radiation therapy, medical supplies, rehabilitation services, drugs provided by the hospital, and blood (except for the first three pints). Of course, beneficiaries still pay for telephone service, television, and the like (see fig. 6.1).

Under certain circumstances, HI also covers a substantial portion of the following costs:

- The first 150 days of rehabilitative inpatient care in a participating skilled nursing facility; the first 8 days require beneficiaries to pay coinsurance roughly equal to 20 percent of the daily cost of services provided in the typical SNF—$25.50 per day in 1989.
- Limited home health care.
- Hospice care for dying persons.

Reimbursement for medical costs under HI is fairly simple because both the institution that treats the beneficiary and the *intermediary*—the organization (usually an insurance company) with whom Medicare contracts to handle HI claims—take care of all the paperwork.

Supplementary Medical Insurance benefits.[3] For those enrolled in the SMI program, benefits provide for certain doctor's services; other medical and health services, including many surgical services, outpatient hospital

Figure 6.1—**What Medicare's HI Program Pays For**

MEDICARE (PART A): HOSPITAL INSURANCE—COVERED SERVICES PER CALENDAR YEAR			
Service	**Benefit**	**Medicare Pays***	**You Pay***
HOSPITALIZATION Semiprivate room and board, general nursing and miscellaneous hospital services and supplies	Unlimited days of reasonable and necessary care	All but $560 of first hospital stay	$560 of first stay each calendar year**
SKILLED NURSING FACILITY CARE . . .	First 8 days	All but $25.50 a day	$25.50 a day for the first 8 days
In a facility approved by Medicare (1)	Additional 142 days	All	
HOME HEALTH CARE	Visits limited to medically necessary skilled care	Full cost of services 80% of approved amount for durable medical equipment	Nothing for services 20% of approved amount for durable medical equipment
HOSPICE CARE Available to terminally ill	As long as doctor certifies need	All but limited costs for outpatient drugs and inpatient respite care	Limited cost sharing for outpatient drugs and inpatient respite care
BLOOD	Blood	All but first 3 pints	For first 3 pints

* These figures are for 1989 and are subject to change each year.
** If you pay the deductible during December, you do not have to pay it again if you remain a patient in or are readmitted to the hospital in January of the following year.

(1) Medicare and private insurance will not pay for most nursing home care. You pay for custodial care and most care in a nursing home.

Source: Health Care Financing Administration and Hospital Insurance Association of America.

services, and diagnostic procedures; and home health care. Beginning on 1 January 1990, Medicare will also cover 80 percent of the cost of home intravenous drugs, supplies, and services (after a drug deductible of $550) and 50 percent of the cost of immunosuppressive drugs used one year following transplants after the deductible is reached. Additionally, new benefits will be phased in over a two-year period beginning 1 January 1991, which will cover part of the cost—50 percent in 1991, 60 percent in 1992, and 80 percent thereafter—of prescription drugs in excess of a deductible (e.g., $600 in 1991, $652 in 1992).

SMI provides for limited daily home health services for up to thirty-eight days a year, which, under certain circumstances, can be extended. Also, under certain circumstances, up to eighty hours per year of respite care is provided to give unpaid caregivers who live with certain disabled Medicare beneficiaries relief from the very difficult job of providing ongoing care (see fig. 6.2).

SMI will generally pay for 80 percent of approved charges for most covered services after the beneficiary has paid the SMI deductible in a calendar year (the first $75 of approved charges in 1989). The deductible and coinsurance do not apply to certain services, such as home health visits.

Beginning in 1990, a Medicare beneficiary who has paid the SMI deductible must pay 20 percent of approved charges for covered services, only up to the new catastrophic limit on costs. Medicare picks up all reasonable costs that exceed this limit—estimated as $1,370 in 1990. SMI beneficiaries also must pay the portion of a medical bill that exceeds what Medicare calls "approved charges," as well as services not covered by SMI. Doctors and medical suppliers who accept assignment agree to accept approved charges as payment in full and, in addition, they also file the benefit for the person. Thus, it is to the benefit of beneficiaries to take their business to persons accepting assignment.

Reimbursement under SMI is often more complex than under HI. If the provider does not accept assignment, not only is the cost of a service likely to increase substantially, but the amount of paperwork for a beneficiary is much greater. This is because the beneficiary often must take care of all the paperwork and correspondence with the *carrier*—the organization (usually an insurance company) with whom Medicare contracts to handle SMI claims.

Unfortunately, while it increases the economic security and access to health care for millions of Americans, there is much Medicare does not do. For instance, many people do not realize until it is too late that Medicare provides extremely limited protection against the cost of long-term care resulting from chronic illness (see discussion questions 22 and 23 in chap. 7).

Figure 6.2—**What SMI Pays For**

MEDICARE (PART B): MEDICAL INSURANCE—COVERED SERVICES PER CALENDAR YEAR			
Service	**Benefit**	**Medicare Pays**	**You Pay**
MEDICAL EXPENSE Physician's services, inpatient and outpatient medical services and supplies, physical and speech therapy, ambulance, etc.	Medicare pays for medical services in or out of the hospital	80% of approved amount (after $75 deductible)	$75 deductible* plus 20% of balance of approved amount (plus any charge above approved amount)**
HOME HEALTH CARE	Visits limited to medically necessary skilled care	Full cost of services 80% of approved amount for durable medical equipment (after $75 deductible)	Nothing for services 20% of approved amount for durable medical equipment (after $75 deductible)
OUTPATIENT HOSPITAL TREATMENT	Unlimited if medically necessary	80% of approved amount (after $75 deductible)	Subject to deductible plus 20% of balance of approved amount
BLOOD	Blood	80% of approved amount (after $75 deductible and starting with 4th pint)	First 3 pints plus 20% of approved amount (after $75 deductible)

* Once you have had $75 of expense for covered services in 1989, the Part B deductible does not apply to any further covered services you receive for the rest of the year.
** YOU PAY FOR charges higher than the amount approved by Medicare unless the doctor or supplier agrees to accept Medicare's approved amount as the total charge for services rendered. (See page 22.)

Source: Health Care Financing Administration and Hospital Insurance Association of America.

Unemployment Insurance [4]
(Unemployment Compensation)

The goals of the federal-state unemployment insurance system are 1) to provide partial wage replacement for a limited period for recently employed persons who are involuntarily unemployed, and 2) to help stabilize the economy during recessions. The right to a benefit is established by recent employment in a job covered by the unemployment insurance program. In recent years, however, only about one-third of unemployed workers have actually received benefits, and the amount of lost wages that benefits have replaced has declined. Thus, as recently reported in a front-page article in the *New York Times:*

> The unemployment insurance system, created in the New Deal days. . ., is no longer functioning as a safety net for the vast majority of the unemployed.
>
> Fewer than 32 percent of the unemployed now receive jobless benefits, by far the lowest level in the program's 53-year history. The portion never fell below 41 percent in the 1970s. . . .
>
> The decline could prolong the next recession, some economists say. The extra billions in jobless benefits are one way in which the Government can slow the decline in consumption and therefore hasten a recovery.[5]

Unlike Social Security and Medicare, the unemployment insurance program involves a full partnership between the federal and various state governments, with the states having the major administrative responsibility. The federal government, through the Department of Labor, oversees the unemployment insurance system; however, each state, as well as the District of Columbia, Puerto Rico, and the Virgin Islands, administers its own program. And although each state operates its program within federal standards, eligibility criteria, benefits, and financing vary among the states and the three other jurisdictions

Financing Unemployment Insurance

The financing of unemployment insurance is quite complex. In 1988, employers covered by the Federal Unemployment Tax Act (FUTA) were charged a 6.2 percent tax on the first $7,000 of covered wages for each worker. However, covered employers in states with programs that meet federal standards—including having a state unemployment insurance tax (as do all the states at the present time)—may receive a tax credit of up to 5.4 percent. So, in reality, employers generally pay only a 0.8 percent payroll tax to the federal government, the rest of their payroll taxes being paid instead to their state government.

The part of the federal unemployment payroll tax rate that is not used to offset a state's unemployment tax—again, usually 0.8 percent—pays primarily for federal and state administrative costs, for 50 percent of the cost of special extended unemployment benefits, and for loans to states that have depleted their unemployment benefit reserves. These funds, along with those collected by the states, are deposited into the Federal Unemployment Trust Fund, which has fifty-nine separate accounts: one for each state, the District of Columbia, Puerto Rico, the Virgin Islands, Railroad Unemployment Insurance, and the Railroad Administration, and four federal accounts.

Because the federal-state unemployment insurance system allows states to experience rate employers, the actual tax paid by employers varies between states and even within states. In forty-seven states, employers with a good track record of employment stability are taxed at a lower rate than employers whose former employees claim proportionately more benefits. The experience rating provision does, however, create a strong incentive for employers to challenge the unemployment claims of former employees. A few states also place a small tax on employees.

Unemployment Insurance Benefits

Eligibility. Though unemployment benefits are an earned right, to be eligible for them a worker generally must 1) have a fair amount of recent employment experience in job(s) covered by the program, 2) be willing and able to work, 3) be available for work, including being registered for work at state employment offices, and 4) be involuntarily unemployed. Workers may be disqualified from receiving some or all unemployment benefits if their unemployment is a result of voluntary separation from work without good cause, separation from work for misconduct, separation from work due to a labor dispute, or failure to apply for suitable jobs.

Benefits. Unemployed workers apply for benefits at local unemployment offices, which are funded through their state employment security agency. If eligible, workers may receive weekly unemployment checks for up to a maximum of twenty-six weeks during a benefit year under most states' permanent unemployment insurance programs (thirty weeks in Massachusetts and West Virginia), and up to an additional thirteen weeks (but not exceeding a total of thirty-nine weeks) in states that are eligible for federal assistance to provide extended benefits because of unusually high levels of unemployment.

The size of weekly benefits varies with a worker's prior earnings and within certain minimum and maximum benefit limits. Most states use a benefit formula designed to replace a proportion—usually 50 percent—of average weekly earnings. In 1987 the average weekly benefit was about $139. Benefits vary with, for example, maximum weekly benefits in March 1988 ranging among the states from $120 in Alabama to $354 in Massachusetts and average weekly benefits ranging from $96 in Tennessee to $175 in Minnesota. Some states provide small additional allowances for nonworking spouses, dependent children, and other dependent relatives. About one-quarter of the states have work-sharing plans, enabling employers to avoid layoffs by reducing the number of hours worked by employees, who then may be eligible for unemployment benefits on a prorated basis (see discussion question 32 in chap. 7).

State employment security offices also administer the *Trade Adjustment Assistance Program,* which provides weekly benefits, employment services, and assistance with training, job search, and job relocation for a few workers who have exhausted all their unemployment benefits. The program is designed to assist workers who have lost their jobs due to federal policies that have lowered barriers to foreign trade (e.g., reduced import taxes).

Workers' Compensation

Workers' compensation, the first American social insurance program, is primarily responsible for alleviating the effects of disabling work-related injuries and diseases that occur on the job. With the exception of coverage for federal workers and workers in the District of Columbia and U.S. territories, it operates exclusively on the state level. This means that each state has its own law and that these laws vary widely.

Financing Workers' Compensation

Workers' compensation programs involve significant expenditures on the part of the employers who pay for them (an estimated $29.3 billion in 1985), and their costs seem to be rising.[6] Financial arrangements under workers' compensation vary widely. Some states allow private casualty insurance companies to sell policies to individual employers and also give the employer the right to "self-insure," or provide against the risk of paying compensation payments without the aid of an insurance company. Some states allow private companies to compete with state-maintained insurance funds, and still other states, notably Ohio, manage what are known as "exclusive state funds."

Workers' Compensation Benefits

The typical state law has provisions that allow for monetary benefits, the reimbursement of medical expenses, and rehabilitation services in the event of a worker's injury "in the course of employment." The states take many approaches toward compensating the disabled worker, but most differentiate between periods of total disability (or death) and partial disability. The common procedure is for a worker to receive a specified portion of his wages (subject to a maximum amount) during a period of "temporary total disability." A worker also will often receive reimbursement for all his medical expenses and, in some states, may receive services designed to restore his earning capacity as well. Should the effects of the injury persist, the worker becomes eligible for "permanent partial" or "permanent total" disability benefits. Some states, notably Florida, base this payment on the wages a worker has lost; others try to estimate how much an impairment has affected a worker's future earnings capacity; and still others base their "awards" on the degree of bodily impairment sustained, without regard to the worker's ability to work.

To assist in this complicated effort, some states maintain schedules that equate an injury with a particular part of the body and a specified number of weeks of compensation payments. For the loss of an arm in the state of Kansas, for example, a worker receives 210 weeks of compensation (subject to a maximum total amount of money).[7]

Beyond the details of the states' programs, the workers' compensation program faces numerous policy dilemmas. Policymakers do not agree on exactly what the compensation payments should represent: replacements for forgone wages, compensation for the experience of enduring injury, or a mixture of both? Policymakers also face difficult questions related to occupationally related diseases. How should these diseases be handled under workers' compensation? Moreover, "because workers' compensation programs have failed to respond adequately to occupational disease and disability," many cases end up in court; as a result, "tort actions, costs, and delays have all increased."[8] This has been the case with asbestosis, a primary example of an occupational disease. Such a result, however, defeats the original purpose of workers' compensation: to eliminate litigation and substitute an orderly process of compensation. Reassessment and revision seem to be needed.

Even so, our oldest program, workers' compensation, remains one of the most vital.

Black Lung Disability Program

Operating since 1970, the Black Lung Disability Program is a specialized workers' compensation program protecting coal miners and certain others occupationally exposed to coal dust from the risk of total disability due to black lung disease (pneumoconiosis). The program provides monthly benefits to the totally disabled and to the survivors of those dying from the disease. In addition, medical benefits are provided for its diagnosis and treatment.

Claims made before July 1973 are administered by the SSA and paid for out of the general revenues of the federal government. Since July 1973, the Department of Labor has handled new claims, currently paying benefits out of the Black Lung Disability Trust Fund. This trust fund is financed by an excise tax on domestically mined coal and by loans from general revenues of the U.S. Treasury. Since its establishment in 1978, the trust fund has been running annual deficits, a situation that will require corrective legislation.

Federal Civil Service Retirement Programs

Besides being covered by federal workers' compensation and the federal-state system of unemployment insurance, civilian employees of the federal government receive social insurance retirement, disability, and survivors protection through special programs. Since 1 January 1983 federal employees have made payroll tax contributions to and received coverage under the Medicare HI program. And as of September 1986, 2.2 million federal employees were covered under the *Civil Service Retirement System,* and 500,000 federal employees were covered under the new *Federal Employees' Retirement System,* a program that will grow.

FERS was established for newly covered federal employees hired after 1 January 1984 and for those federal employees hired before 1984 who chose to join FERS during July through December 1987. FERS is a three-tier retirement system consisting of 1) Social Security, 2) a new federal employee pension plan, and 3) a thrift savings plan. Employees participating in FERS will become eligible for Social Security benefits and for a federal pension that is equivalent to the private pensions many companies provide in addition to Social Security. The combined contribution of FERS participants to Social Security, Medicare HI, and the federal employee pension plan is equal to that paid employees covered by CSRS—8.45 percent in 1987.[9]

CSRS provides retirement, disability, and survivors' benefits. It is financed by employee contributions and by general revenues from the U.S. Treasury.

Military Retirement

Members of the U.S. armed forces are covered under Social Security and Medicare. Those with at least twenty years of service are also eligible for retirement benefits through the military retirement system. In addition, medical care benefits are provided to retirees and their dependents.

State and Local Pension Programs

Most state and local government employees are covered by state or local pension systems. Eligibility conditions, benefit amounts, and types of benefits vary among systems although most of these systems provide retirement and disability benefits. Most state and local employees are also covered under Social Security and Medicare.

Railroad Retirement

During the latter part of the nineteenth century and the first part of the twentieth, the railroad industry was one of the most vibrant industries in America and among the first to establish widespread private pensions, covering 80 percent of their employees by the mid-1920s. By 1930, however, the industry faced extensive financial crises, employment within it declined, and its pensions clearly were underfinanced and could not sustain themselves through the Great Depression. Legislation enacted in the mid-1930s established the Railroad Retirement system, thereby protecting covered workers from the probable bankruptcy of their private pensions.[10] (The railroad industry has always been a special case, largely because of its unambiguously interstate nature.)

Today, Railroad Retirement is a two-tiered pension system, providing retirement, survivors, and disability benefits. The first tier is essentially the same as Social Security and is financed by an identical payroll tax. The second tier is the equivalent of a private pension paid over and above Social Security; it is financed by a payroll tax (4.9 percent on the employee and 16.1 percent on the employer in 1988) on earnings (the first $33,600 of earnings in 1988). The program is structured so that the Social Security trust funds would have roughly no more nor less money than they would have had if railroad employment had been covered under Social Security from the start.[11]

Railroad Unemployment And Sickness Benefits

Also established during the 1930s, the Railroad Retirement unemployment system was a response to the difficulties involved in covering railroad employees under particular state unemployment programs. Because these employees often crossed state lines, a decision was made to cover them under a separate unemployment program. In 1946, temporary disability and maternity benefits were added.

Temporary Disability Programs

California, Hawaii, New Jersey, New York, Rhode Island, Puerto Rico, and the railroad industry have temporary disability insurance (also called "cash sickness insurance") programs. These programs partially compensate for lost wages due to temporary nonoccupational disability or maternity. Approaches to financing vary but usually involve some form of payroll tax.

To be eligible for benefits, workers must 1) demonstrate substantial attachment to the labor force in a job covered by the program, and 2) meet temporary disability criteria established under the program. Benefits are related to prior earnings in covered employment, and benefit levels vary among temporary disability systems.

Other Public Programs: Welfare and Veterans Benefits

Although this discussion guide focuses on social insurance, there are some other important public benefits of which students should be aware.

Welfare Benefits

The right to a welfare benefit is established by financial need, and so these programs are means tested. Welfare benefits are generally considerably smaller than social insurance benefits. The major welfare programs (also called "public assistance" programs) are as follows:

Supplemental Security Income. SSI provides cash benefits to about 4.4 million low-income aged and disabled and blind persons, a total federal and state expenditure of about $14.8 billion in 1987. To be considered aged, the person must be 65 or over. The test for disability is the same as for Social Security disability insurance. Through SSI, the federal government guarantees a minimum monthly income—$368 for a single person and $553 for a couple in 1989—to those meeting eligibility criteria. Some states provide a supplement to the federal guarantee.

Local Social Security offices handle virtually all SSI applications. Financial need, rather than prior employment in a job covered by Social Security, is a condition of eligibility. The person must have income and resources (assets) below a certain level. SSI beneficiaries are also almost always eligible for Medicaid benefits and for food stamps (except in California and Wisconsin, which add the value of food stamps to SSI to increase their state supplement).

Aid to Families with Dependent Children. AFDC provides cash benefits to low-income dependent children—and their adult caretakers—who are deprived of financial support because of the absence, death, incapacity, or unemployment of their fathers or mothers. AFDC is administered by state and local departments of welfare (sometimes called "departments of social services") within federal guidelines. These programs are funded primarily by federal and state governments, with more limited financial participation provided by some local governments. Program costs amounted to about $16.3 billion in 1987.

AFDC benefits are generally quite low. Because they are not automatically adjusted for changes in the cost of living, their purchasing power has, on average, declined by about one-third during the past thirteen years. During a typical month in 1987, 3.8 million families—including 7.4 million children and 3.7 million parents (or other caretakers)—received benefits. Basic eligibility criteria are set by federal statutes. Nevertheless, states have a fair amount of freedom in establishing eligibility criteria and benefit levels; consequently, there is much variation among states. In January 1988, the maximum benefit for a one-parent family of three—the most typical AFDC family—ranged from a low of $118 a month in Alabama to highs of $633 in California and $779 in Alaska, with the average being $359. AFDC beneficiaries are also eligible for food stamps and Medicaid benefits.

General assistance. General assistance programs (also called "general relief"), where they exist, are funded and administered entirely by the state and/or local government. These are often programs of last resort for low-income adults without dependent children who do not qualify for SSI or any other federally funded program. In addition to being means tested, applicants, to be eligible, often must have work-limiting disabilities. Benefit amounts vary and are generally quite small.

Medicaid. Medicaid (also called "medical assistance") provides access to health services for 23.6 million low-income Americans, including about 11.4 million children, 3.3 million persons aged 65 and over, 3 million persons with disabilities, and 5.8 million other adults.

Medicaid costs, about $37.6 billion in 1987, are funded out of the general revenues of state governments and the federal government. All states provide inpatient hospital services, outpatient hospital services, laboratory and X-ray services, skilled nursing care for adults, some home health services, health screening, diagnosis and treatment for those under 21, family planning services, and physician services. Some states elect to provide services such as dentistry, eyeglasses, and care in intermediate care facilities.

Food stamps. The food stamps program is federally funded. Administered by the states, it provides benefits to 21 million low-income persons. In general, the maximum benefit in July 1989—provided in the form of stamps that can be used to purchase food—was $90 for single persons, $165 for a couple, and $300 for a family of four. (Maximum benefit levels are higher in Alaska, Hawaii, Guam, and the Virgin Islands, and lower in Puerto Rico.)

Veterans' Benefits

Veterans discharged under other than dishonorable conditions and surviving dependents of these veterans are often eligible for veterans' cash or medical benefits. In August 1986 the Veterans Administration, the federal agency administering these programs, provided benefits to 662,000 veterans and 638,000 widows. In 1986, payments for veterans' disability benefits totaled about $14 billion and for medical payments about $9 billion.[12]

Veterans' compensation. Monthly cash benefits are paid to persons whose disabilities or illnesses occurred or were aggravated during active duty. Payments are based on the degree of disability, generally ranging in 1987 from $69 a month for a 10 percent disability to $1,355 for a total disability. There are no means tests, and under certain circumstances, spouses and dependent children can receive benefits.[13]

Veterans' pensions. Monthly cash benefits are paid to low-income veterans who are totally and permanently disabled (or at least aged 65 and not working). The presence of a spouse and/or dependent children may increase the size of the pension, as might the need for regular aid and attendance resulting from illness or disability. Survivors pensions may also be available to widow(er)s, dependent children, or adult dependent children who were disabled before age 18.

Veterans' medical payments. These benefits include inpatient hospital treatment, outpatient treatment, nursing home care, home health services, alcohol and drug dependence treatment, and domiciliary care. Spouses and dependent children are sometimes eligible for medical treatment.

Notes

1. Study Group on Social Security and the National Academy of Social Insurance, "Congress Passes Major Medicare Expansion for 'Catastrophic' Costs," Update #62, New York, 10 June 1988.
2. Information about changes resulting from enactment of the Medicare Catastrophic Coverage Act to Medicare is drawn from material provided by the Study Group on Social Security and the National Academy of Social Insurance, "Congress Passes Major Medicare Expansion."
3. Ibid.
4. Information on unemployment insurance is drawn from SSA, "Social Security Programs," pp. 24-31, and from House Committee on Ways and Means, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means* (Washington, D.C.: U.S. GPO, 1986), pp. 299-326.
5. Louis Uchitelle, "Jobless Insurance System Aids Reduced Number of Workers," *New York Times,* 26 July 1988, p. 1.
6. See Nelson, *Unemployment Insurance,* pp. 6-9.
7. See Edward D. Berkowitz, *Disabled Policy: America's Programs for the Handicapped* (New York: Cambridge University Press, 1987), pp. 28-29.
8. Berkowitz, *Disabled Policy,* p. 33.
9. SSA, "Social Security Programs," pp. 47-48.
10. House Committee on Ways and Means, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means* (Washington, D.C.: U.S. GPO, 1988), pp. 880-905.
11. Ibid., p. 51.
12. SSA, "Social Security Programs," pp. 44-46.
13. Ibid.

7

Current and Future Issues

Besides understanding the social insurance approach to economic security, its historical roots, and the basic benefits provided to families, your students need the opportunity to discuss and debate issues about the future of social insurance. As our discussion of its development in America has shown, social insurance is an evolving institution, one that presents new challenges and opportunities to each generation.

Demographic, social, and economic changes as well as changing values will surface new issues that your students and millions of other young Americans must address (e.g., how to prepare for the retirement of the baby boom generation and those who follow, how to handle the growing need for long-term care). They will also occasion new looks at some familiar issues (e.g., national health insurance), and the diversity of opinion in American society will ensure that many issues considered long-settled by most will be raised periodically (e.g., whether social insurance programs should be means tested).

Some important policy questions have already been discussed. Here, we summarize in a "question-and-discussion" format additional issues that will affect today's students, who are, after all, the workers, parents, taxpayers, caregivers, and eventually retirees of the future. The questions, which can serve as the basis of classroom discussions, concern

- the financing of Social Security;
- the effect of Social Security and related programs on today's young Americans;
- other Social Security issues;
- Medicare and related health care issues;
- disability issues;
- unemployment insurance issues; and
- public employee program issues.

Additionally, the concluding section of the chapter identifies issues that can be used both to challenge your students' understanding of the social insurance approach to economic security and to raise important questions about the values at stake in social insurance policy discussions. The issues address several widely circulated myths (e.g., that Social Security is a welfare program and, contradictorily, that Social Security is simply a middle-class entitlement).

Social Security Financing Issues

1. Has Social Security remained financially sound since the enactment of the 1983 amendments?

Background: Twice during the past fifteen years, Social Security has faced financial crises brought about primarily by unanticipated economic events and changing demography. In 1977 and then again in 1983, Congress enacted major financing legislation. Through a combination of modest benefit reductions, relatively small tax increases, and some changes that cannot really be classified as either, the 1983 amendments to the Social Security Act resolved the impending financing problem, spreading the pain of maintaining the financial integrity of Social Security across all members of society.

