Chapter 18

DISSENTING AND SUPPLEMENTARY STATEMENTS

CHAPTER 5 - Retirement Aae

Dissenting Statement on Raising the Retirement Age

By Mr. Cohen, Ms. Duskin, and Ms. Miller

We disagree with the Commission's recommendation to raise the age of retirement. Such a far-reaching change, in our judgment, would have a most serious adverse impact upon the public confidence in the Congressional commitment to the entire contributory program. The reasons given for the proposal are not persuasive. In any case, the proposal is premature because it is based upon the assumption and an expectation that the future productivity of the American economy will not permit the continued payment of full benefits beginning at age 65. We do not subscribe to this prospect of gloom and doom.

We concur in the statement opposing the increase in the retirement age by five of the members of the Advisory Council on Social Security (Report of the 1979 Advisory Council on Social Security, Committee on Ways and Means, U.S. House of Representatives, WMCP:96-45, January 2, 1980, p. 238.)

While we agree that it may be desirable to encourage people to work longer in future years, we take exception to doing it in a punitive manner in the Social Security system.

There are several reasons why raising the age of entitlement to benefits is ill-conceived:

Among the most important is that longer life expectancy, which is often cited as supporting the recommendation, may be irrelevant if not matched by improvements in health. The evidence does not support any claims that longer life is equivalent to longer years of good health.

The major portion of the gains in life expectancy during this century are attributable to a substantial reduction in neonatal mortality and the virtual elimination of infectious and parasitic diseases, and a reduction in other acute illnesses. These gains have increased life expectancy during infancy and early childhood; proportionately less change is noted in life expectancy for those reaching and surviving the middle years of life. We may have conquered diptheria and polio, but we have yet to overcome arthritis or emphysema.

Measures of disability, a functional measure of ill health, define what life expectancy measures do not. The incidence of disability measures whether or not the population is burdened with chronically ill or disabled people. The table below indicates, not surprisingly, that disability increases with age. In addition, between the years 1973 and 1978, restricted activity due to illness or impairment increased for every age group, particularly for older ones. Although a five year period may be too short a time span to support any conclusions about a long-term trend towards greater dysfunction in the population, the evidence certainly does not support speculation that the incidence of <u>good</u> health is increasing.

Measures of Disability

Age	Restricted Activity Days 1973	Restricted Activity Days 1978	Restricted Activity Days Percent Change	Bed Disability Days 1973	Bed Disability Days 1978	Bed Disability Days Percent Change
All ages	16.4	18.4	+12%	6.3	7.0	+11%
Under 17 yrs	10.7	11.3	+6	4.5	5.2	+16
17-44	13.6	14.8	+9	5.4	5.7	+6
45-64	22.6	25.8	+14	7.8	8.5	+9
65 and over	33.5	40.3	+20	13.1	14.5	+11

Source: Health United States - 1980, Office of Health Research, Statistics and Technology, Public Health Service, U .S. Department of Health and Human Services.

It is interesting to note that increasing life expectancy has been accompanied by a trend towards earlier retirement. Correlation between the two may not be accidental. For instance, the severity of certain illnesses such as hypertension may be reduced when the stress that usually accompanies work is eliminated. To the extent that this is true, reversing the early retirement trend could adversely affect the life span of some individuals and life expectancy in general.

Another questionable assumption is that the retirement decision is made largely on the basis of the availability of old-age benefits in the Social Security program. Of those who retire early, that is before age 65, the majority claim the decision was involuntary and cite poor health as the reason. For others, the decision to retire is heavily influenced by the availability of private pensions and other sources of income in retirement .

Public attitudes on this issue obtained from the survey done for the Commission by Peter D. Hart Research Associates Inc., indicate that the majority oppose the change. Given a choice between raising the age of retirement or increasing taxes, twice as many respondents still strongly oppose as strongly favor the proposal to raise the age of retirement.

Questionable, too, is the assumption that the change will effect savings to the program of 1.07 percent of payroll. It has been observed that disability claims above age 62 are lower than claims for age 61 to 62. This suggests that some who would qualify for disability benefits currently are accepting reduced retirement benefits instead, probably because of the greater simplicity in the application process and the five-month waiting period for disability benefits. This is recognized in arriving at an estimated savings of .3 percent of taxable payroll, but we do not think that this would be the only source of increase in the disability rolls. In addition, some proportion of those who do not qualify as totally and permanently disabled, but who nevertheless are "burned out" and cannot work beyond age 62, will become public wards. In addition, those who are forced to continue to work in spite of health limitations may leave the program with surviving family members. Anticipated program savings are less than certain. What is certain is that public acceptance and support of the program will be damaged.

In addition, the change in the dependency ratio in the next century--including the groups 65 and over and 17 and under--is not nearly as dramatic as that for the 65 and over cohort alone, relative to the total population. This means that the costs of dependency attributed to the increase in the proportion of the elderly in the population are exaggerated; the costs of the dependent elderly will be offset in part by the reduced number of dependent young.

Skepticism as to the dimensions of the problem are justified on other grounds as well. The very change in age structure that motivates a majority of the Commission to propose delaying eligibility will open up more jobs for older workers. Raising the age of eligibility for full benefits doesn't create a single new job. Fortunately the change in the relative size of the population of working age will.

