Collection: Governor's Office, 1967-1975: Files
Folder Title: Social Affairs - The Aged: Income Maintenance (13B1)
Box: GO22

13-B-1

T H E   A G E D :   I N C O M E   M A I N T E N A N C E

January 14, 1974

Bibliography

Bernstein, Merton C., 1964. The Future of Private Pensions, Glencoe, Illinois: The Free Press.

Bixby, Lenore, 1970. "Income of People Aged 65 or Older: Overview from the 1968 Survey of the Aged," Social Security Bulletin, April 1970.

Business Week, "The Push for Pension Reform," Number 2271, March 17, 1973.

Business Week, "Property Tax Relief," October 13, 1973.

Chen, Yung-Ping, 1966. "Low Income, Early Retirement, and Tax Policy," The Gerontologist, 6, pp. 35-38.

Goldstein, Sidney, 1965. "Changing Income and Consumption Patterns of the Aged, 1950-1960." Journal of Gerontology, 20, pp. 453-461.

Katona, George, 1965. Private Pensions and Individual Saving, Monograph No. 40, Ann Arbor: Survey Research Center, University of Michigan.

Post-White House Conference on Aging Reports, 1973. Towards a New Attitude on Aging -- April 1973, Subcommittee on Aging of the Committee on Labor and Public Welfare and the Special Committee on Aging, United States Senate.

Riley, Matilda W. and Anne Foner, 1968. Aging and Society, Volume One, Russell Sage Foundation, New York.

United States Department of Health, Education and Welfare, 1973. Compendium of National Health Expenditures Data, Publication No. (SSA) 73-11903.

Theoretical Positions and Data Sections

1. Existing programs of Social Securtiy and other forms of public assistance have assured the aged population of increasingly better income maintenance.

   - Social Security benefits have increased 70% for the nation's 29 million recipients during the last five years. OASDHI benefits account for about 30% of the total money income of those aged 65 and older.

   - The Supplemental Security Income program insures a monthly minimum income level in California of $235 for an aged individual and $440 for an aged couple.

   - Property tax relief and health care programs have helped eliminate major drains on the aged income. California property tax relief covers 293,000 homeowners over age 61 with gross incomes under $20,000. While total medical expenditures of the aged increased 78% from 1967 to 1971, the publicly funded portion of these expenditures increased 114%.

   - Income tax provisions for citizens over 65 provide further tax relief.

   - Cost-of-living escalators, included in both Social Security and the California supplemental program (AB 134), allow benefits to keep pace with prices.

2. Alternatives to Social Security as a source of retirement income would seem more likely to present themselves if we could encourage people to secure their own retirement incomes.

   - Private pensions are already recognized as one of the most important means of augmenting retirement incomes. Those entitled to a second pension have more assurance of their retirement income level.

   - Studies show that a person covered by a private pension plan is more likely to both save on his own and have more positive attitudes toward saving.

   - The private pension system has shown dynamic growth in the last three decades. The number of people enrolled in such plans has soared from 4.1 million in 1940 to 30 million in 1971. During the same period, the number of beneficiaries rose from 160,000 to 5.25 million, and assets multiplied sixty times to $153 billion. Individual pensions have increased from an annual $822 in 1950 to $1,600 in 1971.

3. Stimulation and protection of private pension plans should be accomplished in order to encourage individuals to secure their own retirement incomes.

   - Currently proposed reforms of the private pension system center on greater federal regulation of private pension funds, including assurance of fiduciary responsibility, protection of promised benefits, extension of benefits to survivors, and complete disclosure to beneficiaries of eligibility and benefit provisions.

- Other proposals seek to protect the worker who retires early or changes employers by assuring him of early vesting and/or portability rights.

- Proposed tax incentives would allow individuals to make tax deductible contributions to their own retirement plans.

4. Retirement incomes should be protected from inflation.

   - At present, the cost-of-living escalator has been built into both Social Security benefits and California's supplemental SSI program (AB 134).

Discussion Section

The aged person's income and financial resources are his means of participating in today's affluence. His income must fulfill subsistence needs and meet emergencies alike.

In an age of increasing life expectancy and decreasing retirement age, the productive years' income must be spread over lengthening years of retirement. Moreover, the financial problems of retirement are exacerbated by the trend towards higher prices and rising levels of income. "Not only does the dollar buy less today because of inflation, but even when real income is expressed in dollars of constant purchasing power, per capita disposable income (after taxes) has more than doubled in the U. S. since the beginning of the century" (Riley, 1968:69). Thus, the gains made by still economically active members of the society tend to keep the retired members in a position of relative deprivation.

Against this background of current economic phenomena, it is important to view society's steps towards providing adequate income maintenance for the aged and retired.

Governmental efforts of the past several years have focused on raising and securing adequate income maintenance for the aged. While it is a difficult, nearly impossible, task to define "adequacy," in different times and places for different people, current programs are providing increasingly better income.

Social Security benefits, which after 1970 accounted for about 30 percent of the total money income of those aged 65 and older (Bixby, 1970:22), have increased 70% for the nation's 29 million recipients during the last five years.

In January of this year, the federal and state governments embarked upon the Supplemental Security Income program. By setting a monthly minimum income level of $235 for an aged individual and $440 for an aged couple, California has effectively provided an income floor for its aged population. As this program replaces the existing welfare program, it is particularly meaningful to those not covered by Social Security or other pension plans.

Moreover, governmental action has eliminated several constantly increasing drains, such as property tax and health care expenses, from retirement incomes. When one analyzes the components of an aged person's spending patterns, the importance of these drains become apparent. An aged person allots a larger share of his expenditures for food, housing, household operation and medical services (Riley, 1968:102). Thus, publicly financed programs, such as food stamps, public housing, property tax relief and Medicare, are available to qualifying aged, therefore releasing a major portion of expenditures from the elderly budget.

For example, in the area of property tax relief, it was found that 1.3 million elderly homeowners with incomes of $2,000 or less paid 15 percent of that income for property taxes. Even the average of all retired homeowners pays 8.1 percent of his income versus 3.4 percent paid by the typical non-retired homeowner (Business Week, October 13, 1973:134b). Presently, all states have undertaken some program to cut property taxes of at least some of their elderly. In California, 293,000 homeowners over 61 with gross incomes under $20,000 are covered by tax relief.

Another large income drain for the aged is medical care. From 1967 to 1971, expenditures for the aged, both public and private, increased 78 percent. However, for this same period of time, publicly funded expenditures have increased 114 percent. In other words, for every $10 an aged person spent on health care in 1967, he had to spend almost $18 in 1971. Of that $10 in 1967, the aged person spent $4.36 of his own funds while the public spent the other $5.64. In 1971, while the individual $5.80 of each $18, the public spent $12.10, presenting the individual with only a minor increase in expenditure of his own funds (U. S. Department of Health, Education and Welfare, 1973:89).

Certain income tax provisions for citizens over 65 provide the individual with less taxable income, assuring against a further drain of income. Federal income tax advantages include a double personal exemption, tax-free social security and related retirement benefits, deductions for medical and drug expenses and exclusion of capital gains from sale of a residence.

In an effort to make retirement incomes "inflation-proof," both Social Security and Supplemental Security Income in California have provided a cost-of-living escalator to be applied automatically as prices rise.

Providing adequate income maintenance therefore becomes a two-fold process of increasing income and lessening income drains.

Alternatives to Social Security as a source of retirement income would seem more likely to present themselves if we could encourage individuals to secure their own retirement incomes. If the individual can be assured, through protective legislation and tax incentives, that his private retirement plan is secure, then he will be less inclined to rely upon public sources.

Seeking that security, employees have increasingly turned to the private pension plan. Indeed, private pensions are recognized as one of the most important means of augmenting retirement incomes (Post-White House Conference, 1973: 28-29). Moreover, a person covered by a private pension plan, rather than being deterred from private saving, is more likely to both save and have more positive attitudes toward saving (Riley, 1968:100).

