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## Income Security for the Third Age: Concepts and Sources

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*This issue of Research Dialogues discusses two basic and quite different socio-economic concepts — social adequacy and individual equity — that inform efforts to provide a coherent structure for the provision of retirement income in the U.S. The paper was prepared especially for Research Dialogues by Yung-Ping Chen, Ph.D., who holds the Frank J. Manning Eminent Scholar's Chair, Gerontology Institute, University of Massachusetts-Boston, and who is a founding member of the National Academy of Social Insurance.*

*Dr. Chen's discussion is particularly relevant to critical retirement savings issues today: the long-term financial stability of Social Security and proposals for system reform and "privatization," the need for broadened coverage under employer-sponsored pension plans in the private sector; and public policy strategies to strengthen individuals in their own personal savings efforts in support of retirement. The paper addresses these issues in both conceptual and operational terms.*

*The term Third Age seems particularly appropriate in a discussion of retirement security. The expression appears to have originated in the 1970s in French studies of the economic and social aspects of aging.<sup>1</sup> In the life cycle — and obviously without strict boundaries — the First Age is defined as a time of dependence, immaturity, socialization, and education; the Second Age, a time of independence, maturity, responsibility, and purposeful earnings and savings; the Third Age, fulfillment, culmination, and personal achievement — a time of harvest and retirement. A generation or two ago, parenting and work could consume nearly a lifetime. Now a retiree's golden years may span two or three decades. For many Americans, this so-called third age is uncharted territory.*

### Introduction

Almost everywhere, in industrialized and developing countries alike, the same demanding question is being asked about public or private approaches to providing retirement security: "Which offers a better way to provide for the older population now and in the future?" The financing of public retirement income and social security programs has been under intense scrutiny worldwide in recent years. Governments are searching for ways to provide retirement income security through the private sector in order to avoid raising taxes. But proposed reforms often fail to recognize that public

and private retirement programs serve different objectives. Moreover, some suggested reforms seem to carry with them an assumption that private plans will compensate for reductions in public retirement benefits.

One way to crystallize the above-mentioned concerns is to consider the concepts of individual equity and social adequacy that are intrinsic to private and public programs. Generally speaking, individual equity is an integral characteristic of private plans. It refers to a relationship between benefits and contributions that is determined on an actuarial basis, that is, where a person's benefit protection is directly related to the contributions made by or for him or her. In contrast, the concept of social adequacy emerges as delineating a minimum level of income that society feels is necessary or is socially adequate for the subsistence of individuals. But if benefits were strictly based on contributions, workers with low lifetime-average earnings would not be assured of a minimum income that could prevent their becoming a charge on society. This concept of minimum support is integral to public social insurance plans.

Closely joined to the concept of social adequacy is the notion that universal social security benefits should serve only to provide a floor of protection. Any protection above the floor, it is argued, should be provided by other means, such as those sponsored by employers or labor groups and those undertaken by individuals themselves and their families. The minimum level is subject to debate, and it has changed over time. Clearly it should be

set at what is regarded as a socially adequate level of income. But other available means of income protection also need to be taken into consideration. For example, in a country where private pension plans are not well developed, social security may be expected to play a greater role and, as a result, the floor would have to be set at a higher level than in a country where private pensions are more fully developed.

This paper is concerned with the economic and social institutions — both public and private — that are in place or need to be put in place in order to enable people to earn and save in their working years so they can reach a more independent and fulfilling third age. An important premise of this discussion is the need for a viable mix of public and private responsibility in the provision of retirement income — a mix that can accommodate our heterogeneous population and that recognizes the complementary features of public and private plans and their respective objectives of social adequacy and individual equity.

We first examine some of the important trends and problems of the major retirement income sources, noting their implicit aspects of social adequacy and individual equity. Next, we discuss some new approaches to enhancing income potential through these traditional income sources.

