Within the System

My Half Century in Social Security

Memorial Edition

Robert J. Myers
with Richard L. Vernaci

A portion of the proceeds from this edition will be donated in Bob's memory to The Actuarial Foundation.

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INTRODUCTION

I know what title *I* would give to this wonderful book. To wit and namely, *The Autobiography of a National Treasure*. But precisely because Robert J. Myers, henceforth Bob, is a national treasure, the thought would never occur to him. His purpose is simply to convey important information, as far as possible in statistical, which is to say, verifiable terms. Hence, *Within the System: My Half Century in Social Security.*

He does so with the easy, unassuming clarity with which he helped shape and then guide the single most important domestic program of the Federal government from its beginnings far back in the century to this very moment. To this moment, that is, when the chairman of the Subcommittee on Social Security and Family Policy of the Senate Committee on Finance finds himself sitting at a typewriter with the Capitol dome over his right shoulder, bright with late summer sunlight, asking, "Let's see now. Is Bob to lead off the next hearing on the 'notch?' Let us hope. He is the only one who will tell us the truth. Before the election, at all events."

The "notch?" These are persons born in the years 1917-1921. When they reached age 65 they found they were receiving somewhat lower Social Security retirement benefits than those in the cohort immediately preceding them. This seems an injustice and a national movement has been organized to redress it. Just Thursday an effort to do so in the Senate failed on a tie vote 49-49. The fact of the matter is that owing to an error in the Social Security Amendments of 1972, those born in the years immediately preceding the "notch babies," as they are known, and who worked well beyond age 62 are receiving higher than intended benefits. This was corrected in the Social Security Amendments of 1977 for those born after

1916, but in a manner that makes many perceive an injustice. As Bob Myers explains in Chapter One, it is nothing of the sort. It is merely that the "bonanza babies" make it seem such. On Thursday we agreed to a Presidential Commission, and perhaps it will come to that. Yet another complicated Social Security issue.

And here is the autobiography of a man who was literally present at the creation. In the summer of 1934, at the very bottom of the Great Depression, what for many seemed the death agony of capitalism, Franklin D. Roosevelt established a Committee on Economic Security, headed by his Secretary of Labor, the incomparable Frances Perkins, to work out a system of social insurance that would provide, among other things, retirement benefits far into a future that, as I have said, many doubted would come to pass. It was the Roosevelt touch. Amazing how the future takes care of itself when folks have a stake in it.

The work of the committee was directed by a gentle giant of an intellect, Professor Edwin Witte of the University of Wisconsin. Robert J. Myers, age 21, signed on as an actuary. In a matter of months, at a cost of $145,000, the group created what is now the largest insurance system on Earth. They did so with astounding accuracy, given the data and data processing resources of the time. Thus, they projected that in the year 1990 some 12.65 percent of the population would be at least 65 years old. The time came round, as time will do. Answer: 12.49 percent. And they did some things as some things have to be done, which is to say, without rhyme or reason. What should the retirement age be?

In Imperial Germany of the 1880s, Bismarck's social security program put the retirement age at 70. Dr. Francis E. Townsend of California, with his millions of followers in 1934, put the age at 60. Split the difference: call it 65.

The legislation was enacted in 1935; Bob Myers joined the system, rising steadily to the all-important position of Chief Actuary. For all the skill and care that had gone into the legislation, somehow Social Security never found a secure place in American politics. The contrast with the British experience, and of course, the Canadian, is instructive. Social insurance in Britain has been largely the work of members of the Liberal Party, which is to say, persons associated with, and approving of, business and entrepreneurial enterprise generally.

Unemployment insurance, which came to the United States in the Social Security Act of 1935, was passed through the British Parliament in 1911 under the auspices of Winston S. Churchill, then a member of a Liberal government. Similarly, the "cradle-to-the-grave" proposals of the Beveridge Commission of 1942 were the work of a Liberal statesman, Sir William Beveridge. Not so in the United States.

From the outset, elements of the Republican party were either in opposition or suspicious. Bob Myers, a lifelong unashamed Republican (as all actuaries ought to be!), puts the matter plainly enough.

> Republicans have always been tarred with the brush of being enemies of Social Security. The system has had its enemies, and they have tended to be Republicans, but that doesn't mean all Republicans – or even most of them – want to destroy Social Security, to hack it out by its roots.

As, indeed, they do not. A Democrat, I have served in two Republican cabinets, and absolutely so affirm. On the other hand... well, let Bob Myers tell the tale.

Chapter One. "Heading for Disaster." The system had gotten itself into actuarial trouble, and a new administration saw this as an opportunity to start dismantling the whole enterprise.

> This crisis gave the Reaganites an excuse to slice into the belly of Franklin D. Roosevelt's most enduring legacy and tinker with its guts. Social Security was flat on its back and, God help it, the system was at the mercy of people who didn't like it or understand it. Reagan himself in 1964 had gone around the country calling for making the system voluntary. That would destroy it because the low-cost people would opt out, leaving only the high-cost ones in.
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The system was running out of money to pay benefits. The Administration sent a message to Congress proposing to deal with this by fierce cuts in benefits for the lowest income recipients. Cutting expenditures is nothing new to government. If anything, it doesn't happen often enough. But cutting insurance benefits, benefits stipulated in a contributory pension plan, is a very different thing.

The Administration proposal was sent to Congress in May of 1981. On the morning of May 20th, I went to the floor of the Senate and offered a somewhat fiercely-worded resolution declaring this would never be allowed. I lost by one vote in the new Senate with a new Republican majority. Whereupon Senator Bob Dole, the chairman of the Finance Committee, which is responsible for Social Security, offered substantially the same measure with the language toned down. I was a co-sponsor. The measure passed 96-0. The crisis wasn't over, but the basis for resolving it had suddenly revealed itself. A third of a century after it was founded, Social Security was becoming a bipartisan program, which both parties would protect.

That this took so long, and that the process is still not completed is as much the fault of liberal Democrats as of conservative Republicans, although for reasons that would (and do) puzzle those involved. As Bob Myers points out, from the very first the "vast, new bureaucracy would be colonized by likeminded people, including men like Wilbur Cohen and Robert M. Ball." These were wonderful people.