The dynamic growth of the private pension sector during the last three decades would seem to indicate the ready acceptance, both by industry and labor, of this means to retirement financing. The number of people enrolled in such plans increased from 4.1 million in 1940 to 30 million in 1971. During the same period, the number of beneficiaries rose from 160,000 to 5.25 million, and assets multiplied sixty times to $153 billion. Individual pensions have increased from an annual $822 in 1950 to $1600 in 1971 (Business Week, March 17, 1973:47).

For the employee, then, alternatives to Social Security benefits must be perceived by him to be as secure as those he anticipates receiving from the Social Security system. In many cases, this security is a large area of failure in the private pension sector. Stimulation and protection of private pension plans should be effected in order to provide individuals with more security and incentive to formulate their own plans.

Legislative protection has been proposed to secure pension rights for employees in many ways. Proposed reforms center on greater federal regulation of private pension funds, including assurance of fiscal responsibility, protection of promised benefits, extension of benefits to survivors, and complete disclosure to beneficiaries of eligibility and benefit provisions.

Other proposals seek to protect the worker who retires early or changes his employer by assuring him of early vesting and/or portability rights. Vesting assures the employee of pension rights after a specified age or period of service. Portability would be a system by which an employee could carry accumulated benefit credits from job to job, either by transferring the money through some clearinghouse or by paying it to a central fund.

The federal administration has proposed tax incentives which would allow individuals to make tax deductible contributions to their own retirement plans. As proposed by the President, workers not covered by employer financed retirement plans would be permitted to establish their own retirement plans and make tax deductible contributions to them. More generous deductions would be allowed to self-employed persons than currently allowed.

Stimulation of the private pension sector would seem to follow once the worker was assured of legal protection of the benefits and incentives to contribute.

Finally, retirement incomes should be protected from inflation. At the present time, the cost-of-living escalator appears to be the accepted means of accomplising this goal. It has been built into both the Social Security benefits and those received under AB 134. Whenever the Consumer Price Index increase by 3 percent or more, Social Security benefits would be increased by an equal amount. The state supplemental program (AB 134) to Supplemental Security Income provides that grants be adjusted annually to reflect any increases or decreases in the cost-of-living occurring after July 1, 1973.

Over the years, other proposals have been offered for dealing with the inflationary effect on fixed retirement income.

Modification of the Social Security retirement test was proposed as a means to reduce the impact of inflation. By increasing the amount of earnings a person can have and still receive all his benefits for the year, retired persons would be encouraged to produce their own cost-of-living supplements in the form of wages and salaries. Latest Social Security legislation has included this modification.

Other proposals have suggested raising the earnings base, which would be limited in impact to persons retiring in the future. Because the maximum earnings base determines the proportion of the nation's payrolls available to finance the program and the extent to which the program can relate benefits to past earnings, the maximum should be changed in relation to changes in our expanding economy. Recently signed legislation has also included this proposal in new Social Security legislation.

Faced with an inflationary economy, protection of retirement incomes has been thus attempted by a variety of fiscal and legislative means.

Quotation Section

"Incomes of older persons have been dramatically increased over a three-year period through existing income assistance programs. By the end of 1972, three major Social Security increases have taken effect since January 1970. Benefit payments as of the end of 1973 will be some $25 billion more than they were at the end of 1969. The compound effect of 15, 10, and 20 percent increases approved during this Administration is a 51.8 percent increase since 1969, representing the greatest rate of increases in Social Security since 1950. . . . through these increases, older Americans have shared significantly in the rising national standard of living."

-- Administration Response: "Setting Income Goals," Post - White House Conference on Aging Reports, 1973, p. 22-23.

"In short, the private pension system, which like Topsy has "just growed," is headed toward a stage of guided development in which it will be increasingly shaped by the imperatives of national social policy."

-- Business Week, March 17, 1973, p. 47.

"In legislation President Nixon submitted to Congress in September 1969, he asked that Social Security payments, for the first time, be automatically protected against inflation. . . In his message to Congress on the elderly in March, 1972, the President said, 'Payments that keep pace with the cost of living would thus become a guaranteed right for older Americans -- and not something for which they have to battle again and again, year after year'."

-- Administration Response: "Setting Income Goals," Post - White House Conference on Aging Reports, 1973, p. 24.

"The difficult question posed by technological change and rising national income is not that of determining the benefit amounts of different individuals at the time they retire, but rather that of reaching a consensus as to what happens to their benefits over the subsequent 10, 15 or 20 years."

-- Dr. Ida Merriam, "Implications of Technological Change for Income." p. 171.

13 B1

January 15, 1974

POSITION PAPER

SUBJECT

SOCIAL AFFAIRS

ISSUE

THE AGED - INCOME MAINTENANCE

NO. 13 B1
EMPLOYMENT DEVELOPMENT DEPARTMENT

BIBLIOGRAPHY

B. Weisbrod and W. L. Hansen, "An Income-Net Worth Approach to Measuring Economic Welfare", American Economic Review, December 1968

Joel F. Handler and Ellen Jane Hollingsworth, The "Deserving Poor", Markham Publishing Co., Chicago, 1971

Ewan Clague, Balraj Palli, and Leo Kramer, The Aging Worker and the Union, Praeger Publishers, New York, 1971

Committee on Employee Benefits, Financial Executives Institute, Private Pension Plans and the Public Interest, Financial Executives Institute, New York, 1967

Jozetta H. Srb, Portable Pensions, New York State School of Industrial and Labor Relations, A Report, Cornell University, Ithaca, New York, 1969

Larry L. Orr, Robinson G. Hollister, and Myron G. Lefcowitz, Editors, Income Maintenance, Markham Publishing Co., Chicago, 1971

Sar A. Levitan, Wilbur J. Cohen, and Robert J. Lampman, Editors, Towards Freedom from Want, Industrial Relations Research Association, Madison, Wisc., 1968

Bureau of Labor Statistics Bulletin No. 1673, "The U.S. Economy in 1980"

BLS Bulletin No. 927, "Workers' Budgets in the United States"

TABLE OF CONTENTS

DATA

Income maintenance provisions for the aged in California are adequate from two standpoints, need, and comparison with other states.

Need

The basic benefit under the Supplemental Security Income provisions of Public Law 92-603 for an individual living alone is $130 per month, or $1,560 per year. California's supplementation under AB 134 brings this up to $235 per month or $2,820 per year.

For a couple, the benefit under the same program, including the State supplement, is $440 per month or $5,280 per year.

The Federal poverty criterion for eligibility for Job Corps, NAB-JOBS Program or designation as disadvantaged for a multiplicity of other programs is a maximum income of $2,200 per year for an individual or $2,900 for a couple, non-farm. For farm people, income must be even lower to be considered poverty level ($1,800 annually per individual, $2,465 per couple). The basic SSI grant as supplemented by California is well above these poverty levels for both the individual and couple.

Social Security Benefits may vary for an individual from $84.50 to $274.00 per month. For a couple, based on the earnings of one member, the range is from $126.80 to $411.00. Of course, if both members were high earners, the combined income could be as much as double the individual.

Private pension plans vary widely in amounts and in the firmness with which members have vested rights in them. Their total effect on the income of the aging is therefore difficult to measure at this time.

COMPARISON

California benefits under SSI compare very favorably with other high cost of living states, as follows: (Independent living arrangement only considered).

Individual

California	Massachusetts	New York	New Jersey	Hawaii
235.00	223.50	206.85	182.00	165.00

Couple

California	Massachusetts	New York	New Jersey	Hawaii
440.00	340.30	294.94	250.00	248.00

All of the above information was obtained from publications of the Department of Labor, the Social Security Administration, or this Department, or by word of mouth from the Regional Office of the Social Security Administration. Copies of the source publications are attached.

