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RESEARCH REPORT

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MAINTAINING AND IMPROVING A STRONG SOCIAL SECURITY SYSTEM

by Merritt College Class

Ed. Note: Workers and employers will start paying higher Social Security taxes in January, 1979. Workers who earn $22,900 or more will pay the maximum tax increase, amounting to $27.75 a month or $333.00 for the whole year of 1979. The tax increase will be much less for those who earn less. For example, a worker earning $15,000 in 1979 will pay only $1.00 more each month in Social Security tax. (In all cases, employers must pay the same amount that workers pay in higher Social Security taxes.)

There have already been many complaints about these tax increases--especially from higher paid workers, and from employers. Therefore, it is timely to consider what Social Security protection means to workers--and what a sound and secure Social Security system means to the entire nation.

The following report presents a point of view developed by the union members currently enrolled at Merritt College in a class on Health, Welfare and Income Maintenance Programs. The class is part of the University of California - Merritt College Labor and Urban Studies Program, and is taught by Bruce Poyer, Coordinator, Center for Labor Research and Education, U.C. Berkeley. The class presented this report to the Social Security Advisory Council at a public hearing in Los Angeles on November 14, 1978. The report recognizes what is best about Social Security, calls for needed improvement in disability protection, and asks for a broad new *nation-wide study of all programs offering death, disability, and retirement protection to workers and their dependents or survivors.*

The viewpoints and recommendations set forth in this statement are those of the class, and not necessarily those of the Labor Center or the Institute of Industrial Relations or the University of California.

We appreciate the opportunity to appear before the Social Security Advisory Council. We would like to offer some suggestions to improve the Social Security program of the future.

First, we would like to reaffirm our confidence in the basic principles, the financing and the administration of our Social Security system of today. That system has suffered from too much emotional attack and too much uninformed and unjustified criticism. There is a real need to extend the education of Americans about the many positive and irreplaceable contributions Social Security makes to our entire society. We hope the Advisory Council will help to fill this widespread educational need.

I. TO MAINTAIN A STRONG SYSTEM

1. We should reaffirm and extend the basic principles of Social Security:

The basic principles of our system have proved their soundness by serving us well, and they deserve the continued support of all working people. Further, we believe the basic principles should now be carried forward in any national health security program the Congress may enact.

The basic principles include the concept of a national program; directly administered by the federal government; establishing compulsory social insurance; requiring tax support from workers and employers; and paying comprehensive and uniform benefits not subject to any means test.

Our continued support of the social insurance concept of Social Security extends to these elements: the provision of financial protection against defined hazards; the pooling of contributions and the sharing of risks on the widest possible national scale; and the understanding that benefits are payable as a matter of legal right on the occurrence of stated events.

2. We should continue to support key legislated changes of the 1970s:

The amendments enacted in the 1970s were broad and comprehensive enough to demonstrate Social Security's most important characteristic of today: the ability to adapt to dynamic changes in our economy and in our society. In particular, we reaffirm our continuing support of the following essential changes enacted during this decade:

(a) Adoption of the 1972 amendments which made the system more dynamic, including the cost of living escalation provisions to make benefit levels more responsive to inflation (and to provide for automatic adjustment of the taxable wage base), and including the abandonment of the trust fund accounting device in favor or reliance on direct pay-as-you-go financing.

(b) Adoption of the Supplemental Security Income program in 1974, which provided a floor of income maintenance for aged, blind and disabled people in two ways: first by directly supplementing whatever income they have from other sources, including Social Security benefits; and second, by indirect income supplements through Medicaid, food stamps, and needed social and rehabilitation services.

We support the unique supplementation concept of SSI because it reduces the means test indignities of welfare, and because it combines the economic advantage of general revenue financing with the efficiency of Social Security administration. We expect the minimum benefit levels of SSI to be continually improved, and we urge the Advisory Council to explore carefully all possibilities of extending the supplementation concept of SSI to other appropriate welfare categories.