I counted the late Wilbur Cohen, later Secretary of Health, Education, and Welfare, as the closest of friends; we served in both the Kennedy and Johnson Administration. Bob Ball is as wise a counselor as any Senator will ever know; a man of principle, strength, and at the same time, admirable flexibility. They, too, made their mark on American social history. They had, as Bob Myers writes, "from the beginning ... a largely unwritten, but deeply ingrained ... plan that the program would be expanded, that it would evolve as time and circumstance and money would allow."

The only problem with this "plan" was that it was an insider's affair. It had a base in the labor movement, but even there it was the labor movement of the 16th Street headquarters of the AFL-CIO, across the park from the White House, more than the labor movement of the hiring halls. Being insiders, the liberal bureaucrats knew the system was basically sound. What they did not know was that people paying into the system weren't at all sure of this.

Indeed, as I write, a majority of non-retired adults do not think that Social Security will be there when their "time" comes. This has made it possible for politicians on the right to denounce the system with relative impunity. If you want to call President Reagan a man of the right, he would be an example, calling as he did in 1964 for a voluntary system, which in effect was no system. It became cost-free for figures such as David Stockman to dismiss the nation's most important domestic program as a "Ponzi scheme" and "closed Socialism." Predictions of bankruptcy – lies – caused little resentment, as so many thought they already knew that.

More recently politicians on the left – I think of former Governor of California, Jerry Brown – have not hesitated to propose revising the tax code in a way that would do away with Social Security payroll contributions, and thus abolish the fiscal – and contributory – basis for the entire Social Security program. Again, since it won't be there when the time comes anyway, what is lost by getting rid of it now?

The plain fact is that the Guardians of Social Security made almost no effort to share their information with the American people. To this day, for example, the Social Security Administration does not want to send out an annual statement to contributors.

Savings banks send out monthly statements. For the SSA, whose computers are in fine shape, the largest cost would be the postage stamp. But it just doesn't sink in.

There has been another, ironic, cost. The greatest failure of social insurance in the United States has been the provision for dependent children, which is to say, welfare. Welfare benefits (Aid to Families with Dependent Children) are not set on a national basis, and are not indexed. Since 1970, they have dropped by more than one-third in value. In the meantime, the proportion of children depending on AFDC at some point in their childhood has grown to almost one-third. In 1969, President Nixon proposed to change all this by establishing a guaranteed income for everyone.

It was known as the Family Assistance Plan, and was the boldest "expansion" of Social Security ever dreamed of. Alas, it had not been dreamed up by the "expansionists", who hated "the Visigoth in the White House," as they viewed Nixon, or at least many did. To cite Myers, "They abhorred Nixon and were blatant about it." And so the Family Assistance Plan died. That was 1972. We have known nothing but contraction ever since.

Most recently, a commission established by the Administration has proposed an increase in the Supplemental Security Income benefit – SSI – a guaranteed income for the needy aged, blind and disabled, the one portion of the Family Assistance Plan that was enacted. That noble former Secretary of Health, Education, and Welfare Arthur S. Flemming, chairman of the commission, comments as follows in his introductory statement:

> [W]e fail... to coordinate SSI and AFDC in an effective manner in spite of the fact that they are both Social Security programs – both committed to lifting the poor out of poverty. President Nixon was right when he urged an income floor for all Americans.

But it is too late for that. Not that we might not be able to afford it, but rather that we could not possibly imagine doing so. That has been the great change in American social policy that began in the 1980s. But that too will change. And when it does, thanks to such as Bob Myers, Social Security will still be there.

Washington, D. C.	Daniel Patrick Moynihan
September 12, 1992	United States Senate

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Chapter One

Heading For Disaster

I had a dirty little secret, and I was praying that no one was going to ask about it. I'd have to tell the truth, and this wasn't a good time for that.

It was 1981. The Reagan Administration had just come into office, and in one swift move it was trying both to save Social Security and, to some extent, pillage it while sticking a knife in the back of the poor. This wasn't the Administration's finest hour. The move was dumb and wrong and was so clumsy that even the Republicans in Congress didn't want to have anything to do with it.

I had to defend the proposal, as the politically appointed Deputy Commissioner of Social Security.

This was September 1981, and the Social Security system was less than two years away from total collapse. By 1983, the retirement and survivors fund expected to be losing $47 million a day if nothing were done to the law. The fund would be losing between $104 million and $153 million a day by 1989, according to figures from the Office of the Actuary of the Social Security Administration.

To put this scary statistic another way, that's a loss of between $72,000 and $106,000 a minute. That's just a few seconds more than the time it's taken you to read this far.

It wasn't going to get to that point, though. The law wouldn't let Social Security go into the red, so when the money ran out, the checks were just going to stop. This has never happened. I trust that it never will, but on that day in September we were headed for it like a runaway stagecoach.

This crisis gave the Reaganites an excuse to slice into the belly of Franklin D. Roosevelt's most enduring legacy and tinker with its guts. Social Security was flat on its back and, God help it, the system was at the mercy of people who didn't like it or understand it. Reagan himself in 1964 had gone around the country calling for making the system voluntary. That would destroy it because the low-cost people would opt out, leaving only the high-cost ones in.

And now, his budget director, David Stockman, an owlish, arrogant former congressman from southern Michigan, was ready to wield the knife for him. It was to be the President's first colossal defeat, and according to Stockman himself, it would help stop the Reagan revolution "dead in its tracks."

"This was truly the triumph of politics," Stockman would later complain in his book bearing that as its title [14][1].

This defeat was indeed the triumph of politics. The system did work.

I say this as a lifelong Republican. But my adult life has been spent building and refining the Social Security system. I went to work for Social Security in 1934, when it had no name and only a handful of employees and was little more than a glimmer behind Roosevelt's pince-nez. I believed in this system and its basic fairness. But right now the question was survival, not fairness.

So I sat in a hearing room in the Longworth House Office Building across the street from the Capitol that September morning and waited for Chairman Jake Pickle to start the interrogation. I had decided to hunker down and hope for the best. Pickle, a Democrat from Austin, Texas, is smart and tough, but fair.

This hearing before his Ways and Means Subcommittee on Social Security could have turned into a lynching. The subcommittee had asked Health and Human Services Secretary Richard Schweiker to testify, along with Stockman.