DISCUSSION

For purposes of discussion, the income of the aged can be divided among the following sources:

1. Income from assets.
2. Income from earnings.
3. Pensions and Social Security.
4. Welfare, public and private.

A table done for a 1966 study shows this income to be distributed as follows:

MEAN INCOME OF THE AGED FROM MAJOR SOURCE, 1965, BY INCOME LEVEL

	ABOVE POVERTY LEVEL		BELOW POVERTY LEVEL	
	MEAN FOR THOSE RECEIVING INCOME, THIS SOURCE	MEAN FOR ALL IN THIS INCOME LEVEL	MEAN FOR THOSE RECEIVING INCOME, THIS SOURCE	MEAN FOR ALL IN THIS INCOME LEVEL
INCOME FROM ASSETS:				
FAMILIES HEADED BY AGED PERSON	$1,316	$ 858	$ 232	$ 75
AGED UNRELATED INDIVIDUALS	1,143	786	245	84
INCOME FROM EARNINGS:				
FAMILIES HEADED BY AGED PERSON	5,282	3,385	574	211
AGED UNRELATED INDIVIDUALS	2,765	1,033	392	44
PENSIONS AND SOCIAL SECURITY:				
FAMILIES HEADED BY AGED PERSON	2,177	1,875	1,205	897
AGED UNRELATED INDIVIDUALS	1,526	1,289	843	611
WELFARE, PUBLIC AND PRIVATE:				
FAMILIES HEADED BY AGED PERSON	1,093	45	809	176
AGED UNRELATED INDIVIDUALS	1,147	81	741	158

SOURCE: PRELIMINARY TABLES, CPS SURVEY OF ECONOMIC OPPORTUNITY, 1966, AS REPORTED IN R. MUNTS, "MINIMUM INCOME AS A RETIREMENT POLICY OBJECTIVE," IN THE AGED POPULATION AND RETIREMENT INCOME PROGRAMS, PART II, JOINT ECONOMIC COMMITTEE, SUBCOMMITTEE ON FISCAL POLICY, 90TH CONGRESS, 1ST SESSION, DECEMBER 1967, P. 292.

Inflation will, of course, have increased all of the above figures in eight years, and HR I plus AB 134 and similar legislation in other states may have increased the proportion of income derived from welfare, but there is no reason to suppose that the relationships between sources will have otherwise changed materially.

Assets

As shown in the above table, the aged poor received very little in income from assets. Some have argued, however, that looking simply at current income from assets may be somewhat misleading as to the relative well-being of particular groups. It is suggested that, particularly with respect to the aged, it is important to take into account the entire net worth position of the household. This is because it is possible, at least in theory, for people not only to live on the income from assets but, as they reach the later part of the life cycle, to sell off some of their assets in order to augment their current income. In one study in which an income-net-worth measure was used, it was found that, whereas the aged comprised 33 percent of the toal poverty population when income alone was used as a measure of poverty, when an income-net-worth measure was used the aged accounted for only 28 percent. This reduction is a result both of the higher net worth of the aged and their shorter life-span over which to annuitize that net worth. Thus it would seem that taking into account the asset position of the aged would reduce the burden of poverty in this group as compared to other age groups in the population. It should be noted, however (as the authors of the study cited do) that this picture may be somewhat distorted by the inclusion of the value of owned housing in the net worth measure used. It may be inferred from other studies which calculated such measures with and without housing that when one goes from just current income to an income-net-worth measure of poverty about two-thirds of the reduction of poverty among the aged which occurs is due to the inclusion of housing in the measure. Since about 63 percent of the aged who are poor by a current income measure live in housing which they own, the question of how one is going to assess the contribution of such housing to the well-being of the aged poor is clearly an important question. The sale of owned housing would usually make additional income necessary to pay for other living quarters. Too, it might be argued that taxes, necessary repairs, etc., tend to cancel any cost of living advantage from not paying rent. Probably for this reason, owned housing of "reasonable value" is not counted as a resource in determining eligibility for Supplemental Security Incomes.

According to the CPS Survey Table, income from assets is a relatively unimportant factor, compared to earnings and pensions and Social Security in keeping the aged above the poverty level.

Earnings

The fact that emerges most clearly from an inspection of the Table on page 3 — and one which is most surprising in light of the usual stereotypes about all the aged living on fixed pension incomes — is that the major difference in the income of the aged poor and the aged nonpoor is the amount derived from earnings. For families headed by an aged person, the difference in income from earnings accounted for about 60 percent of the difference in income between those poor and those nonpoor. For aged unrelated individuals, had the poor on average been able to earn as much as the nonpoor, they would have lifted their average income above the poverty line. Thus, it can be seen that the common tendency to think of the problems of unemployment as irrelevant for the aged population is quite mistaken.

In 1960 (more recent figures are probably available but little change is anticipated) 30.5% of men 65 and over were in the labor force. In 1969 this group, the male labor force 65 and older, numbered 2,170,000. However, only

27.2% of these actually worked. According to the Bureau of Labor Statistics this percentage of participation will decrease by 1980 to 22%. Reasons for this may include an increasing number of young persons entering the labor force and improvements in Federal, State and private welfare, Social Security and pension payments.

One factor in the new Federal-State Supplemental Security Income Program may slow the downward trend in labor force participation by the 65 and older group. That is the forgiveness feature in earned income. In California as in most other states, before January 1, 1974 welfare payments to the aged were reduced almost dollar for dollar by any earned income. Under SSI, if a person or couple has earnings from current work, $195 a quarter is ignored, and $1 is deducted for each additional $2 in earnings. If there is no unearned income (Social Security, private pension, etc.) then $255 per quarter of earned income is exempted before the one-for-two rule applies.

Under the old system, there was no monetary advantage for an old person to work at all unless work was available that would produce income substantially in excess of his welfare grant. The SSI system of forgiveness for some earned income encourages at least part-time work both to augment income and as a hedge against inflation. Also, the changes up and down the scale from no work through part-time to full-time employment are much easier for the older worker to make than the abrupt transition from full-time work to idleness and vice-versa.

There is no legislation prohibiting discrimination in employment because of age for those 65 and older.

Pensions and Social Security

Pensions and Social Security make up the largest one source of income for the aged poor and are second only, although only about two fifths as much, to employment in the hierarchy of sources of income to the aged non-poor.

Social Security and pension plans for government workers are more flexible than private pension plans in that cost of living increases can be legislated or built into Social Security or government plans, while private plans are more restricted to the productivity of funds invested at the time of retirement of the individual pensioner.

Social Security has one very big advantage over all other plans in the area of vesting. Every quarter in which the worker earns more than $50 in covered employment is permanently credited to his account, and he need have only 40 such quarters in his working life to be eligible for monthly payments beginning at age 62 or such later time as he may elect. Private plans, and most plans of governments, require minimum time or contributions under one employer for the worker to have a vested right in them. Most plans with a time requirement set it at ten to fifteen years. The plan for California State Employees requires five years state service.

These requirements severely limit the availability of pension funds to the aged, since as of 1966 the average time on the same job for the 71,000,000 employed in this country was 4.2 years.

Many studies, including legislative, of portability of pensions have been done. However, to date no legislation has been passed which will change the present fact -- that a minority of workers have any private pension coverage.

If all workers covered by Social Security were at the maximum benefit, their payments would be more than any present welfare payment for aged persons. However, the nationwide average payment as of August 1973 was $165.20. 15,043,093 retirees were covered. Because of legislative increases this amount should rise about 11% by mid 1974, but the average covered worker will still need supplementary SSI in California.

WELFARE, PUBLIC AND PRIVATE

Private welfare can be discounted as ineffective as presently consituted except for short-term crisis situations and in a few "closed societies" such as the LDS Church. Indigent meals and Christmas baskets are like a bandaid on a cancer.

Public assistance (welfare) for the aged has improved in amount and administration during the last thirty or more years as improvements and increases in Social Security and private pensions have lessened the need for it.

Recent years have witnessed a moderate yet significant improvement in the economic status of the aged. In 1959, 37% of persons aged 65 or older were poor, whereas seven years later 30% of the aged fell below the poverty level.[1] Yet despite this reduction in poverty among the aged, persons aged 65 and above remained the most poverty-stricken age group in the Nation. In fact, in 1966 a majority of the aged who lived alone were poor. Compared with 1959 when aged persons living alone accounted for every fifth household tagged poor, in 1966 aged persons living alone accounted for every fourth poor household.