Issue Discussion: Since the enactment of the 1983 amendments, the financial outlook for Social Security has been very good. Each year since then, from 1984 through 1989, Social Security's trustees (the secretaries of the Departments of Treasury, Labor, and Health and Human Services, and the two public trustees appointed by the president) have issued a report indicating that Social Security is taking in more money than it expends, and it is expected to continue to do so through about 2018. These yearly surpluses will build up very large reserves and are expected to offset nearly all of the annual deficits that are projected to follow.[1]

Experts generally agree that even under the pessimistic scenarios about the future of the economy and demographic change, Social Security can pay benefits in a timely fashion for at least thirty-five years. Over the next seventy-five years a small deficit (about 5 percent of expected revenues) is projected, which could become problematic around 2045 if these projections hold. Fortunately, the buildup of large reserves "provides ample time to monitor the financial status of the program and to take corrective action at some time in the future," if necessary.[2] Should such a financing problem seem probable twenty to twenty-five years in advance of 2045, it could be resolved by relatively modest tax increases or benefit reductions (e.g., raising retirement age) at that time. No doubt, as with all large systems, problems will occasionally arise, but there is every reason to think that the nation will continue to resolve such problems in a way that maintains the integrity and vitality of the program and the commitment to the citizenry. As Robert Ball has noted:

> The key point to bear in mind is Congress' clear legislative intent to provide for full funding of the program across a 75-year period. Congress is routinely accused of having an attention span limited by the next election, but the fact is that Congress, guided by the best estimates available, enacted a funding plan designed to sustain Social Security for fully three-fourths of a century.[3]

Barring further dramatic and unforeseen economic downturns or demographic events, Social Security should be able to meet all its commitments for many years to come without additional financing legislation.

2. How can we be sure that Social Security will be financially sound when today's children reach retirement age?

Background: The financial status of Social Security is sensitive to economic and demographic change. Therefore, Social Security's actuaries forecast the financial status of the program based on expected economic (e.g., price increases, unemployment, wage increases) and demographic (e.g., birthrates and life expectancy) trends. Because no one really knows what the future will bring, the actuaries use four different sets of economic and demographic assumptions ranging from optimistic to pessimistic. The assumptions differ according to what is assumed about future trends such as those noted above.

These forecasts are one of the great strengths of Social Security because they provide the information needed to make adjustments. The actuaries make short-term (over the next five years) and long-term (over a seventy-five-year period) estimates of whether expected revenues will meet anticipated program obligations. Because the future is uncertain, projections—especially long-term ones—are subject to error. Nevertheless, they do provide useful indicators of probable experience even forty, fifty, or seventy-five years into the future. Importantly, they provide a reasonable basis for making the midcourse corrections necessary from time to time.

Issue Disscussion: As noted, the most recent Trustees Report indicates that Social Security is financially sound well into the twenty-first century and that, even under pessimistic assumptions, sufficient funds exist to permit the timely payment of benefits for many years into the future.[4]

Because Social Security is affected by demographic and economic shifts, we cannot be sure financing problems will never arise in the future. In fact, under the most commonly accepted set of assumptions, we anticipate a financing problem emerging around 2045, which, if these projections hold up, will need to be and can be fairly easily handled thirty-five or forty years from now through modest tax increases or benefit reductions, or some combination of the two.

If the economy of the future is more productive than is currently anticipated, the likelihood of future financing problems is greatly diminished. If, on the other hand, long-term economic growth is even lower than projected, then plainly voters and public servants twenty or thirty years from now will need to decide to reduce the growth of benefits significantly or increase taxes or both. The point is that, currently, there are no indications of major financing problems emerging and there is considerable lead time to respond should such problems occur. Moreover, Social Security is just too important an institution for Congress, any President, or the public to allow it to go bankrupt. The taxing power of the government guarantees its continuity and stability. No one disputes that new challenges and problems will arise from time to time, requiring midcourse adjustments. But this should not be alarming.

> Social Security is the most cautiously and conservatively financed of all government programs, deriving its revenues from dedicated taxes, making long-range cost projections based on objective actuarial analyses, and providing exhaustively detailed reports to Congress and the public.... There is no basis for claiming that future generations cannot count on Social Security being there when they retire. They have the power to see that the system remains stable and secure and that changes are made if needed.[5]

3. What can be done about the public's lack of confidence in Social Security's future despite its strong support for the program?

Background: An interesting contradiction exists in public opinion. Social Security is strongly supported by the public, yet the public—especially the young—lacks confidence in its future. For instance, the 1985 Yankelovich, Skelly, and White survey commissioned by AARP indicates that 98 percent of Americans aged 25 and over believe Social Security is a critical source of income for most elderly persons and that 88 percent want to continue it. But in the same survey, 52 percent of all Americans—about 67 percent of those 25 through 34 years of age—say they lack confidence in the future of Social Security.[6] A more recent poll sponsored by the American Council of Life Insurance suggests that public confidence, while still lagging, is somewhat better.

Two financing problems, controversy arising from partisan politics, declining faith in all public and private institutions, growing concern about the impending retirement of the baby boomers and those who follow, recent problems in the administration of disability insurance, misunderstandings about the care with which Social Security is financed, and inaccurate media presentations have all combined to shake public confidence in Social Security.

Issue Disscussion: What can be done about this? First, facing problems squarely—as was done in 1983—ought to reassure the public. Second, much public education is needed about the purpose and function of Social Security in America. Third, the special nature of the program both as a self-funded program with a long-term time horizon and as a public trust ought to be highlighted. Moreover, Social Security should be insulated, insofar as possible, from partisan politics and short-term budgetary considerations.

One way of doing this is to establish Social Security as an independent agency with, for example, a permanent bipartisan board both to oversee policy matters and to appoint a chief administrator who is responsible for its operations. Additionally, removing Social Security from year-to-year budgetary considerations would protect the program from being a political target for benefit cuts or trust fund raids because of the deficits existing in the regular federal budget.

Impacts on Young Americans

4. Does Social Security help children?

Background: This question and the one that follows can be used to challenge students to think about the various benefits Social Security provides and to think about its impact on the entire family. Many people mistakenly believe that Social Security does very little for children.

Issue Discussion: Most people don't realize it, but among the over 38 million people who receive monthly Social Security checks, there are 2.6 million children under 18, mostly of workers who have died or are disabled.

By assisting Americans to maintain their standard of living during their retirement years, Social Security serves all generations in the family. Older family members do not wish to depend on their adult children for financial support, preferring instead to rely on a combination of Social Security, other pensions, and savings. Without Social Security, many elderly people would, of necessity, have to turn to their adult children for financial assistance and/or housing—a situation that could lead to emotional and financial strains within families and to a loss of dignity for many elderly persons. Thus, by providing the vehicle by which workers can—through modest payments over time—help protect themselves and their families against loss of income due to retirement, disability, or death of a worker, Social Security helps stabilize the entire family. And by assisting elderly parents, Social Security frees up young and middle-aged workers to concentrate more of their resources on today's young children.

5. In what ways does Social Security benefit younger workers?

Background: Today's students will one day make (and in some cases already are making) payroll tax contributions. They need to know how this benefits them as young workers.

Issue Discussion: As a result of working in a job covered by Social Security and making payroll tax contributions, younger workers

- protect themselves and their families against the loss of income resulting from long-term and total disability;
- protect their families against loss of income due to their death;
- earn the right to retirement (and Medicare) benefits later in life;
- participate in a pension plan that allows them to earn credit toward their retirement pension on nearly every job; and
- participate in a plan that adjusts for changes in the standard of living prior to receipt of benefits and for inflation after receipt of benefits.

Even if the risks being protected against do not occur, disability insurance and survivors insurance have tangible worth to younger workers and their families. For example, it is estimated that for a worker aged 35 with average earnings in every year and "a non-working spouse age 32 and two children under age six, Social Security coverage provides the equivalent of a life insurance policy and a disability insurance policy, each with a face value of about $200,000 in 1985 dollars."[7] Unfortunately, for some people the risks being protected against do occur. This is why there are 2.6 million children under age 18, some 564,000 disabled adult children, 323,000 surviving spouses (mostly widows) caring for young children, and 2.8 million disabled workers (and about 215,000 of their spouses) receiving benefits each month.

6. Will Social Security be worth anything when today's children and young workers reach retirement age?

Background: Many people—especially the young—think Social Security benefits will have virtually no purchasing power when they retire. However, the Social Security benefit formula works to replace relatively constant proportions of preretirement earnings for workers at different earnings levels: about 59 percent for workers retiring at age 65 who earned minimum wages throughout their lives, and 41 percent for those with average earnings. For workers, this means that even before they receive benefits, the value of their benefits is adjusted for rising wages and changing standards of living.

Issue Discussion: Contrary to popular opinion, the retirement benefits for today's younger workers (and for those who follow) are expected *to actually be larger on average*—that is, *to have greater purchasing power*—than those for today's retirees. This is because the anticipated growth of their wages during their work lives will be translated into larger benefits. Using reasonable assumptions about the growth of the economy:

> Social Security's actuaries estimate that while a worker earning average wages throughout life and retiring at age 65 in 1986 would receive $576 a month, a similar worker retiring in 2015 would receive $797 a month in 1986 dollars. . . . For example, it is estimated that such a worker retiring in 2030 at age 65 will receive a monthly benefit of about $5277! But this amount will actually be worth about $918 in 1986 dollars.[8]

In short, while Social Security was never intended to replace all lost earnings, Social Security will go a long way toward enabling current workers and their families, and today's children when they are workers, to maintain their standard of living in retirement.

7. How should we, as a nation, prepare for the aging society?

Background: Successes often give rise to new challenges. So too with the aging society. Successful investments during the twentieth century in biomedical research, immunization, sanitation, the economy, and social policies have resulted in fewer childhood deaths, more people reaching old age (and living longer thereafter), and a better quality of life for elderly persons and all other groups.

The elderly population—persons aged 65 and over—is projected to increase from 31 million persons today (12.5 percent of the population) to roughly 35 million (13 percent) by 2000, swelling to 66 million by 2030 (22 percent) and to 68 million (23 percent) by 2050 (see table 7.1). More importantly, the very old—persons aged 85 and over, and the age group with the greatest need for health and social services—are projected to increase at an even more rapid rate, from approximately 3.1 million today to 4.6 million in 2000, 8.1 million in 2030, and 15.3 million in 2050 when today's preschoolers reach retirement age (see fig. 7.1 and table 7.2).

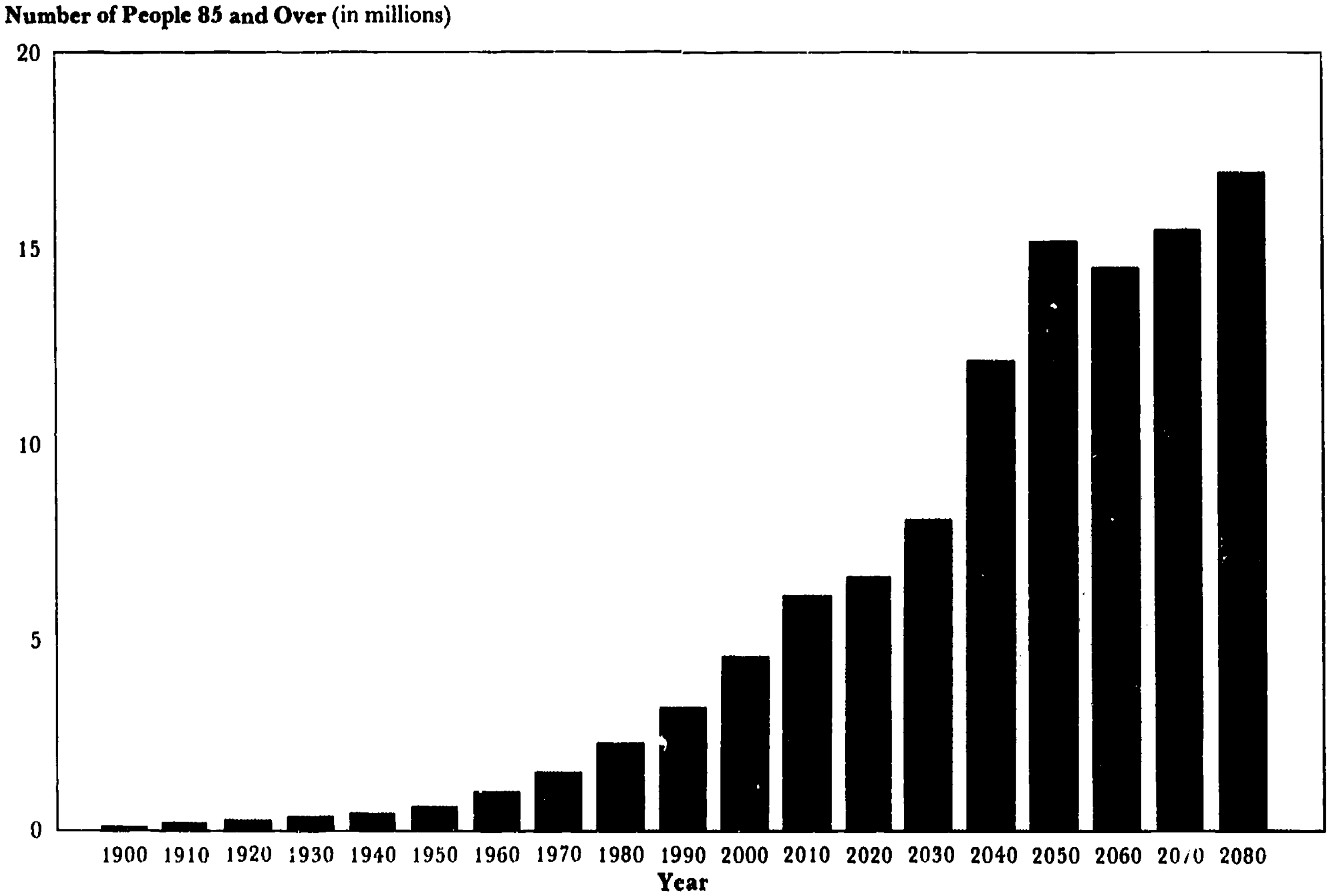
Along with this increase in older people, the number of persons aged 18 through 64—the so-called working-age population—is projected to decline as a proportion of the entire population. Consequently, whereas today there are roughly three workers covered under Social Security and Medicare for every one beneficiary, by 2030 the ratio is expected to be two workers for every one beneficiary.[9]

Table 7.1—Actual and Projected Growth of the Population 65 and Older: 1900–2080

Year	Number in Millions	Percent	Total Population of All Ages
1900	3.1	4.0	76.3
1910	4.0	4.3	91.8
1920	4.9	4.7	105.7
1930	6.6	5.4	122.8
1940	9.0	6.8	131.7
1950	12.3	8.1	151.0
1960	16.6	9.2	179.3
1970	20.0	9.8	203.3
1980	25.5	11.3	226.5
1990	31.6	12.6	250.4
2000	34.9	13.0	268.3
2010	39.4	13.9	282.6
2020	52.1	17.7	294.4
2030	65.6	21.8	300.6
2040	68.1	22.6	301.8
2050	68.5	22.9	299.8
2060	70.3	23.7	297.0
2070	70.4	23.9	294.6
2080	71.6	24.5	292.3

Sources: Gregory Spencer, "Projections of the Population of the United States, by Age, Sex, and Race: 1988 to 2080," *Current Population Reports,* Series P-25, no. 1018 (Washington, D.C.: U.S. GPO, January 1989), middle series projections; U.S. Bureau of the Census, tabulated from decennial censuses of population, 1900 to 1980.

Figure 7-1—Actual and Projected Increase in the Population 85 and Older: 1900–2080



Sources: Gregory Spencer, "Projections of the Population of the United States, by Age, Sex, and Race: 1988 to 2080," *Current Population Reports,* Series P-25, no. 1018 (Washington, D.C.: U.S. GPO, January 1989), middle series projections; U.S. Bureau of the Census, tabulated from decennial censuses of population, 1900 to 1980.

Table 7.2—**Life Expectancy at Birth and Age 65 by Race and Sex: 1900–1985**

Year	All Races			White			Black		
	Both Sexes	Male	Female	Both Sexes	Male	Female	Both Sexes	Male	Female
At birth:									
1900[a,b]	47.3	46.3	48.3	47.6	46.6	48.7	33.0[c]	32.5[c]	33.5[c]
1950[b]	68.2	65.6	71.1	69.1	66.5	72.2	60.7	58.9	62.7
1960[b]	69.7	66.6	73.1	70.6	67.4	74.1	63.2	60.7	65.9
1970	70.9	67.1	74.8	71.7	68.0	75.6	64.1	60.0	68.3
1980	73.7	70.0	77.4	74.4	70.7	78.1	68.1	63.8	72.5
1985[b,d]	74.7	71.2	78.2	75.3	71.8	78.7	69.5	65.3	73.7
At age 65:									
1900-02[a,b]	11.9	11.5	12.2	—	11.5	12.2	—	10.4[c]	11.4[c]
1950[b]	13.9	12.8	15.0	—	12.8	15.1	13.9	12.9	14.9
1960[b]	14.3	12.8	15.8	14.4	12.9	15.9	13.9	12.7	15.1
1970	15.2	13.1	17.0	15.2	13.1	17.1	14.2	12.5	15.7
1980	16.4	14.1	18.3	16.5	14.2	18.4	15.1	13.0	16.8
1985[b,d]	16.8	14.6	18.6	16.8	14.6	18.7	15.5	13.3	17.2

Source: National Center for Health Statistics, *Health, United States, 1986,* DHHS Pub. No. (PHS)87-1232 (Washington, D.C.: Department of Health and Human Services, December 1986).

[a] Ten states and the District of Columbia.

[b] Includes deaths of nonresidents of the United States.

[c] Figure is for the nonwhite population.

[d] Provisional data.

Experts expect that the economy will expand slowly, at an average of 1.5 percent to 2.0 percent per year after adjusting for inflation. This means that after adjusting for inflation, the income available per person—what economists call real per capita gross national product—will double in roughly every forty to fifty years.

Issue Discussion: Some interpret the changing demography of society in very pessimistic terms, arguing that the aging society is likely to place an intolerable burden on future workers. They fail to recognize that some among today's elderly work and that policies can, if needed, be developed to encourage healthy older people to work longer and employers to retain them longer. They also overlook the fact that even slow growth will significantly increase the standard of living for future workers and that, barring unforeseen disasters, the economy of the future seems likely to be able to support a mix of private and public efforts to meet the needs of all age groups. Very significantly, they overlook the importance of basic biomedical research, which has helped us to conquer diseases in the past. So, for instance, investments in biomedical research that has the potential to help us delay—if not eliminate—the onset of a disease like Alzheimer's may result in substantial public and private savings, not to mention a better quality of life.

But such medical advances, along with the aging of the baby boomers, also mean projected increases in Social Security and Medicare costs—a challenge that will fall on the shoulders of today's children, who, as adults, will be called upon to assist their parents' generation. The question has been asked, "Will future workers be able to afford the income and health services needed by a growing aged population?"

One way to discuss this issue is to turn the question around by asking, "What's the alternative to an aging society?" Plainly, there is no acceptable alternative. Similarly, there is no alternative to providing the health care services and income support that the upcoming generations of elderly will need. One way or another we will pay for these services, either through public programs or by having individuals and their families bear these expenses entirely by themselves.

Another way to discuss this issue is to ask how the challenge of preparing for the aging society compares with challenges that have faced prior generations of young Americans (e.g., the depression of the 1930s, the Second World War). Perhaps, most importantly, students should be challenged to think about what needs to be done to prepare for the aging society: 1) Are there investments that need to be made in the economy? 2) Ought investments be made in biomedical research into age-related infirmities (e.g., Alzheimer's disease)? 3) Ought society invest in educating today's young to ensure their future productivity? 4) Is the high rate of poverty among today's children (20 percent) in some way problematic for those concerned with preparing for the aging society?

8. What should be done to prepare for the retirement of the baby boomers and their children—today's school-aged children and young adults?

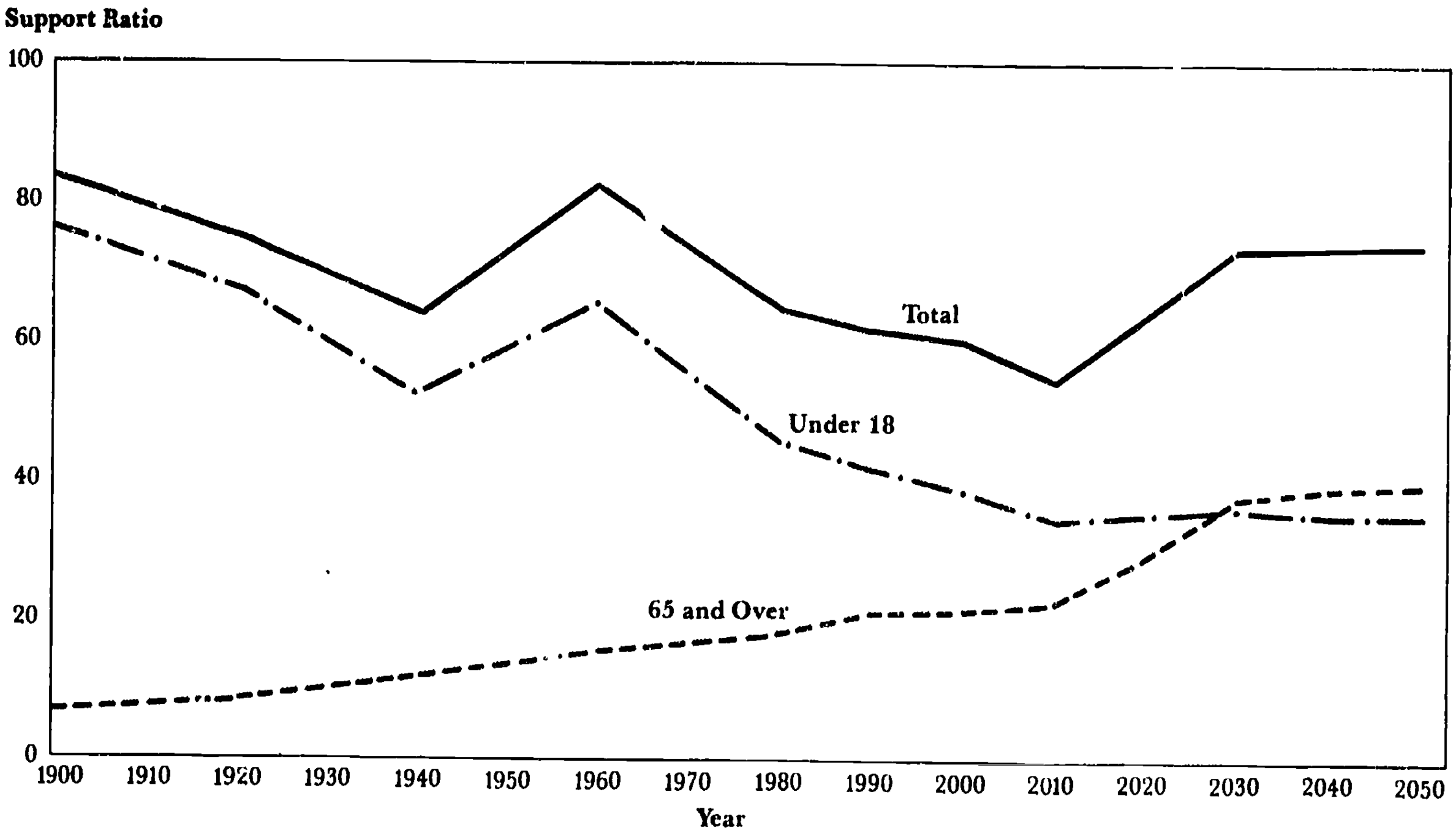
Background: Beginning around 2011 the first of the post-World War II baby boom generation will be age 65. This large generation will swell the ranks of the elderly population so that by 2030 it is anticipated that roughly 22 percent of the population—65.6 million people—will be 65 or over. Simultaneously, there will be a decline in the ratio of working-age persons to Social Security beneficiaries—from three covered workers for each beneficiary today to roughly two workers per beneficiary around 2030. Also, the so-called aged dependency (or elderly support) ratio—the number of elderly persons (65 and over) for every 100 persons of so-called working-age from 18 to 64—has increased from about fifteen persons in 1955 to roughly twenty today and is expected to increase to about thirty-eight persons in 2030, the height of the retirement of baby boomers.

Issue Discussion: Some have pointed to these significant demographic trends as proof that the nation will not be able to sustain baby boomers and those who follow during their retirement years. However, such predictions overlook many important facts. Most notably, the aged dependency ratio only shows part of the "overall dependency" burden.

Analysis using the overall dependency (also called the "total support") ratio, which defines children under 18 plus the elderly as the "dependent" population, leads to very different conclusions. Because the proportion of the population under 18 is projected to decline, *never at any time during the next 65 years is the overall dependency ratio projected to exceed the levels it attained in 1964.*[10] Even from 2030 through 2050, the total dependency ratio is projected to be about 74:100, well below what it was during the 1960s (e.g., 83:100 in 1965) when most of the baby boomers were children (see fig. 7.2). While the composition of governmental and private expenditures for younger and older Americans is quite different, careful analysis of all the facts surrounding dependency ratios do not support the gloomy view that changing demographics will overwhelm the nation's ability to meet the retirement needs of future generations.[11]

Moreover, as previously discussed, 1) under the most commonly accepted assumptions used to forecast the financial status of Social Security, it is financially sound

Figure 7.2—**Young, Elderly, and Total Support Ratios: 1900–2050**



Sources: Cynthia M. Taeuber, "America in Transition: An Aging Society," *Current Population Reports*, Series P-23, no. 128 (Washington, D.C.: U.S. GPO, September 1983); Gregory Spencer, "Projections of the Population of the United States, by Age, Sex, and Race: 1988 to 2080," *Current Population Reports*, Series P-25, no. 1018 (Washington, D.C.: U.S. GPO, January 1989).

for many years into the future; 2) there is plenty of lead time to deal with any problems that may occur; 3) long-term economic growth, even at smaller rates than in the past, is expected to double per capita income roughly every forty to fifty years, thereby enabling workers of the future to—if necessary—pay higher taxes while simultaneously enjoying considerably higher standards of living; and 4) large numbers of older workers of the future have the potential to stay in the work force past what are today considered early and normal retirement ages.