[1] This, and other cited works, are referenced on pages 221-222.

At the time of the hearing, I was Deputy Commissioner of Social Security, but I had served more than two decades as Social Security's Chief Actuary (from 1947 to 1970). The actuary is the fellow who would tell the higher-ups whether this, the largest insurance system in the world, was on solid financial ground as it tried to take care of this nation's widows, orphans, elderly, and disabled. A good way to think of this is that if Social Security were the Starship Enterprise, I was Scotty. Down in the engine room, I would be listening to the purr of the machinery and reporting to the captain.

Over the years, I had testified dozens of times before Congress, and I liked these people. I think that they liked me back because I always told them the truth, and they didn't have the heart to beat me up.

The best evidence of this came up just a couple of weeks later, when I was testifying before the House Select Committee on Aging, which also was holding hearings on this subject.

The chairman, Philip Burton, looked down at the witness table and tried to put me at ease.

"I am sure you understand that the questions you will get asked and the hostility that may be expressed is not directed at you personally, but at the policies you get a chance to defend" he said.

Burton, a Democrat from California who died a couple of years later was one of the most foul-tempered and foul-mouthed men in Congress. So for him to say, in effect, "no hard feelings," was a real testimony to my relationship with Capitol Hill.

Anyway, the kind of warmth I had cultivated over the years may have been one of the reasons that the Administration sent me up to the Hill that September morning to testify before Pickle's panel.

Members of the subcommittee could not hide their disappointment that I was the one dispatched to talk to them. Pickle had barely put down his gavel before Andy Jacobs, a plain speaking Democrat from Indiana, was asking why the big fish didn't show up.

"Was the secretary busy?" Jacobs asked. "What was the problem there?"

Pickle turned to me. "Mr. Myers, can you answer that?"

"Mr. Chairman, I cannot answer that specifically," I replied. "As I understand it, the secretary had another engagement, and I was asked to testify."

That was pretty lame, but the excuse that came from Stockman's office was breathtaking. They said that they lost the invitation. Well, then, they were asked to send something in writing. They couldn't get around to that either. They may as well have said the dog ate their homework.

Jacobs wasn't fooled.

"I think it is reasonable to assume that if the director of the budget took some pride in the Administration's Social Security proposals, even if at the last moment he finally refound our letter, he might have been here," Jacobs said.

He was probably right, but where and why the big boys were hiding out was just a side issue.

By September 1981, Congress, including this subcommittee, was in the final stages of tearing apart the Administration's plan to "save" Social Security. Reagan's plan, or rather the one that his people put forward, had some good elements to it. The plan had eight major points, but two of them were real clinkers.

One was going to slash the benefits paid to people who retired between ages 62 and 65, and the other was going to cut down the benefits of people receiving the minimum benefit.

This was a lousy way to try to get out of a financial mess that, in all fairness, was not of Reagan's making. This one went back to the Carter Administration, the last time someone tried to save Social Security.

In the mid-to-late 1970s, the system was being crushed by the pressures of a recession and high inflation. In 1977 legislation, Congress brought in more money by adjusting the tax rates and expanding the earnings base on which those taxes are imposed. At the time I was serving as a consultant to the House and Senate committees charged with crafting the legislation. They were trying to strike a delicate balance because nobody was wild about the idea of raising taxes.

Carter, in fact, had campaigned for the White House in 1976 by saying that he was opposed to any increase in the taxes to pay for Social Security or Medicare in the near future. He was really boxed in. The House apparently was sympathetic to the new President's dilemma, and its version of the bill had only a small boost in the tax rate between 1978 and 1980 (only 0.2 percent each on the employer and the employee). The Senate version raised the tax rate slightly more, and this was what eventually became part of the law.

Carter swallowed this pill, hoping later to cut income taxes before the next election so that voters would not feel the pinch in their paychecks.

On the morning of December 20, 1977, President Carter stood in the Indian Treaty Room of the Old Executive Office Building next door to the White House for the ceremony to sign into law the changes that he, the Congress, and even I thought were going to keep the system on a sound financial footing.

Boy, were we wrong!

"This legislation is wise," the President said. "It's been evolved after very careful and long preparation. It focuses the increased tax burdens, which were absolutely mandatory, in a way that is of least burden to the families of this nation who are most in need of a sound income."

The President went on to outline some of the major changes: raising the taxes on the highly paid, eliminating sex discrimination, and raising the amount of money which a retired person can earn and still collect Social Security.

"The most important thing, of course, is that without this legislation, the Social Security reserve funds would have begun to be bankrupt in just a year or two, by 1979," the President said. "Now this legislation will guarantee that from 1980 to the year 2030, the Social Security funds will be sound."

Not quite so!

We had misjudged the economy. Instead of getting better, it continued to sink, and the result was that by the end of the 1970s, it became clearer and clearer that the trust fund for retirement and survivors benefits was going to run out of money. The other leg of Social Security, the fund that pays the disabled, was doing all right.

The 1977 amendments had been based on the assumption that economic times would be pretty good in the years immediately following. So for the first four years the financing would be changed just enough to get the system through and build up the fund slowly. The taxes would be increased in the more distant future. This was to defer the pain.

The trust funds are sort of savings accounts, the financial cushion that ensures the solvency of the system. Thus, even if revenue were to be cut drastically by a depression, Social Security could continue to operate for a while.

In 1947, the retirement and survivors fund was a little less than a half-year's outlay, which was a fair margin of safety.

Really, I would prefer that the fund build up to a higher level, say 75 percent or even 100 percent of a year's spending, which is about where it is today.

After the 1977 amendments were law, unemployment went up, inflation was in double digits and wages were rising by only 9 percent. The system was just too finely balanced and too heavily dependent on the forecasts of an improving economy, which, in all fairness, did not seem to be an unreasonable assumption at the time. The worsening of the economy was a blow that it couldn't stand.

The disability fund was in good shape. The actuarial projections made in 1981 showed it not only solvent, but building up a sizeable balance over the next decade. By the end of 1990, it would have between $161 billion and $170 billion, depending on what happened to the economy during those years.