### Trends and Problems of Retirement Income Sources

The retirement income system has frequently been characterized as a three-legged stool: Social Security is designed to provide a basic income protection, while private pensions and individual savings are important supplements to it. Indeed, Social Security plays a crucial role. But in addition to Social Security, pensions, and savings, a fourth source — earnings from employment in the third age — has also contributed significantly as an income supplement in retirement.

In the following table, using the latest available statistics (1994) from the Social Security Administration, we show the proportions of those age 65 and over who received income from the major sources listed<sup>2</sup>:

1994 Source of Retirement Income	Percent of Population Age 65 and Over Receiving Income from Source
Social Security	91%
Private pensions	30%
Government employee pensions	14%
Asset income	67%
Employment income	21%

The various sources of income listed in the table above did not contribute equally to the total income of the elderly, however. Their relative contributions to total retirement income in 1994 were as follows<sup>3</sup>:

1994 Source of Retirement Income	Percent of Total Retirement Income of Population Age 65 and Over Received from Income Source
Social Security	42%
Private pensions	10%
Government employee pensions	9%
Asset income	18%
Employment income	18%
Other <sup>a</sup>	3%

<sup>a</sup> Includes public assistance, Supplemental Security income, unemployment compensation, workers' compensation, veterans' benefits, nonpension survivor benefits, nonpension disability benefits, educational assistance, child support, alimony, regular financial assistance from friends or relatives not living in the individual's household, and other sources of income.

During the last three decades, important developments have occurred in the relative contributions of various sources of income received by people 65 and older. Social Security continues to be a most significant source of income, while private pensions and savings are relatively less important. And earnings as a source of income have declined in importance.

**Social Security** Established in 1935, the Social Security program was expanded to include survivor insurance in 1939 and disability insurance in 1956. These three components — old-age, survivor, and disability insurance (summarized as OASDI)

— are most often what is meant by Social Security. The benefit formula under the program is tilted for low earners, giving them a higher income replacement rate than for higher earners. Survivor and disability benefits are also designed to confer social adequacy through redistribution. Over the last thirty years, Social Security has continued to gain in importance as an income source for older people. As noted above, in 1994, 91 percent of those over 65 received income from Social Security, up from 69 percent in 1962. The contribution of Social Security to the total income of the older population has also grown, accounting for 31 percent in 1962 and 42 percent in 1994.<sup>4</sup>

Amendments to Social Security in 1983 and later have brought about a number of changes in the program.<sup>5</sup> A portion of OASDI benefits is now included in taxable income for higher-income taxpayers, thus reducing the relative importance of this income source to them. In addition, the normal retirement age for full benefits is scheduled to rise gradually to 66 by 2009 and to 67 by 2027. Once the age for full retirement benefits is changed to 67, early retirement benefits beginning at age 62 will be reduced to 70 percent of full benefits, compared with the present 80 percent. These provisions will combine to reduce Social Security benefits in the future. Yet, despite these changes, Social Security will remain the most significant source of income for the elderly, especially for those with low incomes.

Social Security maintains two trust funds, one for old-age and survivor insurance (OASI) and the other for disability insurance (DI). Generally, OASDI trust funds are discussed together. Although the trust funds currently (in mid-1997) have a reserve of nearly \$600 billion and are projected to grow for a number of years, the OASDI Board of Trustees has indicated that the program is actuarially sound in the short range (ten years) but not in the long range (seventy-five years). Under their intermediate assumptions, the long-range actuarial deficit for the period 1997 through 2071 is estimated at 2.23 percent of taxable payroll. The board also estimates that the OASDI trust funds will be exhausted in the year 2029.<sup>6</sup>

Nevertheless, Social Security will not cease to exist, since there will still be tax revenue based on the 12.4 percent payroll tax rate (evenly divided between employees and employers). But the revenue won't be enough to pay all the benefits on a timely basis as promised under present law. For example, based on intermediate assumptions, the tax revenue in 2030 will amount only to 75 percent of what will be required to pay benefits in full to everyone for that year and to about 70 percent by 2070.<sup>7</sup> Given the overarching importance of Social Security, restoring its long-range solvency should be the top priority of public policy.