In short, while panic and dire predictions are not called for, demographic and economic trends must be monitored very carefully, and preparations must be made for the retirement of the baby boomers through policies that maintain the integrity of Social Security and of private and public employee pensions. Policies that would encourage healthy older persons to work longer, investments that are directed at economic growth, and investments in basic biomedical research ought to be considered. Attention also ought to be given to directing more resources at today's children—especially those who are poor—to ensure that they become self-sufficient and productive workers.

Other Social Security Issues

9. Should Social Security be used to reduce the federal deficit?

Background: Social Security is financed on a basis that is entirely separate from other federal expenditures. It is a self-supporting program, financed from 1) deductions on the earnings of workers, which are matched by their employers (the payroll tax); 2) income from the taxation of up to one-half of the benefits of higher-income beneficiaries; and 3) income from interest earned from the trust funds. These dedicated sources of income can only be used to pay for Social Security benefits and administrative costs. Any income not needed currently to pay for benefits is invested in interest-bearing securities of the United States and held in separate trust funds.

Under the Gramm-Rudman law, the yearly excess of Social Security revenues over expenditures (sometimes called the "annual surplus") is used when calculating the federal deficit. Thus, the yearly increases in the Social Security trust funds since 1984 have served to reduce the deficit as defined under Gramm-Rudman, as would any cuts in Social Security benefits or increases in Social Security income. The federal deficit would be much larger—for example, about $39 billion larger in fiscal year 1988—if Social Security was not counted. (These annual surpluses are expected to exceed $100 billion in the 1990s.)

Issue Discussion: One view is that Social Security, a financially sound program with a long-term horizon, should not be used for short-term budget purposes, and that to do so would undermine confidence in the program. Further, as a result of changes brought about through the 1983 amendments (e.g., permanently delaying the COLA by six months and making up to one-half of Social Security income taxable for higher-income beneficiaries), Social Security beneficiaries have recently had to make some sacrifices.

On the other hand, it has been argued that under Gramm-Rudman, any increase in the Social Security surplus—whether ' ugh benefit reductions or new tax revenues—counts toward deficit reduction. Thus, some argue that Social Security should be part of an overall deficit reduction plan, despite the fact that, under Gramm-Rudman, its annual surpluses are already contributing to substantial reductions in the federal deficit. One type of proposal calls for cutting, skipping, or again delaying the COLA, a change that would have its greatest impact on lower-income beneficiaries. Another proposal is to tax up to 85 percent of Social Security benefits (instead of the present 50 percent) for single persons with incomes of $25,000 or more and couples with incomes of $32,000 or more,[12] a change that would have its greatest impact on upper-middle and higher-income beneficiaries and would produce $16 billion for Social Security during the next five years. Other proposals—favored by some as desirable for Social Security policy reasons independent of their effect on the deficit—would extend Social Security (OASDI)[13] and Medicare[14] coverage to state and local government employees who are not currently covered under voluntary agreements with the federal government. These proposals could produce savings under Gramm-Rudman of roughly $17 billion over five years.[15]

10. Should the annual cost-of-living adjustment (COLA) be cut?

Background: Contrary to how it is often presented, the annual COLA is not a benefit increase. It simply maintains the purchasing power of benefits once received. Part of the rationale for the COLA is that it makes little sense to set up a social insurance system in which the purchasing power of benefits declines the longer people live.

Issue Discussion: During the past few years, the idea of delaying, skipping, or otherwise reducing the COLA has been advanced as part of various budget-deficit reduction proposals. However, this would undermine the economic security of beneficiaries, especially low- and moderate-income ones for whom Social Security generally makes up a higher proportion of their total incomes. And giving the COLA only to lower-income beneficiaries would be administratively complex and would introduce a means test, which, as previously discussed, would undermine the dignity of beneficiaries and the political support for the program.

If the exigencies of the politics of the federal deficit require placing some of the burden of balancing the federal budget on Social Security beneficiaries, consideration could be given to increasing the proportion (currently up to 50 percent) of Social Security benefits that is counted as taxable income. As a deficit-reduction measure, this would have the advantage of 1) having higher-income—as opposed to lower-income—Social Security beneficiaries take on a greater burden for deficit reduction, and 2) maintaining the integrity and independence of Social Security. Whereas cuts in the COLA would have a more negative effect on lower- and moderate-income beneficiaries, it is mainly upper-middle and higher-income beneficiaries who would be required to pay additional taxes. However, it can be argued that this is not appropriate given that under Gramm-Rudman, Social Security already makes a very large contribution to deficit reduction and, just a few years ago (1983), the COLA was permanently delayed for six months, a roughly 2 percent cut in benefits for all current and future beneficiaries.

11. Is Social Security a source of intergenerational conflict?

Background: The benefits of Social Security are spread widely across all generations, and this program is a fundamental expression of and reinforcement for the bonds between generations. Even so, recently some have argued that Social Security will be a source of intergenerational conflict because, as they see it, the program 1) is a major cause of federal deficits, 2) only benefits today's elderly population, 3) will place an overwhelming burden on tomorrow's workers, and 4) will not provide a fair return to today's young.

Issue Discussion: This is a very confusing issue because it throws so many charges together under one slogan, "intergenerational inequity." Information has been provided elsewhere in this discussion guide showing that 1) Social Security is *not* cause of the federal deficit; 2) the entire family and all age groups benefit, and future generations can expect to benefit, from Social Security; and 3) barring unforeseen economic disaster, future generations will have relatively little difficulty meeting the Social Security commitments.

As for the "fairness" of the program to the young, a very limited standard of fairness is used. The argument is sometimes made that today's young—especially higher-income workers—will not get their money's worth out of Social Security. Another argument is that since these programs do not operate like private insurance, in which benefits are strictly related to amounts contributed, they are intergenerationally inequitable. Still another charge is that today's young would do better by making private investments.

It is true that future groups of Social Security beneficiaries will receive smaller rates of return on the taxes they and their employers paid on their behalf than those who entered earlier in the history of the program, even though the benefit amounts that future beneficiaries receive will generally be larger. (This also happens under most private pension plans.) Rates of return are declining because "in the early years of Social Security, decisions were made to enable workers nearing retirement age to receive benefits even though they had made relatively small contributions." A similar approach was taken each time benefits were increased, so that those nearing retirement age became eligible for the new benefits. But "because the basic structure and major benefit liberalizations in Social Security have generally been in place for a number of years, future retirees will not reap such large returns." However, it is a mistake to conclude from this that Social Security is a bad investment and is unfair to younger workers. "The alternative —failure to blanket in workers nearing retirement age— would have compromised the system's goal of adequacy." And to have done so would not have been fair in another sense since the economic welfare of workers retiring earlier in the history of the program was generally far worse than that of future retirees.[16]

Is Social Security a good investment? While acknowledging that future rates of return are declining and that private investment toward retirement and other concerns is desirable, it is important to recognize that Social Security can be counted on, still gives a positive rate of return, and provides protection against inflation. It can be argued that for a few workers—for example, those who never marry and have the highest earnings throughout their lives—alternative investments might have a greater rate of return. But very few people really know early in their lives that they will, "for sure," never marry and be high-income workers throughout their lives. Moreover, as the October 1987 stock market crash highlights, alternative investments involve considerably more risk. And Social Security offers guarantees (e.g., against inflation) and benefits generally unavailable elsewhere, and without it, many—even some previously high income workers—would be worse off in later life.

In fact, the more important question is whether each generation, as a whole, will get their money's worth. Here, the answer is "yes." As Ball notes, "Social Security actuaries have calculated that, on average, workers who are in their early 20s today can expect to get somewhat more than the full amount of their own and their employers' contributions compounded at an interest rate that exceeds prices by two percent—a reasonable rate of return for a safe investment."[17]

Moreover, it can be argued that by underwriting the dignity of individuals and helping to stabilize families and society, the program has value to each generation beyond the dollar amount of benefits provided. In a speech made in February 1987 before a colloquium on Social Security sponsored by the city of Philadelphia, Nelson Cruikshank noted:

> It's not just old people who benefit in their retirement years from Social Security; young people benefit now. They know they have a secure future to look forward to, but they also know that the burden of caring for mother and father or for grandmother and grandfather is partly relieved for them. No American family should be confronted with the dilemma of whether we should take care of grandmother's health problems or grandmother's security and her decent living or send daughter Mary to college. That decision should not be forced upon any American family. So taking care of the parents and the grandparents also relieves some of the burden that would otherwise fall on younger people, who have their own problems educating their children, paying for their homes, and meeting the problems of income security.

12. Should the age of eligibility for full retirement benefits be raised?

Background: The 1983 amendments scheduled a gradual increase, from 65 to 67, in the age of eligibility for full retirement benefits over a twenty-four-year period beginning in 2003. A related reduction in the value of benefits for persons accepting early retirement benefits and for widow(er)s and spouses of retired workers will be phased in beginning in 2000.

Issue Discussion: Advocates of this change argue that it is a fair and reasonable way of reducing expenditures. They point out that 1) life expectancies—and hence the number of years beneficiaries receive retirement benefits—have increased and are expected to increase even further, 2) even after age 67 is phased in as the new normal retirement age, beneficiaries of the future will generally receive retirement benefits for more years than current beneficiaries, 3) the real value of Social Security benefits in the future will be greater than it is today, and 4) this change will encourage work effort on the part of the old.

Opponents argue that this change is particularly unfair because much of the savings will be produced by reducing the benefits of lower-income persons who are unable to work due to limited employment opportunities and/or health problems. They argue that there are better ways of encouraging work among those elderly who are willing and able. They contend that, at a minimum, eligibility criteria for disability benefits should be liberalized for older workers if a later retirement age is to be phased in.

13. Should the Social Security earnings test be eliminated?

Background: Benefits are currently reduced by one dollar for every two dollars of earnings that beneficiaries make beyond a certain earnings ceiling—$8,880 in 1989 for persons aged 65 through 69, and $6,480 in 1989 for persons under age 65. (Beneficiaries aged 70 or older are not subject to this earnings test.) The earnings ceiling is adjusted each year to reflect changes in average wages.

Issue Discussion: The heart of this issue concerns whether entitlement to retirement benefits under Social Security ought to be 1) simply based on age, or 2) based on both age and loss of income from paid employment. The fact that Social Security is supposed to protect against loss of earnings due to retirement, disability, and death provides the rationale for the earnings test. When earnings are not lost, why should benefits be paid?

Yet the earnings test (also called the "retirement test") is unpopular because it is perceived as penalizing and discouraging work effort. In fact, it provides some work disincentive, especially for those earning between $10,000 and $30,000 a year.[18] Others feel it takes needed income away from beneficiaries. Moreover, in the long run, the effect of the earnings test will be greatly diminished because 1) beginning in 1990, benefits will only be reduced by one dollar for every three dollars of earnings for those at and above the normal retirement age (age 65 in 1990), and 2) the value of the credit provided for delaying retirement past normal retirement age is scheduled to gradually increase—a change that, when fully phased in, will compensate for benefits lost due to the earnings test.

Some, however, point out that—in the short run—it is fairly costly to eliminate the test. (To do so only for people aged 65 to 69 would cost about $20 to $25 billion over the next five years, or $8 to $12 billion if phased in.) Moreover, nearly two-thirds of the benefit of removing the earnings test would accrue to higher-income beneficiaries—a rather poor use of scarce resources when there are other changes in Social Security that could help lower-income beneficiaries much more.

Recently, new proposals to eliminate or phase out the earnings test for people aged 65 to 69 have been put forward. Few wish to oppose the idea of "encouraging and rewarding the work effort" of older persons, even if it is mostly the higher-income elderly we are rewarding. An alternative also under consideration is to keep the earnings test but significantly increase its limits. This approach would enable most low- and moderate-income beneficiaries who must work "to make ends meet" to do so without losing any benefits due to the test.

14. Should all the earnings of higher-income workers be subject to the Social Security payroll tax?

Background: Under present law, the Social Security payroll tax only applies to earnings below a maximum taxable ceiling—$48,000 in 1989. Payroll tax contributions are neither made by the worker nor by the employer on behalf of the worker on earnings in excess of this ceiling. Nor does Social Security take earnings in excess of this ceiling into account when calculating benefits.

Issue Discussion: Is it fair that the highest-income workers and their employers are only taxed on the first $48,000 of earnings, while all other workers (and their employers) pay on all their earnings? Some suggest that it *is* fair since Social Security does not give any credit toward benefits for earnings above the maximum taxable ceiling. Moreover, if employees were taxed above the taxable ceiling, then because Social Security is earnings related, such workers should also receive credit toward higher benefits—a situation that would result in some extremely large monthly benefits that would be difficult to justify. In response, others contend that it is unfair for the Social Security tax to place a heavier burden on moderate-, middle-, and many low-income[19] people. Further, they argue that increasing the maximum taxable ceiling provides a fair way of bringing more revenues into Social Security (and/or Medicare), which could be used for other important purposes (e.g., to fund long-term care benefits).

Another alternative is to keep the maximum taxable ceiling for the employee but tax the entire payroll of employers. Under this option, the linkage between workers' contributions and their benefit levels could still be maintained without also increasing future benefits for the highest-income workers. New revenues would be created for Social Security and/or Medicare. While this would, in part, respond to the question of whether it is fair to tax a smaller portion of the earnings of higher-income workers, it would also raise new questions about what is fair from the point of view of business.

15. Is the disability insurance program being administered fairly?

Background: Deciding whether someone is eligible to receive (or to continue to receive) Social Security (or SSI) disability benefits is often quite difficult and complex. Four kinds of errors are possible: 1) rejecting claims for benefits that should be accepted, 2) accepting claims that should be rejected, 3) continuing to provide disability benefits to persons who are able to return to work, and 4) cutting off people who are still disabled. The eligibility process involves application at an SSA office; review by the state agency (the state "disability determination service"), which makes the initial assessment of the applicant's eligibility; and perhaps also several levels of appeal—including a request for reconsideration, a hearing before an SSA administrative law judge, an appeal to the SSA Appeals Council, and finally a suit filed in federal court.

During the early 1980s, the review process was implemented to screen out the relatively few beneficiaries who had been kept on the rolls even though they could work. Unfortunately, this process was administered in a way that was unfair to hundreds of thousands of severely disabled persons and their families. Its implementation was marked by controversy, causing twenty-one states to refuse to administer the reviews in whole or in part and twenty-five federal courts to strike down the procedures the SSA was using for the reviews. Sen. John Heinz (R-Pa.) referred to the reviews as a "holocaust against the mentally impaired." (Physically disabled persons were not treated substantially better.) Intervention of the federal court system and of many state governments called attention to the problem. Ultimately, congressional action was required to improve the situation.

Issue Discussion: The question still remains as to whether the program is now being administered in a fair, efficient, and equitable manner. Despite improvements, there is concern that 1) applicants for DI benefits are not being given adequate explanation for denial of claims, 2) a backlog is developing in processing continuing eligibility reviews, 3) a backlog is developing in processing the appeals of persons who believe an incorrect decision was made, and 4) SSA staff cuts might result in poorer administration of this program. There are also questions as to whether the SSA applies the correct legal standard and follows the courts' interpretation of the law.

16. How can the issues of special concern to today's and tomorrow's women be addressed?

Background: Some issues of particular concern to women include 1) the high proportion of widows with incomes below poverty, 2) the lack of disability protection for homemakers, 3) the inadequacy of benefits for divorced spouses, 4) the lack of credit under Social Security for time spent out of the labor force doing care-giving work at home, 5) the fact that benefits paid to a retired couple in which both spouses worked are generally lower than benefits paid to a couple with a similar pattern of total earnings in which only one spouse worked, and 6) the reality that a woman who works outside the home will often get what amounts to a higher benefit as a spouse than she will get as a wage earner in her own right.

Issue Discussion: What should be done? Earnings sharing is one approach to solving these problems. Philosophically, it is very attractive because it treats marriage as an economic partnership, with each partner deserving an equal share of the fruits of their combined effort. This approach would credit each partner with one-half of total household earnings in employment covered by Social Security for the years during which a marriage exists. But while solving some of the above-mentioned problems, it would, without major refinements, leave other problems unsolved—especially those affecting low-income divorced, widowed, and disabled women today. Also, to implement it without greatly increasing the cost of Social Security would require significantly reducing the benefits of future beneficiaries—including, in all likelihood, divorced men, married men, and married women who have a limited or no history of paid employment.

Some argue that the adequacy issues for today's and tomorrow's low-income disabled, divorced, and widowed women are more important than the equity issues concerning working women. Concentrating on making some substantial improvements in benefits for economically vulnerable and potentially vulnerable women may be appropriate, given scarce resources. For example, benefits for disabled widows (and widowers, though there are relatively few) could be raised from 71.5 percent of a full benefit to 100 percent. The more stringent test of disability for disabled widows benefits could be changed so that it is the same as the one currently applied for disabled workers benefits. Time spent out of the labor force to care for children under 18 or for disabled family members might be credited toward disability insurance and Medicare protection. Consideration could be given to limited earnings-sharing provisions for divorced spouses. And to assist low-income women who left the work force to care for young children or other family members, credit for those care-giving years could be given toward the special minimum benefit, which provides an alternative way of computing Social Security benefits for workers who have worked for many years but at low wages.

Others argue that the issue should not be framed in terms of poor (and otherwise vulnerable) women versus working women and that equity for all women requires gradually phasing in a modified earnings-sharing proposal. For example, such a proposal "could assure that a surviving spouse would inherit the combined wage credits accumulated by a couple during marriage so that a majority of widows and widowers could get the same or higher benefits than under today's system," and modifications could also be made in the case of disability.[20]

17. Does Social Security treat minority groups fairly?

Background: This question has been raised and, unless carefully examined, can be a source of tremendous misinformation about Social Security.

As groups, certain minorities—primarily African Americans, Hispanics, and Native Americans—have shorter life expectancies at birth than white Americans, a strong indication that the lifelong effects of racial, ethnic, and economic discrimination have severe impacts on health and well-being. For example, white females in 1985 had life expectancies at birth of 78.7 years, compared with 73.7 for black females, 71.2 for white males, and 65.3 for black males.[21] For persons reaching age 65, the life expectancy gap narrows. At age 65, life expectancy in 1985 was 18.7 years for white females, 17.2 years for black females, 14.6 years for white males, and 13.3 years for black males.[22] Interestingly, life expectancy for black Americans at age 80 is higher than it is for white Americans.[23]

In addition to generally shorter life expectancies at birth, minority youth are more likely than white youth to enter the labor force earlier. These facts have led some to conclude mistakenly that Social Security is unfair to minorities who are less likely to collect retirement benefits. A special study panel, the 1979 Advisory Council on Social Security, studied this issue and concluded that "social security does not treat minorities less favorably than it treats the majority population. However, the treatment of minorities is complex because various aspects of social security affect minorities in diverse ways."[24]

Because of shorter life expectancies, minority persons are, in fact, less likely to get retirement benefits. But this is offset by three factors. First, minorities are more likely to receive disability and survivors benefits. Second and more important, the adequacy feature of the Social Security benefit formula provides proportionately larger benefits to lower-income workers than to middle- and higher-income persons. Consequently, minority persons, who, because of lifelong discrimination, are more likely than nonminority persons to be in low-paying employment, generally receive proportionately larger benefits than nonminority persons.[25] And finally, because Social Security represents a larger portion of the retirement incomes of low- and moderate-income workers, it is an even more critical source of income protection for most minority persons who receive benefits than for most nonminority persons.

The entire nation should be concerned about the continued effects of educational, employment, and housing discrimination in all regions of the country; and national, state, and local policies ought to address this ongoing problem. We should not take great satisfaction in knowing that, because minority persons are more likely to be low-income persons, Social Security offsets some of the negative impacts of racial and ethnic discrimination. But neither should we reach the faulty conclusion that Social Security discriminates against minority persons. To do so distorts the truth and undermines confidence in this system, which provides critical protection to all citizens.

Issue Discussion: This issue was recently raised in a report by the National Center for Policy Analysis in Dallas, a conservative think tank studying private alternatives to Social Security. It concluded that because blacks have higher mortality rates than whites, "the vast majority of adult blacks would be better off if the [Social Security] system were abolished."[26] Robert J. Myers, former chief actuary of Social Security for many years, takes strong exception to this report and the notion, as reported in the *Washington Times,* that Social Security "transfers wealth from black to white, young to old and poor to rich." He writes:

> Just as in any private pension plan, those who retire in the early years of operation receive "good buys" in order to make the program effective. However, transfers do not occur, on the average, from poor to rich and from black to white.
>
> The National Center for Policy Analysis, which is given as the source for such views, has made faulty analyses when it entered into the field of actuarial computations. Any elements favoring higher-paid persons are more than offset by the weighted-benefit formula and their generally later retirement.
>
> The flaws. . . are especially evident in the blacks versus whites comparison. Using life expectancy values at birth, instead of at age 20, is faulty. Even more important is the failure to understand the meaning of life expectancy.[27]

To point out that Social Security does not discriminate against minorities at risk does not mean that no changes should be made in Social Security and related programs to assist low-income and otherwise vulnerable groups—groups that in general are disproportionately composed of minority persons. Because minority persons are more likely to be disabled or partially disabled during late middle age, liberalizing the definition of disability for older workers in the Social Security and SSI disability programs would be particularly beneficial. Increasing Social Security's special minimum benefit, which is designed to improve the adequacy of benefits for workers who have worked full time for low wages throughout most of their work lives, would also aid many minority persons. And increasing the income guarantee under the SSI program and reforming the SSI assets test so that it does not prevent poor people from receiving SSI benefits would provide significant assistance.[28]

18. Is service to the public adequate?

Background: The number of SSA personnel has declined from 87,000 people in 1983 to 78,000 by mid-1986, and there are plans to further reduce staff to about 61,000 by 1990. Paralleling these staff reductions and the related closing of some field offices is a growing emphasis on increased automation and on trying to get the public to do much more of their business (e.g., claims) via telephone. In the near future, the public will be unable to get the telephone number of their local SSA office through information. (They will be given an "800" number instead.) These changes affect not only Social Security applicants and beneficiaries but also all those who apply for or receive SSI, since both programs are administered by SSA and many people receive both benefits. Some studies have shown that there are many persons who are potentially eligible for SSI but are not receiving benefits.

Issue Discussion: Are staff cuts affecting service to the public? Those favoring further staff reductions point to faster processing times for claims and other improvements in efficiency. They argue that as automation proceeds it is reasonable to expect that the same level of public service can be provided by fewer people. Further, the increased ability to transact business with SSA via the telephone is often a convenience for the applicant, and survey results from a study conducted by the U.S.

General Accounting Office in 1987 suggest that the public is generally satisfied with the service provided by SSA.[29]

Those concerned with these changes argue that 1) service to the public is less personal, 2) persons with complex cases are not being well served, 3) local SSA staff are overworked and demoralized, 4) more errors are occurring in the administration of claims and benefits, and 5) outreach efforts have been reduced. Some eligible people, it has been observed, are being provided with incorrect information or being discouraged to pursue their cases by staff who are overworked and unable to provide proper assistance; as a result, they are not receiving benefits to which they are entitled. Many of the people these programs serve have limitations that make even the simplest transactions difficult without assistance. Specifically, functional illiteracy as well as physical and mental impairments of both younger and older individuals create many obstacles to access.[30] Staff cuts, it is argued, have exacerbated access problems, especially for these groups.

Medicare and Related Health Care Issues

19. What can be done to resolve Medicare's financing problems?

Background: Medicare's financing problem is primarily a symptom of a still larger problem: the growing cost of health care in America. Yearly increases in the cost of most health care services have outstripped both inflation and increases in average wages of workers during almost every year since 1965.

Barring congressional action, the Hospital Insurance (HI) Trust Fund, Medicare's larger trust fund, will be depleted shortly after the turn of the century.[31] Because financing for Medicare's Supplementary Medical Insurance (SMI)Trust Fund is set so that income equals trust fund expenditures, SMI is actuarially sound, both in the short run and long run. About three-quarters of the program is funded from the general revenues of the federal government and the rest through premium payments. Program costs are growing rapidly.

Even if inflation in hospital and other medical costs is brought under control, the cost of publicly protecting the aged and disabled will still be high and will be projected to grow, given the anticipated growth of the elderly population and especially of the very old.

Issue Discussion: One way or another, this issue must be addressed during the 1990s. Consideration will be given to bringing more revenues into Medicare via such mechanisms as increasing payroll taxes, taxing alcoholic beverages and cigarettes, increasing premiums and other beneficiary charges, and treating a portion of the value of being covered by Medicare as taxable income. Consideration will also be given to benefit cuts (e.g., raising the age of eligibility for Medicare to 67) and to new ways of containing the cost of physician and other medical services. And as a strategy to achieve long-term savings (and to improve quality of life), consideration should also be given to investing further in biomedical research. In terms of the cost-saving goal, this is a tricky area. The fruits of such research—new technologies and even disease reduction—do not always result in cost savings. But when advances are made, as individuals and as a nation, we often welcome them, even if they are more costly. And even with the aforementioned qualification, seeking to delay the onset or to prevent diseases such as osteoporosis and Alzheimer's through research holds promise as a cost-savings strategy.