In 1968, over four-fifths of the aged receive Social Security benefits. Some of these beneficiaries had income from investments and private pensions in addition to their benefits; some supplemented their benefits with income from part-time work; yet for some the benefits together with all assets were below their needs and they were eligible for public assistance payments. The proportion of aged persons in need of public assistance has declined markedly over the years, however, as Social Security's coverage has been expanded and its benefits have been increased. Whereas 23% of the aged population received

---

[1] U.S. Bureau of Labor Statistics, "Workers' Budgets in the United States," Bulletin No. 927, p. 6

Old Age Assistance in 1950, only about 11% were still receiving aid from this program in 1968. Indeed, the Social Security System has done much to assure retired people a basic income and reduce the extent of poverty in this country. The benefit increases authorized by Congress in 1967 meant that about 6½ million aged beneficiaries would be kept out of poverty because they received Social Security benefits. About 3½ million aged beneficiaries, however, were still living in poor households. Later increases, notably the 11% increase granted for 1974, should reduce the number of aged dependent on welfare even farther.

Welfare payments to the aged, even as presently paid by the Social Security Administration as provided for by HR-I, still vary widely between states because of state supplements to the basic Federal benefits. Some states do not supplement the basic SSI benefit, $130 per month for individuals and $195 per month for couples, at all. Indeed, this basic benefit represents an increase over what some states were previously paying.

California's total benefit of $235 per month per individual and $440 per couple is the highest of any of those states voluntarily supplementing the SSI basic through the Social Security Administration. Information on some states known to be supplementing separately from the Federal program is not yet available, so it is not yet certain that California's support for the aged is the highest of all. A true comparison of benefits between states will have to include a comparison of cost of living, however, California should score high even when this factor is taken into account.

SUMMARY

1. Existing income maintenance provisions for the aged in California are adequate, both in comparison with other states and compared with poverty income levels laid down by the Federal Government.

2. Income from assets is a minor factor in keeping the aged off the poverty roles. Many of the aged live in owned housing, but the effect of this housing on disposable income is moot, and it probably should not be considered as asset for income purposes.

3. Earnings remain the largest single income factor that keeps the aged above the poverty level. The importance of this factor might even increase with the fairly liberal forgiveness of earned income feature of the SSI Program. On the other hand, increases in the level of Social Security payments may have an opposite effect by encouraging retirement.

4. Pensions and Social Security payments are both on the rise, pensions by public pressures including collective bargaining, and Social Security by legislation. Pressures are growing to ease vesting provisions and otherwise protect the workers' interest in private pension plans. Legislation has been proposed in this area, and more will be. Increased payments and broader coverage of Social Security and private pensions will lessen the need for direct assistance payments to the aged.

5. Welfare payments have been forced up by inflationary pressures. However, increases in Social Security and pension payments as well as, to a lesser degree, appreciation of assets held by retired persons may have the effect of holding down the total cost of direct welfare payments.

6. Aged retired persons are presently cushioned from inflation by: appreciation of assets; improved hourly rates for the part-time work that many of them still engage in; legislative increases in Social Security payments; and legislative increases in public welfare payments. While private pension plans will probably, of necessity, be improved and coverage broadened, their payment provisions must always be restricted by the ability of private employers to pay and by the earnings of the funds invested in them. Some retirement systems contain built-in cost of living increases. Retired California State Employees, for instance are entitled to a maximum 2% annual increase, depending on the consumer price index.

As Social Security and pension plan payments increase, the reduced number of persons dependent on welfare may make it possible to increase payments to meet needs.

QUOTATIONS

1. "People are poverty-stricken when their income, even if adequate for survival, falls markedly behind that of the community."

   John Kenneth Galbraith, The Affluent Society, Houghton-Ruflin Co., New York, 1958

2. "...now, in 1970, it (Social Security) has become the largest and most pervasive social program in the United States."

   Ewan Clague, The Aging Worker and the Union, Praeger Publishers, New York, 1971

3. "America will be judged by the measure of social and moral responsibility it demonstrates in converting its material wealth into human values... ...we will not neglect our responsibility to improve...pension and Social Security benefits..."

   Walter Reuther, President UAW

4. "The inadequacy of Social Security as a safeguard against poverty among the aged is clear from the 20% of the aged poor not covered by the program and the additional 35% of those who receive benefits who remain poor in spite of the benefit income."

   Robinson Hollister, Income Maintenance, Markham, Chicago, 1971

5. "Of all the issues in Social Security, the problem of determining benefit adequacy in relation to equity is possibly the most difficult."

   Wilbur J. Cohen, (Under Secretary of HEW), Toward Freedom From Want, Industrial Relations Research Association , Madison, Wisc., 1968

13 B1
Winston

THE AGED - INCOME MAINTENANCE

BIBLIOGRAPHY:

Bernstein, Merton C., "The Mirage of Pension Reform", Testimony Before the Subcommittee on Labor, U.S. Senate, June 21, 1972.

Brotman, Herman B., "Income", Gerontologist, XII (Summer, 1972), 17-20.

Brotman, Herman B., Income and Poverty in 1970, Advance Report, Facts and Figures on Older Americans, Washington Administration on Aging, June, 1971.

Brotman, Herman B., Measuring Adequacy of Income, Facts and Figures on Older Americans, Washington, Administration on Aging, March 1971.

Brotman, Herman B., "The Aging: Who and Where", Perspective on Aging, II (January - February, 1973), 8-12.

Chen, Yung-Ping, Income: Background and Issues, White House Conference on Aging, Washington, U.S. Government Printing Office, 1971.

Davis, Harry E., "Pension Provisions Affecting the Employment of Older Workers", Monthly Labor Review, XCVI (April, 1973), 41-45.

Kolodrubetz, Walter W., "Two Decades of Employee-Benefit Plans, 1950-70: A Review", Social Security Bulletin, XXXV (April, 1972), 16-22.

Kreps, Juanita "Aging and Financial Management", Aging and Society, edited by Matilda White Riley etal., Vol. II, New York, Russell Sage Foundation, 1969.

Nader, Ralph and Kate Blackwell, You and Your Pension, New York, Grossman Publishers, 1973.

Orshansky, Mollie, "Who's Who Among the Poor: A Demographic View of Poverty", Social Security Bulletin, XXVIII (July, 1965), 3-32.

Schulz, James H., "The Economic Impact of an Aging Population", Gerontologist, XIII (Spring, 1973), 111-118.

U.S. Congress, Joint Economic Committee, Old Age Assurance, Pt. I, 90th Congress, 1st session, Washington, U.S. Government Printing Office, 1968.

U.S. Congress, Special Committee on Aging, Economics of Aging: Toward a Full Share in Abundance, 91st Congress, 2nd Session, Parts 10 A and 10 B, Washington, U.S. Government Printing Office, 1970.

U.S. Congress, Special Committee on Aging, Future Directions in Social Security, 93rd Congress, 1st Session, Part I, Washington, U.S. Government Printing Office, 1973.

U.S. Congress, Special Committee on Aging, Pension Aspects of the Economics of Aging: Present and Future Roles of Private Pensions, Washington, U.S. Government Printing Office, 1970.

U.S. Congress, Subcommittee on Aging of the Committee on Labor and Public Welfare and the Special Committee on Aging, Post-White House Conference on Aging Report, 1973, Washington, U.S. Government Printing Office, 1973.

White House Conference on Aging, 1971, Section Recommendation on Income, Washington, U.S. Government Printing Office, 1972.

THEORETICAL POSITIONS:

1. Social Security is a reliable system which guarantees a basic income to today's retired population.

2. The federally financed Supplemental Security Income program that replaces adult aid programs provides an income floor which supplements the income of older people.

3. There is no one standard definition of what is an adequate income.

4. The federal government should take action to encourage the private sector to include broader

coverage under private pension plans and to ensure receipt of benefits by workers and their survivors.