**Private Pensions** As an income source, private pensions have grown significantly since 1950, when pension plans first became accepted as a proper issue for collective bargaining as a result of the Supreme Court decision in the 1949 *Inland Steel* case.<sup>8</sup> Private pensions have also gained in relative importance in the last three decades. In 1962, only 9 percent of people age 65 and over had private pension income, in contrast to 30 percent in 1994. The relative importance of pensions as a share of their total income has likewise increased, accounting for 3 percent of total income in 1962 and 10 percent in 1994, as shown in the table below.<sup>9</sup>

Most of the increase in the importance of private pension income occurred between 1962 and 1976. Since 1976, the growth in private pensions as a source of income for those 65 and older has been modest. Whereas the proportion of those with private pensions more than doubled in fourteen years — from 9 percent in 1962 to 20 percent in 1976 — the increase in the percentage of older people re-

ceiving income from private pensions rose only half again as much in the next eighteen years — from 20 percent in 1976 to 30 percent in 1994.<sup>10</sup>

In recent years there has been a trend toward greater pension receipt rates, especially for women and minorities. But a confluence of developments in the economy and in the labor market point to certain pension risk factors that suggest a more uncertain role in the future for private pensions, at least for some segments of the private labor force.<sup>11</sup>

First, the declining proportion of workers in manufacturing and the rising numbers of workers in low-paying service jobs imply less pension participation because pensions are less prevalent in service fields than in manufacturing. Second, the growing importance of part-time employment and the movement toward “contracting out” or “outsourcing” of work suggest that a lower percentage of the workforce will be eligible for retirement benefits compared with full-time employees.

In addition, the movement away from defined benefit pension plans in the private sector may result, at least in some cases, in somewhat less predictable levels of pension income. The proportion of full-time employees in medium and large private establishments who participate in defined benefit plans declined from 70 percent in 1988 to 56 percent in 1993. Concurrently, the proportion participating in defined contribution plans had by 1993 risen to about 50 percent.<sup>12</sup> (It should be noted that some employees participate in both defined benefit and defined contribution plans.)

Under defined contribution plans, investment risks shift to the participant, making future benefit levels less uniform for equally situated employees and more difficult to predict, since benefits are more directly dependent on individual investment decisions (and the educational programs associated with the plans). However, these difficulties are not insurmountable. The educational community, particularly in higher education, for example, has participated in a national defined contribution pension system — TIAA-CREF — for many decades. It has successfully provided investment choices, financial education, and broad selections in benefit options designed to meet changing conditions over the periods involved in accumulating funds for retirement income.<sup>13</sup>

Finally, there is also a vesting-risk question, which is often ignored. The downsizing of corporate America in recent years has tended to reduce and compress the ranks of middle management employees just as women and minorities were making their way to those tiers of business. These changing labor conditions, shorter job tenure, and an increasingly mobile workforce can be expected to diminish the extent to which employees become vested in employer-sponsored pension plans.

In considering the role of private (and public-employee) pensions as a source of income, it is important to bear in mind that the rationale behind employer-sponsored pensions — individual equity — is quite different from that underlying Social Security, with its primary objective of social adequacy in a universal wage-related program. A review of the historical development of private pensions as a source of income leaves a clear impression that additional strategies will be necessary if private pensions are to play a stronger role in supplementing Social Security's basic benefits. How to strengthen private pensions is therefore a critically important policy issue.

**Asset Income** We look now at the role of personal assets in providing retirement income. Over the past thirty years, income from assets has become a more important source of income for older people. While 54 percent of people 65 and over

**Percent of Aged Units 65 and Over Receiving Private Pensions  
and Percent of Total Income  
Provided by Private Pensions, 1962-1994**

	1962	1976	1986	1994
Percent of elders* (age 65 or older) with private pensions	9%	20%	22%	30%
Percent of aggregate income of elders* provided by private pensions	3%	7%	7%	10%

\*Note: Technically, starting with age 55 as the cutoff, “elders” refers to “aged units,” meaning married couples living together (at least one of whom is 55 or older) and nonmarried persons 55 or older. The percentages reported in this table refer to aged units age 65 or older.