Each alternative under consideration has strengths and weaknesses. For example, raising the age of eligibility for Medicare provides a way to reduce projected deficits significantly, but it would place the cost of doing so primarily on those 65- and 66-year-olds with the highest medical costs. Increased payroll taxation is certainly possible, but of course it reduces the income that workers take home. Containing costs is certainly desirable, but, depending on how it is done, it may shift costs onto other parties involved in the health care system (e.g., the family, private insurers, state governments) or result in poorer and/or inadequate care.

Because the Medicare financing issue is intertwined with larger health care cost and financing issues, the solution requires more than simply increasing Medicare revenues (through tax increases and increased beneficiary payments) and/or decreasing expenditures (through benefit cuts and cost-containment measures). Thus, one way of addressing this problem is to seek changes throughout the entire health care system that restrain costs while also ensuring quality care. But no matter how successful we are, we need to be aware that health care costs will increase and to plan for this increase.

20. Should health care be rationed?

Background: Health ethics experts often point out that health care is already rationed in the United States in various ways. Every day, hospital administrators, physicians, nurses, and other health care providers decide whether patients receive treatment, what types of treatment they receive, when they should be sent home, and the like. More importantly, these experts point out that the free market is used as a rationing mechanism. Thus, those who can afford care—that is, those who have good health insurance coverage—receive generally high-quality care while the poor, the unemployed, and others who cannot afford care have access to a more limited quantity of care, which is often of lesser quality.

Many experts have called for more explicit rationing, arguing in part that there is a need to reach agreement on which health care services should be available to all.

Issue Discussion: The issue then is not whether care ought be rationed; it already is. The difficult questions for public debate concern such issues as 1) whether the current rationing mechanisms lead to a fair and efficient use of health care resources, 2) what criteria should be applied when deciding whether to use expensive technologies for patient care, and 3) how health care resources should be allocated.

A few have argued for rationing by age. They believe expensive treatments for acute illness ought be withheld from the very old (e.g., persons 85 and over), given the growing expense of health care to elderly persons and the limits on what the nation can afford to spend on health care. In contrast, a panel of experts convened by the U.S. Congress, Office of Technology Assessment, found that for individual elderly patients, "chronological age is a poor predictor of the outcome of treatment with life-sustaining technologies." Most panel members concluded that "socioeconomic status should not be a barrier to access to health care, including life-sustaining interventions" and that decisions "regarding life-sustaining treatments must be based on an individual basis and should never be based on chronological age alone."[32]

21. Should national health insurance be enacted?

Background: Social insurance covers the risk of ill health only for the work injured, the long-term and severely disabled, and the elderly. The rest of the population depends on private insurance (usually provided through the place of employment), private savings, or sometimes Medicaid. In the course of the year, about 37 million Americans—many in families in which the head of the household works full time throughout the year and others in families struck by unemployment—lack any type of health insurance, private or public. Millions more who are covered do not have adequate protection. Medicaid, the welfare program designed to provide access to health care for the poor, provides benefits for less than one-half of the poor. And even coverage by health insurance is no guarantee against the financial hazards that can accompany catastrophic illness.

Efforts to extend social insurance to cover the health needs of the entire population have proceeded for generations without success. As a result, national health insurance remains a pressing concern and a controversial topic.

Issue Discussion: Should we institute national health insurance, or does it constitute an unwarranted interference with the freedom of doctors and hospitals to provide medical care and the freedom of patients to receive care from the doctor and in the setting of their choice?

If we institute national health insurance, how might it be coordinated with existing health care financing mechanisms, such as Blue Cross and Blue Shield? How would we predict the costs? What controls would we institute over existing health care providers, such as hosp[illegible]

What form should such insurance take? Should [illegible] uniform and compulsory? Should it be mandated by government and hence required of all employers (who could use private insurers), such as envisioned in Sen. Edward Kennedy's health bill? Or should it involve the development of a national health service?

22. How best can individuals and families be protected against the cost of long-term care for elderly persons?

Background: Just as the cost of hospitalization threatened the elderly population prior to the enactment of Medicare, the single biggest threat to the economic well-being of elderly persons and their families today comes from the potential costs of providing long-term care services to the chronically ill elderly, at home or in institutions. On any given day, about 5 percent of the elderly are in nursing homes and another 7 percent to 12 percent receive assistance at home. Over time, most people who reach age 65 will need long-term care services—either at home or in a nursing home—at some point during their old age. For some individuals (e.g., those who need "short-term" long-term care for rehabilitation), the costs are likely to be relatively manageable. But for others and their families, the need for expensive ongoing long-term care services could potentially overwhelm their finances.

Families can and do provide the great bulk of care to the disabled elderly who are not in institutions, often at great emotional and financial cost. But family members need supportive services (e.g., some respite from the twenty-four-hour effort often required), and disabled elderly persons living alone have particular needs for services (e.g., transportation, chore services, home health services). Thus, for many reasons—including the growing number of very old people and a generally decreasing family size, which translates into relatively fewer family care-givers per disabled older person—the need for comprehensive and coordinated long-term care services is growing.

Issue Discussion: The growing need to protect against the risk of long-term care raises a host of issues related to social insurance. Students can be encouraged to discuss what combination of public and private interventions can best solve this problem. To what extent should the problem of long-term care remain one that is entirely the responsibility of families and individuals? Should government assist them? If so, what are the relative merits of interventions that would encourage individuals and private companies to purchase private insurance protecting against this risk, versus a social insurance approach or an approach that emphasizes protection through Medicaid, the public assistance program for low-income elderly, the disabled, and families with children? Are there combinations of social insurance, public assistance, and private approaches that could provide adequate protection for the population? How much and what quality of long-term care should individuals have a right to receive? What private or public resources are available for additional protections?

One solution would be to encourage the development of private insurance to protect against the risk of long-term care. Here, the questions concern whether private products can be developed with low enough premiums to encourage individuals to protect themselves. Would, for instance, a 40-year-old be likely to save $50 each month to protect against a risk likely to occur only if he or she reaches age 85? Even if attractive private products can be developed, large numbers of citizens—probably most—would not purchase this protection.

By greatly liberalizing the assets and income tests, the Medicaid program could be reformed to provide increased protection against long-term care costs. Here we need to ask whether a welfare-based solution is preferable to a social insurance solution. Can it provide adequate and dignified protection against the risks posed by long-term care? Can it provide for quality of care? Is it more efficient? Who will fall through the cracks?

The creation of a social insurance program protecting the entire population from the risk of long-term care is being discussed today. In this debate, a series of classic issues must be faced: Can we separate those in need of long-term care from the rest of the elderly and disabled populations? Ought we insure only the elderly, or also the disabled and all others facing this risk? How would such a program be financed? In what sort of settings should long-term care be provided—homes or institutions? Can we afford the cost of such a program? Alternatively, can we afford *not* to have such a program?

23. Should Medicare provide reimbursement for preventive and long-term care?

Background: Medicare was enacted in 1965 primarily, as stated by President Lyndon Johnson, so that "the spectre of catastrophic hospital bills [could] be lifted from the lives of our older citizens."[33] For the most part, Medicare has succeeded admirably in providing elderly people and, later, disabled people with access to hospital-based and other *acute care* services—that is, services requiring immediate but not long-term treatment. Medicare has also succeeded in usually (but not always) protecting against bankruptcy resulting from hospitalization. Without Medicare, beneficiaries would find the cost of comparable health insurance extremely high and many would be forced to go without it. And many middle-aged family members might be faced with such unpleasant choices as deciding whether to pay for their elderly parent's hospital stays or put money away for their children's educations.

However, Medicare does not provide significant reimbursement for long-term care services (e.g., nursing home care, home care) to chronically disabled people, except, in some cases, on a short-term basis. Medicare also provides very little (if any) reimbursement for preventive services or for dental services, eyeglasses, and hearing aids.

Issue Discussion: The question of whether Medicare should provide additional coverage for services—especially long-term care—promises to provide one of the most important policy debates of the next decade. Those concerned with adding long-term care protections will point to the growing need for such services and the need to protect families from the costs. Those concerned with adding preventive services and services such as reimbursement for dentures will observe that failure to do so may lead to unnecessary hospitalization or a poorer quality of life for beneficiaries. Those opposed to adding services to the Medicare program will note that even without the addition of new services, the program faces financing problems.

24. Are Medicare patients being discharged too quickly from hospitals?

Background: Efforts to control Medicare costs have taken many forms, including professional review organizations to protect against unnecessary hospitalizations and surgical procedures. More recently, a prospective payment system has been instituted, which sets limits on reimbursement for hospital inpatient procedures by establishing a set amount to be paid for each diagnosis-related group. Medicare-financed hospital admissions are now usually classified into DRGs, and a hospital is paid a set amount according to a patient's diagnosis. If providing care to the patient costs the hospital less than what Medicare pays for a particular DRG, the hospital makes a "profit." Alternatively, the hospital may experience a "loss" if, for instance, the patient stays in the hospital for more days than expected under a DRG.

Issue Discussion: Critics charge that the DRG system causes patients to be discharged "quicker" and "sicker," with possible adverse effects on their health. Proponents point out that DRGs are saving health care resources and that staying extra days in a hospital is not necessarily better for a patient. Others observe that the root of the problem concerns the limited discharge planning for hospitalized patients and the limited amount of community-based "short-term" care available for discharged patients. Thus, spouses and other family members who often care for recently discharged persons lack adequate support.

25. How can society best address the health care needs of persons with HIV-related illnesses/AIDS?[34]

Background: AIDS, the acquired immune deficiency syndrome, is a result of infection by the human immunodeficiency virus (HIV), which impairs the immune system of infected people. For persons diagnosed with HIV, the probability of developing HIV-related illnesses/AIDS is high—an estimated 50 percent over the next ten years. For those diagnosed as having AIDS, the chances of survival beyond two to three years are very limited, and the likelihood of experiencing periods of total disability and of requiring extended medical care is great. The National Centers for Disease Control reports that from 1981 through July 1988, 66,464 people were diagnosed with AIDS (about half of whom died by July 1988). Currently, about 1.5 million Americans are infected with HIV, and estimates are that by 1993 about 460,000 persons will have AIDS.[35]

Issue Discussion: The issue concerns the nature of society's responsibility to people with HIV-related illnesses/AIDS, including the estimated 1,050 children with AIDS in 1988. What changes should be made in Medicare, Social Security disability insurance, SSI disability, Medicaid, and related programs?

One problem concerns the long waiting periods for eligibility before Social Security disability and Medicare benefits can begin. For persons diagnosed with HIV-related illnesses/AIDS, having to wait six months before being eligible for disability insurance benefits and then another twenty-four months before eligibility can begin for Medicare represent an extreme hardship, especially in light of the currently very short life expectancies of these people. Should a special category of social insurance, similar to the one already established for end-stage renal disease, be established for AIDS patients? If so, how should admission standards for the program be governed? Should there be universal eligibility? What would the cost be?

Another problem concerns the need to provide more home care services. How should such services be funded? Presently, home health agencies find it difficult to provide service to people with AIDS because there is very little funding for home care in private and public insurance programs. If such services were provided, they could, in many cases, be delivered less expensively than similar care in hospitals would cost and more satisfactorily as far as the patient is concerned.

Yet another problem concerns the need to impoverish oneself before benefits can be received under Medicaid. Additionally, there is the question of how much funding should be devoted to biomedical research directed at developing a vaccine and treatments for HIV-related illnesses/AIDS.

26. How can we best guarantee access to adequate health care for pregnant women and young children?

Background: The Children's Defense Fund, an advocacy group for low-income children, reports that "millions of infants, children, and pregnant women fail to receive necessary health care." For example, 5 percent of all pregnant women—including 11 percent of pregnant women under 20—received either little or no prenatal care. Babies born to "women who receive no prenatal care are three times more likely to be born at low birthweight and these babies are 20 times more likely to die in the first year of life, or to suffer handicapping conditions."[36] About one-third of all children living below the poverty threshold—more than 4 million children—are not covered by any health insurance—neither Medicaid, nor private insurance, nor anything else.[37] Similarly, the Children's Defense Fund reported that over 4 million children under 18 lack any health insurance (including Medicaid) and that another equally large group lacks health insurance during part of the year. Such children receive only three-quarters of the health care of children insured for the full year, even though their need is generally greater. Moreover, preventive health care is often lagging, as indicated by the fact that more than one-half of black preschool children are inadequately immunized against pertussis, diphtheria, tetanus, and polio.[38]

Issue Discussion: The poor health care afforded many pregnant women and infants results in higher infant mortality and childhood morbidity than necessary. And it can undermine the education of children and ultimately their productivity as members of the work force. How can we, as a society, best ensure that adequate health care be a right of all infants, pregnant women, and children? Plainly, this is not being done today. What are the moral implications of our failure to provide these citizens access to adequate health care? What does it portend for the future?

27. Would turning Medicare into a voucher program help control costs and provide better services to beneficiaries?

Background: Various proposals have been put forth to turn Medicare into a voucher program. At one point, the Reagan administration proposed giving Medicare beneficiaries a choice between Medicare benefits and a voucher that could be used to purchase private insurance. If the private plan was cheaper than Medicare, beneficiaries could keep the difference. Recently, the American Medical Association has proposed its own voucher plan.

Issue Discussion: Proponents claim vouchers could be used to place a cap on Medicare costs and to further contain costs by introducing greater competition into the health care system. Consumers, they believe, would become more conscious of the cost of medical care because of increased out-of-pocket expenses.

Opponents point out that "healthier" disabled and elderly persons are likely to select cheaper plans that offer more limited benefits and would thus find themselves short of adequate coverage should their health deteriorate several years later. Moreover, they note that allowing beneficiaries to "opt out" would leave Medicare with an insurance pool heavily weighted toward the oldest and least healthy aged and disabled people. Costs per person would increase significantly and political support for the program would decline. Ultimately, Medicare vouchers would result in increased welfare costs for the medical care of some and decreased access and quality of care for many.[39]

Special Disability Issues

28. How well does our system of disability programs handle the problem of disability?

Background: A disabled person who can no longer work faces catastrophic consequences. As a result, a considerable number of private and public social insurance programs have been developed to protect against the risk of disability, which might be defined as the inability to work due to physical or mental impairment. The system of disability programs in the United States includes Social Security disability insurance, Medicare, vocational rehabilitation, workers' compensation, Supplemental Security Income, veterans' pensions, veterans' compensation, veterans' health programs, government workers' pension programs, Railroad Retirement, the black lung program, temporary disability programs in five states, general assistance welfare programs in many states, private disability insurance, and private health insurance.

Issue Discussion: Each program has its set of specialized problems. In workers' compensation, for example, administrators worry about the best way to compensate "permanent partial disabilities." Should benefits be tied to the severity of a person's injury or to the actual work time that is lost? Issues abound concerning whether the eligibility criteria for DI and SSI are too restrictive or too liberal and how to ensure fair and accurate decisions.

Viewed as a system, disability programs pose a series of issues for policymakers. One issue concerns how best to coordinate the programs. Should private insurers pay the "first" disability dollar or should DI? Should work accidents be covered by workers' compensation or by DI? Another issue involves the relationship between work and disability. If disability benefits replace a substantial part of a worker's income, do they create disincentives that prevent people from working.

Yet another issue concerns the complexity of the disability application process—a complexity that is often necessary to ensure the rights of applicants but that can also be a source of frustration. For example, Social Security DI features a complex process for awarding benefits that may involve two state investigations, a hearing before an administrative law judge, and a review by Social Security's Appeals Council. After that, a person who disagrees with the outcome of the appeals process may file a civil action in a federal district court. This process has led to many controversial issues involving the adequate protection of an applicant's rights. Still another issue concerns costs to the claimant, both of delays in the application process to the various disability programs and of litigation that might be necessary.

29. Do disability programs do enough to assist with rehabilitation?

Background: The disability system sends contradictory messages to disabled people concerning rehabilitation. To be eligible for DI or SSI disability benefits, an applicant needs to prove that he is "unable to engage in substantial gainful activity" and that he is "totally disabled." Yet the federal government spends a billion dollars a year on the vocational rehabilitation program intended to prepare the disabled for work and to provide access to the activities of daily living. In other words, our disability policy often defeats itself by requiring people to prove that they are disabled rather than by encouraging them to seek rehabilitation. Moreover, the person who opts for rehabilitation may face the real possibility of financial loss or the loss of medical benefits as a result of returning to work—even to a very low paying position.

Issue Discussion: Policymakers worry about creating the proper balance between monetary benefits and rehabilitation services. Should people who are disabled be allowed to retire, or should they be encouraged to return to work by undergoing a process of rehabilitation? If the answer is different for different individuals, what sorts of decision criteria can be used to separate those who should retire from those who should be rehabilitated? Should such a decision be a matter of individual choice and hence voluntary or should program administrators make the decision?

Thus, a crucial issue concerns how to encourage those already on the disability rolls to seek rehabilitation. Should they, for example, receive a lifetime entitlement to medical care? How long should we permit interim disability benefits for those who are undergoing rehabilitation? Moving beyond a self-defeating policy in a fair and consistent manner is a central challenge for future policymakers.

30. Should vocational rehabilitation serve the severely disabled?

Background: Traditionally, the vocational rehabilitation program has not allowed those labeled as "permanently and totally disabled" to become its clients, on the grounds that such clients are "unfeasible" for employment. Yet advances in biomedical and workplace technology as well as new training programs will permit some severely disabled persons to work. Moreover, if labor markets tighten during the 1990s, as many expect they will, there is likely to be more demand for the services of disabled workers.

Issue Discussion: Controversy has developed over whom the vocational rehabilitation program should serve and how it should allocate its resources. If it is expected to function as part of a disability system, it needs to develop the means to rehabilitate the permanently disabled on workers' compensation and Social Security disability insurance. However, the rehabilitation of someone who is severely disabled costs a state vocational rehabilitation agency more and thus is also more risky for it. Moreover, states are reimbursed out of the Social Security trust funds only for cases in which Social Security beneficiaries have been able to perform substantial gainful activity for at least nine months. Thus, the more severely impaired an individual Social Security disability beneficiary is, the less likely the state agency is to be reimbursed for the cost of rehabilitation services. What steps can the federal government take to reduce the risk to the state vocational rehabilitation agency? How does the financial and societal impact of possible labor shortages during the 1990s and the desirability of improving the quality of life of severely disabled Americans balance against the financial costs of rehabilitation to society?

31. Does public policy discourage parents from providing home care for disabled children?

Background: There are many developmentally disabled children—that is, children with a severe chronic disability resulting from a physical and/or mental impairment prior to age 22—and many children with other disabilities, all of whom require long-term care either in institutions, in other residential settings, or at home with their families.

States provide funds for retarded and psychiatrically disabled children in institutions. Medicaid and SSI help pay the cost for some children in nursing homes and in certain institutional settings. However, with rare exception, disabled children who are cared for at home by their parents are not eligible for SSI and Medicaid unless their parents are poor. Nor are these children under 18 eligible for DI and Medicare benefits, although they may be once they reach adulthood if they are still dependent on their parents for most of their care. Also, at adulthood, many more qualify for SSI since parental income and resources are, generally, no longer counted when determining the eligibility of a child over age 18.

Issue Discussion: Should public policies do more to assist parents who care for disabled children at home? If the answer is "yes," a whole series of questions follows. Should such a goal be accomplished within the context of a national health insurance program? A national long-term care insurance program? Should eligibility for DI and Medicare be extended to disabled children under 18? Should eligibility to SSI and Medicaid be extended to such children and families regardless of the incomes of parents?

Unemployment Insurance Issues

32. Are unemployment insurance benefits adequate?

Background: In recent years the proportion of unemployed persons who actually receive unemployment benefits has declined—from 75.5 percent in 1976 to 50 percent in 1980 and to about 31 percent in 1987. Thus, although over 90 percent of employed people are covered by UI, less than one in three of the unemployed actually receive benefits. This is partly the result of the erosion of extended benefits for the long-term unemployed. Although the federal-state extended benefits program is designed to provide an additional thirteen weeks of benefits for workers who are unemployed for at least twenty-seven weeks and who live in states with high levels of unemployment, legislative changes enacted in 1981 have made it very difficult for states to qualify. As of December 1987, no state qualified "to pay extended benefits, not even Louisiana with an unemployment rate of 9.9 percent in September [1987]."[40]

Simultaneously, the real value of unemployment benefits has declined. The average weekly benefit has remained relatively stable, about 36 percent of the average weekly wage in 1986. However, beginning with 1979, first part and then, by 1987, all of unemployment insurance benefits were made subject to state and federal income taxes. "If the average recipient of jobless pay faces a combined state and federal income tax rate of 20 percent, the value of unemployment benefits to an average unemployed worker has fallen by 20 percent since 1978."[41] The decline in value of UI benefits, along with the tightening of eligibility standards, may help explain why fewer unemployed workers apply for UI benefits.[42]

Issue Discussion: Those who favor improving the adequacy of benefits argue that the UI program is not presently meeting one of its major objectives—to alleviate hardships resulting from lost wages due to unemployment. They generally favor changes such as 1) making extended benefits more available to the long-term unemployed, 2) establishing federal standards that would set 50 percent of the claimant's average weekly wage as the minimum benefit and at least 67 percent of the state's average weekly wages as the maximum benefit.[43] Those who oppose improvements in adequacy argue that 1) given large federal deficits, now is not the time to do so,[44] and 2) such improvements would create work disincentives.

33. What should be done about the inadequate financing of the state-federal unemployment system?

Background: Higher levels of national unemployment since 1973 have resulted in more need for UI benefits and less revenues than anticipated. Over time, the proportion of the wage base subject to the UI tax has eroded from 98 percent in 1939 to only 36 percent in 1987. Today, the Federal Unemployment Tax Act (FUTA) payroll tax only applies to the first $7,000 of wages, which has resulted in the chronic underfinancing of the system in the 1980s. Also during the 1980s, the federal financial contribution to the administration of the program has declined, federal funding of extended unemployment benefits for the long-term unemployed has been reduced, and the cost of indebtedness to states requiring federal loans for their UI trust funds has increased. Besides contributing to the financing problems, these factors have also placed pressure on the system to reduce the adequacy of benefits.[45]

In 1987, the independent U.S. General Accounting Office issued the following statement:

> Since the mid-1970s the UI system has faced an increasing problem of insolvency, with 31 [state UI] trust funds needing to borrow more than $26 billion from the federal government to continue paying benefits to the unemployed. Currently 7 states are insolvent. While the system has $15.4 billion in reserves, most states' reserves are inadequate and will likely need billions of dollars in federal loans to pay benefits during the next recession. . . .
>
> Future recessions will likely repeat the pattern of the early 1980s, with states needing large federal loans to pay benefits and again reducing the proportion of workers receiving benefits in an effort to reduce costs and regain solvency.
>
> *Conclusion:* The UI system is currently operating in a way which fails to encourage states to build adequate reserves to withstand future recessions. Congress should take action to improve the adequacy of trust fund reserves. . . [and] also needs to be mindful to maintain appropriate levesl of workers' benefits.[46]

Issue Discussion: What should be done? Revenues could be increased by 1) increasing the UI taxable wage base wage base and then indexing it to keep up automatically with inflation or with increases in average wages, 2) returning some of the income that comes from treating UI benefits as taxable income to the UI system, 3) financing the federal share of the extended benefits out of general federal revenues rather than out of the trust fund, and 4) forgiving some or all of the outstanding state loans. Expenditures could be reduced by 1) extending the period unemployed workers must wait until they file for benefits, 2) reducing the maximum weekly benefit, and 3) restricting the availability of extended benefits for long-term unemployed workers beyond what has been done in the 1980s.[47]

34. Should UI provide assistance for retraining and relocation?

Background: Presently, UI funds may not be used for retraining and relocation assistance. A number of proposals have been put forth to enable certain unemployed workers (e.g., the long-term unemployed, persons affected by plant shutdowns in their geographic area, persons whose skills have become obsolete) to use their UI benefits for either retraining or relocation.

Issue Discussion: Is this an appropriate use of UI funds? Most parties agree that job retraining and assistance with relocation can be helpful to unemployed workers desiring such services. However, some oppose the use of UI funds for these purposes because to do so would result in a reduction of funds available for the income support of unemployed workers or, in the case of others, because these proposals would—assuming no reduction of income support to the unemployed—result in increased expenses.

35. Should teachers and other public school employees be eligible for UI benefits between academic years?

Background: A 1976 amendment to the Social Security Act prohibits UI benefits for public school teachers between academic years or terms.[48] A 1983 amendment includes a provision that requires states to deny UI benefits between academic years to nonprofessional public school employees who are likely to return to work at the beginning of the next academic year or term.[49]

Issue Discussion: Should the option of extending these benefits to teachers and other public school employees be returned to states? Those who favor doing so point out that it is unfair to discriminate against teachers and other public school employees since workers employed in nearly all other seasonal occupations (e.g., construction) can apply for benefits. Moreover, under the 1983 amendment, it is primarily very low paid public employees—school crossing guards, cafeteria workers—who are denied unemployment benefits. They argue that persons who are unemployed and looking for work ought be eligible to receive unemployment benefits. Those opposed to doing so argue that teachers and other public school employees are not really unemployed since they can expect to return to work in the next academic year and that restoring this option would increase UI costs.

Public Employee Program Issues

36. Should the cost-of-living adjustments for federal retirees be cut?

Background: The 1986 COLA was not given to federal retirees, resulting in a loss of $34 per month for the average federal retiree. Large federal deficits increase the likelihood that federal retirees will see their COLAs cut or eliminated as part of deficit-reduction efforts.[50] One proposal would reduce the COLA for retired federal employees under age 62 but would keep it for those over that age.

Issue Discussion: Are federal retirees being unfairly singled out for budget cuts? Will further cuts undermine the adequacy of federal retiree pensions and reduce the government's ability to attract and retain dedicated workers?

37. Are the pension rights of state and local employees adequately protected?

Background: Just as many workers in the private sector are eligible for private pension protection, most state and local public employees (about 70 percent of whom are also covered by Social Security) are covered by public employee pensions. Teachers make up the largest group of employees (34 percent) covered by state and local pension plans, followed by police and fire department employees (27 percent).