5. One means of cushioning the aged person with fixed resources and income from inflation is to provide automatic cost of living increases in both public and private pension programs.

FACTUAL DATA:

Social Security has never lost a penny to a dishonest trustee. It has never paid a kickback to a union or management official. It has never failed to pay for lack of funding. Social Security can readily be made to keep up with increases in cost of living and pays widows and dependents when a worker dies, retires or becomes disabled. In sum, it is dependable. There is no easier, no cheaper, no more dependable way to improve retirement income than through Social Security. [1]

At the end of May, 1973, the Social Security program was paying cash benefits of a monthly rate of nearly 4.1 billion dollars to nearly 2.9 million beneficiaries. This is a rise of nearly 1 billion dollars in the total amount of monthly benefits and more than a 1 million rise in beneficiaries since May 1972. [2]

Social Security benefits have increased 70% in the last 5 years, with a cost of living escalator being added. [3]

At the end of 1973, Social Security benefit payments will be some 25 billion more than they were at the end of 1969. The compound effect of increases in January 1970 and 1971 represents a 51.8% increase since 1969, representing the greatest increase since 1950. [4]

The recent 11% Social Security increase of January 3, 1974 will augment the incomes of 30 million Americans equaling a 68.5% increase in Social Security program since the beginning of this administration. [5]

H. R. I. as it now stands, provides 5.5 billion in additional Federal benefits to older Americans, 3 billion in increased social security benefits and when fully effective, another 2.5 billion in new benefits to persons with lower incomes. [6]

On December 5, 1973, the legislature passed AB 134, state supplementation to the Federal Supplement Security Income Program. This supplement increases the individual grant in California to $235 and $440 for an older couple, effective January 1, 1974, providing one of the highest supplements in the nation. [7]

The 11% increase in Social Security effective on January 3, 1974, will be received in two installments. In April 1974, the Social Security benefit will be raised to $140 for older individuals and $210 for couples. In July 1974, there will be an increase to $146 for older individuals and $219 for couples. [8]

Income adequacy and the American standard of living are ideals thatare subject to various interpretations. One person's adequacy may be another person's inadequacy. [9]

The concept of adequacy, especially in the more developed countries, must consider a whole array of additional factors such as psychic income, maintenance of social and economic status, ability to take advantage of opportunities for leisure pursuits, relation to previous income and protection of freedom of choice concerning the mix of payments and free services. [10]

Financial adequacy is best viewed in relative terms rather than in specific money amounts. [11]

The poverty line is by no means rigid. It is set at somewhat varying levels by different government agencies and it changes from time to time. [12] The 1969 poverty threshold incomes of $2,200 for a couple and $1,750 for unmarried persons approximate those levels of income required for minimum physical subsistence. [13] Yet another budget for 1969 shows the lowest level $2,902, intermediate budget $4,192, and the highest budget $6,616. Related to income floor is the whole question of where the line should be drawn between individual initiation and social action for change. [14]

Private pensions cover only half and perhaps less of the private work force. [15]

At least one-half of all persons participating in private pension plans may not receive pension benefits when they retire. [16]

One individual estimates that pension benefits go to as few as one of twelve—not more than one of ten covered employees. [17]

Many workers never receive pension benefits even though they have worked for years in a company which has a pension plan; thus, plans should be regulated. [18]

Although benefit levels have increased over the years, inflation has made much of that increase illusory as far as actual buying power. Since you must depend on your pension for 10 or 15 years after you retire, the value will be reduced through cost of living increases. [19] The 1970 average yearly private pension benefit had increased 62% over the 1960 figure. The rise in prices between 1960 and 1970 offset the increases so that the 1970 benefits were only 25% higher than in 1960 in terms of buying power. [20]

Some pension plans adopt cost of living formulas to reflect the Consumer Price Index. These plans are the exception and are usually effective when overall benefits are adequate. [21]

Previously, automatic cost of living increases had not been provided in the Social Security program without congress approval. On July 1, 1972, the President signed legislation to make Social Security benefits inflation proof through a cost of living escalator. [22]

The California State supplement to the S.S.I. program as indicated in AB 134 provides an automatic cost of living increase in the state supplement to the federal program. [23]

On January 3, 1974, the President signed an 11% increase in Social Security, allowing automatic increases of 3% between the first quarter of a year to the next when the Consumer Price Index increases by that amount. The first potential increase will come in July of 1975. [24]

REFERENCES:

1 Merton C. Bernstein, "The Mirage of Pension Reform", Testimony before the Subcommittee on Labor, U.S. Senate, June 21, 1972, p. 3.

2 James H. Schulz, "The Economic Impact of an Aging Population", Gerontologist, XIII (Spring, 1973), 2.

3 Design for Dignity, Supplemental Security for the Aged Blind, Disabled, Book 1, Social Security Administration (Washington, 1973).

4 Post - White House Conference on Aging Report, 1973, U.S. Congress, Subcommittee on Aging of the Committee on Labor and Public Welfare and the Special Committee on Aging (Washington, 1973), p. 22.

5 San Francisco Chronicle, January 4, 1974, p. 1, from New York Times release.

6 "Nixon Sees Large AoA Budget Increase",S.R.S. Newsletter, V, No. 6 (Washington, 1971), 4-5.

7 National Senior Citizens Law Center, "Seniors in Sacramento", I, No. 13 (Sacramento, December 6, 1973), 1.

8 San Francisco Chronicle, January 4, 1974, p.1.

9 James Schulz, "Economics of Aging, "In Report of a Special Committee of the Gerontological Society on Research and Development Goals in Social Gerontology, Special issue of Gerontologist, IX (Winter, 1969), 66.

10 Herman B. Brotman, "Income", Gerontologist, XII (Summer, 1972), 18.

11 David A. Peterson, "Financial Adequacy in Retirement: Perceptions of Older Americans", Gerontologist, XII (Winter, 1972), 382.

12 *The Golden Years: A Tarnished Myth*, National Council on Aging. (Washington, 1972) p.2.

13 Yung-Ping, Chen, *Income: Background and Issues*, 1971 White House Conference on Aging (Washington, 1971), p. 8.

14 *I Bid*, p. 47.

15 Ralph Nader and Kate Blackwell, *You and Your Pension* (New York, 1973), p. 93.

16 *I Bid*, p. 153

17 *Preliminary Report of Private Welfare and Pension Plan Study, 1971*, 92nd Congress, 1st Session (Washington, 1971).

18 Raymond Schmitt, *The Pension Debate: A Statement of the Issues and the Arguments* (Washington, 1971), p.3.

19 Nader, p. 81.

20 Walter W. Kolodrubetz, "Two Decades of Employee Benefit Plans, 1950-70: A Review", *Social Security Bulletin*, XXXV (April, 1972), 19.

21 Nader, p. 82.

22 *Post White House Conference on Aging Report*, 1973. p. 23.

23 Citizens' Income Security Act for Aged, Blind and Disabled Californians, Assembly Bill No. 134 (Sacramento, December 5, 1973), p. 26.

24 San Francisco Chronicle, January 4, 1974, p. 22.

DISCUSSION SECTION: Adequate and secure retirement income is an important factor in preventing or ameliorating problems that confront the elderly. When income is secure the elderly have less difficulty in competing in the market place for basic necessities because the satisfaction of basic human needs depends on purchasing power and their relation to it. When adequate and secure income is available, there is less need for public agencies to provide special and discount services and facilities. This allows the aged optimum choice in selecting services in the market place to meet their human needs and wants. "In seeking to solve the income problem, adequacy and security of income should be considered."[2] Recognition of problems created by low benefits to the aged has prompted many program proposals in recent years.