(c) Adoption of the 1977 amendments which corrected for both short-run and long-run financing imbalances: The imbalances arose from basic economic and social factors, such as the impact of high rates of unemployment and inflation, the changing nature of our technology and our work force and our distribution of capital investments, and the changing composition of age groups in our population (especially the working group compared to the retiree group).

The Social Security tax increases enacted in 1977 were steep, and will be subject to criticism for the next few years from many tax-conscious workers. It should be noted that the criticism will be coming from those workers who are best able to pay more taxes--because Congress made most of the increases through 1981 payable by means of very steep jumps in the taxable wage base, and not through steep tax rate increases. We support this application of the concept of progressivity to worker taxes under Social Security, and we hope the same concept will be applied more frequently to changes in the general tax structure of the nation.

More importantly, we commend the timely action which was taken to protect our Social Security system from the drastic changes in economic projections which have confronted all Americans in all economic walks of life in the 1970s. We believe it is especially significant that appropriate corrections were made for Social Security, since it has not yet been possible to make similarly appropriate corrections in the general economy--even for the short run impact of unemployment and inflation. In the case of our private pension plans, we have apparently not yet comprehended the necessity to correct our projections of future revenues and benefit levels to meet the enormous impact of the social and economic changes of the 1970s--even though the financial problems facing our private plans are the same as those which faced Social Security before the amendments of the 1970s.

3. We should commend the administration of Social Security:

The Social Security Administration is a leading example of a careful, efficient, helpful and responsive public agency, doing an outstanding job of serving millions of our fellow citizens (including many of our own family members) who are Social Security beneficiaries. We believe it will soon become essential to extend Social Security programs <u>and</u> administration--particularly to national health care and also to a much broader disability protection program than Congress has seen fit to legislate in the past.

We strongly reject the political compromise urged by some to administer a proposed national health care system by use of private sector, cost-plus contractors. These are the "fiscal intermediaries" who have given us uncontrollable health care inflation. They are politically potent, but they simply do not have the track record for reliable and efficient administration that the Social Security Administration has compiled. It has become imperative to educate the health care politicians on this subject.

II. TO IMPROVE THE SYSTEM FOR THE FUTURE

1. We should use more general revenues:

In the chorus of criticism of Social Security which has echoed across the land in recent years, there has been a heavy bass section carrying the refrain of regressivity. The section is somewhat out of tune, so it tries to make amends by increasing its volume.

If we look only at the contribution side of Social Security, the payroll tax is properly described as regressive. But on the benefit side of Social Security, the structure is appropriately weighted in favor of low income beneficiaries. Considering both sides together, the net impact for each generation is progressive, because the Social Security benefits paid to each generation have always surpassed by far the contributions previously required of that generation.

Further, we have always had an indirect method of diverting general revenue funds to Social Security--simply because employer payroll taxes have always been deductible from the employer's income taxes. Also, the current session of Congress saw fit to pass general tax reductions in time to take effect along with the next big increase in Social Security taxes. Thus the Congress continually does in effect what it continually announces it will not do.

In spite of these factors, we believe that general revenue funding of Social Security benefits has become not only appropriate but essential in the case of health care and disability benefits. With respect to health care, we are already contributing general revenues to Social Security programs. A national program with universal coverage and with comprehensive benefits will clearly require a considerable extension of our existing general revenue financing precedent.

With respect to disability, we believe there are serious and widespread problems now confronting workers and their dependents, which are sufficient to justify immediate general revenue funding of an extensive new addition to the Social Security disability insurance program.

We urge the Advisory Council to propose legislation now to allocate to the Social Security disability insurance fund an amount from general tax revenues equal to the amount of social security payroll taxes allocated to disability each year.