A big reason for this growth was that the fund wasn't paying out as much money as it might have according to earlier estimates. Fewer people were deemed to be disabled, and more people were terminated from the rolls. This was because legislation in 1980 had tightened things up by cutting the maximum benefit paid to the family of a disabled worker (applicable only to future disability cases and not to those then on the rolls). The way that the law had been previously worded, the disabled worker's family could, in some instances, be drawing practically as much money in payments from the government as it had been when the breadwinner was pulling down a paycheck.

In an era of joblessness, which is where we found ourselves at the time, this could effectively keep someone on the government dole. There was little financial incentive to announce that you had gotten well, give up the disability check, and go out to look for a job that probably wasn't there.

In other areas, though, the Reagan Administration was too zealous in kicking what it thought were malingerers off the disability rolls. (The pendulum now is swinging back the other way.)

It didn't take long after that signing ceremony by President Carter in the Indian Treaty Room to see that the 1977 rescue package wasn't going to work. In a couple of years, it was obvious that we'd have to rescue it again.

The economic ice was just too thin, and it left us with too little margin for error. I would have liked to have seen it stronger and thicker. However the assumptions about what the economy might do in the next few years seemed reasonable. And besides, there were other changes being put in the law, changes of a fundamental, social nature, such as eliminating virtually all elements of sexism in the payment of benefits. That, frankly, seemed at least as important as getting Social Security's financial house in order.

Other drastic changes in 1977 involved altering the method of computing benefits. In this case, another fat mistake was written into the law: the "notch babies." These are the 6 million people born in 1917-21 and now alive, whose benefits may, in some cases, be substantially less than those of people with similar earnings records who were born before then.

Most people do not realize – and the notch-baby advocates do not admit – that this inequity does not affect all of the 6 million people, but rather only the minority who worked well beyond age 62 at substantial earnings. Actually, it is not that some notch babies get too little in benefits, but rather those born before 1917 who worked well beyond age 62 get too much, and can accurately be called "bonanza babies."

Congress created this notch-baby problem by trying to fix another, very important one that had made benefits too big, and increasingly so over the years.

I had seen the notch-baby problem coming and had warned against it in testimony before congressional committees. I didn't do it as loud as I probably should have. My feeling was we needed to get the law through. If 90 percent of it was good and 10 percent was bad, we'd come back and fix the 10 percent later.

Congress is normally very responsible and careful when it comes to working with Social Security. In 1977, though, it was just trying to do too much at one time.

We had hoped for the best and made a mess by creating the notch babies.

It took a couple of years after the 1977 amendments passed before it became apparent that the economic experience had turned bad. A few Band-Aid devices were used to alleviate the situation somewhat.

The first one was in 1980, when the tax rates for disability insurance and for retirement and survivors insurance got juggled around. This was a bookkeeping transaction that the taxpayer would never see reflected on a pay stub. Part of the taxes that come out of your pay are allocated to the retirement and survivors fund and part go to the disability fund.

As I mentioned earlier, the disability fund was in pretty good shape, so we simply diverted some of that revenue into the retirement and survivors fund to help keep it afloat, while we tried to figure out how to fix the hole in the boat.

It bought us about two years. But, by 1982, it was apparent that the retirement and survivors fund was going to run out of money by the end of the year unless we did something.

That's when we applied the second Band-Aid, allowing the retirement and survivors fund to borrow money from the funds for disability benefits and the hospital benefits part of Medicare. Some $17 billion was borrowed from the two funds combined. The intent of Congress, as stated in committee reports, was that only enough money could be borrowed to keep the fund in the black through the first six months of 1983.

Congress did this very intentionally and acted quite responsibly. In essence it put its own feet to the fire and said: We're not going to give indefinite borrowing authority. We're only going to give enough so that benefits can be paid through the middle of 1983. By the end of 1982, the National Commission on Social Security Reform, which already was being set up at the beginning of that year (to be described in the next chapter), should come out with its report on how to fix the system, and we should then act within six months of that report.

This was the thinking on the Hill. The Administration wasn't sleeping during this time. The problem was talked about before Reagan took the oath of office in 1981. I had served as a member of his transition team, but our role was only to identify what issues the new Administration was going to have to deal with. How to deal with these issues and who should do the dealing wasn't part of our job.

In May 1981, the Administration came out with an eight-point plan. It was under Schweiker's name, so if it got attacked he took the arrows in the chest. This, according to Stockman's account, was done at the insistence of James A. Baker III, who, at the time, was the White House chief of staff. Baker wanted as much distance as he could get between Reagan and this plan. Maybe he knew something that nobody else in the room where the final decision was made could figure out.

Reagan had some intellectual distance here as well. This largely technical, far-reaching plan to overhaul the largest insurance system in the world was presented to him in a one-hour meeting.

We met with Reagan in the White House, and, as this session went on, I happened to look up at the wall where a portrait of Franklin D. Roosevelt was hanging. I couldn't help but think that he had to be spinning in his grave at what they were trying to do to Social Security.

"Only sixty minutes had been allotted for that meeting on May 11 with the President – not much time for him to review a plan which in both philosophy and detail reversed 45 years of Social Security history," Stockman later wrote in his book. "But since only three people in the room... understood the issues, I assumed that an hour would probably do it."

Actually, Stockman was wrong in several respects. First, he includes as those who "understood" only Schweiker, Marty Anderson, and himself, and, amazingly, not Social Security Commissioner Jack Svahn or myself, who were there to explain the proposal with a chart presentation. Second, the plan did not, by any means, "reverse 45 years of Social Security history." The cuts and rollbacks involved – and such things had happened several times before – were not all that philosophically momentous. If they had been, I would have cashed in my chips, resigned, and gone public on the issues.

The President seemed to be listening very attentively but asked few questions. At the end of the meeting, he expressed general approval of the plan but said that he would have to think more about one alternative which had been presented – covering new federal civilian employees under Social Security. Such a provision was not included in the final proposal (although it was subsequently in the recommendations of the National Commission on Social Security Reform and in the 1983 amendments).

The Administration made the following eight proposals:

(1) Cutting the financial incentives for retiring between the ages of 62 and 65. Under existing law, a worker retiring at age 62 could draw 80 percent of the benefit that would be available by waiting until age 65 to claim the benefits. This is fair – I had devised it in 1956 – because it is neutral as far as the system is concerned. In actuarial terms, a person drawing 80 percent benefits from age 62 until death could expect to get the same grand total (taking into account the time value of money) as drawing 100 percent benefits from age 65 until death. The Administration wanted to slash this early-retirement figure from 80 percent to 55 percent.