But unlike participants in private pensions, most public employees do not have sufficient assurance that their pensions are being adequately funded or that investments are being properly made on their behalf. Moreover, while most large state and local pension plans are reasonably well funded, many pension plans—especially the smaller municipal ones—face funding problems.[51]

Issue Discussion: Is federal legislation needed to establish minimum guidelines for the operation of state and local pension plans? Ought uniform reporting and disclosure standards be established for the financial management of these plans? Ought standards for funding be improved? Those favoring federal regulation point to the need to protect public employees and establish some degree of uniformity. Those opposing such efforts argue that it would be unconstitutional for the federal government to do so.

Understanding Social Insurance: The Values at Stake

The concluding section of this chapter identifies issues that are often misunderstood as well as issues that are highly value laden. Many of these can be used to challenge your students to think about the principles and characteristics of social insurance and to examine some of the myths about it.

38. Is Social Security simply a middle-class entitlement?

Background: Social Security is sometimes criticized as being *just* a middle-class entitlement, providing benefits mainly to financially comfortable people.

Issue Discussion: About 60 percent of the elderly population reports that Social Security provides at least one-half of their total income.[52] Moreover, without Social Security, the proportion of persons aged 65 and over with incomes below the official poverty line ($6,872 for couples and $5,447 for singles in 1987) would swell from about 12.2 percent today to nearly one-half—that is, over 14 million elderly persons. Plainly, low- and middle-income elderly persons benefit greatly from this program, and benefit cuts would greatly undermine their economic well-being. For example, a study commissioned by the American Association of Retired Persons indicates that if the 1988 COLA had been skipped, 331,000 beneficiaries—including elderly people, children, disabled, and widows—would fall below the poverty line. And in December 1988, the Census Bureau released a study showing that social insurance programs such as Social Security reduce poverty and inequality more than other social programs and more than taxes.[53] Of course, there are federal policies that *are* disproportionately beneficial to middle-, upper-middle, and higher-income people, such as the income tax deductions provided homeowners and certain incentives provided for private pension savings, but Social Security is not among them.

39. Is Social Security primarily a welfare program?

Background: Rather ironically, Social Security is also criticized by some as being a welfare program. This criticism is based on a misunderstanding of program principles.

Issue Discussion: Social Security is designed to serve many goals, the most important of which is *adequacy*—the principle that program benefits should be large enough to meet the basic needs of the citizens the program is designed to protect. This goal is reflected in 1) the benefit formula, which generally provides a proportionately larger benefit to persons (and their families) who have worked consistently in low-paying jobs, 2) the inclusion of benefits for survivors and other family members, and 3) an annual COLA that maintains the purchasing power of benefits once received.

Another important goal in Social Security is *individual equity*, a dominant goal in private insurance but not in social insurance. This is the principle that persons ought receive a return that is directly proportionate to their contribution. While adequacy is emphasized, the benefit formula in Social Security provides for a blending between these two goals. The result is that while Social Security generally replaces a larger proportion of previous earnings for low-income workers, higher-income workers usually receive larger benefits.

If we, as a nation, were unconcerned with providing widespread and adequate protection against loss of income due to retirement, disability, and death of a breadwinner, there would be no need for Social Security: we could rely entirely on private savings, private insurance, and other private solutions (e.g., the family). By doing so, however, we would guarantee that a substantial proportion—probably a majority—of citizens would not have adequate protection. Thus, it is the desire to provide a basic floor of protection under the entire citizenry that provides the strongest rationale for Social Security.

40. Should social insurance programs be means tested?

Background: Welfare programs such as Aid to Families with Dependent Children, Supplemental Security Income, food stamps, and Medicaid provide critical benefits to very low income individuals and families. Of necessity, many Americans have no alternative but to rely on these benefits for minimal financial support. The right to welfare, however, requires proving financial hardship through testing the amount of income an individual or family receives (income test) and/or testing the amount of assets (savings, stocks, value of equity in an automobile) an individual or family has. In other words, a person having a right to these benefits must prove that he or she is poor—a process not only that citizens find distasteful, but also that tends to undermine the person's dignity—the reverse of the goal of social insurance. Moreover, although these programs target benefits to the most needy in society, they generally provide small benefits and are very vulnerable to budget cuts.

Social insurance programs, on the other hand, are not means tested. Instead, benefits are an earned right.

Issue Discussion: Recently, it has been argued that means testing social insurance programs would 1) reduce the federal deficit, 2) prevent people who do not need these benefits from receiving them, and 3) help target benefits to those most in need.

Means tests are difficult and costly to administer and create other problems as well. Let's assume we wanted to eliminate persons considered to be "better-off"—say, beneficiaries with $30,000 a year or more in income—from receiving Social Security benefits. To do this would require collecting income information from the over 38 million beneficiaries on a regular basis. How many people would we eliminate? Roughly 10 to 12 percent of all beneficiaries. This would save money for the Social Security trust funds, but it would also 1) reduce political support for the program since it would no longer be seen as a program benefiting all income groups, 2) reduce the dignity of beneficiaries, 3) break faith with beneficiaries—especially those eliminated—who had been promised benefits in return for payroll tax contributions, and 4) reduce the incentive for participating in private pensions and accumulating savings toward retirement.

In discussing why Social Security should *not* be means tested, Elizabeth Wickenden—a New Dealer, an educator, and an active participant in many Social Security policy discussions—presents arguments relevant to all social insurance programs:

> Social Security owes its success and popularity to the fact that its benefits are certain, predictable and involve a minimum of inquiry into and control over the private and financial affairs of its beneficiaries. . . . Social Security is, in effect, a deferred return on labor.
>
> This pattern is highly successful because it conforms with the American ethos of independence and income based on work . . . .
>
> [Proposals to means test Social Security] seem to take no account of the fact that financing of the cash social security program is entirely self-contained, based on dedicated trust funds . . . . A common but misleading approach to the same end is to refer to social security beneficiaries as "middle class," ignoring the fact that most of them would be poor without their benefits . . . .
>
> The best way to deal with widespread poverty is to prevent its occurrence. One cannot *prevent* poverty by a benefit based on its prior existence (however essential a network of such benefits may be to deal with unusual, individual situations).[54]

In short, it's simply not possible to means-test social insurance programs without changing them into welfare programs—a change consistently opposed by the vast majority of the public.

Students can be asked if the benefits of means testing social insurance programs justify the damage done to these programs and to the widespread support they generally receive. Does treating portions of social insurance benefits as taxable income—as is done currently with Social Security and unemployment insurance benefits—provide a fairer alternative to means testing?

41. Should participation in social insurance programs be voluntary?

Background: Unlike the way private insurance operates, almost everyone in the work force must participate in certain social insurance programs—namely Social Security, Medicare's HI program, unemployment insurance, and workers' compensation—and coverage cannot be denied to any worker, even if very ill.

Issue Discussion: Some have argued that it is out of keeping with American values to require workers to participate in these programs, that participation should be voluntary, and that workers should be able to opt for other forms of protection (e.g., private savings, life insurance, individual retirement accounts). At first glance, voluntary participation in social insurance programs seems very appealing. But would it work?

Since private insurance companies generally accept only the healthiest citizens into their health, life insurance, and disability plans, that would leave the least healthy for government-run programs. Because no one is turned away from participating in a social insurance program, making Social Security or Medicare's HI program voluntary would leave them with the most expensive risks. Therefore, participation must be compulsory to ensure a balance of "good" and "bad" risks.

Moreover, if participation in a program like Social Security were voluntary, some people might use their contributions to make poor investments or might find the press of current needs so great that they could not save at all. When the risks they would have been protected against eventually occur, would they then be left to reap the consequences of their poor choices? Probably not.

More likely, small welfare benefits would be provided at cost to taxpayers. Thus, compulsory participation protects the public from paying for those who might choose not to participate now but might later become dependent on public assistance.

42. Do unemployment insurance benefits discourage work and cause unemployment?

Background: The availability of unemployment benefits, by itself, is one possible explanation of unemployment. However, national levels of unemployment, factory closings, racial and sexual discrimination, and limited educational opportunities clearly provide more powerful explanations

Americans of all income classes identify with working. Not being able to work is a major crisis. Unemployed individuals and their families experience real costs that are not compensated for by the payment of a benefit. In fact, according to the research of Dr. Harvey Brenner[55] of Johns Hopkins University and others,[56] "as unemployment rises, so do first admissions to psychiatric hospitals, suicide and homicide rates, alcohol consumption, deaths from cirrhosis of the liver, heart and vascular diseases, infant and maternal mortality," and marital disruption.[57] In other words, being unemployed—even if softened by the availability of jobless benefits—is hardly a desired situation.

On the other hand, there is little doubt that the availability of unemployment insurance provides at least *some* incentive to leave work or to not return to work once unemployed. As some economists point out, unemployment benefits decrease the cost of not working. All other things being equal, a worker might supply less labor if he or she knows that his (or her) "leisure"—that is, time spent out of work—might be paid for through unemployment benefits. But whether this is seen as bad depends both on the extent to which the program is viewed as discouraging work and on what one chooses to emphasize.

Issue Discussion: No doubt the availability of unemployment insurance provides at least some minimal work disincentives. Some argue that any disincentive to work—no matter how small—is bad and ought to be eliminated. Others point out that it is important to protect workers and their families from losses of income due to unemployment caused by circumstances beyond their control, and that the slight work disincentive effects that might exist for some workers do not provide a reasonable rationale for modifying the program. Moreover, the availability of unemployment insurance enables some workers to seek improved employment opportunities rather than be forced to take the first job that comes along; and by helping workers seek work at their appropriate skill levels, the program leads to a more efficient use of labor resources. And they point out that the real causes of unemployment can be found elsewhere.

43. Should Medicare beneficiaries have the right to stop life-sustaining treatments? Should Medicare be required to fund life-sustaining treatments?

Background: Medicine gives rise to many ethical issues. Medicare, as the largest single payor in the health care financing system, must necessarily confront these and other very complex questions.

Issue Discussion: Many of the issues have to do with starting or withholding life-sustaining treatment. When it comes down to individual cases, it is often extremely difficult to know with any certainty whether additional treatment will result in substantial health improvements; yet in many cases, it might. Under what circumstances should the wishes be accepted of the terminally ill or of family members of a person unable to make a decision to stop his or her own life-sustaining treatments? What criteria should be used by policymakers and health care providers when deciding about the availability of life-sustaining treatments to groups (e.g., disabled children, terminally ill elderly persons) and to individuals? Ask your students whether they would consider the selected criteria to be fair if applied to themselves or to members of their own families.[58]

44. Should health care be a right?

Not only is this is a fundamental question for classroom discussion, but it is also at the heart of the health care policy debates in the United States. Our answer conditions the way we, as a society and as individuals, will respond to the many health policy issues emerging during the next decade.

45. How should health care be financed?

This is another question at the heart of the current health care debate. To what extent ought we, as a nation, rely on private insurance? Social insurance? Welfare? What type of cost controls are needed?

46. Should Americans have the right to employment as well as the responsibility to work?

Individual and societal answers to this question affect the way many issues related to employment policy are viewed, including those concerned with unemployment insurance.

47. Have social insurance and public assistance policies eliminated poverty among disabled persons, elderly persons, and children?

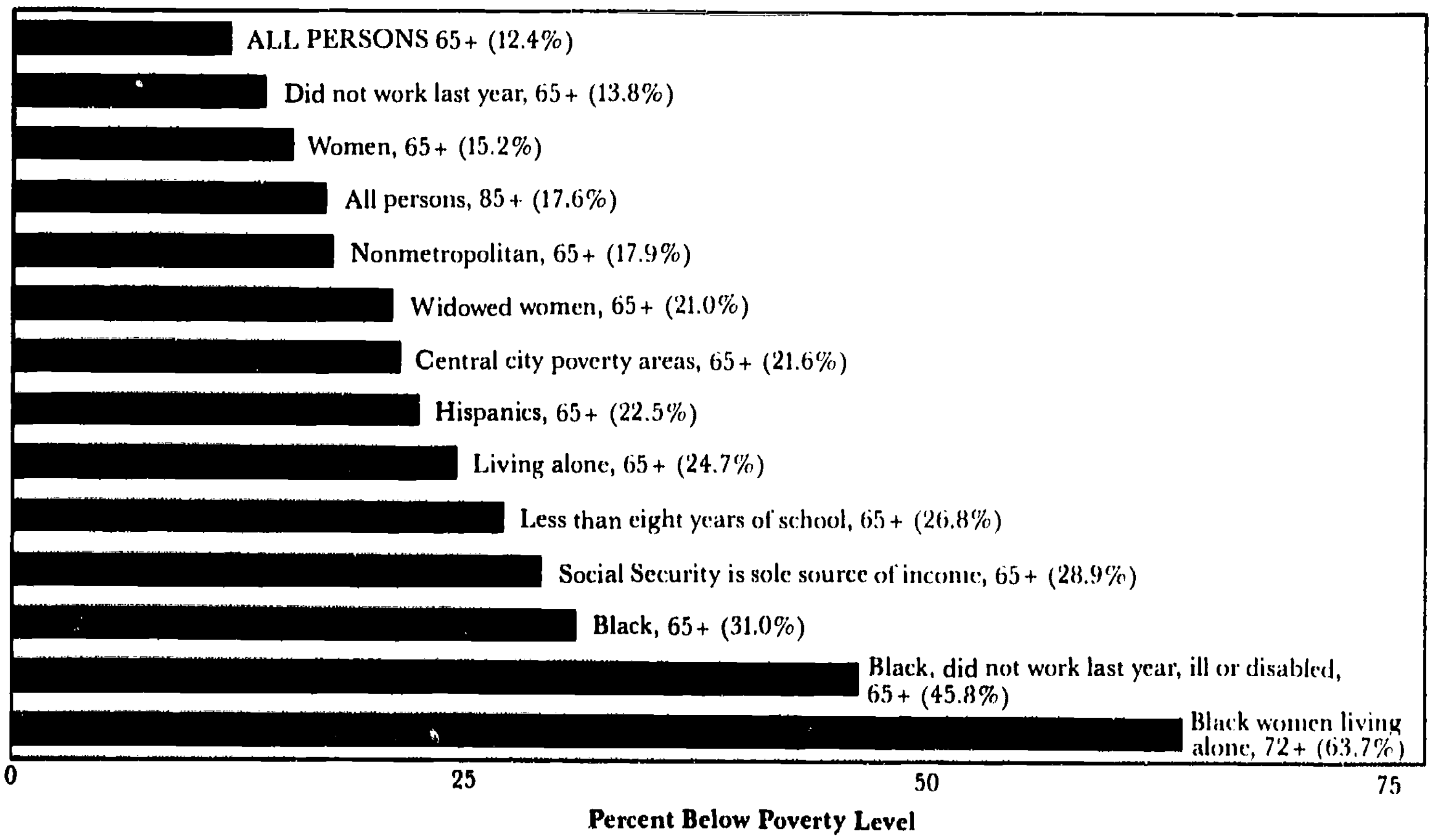
Background: Consider that in the early years of the twentieth century, children were sometimes separated from their young widowed mothers (or sometimes from their widowed fathers) simply because they lacked the capacity for financial support. "In 1913, in New York State alone, some 1000 children were committed to public institutions because their widowed mothers had become ill, usually due to overwork and worry (while almost 3000 others were placed in such institutions because their parents could not support them); many of the women were also institutionalized."[59]

Consider also that 35 percent of elderly persons are estimated to have lived below the poverty line in 1959 as compared with 12.2 percent in 1987, or 3.5 million people.

Long-term economic growth and the increased adequacy of Social Security benefits have played very significant roles in increasing the economic well-being of elderly persons, disabled Americans and their families, and the surviving children of deceased workers. Additionally, the expansion of private pensions has helped some middle-income people maintain their standard of living in retirement or disability. Further, the existence of SSI, AFDC, food stamps, and Medicaid provides an important—although quite low—income guarantee as well as access to health care for many poor elderly, blind, and disabled persons and for many poor families with children.

Issue Discussion: While much progress has been made, many elderly live just above the official poverty line, and the elderly population remains the adult group with the highest poverty rate. Moreover, poverty among certain groups of elderly is very high, with, for example, 20 percent of elderly women and 46 percent of elderly black women who live in female-headed households having below-poverty incomes in 1986 (see fig. 7.3). (Most of these are the only residents of their households.) Today, the single biggest threat to the economic well-being of most middle-income elderly persons is the cost that can accompany debilitating long-term illnesses that require extended care in the home or in a nursing home. Similarly, even with the many successes of the nation's economy and income security programs, an astounding 20 percent of the nation's children under 18 today (23 percent of children under 3) reside in families with below poverty-level incomes, and much remains to be done to protect the disabled.

Figure 7.3—**Percent of Elderly People Below the Poverty Level, by Selected Characteristics: 1986**



Source: U.S. Bureau of the Census, "Money Income and Poverty Status of Families and Persons in the United States, 1986," *Current Population Reports,* Series P-60, no. 157 (Washington, D.C.: U.S. GPO, July 1987); unpublished data from the March 1987 Current Population Survey.

In short, despite the considerable progress that has been made, much could be done to prevent poverty and assist middle-income individuals and their families to maintain their standard of living in the face of risks confronting virtually every American.

48. To what extent ought we, as a society, ensure income and health security for all Americans?

Background: A sound economy is the front line of defense against economic insecurity, providing employment opportunity and the economic wherewithal to support income and health care programs. Yet even when the economy is strong, many are shut out from adequate health care, satisfactory housing, and access to other needed services. And when the economy falters, economic insecurity is compounded.

Issue Discussion: The issue concerns the extent to which government should intervene to ensure economic security to individuals and families. If the answer is that it should be entirely up to individuals and their families to protect themselves against economic insecurity and that the difficulty of many to do so at various times in their life is not a matter of public concern, the rationale for social insurance disappears. If, on the other hand, ensuring that families have at least minimally adequate incomes and access to health care is viewed as an important social goal, the following questions arise: What is adequate? What mix of private savings, private insurance, and public efforts will best help us reach this goal? To what extent ought we use government to meet this goal? What roles do welfare and social insurance programs play in achieving this goal?

Notes

1. Board of Trustees, *1989 Annual Report.* According to the 1989 Trustees' Report, "the combined trust funds are estimated to reach a level of about 5 or 6 times annual outgo in the next 20 to 30 years."
2. Board of Trustees, *1989 Annual Report.*
3. Robert M. Ball, "Social Security Across the Generations," in *Social Security and the Economic Well-Being Across Generations,* ed. John R. Gist (Washington, D.C.: AARP Public Policy Institute, 1988), p. 25.
4. Board of Trustees, *1989 Annual Report.*
5. Ball, "Social Security Across the Generations," pp. 24-25.
6. Yankelovich, Skelly, and White, Inc., *A Fifty-Year Report Card.*
7. Kingson, *What You Must Know,* p. 9.
8. Ibid, p. 10.
9. Gregory Spencer, "Projection of the Population of the United States, by Age, Sex, and Race: 1983 to 2080," *Current Population Reports,* ser. P-25, no. 952 (Washington, D.C.: U.S. GPO, 1984).
10. See Barbara Boyle Torrey, "Guns vs. Canes: The Fiscal Implications of an Aging Population," *AEA Papers and Proceedings* 72, no. 2 (n.d.).
11. Drawn from Kingson, Hirshorn, and Cornman, *Ties That Bind,* pp. 139-140.
12. This would result in treating Social Security benefits in roughly the same manner as private pension and public pension benefits. The tax principle that is applied in these other pensions is that the individual's contribution should not be subject to taxation but that the portion of the benefit that exceeds that contribution should.
13. Seventy percent of state and local government employees are now covered under voluntary coverage agreements between states and the federal government. Extending Social Security coverage to newly hired state and local employees (as is the case for federal employees) would gradually bring in the remaining state and local employees who are not covered—currently about 4 million persons. This proposal would bring in about $8 billion over five years to the Social Security cash trust funds.
14. Extending Medicare coverage to those newly hired state and local employees who have not been brought into the program under voluntary agreements would bring in $9 billion to the Hospital Insurance program over five years.
15. Description of proposals are based, in part, on information presented in Ball, "Social Security Across the Generations," pp. 35-36.
16. Kingson, Hirshorn, and Cornman, *Ties That Bind,* pp. 93-94.
17. Ball, "Social Security Across the Generations," p. 27.
18. Robert J. Myers, "Income of Social Security Beneficiaries as Affected by Earnings Test and Income Taxes on Benefits," *Journal of Risk and Insurance* (June 1985).
19. Although it is not commonly known, a small provision in the Internal Revenue Code—the Earned Income Tax Credit (EITC)—is designed to offset the rather heavy burden that the Social Security payroll

tax places on low-income working parents. Taxpayers who support their children under 18 and whose earned income (and some taxable income from other sources) is less than $18,576 in 1988 may be eligible for a refundable tax credit of up to $874 even if their income tax liability is less than this amount. To receive the maximum credit in 1988, earned income must be at least $6,225 and less than $9,850.

20. Save Our Security, "Unfinished Business—Adequacy and Equity for Women in the Social Security System: Modified Earnings Sharing as an Approach," Washington, D.C.: Save Our Security.

21. National Center for Health Statistics, Health, United States, 1986, DHHS Publication No. (PHS) 87-1232 (Washington, D.C.: U.S. GPO, December 1986).

22. Ibid.

23. Senate Special Committee on Aging, in conjunction with the AARP, the Federal Council on Aging, and the U.S. Administration on Aging, *Aging America: Trends and Projections (1987–88 edition)* (Washington, D.C.: U.S. GPO, 1988).

24. 1979 Advisory Council on Social Security, *Social Security Financing and Benefits: Report of the 1979 Advisory Council* (Washington, D.C.: U.S. GPO, 1980), pp. 113-114.

25. Ibid.

26. Findings of National Center for Policy Analysis study as cited by James J. Kilpatrick, "Shortchanging Blacks," United Press Syndicate column. Note that the same argument can be made about men and women. But it would be patently absurd to argue that because men have higher mortality rates than women, Social Security unfairly discriminates against men and ought to be abolished. Again, such an argument overlooks the complexities of the program.

27. Robert J. Myers, "Skewed Data Hurt Times' Social Security Editorial," letter to the editor, *Washington Times*, 31 May 1988.

28. These changes were recommended by the 1979 Advisory Council on Social Security, *Social Security Financing and Benefits*, p. 123.

29. U.S. General Accounting Office, *Social Security: Clients Still Rate Quality of Service High* (U.S. GPO, July 1987). It should be noted that a related GAO study identifies serious management problems that "could interfere with SSA's ability to accomplish its mission effectively in the future: see GAO, *Social Security Administration: Stable Leadership and Better Management Needed to Improve Effectiveness* (U.S. GPO, March 1987).

30. Eileen Sweeney, National Senior Citizens Law Center, personal communication, 30 December 1988.

31. Board of Trustees of the Federal Hospital Insurance Trust Fund, *1988 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund* (Washington, D.C.: U.S. GPO, 1988).

32. Office of Technology Assessment (hereafter OTA), *Life-Sustaining Technologies and the Elderly* (Washington, D.C.: U.S. GPO, 1986), pp. 19, 23.

33. *Congressional Quarterly Almanac*, 89th Cong., 1st sess., 1965, pp. 236-237.

34. HIV-related illnesses/AIDS refers to anyone who is infected with HIV, with or without symptoms, as well as to those with AIDS, as defined by the Centers for Disease Control. Previously a distinction was made between ARC (HIV-positive antibodies/AIDS-related complex) and AIDS, but that distinction is proving to be less useful now.

35. Dennis James, AIDS Action Committee, Boston, Mass., 29 July 1988.

36. Children's Defense Fund (hereafter CDF), *A Children's Defense Budget: An Analysis of the President's FY 1986 Budget and Children* (Washington, D.C.: CDF, 1985), p. 7.

37. Personal communication, Paul Smith, CDF, 25 January 1989.

38. CDF, *A Children's Defense Budget*, pp. 30-36.

39. Kingson, *What You Must Know*, p. 113.

40. Isaac Shapiro, Center for Budget Priorities, statement before the House Committee on Ways and Means, Subcommittee on Public Assistance and Compensation, 14 December 1987.

41. Gary Burtless, Brookings Institution, "The Adequacy and Counter-Cyclical Effectiveness of the Unemployment Insurance System," statement before the House Committee on Ways and Means, Subcommittee on Public Assistance and Compensation, 14 December 1987.

42. Ibid.

43. See *Fact Sheet on the Continuing Crisis in Unemployment Insurance*, statements adopted by the AFL-CIO Executive Council, 16-20 February 1987.

44. Allen E. Owen, Council of State Chambers of Commerce, statement before the House Committee on

Ways and Means, Subcommittee on Public Assistance and Compensation, 14 December 1987.

45. James N. Ellenberger, representing the AFL-CIO, statement before the House Committee on Ways and Means, Subcommittee on Public Assistance and Compensation, 14 December 1987.

46. William J. Gainer, GAO, "Unemployment Insurance: Issues Related to Reserve Adequacy and Trust Fund Solvency," statement before the House Committee on Ways and Means, Subcommittee on Public Assistance and Compensation, 14 December 1987.

47. Options drawn from Congressional Budget Office, *Unemployment Insurance: Financial Condition and Options for Change* (Washington, D.C.: GPO, 1983).

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49. Charles Hughes, American Federation of State, County and Municipal Employees, statement before the House Committee on Ways and Means, Subcommittee on Public Assistance and Compensation, 14 December 1987.

50. Senate Special Committee on Aging, *Developments in Aging,* 27 February 1987.

51. Thomas C. Woodruff, *Dollars and Sense: The Case for State and Local Pension Reform* (Washington, D.C.: American Federation of State, County and Municipal Employees).