received income from assets in 1962, 67 percent of them did in 1994. Asset income also became a larger share of their total income, increasing slightly from 16 percent in 1962 to 18 percent in 1994. For the highest-income group, asset income is the most important source.<sup>14</sup>

But even though asset income represents an important percentage of the total income of the high-income elderly, and even though a large proportion of them have income from assets, the overall median amounts of their asset income are quite low. One major reason is the typically small or modest value of the elderly's liquid and other financial assets.<sup>15</sup>

Another problem is the nonliquid nature of home equity. About 75 percent of the elderly are homeowners, and about 80 percent of them own their homes without mortgage debt. Home ownership represents considerable wealth; some 70 percent of the elderly's total assets is their home equity. But home equity, because it yields little or no spendable cash, may be considered a "frozen" asset.<sup>16</sup>

**Legislative Incentives for Retirement Savings** What other savings approaches are available for retirement planning on an individual basis? As a matter of public policy and mainly through tax legislation, Congress has supported some mechanisms for individual retirement savings, including the individual retirement account (IRA). Authorized in the Employee Retirement Income Security Act of 1974 and effective in 1975, IRAs were created as individual tax incentives for generating retirement income to supplement Social Security and pension benefits.<sup>17</sup> Although IRAs had been rather popular, the Tax Reform Act of 1986, which imposed restrictions on their use, dampened the interest in and reduced the use of this savings vehicle for retirement.<sup>18</sup> The number of workers reporting IRA contributions dropped by 15 percent between 1982 and 1987 and the proportion of retirement plan participants (401(k) and other pension plans) in private wage and salary jobs who also had an IRA declined from 23.1 percent in 1982 to 15 percent in 1987.<sup>19</sup> Total amounts contributed to IRAs (exclud-

ing rollovers) decreased from \$19.7 billion in 1987 to \$15.6 billion in 1990.<sup>20</sup>

Beginning recently, however, some new encouragements for retirement savings have been enacted. The Small Business Job Protection Act of 1996 authorized the SIMPLE ("Savings Incentive Match Plan for Employees") retirement plan.<sup>21</sup> SIMPLE plans are designed to provide retirement benefits without the complexity and cost that can discourage small employers from installing a traditional plan. They are available in both IRA and 401(k) forms and can be adopted by employers who have one hundred or fewer employees and who have no retirement plan in place. Workers will be allowed salary reductions of up to \$6,000 per year, matched by an employer contribution of up to 3 percent of the worker's pay. In lieu of the match, an employer can choose to make nonelective contributions of up to 2 percent of compensation for each eligible employee with at least \$5,000 of compensation from the employer for the year.

The Taxpayer Relief Act of 1997 and the Balanced Budget Reconciliation Act of 1997 also made major changes in the pension and employee benefit area.<sup>22,23</sup> The new legislation increased the income limits for making deductible contributions to traditional IRAs, liberalized the rules for making IRA withdrawals, and established a new type of IRA vehicle — the "Roth IRA." Under the Roth IRA, contributions will not be deductible, but withdrawals will be tax free if (1) the account is held for at least five tax years, and (2) the account holder is at least 59½, or dies, or becomes disabled, or if the distribution is used to pay for "qualified first-time home buyer expenses." A Roth IRA contribution can also be made on behalf of a nonworking spouse (or a spouse with low earnings). A new Education IRA was also established, which serves more as an educational savings account than as a retirement vehicle.

The new rules also "de-link" spouses for the purpose of determining who can make deductible contributions to a traditional IRA. Beginning in 1998, it will no longer be the case that if one spouse participates in an employer-sponsored retire-

ment plan, both spouses are deemed to be "active plan participants." Subject to income limitations, a married person who is not participating in an employer-sponsored retirement plan will now be able to make a deductible contribution to an IRA of up to \$2,000 per year even if that person's spouse is an active retirement plan participant.