(2) Eliminating "windfall" benefits for workers who drew only the minimum benefit. The theory behind this, which was sound, was that many, if not most, of these workers were already drawing pensions based on non-covered work, probably from governmental employment. They barely qualified to get anything from Social Security, but then got an unduly large benefit compared with what they had contributed. Trying to end this turned into a public relations disaster. (However, something along these lines was done in legislation later in 1981.)

(3) Tightening up requirements to qualify for disability payments. Under the proposed new rules, workers could qualify only for medical reasons (not for a combination of non-medical and medical reasons). They would have to wait six months (instead of five). Their prognosis must show that they would be disabled for at least 24 months (instead of 12 months). And they would have to have been paying taxes into the system for at least 7½ of the last 10 years (instead of five of the last 10 years).

(4) Eliminating benefits for children of early retirees and putting a lower limit on total benefits paid to the family of a worker who has retired or died. In some cases under existing law, the family was drawing almost as much as what the worker had been bringing home in a paycheck.

(5) Taxing all of a worker's sick pay. Previously, the first six months of sick pay had been exempt. (This proposal was enacted in amendments in 1981.)

(6) Ending the earnings test for retirement benefits for persons age 65-69 (as was already done for those age 70 and over). In 1981, a retiree could keep working but could earn only $5,500 a year before Social Security benefits would be cut. The reduction was basically $1 in benefits for every $2 of earnings above the limit. (In 1992, that limit was $10,200, and the reduction was $1 for $3.)

(7) Instituting a small tax cut to take effect in 1985-89, a larger one than that already scheduled under existing law for 1990 through 2019, and a small one thereafter. The 1977 law had set the tax rate at 7.65 percent for 1990 and after. The Administration proposed cutting that to 6.45 percent for 1990 through 2019, and then 7.55 percent after that.

(8) Finally, there were some technical changes, most of which are only worth a mention to say that they were there. The most significant one was to change the month when the annual cost-of-living adjustment is first applicable from June to September. The 1983 amendments actually went further, advancing the COLA date from June to December.

Seven of the eight points proposed by the Reagan Administration were going to save money. The one that was going to cost money was the phasing out of the earnings limit on retirees aged 65-69 who were drawing Social Security. In the first five years, this would have cost the trust fund $6.5 billion.

“The crisis is inescapable,” Schweiker said in announcing the Administration’s package on May 12, 1981. “It is here. It is now. It is serious. And it must be faced. Today we move to face it head-on and solve it.”

The only thing the Reagan Administration faced head-on was the locomotive of public opinion. It would flatten them.

As Deputy Commissioner of Social Security, I had worked on the Administration plan, which actually was a group effort that included people from the Social Security Administration, the Treasury Department, and the Office of Management and Budget. We weren’t all there as equals. It was clear from the beginning that the shots were being called by OMB and the Executive Office of the President.

The Administration immediately started catching flak for this plan, and for its support of eliminating the regular minimum benefit in earlier legislative activity. The latter position was rather unfairly criticized because most people thought it was something that it wasn’t.

This regular minimum benefit was then (in June 1982) between $122 and $182 a month. It had nothing to do with whether a person was rich or poor, or a low earner or a high earner. It had everything to do with the size of the check that was being written.

This “regular” minimum is not to be confused with the “special” minimum. That’s the one that does go to the low earners, generally to people who have been paying into the system for 20 to 30 years. It was intended to provide a decent level of payment to low-income employees such as agricultural workers and domestic workers.

The problem was that many people, some of whom were in Congress, got these two kinds of payments mixed up.

As it was originally conceived in 1935, the regular minimum started out at $10 a month. It was more what might be called a facility of payment. You didn't want to send out checks that were just too small. (Insurance companies do this all the time. If an insurance policy today pays an annuity of less than $25 a month, the company will hang onto the money and pay it quarterly or semi-annually or annually in a more sizeable amount.)

But many people in Congress and elsewhere thought the regular minimum was supposed to take care of low earners, and many people were sympathetic to having a high regular minimum.

So who benefitted by the regular minimum? People who shouldn't have, generally. People like federal government employees who had worked under Civil Service Retirement most of their lives. Then they got a small, part-time job, just barely qualified for Social Security, and received a relatively large benefit. There was really no social need for a large minimum payment in that case.

It was hard to tell what percentage of this group that government employees comprised, but we knew they were there. Social Security didn't have the complete earnings record of everybody – just people who were covered by the system. Government employees didn't show up on radar, unless they landed some part-time job or a job after retiring from the government. Then it looked as though they had skimpy lifetime average earnings, so they got the regular minimum benefit.

But based on analysis and logic, it was known that a lot of these people were government employees who were getting sizeable Civil Service annuities, whether federal, state, or local. There were other people too, such as those who worked only 10 years or so at only nominal part-time wages. They too would get the regular minimum.

There was a great misunderstanding in Congress as to the role of the regular minimum. The knowledgeable people knew that the regular minimum shouldn't, as it was sometimes done in the earlier years, be boosted up much more than general wages increased because of the argument that we've got to take care of the poor people.

The Administration favored the elimination of the regular minimum benefit, not only for all future retirees, but even for people already on the rolls. It would have cut them back considerably in some cases. This proposal actually passed in Congress in 1981 and was signed into law. But it was repealed before the year was out.

I didn't have any trouble with the idea of eliminating this payment for future eligibles, but I did object to taking it away from people who were already getting it. Rightly or wrongly, they were entitled to it legally, and it had become part of their financial planning. You don't just barge in and snatch money out of people's hands.

I told them that. I spoke to my boss, Jack Svahn, and I think he agreed with me. Svahn had worked for the Department of Health, Education, and Welfare and for Reagan out in California in the state's welfare department. Svahn was a nice guy and had a pretty good understanding of how Social Security was supposed to work. But he also knew when he was outgunned, and he wasn't willing to fight the White House on any of this.

Months after this fight was over, Reagan was still defending what he tried to do. His grasp of the facts was certainly creative.

"What I pledged to do was to have a Social Security – to put it on a sound fiscal basis, and yet not at the expense of those people who are presently retired; that you pull the rug out from under them and reduce their benefits," Reagan said in December before a bunch of newspaper editors.