Incomes of the elderly have risen during the past decade as a result of Social Security increases and the introduction of the Supplemental Security Income program which provides a basic cash benefit for millions of aged, blind and disabled people. Social Security increases have amounted to more than a 26% rise since 1969, a ten billion dollar increase in income for the elderly. When the proposed five per cent benefit increase in the Supplemental Security Income program (S.S.I.) is effective, the increase in a two-and one-half year period would be the most rapid increase in the history of Social Security.[3]

Reforms in the recent H.R.I legislation include the first ~~national~~ income floor for an estimated 4.6 million older Americans, and an increase of approximately 2.5 million in addition to those covered in public assistance programs.[4] Other provisions include a guaranteed inflation proof Social Security program, and a modified retirement earnings test to encourage more older people to remain active in economic life without reducing retirement benefits. There are also benefits for delayed retirement and minimum benefits for those who worked fifteen years or longer.[5]

In the S.S.I. program uniform national eligiblity standards are applied to assure an older person a monthly income of $130 and $195 to a couple. On January 3, 1974 an eleven percent increase in Social Security was signed into law by the President. This increase is expected in two installments, one in April, 1974 and the other in July, 1974. This action will raise the S.S.I. benefit nationally to $140 for an individual and $195 to a couple in April, 1974. An additional increase in July, 1974 will increase benefits to $146 and $210 respectively. California supplements this with an additional $105 to the eligible older individual and $245 to a couple.

This was signed into law on December 5, 1973 thus making the supplement one of the highest in the nation. The recent increase in Social Security benefits will augment the incomes of thirty million Americans.[6]

During the last decade, the aged as a group have improved their economic status as measured by the decline in incidence of poverty by the rise in median income resulting from larger Social Security payments, spread of some private pension plans, absorption of medical expense by Medicare and Medicaid, property tax and income subsidies, private savings and the federalization of adult aid categories through the S.S.I. program.[7] The economic position of the aged has worsened relative to the rest of the population although it has improved greatly in absolute terms.[8] "As a rough measure of their financial status, the aged's median income is now less than half that of the population under age sixty-five."[9]

In 1966, half of the families with heads aged sixty-five and over had incomes of less than $3,645. This is 46% of the median income of younger families with $7,922. The five million older individuals who live alone or with non-relatives had median incomes of 42% of that of their younger counterparts.[10] Three-fourths of these older people are women, mostly widows.[11] Older people who make up only 10% of the total population, but 20% of the poor are twice as likely to be poor as their younger fellow citizens. Within the older population, every fourth person is poor.[12]

"While there is little dispute that income adequacy and income security are universally desirable, there is no concensus on what level of income is adequate and what degree of protection is secure."[13] Income need is a relative and not an absolute concept. There is no single measurable level of income that may be regarded as fulfilling all income needs of every person. Even minimum subsistence levels of income differ according to the city or community in which the person lives. Statistically, different government agencies and organizations have devised poverty index scales and budgets for adequate living, i.e... Bureau of Labor Statistics, Bureau of the Census, Social Security and Office of Economic Cpportunity. "Although there may never be any consensus on income adequacy and on the American standard of living, some operationally useful definitions are required if the goal of retirement income as stated in the Older Americans Act is to be translated into reality."[14]

The best known approach to measuring adequacy of income for older people is a budget which attempts to translate a general concept into a list of commodities and services.[15] The Bureau of Labor Statistics Retired Couples Budget and the Three Budgets for a Retired Couple are widely used.

In using the Bureau of Labor Statistics budget for an elderly couple described as "modest, but adequate," which approaches the "near poor" poverty index, there are more than 40% of non-institutionalized aged falling below this modes level of living.[16] What income level should be supported, the lowest, intermediate or highest budget for allowing for more than physical sustenance. Whatever standard of adequacy is used needs to be continually safeguarded in order to insure the purchasing power of retirement income and to guarantee benefits to older people.[17] The concept of adequacy needs to be related to changes in needs, previous wages, standard of living and length of retirement. The estimates of adequacy fall short of the standard of living to which the aged have been accustomed before retirement. Close attention should be paid to the relation between pre-retirement and post-retirement income.

A significant number of social security systems in other countries now use mechanisms which relate pension benefits to prior earnings and guarantee these benefits a high level of earnings replacement at retirement.

Reforms in Austria, Belgium, France, Italy and Sweden embody the principle of high earnings to provide living standard maintenance. The trend is toward developing public and private systems which permit the retired to maintain a level of living which is nearly that which they had previously enjoyed.[18]

The initial function of Social Security was to provide a floor of income support in old age which would supplement the individual's savings upon retirement. This system was not originally designed to provide total income maintenance to the retired worker. Through the years more individuals have come to rely on Social Security as a primary source of income upon retirement. Following the rapid expansion of private pension plans following World War II, it was common to stress the three factor approach to the income maintenance system in America based on public and private pensions and individual savings. The roles of Social Security, private pensions and savings as a source of retirement income through the years. Presently, a combination of these three elements is stressed to assure a comfortable existence to the older population. The White House Conference on Aging stressed the importance of Social Security benefits to provide a basic protection which should be augmented through benefits offered by the private sector in our society and individual savings through the years. "Older persons have spoken frequently about the need for pension reform, especially at the White House Conference on Aging...It is clear that our efforts to reform and expand our income maintenance systems must now be complemented by an effort to reform and expand private retirement programs."[19]

Despite two decades of marked growth, the private retirement system leaves a substantial proportion of the workers in the private non-farm economy without coverage.[20] In 1967, about 1.5 million aged received support from retirement programs for federal, state and local government employers and railroad employment. This same year only 1.8 million aged received private pensions - when there are more workers in private industry than in government employment.[21] The federal government must take action to encourage broader coverage under private pension plans and ensure receipt of benefits by workers and survivors. It should require plans to include early vesting and/or portability, survivor benefits, complete disclosure of eligibility and benefits of the plan to the recipient.[22]

The issue for regulation is premised on the fact that workers never receive pension benefits although they have worked for years in companies with pension plans. Moreover, workers employed in small, non-union establishments and earning relatively low pay are least likely to participate in retirement plans. Yet, these are most likely the very individuals who would benefit from an additional source of income upon retirement. Pension plans have not been widely adopted by small employers because of the high cost of establishing and maintaining a plan, the lack of pressure from employees or unions, the high turnover in small businesses and the small employers view of pensions as personal costs.[23]

In 1967, the last year for which a breakdown of private pensions is available, half of the couples receiving private pensions got less than $970 a year; half the unmarried men received less than $865; and half the unmarried women received less than $665.[24] In contrast to Social Security benefits, private pensions cover a broad range because they are based on length of continuous service and past earnings. Thus, a few people receive large benefits while others with smaller wages and fewer years credited service on which to earn benefits, receive smaller pensions.

The intention of federal legislative proposals to regulate private pension plans focus on issues such as funding, vesting, and portability. These are intended to improve the chances of men and women workers to actually receive pensions when they retire and to pro tect them from loss caused by changing jobs or mismanagement of private funds. The proposals should further initiate measures to extend coverage of private pensions into areas of employment where they do not presently exist if private sector is to be instrumental in providing a basic benefit to the retired worker.[25] Most of the active workers enrolled in private pension plans (60%) are employed in manufacturing firms. Another 20-25% are in transportation, public utilities and mining. Coverage is significantly lower for the entire non-manufacturing sector.[26]

The current pension debate in Congress and in the federal government does not emphasize the protection of survivors, which is one of the short-comings as an answer to our nation's retirement income. Improved provisions for widows under the private sector would help solve one of the most pressing needs of the sixty-five and over population - lack of income for older women who comprise the poorest segment of our population.[27]

The general information that exists suggests that private pension plans contribute little to the income maintenance of persons who survive after a worker's death. Death benefit provisions were found in one-third of pension plans covering only one-third of workers. A 1968 BLS study of 100 large plans with liberal provisions found only 44 with automatic death benefits.[28]

> Too much of the problem of income maintenance for old age is a problem of survivor's insurance for widows, which is seldom covered by private pension plans; too many jobs are difficult to include in private pension plans, and wery early vesting would be required to supply protection to the large number of workers that change jobs frequently.[29]

Basic institutional changes must be made if private pension plans are to be a more important source of retirement income in the future. Proposals should be directed not only to people who are now participating in plans but also to those in the private sector who are excluded from the system and the survivors of workers who spend considerable time in the work force. The three factor approach to retirement income (Social Security, private pension, savings) is based on the idea that the private sector will continue to increase their coverage of workers as well as their amount of benefits to workers and survivors. If this is to be accomplished a sense of urgency of reform is needed to undertake changes in providing a guarantee of income security to the older worker and survivor.[30]

The sources of the aged incomes have shifted during the past forty years with savings coming to be smaller and income-maintenance programs a much larger support of the total retirement income. In considering the per cent provisions in public and private pension programs, personal savings are essential in providing a comfortable and higher standard of living in old age. Decisions to save for retirement are difficult to make. They depend on anticipating wants in a later period of life - perhaps three or four decades.

