From: Alan K. Simpson
To: Hiltzik, Michael
Cc: Newton, Jim

Subject: Response to your column of May 26, 2012

Hold 'er Newt!! Fascinating how you twisted my very complete letter to Max Richtman, who heads the National Committee to Preserve Social Security and Medicare. Don't you think it would be "fair" to share that entire letter? I thought it was quite interesting indeed! After all the rude and inflammatory stuff I have received from Max Richtman – right back to the time when I was involved in the U.S. Senate – I don't think you might get too much charity about me out of him!

I note you delighted hammering about the fact that this was never a retirement system but an income supplement, and yet in the quotes you used, not once is there mention of the word "retirement" – and I also reviewed the hearings when I was in the U.S. Senate, and never found the word "retirement" in <u>any</u> of the early beginnings of the construction of Social Security. Let's get honest!

You can stretch numbers all you want. I've always felt about people who bring up the present value of this, and life expectancy, and high infant mortality – and on and on – I've always said simply that, "If you torture statistics long enough, eventually they'll confess." So on with our logic. Suffice it to say, that after clearing out the myth, the mystery and the misconceptions, it was … an "income supplement." The life expectancy <u>was</u> 63, and the age of retirement was <u>set</u> at 65. When you find the word "retirement" in your vast research, either uttered by Labor Secretary Frances Perkins or Edwin Witte, head of the Committee on Economic Security, appointed by President Roosevelt in 1934, please share it with me. Testimony in the hearings talked about, "Getting old," "old age," "growing old without means of support," "making provision for their old age," "when somebody has to take care of them," and "whether you do this in the form of pensions or some other way, there is no way of escaping that cost." I certainly agree. And that's why it was an income supplement – never retirement. Furthermore, the purpose was also to "replace" workers' hard earned earnings but hoping to give them about 43% of the replacement value of their wage. Medium wage earners in the 1940s got benefits that were sometimes just over \$4,000/year – sometimes less – and that's adjusted for inflation, and never more than 24% of prior earnings. By 1981 median wage earners were getting benefits over \$16,000/year and over 50% of prior earnings. Remember too, the adjustment of the "notch baby" issue – those born in 1922 just a few months apart, receiving very excessive benefits, and those after, much less. Even Ann Landers backed out of that one after first telling people to "contact your Congressman or woman!" Furthermore, you might remember the activities of the senior citizens when we did a totally remarkable catastrophic health bill which passed the House and Senate and would have solved many of the problems we confront today, especially with budget and health care, but the senior citizens, fueled by the AARP and other senior organizations would have none of it. Then, if you recall, a deceptively frail group tipped over Congressman

Danny Rostenkowski's (Dem. – IL) automobile and out of terror and fright in Congress and because of the pressure from senior groups, the law was repealed. You should take a look at that. It was a tremendously appropriate piece of legislation.

"Now hear this" as we used to say in the Army! FDR envisioned Social Security as a form of universal old-age insurance, distinct from welfare. He opposed means-testing. He worried that if the program were mixed in with the general budget, it would ultimately be means-tested. He thought the only way to keep it universal was to have it financed with separate payroll contributions, where each person was basically "forced" to save for their own retirement (and would therefore demand benefits). He envisioned a sort of collective savings program, where contributions made by workers were kept in a separate trust fund and later paid out to them.

He was able to get near-universal participation; and he avoided a means-test. He did not succeed in creating an advance-funded system. Others in Congress were very concerned about the government's controlling such a massive investment fund. So – in one of the few places where FDR didn't get what he wanted – they created a program with pay-as-you-go financing. The first generation of recipients didn't really pay for their own benefits; the generation behind them did. And since then, each generation's benefits have basically been financed by the one following.

As our society has aged, this pay-as-you-go financing has meant that the earlier you were born, the better you were treated. The younger you are, the worse. With the worker-collector ratio plummeting, the cost burdens on younger generations are soaring.

So FDR won one when he avoided a means-test and he was also able to get financing separate from the general budget. He lost one on having a funded system where people really paid for their own benefits.

Today, it is largely forgotten that FDR and the committee who set up the program really saw it as part of a broader program of unemployment relief. If you were ever to read the full report of the designing committee, you'd notice that they were convinced that one lesson of the depression was that older people would never again be able to find steady work. This program thus became one way to pay them to step out of the workforce, ideally to clear up job opportunities for younger workers. Even where FDR talks about "insurance principles" it's not always clear that he means it in the terms we think of today; sometimes he seems to conflate it with "unemployment insurance." People forget this context today. In any case, it's one reason why the program provides such miserable returns on taxes paid for seniors who extend their work careers – the program is basically designed to drive them out of the workforce – and it does.

The "insurance" term has been around a while. I think it's fair to say that FDR really saw it as insurance against poverty – not as a pension benefit that would be enough for everyone to "retire on."

Benefits were MUCH lower in the early days of Social Security – both in nominal terms and in relation to worker earnings which furthers my frequent point that FDR never intended it to pay the benefits that it pays today. Those promises were made in subsequent benefit expansions.

Here's some more facts (not "factoids" for you!) But they may stir you up (hopefully!) – and as Harry Truman said so well, "I don't give 'em Hell, I give 'em the truth and they think it's Hell!"

- Many benefits were added later, not during FDR

- Originally there was no retirement option at 62. You couldn't get it until 65. Retirement at 62 was added (for both sexes) by 1961.

- There were no COLAS originally. They were added in 1972 – and remember even FDR didn't insist on a COLA!!

- There were no disability benefits originally. They were also added later.

- There was no wage-indexing of the benefit formula. It was added in the 1970s and is the biggest single driver of benefit and cost growth.

A key step in the move to wage-indexing of benefits was an effort by Robert Ball starting in the 1960s to expand Social Security, to have it play a much bigger role in "retirement" planning than it had done before. Politicians were only too happy to do that and in the 1970s there were benefit expansions that significantly increased the cost of Social Security.

The long and short of it: if we had FDR's original benefit program it wouldn't be facing a shortfall now. The current shortfall was really created by legislation in the 1970s.

This link might help you (http://www.ssa.gov/OACT/TR/2012/lr5c7.html) It shows historic and scheduled (unaffordable) benefits for past/future years. All figures are adjusted for inflation for low earners, medium, high and maximum earners. Scroll down to medium-wage earners at the link. As I have said before: medium-wage earners in the 1940s got benefits that were sometimes just over $4,000 a year, sometimes less. And that's adjusted for inflation. And never more than 24% of prior earnings. By 1981 medium wage earners were getting benefits over $16,000 a year, and over 50% of prior earnings.

So this is something for you to chew on. It's nutritious and you can't gag on it! – and it will strengthen and nourish you and your colleagues – and it will clean out the bile in your gut from swallowing “factoids.” Will look forward to hearing from you.

Kind regards,

Al Simpson