Svahn didn't have to fight this battle. There were 535 people on Capitol Hill who were just itching to do it by the end of the year. At first they rolled over, and in minor, quickie legislation signed into law in 1981, gave Reagan what he wanted, cutting off the regular minimum benefit for those on the rolls, as well as for new eligibles.
This got shoved through Congress because Reagan had that power then. He had a Republican Senate, and he had the Boll Weevils, the conservative Democrats, in the House, giving him a working majority in both houses. Doing away with this minimum payment was tucked into a bigger bill that dealt with larger issues, and it sailed right through.

Then Congress saw what it had done, and there was a fire storm. The issue was reconsidered, and just before the end of the year it was repealed, at least for the people who were already getting the money.

Congress really bent over backwards to be fair about this. In addition to the people already drawing the benefit, Congress protected the right of people who were eligible but for one reason or another weren't taking the money. It wouldn't matter when they filed for the benefit but only whether, because of their age, they could have gotten it.

This is a very important principle. The person who reached age 62 in 1981 could get the regular minimum. If he or she didn't apply that year but came in the next year, it was still available. The rationale here was not to take advantage of people's ignorance of what they may have coming to them. If they are eligible for a benefit, they should get it. Social Security legislation was almost always done this way, although it's not always like that anymore because the budgeteers like to pick up some stray cash by taking advantage of those eligibles who are uninformed.

At times in this political process, it seemed that the Social Security Administration was little more than a bystander as its future was being shaped. Our role at these meetings was to give the other people in the room a range of options and to do the calculations to figure out how much someone else's bright idea was going to save the system – or cost it.

Ending the regular minimum benefits is a good case in point. No one who had worked with pensions or knew anything about insurance would dream of ending a benefit for people who are already getting it. But doing this would save the system – and the general budget – $600 million over the first four years. That was all these guys cared about. That was OMB. That was Stockman.

Stockman himself came to some of the meetings. I didn't know him when he was in the Congress. I didn't get to know him very well later, but from what I saw of him at the meetings, he lived up to what was being said about him in the press. Of course I'm colored by what I read. He was a smart guy, there's no question about it. He had a very high opinion of himself.

He was in charge, so OMB decided on what the package ought to be after the discussions of the interdepartmental group. This was a new way of doing business for Social Security. In the past, decisions on how to run the system had always been made within the department. Back in the days when there was a Social Security Board, an independent agency, it made its own recommendations. Even when it became part of the Federal Security Agency, the decisions still came from within.

OMB always had the power to look at these things. The best that can be said is that they hadn't exerted nearly as much influence in the past as they did in this instance. There were at least a couple of reasons for this: Social Security had never been in this much trouble before, and now it was a big political issue.

OMB's role here was a direct outgrowth of Reagan's distrust of the bureaucracy. The White House wanted more control over the government and didn't want the bureaucrats doing it. The Administration thought that the bureaucrats were interested in the system as it was, that they had a built-in bias for the status quo.

The flaw with that argument is that the bureaucrats weren't the guys who loused things up in the first place.

Cutting off the minimum payment wasn't OMB's biggest mistake, though. Without a doubt, that was the bone-headed notion of slashing benefits for people who retire between ages 62 and 65 below the 20 percent actuarially equivalent reduction. For someone planning to retire at 62, the proposed 55 percent factor would have meant a 31 percent cut in benefits compared to what they would have gotten under previous law.

Part of the argument was that the Administration wanted to discourage people from retiring early. I'm in favor of that. But I think that if you're going to do it, you shouldn't sandbag them. I would have said just don't let people retire at 62, reduction or no reduction, but in practice they do. You can't really treat them unfairly.

The benefits payable for early retirement under present law are actuarially neutral, but I still think early retirement is a bad idea. People should work if they're able. It's good for you.

But Stockman and his crowd weren't looking at building character. The bottom line was that this would have saved some $18 billion between 1982 and 1986.

There was nothing really sacred about retirement at age 62. For the first two decades of Social Security, men could not retire if they were younger than 65. (This was made possible for women in 1956.) Lowering the minimum retirement age to 62 for men was part of an amendment to the law passed in 1961. So we're not talking about some hoary old tradition here. This was a relatively recent notion, and there was nothing wrong with changing it. As long as you did it right.

Nobody knows how long they're going to live. If you knew you were going to die at age 64, you would certainly want to consider retiring and claiming benefits at 62. If you knew you were going to live to 106, you would want to put off retiring for some time after 62. Financially, both of these courses of action would make sense.

The system should make sure that whatever decision an individual makes, the resulting payment is fair – and it usually does so. In technical terms this is called finding the actuarial equivalent. That's why a person retiring at age 62 gets benefits at 80 percent of what would have been collected at age 65. And for retirement between those ages it's on a pro rata basis. It's very fair; there are no sharp edges or notches.

This 80 percent reduction factor isn't pulled out of the air. It's something that comes at the end of a mathematical analysis, which, in fact, I did.

But in 1981 the Administration people went at it backwards. They figured out how much money they wanted to save and worked their way back from that. It came out that their goals would be met if people retiring at age 62 got benefits of only 55 percent of what they would get at 65.

This was more than just a bad way to look at Social Security. It was horrible. It was an outrage!
The 55 percent was just drawn out of the air. They considered how much money would be saved if it was 70 percent or 60 percent or 50 percent. They just came out and said, "Well, 55 percent is as far as we can go."

This had nothing to do with actuarial soundness or fairness. It was just a way of saving money. Because roughly half of the people retire at or close to 62, this started saving big sums of money pretty quickly.

I argued very strongly against this but to no avail. I did this at these interdepartmental meetings and all the final meetings. In the entire Social Security Administration, there seemed to be only one person who favored it, and that was Jack Svahn. He was a team player and the President's man.

I had told him at the meetings and in private that this was a bad idea, and I think he agreed. But he said, "Look, they're running the show. We can argue, but they're running the show." What else could he do? He was the commissioner, and he had to be on the team or else.