For a large number of people, particularly those with low paying jobs throughout their work lives, there seems to be little hope of accumulating private savings in order to improve their retirement incomes. It can be difficult to save for old age because of financial obligations in addition to contributions to the treasuries of the government. This is added to daily living expenses of food, clothing, transportation, etc.[31] "If past performance is a guide, private savings cannot be expected to contribute significantly to raising the level of income in old age. The earning levels leave only a small excess of income over consumption expenditures for most families during worklife."[32]

There appear to be certain barriers to saving for retirement. Our society is oriented toward consumption with a high appetite for goods and services. Billions of dollars are spent to convince people to buy goods in the private sector. Thus many workers choose to spend now in preference to a distant pension benefit which will be useful in old-age.[33] If we depress the current consumption levels in order to enjoy higher incomes in the future, our savings now are still likely to maintain only a fraction of the purchasing power upon retirement compared to those persons who are employed in the labor force.[34] What we save now for retirement will be worth less in the market place as long as the cost of living continues to climb upward. "Todays' benefits are based on yesteryear's wage levels and are unrelated to current prices."[35]

Private savings could be encouraged through reform of tax systems on local and state levels which often impose a drain on resources of individuals, revision of income tax provisions to offer inducement to saving for retirement, and public policy to prevent inflation so as to preserve the value of personal savings. These would encourage the incentive to prepare for retirement and improve the ability of persons to save during their working years for their retirement needs. As a supplement to public and private pensions, individual savings restricted to retirement use should be researched.[36]

In terms of income, price inflations adversely affects all those whose money incomes do not keep pace with the rate at which prices advance. A person gains from inflation if he owns real assets (home, land etc.) and the market prices change with the price level and if he owes money whose market values do not vary with price changes (mortgage, bonds, etc.). Both conditions allow an individual to benefit from inflation. Many older people owe very little money. Persons with relatively fixed incomes will have their purchasing power reduced in inverse relation to the Consumer Price Index. Sixty-seven per cent (67%) of the aged reported about the same income in two sucessive years. Morever, 54% of the aged had stable incomes for three consecutive years. Among the aged, seventy-five year olds and over experienced an even greater extent of income stability than the 65-74 year age group with 67% of the "older" aged reporting unchanged incomes in a one year period compared to 54% of the "younger" aged.[37]

The rising cost of living allows older people who live on fixed incomes to be squeezed by their relative power in purchasing. Older consumers spend more of their income on basic necessities such as food, housing, household operations and medical care than do their younger counterparts. To compensate for these larger expenses, they spend considerably less than their younger counterparts on transportation, clothing and recreation. Older people do not acutally need less than the younger population but rather they cannot often afford a more reasonable stahdard of living. This reason alone should prompt policy to increase benefits according to the constant rise in prices. By providing services to the aged at a low cost takes away their right to pay for services and the choice of services they wish to buy.[38]

Because the retired are not participating in the work force their income position worsens in relation to that of the working population, when the latter receive higher incomes as a result of economic growth. This disparity widens as the retirement period lengthens and as the economy grows more rapidly. Thus, income may be adequate at the time of retirement but may become inadequate as time passes. This occurs as a result of their relatively fixed income when prices rise, their standard of living falling behind that of the working population and their assets yielding a diminishing amount of income, depending on their use to supplement income.[39]

In view of the continuing price inflation which erodes the purchasing power of the aged at retirement, adjusting their incomes to rising prices will help secure their level of income. The President's proposal for making Social Security benefits inflation-proof will provide significant help in defending the elderly against this hindrance to their level of living.[40] On July 1, 1972 the President signed legislation to make Social Security benefits inflation-proof by providing a cost of living escalator. Whenever the Consumer Price Index increases by 3%, benefits would also increase by that amount. It is not just a guarantee of inflation proof benefits for those currently on the Social Security roles. When the Consumer Price Index increases 3%, it applies to future beneficiaries as well.[41] The California state supplement to the S.S.I. program indicates that adjustments will be made to reflect increases or decreases in the cost of living based on the average of separate indices of the cost of living for Los Angeles and San Francisco, as published by the United States Bureau of Labor Statistics.[42]

Many argue that a cost of living increase is a delayed response to price level increases which appear only after the Consumer Price Index has reflected the increase. The Gross National Product has been suggested as a more accurate representation of the purchasing power of the individual.

Public pension programs (S.S.I. and Social Security) have adopted or plan to adopt automatic cost of living increases in benefits to older people. One reason that private plans are not higher is that they rarely change with the rising cost of living. The benefit for most of the retired population is fixed upon the day of retirement. Although benefits have increased over the years, inflation has made much of that increase illusory in relation to buying power. The rise in prices between 1960 and 1970 offset private pension increases so that in terms of buying power the 1970 benefits were only 25% higher than in 1960.[43]

Some pension plans adopt formulas related to the cost of living that modify benefits to reflect the index of prices such as the Consumer Price Index. These plans are rare and are effective only when overall benefits are adequate to begin with. Other plans try to direct portions of the benefits to current price levels through earnings in the stock market. These equity annuity plans number few and allow participants to contribute into a private pension investment fund.[44] The College Retirement Equities Fund permits college teachers to invest up to 75% of the contribution to the fund in stocks which are purchased by the fund. When the recipient retires he receives an annuity in addition to the fixed amount of his retirement.[45]

Suggestions to protect personal savings from inflation have resulted in the Constant Purchasing Power Bond and individual savings programs using an annuity approach linking savings with a mutual fund mechanism. Savings in the form of house equity is also a good protection against inflation when savings could be utilized without outright sale of the house.[46]

The standards used to define poverty are arbitrary, but the differences in risks among groups are so great that a criteria to measure need will not eliminate them from a poverty status. The data is clear that for many of our aged, the poverty that they experience near the end of their lives reflects the poverty from the beginning.[47]

Income maintenance policy must take into account the aspect of demographic information on our older segment of the population. People sixty-five and over comprise 10% of the population in 1970 and will increase to 13% in the year 2020.[48] Projections show that for every 100 older males in 1980 there will be 144 females and 148 older females in 1990. The proportion of individuals in the 75 and over group of the aged (65 and over) rose from 34% in 1960 to 38% in 1970. The emergence of older aged groups offers explanation for the very low economic status in which persons 75 and over find themselves, most of whom are women. If income maintenance policy for the future does not take the demographic aspects into account, the economic status of older females will develop into a serious problem.[49]

Although personal savings are likely to grow, the major source of retirement income for most families will be public and private pensions. By 1980, three-fourths of older couples will receive pension incomes of $4,000 or less, with only one-eighth having pensions of more than $5,000. The private saving method allows the family to do its own life time saving and budget planning for old age. It also has the disadvantage of allowing the family to do neither.[50]

To better provide for the later years, people must save during their working years and develop institutions which will provide each future aged generation with the required amount of income to live adequately in our society. These options mean higher taxes, higher private pensions or insurance contributions and higher personal savings in the working years. This shared responsibility by the individaul, the government and the private sector will enhance the economic situation of the older population and allow them to live comfortably in old age.[51]

FOOTNOTES:

[1] White House Conference on Aging, 1971, Section Recommendation on Income (Washington, 1972), p.11.

[2] Ibid., p.12.

[3] Message by the President on Older Americans, Washington, March 23, 1972, p.1.