2. We should expand the DI program:

The extent of the problem of disability in the U.S. was made dramatically clear in the recently published conclusion of the Social Security Administration's 1972 survey of disabled and nondisabled adults:

> In a sample survey of some 106.3 million adults in the civilian, noninstitutionalized population aged 20-64 in 1972, approximately 15.6 million reported that they were disabled, including 7.7 million who were severely disabled. Yet, in the same survey, 51.8 million persons reported that they suffered from one or more chronic health conditions or impairments.
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> (Krute & Burdette, "1972 Survey of Disabled and Nondisabled Adults: Chronic Disease, Injury, and Work Disability," Social Security Bulletin, April 1978, p.3.)

This survey paints a vivid statistical portrait of what appears to be a sick U.S. working population. Evidence continues to pour in from a wide variety of sources to indicate the origin and cause of the chronic diseases, injuries, work disabilities and health impairments now plaguing American workers. The evidence comes from OSHA about health and safety problems in the workplace; from EPA and other environmental agencies about air, water, and chemical pollution; from workers' compensation rating agencies about the increasing costs of insuring employers against health hazards in the workplace; from public health agencies about the effects of smoking, poor nutrition, drinking, drugs and the lack of adequate physical exercise.

Experience in the workplace makes it clear to workers that the problem of disability in the U.S. will get worse before it gets better. Our country has just begun to identify and try to cope with some of the long-term health hazards to workers exposed to coal and asbestos and cotton dust, polyvinyl chloride, pesticides, and a wide variety of carcinogens. Often when we learn about the effects of worker exposure, that is only the beginning of understanding about the adverse health impact on the population at large.

Sufficient evidence is available to indicate that the present Social Security definition of disability is far too restrictive. In April of 1978, 2,853,000 workers under the age of 65 were unable to participate in any substantial gainful activity, and were qualified to receive Social Security disability benefits. But the Social Security Administration discovered in its own 1972 survey that 7,700,000 workers were "severely disabled," i.e., unable to work altogether or unable to work regularly.

We urge the adoption of the following three-level definition of disability as set forth in the SSA's 1972 survey quoted above, p. 16:

> <u>Severely disabled</u>--unable to work altogether or unable to work regularly.
>
> <u>Occupationally disabled</u>--able to work regularly but unable to do the same work as before the onset of disability or unable to work full time.
>
> <u>Secondarily disabled</u>--able to work full time, regularly, and at the same work, but with limitations in the kind or amount of work they can perform . . . .

We urge the corresponding development of a schedule of disability payments and rehabilitation benefits to be made available under Social Security. Eligibility for benefits should require appropriate evidence of disability, but the level of benefits should depend strictly on an earnings test. Those who earn more on their own should receive less in benefits; those who earn less should receive more benefits.

We urge that special incentives be incorporated in the new disability benefit structure to encourage disabled workers to take full advantage of all rehabilitation possibilities.

We urge the development of a Supplemental Disability retirement program for all workers who meet any of the above definitions of disability, who have passed the age of 55, and have been involuntarily unemployed long enough to exhaust all entitlement to unemployment insurance benefits made available to them by any public agency. Eligibility for benefits should depend again on appropriate evidence of disability, and the level of benefits should again be determined strictly by an earnings test.

To the extent that additional revenues may be required to support the programs recommended above, we urge that they be raised in equal parts from general revenue allocations and from increases in the disability portion of the Social Security payroll tax. We stand opposed to any change in financing which might result in the introduction of a general income, resources, or "needs" test for benefit eligibility.

Finally, with respect to present provisions affecting disability, we urge the elimination of the five month waiting period before benefits are payable; and we urge the elimination of the two year waiting period before disabled people can be covered by Medicare; and we urge that maximum earnings permissible under the definition of "substantial gainful activity" be increased to $500 per month, and then tied to an automatic escalator.

3. We should initiate a broad study of worker security problems in the U.S.:

The relationship of Social Security to the nation's economy has changed drastically in the 1970s. High levels of inflation and unemployment have become not exceptional situations, but constant economic expectations, which present increasing difficulties for an increasing number of people. In this kind of economy, Social Security has become a stabilizing factor for millions. We believe the system has been modernized sufficiently to allow it to play a stabilizing role even if the economy continues to inflate rapidly, and even if unemployment rates cannot be reduced significantly. In fact, we believe the economic stabilizing role of Social Security has become even more significant as economic projections for the future have become steadily gloomier in this decade.