I didn't come out publicly and say this was a bad idea. It wasn't a big enough issue that I would say, "I'm going public on this. I'm quitting." It wasn't such a big issue that I couldn't stay there and keep working for broader, more important things. I still wanted to be an influence. I'd done my job; I'd said it was a bad idea. I didn't think that they ought to do it. But in the aggregate we had to do something. And there were things in this 1981 package that were very good.

In hindsight you can be awfully smart. As time went by I came to realize more and more how bad this 55 percent proposal was. I didn't realize the full extent of its weakness at the time. And nobody else did either. The political fallout aside, this was just bad policy.

But the Senate, controlled 53-47 by the Republicans, picked up on the politics quickly. They knew this idea was death. So barely a week had gone by since Schweiker rolled the proposal out in front of the public, and already it was causing debate on the Senate floor.

Sen. Bob Dole, chairman of the Finance Committee, introduced a committee resolution saying that "Congress shall not precipitously and unfairly penalize early retirees."
It passed 96-0.

The Democrats earlier had put up a much stronger resolution saying that what the Administration was doing was "a breach of faith" with the nation's elderly. That failed by just one vote – and three Republicans had abstained. Dole, a Republican from Kansas, got the more-mildly worded resolution through. But even Dole didn't mince words when it came to the President's proposal. "Some things he suggests have great merit," Dole said in a speech on the Senate floor. "Some have less, and a few have little."

The Administration got the message and immediately signaled that it was willing to compromise, but it didn't withdraw the "Schweiker" proposal, at least not for a few ugly months.

So the gears of Congress continued to grind. This proposal, although largely considered to be dead on arrival, nevertheless was sent through the mill of hearings as though someone seriously thought it had a chance. The Ways and Means Committee in the House and the Finance Committee in the Senate put it on their calendars.

Besides, everyone knew we had to do something about Social Security, but no one could agree on what that ought to be. Time was running out.

So I had to go to the Hill and explain the rationale behind this proposal, including the parts that I deeply disliked. I was a good soldier. I had had somewhat the same thing occur back in 1956 when I was Chief Actuary of the Social Security Administration.

At that time Congress was holding hearings on including monthly disability benefits in the program, and the Eisenhower Administration hadn't made up its mind on the matter because there was a lot of opposition. Business and the insurance companies didn't want it, and some of the Republicans didn't want disability benefits because they said you couldn't administer it through the government. So the Administration asked me to go up and testify as Chief Actuary, to explain factually what was in the bill. I was not to advocate it, but just to explain it and discuss its financing aspects.

It was not quite the same set of circumstances in 1981 as it was in 1956. This time I was a little more of an advocate. I explained why the Administration favored the bill and favored each provision. I said that I was there to give the Administration's position, not my views, and that when I gave facts and figures, I stood fully in back of them. Still, I was a little queasy about what I was doing.

One reason was a discovery that we'd made back in the office in the weeks since the proposal was unveiled. My actuarial assistant, Bruce Schobel, and I had figured this out, and we were horrified.

This was the dirty little secret: the 55 percent proposal wasn't just unfair, but it was especially cruel to low- and middle-income people.

Balancing the system on the backs of the poor and the middle class was the very thing that the Administration had long been accused of doing. Of course, everyone from the President on down denied this.

But here it was. I don't know that the Administration did it on purpose. Maybe if they'd really been trying to protect the interests of the poor and middle class, this wouldn't have happened. But it got through and was in the proposal, and I was praying that nobody but Bruce and I had caught it.

Here is how this inequity worked. Suppose you're age 62. You don't have a job anymore. You've either been forced to retire, or you just felt you had to retire because of health. You, in essence, would be forced to take the early-retirement benefit in order to have something to live on, even though it was a bad deal.

However, the high-paid guy in the same situation who retired at age 62, either voluntarily or involuntarily, can afford to wait until age 65 and take the unreduced benefit. Furthermore, he or she can have the private pension that's beginning at age 62 reallocated on an actuarially equivalent basis, in essence frontloaded, so they get a larger benefit between ages 62 and 65 and have it scaled back when the full Social Security benefit kicks in at age 65.

Private pension plans can easily do that. There's nothing illegal or unethical about it. Actuarially they can do it so that it doesn't cost the plan anything. So the high-paid guy with the pension, or even the moderately high-paid, could avoid the whole inequity that the proposal would create.

This situation, if discovered and publicized, would have been a political nightmare for the Reagan Administration. There was no question but that the little guy would take it in the neck, and the richer would not get hurt. This situation would have played right into the hands of the Democrats, but they didn't know they had this weapon. No one thought to ask me about it in the congressional hearings or elsewhere, so I didn't bring it up. Besides, the success of the Dole resolution, passed overwhelmingly in May, made it clear that the 55 percent proposal was dead anyway.

I knew the thing was so bad it was going to be killed anyway, so I testified at the hearings. The committee members were kind to me. They listened to what I had to say. Some of them said that this was a terrible plan, but they didn't blame me for it, even though they knew I had worked on it.

The criticism was universal. Very few Republicans did anything other than criticize it. Two weeks to the day after I testified before Pickle's subcommittee, the Reagan Administration caved in.

Baker and presidential counselor Edwin Meese did a report card on the Reagan Administration's first year in office. As they surveyed the wreckage of Social Security, they bravely gave their boss the grade which they thought he deserved: an A-plus. The White House is probably the only place outside of George Orwell Elementary School where somebody can louse up that badly and still claim a place on the honor roll.

Baker and Meese said they were giving Reagan a high grade for his "political courage and effort."

Later, in his autobiography *An American Life* [13], Reagan lamented the disintegration of his grand plan to fix Social Security once and for all:

> "We had to withdraw a plan to cut billions of dollars in waste and fraud from the Social Security system – among other abuses, we'd discovered monthly Social Security checks were being sent to eighty-five hundred people who'd been dead an average of 81 months – after the Democrats began accusing us of plotting to throw senior citizens to the wolves."

Oh, please. That's just fiction. I'll admit that it sometimes takes the system a while to sort out the dead from the living, but much of that money is eventually recovered, and besides that's not the reason the system was in trouble. Nobody can argue with cutting out waste and fraud, but what Stockman and his people tried to commit was a fraud in itself. Thank goodness lots of people were able to see through it.

So on September 24, 1981, Reagan went on television and addressed the nation from the Oval Office. He blamed the Democratic majority in the House for stalling on Social Security reform.