These new provisions are doubtless intended to enhance the income status of older people in the future. However, much depends on the extent they will be used. Moreover, as noted later, there are conceptual and practical problems associated with preserving savings for use in retirement, particularly under plans that accumulate capital in individual accounts.

**Income from Employment** Employment as a source of income for the elderly has clearly declined over the past three decades. Thirty-six percent of people 65 and over had employment earnings in 1962, in contrast to only 21 percent in 1994. Earnings represented 28 percent of their total income in 1962, but only 18 percent in 1994.<sup>24</sup>

Earnings may contribute less to the total income of future older people if their participation in the labor force continues to decline and the early retirement trend is not reversed. However, it is also possible that earnings may become a more important income source if instead older people remain in the workforce longer as a means of enhancing their income position during times of inflation or there is greater demand for labor, for example. In addition, if the health status of the elderly improves along with a decline in mortality rates, then they may wish to work longer. Finally, low birth rates in recent years and the low rates projected for the future are expected to result in a smaller future labor force (as defined by conventional ages). The elderly may well be called on to stay in the labor force longer.

#### **New Approaches to Enhancing Income Potential**

The preceding review of retirement income sources suggests that much uncertainty surrounds the future effectiveness

of private pensions, individual savings, and employment as major contributors to the income of the elderly. Social Security has become the bulwark of retirement income but is faced with a long-range solvency problem. While Social Security must be stabilized and strengthened, the roles of private pensions, individual savings, and employment must also be enhanced so that they can yield meaningful supplements to Social Security.

***A Better Balance between Social Security and Private Pensions*** The 1994-96 Advisory Council on Social Security has proposed three plans for restoring solvency to Social Security.<sup>25</sup>

The Maintain Benefits (MB) Plan would offer the advantage of preserving Social Security essentially as it is, but its proposed changes to benefits and revenue sources would eliminate only two-thirds of the long-range deficit, leaving one-third of the shortfall yet to be covered. Its proponents urged “further study and examination” to close the future financial gap through gradually investing about 40 percent of Social Security trust funds in stocks.

The Personal Security Account (PSA) Plan would replace Social Security with a flat-rate benefit indexed to inflation plus a benefit derived from a mandatory individual investment account. (The notion of controlling — investing — their own payroll-tax money may appeal to some workers, but the plan requires additional payroll taxes to pay for the transition from the present system to a future one.)

The Individual Account (IA) Plan would add onto Social Security a mandatory individual investment account, administered by the government and funded by an additional contribution by workers. (While some workers may welcome the add-on, it is questionable if low-wage workers could afford the additional contribution. It is also a curious policy to coerce those who already save adequately to save more, since every worker would be required to establish an individual account.)

These proposed plans reflect three very different visions about the best way to provide retirement income in the future. The MB plan emphasizes the central im-

portance of social adequacy under social insurance; the PSA and IA plans rely more on individual equity — saving and investment efforts made privately by individuals (thus they are commonly labeled as privatization plans). But none of the plans would change the present U.S. retirement income policy in a way that would achieve a better balance between Social Security and private pensions. As noted, only about one-third of individuals age 65 and older currently have pension income, and, for most of them, income from this source is not very significant. Looking toward the future, we can anticipate similar problems. Among all civilian workers in 1993, 57 percent worked for an employer where a retirement plan was sponsored, and the actual plan participation rate was 44 percent. Further, the pension vesting rate was lower than that — 38 percent.<sup>26</sup> The coverage and vested participation gaps — and their implications for the future — are clear.

How to make private pensions widely available to workers is a major policy challenge. In 1981, the President's Commission on Pension Policy proposed a Minimum Universal Pension Supplement (MUPS) program.<sup>27</sup> MUPS would have required those employers who did not sponsor a pension plan to contribute 3 percent of payroll for the creation of private pension accounts for their employees over age 25, working more than one thousand hours per year, and having spent one year with the employer. The proposal was not adopted. The PSA and IA plans of the 1994-96 Social Security Advisory Council may be regarded as ideas for creating universal private pensions, though they also aim at promoting individual savings. At present, however, the problems confronting those plans make their future somewhat doubtful.