52. Grad, *Income of the Population.*

53. See Pear, "U.S. Pensions," p. 1.

54. Elizabeth Wickenden, *Fact Sheet #13* (New York: Study Group on Social Security, 1984).

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56. See, for example, Matthew P. Dumont, "Is Mental Health Possible Under Our Economic System? No!" *Psychiatric Opinion* 14 (May/June 1977).

57. Winifred Bell, *Contemporary Social Welfare* (New York: Macmillan Publishing Co., 1987), p. 90.

58. For an overview of such ethical issues, see OTA, *Life-Sustaining Technologies and the Elderly.*

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Teacher's Supplement: Model Lesson Plans

Lesson Plan for Chapters 1 and 2

THE SOCIAL INSURANCE APPROACH TO ECONOMIC SECURITY

Overview: This lesson is designed to help students understand what social insurance is, why it has developed in industrialized societies, and how it works. Students will also learn how social insurance reinforces basic cultural values such as work, family stability, and financial independence. While later lessons will discuss in depth the specific social insurance programs and issues related to them, this first lesson provides the foundation on which students can build a more comprehensive understanding of the importance of social insurance as a basic institution of contemporary life.

Objectives: As a result of this lesson, students will be able to

- explain what social insurance is;
- explain how the growth of industry and business created a need for social insurance;
- identify some major advantages of social insurance over other kinds of protection against risk;
- distinguish between social insurance and welfare; and
- explain how important societal values are reinforced by social insurance.

Estimated Time: One class period

Advance Preparation: Make sufficient duplicate copies of handout 1-1. Recommended background reading for the teacher is chapter 1, "Introduction: Why Educate About Social Insurance," and chapter 2, "Social Insurance in America: An Overview," in *Social Security in the USA*.

GUIDELINES

1. Distribute copies of handout 1-1, "What Is Social Insurance?" and allow students about ten minutes to read it before discussing the questions that follow. (Alternative: Assign the handout as homework prior to class with instructions to write answers to the questions. This would allow more time for class discussion.)
2. Use the balance of time in the session to discuss the following questions:

Question 1: Before the development of social insurance, how did people deal with financial crises such as loss of income or extraordinary expenses caused by loss of job, illness, disability, or death?

Discussion: People had to depend on private resources (e.g., savings, the charity of family or friends) or accept public assistance (the "poorhouse" or welfare) provided at taxpayers' expense.

Question 2: How does insurance work, and how is social insurance different from private insurance?

Discussion: Insurance provides a gradual means of paying for protection against emergencies or other costly events that may come in the future. Numerous people contributing to the system create large reserves of money from which benefits are paid to individuals when emergencies (e.g., disability) or other situations being protected against (e.g., retirement) arise. Private insurance companies are often but not always for-profit businesses. People pay premiums for policies covering various emergencies. Social insurance is operated on a nonprofit basis by government and financed primarily by taxes or "contributions" from employees and employers based on earnings. It is able to protect nearly the entire population that is vulnerable to a particular risk in a way that private insurance cannot.

Question 3: How does social insurance differ from welfare (or public assistance)?

Discussion: Welfare is provided as a right based on financial need to certain low- or no-income people at the expense of taxpayers. Social insurance programs are also government operated, but are financed primarily from deductions from workers' earnings matched by the contributions of their employers, which is why these benefits are considered earned rights. Welfare is a means for dealing with poverty. Social insurance is a means of *preventing* poverty.

Question 4: How did the Industrial Revolution create a need for social insurance?

Discussion: The development of a market economy based on industry and business brought greater risks to the financial security of workers and their families. Unemployment became a much greater risk to individuals due to economic surges and declines as well as to business failures and factory closings. Work-related accidents and disabilities became more common. The value of savings was sometimes depleted by periods of inflation and rising prices. Mobility of workers and their families often meant separation from relatives and friends who might have helped in times of crisis.

Question 5: What advantages does social insurance have over other means of meeting unexpected emergencies?

Discussion: By protecting against identifiable risks, social insurance prevents people from becoming poor. Beneficiaries can take pride in knowing they and/or a family member have earned the help received. Workers of all income levels and their families have protection, including protection against many kinds of risks not covered or affordable under private insurance plans.

Question 6: How does social insurance support basic values considered important in our society?

Discussion: Social insurance reinforces the value of work by rewarding people for their labor. It strengthens the ideal of equal opportunity by being available to people of all incomes. By preventing poverty, it contributes to family stability and to financial independence and dignity.

EXTENDING ACTIVITIES

1. Ask students to research how many Americans receive social insurance benefits, who pays for them, and how much the various programs cost. Then ask them to compare spending on social insurance programs with spending in other areas (e.g., national defense, education). Information sources might include almanacs, the *Statistical Abstract of the United States*, and the offices of their senators or member of Congress.
2. In the classroom, ask students to identify the major risks to the economic security of individuals and families. How do individuals and families protect themselves against such risks? Should government help families protect themselves from such risks?
3. Ask students to identify the major characteristics of social insurance programs. Discuss how these characteristics complement or conflict with widely held societal goals such as reward for work, self-help, mutual aid, family stability, poverty prevention, independence, and dignity.

Session 1, Handout 1-1

WHAT IS SOCIAL INSURANCE?

At some point during the course of their lives, most people and their families face unexpected financial crises of one kind or another. The crises may take the forms of extraordinary expenses or loss of income due to such emergencies as accidents, serious illness, disability, unemployment, or death. Other events (e.g., retirement), if not properly planned for, might also cause financial crises. For many people the result is poverty or a greatly reduced standard of living unless they own, or can acquire, the financial resources to get them through.

Until modern times, workers and their families faced these unexpected situations in essentially two ways. One was to make use of private resources such as savings or the help of relatives and friends. If this was not possible, those who became poor were supported by public charity or welfare provided by the community. Often people did not receive any assistance.

One way to prepare for emergencies before they happen is insurance. The way insurance works is very simple. Based on the assumption that emergencies will probably arise sooner or later, insurance provides a way for people to pay for protection gradually over a period of time and then receive help when a crisis comes. An example familiar to most people is automobile insurance. Even the most careful drivers know that an accident could happen to them and that the costs for damages or injuries might be more than they could afford to pay. Thus, they take out an insurance policy. The premiums paid for auto insurance by millions of car owners create vast reserves of money from which insurance companies can reimburse individual policyholders for costs of accidents when they occur. However, private insurance companies do not provide the kinds of insurance needed to protect people against all emergencies that might arise, and many people could not afford the cost of such insurance even if it were available.

After the Industrial Revolution began in the mid-nineteenth century, governments gradually recognized the need for some system to protect working people and their families from the new risks to financial security that came with the rapid growth of industry and business. The new approach that developed is known as social insurance. It is similar to private insurance, but it is operated by government. Social insurance provides far greater protection than was available to working people of earlier times, and for millions of people it has meant the difference between surviving a crisis or becoming poor and having to depend financially on others.

In most cases, social insurance is paid for by contributions (or taxes) deducted from workers' paychecks and/or taxes paid by their employers. From the large reserves of money set aside from all the workers and employers paying into the system, government is able to provide benefits to individual people who need help without imposing new taxes on the general population. Thus, people escape poverty and get the help they need in a crisis without having to turn as much to their families, friends, or community.

The development of social insurance was largely a direct result of the Industrial Revolution, which caused major changes in the way people earn their living and live out their lives. Even as late as the mid-nineteenth century, the vast majority of Americans were farmers or farm workers. As agriculture became more mechanized, fewer workers were needed on farms, and people moved from rural areas to the rapidly growing industrial towns and cities where jobs were available in manufacturing and business. Industrialization not only changed how people earned their living, but also changed where they lived, the conditions under which they worked, and many other things about their lives.

One important change that came with a market economy based mainly on industry and business was that workers became subject to many risks that were not so characteristic of life on the farm. A market economy meant frequent periods of economic expansion and decline, or "boom" and "bust." Workers and their families moved to wherever jobs were available and lived in rental housing where failure to pay the rent meant eviction. The danger of losing a job was a constant threat to security. When companies received large orders they hired more workers, only to lay them off when business

Session 1, Handout 1-1 (continued)

slowed down. If companies went out of business, as they often did, all employees would lose their jobs with little or no warning.

Unsafe working conditions were common in factories and mines, and many workers were disabled or killed by accidents on the job. Usually little or no provision was made for surviving widows and children. Pensions were practically unknown, and wages were too low to allow substantial saving for retirement. Those who were able to save might find the value of their savings wiped out during a depression or a period of inflation and rising prices. Thus, a person in old age who could no longer work had to rely on relatives or friends. But the movement from farms to cities, and frequently from one location to another, often meant separation from those relatives and friends who might have helped out in time of crisis. The only options were public charity or welfare. For millions of people, old age meant poverty and dependency on others, not a dignified retirement as most older people enjoy today thanks largely to the growth of social insurance.

While private insurance and other private approaches to protecting against risk are desirable, social insurance often has many advantages over other ways of meeting emergencies. First, the funds needed to meet a crisis are already available when the emergency arises. Second, people can take pride in the fact that they have earned these benefits through their own labor. Third, it is affordable. Governments operate social insurance programs without profit, and the amount a worker pays for protection is based on earnings (or ability to pay), supplemented by employer contributions. In contrast, private insurance is only available to those who can afford whatever premiums are set by the company for particular kinds of protection. These premiums are based on the statistical likelihood of risk plus—in the case of for-profit insurance companies—the profit the company expects to make. Social insurance makes protection available to people with very limited income while reinforcing many values that are generally considered important by society—for example, work, equal opportunity, independence, and stability of family life.

Over the past half-century, numerous social insurance programs, including Social Security, Medicare, and unemployment compensation, have been established by federal and state governments. Social insurance is now a basic institution of American life, which each day means the difference between economic security and poverty for millions of people of all ages. Without social insurance, vast numbers of Americans would not have the lives of independence and dignity they now enjoy.

Session 1, Handout 1-1 (continued)

Questions for Discussion

1. Before the development of social insurance, how did people deal with financial crises such as loss of income or extraordinary expenses caused by loss of job, illness, disability or death?
2. How does insurance work, and how does social insurance differ from private insurance?
3. How does social insurance differ from welfare (or public assistance)?
4. How did the Industrial Revolution create a need for social insurance?
5. What advantages does social insurance have over other means of meeting unexpected emergencies?
6. How does social insurance support basic values considered important in our society?

Useful Terms to Know

Industrialization: The creation of industries that produce goods in large quantities by machine rather than in small quantities in homes or small shops.

Inflation: A period of rising prices when the purchasing power of the dollar is declining.

Market economy: The type of economic system common to many industrialized countries in which most decisions about the production and distribution of goods and services (and the distribution of incomes) are a result of the interaction of buyers and sellers in the various markets. In market economies, most people produce goods and services to be sold to others, rather than to be used by themselves and their families. Money becomes the means of exchange through which people acquire from each other what they need rather than producing it for themselves.

Pension: An amount of money paid regularly (usually monthly) as a retirement or disability benefit.

Welfare: Government systems of financial support (sometimes called "public assistance") for low-income people, providing such basic needs as food, shelter, clothing, and medical care at taxpayers' expense. The right to a welfare benefit is based on financial need.

Work Disability: A serious ongoing condition—such as a crippling disease, blindness, or mental illness—that prevents or limits a person's ability to work.

Lesson Plan for Chapters 3 and 4
SOCIAL INSURANCE COMES TO AMERICA

Overview: This lesson reviews the historical background of social insurance in the United States following its prior development in Europe. The lesson traces the evolution of social insurance from enactment of the first state workers' compensation law in 1911 (then called workmen's compensation) through the passage of the Social Security Act in 1935, the expansion of the Social Security system, and the development of other social insurance programs. Students will learn that there were special economic/social/political conditions in America that both hindered and fostered development of social insurance, and they will learn how the democratic processes of advocacy and compromise ultimately made it possible for social insurance to become a basic institution of American society.

Objectives: As a result of this lesson, students will be able to

- understand why social insurance was slower to develop in the United States than in Europe;
- appreciate the roles played by advocacy and compromise in determining public policy;
- explain how the Great Depression of the 1930s led to the enactment of Social Security; and
- identify significant milestones and recognize relationships of cause and effect in the historical development of social insurance.

Estimated Time: Three class periods.

Advance Preparation: Prepare sufficient copies of handouts 2-1, 2-2, and 2-3 for all students. Recommended background reading for the teacher is chapter 3, "The Beginnings of Social Insurance in America," and chapter 4, "The Development of Social Insurance Since 1935," in *Social Security in the USA*.

GUIDELINES: SESSION ONE

1. Distribute copies of handout 2-1, "Origins of Social Insurance in the United States," to all students and allow about fifteen minutes for reading. (Alternative: Assign the handout as homework prior to class with instructions to write answers to the questions. This would allow more time for class discussion.)
2. Use the balance of time in the session to discuss the following questions:

Question 1: What are two major reasons why social insurance did not begin to develop in the United States until many years after it had developed in Europe?

Discussion: First, the Industrial Revolution, which created a special need for social insurance, did not begin in the United States until about a quarter-century after it began in Europe. (Discussion about this should refer back to the first lesson re: how the Industrial Revolution increased risks to workers and created a need for social insurance.) Second, unlike European countries, the United States did not have a strong central government capable of dealing with domestic issues on a national basis.

Question 2: Were the first social insurance programs in the United States established by state governments or by the federal government? Why?

Discussion: The first social insurance programs were the workers' compensation laws passed by states beginning in 1911. The fact that state governments acted first is natural, given how our federal system of government worked at that time under the strict interpretation of the Constitution by the courts with a strong emphasis on the concept of "states' rights." (Unless students have recently studied the U.S. Constitution and the federal system of government, the teacher may need to take some time to elaborate beyond the brief attention given in the handout.)

Question 3: What kind of protection do workers' compensation laws provide to workers and their families?

Discussion: In the event of any job-related accident or illness, workers may be entitled to partial reimbursement of lost wages and medical expenses.

Question 4: Why did many businesses eventually support the passage of workers' compensation laws?

Discussion: When cases had to be individually decided in courts, legal costs to both employee and employer could be very high. Because courts sometimes awarded substantial payments to injured workers who sued their employers for damages, companies began to realize that an insurance system would protect their financial interests as well as the interests of their employees. With compensation for workers guaranteed under an insurance system, there was less likelihood of law suits and less risk that an employer would have to pay heavy legal expenses and judgments for damages.

GUIDELINES: SESSION TWO

1. Distribute copies of handout 2-2, "The Great Depression," and allow students about ten minutes to read it. (Alternative: Assign the handout as homework prior to class with instructions to write answers to the questions. This would allow more time for class discussion.)
2. Use the balance of time to discuss the following questions. (Note that some of these questions call for opinions and may be answered in different ways, whereas questions on prior handouts were basically designed to check reading comprehension. During the course of discussion, take time to ensure that students understand economic terms that may be unfamiliar to them—e.g., currency, stocks, bonds, bankrupt, depression, deflation, foreclosure.)

Question 1: How did the growth of the Industrial Revolution depend on a belief in progress?

Discussion: Industrialization automatically involved the use of science and technology to develop better and more efficient ways of producing goods, as well as to create new products for people to buy. Change was regarded as not only necessary but beneficial.

Question 2: Is the idea of progress still an important force in American life today? What examples can you think of that would illustrate this?

Discussion: Students should have no difficulty recognizing our continuing faith in science and technology as applied to everything from the design of automobiles and appliances to the exploration of outer space. However, they might also point to some of the problems that accompany this in terms of environmental pollution, the threat of nuclear war, etc. Thus, students' views of "progress" may be mixed. Discussion might include consideration of other areas in which progress is sought, such as human rights, education, health care, etc. Talking about these areas might set the stage for consideration of question 3 dealing with social insurance as a way of achieving purposes more directly related to quality of life.

Question 3: Do you think the idea of social insurance ties in well with the idea of progress? Why?

Discussion: Consideration of this question provides an opportunity to review the concept of social insurance as a way of protecting people from various risks to their financial security, helping them avoid poverty, and improving the quality of their lives. Discussion should include benefits not only to individuals and their families but also to society as a whole.

Question 4: How did the Great Depression of the 1930s, as described by Nelson Manfred Blake, demonstrate the great risks to financial security that workers faced after the Industrial Revolution?

Discussion: Among the risks described in the reading are unemployment, loss of homes/property/savings, loss of social support networks of family and friends, and dependence on charity or welfare.

Question 5: In your view, would the Great Depression hinder or promote the growth of social insurance? Why?

Discussion: Answers may vary considerably. If students understand that social insurance protects against crises that may arise in the future, they may point out that during bad times people would be more concerned about immediate help than they would be with what the future might hold. They might say that, with their faith in progress shattered, people would not be inclined to trust social insurance as a way of resolving the problems created by industrialization. On the other hand, some students might recognize that the failure of the economy might make people more aware of the need for reform and more supportive of new approaches to dealing with social and economic issues. They might also recognize that, in times of crisis, people tend to look toward the government to solve problems that they cannot handle alone. This discussion should lay the groundwork for the next session, in which students will learn about the battle for enactment of Social Security and the expansion of social insurance nationally.

Question 6: If social insurance programs (such as those you learned about in session one) had been established before 1930, do you think they might have lessened the effects of the Great Depression on workers and their families?

Discussion: Again, students' responses may vary, and there may be no "correct" answer to the question. A well-developed social insurance system would certainly not have prevented the Great Depression. However, the extent to which fear intensified the crisis might have been diminished if people knew that help would be provided through social insurance benefits already paid for by past employment. While the depression was under way, having unemployment compensation and other benefits would certainly have been of immense help to the pride and pocketbooks of workers and their families.

GUIDELINES: SESSION THREE

1. Distribute to all students handout 2-3: "One Thing Leads to Another," and have them individually complete the worksheet without referring to prior handouts or to any notes they may have taken in class.
2. When students have finished, use the balance of time to give them the correct sequence of events with students taking part in the discussion of why things happened in the order they did and how each event is connected to the rise of social insurance.

First Event: The Industrial Revolution begins in Europe.

Discussion: The Industrial Revolution began in Europe around the late eighteenth and early nineteenth centuries. It posed great economic risks to workers and their families, thus giving rise to the need for social insurance. Social insurance first began in Europe in the late nineteenth century.

Second Event: The Industrial Revolution begins in the United States.

Discussion: The Industrial Revolution in the United States began about a quarter-century after it began in Europe, and it soon created conditions in this country that eventually led to the development of social insurance in America.

Third Event: The first state workers' compensation law is enacted.

Discussion: The mechanization of industry in the United States led to frequent on-the-job accidents, creating a need for workers' compensation. Because the United States lacked a strong central government like those in Europe, the first use of the social insurance concept here was by state governments, beginning with Wisconsin's passage of the first workers' compensation law in 1911.

Fourth Event: The Great Depression begins in the United States.

Discussion: After a century of more or less continuous growth as an industrial nation, the United States was caught up in the depression that began in postwar Europe in the 1920s and then spread to America. The massive crisis affecting people of all classes led to a growing interest in social insurance as one means of preventing poverty in the future.

Fifth Event: Franklin D. Roosevelt becomes president of the United States.

Discussion: Roosevelt became president in 1933, after a campaign promising a "New Deal" for the American people that would restore prosperity and put people back to work. The enactment of social insurance became a major part of the New Deal.

Sixth Event: Congress passes the Social Security Act.

Discussion: Following some controversy and debate, the Social Security Act was passed in 1935, establishing Old-Age Insurance (Social Security). This became the nation's largest and most popular social insurance program. The Social Security Act also established unemployment insurance and three welfare programs—Aid to Dependent Children (now called Aid to Families with Dependent Children), Aid to the Blind, and Old Age Assistance. The latter two programs were later incorporated into Supplemental Security Income (SSI).

Seventh Event: Disability insurance is enacted by Congress.

Discussion: The success of Social Security encouraged further uses of a social insurance approach that would address such problems as unemployment, disability, and health care. Disability insurance was enacted in 1956.

Eighth Event: The Medicare program begins.

Discussion: The passage of Medicare in 1965 was one major accomplishment among the many "Great Society" programs of President Lyndon Johnson in his "war against poverty." Administered initially by the Social Security Administration and now by the Health Care Financing Administration, Medicare, along with Social Security, plays a major role in protecting the financial security of millions of retired people.

EXTENDING ACTIVITIES

1. Invite some retirees to class to be interviewed in small groups or as a panel. Have students prepare in advance some questions they would like to have answered that relate to their guests' personal experiences with social insurance.
2. Ask students to go to their local libraries and find three articles about the Social Security Act, which was signed into law on 14 August 1935. Using the information provided in these articles, they should try to identify the programs that were enacted and discuss which organizations and political leaders favored (or opposed) the new law and why. The purpose of this activity is to provide background on the controversy over the enactment of Social Security, making use of some documentary material from the period illustrating the debate. Students could be asked to develop this as a role-playing activity in which they would reconstruct a debate that might have taken place in 1935.
3. Ask students to interview three elderly persons who were at least 20 years old when the Social Security Act was passed. Do any of them have stories about poorhouses or about relatives who simply could not support themselves? What did they think of unemployment insurance, Social Security, and public assistance programs back then? How have these programs changed the everyday lives of Americans? At the time of its passage, was the Social Security Act considered an important achievement of the New Deal? Was there concern that it would be declared unconstitutional?

Session 2, Handout 2-1

ORIGINS OF SOCIAL INSURANCE IN THE UNITED STATES

Americans did not invent the idea of social insurance. The first large-scale social insurance programs were developed in Germany in the 1880s and then spread to England and other European countries. It was not until 1911 that the first social insurance law that met the test of constitutionality was passed in any state of the United States, and it was not until 1935 that a major federal social insurance program was established by enactment of the Social Security Act. There were two major reasons why the United States was slow to adopt the concept of social insurance.

The first reason is that the Industrial Revolution, which created the need for social insurance, started later in the United States than it did in Europe. England's industrialization began about a quarter-century before America's first textile factories began to operate in Rhode Island and Massachusetts. But the growth of manufacturing was rapid in the United States, and by the end of the century the United States, along with England and Germany, led the world in industrial production. By 1914, when World War I began, the United States was producing more industrial goods than Germany and England combined.

A more important factor hindering American development of social insurance was that the federal system of government in the United States, unlike the strongly centralized governments in Europe, placed great limitations on what the president and Congress could do. The U.S. Constitution specifically provides only certain powers to the national government, such as the power to coin money, to provide for the national defense, and to regulate commerce between the states and with foreign countries. All other powers are reserved to the states, or at least they were until the courts began reinterpreting the Constitution in ways that increased the power of the federal government. Thus, it is not surprising that the first social insurance systems in the United States were created by individual state governments, not by the national government in Washington.

The first social insurance systems in the United States were state workers' compensation laws (then called workmen's compensation), which began with passage of a law in the state of Wisconsin in 1911. Within two years, twenty-one states had passed such laws, and by 1948 every state in the Union had a workers' compensation system. The details of the system varied from state to state and still do today, but all states provide some measure of protection for workers who are injured or disabled on the job. One reason why this kind of social insurance system was adopted first is that the growing problem of work-related injuries was of financial concern to both workers and their employers. It was an issue on which both could advocate for government action.

One risk that greatly increased with the Industrial Revolution was the threat of unemployment and high medical costs as a result of work-related injuries. In the early days of industrialization, there was little regulation of safety conditions in factories and mines. Machinery was designed mainly for maximum production, not for safety, and accidents were common. No laws provided automatic protection for workers and their families if an accident caused the disability or death of a wage earner.

When an accident happened and the employer was unwilling to provide adequate compensation, the worker's only option was to sue the company. Of course, many workers were unable to pay the legal expenses of a civil suit against their employer, especially when it was likely they would lose the case. If workers did go to court, it was up to them to prove that the employer was at fault; the company did not have to prove that its machinery or working conditions were safe. Usually, the courts took the side of the employer, but not always. When a worker was able to prove the fault of the employer, the company sometimes had to pay a substantial amount in damages. Courts often took a long time to settle cases involving job-related injuries, and, win or lose, the legal costs of settling suits on a case-by-case basis in the courts was expensive for employers as well as for the person suing. Thus, employers began to see the

Session 2, Handout 2-1 (continued)

advantages of having a system that would protect them in such circumstances, and many businesses eventually joined with workers in demanding that government do something.

The important point is that, beginning in 1911, the passage of workers' compensation laws meant that the concept of social insurance had gained a foothold in America. From this point on, social insurance continued to evolve and grow until it became a basic institution of American life.

Questions for Discussion

1. What are two major reasons why social insurance did not begin to develop in the United States until many years after it had developed in Europe?
2. Were the first social insurance programs in the United States established by state governments or by the federal government? Why?
3. What kind of protection do workers' compensation laws provide to workers and their families?
4. Why did many businesses eventually support the passage of workers' compensation laws?

Useful Terms to Know

Advocate: To take a strong position in favor of something and work toward achieving that goal.

Compensation: Money paid to make up for (or partly make up for) something, such as lost income, damage to property, loss of health, etc.

Federal system: A system of government in which the power to govern is divided between a national, or central, government (such as the U.S. government in Washington, D.C.) and regional governments (such as the fifty state governments of the United States).

Session 2, Handout 2-2

THE GREAT DEPRESSION

One of the driving forces behind the Industrial Revolution was the belief in progress. Until the nineteenth century, the economies of Western civilization (Europe and America) were still based largely on farming. Change came slowly compared with what happened after industrialization began, and generally people expected tomorrow to be pretty much like today. But gradually, as science and technology created new inventions and methods, the idea of progress took hold. Europeans and Americans alike became committed to the idea of making tomorrow better than today—of finding better, more efficient ways of doing things and of solving age-old problems that had plagued mankind for centuries.