There was some truth to that. Jake Pickle had been ready to go full tilt to find a solution to Social Security's problems, but House Speaker Tip O'Neill told him to stop. Next year would be an election year, and this was going to be a political issue, O'Neill told him. Let the Republicans worry about it.

Nine months had gone by, and we were no closer to repairing Social Security than we were on the day Reagan took office. The White House was feeling the heat, and the system was heading for collapse. Reagan announced that he was setting up a 15-member commission to deal with the problem. He would appoint five members, Senate Republican leader Howard Baker would appoint five, and O'Neill would appoint five on behalf of the House. The composition of the commission and its assignment was worked out well in advance with congressional leaders from both parties.

The President said this task force would "review all the options and come up with a plan that assures the fiscal integrity of Social Security and that Social Security recipients will continue to receive their full benefits."

It's an old saying that a committee is a group of the unwilling, chosen from the unfit to do the unnecessary. But it was plain to me right away that this commission was going to be none of that. This panel, which would be known as the National Commission on Social Security Reform, was going to recommend more basic changes in Social Security than at any time since the system was invented.

The system was going to be reformed from the outside, not from within, and I wanted to be where the work was going to be done. To do that I'd have to leave the Social Security Administration again.

It was love, not money that had brought me back to work for the Social Security Administration in 1981 after an almost 11-year absence. Because of provisions in federal law against "double dippers" drawing both a fat Civil Service Retirement pension and a government paycheck, I all but lost money on the deal. After taking into account my $50,112 annual Civil Service Retirement pension, my initial pay for being Deputy Commissioner of Social Security came to $3,224 a year. That worked out to $1.55 an hour, assuming I only worked a 40-hour week.

So I wasn't leaving a lot behind when I decided to quit. I hoped that, on the outside, given my years of experience I would be a logical choice for appointment to the new commission. At least it seemed logical to me. I had lobbied for it on the Hill, but didn't get any firm commitments.

On my way out, I wanted to take one last swipe at Stockman, who at times had condemned Social Security as a "Ponzi scheme" and "closet Socialism."

I just thought that this was my one chance to say what needed to be said. I'd been a good soldier up to this point, and I just thought that these people at OMB should keep their dirty little hands off Social Security and not use it as a tool for their political, economic or budgetary purposes.

So on December 14, 1981 I sent my letter of resignation to Secretary Schweiker, which read as follows:

Dear Mr. Secretary:

I am submitting my resignation as Deputy Commissioner of Social Security for Programs, effective January 8, 1982. The reason for this action is that, with only the moderate and very short-range solutions to the financing problems of the Social Security system which have been enacted, I foresee that the necessary more permanent, long-range legislative action will not occur for several years.

I have been very honored and pleased to serve under your leadership in the past months in connection with the vital matter of restructuring the Social Security program so as to put it on a sound financial basis. I strongly support the general principles that the Administration has advocated in this connection, and also the vast majority of the specific proposals that have been made to do this. It is truly unfortunate that only a small portion of these proposals has been enacted into law, and that the real problem is yet to be faced.

Although I continue to support fully the Administration's position in this area, I am constrained to say that the legislative development procedures in the Executive Branch do not seem to me to be nearly as effective as they might be. Specifically, I am referring to the many layers of clearance and review – not only as to major political issues, but also as to minor policy and technical points at levels above the Social Security Administration. This occurs both in the Department and in higher organizations, such as the Office of Management and Budget.

In particular, the latter agency (and especially its civil service employees) develops policy without regard to the social and economic aspects of the Social Security program – and even the political aspects. This was well exemplified by the disastrous results that occurred from the proposal to eliminate the minimum benefit for all persons currently on the rolls and also from the proposal to sharply increase the early-retirement reduction factor.

In conclusion, Mr. Secretary, I want to express my great appreciation for the opportunity to serve you and the Reagan Administration in connection with this very important problem. I only hope that I have made at least some contribution to its resolution.

Sincerely yours,

Within a week it hit the papers. “Republican Social Security Expert Quits in Anger” was the headline in *The Washington Post.*

Schweiker and Svahn, nevertheless, were gracious. “In the year that you have served us, we have benefited much from your great experience and wise counsel,” Secretary Schweiker wrote to me in reply. “I know that you remain as deeply committed as ever to the Social Security program.” Commissioner Svahn’s statement was equally kind: “He has been with Social Security from its beginning, and his formal departure from Social Security will by no means lessen his intense devotion to the program that he has done so much to build.” Svahn was unhappy about my leaving and wanted me to stick around. I could have been a lot of help to him because it was obvious that Social Security was in for big changes, and my background and experience could have come in pretty handy.

But Svahn, the Reagan loyalist, was pleased with the way I chose to go out. He didn’t like what Stockman was doing any more than I did, so on top of his kind words for me when I left, Svahn gave me a plaque with a Commissioner's Citation, which I've still got hanging on my wall.

So now I was back on the outside again, hoping to get back in. I didn't have to wait long for the verdict. Two days after my letter to Schweiker, Reagan announced the membership of the commission. There were eight Republicans and seven Democrats.

The following were appointed by the President: Robert A. Beck, chief executive officer of Prudential Insurance Company of America; Mary Falvey Fuller, vice president for finance of Shaklee Corp.; Alan Greenspan, then a member of the President's economic policy advisory board and chairman of Townsend-Greenspan and Co. (and now chairman of the Federal Reserve Board); Alexander B. Trowbridge, president of the National Association of Manufacturers; and Joe D. Waggonner, Jr., a former Louisiana congressman and now a bank consultant. The latter two were Democrats.

The Senate appointed Sen. William Armstrong, R-CO, Sen. Robert Dole, R-KS, Sen. John Heinz, R-PA, Sen. Daniel Patrick Moynihan, D-NY, and AFL-CIO President Lane Kirkland.

The House appointed Rep. Claude D. Pepper, D-FL, Rep. William Archer, R-TX, Rep. Barber Conable, R-NY, former Social Security Commissioner Robert M. Ball, and former Rep. Martha Keys, D-KS.

My hope had been to be a Senate Republican appointee, since I was liked and respected there. But I had a real handicap – I wasn't a senator. I didn't make the commission. Now I was really out! Out of the government and out of the action entirely.