***Tertiary Role of Individual Savings and the Importance of Home Equity*** As pointed out above, two of the three reform options offered by the Advisory Council would mandate personal savings as a means of increasing national savings. Although we may agree on the virtues of savings, many questions arise. For example, is it desirable, or even acceptable, to require everyone to cut consumption further? For additional savings to result,

consumption must be further reduced, because if saving in one form (say, in an individual retirement account) is offset by reduction in another form (say, a regular savings account), there is no net increase in savings.

Even if we agree that everyone should save, is it desirable, or even acceptable, to force everyone to save just for retirement? What about other reasons for saving?

Under what circumstances would people be allowed to access their savings? If savings held in “privatized” personal accounts can be used only for retirement, then it would be ironic if a person with, say, a quarter million dollars locked up in a personal account is hit with a home foreclosure because of a medical emergency, prolonged disability, business reversal, or a long spell of unemployment. On the other hand, what will happen if the law lets people use these accounts for nonretirement purposes? Hardship withdrawals are already permitted under Sec. 403(b) and 401(k) plans. Congress has also recently approved withdrawals without penalty from individual retirement accounts for medical expenses that meet rules for income tax deductibility. But key issues remain: For example, what situations or conditions should qualify for hardship withdrawals? How would these withdrawals be replenished? Should repayment include the interest income that would have been earned? Either way, would it be too heavy a drain on wages when repayment is added to the required savings during a repayment period? And if not repaid, wouldn't these preretirement distributions undermine the program's basic intent by reducing the total resources available for retirement?

For these and other reasons, the role of individual accounts in providing retirement income should be only tertiary — *after* basic Social Security and private pensions have been assured.

In considering individual savings, we should pay major attention to the income potential from home ownership. But any form of home equity liquidation will entail costs. For the elderly homeowner, one significant cost would be a reduction of intended bequests. Home equity conver-

sion may present a painful choice between settling for a low income to ensure a bequest or using home equity to increase retirement income without burdening children or society.

Despite its logic, converting one's home equity remains a novel notion for many. Some older people loathe the idea of going into debt in later years. Others are concerned about reducing the size of an estate for their heirs. It's also possible that the additional income from home equity conversion may make some households ineligible for certain government programs. However, there appears to be some increasing interest in offering line-of-credit home equity conversion to the elderly, akin to the home equity line-of-credit loans available to nonelderly homeowners. New approaches such as this merit further research and trial.

**Gradual Retirement with Partial Pensions** Together, the gradual increase in the normal retirement age already legislated under Social Security and the interest older people have expressed for working part-time (seen in practice and in opinion surveys in many countries) provide an argument for gradual retirement. Partial pensions for partial retirement may in fact offer a practicable approach.

People work for a variety of reasons, and these reasons change as workers grow older. Many say that they are willing and able to work longer than they currently do, especially on a part-time basis. At age 63 and over, for example, people most frequently cite "enjoying work" as their reason for working, followed by feeling useful, being productive, working as an obligation, and maintaining health insurance. Significantly, the need for income is mentioned least often.<sup>28</sup>

At present, workers who want to retire gradually with an interim period of part-time employment confront a number of obstacles. Employer-sponsored pension plans rarely allow a beneficiary to continue working for the same firm. If a beneficiary finds employment, Social Security lowers benefits for those who earn beyond an allowable amount through the earn-

ings test — a considerable work disincentive to individuals with earnings beyond the annual exempt amount.

Slow economic growth and an aging population have raised concerns about society's ability to finance pensions (for both public and private employees) and health-care services for the elderly. In addition, projections of a slower growth in the working-age population have led to concerns about labor-force shortages in the future.

One way to mitigate these problems is to prolong the working life of older people. But to promote continued employment of older workers is a policy challenge that requires fresh approaches.