The relationship of private pension plans to the nation's economy has also changed drastically in the 1970s--for the worse. The basic economic factors which required long-term revision of the financing structure of Social Security have presented to the nation's private pension system the same difficult challenge. Private pension plans have not met that challenge. Cost of living escalation has not been built in to protect the financial security of future beneficiaries. Long-term funding assumptions have not been reexamined and changed in the light of adverse economic experience during the 1970s (especially, assumptions about interest income and the level of employment). High turnover rates have not been reduced, and the most significant problem of private plans, lack of portability, has not been tackled in any basic way. The small number of workers actually receiving private pensions (only about 20%) has not increased significantly. The disproportionate use of private pension funds for high risk investments--and the increasing volume of overseas investments--have even undermined the job security of many union members covered by negotiated pension plans.

The typical union worker has received so little basic information and has had so little to say about the funding decisions and the investment decisions affecting the use of vast sums of money deducted from his paycheck and allocated to his negotiated pension trust, that he now generally has greater influence in decisions affecting our Social Security system. It is a good thing he does, because Social Security has now become the typical worker's most basic protection.

We believe the changes of the 1970s have been significant enough to require a broad new study of the relationships between Social Security and the private pension system of the nation, and the basic relationships of each of these systems to the U.S. economy.

With respect to Social Security, the new study should focus on what we believe has now become the necessity to increase general revenue funding, and should sort out the most likely options for doing so with the least possible impact on existing tenets of the system.

With respect to private pensions, the new study should focus on the impact of inflation. Can the private plans, including our negotiated plans, even survive the level of inflation which has apparently now become acceptable--or unavoidable--in this nation? What additional legislation may be required to protect workers in private plans with respect to long-term funding and investment decisions, and with respect to the unsolved problem of portability in the face of increasing job turnover?

With respect to the problem of disability, the new study should seek to determine why our state Worker Compensation programs have failed to meet the real needs of workers injured or disabled on the job--especially those suffering long-term health impairments. With respect to respiratory diseases alone, will asbestosis and bisynosis now require special federal legislation, following the black lung pattern, because employers can't or won't eliminate the risks to workers, and because most of our Worker Compensation programs have excluded these risks? And why have so few states been willing to do anything about the development of non-occupational temporary disability protection for working people?

In recent years, ERISA has sought to protect workers' interests in private pension plans. In light of economic developments of the 1970s, the new study should determine how effective that protection has been and what needs to be added? ERISA initiated the development of two new institutions: the Individual Retirement Account (IRA) and the Pension Benefit Guarantee Corporation (PBGC), both of which can be significant factors in increasing the retirement security of U.S. workers. Have these institutions worked effectively to this end?

Workers have long supported the Social Security concept of a progressive benefit schedule which helps low paid workers and puts a strict limit on the benefits to be paid to those with greater means. We believe that workers will continue to support this concept, even though it now seems possible to us that many of our supplemental private plans may not be able to survive another decade of financial upheaval like the 1970s. However, it is possible that new options for supplemental pension plan protection might be developed either by ERISA or by Social Security, or by both working together? The new study we propose should explore possible answers to this basic question.

Finally, we believe the proposed new study should have stature, staff, and funding at least commensurate with that of the President's Cabinet Committee of the early 1960s (i.e., President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs, which issued a Report to the President on Private Employee Retirement Plans in January 1965, entitled "Public Policy and Private Pension Programs").

In conclusion, we want to commend the efforts of this Advisory Committee--especially your decision to hold a public hearing in California--and we very much appreciate the opportunity to appear and make our recommendations.

We will have a better Social Security system if we can all set aside a little more time to learn about it, think about it, and discuss it with others.

If we do the right homework, we might even be able to persuade the politicians to learn about, think about, and legislate about these important issues with appropriate care and statesmanship.