[4] Post-White House Conference on Aging Report, 1973, U.S. Congress, Subcommittee on Aging of the Committee on Labor and Public Welfare and the Special Committee on Aging (Washington, 1973), p.27.

[5] Message by the President, p.1.

[6] San Francisco Chronicle, January 4, 1974, p.1., From New York Times release.

[7] Yung-Ping Chen, Income: Background and Issues, 1971 White House Conference on Aging (Washington, 1971) p.42.

[8] Ibid.

[9] Juanita Kreps, "Aging and Financial Management," Aging and Society, edited by Matilda White Riley et al., Vol. II (New York, 1969), p. 203.

[10] Herman B. Brotman, "A Profile of the Older American," presented at the Conference on the Consumer Problems of Older People at Hudson Guilde Fulton Center, New York City, October 16, 1967, p.5.

[11] Herman B. Brotman, Income and Poverty in 1970, Advance Report, Facts and Figures on Older Americans, (Washington, June, 1971), p.1.

[12] Herman B. Brotman, Measuring Adequacy of Income, Facts and Figures on Older Americans, (Washington, March, 1971), p.2.

[13] Yung-Ping Chen, Income Background, p.1.

[14] Ibid., p.7.

[15] David A. Peterson, "Financial Adequacy in Retirement: Perceptions of Older Americans," Gerontologist, XII (Winter, 1972), 379.

[16] Herman B. Brotman, "A Profile of the Older American," p.6.

[17] Herman B. Brotman, "Income," Gerontologist, XII (Summer, 1972), 17.

[18] James H. Schulz, "The Economic Impact of An Aging Population," Gerontologist, XIII (Spring, 1973), 115.

[19] House of Representatives Document 92-182, Message From the President concerning private pension plans, December 8, 1971, pp.1-2.

[20] Emerson Beier; "Incidence of Private Retirement Plans," Monthly Labor Review, XCIV (July, 1971), 37.

[21] Yung-Ping Chen, Income: Background and Issues, p.31.

[22] White House Conference, Section Recommendation on Income, p.6.

[23] Pension Aspects of the Economics of Aging: Present and Future Roles of Private Pensions, U.S. Congress Special Committee on Aging (Washington, 1970), pp.27-30.

[24] Walter W. Kolodrubetz, "Private and Public Retirement Pensions: Findings from the 1968 Survey of the Aged," Social Security Bulletin, XXXIII (September, 1970), 7.

[25] Elizabeth M. Heidbreder, "Pensions and the Singel Woman," Industrial Gerontology, XV (Fall, 1972), 59-60.

[26] Harry E. Davis, "Pension Provisions Affecting the Employment of Older Workers," Monthly Labor Review, XCVI (April, 1973), 41.

[27] Pension Aspects of the Economics of Aging, p.32.

[28] Ralph Nader and Kate Blackwell, You and Your Pension (New York, 1973), p.97.

[29] Elizabeth M. Heidbreder, Walter Kolodrubetz and Alfred M. Skolnik, "Old Age Program," Old Age Income Assurance, Part VI, Joint Economic Committee (Washington, 1968), p. 37.

[30] Pension Aspects of the Economics of Aging, p.48.

[31] Yung-Ping Chen, Income: Background and Issues, p.39.

[32] Economics of Aging: Toward a Full Share in Abundance, Special Committee on Aging, 92nd Congress, 1st Session, Part I (Washington, 1969), p.217.

[33] Pension Aspects of the Economics of Aging, p.49.

[34] Juanita Kreps, "Aging and Financial Management," p. 226.

[35] Marjorie Bloomberg Tiven, Older Americans: Special Handling Required (Washington, 1971), p.4.

[36] Yung-Ping Chen, Income: Background and Issues, pp.39-40.

[37] Ibid., p.24

[38] Herman B. Brotman, "The Aging: Who and Where," Perspective on Aging, II (January - February, 1973), 12.

[39] White House Conference, Section Recommendation on Income, p.11.

[40] Making Recommendation for Action on Behalf of Older Americans, Message from the President of the United State, 92nd Congress, 2nd Session, March 23, 1972, p.11.

[41] Future Directions in Social Security, U.S. Congress, Special Committee on Aging, 93rd Congress, 1st Session, Part I (Washington, 1973), p.26.

[42] Citizens' Income Security Act for Aged, Blind and Disabled Californians, Assembly Bill No. 134 (Sacramento, December 5, 1973), p.26.

[43] Walter W. Kolodrubetz, "Two Decades of Employee-Benefit Plans, 1950-70: A Review," Social Security Bulletin, XXXV (April, 1972), 19.

[44] Nader, p. 82.

[45] Yung-Ping Chen, Income: Background and Issues, p.50.

[46] Ibid., p.40.

[47] Mollie Orshansky, "Who's Who Among the Poor: A Demographic View of Poverty," Social Security Bulletin, XXVIII (July, 1965), p.3,7.

[48] James H. Schulz, "The Economic Impact of an Aging Population," p.114.

[49] Yung-Ping Chen, Income: Background and Issues, p.12.

[50] Juanita Kreps, "Aging and Financial Management," p.224.

[51] Pension Aspects of the Economics of Aging,

p.4.

QUOTATION SECTION:

"During the last decade or so, the aged as a group have improved their economic status as measured by the decline in the incidence of poverty, by the rise in median money income or by the increase in average asset holdings. This improved status has resulted in part from (1) larger Social Security payments, (2) the spread of private pension plans, (3) the partial absorption of medical and hospitalization costs by Medicare and Mediaid and other programs, (4) the various special income and property tax exemptions, (5) and more ample private savings and investment incomes."

Yung-Ping Chen, Income: Background and Issues, White House Conference on Aging, Washington, U.S. Government Printing Office, 1971, p.42.

"The Federal Government should take action to encourage broader coverage under private pension plans and ensure receipt of benefits by workers and their survivors. It should require early vesting and/or portability, survivor benefits, and complete disclosure to beneficiaries of eligibility and benefit provisions of the plans. In addition, Federal requirements should assure fiduciary responsibility, minimum funding requirements and protection, through reinsurance and other measures, of the promised benefits."

White House Conference on
Aging, 1971, <u>Section Recommendation on Income</u>, Washington,
U.S. Government Printing Office,
1972, p. 6.

"Older persons have spoken frequently about the need for pension reform, especially at the White House Conference on Aging...It is clear that our efforts to reform and expand our income maintenance systems must now be complemented by an effort to reform and expand private retirement programs."

<u>House of Representatives Document</u> 92-182 message
from the President concerning
private pension plans,
December 8, 1971, pp. 1-2.

"Social Security, Old-Age, Survivors, Disability and Health Insurance is a basic program providing retirement income. It is both an economic and a social institution that has gained wide acceptance. OASDHI affords a very significant basic income support."

Yung-Ping Chen, <u>Income: Background and Issues</u>,
White House Conference on
Aging, Washington, U.S.
Government Printing Office
1971, p. 31.

"While there is little dispute that income adequacy and income security are universally desirable, there is no concensus on what level of income is adequate and what degree of protection is secure."

Yung-Ping Chen, Income: Background and Issues, White House Conference on Aging, Washington, U.S. Government Printing Office, 1971, p. 1.

"Whatever method is used to assure the elderly of an income floor would have little meaning unless it included some provision for protecting the incomes purchasing power...Consideration might be given to providing automatic sot of living increases."

Yung-Ping Chen, Income: Background and Issues, White House Conference on Aging, Washington, U.S. Government Printing Office, 1971, p. 49.

"On July 1, 1972 the President signed legislation to make Social Security benefits "inflation proof" through a cost of living escalator. Whenever the Consumer Price Index increases by 3% benefits would be increased by an equal amount. It is not enough to make periodic changes in benefits to make up for previously inadequate income levels. Inflation proof Social Security benefits are theirs as a matter of right, and not as something which must be temporarily won over again from each Congress."

Post-White House Conference on Aging Report, 1973, Prepared for the Subcommittee on Aging of the Committee on Labor and Public Welfare and the Special Committee on Aging, September, 1973, pp. 23-24.