Gradual retirement with partial pensions can't be implemented without changes both in institutions and in public opinion. If we assume the willingness of older workers to remain in the labor market, employer-sponsored pensions and Social Security provisions that offer incentives to retire (or disincentives to work) should be reviewed. For example, the delayed retirement credit under Social Security should be made actuarially fair immediately, not waiting until the year 2009 as provided under current law.<sup>29</sup> In order to accommodate workers in general and older workers in particular, flexible work schedules and training/retraining programs should be more widely and systematically available. The types of available jobs are also important. If, indeed, part-time jobs are needed to implement combinations of partial pensions and work, then the willingness of employers to create such opportunities and the cooperation of full-time workers to support them will be necessary.

To promote gradual retirement by means of partial pensions would require a major change in Social Security and employer-sponsored pension programs. However, implementing gradual retirement through a system of part-time work with partial pensions would have many beneficial effects, including easing concern over extending the normal retirement age. Gradual retirement via part-time jobs is potentially compatible with maintaining good health, caregiving, volunteering, and other self-actualization ac-

tivities. Society as a whole would benefit from more production and lower pension costs without necessarily experiencing competition between older and younger people for full-time employment. We need a major initiative from government, industry, and the research community to study and devise workable mechanisms to implement gradual retirement with partial pensions.

### Concluding Remarks

The traditional metaphor of a three-legged stool was meant to symbolize a division of responsibility among collective and individual efforts in providing for retirement income. After six decades of various experiments in policy, this ideal has yet to be realized. Far too many people base too much of their anticipated livelihood in retirement on Social Security. Private pension plan participation currently represents somewhat less than half the workforce, and less than one-third of the elderly receive private pension benefits. Unless private pension coverage is extended to many more workers, the pressure on Social Security (as a sole or major source of income for many) to raise benefit levels will grow in the future. Such pressure, if successful, will once again threaten Social Security's long-range financial stability, despite any changes that we might make now to guarantee the program's health. Therefore a program to create a better balance between Social Security and private pensions as it restores long-range solvency to Social Security should be a singularly important public policy initiative.

It is of paramount importance to ensure the long-range solvency of Social Security and to facilitate maximum feasible coverage by private pensions. But other measures are also necessary. Individual efforts at savings/investment and continued employment should be encouraged with the creation of new economic and social institutions. Strengthening all four types of income support will result in a mix of public and private provisions that can assure social adequacy and individual equity for a notably heterogeneous population. □



## Endnotes

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- <sup>4</sup> Social Security Administration, *Income of the Aged Chartbook, 1994* (Washington, D.C.: Social Security Administration, 1996), SSA Publication 13-11727, December 1996.
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- <sup>8</sup> *Inland Steel Co. v. NLRB*, affirmed 170 F. 2d 247 (C.C.A. 7, 1948), certiorari denied as to the welfare fund issue, April 25, 1949, 336 U.S. 960, pp. 251, 253.
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- <sup>22</sup> Public Law 105-34, 105th Cong., 1st sess. (5 August 1997), Taxpayer Relief Act of 1997.
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- <sup>27</sup> President's Commission on Pension Policy, *Coming of Age: Toward a National Retirement Income Policy* (Washington, D.C.: President's Commission on Pension Policy, February 26, 1981).
- <sup>28</sup> U.S. Department of Labor, *Older Worker Task Force: Key Policy Issues for the Future* (Washington, D.C.: Department of Labor, 1989).
- <sup>29</sup> The delayed retirement credit (DRC) is designed to compensate workers for not receiving Social Security benefits when they defer retirement beyond the age (now 65) for first receiving full old-age benefits. In other words, the DRC increases future benefits. The DRC rate, under existing law, is 5.5 percent per year for persons attaining age 65 in 1998-99, and it is scheduled to rise gradually to 8 percent for those attaining age 65 in 2008 or later. When the DRC is at the rate of 8 percent, the compensation will become actuarially fair, in the sense that what one does not receive today is balanced with what one will receive tomorrow. However, for workers attaining age 65 in the years before the 8 percent rate is reached, the compensation rate for delayed retirement remains unfair because it is less than full actuarial value.