During the nineteenth and early twentieth centuries, nowhere was the faith in progress stronger than in America, a vast "new world" teeming with natural resources, where new ideas could be tested. Although there were millions of poor people who had little share in the nation's growing prosperity, no one had to look very far for evidence that the country as a whole was making progress. Agriculture was becoming mechanized, business and industry were growing, pioneers were settling in the West, new states were being added to the Union, railroads were criss-crossing the country, and the rapidly growing output of America's factories and farms was making the country one of the leaders in world trade.

World War I and the postwar era created a tremendous demand in Europe for American products as well as for American loans to help finance the costs of the war and reconstruction. During the 1920s the U.S. economy was booming. Unemployment was down, wages were up, and American workers had more money to spend. Increased purchasing power meant even more orders for factory goods and even more jobs for workers. Many people for the first time acquired such luxuries as radios, automobiles, and even their own homes, often borrowing money from the banks, which were generally quite willing to provide credit. Faith in the future of American business was never higher, and the stock market spiraled upward year after year. As a result, believing that they couldn't lose, many ordinary working-class people began to invest in stocks, which could be purchased with a low down payment. Farmers mortgaged their farms to banks in order to buy expensive new equipment and increase production. "Buy now, pay later" seemed to be the universal motto for individuals, businesses, and even nations.

But the belief that progress was unstoppable soon received a shattering blow. While America was booming, European countries, having borrowed heavily to finance the war and reconstruction, began to slump into a severe depression. Country after country found it could not meet payments on its debts, much of which was owed to the United States. Banks and businesses failed, people were thrown out of work, and the value of money rapidly declined. As world currencies fell in value, debts went unpaid, the demand for American products dropped, and the economic crisis spread to the United States. Fear of what was coming played a major part in the stock market crash of 1929. Many who had invested in stocks and bonds went bankrupt, factories closed, banks collapsed, and millions of workers found themselves unemployed. By the early 1930s, the Great Depression was well under way. It was not the first depression the United States had experienced, but the fact that the crisis was so far-reaching and lasted so long caused many people to become discouraged with the idea of progress.

Historian Nelson Manfred Blake gives some idea of how hard the depression hit the American people:

> Thus was the country caught in a downward spiral of deflation [declining value of money]. Reduced wages meant reduced purchasing power, and reduced purchasing power meant more factory shutdowns and unemployment. Particularly serious was the plight of debtors. Monthly payments that seemed reasonable in 1929 were impossible to meet two years later. Automobiles and furniture had to be reclaimed by finance companies, and banks . . . began to go under in alarming numbers: 1,326 closed their doors in 1930, 2,294 in 1931, and 1,456 in 1932. Frightened depositors began to withdraw and hoard their money, adding to the banks' difficulties.

Session 2, Handout 2-2 (continued)

The most pitiable victims of the depression were the unemployed. Although no accurate government statistics were compiled, unofficial estimates placed the jobless at ten million or more in 1932 and as high as fifteen million in the spring of 1933. Men without work suffered a serious deterioration of morale. They saw their savings disappear; they cashed in their insurance policies; they gave up their flats [apartments] and moved in with relatives and friends. Searching hopelessly for jobs by day, tossing restlessly by night, they often became victims of what social workers described as "unemployment shock."

Sometimes unemployment dissolved all ties between a man and his family and community. Homeless wanderers took to the road. Unwelcome visitors in one community, they would be given temporary food and shelter and hurried on to the next. Railroad men reported that although their usual policy had been to remove transients from freight trains, the number became so great in 1932 that it was impossible to carry the policy out. There were an estimated 1,500 homeless men passing through Kansas City each day; 45,000 were said to have passed through El Paso in six months. Particularly shocking was the report that 200,000 homeless children were wandering through the country.[1]

This was the situation into which Franklin D. Roosevelt was elected president of the United States, promising he would provide a "New Deal" for the American people. Across the country people were afraid, but in his inauguration address on 4 March 1933, Roosevelt told them: "The only thing we have to fear is fear itself." He said he would ask Congress for broad executive powers to deal with the emergency, the same kind of powers they might give a president if the nation were invaded by a foreign power; and he promised to use that power to restore prosperity and put the nation back to work. At that time, not even Roosevelt realized how important a role social insurance would play in carrying out his promise of a new deal for the American people.

[1] Nelson Manfred Blake, *A Short History of American Life* (New York: McGraw-Hill, 1952), p. 586.

Questions for Discussion

1. How did the growth of the Industrial Revolution depend on a belief in progress?
2. Is the idea of progress still an important force in American life today? What examples can you think of that would illustrate this?
3. Do you think the idea of social insurance ties in well with the idea of progress? Why?
4. How did the Great Depression of the 1930s, as described by Nelson Manfred Blake, demonstrate the great risks to financial security that workers faced after the Industrial Revolution?
5. In your view, would the Great Depression hinder or promote the growth of social insurance? Why?
6. If social insurance programs (such as those you learned about in lesson one) had been established before 1930, do you think they might have lessened the effects of the Great Depression on workers and their families?

Useful Terms to Know

Depression: A serious economic decline during which fewer goods and services are produced and sold, causing widespread unemployment and hardship. (A mild depression is called a recession.)

Mechanization: The use of machinery to do things that were formerly done by hand with the use of simple tools.

Purchasing power: The ability to buy goods and services, which changes according to how much people have to spend and how much things cost.

Stock: Modern corporations are typically owned by thousands of people who invest money by buying shares of stock or, in other words, shares of ownership in the company.

Stock market: An institution through which investors buy and sell stock, hoping to make as much profit as they can with the money they have to invest.

Session 2, Handout 2-3

ONE THING LEADS TO ANOTHER

Below are eight events related to the development of social insurance. Without referring to your notes or to any other materials you have been given, try to number these events in the order in which they happened. In the spaces provided, write "1" for the first event, "2" for the second event, etc.

________ Congress passes the Social Security Act.

________ Disability insurance is enacted by Congress.

________ The first state workers' compensation law (then called workmen's compensation) is enacted.

________ The Industrial Revolution begins in Europe.

________ Franklin D. Roosevelt becomes president of the United States.

________ The Medicare program begins.

________ The Great Depression begins in the United States.

________ The Industrial Revolution begins in the United States.

Lesson Plan for Chapters 5 and 6

HOW SOCIAL INSURANCE WORKS

Overview: Having learned about the background and development of social insurance in the United States, students will now learn some of the "nuts and bolts" of social insurance, such as how programs are financed, who receives benefits, how benefits are determined, etc. Activities in this lesson illustrate how Social Security and other major social insurance programs work and what types of benefits are provided. From these activities students will better understand how social insurance has evolved as a critical force in contemporary life with benefits for the whole society as well as for those who are direct beneficiaries.

Objectives: As a result of this lesson, students will be able to

- explain how Social Security is financed, who is entitled to benefits, and how benefits are determined;
- describe the basic protections provided by other major social insurance programs; and
- specify several ways in which, besides serving their direct beneficiaries, social insurance programs benefit society as a whole.

Estimated Time: Two class periods.

Advance Preparation: Prepare sufficient copies of handouts 3-1, 3-2, and 3-3 for all students. Recommended background reading for the teacher is chapter 5, "Social Security Explained," and chapter 6, "Medicare and Other Programs Explained," in *Social Security in the USA*.

GUIDELINES: SESSION ONE

1. Distribute copies of handout 3-1, "What Do You Know About Social Security?" Give students a few minutes to complete the quiz based on what they know (or believe to be true) before studying details of the Social Security system. (Emphasize that they should place their answers in the blanks to the *left* of the statements and not be concerned about the right-hand column of blanks for now.)
2. When students have completed the quiz, distribute copies of handout 3-2, "How Social Security Works." Give students about twenty minutes to read the material and change any answers they initially gave on the quiz that they now find to be incorrect. Have them leave their original answers in the blanks to the left and place any corrected answers in the blanks to the right of the statements. Tell them to put a question mark in the blank to the right of any statement they cannot answer for certain.
3. When all students have finished, reveal to them that all the statements are false. Have them score their own quizzes according to their first answers and again according to their revised answers. (You may prefer to score the quizzes yourself or to have students exchange papers for scoring.)
4. Use the remaining time to discuss any questions students had difficulty answering correctly.

GUIDELINES: SESSION TWO

1. Distribute copies of handout 3-3, "How Social Insurance Programs Help," and give students about twenty minutes to individually complete the assignment of matching programs with specific problems faced by people. (Alternative: Divide the class into small groups with each group completing the assignment together.)
2. Have individual students (or groups) share their answers to the assignment and resolve any differences. Correct answers are as follows:

Problem 1: Unemployment insurance (or unemployment compensation)

Discussion: Since Mark Gibson was involuntarily unemployed, he may be eligible for partial replacement of wages for up to six months (longer in a few states) while searching for new employment. Since each state has its own program, amounts of compensation and duration of payment vary.

Problem 2: Workers' compensation

Discussion: Since Rachel Knauer's injury and disability are the result of an accident on the job, she may be eligible for medical benefits as well as for partial replacement of wages. As with unemployment insurance, the amount of wage replacement will vary from state to state.

Problem 3: Social Security

Discussion: Bernie Hall's family would be protected by survivors benefits under Social Security. Monthly benefits would generally be paid for the support of the children until they reach age 18.

Problem 4: Public employee retirement systems (specifically the federal Civil Service Retirement System)

Discussion: As a longtime federal government employee in the U.S. Postal Service, Harry Franklin is eligible to retire and receive a monthly federal civil service pension for the rest of his life. If he died, Ethel would receive survivors benefits for the rest of her life, although at a lower monthly amount.

Problem 5: Medicare

Discussion: Since Jenny O'Toole is receiving benefits from Social Security, she is automatically eligible for Medicare, which would pay a major part of her medical treatment expenses.

EXTENDING ACTIVITIES

1. Ask students to identify four people—at least one should be a relative and one should not be elderly—who currently receive or have received Social Security benefits. Have them inquire as to why the recipients are receiving benefits, when they began receiving benefits, and what type of benefits are being provided. How important are (were) these benefits to these people and their families? What would they do (have done) without these benefits?

2. Work with students to develop a survey about Social Security. Include questions about whether the interviewee or members of the interviewee's families have ever received benefits, whether the benefits are (were) adequate, whether they support or oppose the program, what they would like to see changed, what their ages are, etc. Then have each student survey themselves and four other people. Compile the results. (This could be done as part of a computer exercise although it is possible to tabulate results without the aid of a computer.) The results of the survey can serve as the basis for classroom discussions.

3. Ask students to discuss whether programs such as Social Security and Medicare only benefit elderly persons (see discussion questions 4-8 in chap. 7).

4. One session could take the form of an activity with worksheets on which students would compute Social Security benefits for hypothetical, but realistic, cases of people applying for benefits. In the process they would learn how eligibility and benefits are determined, and how people typically receive more out of Social Security than they pay into the system. Development of the activity might draw on information provided in a free pamphlet published by the Social Security Administration entitled "Estimating Your Social Security Retirement Check Using the Indexing Method."

5. Invite several people to class—perhaps a local business leader, a union representative, a social worker, and a senior citizen active in an elder-advocacy organization. Have the students prepare a set of questions for the panel about the value and cost of social insurance programs as well as about current social insurance issues.

6. Invite a representative from the unemployment insurance office, Social Security office, or workers' compensation office to discuss the kinds of situations that result in people receiving benefits. Ask them to bring applications for these programs, and involve students in playing the role of people who are applying for benefits.

Session 3, Handout 3-1

WHAT DO YOU KNOW ABOUT SOCIAL SECURITY?

In the blank to the *left* of each statement, clearly write "T" if you think the statement is true or "F" if you think the statement is false. Please do not write in the blanks to the right of the statements until you are told to do so.

______ 1. Social Security is a program of government welfare that primarily helps people who are poor. ______

______ 2. Only people who are old collect Social Security benefits. ______

______ 3. Most people will probably never get as much out of Social Security as they pay into it. ______

______ 4. The cost of Social Security is borne entirely by the workers who pay into the system. ______

______ 5. The high cost of Social Security is one of the main causes of the growing national debt. ______

______ 6. Workers may choose not to be covered by Social Security and buy private insurance instead. ______

______ 7. Social Security only benefits those people who actually receive Social Security checks. ______

______ 8. In spite of Social Security, the percentage of poor elderly people in the United States continues to rise. ______

______ 9. A high percentage of the money collected for Social Security is spent to run the system, thus reducing the amount paid in benefits to people. ______

______ 10. Unless Social Security taxes are sharply increased or benefits decreased, the Social Security system may soon go bankrupt. ______

Session 3, Handout 3-2

HOW SOCIAL SECURITY WORKS

In January 1940, 65-year-old Ida Fuller of Vermont received a historic piece of mail—the first Social Security monthly benefit check ever issued to any American citizen. Although her check was only for the amount of $22.54, this was worth a great deal more in 1940 dollars than it would be today. Each month for the next 35 years, Ida Fuller could count on her monthly Social Security check until she died at the age of 100. Her total benefits over the last quarter-century of her life amounted to about $20,900. No one can say what Ida Fuller's retirement years would have been like without the support of Social Security. Certainly she could not have lived so well if she had had to depend only on what she was able to set aside over the years from her modest salary as a bookkeeper. Ida Fuller, like millions of retirees since 1940, could take pride in the fact that, by her own labor, she had earned her Social Security benefits. She did not have to rely on the charity of family and friends or on government welfare programs.

Today, Social Security benefits make up about 38 percent of the total income of elderly people in the United States. However, Social Security is not just for old people. Besides the 26.8 million American retirees and spouses who received monthly benefits in September 1988, there were about 11.7 million others who depended on Social Security for a major part of their livelihood. Among them were many people who were disabled, their dependents, and the survivors of workers who died. Included also were about 2.6 million children under 18, about 72,000 children aged 18 to 19 who are elementary or secondary school students, and about 564,000 disabled adults who are the children of deceased, disabled, or retired workers. Thus, Social Security has come to be one of the major forces in American society for keeping families stable and preventing them from falling into the trap of poverty. This is because, since 1935, Congress has frequently amended Social Security to expand benefits and to include many categories of people who were not covered when Social Security was first enacted in 1935.

Below are some questions and answers that will help you understand how Social Security operates and how it has changed over the half-century since it began.

1. Who was originally protected by Social Security, and who is covered by the program now?

When first established in 1935, Social Security was set up to protect workers in commerce and industry. Among the many people not covered under Social Security were farm workers; employees of nonprofit charitable, educational, and religious organizations; domestic servants; federal employees; members of the military; and people who owned their own small businesses. For various reasons, among which was the growing popularity of Social Security with voters, Congress has gradually brought more categories of people under the umbrella of Social Security. Today, about 95 percent of all workers in the United States pay into Social Security, and they and their families are protected against specified losses of income due to retirement, disability, or death. Because it is a national program operated by the government, workers do not lose their protection when they change employers, as often happens under private retirement plans when people change jobs.

2. Who pays for Social Security, and how much does it cost?

Social Security, unlike welfare (also called public assistance), is completely self-supporting. Workers and their employers share the cost of Social Security, paying equal amounts based on earnings. Under the Federal Insurance Contributions Act (FICA), payroll tax contributions are deducted regularly from each worker's pay, currently at the rate of 7.51 percent (6.06 percent for Social Security and 1.45 percent for Medicare's Hospital Insurance Trust Fund) of what they earn up to maximum earnings of $48,000 in 1989. For the average earner in 1988, this amounted to about $1,398 per year, based on annual earnings of $18,611. The highest amount, $3,379.50, was paid by those making $45,000 or more per year. Thus, those who earn the most, pay

Session 3, Handout 3-2 (continued)

the most, and are generally entitled to somewhat higher benefits when they retire. Employers report to the Internal Revenue Service the amounts deducted from their employees' pay, along with their own matching contributions. (In 1990 the rate of taxation will increase slightly to 7.65 percent and remain at that level thereafter. The maximum taxable earnings are adjusted each year to account for inflation.) People who are self-employed and covered by Social Security are under the Self-Employment Contributions Act (SECA) and pay essentially the same rate as the combined payments of employers and employees under FICA.

3. What happens to the tax contributions paid for Social Security?

The Social Security Administration keeps records of the earnings of each individual in jobs covered under Social Security, since this will affect the amount of future benefits to be received. But the taxes received do not go into individual accounts under each person's name or Social Security number. Rather, the revenues received under FICA and SECA are deposited into trust funds. One is the Old-Age and Survivors Insurance Trust Fund, from which benefits are paid to retired workers or, in the event of death, to survivors of workers or retirees. Another is the Disability Insurance Trust Fund, from which benefits are paid to those who are disabled and unable to work and to certain family members. (About 20 percent of payroll tax contributions go into Medicare's Hospital Insurance Trust Fund, to be explained later.) Most of the trust fund receipts are used to pay benefits during the course of the year to current retired, disabled, and surviving beneficiaries and their dependents. The remainder is invested in government bonds and earns interest for the trust funds. The financing of Social Security and Medicare is ensured by the taxing authority of government and by what is often called the intergenerational contract; that is, present generations of workers are seen as paying taxes to support current beneficiaries with the understanding that the same will be done for them when their turn comes. While specific provisions of Social Security may change, the contributory aspects of Social Security reinforce the political necessity for government to maintain the continuity of Social Security and major benefits.

4. Who are the beneficiaries of Social Security, and how do they qualify for benefits?

The largest program of Social Security is the Old-Age and Survivors Insurance (OASI) program, which provides benefits to retirees, their spouses, and certain dependents of retired or deceased workers. Currently, covered workers are eligible to receive full benefits at age 65, but they can retire as early as age 62 with lower monthly benefits or after age 65 with higher benefits. In the event of death, survivors benefits are paid to a covered worker's or retiree's spouse (if caring for a child under age 16, if over age 60, or occasionally under other circumstances), to dependent children under age 18, and, in some cases, to disabled adult children, dependent aged parents, and dependent grandchildren. Under the disability insurance program, covered workers who, at any age, become severely disabled and cannot work may be entitled to lifelong monthly benefits, as are their survivors in the event of death. And there are other types of beneficiaries as well. (See chart, "Who Gets Social Security Benefits," on next page.)

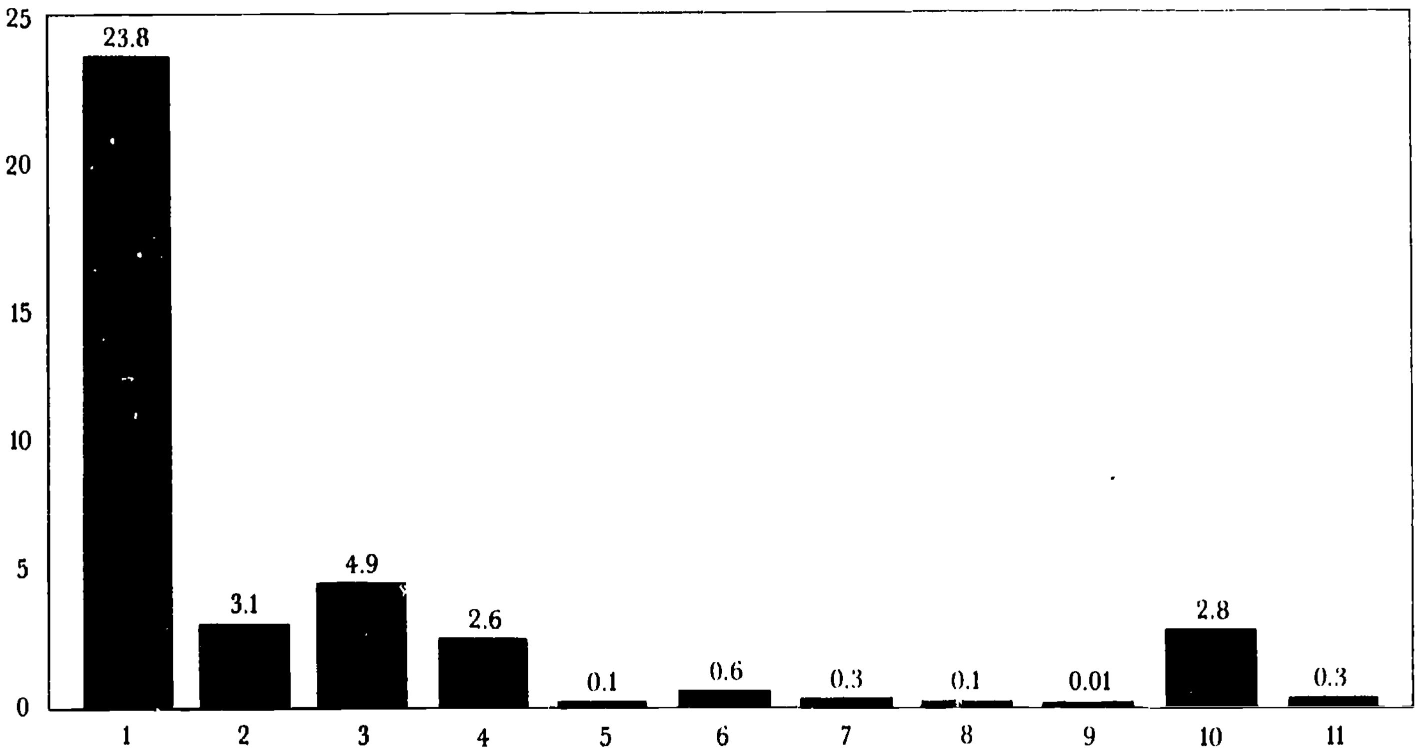
5. Is participation in Social Security voluntary?

Social Security is not a voluntary program. All adults are required to have a Social Security card, and parents are now required to apply for a Social Security card for all children over the age of 5. Today the system covers the vast majority of workers, and they and their employers are required to pay Social Security taxes. On the other hand, no one can be turned down, as they might be if they applied for coverage under a private insurance system. Private insurance companies often avoid insuring people they consider to be "high risks." Workers who are older or who are ill may be denied private insurance coverage or be required to pay very high premiums. Critics of Social Security argue that participation should be voluntary; however, making the program voluntary would defeat its purposes of maintaining widespread financial security for workers and their

Session 3, Handout 3.2 (continued)

Who Gets Social Security Benefits (as of September 1988)

Number of Beneficiaries
(in millions)



Type of Beneficiary

1. Retired workers .... 23.8 million
2. Spouses of retired workers .... 3.1 million
3. Aged widows and widowers .... 4.9 million
4. Children under 18 of deceased, disabled, and retired workers .... 2.6 million
5. Students aged 18-19[a] .... 0.1 million
6. Disabled adult children .... 0.6 million
7. Widowed mothers and fathers with dependent children .... 0.3 million
8. Disabled widows and widowers .... 0.1 million
9. Elderly dependent parents of deceased workers 7,300
10. Disabled workers .... 2.8 million
11. Spouses of disabled workers .... 0.3 million

TOTAL .... 38.5 million

Source: Social Security Bulletin (December 1988).

[a] Specifically, this category includes students aged 18 to 19 and two months who are children of deceased, disabled, and retired workers, and who are full-time elementary or secondary school students.

families and of preventing them from slipping into poverty. If people did not have to pay Social Security taxes, obviously many would not. Later, when a crisis came, these workers would very likely become poor and have to be supported by welfare, which would be costly to taxpayers. For these reasons, Social Security has been set up as a compulsory system.

6. How is Social Security managed, and what does it cost?

Social Security is administered by the Social Security Administration, which is part of the U.S. Department of Health and Human Services, based in Washington, D.C. There are over 1,300 regional

Session 3, Handout 3-2 (continued)

Social Security offices scattered throughout the United States and about 3,400 additional contact stations in less-populated areas. People may visit, call, or write to any Social Security office to apply for a Social Security card, apply for benefits, or get information or assistance on matters related to Social Security. (These offices also take Medicare and SSI applications and inquiries, and by law they are required to assist beneficiaries in applying for food stamps). Representatives from Social Security offices will make "house calls" for people who are unable to visit the office. Each office has computers that enable them to access information needed to answer people's questions about their payments into Social Security, eligibility for benefits, amounts of benefits available, etc. The Social Security trust funds are supervised by a board of trustees that issues an annual report on the funds. This five-member board consists of three members of the president's cabinet (secretaries of the Departments of Health and Human Services, Treasury, and Labor), plus two public trustees appointed by the president. The total cost of administering Social Security is only a little over 1 percent of money received, with almost 99 percent of Social Security taxes going toward benefit payments.

7. How does Social Security affect the federal budget?

For many years the U.S. government has operated at a deficit, meaning that each year it has spent more money than it has taken in. The result is a large and growing federal debt, which is a cause of concern to many people. Because Social Security is a self-financing system (that is, because Social Security pays for itself), it is not adding one cent to the federal deficit or national debt. In fact, in recent years the revenues going into the combined cash Social Security trust funds have been substantially greater than the program's expenditures. This trend is expected to continue for many years to come (through about 2018). Thus, the growing Social Security trust funds are major assets that help offset yearly deficits in general revenues and are potentially an important source of national savings.

8. Will Social Security go bankrupt in the future?

In recent years, as people have lived longer lives and the birthrate has declined, the percentage of older people has risen sharply compared with the percentage of young people in the population.[1] Since most of these older people retire under Social Security and there are relatively fewer younger workers paying into the system, some people have worried whether Social Security can survive. Critics have talked about the "Social Security crisis" and have predicted that the system will eventually go bankrupt. But revisions made in Social Security in 1983 and the continued strong public support for the program guarantee that this will not happen. As a result of the 1983 amendments, the financial outlook for Social Security is very good. In fact, each year since 1984, it has been taking in more money than it has been expending, and it is expected to continue to do so for about three decades. Experts generally agree that even under pessimistic scenarios about the future of the economy, Social Security can pay benefits in a timely fashion for at least thirty-five years. Over the next seventy-five years, a small deficit (about 5 percent of expected revenues) is projected, which could become a problem around 2045 if these projections hold. However, should such a deficit seem probable twenty to twenty-five years in advance of 2045, it could easily be resolved by relatively small tax increases or benefit reductions (e.g., raising retirement age) at that time. No doubt, as with all large systems, problems will arise from time to time, but there is every reason to think that the nation will continue to resolve such problems in a way that maintains the integrity and vitality of Social Security. After all, Social Security is critical to the well-being and stability of families and society.

9. Specifically, what changes in Social Security were made in 1983?

The 1983 amendments to the Social Security Act stabilized Social Security's financing through a combination of changes that spread the burden of

[1] The percentage of persons who are 65 and over will be fairly constant from 1990 to 2005 (because of the smaller annual births from 1925 to 1939 than before or after).

Session 3, Handout 3-2 (continued)

maintaining the financial integrity of the program fairly evenly among different groups of citizens—elderly persons, taxpayers, future beneficiaries, and federal employees. First, up to one-half of Social Security benefits are now treated as taxable income, a provision that primarily affects higher-income beneficiaries. Second, the 1983 and all future cost-of-living adjustments were delayed by six months, representing a roughly 2 percent benefit reduction for current and future beneficiaries. Third, the 1983 amendments corrected an inequity that gave self-employed persons an advantage; now the self-employed make payroll tax payments on a basis that is roughly equal to everyone else. Fourth, the 1983 amendments advanced preexisting payroll tax increases from 1985 to 1984 and part of the previously scheduled 1990 increase to 1988, so that from 1984 through 1989 workers have paid slightly larger Social Security taxes—about an average of $25 more per year for the typical worker. Fifth, the amendments also expanded coverage of Social Security to include new employees of the federal government and the president, vice-president, members of Congress, and most high-level federal appointees and federal judges as of 1984. And finally, beginning in 2003, the age at which persons can receive full retirement benefits will be gradually raised over a twenty-four-year period from 65 to 67. People will continue to have the option of retiring earlier (at age 62 or above) and receiving lower monthly benefits, or of retiring later than normal with higher monthly benefits. However, the amount of benefits will decrease slightly for workers retiring early and increase for people retiring later, thus encouraging some workers to remain in the work force a little longer. These were the major changes. Keep in mind that the pain some of them involve is a relatively small price to pay to ensure the financial stability of the program.

10. In what ways does Social Security benefit society as a whole?

Besides the millions of individuals who receive Social Security benefits, the fact that there is such a system has immense benefits for society as a whole. It stabilizes family life by protecting young and middle-aged families against disability and death of a worker and older families against the cost of retirement. It also enables young and middle-aged adults—the generations in the middle—to focus more resources on their children than would otherwise be possible. Because it is an earned right, it enhances the dignity of beneficiaries.

It should be kept in mind that Social Security is a means of preventing individuals and families from slipping into poverty. Social Security has played a major role in reducing poverty over the past few decades, especially among elderly people. Without it, there would certainly be many more poor Americans than there are today (e.g., about one-half of elderly people would be poor as opposed to about 12 percent in 1987). All these people would have to be supported somehow—in most cases by their relatives or by welfare. Thanks to Social Security, many families do not have to choose between providing care to poor elderly parents or sending their children to college.

Another indirect benefit of Social Security is that it enables older workers to retire, thereby opening up job opportunities for younger workers. The fact that there are relatively fewer workers seeking jobs also tends to push wages and salaries higher since employers have to compete to get the best available workers.

Social Security also helps to stabilize the economy. During periods of economic recession, the fact that millions of people continue to receive their Social Security checks and maintain their purchasing power helps to keep businesses operating and people employed. Further, the monthly influx of Social Security payments into the economy helps to keep recessions from becoming worse and aids in the process of economic recovery.

Very importantly, Social Security is an expression of the societal impulse to care for our family and neighbors; thus, it reinforces our national community. It is a clear statement that "we are our brother's keeper."

These are just some of the ways in which the benefits of Social Security reach far beyond the people who go to their mailbox each month and find a benefit check in the mail.

Session 3, Handout 3-2 (continued)

Useful Terms to Know

Beneficiary: A person who receives benefits, such as a retired worker beneficiary in Social Security.

National debt: The total amount of money owed by the national government, which increases each time there is a deficit.

Recession: A serious decline in demand for goods and services, causing a general slowdown in business activity and higher unemployment. (A severe recession is called a depression.)

Taxable earnings: The portion of salary or wages subject to payroll taxation. (For example, in 1989, the first $48,000 of earnings are subject to the Social Security payroll tax contribution.)

Session 3, Handout 3-3

HOW SOCIAL INSURANCE PROGRAMS HELP

Below are brief descriptions of major social insurance programs now operating in the United States. After reading about these programs, match the programs with the problem situations that follow.

Social Security. Established in 1935, Social Security has become the largest social insurance program. The official name of this federal program is Old-Age, Survivors, and Disability Insurance (OASDI), but it is best know by its familiar title of Social Security. Today, nearly all elderly retirees receive monthly Social Security checks in addition to any other financial resources they may have (e.g., savings or pensions paid by their former employers). Social Security benefits are also paid to 2.8 million disabled workers, and often for the support of their families. In addition, surviving spouses and children of covered workers who have died may receive monthly benefits. Currently about 38.5 million Americans of all ages depend to some degree on Social Security payments for their livelihood, and for many people it is their chief source of income. Among today's beneficiaries of Social Security are about 2.6 million children under age 18.

Medicare. As people are living longer and longer lives, the number of elderly people in the United States has rapidly grown. At the same time, the cost of medical care is constantly rising. Medical costs represent a major threat to the financial security of retired people, whose entire life savings can be wiped out by a single serious illness or a long period of hospitalization. Today a federal program of health insurance, Medicare, provides substantial protection in the forms of Hospital Insurance and Supplementary Medical Insurance to offset the cost of doctors' fees and many other medical services. Like any other insurance program, Medicare is financed by premiums paid by the people who are covered. On average, Medicare now covers about half the total medical costs of elderly people in the program. (Note that Medicare should not be confused with Medicaid. Medicaid is a tax-supported welfare, or public assistance, program, which provides for the medical needs of certain groups—mainly families with dependent children, the disabled, and elderly poor.

Unemployment insurance. About 90 percent of all American workers are protected by state and federal unemployment insurance (or unemployment compensation). Through these programs, people who are involuntarily unemployed may receive partial replacement of their wages for up to several months while searching for new employment.

Workers' compensation. Today almost nine out of ten workers are protected by state and federal workers' compensation programs. These programs provide partial replacement of wages, medical benefits, rehabilitation benefits, and survivors benefits to workers who are disabled as a result of work-related illness or injury.

Public employee programs. Through these programs, people who work (or have worked) for local, state, and federal governments receive such benefits as retirement pensions, disability benefits, and survivors benefits. On the federal level, these programs include all civilian and military employees of the government. Currently, the federal Civil Service Retirement System and the federal military retirement systems pay over $40 billion per year to over 3.6 million beneficiaries, in addition to all the state and local programs.

Read the following situations, and for each one write in the space below the name of a social insurance program that might provide the help needed.

Problem 1: Mark Gibson is a 57-year-old linotype printer who was employed by his small town's only newspaper for thirty years. Last week he lost his job because the newspaper replaced its old-fashioned printing press with a new press that operates electronically. Newspapers no longer need Mark's out-of-date printing skills, and he has no training or experience that would qualify him for any other kind of work. It looks like it might be quite a while before he finds another job.

Program: ______________________

Session 3, Handout 3-3 (continued)

Problem 2: Rachel Knauer is a 28-year-old electrician who works for a large electrical contracting firm. An apprentice was helping her load supplies in a van when he accidentally dropped a heavy spool of electric cable on her hand, breaking her thumb and two fingers. As the doctor set a cast on her hand and forearm, he estimated that it might be two months before she could return to work.

Program: ______________________

Problem 3: Bernie Hall was employed as a truck driver until he died of a sudden heart attack at the age of 45. Besides his widow, Jean, he left two children, ages 12 and 15. Benefits from Bernie's small insurance policy and Jean's income from her job as a secretary will help them get by, but Jean worries whether she will have enough to provide well for her children.

Program: ______________________

Problem 4: Harry and Ethel Franklin, ages 64 and 61, respectively, have worked hard all their lives. Harry has been employed for many years as a custodian in a U.S. Post Office building. Ethel has never worked outside the home but has raised five children, all of whom are now married adults with children of their own. Although basically in good health, Harry now finds that he does not have the stamina and energy he once had for his work. He and Ethel own their home and have managed to put a little money aside in savings. Harry has decided to retire, giving them an opportunity to do a little traveling and other things they have always wanted to do together. Is he likely to be eligible for social insurance benefits?

Program: ______________________

Problem 5: Jenny O'Toole is 82 years old and has been a widow for twelve years. Her only regular sources of income are a monthly Social Security check and a small pension. Jenny has had severe arthritis for several years, but she has just learned that she also has a heart condition that will require an expensive hospitalization. Jenny is proud that she has always been self-supporting, but she now worries about whether she can handle her medical bills.

Program: ______________________

Lesson Plan for Chapter 7
CURRENT AND FUTURE ISSUES

Overview: Having learned how social insurance has evolved in the United States and how various programs operate, the students should now be ready to explore some of the major issues and controversies regarding social insurance in the decades ahead. This lesson provides an opportunity for students to learn how new challenges are emerging as a result of contemporary demographic and economic changes that have major implications for the future of social insurance. The lesson also provides a framework through which students can analyze various options available to society during their own lifetime for addressing these issues.

Objectives: As a result of this lesson, students will be able to

- understand selected social insurance issues;
- describe and make judgments about selected proposed changes in social insurance programs;
- discuss differing points of view with respect to these issues; and
- identify trade-offs when considering new policy options (e.g., between liberalizing benefits and increasing taxes).

Estimated Time: One class period.

Advance Preparation: Make sufficient copies of handout 4-1 for all students. Recommended background reading for the teacher is chapter 7, "Current and Future Issues," in *Social Security in the USA*.

GUIDELINES

1. Distribute copies of handout 4-1, "Will There Be a Social Security Crisis?" and allow students about ten minutes to read it. (Alternative: Assign the reading as homework prior to class. This would allow more time for class discussion.)

2. Briefly discuss the differences between the challenges that gradually changing demographics pose for Social Security and the national crises that came suddenly as a result of the 1929 stock market crash and the 1941 Japanese attack on Pearl Harbor. Emphasize the point that the gradual evolution of demographic change allows for long-range planning and program adjustments, as illustrated in the 1983 amendments to Social Security.

3. Have the students, either individually or in small groups, decide which of the options for revising Social Security they might favor or oppose if there was a need to make future adjustments in Social Security. Emphasize that they should consider possible advantages and disadvantages of each option.

4. Devote the balance of class time (possibly an additional class period) to discussing the potential advantages and disadvantages that could come from exercising each of the options for future changes in Social Security.

EXTENDING ACTIVITIES

1. As a class project, have the students study the growing need to protect elderly people and their families from the risk of financial disaster resulting from chronic illness and/or disabilities requiring long-term health care and assistance with daily activities. What are the options (e.g., doing nothing, encouraging greater private protection, social insurance solutions, welfare solutions)? What are the trade-offs (e.g., between increased protection via social insurance and increased taxes, between doing nothing and placing a greater burden on individuals and their families)? What are the moral issues (do we owe elders anything?) As part of this exercise, have each student identify two middle-aged and two elderly persons and ask them whether the risk of long-term care poses a significant threat to people they know. They could also be asked how much they would be willing to pay a month to protect themselves from this risk.

2. Select an issue and use a debate format to involve students with the issue. Have three students present the case for and against a particular policy change. Allow time for the rest of the class to question the debaters.

3. Students could be asked to interpret graphs and data (e.g., a graph showing long-range projections of Social Security revenues and payments following the 1983 amendments, according to low/medium/high projections of economic growth, or a table showing projections of the growth of the population by age groups).

4. Ask students to scan the newspapers and magazines for three months and bring clippings to class on social insurance issues once a month. Use the clippings as an opportunity to discuss current issues.

5. Have students examine how social insurance protection might be amended or extended to meet unmet needs, such as health care for people not currently covered, long-term care, etc.

6. Another activity might involve an intergenerational group of volunteer students and seniors planning and carrying out a strategy to educate others in the community about social insurance. This might take the form of a cable television program, a community forum, a drama, etc.

Session 4, Handout 4-1

WILL THERE BE A SOCIAL SECURITY CRISIS?

In the past few decades the United States has been undergoing what has been termed the "graying of America." Average life expectancy for Americans has increased. Life expectancy for persons born in 1900 was only 47 (according to the mortality rates then prevalent), and people over age 65 represented only about 3 percent of the total population at that time. In the early years of the twentieth century, vast numbers of people died in their childhood, youth, or middle age from such diseases as smallpox, tetanus, typhoid, and polio. Relatively few people lived to old age. Advances in public health, medicine, and nutrition have made it the ordinary thing for people in the later twentieth century to live a long life. Average life expectancy for children born in the 1980s is about 74 (71 for males and 78 for females). Millions of people now live well into their 80s or 90s, and many even to age 100 and above. Today, people 65 and over represent about 12.5 percent of the population and number about 31 million. By the time today's high school students become tomorrow's senior citizens, they will be among the estimated 66 million Americans (or 22 percent of the population) who will be 65 or over.

The aging of the large post-World War II baby boom generation, persons born from 1946 through 1965, will also contribute to the aging of America, beginning around 2010 when the first baby boomers reach retirement age and continuing for many years thereafter. And recent trends toward smaller family sizes mean that there will be relatively fewer persons of working age relative to retirees when the baby boomers retire.

Needless to say, the aging of the baby boomers, the rapid increase in longevity (length of life), and the trend toward smaller families have raised many new issues for American society. For one thing, it means there will be fewer people paying into Social Security compared with the number of retirees drawing benefits. Today there are about three workers for each Social Security beneficiary. Forty years from now the ratio will be about two workers to each beneficiary. As a result, some people predict a Social Security crisis and question whether Social Security can survive. Before we consider whether there truly is any forthcoming crisis in Social Security, let us consider two other occasions when the country was faced with a true national crisis that had to be resolved. Then we will be in a position to examine the so-called Social Security crisis from a more balanced perspective.

In October 1929, the United States was confronted with one of its greatest crises ever. Following several years of unprecedented prosperity after World War I, the country was suddenly faced with an economic collapse. The stock market crash that hit the country at that time saw the value of stocks plunge to a fraction of what investors had paid for them. Tens of thousands of people, mostly middle-class investors, suddenly found themselves bankrupt, sometimes in a single day. The panic that followed resulted in a widespread failure of banks and businesses, and within one year approximately 6 or 7 million Americans were without a job. So began the Great Depression of the 1930s. People who, without warning, lost their jobs, their savings, and their homes wondered if good times would ever return. Yet within a few years the country was on the road to recovery, and within a decade the depression was a matter of history.

Another crisis came on 7 December 1941, when the Japanese surprise attack on the U.S. military bases at Pearl Harbor suddenly plunged the country into World War II. Over the next four years, the United States found itself faced with the challenge of producing massive quantities of aircraft, ships, and military supplies to support armed forces numbering 12 million, who were fighting alongside their allies on battlefields across Asia, Africa, and Europe. Starting almost from scratch, the country built up its military production until by 1944 the United States was producing double the combined total of military goods being produced by the three major Axis powers—Japan, Germany, and Italy. The war costs were staggering, even for a country as wealthy as the United States. Yet in less than four years the job was done. By August 1945, the Axis had been defeated and peace was restored.

Both the Great Depression and World War II demonstrate that massive crises can be overcome

Session 4, Handout 4-1 (continued)

when the country is faced with a national challenge. Even if the aging of America should present a crisis for the future of Social Security, the United States has successfully faced greater challenges in the past. One fundamental difference between the challenge of long-term financing for Social Security and such crises as the depression and World War II is that we are not being suddenly plunged into a crisis by some catastrophe, such as a stock market crash or a surprise attack by a foreign power. The aging of America is more of an evolution, a gradual change in the age mix of our population over many decades. Thus there is plenty of time for planning and making adjustments to ensure that Social Security will remain financially sound and will be in operation to meet the needs of growing numbers of retirees in decades to come.

In fact, after extensive study by a bipartisan commission appointed by President Reagan, Congress in 1983 enacted reforms that ensured the financial stability of Social Security well into the twenty-first century. (The government estimates Social Security financing seventy-five years into the future.) Essentially, the revisions have produced annual surpluses in Social Security for about thirty years, which offset nearly all of the annual deficits projected in the years after about 2015. A small deficit (about 5 percent of anticipated expenditures) is projected during the seventy-five-year period. If current estimates hold up, the timely payment of benefits would be interrupted by around 2045. Fortunately, the buildup of large reserves provides much lead time in which to respond to financing problems that could arise at that time. If current estimates hold up, corrective legislation would be needed during the third or fourth decade of the twenty-first century. If the unexpected should happen—for example, a major economic decline or a rapid decline in the birthrate—there would still be plenty of time to make further adjustments. In short, there is no reason to expect a crisis in Social Security, and there is every reason to believe that problems that will arise from time to time can be handled.

Beyond the reforms that have already been made, several options are still open for the future if the need arises. Below is a list of several changes that could be considered. Think about the possible advantages and disadvantages each might have, and about which you would favor if the need arose to make further adjustments to Social Security in the future.

Option 1: Increase Social Security payroll tax rate

The Social Security payroll tax is scheduled to increase from 7.51 percent[1] of covered earnings on both employees and their employers to 7.65 percent (6.2 percent for Social Security and 1.45 percent for Medicare's Hospital Insurance program) in 1990 and to stay at that level thereafter. The self-employed payroll tax rate is essentially the same as the combined rate paid by workers and their employers. In the event that additional financing is needed for Social Security, one option would be to raise the payroll tax rate.

Experts expect the economy to expand slowly, at an average of 1.5 percent to 2.0 percent per year after adjusting for inflation. This means that, after adjusting for inflation, the income available per person—what economists call "real per capita gross national product"—will double roughly every forty to fifty years. Thus, the standard of living in the future should be substantially higher than it is today, even if payroll taxes were increased thirty-five or forty years from now. Moreover, American workers pay a smaller percentage of their total income in taxes of all kinds than do workers in many other modern industrialized nations. Considering the importance of Social Security to people of all ages, could we afford to pay a little more?

Option 2: Increase the maximum base of taxable earnings

The Social Security payroll tax is paid by the worker and matched by the worker's employer on what is called the "taxable earnings base"—that is, on earnings up to $48,000 in 1989. The 1972 amendments to the Social Security Act provided for the taxable earnings base to be adjusted each year automatically as average wages increase. Without this adjustment a smaller and smaller proportion of worker's earnings would be subject to taxation as average wages increased.

[1] 20 percent of the payroll tax is used to fund the Medicare Hospital Insurance Program.

Session 4, Handout 4-1 (continued)

Because there is a ceiling on the amount of earnings subject to the payroll tax, higher-income workers earning more than the ceiling actually pay a lower percentage of their earnings in FICA taxes than do people who earn less. They do not, however, receive credit toward Social Security benefits on earnings above the ceiling. Should the upper limit be increased on both the employee and employer, or even eliminated, so that those earning more would pay more into the system? If it is eliminated, shouldn't many of these workers be entitled to receive substantially larger benefits—extremely large in the case of very high income workers—if they are taxed at a higher level of earnings, given that Social Security benefits are earnings related? Alternatively, should the upper limit be increased only on the employer, a proposal that would raise more revenue but not violate the earnings-related principle if higher-income workers did not become entitled to larger benefits based on this change?

Option 3: Increase the normal retirement age

Currently, people can receive full retirement benefits under Social Security at age 65, or reduced benefits at age 62. Under the Social Security amendments of 1983, the age of eligibility for full benefits will be raised gradually to 67 over a twenty-four-year period, beginning in 2003. Reduced benefits for early retirees will still be available but at a slightly lower rate than at present.

Those supporting this option might argue that it as a fair and reasonable way of reducing expenditures. They might point out that 1) life expectancies—and hence the number of years beneficiaries receive retirement benefits—have increased and are expected to increase even further, 2) beneficiaries of the future will generally receive retirement benefits for more years than will current beneficiaries, 3) the real value of Social Security benefits in the future will be greater than it is today, and 4) this change will encourage work effort on the part of older people.

Those opposing this option might argue that 1) it is particularly unfair because much of the savings will be produced by reducing the benefits of lower-income persons who are unable to work due to limited employment opportunities and/or health problems, 2) there are better ways of encouraging work among those elderly persons who are willing and a[illegible]d 3) at a minimum, eligibility criteria for disab[illegible]y benefits should be liberalized for older workers if a later retirement age is phased in.

Option 4: Limit cost-of-living adjustments

The annual cost-of-living adjustment is not a benefit increase; it simply maintains the purchasing power of benefits in the face of inflation. Having a social insurance program without COLAs would be like setting up a policy that says the longer beneficiaries live, the less their monthly benefit should be worth. For all beneficiaries, especially those with lower incomes, the annual COLA is an important feature of the program. It is also an expensive feature.

Should it become necessary in the future to reduce Social Security expenditures, one option would be to skip one or two annual COLAs or to only provide a portion of the COLA. However, the potential savings from doing so should be assessed against the impact on beneficiaries. All beneficiaries—elderly, disabled, survivors, and other family members—count on Social Security for an important part of their monthly income. Millions of low- and moderate-income beneficiaries have little or no income beyond Social Security. Thus, cutting the COLA would be especially hard on them.

Option 5: Increase the proportion of Social Security benefits subject to taxation

Currently, up to one-half of Social Security benefits are counted as taxable income. The tax payments made by beneficiaries on their Social Security income are credited to the Social Security trust funds. Another option would be to treat more than one-half of Social Security benefits as taxable. This would affect higher-income beneficiaries more than middle-income ones. Some might point out that, for some beneficiaries, this might represent a hardship.

Session 4, Handout 4-1 (continued)

Option 6: Use general revenues

Another option would be to use the general revenues of the federal government to finance a portion of Social Security. Currently, Social Security is not financed directly out of these funds, and given the current large deficit in the general revenues of the federal budget, it can be argued that we cannot afford this approach. But this state of affairs will not last forever. It can also be argued that infusing general revenues into Social Security would move the program away from the discipline imposed by payroll taxation—that is, the awareness that benefits paid are directly linked to the highly visible payroll tax on workers. Conversely, it can be argued that using some general revenues is desirable because the income tax that produces these revenues places less of a burden on low- and moderate-income workers than does the payroll tax. In fact, most Western democracies use significant amounts of general revenues for financing their Social Security programs.

Understanding the aging of America as both a success and a challenge

Regardless of whether there are future financing problems in Social Security or any other programs concerned with elderly persons, it is important to understand that the aging of America is a major success of our society. More people are reaching and will continue to reach old age, and the quality of old age has improved. This is a result of successful investments made in the economy, of century-long biomedical and public health advances, and of successful public policies such as Social Security and Medicare.

Of course, the aging society challenges us, as a people, in ways that extend beyond guaranteeing the financial integrity of Social Security. No doubt there is need to ensure that the extra years of human life are good years in which older persons continue to have opportunities to be part of and contribute to their families and communities in various ways. There is the urgent challenge of protecting persons of all ages, and especially the very old, from the potentially financially devastating—not to mention emotionally devastating—costs of long-term care for chronic illnesses and disabling conditions. There is a need to explore new ways of ensuring that all Americans have access to adequate health care. There is a need to invest in biomedical research that promises to improve the quality of life in old age. As always, there is a need for investments in new plants and equipment, and in research and develop ment, to ensure the future growth of the economy. And there is a need to invest in today's children—in their education, in their health care, and in the well-being of those around them—who, after all, are the workers and later the retirees of tomorrow.

Useful Terms to Know

Baby boom: A twenty-year period following World War II—1946 through 1965—when the birthrate (number of births per year per thousand women of child-bearing ages) was high, and during which the average family had more children than it does today.

Bankrupt: A situation in which a person, company, or program is deeply in debt and unable to meet its financial obligations.

Bipartisan: Involving or strongly supported by members of both the Democratic and Republican parties.

Expenditure: Money paid out. (Opposite of revenue, or money received.)

Life expectancy: The predicted average age to which a person or group of people are expected to live.

Public policy: A basic position—generally in the form of laws—taken by government on a particular issue affecting many people that guides how that issue will be handled.

Resources for Teachers

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* Recommended for consideration for classroom use at high school level.

ORGANIZATIONS TO CONTACT FOR INFORMATION

Offices of members of the U.S. Congress

The following congressional committees frequently issue reports about social insurance programs:

House Select Committee on Aging
House Ways and Means Committee
Senate Finance Committee
Senate Special Committee on Aging

The following organizations are important sources of information about social insurance programs:

American Association of Retired Persons
1909 K Street, N.W.
Washington, D.C.
202-872-4700

American Council of Life Insurance
1001 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2599
202-624-2000

American Federation of Labor/Congress of Industrial Organizations
815 16th Street, N.W.
Washington, D.C. 20006
202-637-5144

Center for Understanding Aging
Framingham State College
Framingham, MA 01701
508-626-4979

Gerontological Society of America
1275 K Street, N.W., Suite 350
Washington, D.C. 20005
202-842-1275

National Academy of Social Insurance
505 Capitol Court, N.E.
Washington, D.C. 20002
202-547-9592

National Council of Senior Citizens
925 15th Street, N.W.
Washington, D.C. 20005
202-347-8800

National Senior Citizens Law Center
2025 M Street, N.W., Suite 400
Washington, D.C. 20036
202-887-5280

Save Our Security Education Fund
1201 16th Street, N.W., Suite 222
Washington, D.C. 20001
202-822-7848

The Villers Foundation
1334 G Street, N.W.
Washington, D.C. 20005
202-628-3030

The following government agencies can provide information about social insurance programs:

Administration on Aging

Department of Labor

Health Care Financing Administration

Social Security Administration

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