There is yet another way of ameliorating the change in the ratio of workers to dependents. Not only will some of the aged be likely to work longer in a more attractive labor market, but also there are other large pools of underutilized people who could add to our labor market resources at a time of labor shortage: they are women and youth, particularly minority youth.

In addition to the reasons given in our dissent on the proposal to increase the age for cash benefits, we do not believe it is necessary or desirable to make the age for Medicare benefits correspond to the cash benefit eligibility age. We favor reducing the Medicare eligibility age to 62 in order to provide Medicare coverage to persons whose health is impaired and who have to retire at 62 or before and do not always have other health insurance protection.

Dissenting Statement on Refundable Tax Credit and Taxation of Social Securitv Benefits

By Mr. Laxson and Mr. MacNaughton

The National Commission's introduction of a refundable income tax credit as a partial offset to benefits withheld under the earnings test seems inconsistent with other recommendations and supporting statements in the chapters on Retirement Earnings Test and Retirement Age. This proposal for a refundable income tax credit should be promptly forgotten and if there are reasons for change in the earnings test it should be done directly, not through the Internal Revenue Code.

The Commission states "...the earnings test serves a useful role in defining the purpose of the Social Security program and limiting its costs, " but wants to dilute its effect through the refundable income tax credit. The Commission believes repeal of the earnings test ". . .is not a desirable or prudent use of Social Security revenues," but recommends it be relaxed through use of general revenues via the tax credit route.

The. Commission states ". . . it is unlikely that repeal of the earnings test would cause a large number of people to return to work," but recommends a partial relaxation through use of a refundable tax credit as a viable means of encouraging delayed retirements.

Lastly, the Commission declined to take any position on the taxability of Social Security benefits. Now it indicates there may be some inequity in this and believes the refundable tax credit for those over 65 who have benefits withheld under the earnings test is a partial remedy for the alleged inequity.

The Commission should have addressed directly the subject of taxability of Social Security benefits, especially in view of the specific recommendations of the 1979 Advisory Council and the preliminary comments of the President's Commission on Pension Policy. The taxing issue is a necessary element of the needed long-term look at costs and benefits referred to in the minority comments on the subject of financing.

The tax-exempt status of Social Security benefits is questionable for several reasons, but determining the proper tax treatment is a complex issue, involving several dimensions. Since an individual's benefits and payroll taxes are based on earnings, the tax treatment of benefits and payroll taxes should be considered simultaneously. Currently, employers may deduct their share of payroll taxes, while employees or the self-employed may not. Thus, taxing one-half of benefits, or else benefits of recipients with total incomes exceeding a set amount, would involve problems of equity for persons in different benefit and contribution levels, and for single-earner versus multiple-earner families.

If taxation is to be considered, many of these problems could be avoided by taxing benefits that exceed payroll tax contributions, analogous to the tax treatment of private pensions. (Under this approach, payroll taxes could be indexed so that a current dollar of contribution would offset more than a dollar of benefits in calculating taxable benefits.) Another alternative would be to fully tax benefits and allow employees and the self-employed to consider payroll taxes as deductions from gross income for income - taxes purposes. Either approach would be complemented by elimination of the earnings test.

These combined changes would stimulate work effort among the elderly, as well as simplify and remove undesirable inequities in the Social Security system and Internal Revenue Code.

We recognize that many retirees and older workers soon to retire have based their retirement plans on current benefit levels. Accordingly, any change in tax treatment should be phased-in to prevent unexpected cuts in benefits to older persons and to provide younger workers enough time to adjust their savings patterns in their future plans.

CHAPTER 6 - Retirement Earnings Test

Supplementary Statement on the Retirement Earnings Test

by Mr. Cohen

I would prefer at this time to keep all the provisions relating to the retirement earnings test as they are in the existing law. When the Congress repealed the monthly retirement earnings test in 1977 (with almost no advance notice), it resulted in several gross anomalies. It required nearly three years of arduous efforts to obtain corrective legislation. Frequent legislative tinkering back and forth with specific provisions does not serve to maintain confidence in Congressional responsibility for careful action on program policies. No action on the retirement earnings tests would be the better part of wisdom at the present time until more basic financing policies are established which assure the financial integrity of the program.

CHAPTER 7 - Social Securitv Benefit Structure

Supplementarv Statement on CP I I ndexina

by Mr. Laxson and Mr. MacNaughton

We concur with the Commission's recommendation to limit automatic benefit increases when, over a Z-year period, the CPI has risen more rapidly than wages, with two exceptions. First, we disagree with the majority's proposed "recapture provision" that would negate most of the long-run effects of the indexing change. Second, the 5 percent trigger on the indexing proposal should be eliminated. The Commission's indexing proposal is designed to limit the increase of Social Security benefits when the real wage differential (nominal wage increase minus inflation) is negative. That differential would be a minus 2, whether CPI and average wage increases were, respectively, (a) 4 and 2 percent or (b) 10 and 8 percent. Consideration of a trigger fails to recognize that the central concern is the differential growth rates of wages and the CPI, not their growth rate levels per se.

Mr. Myers and Mr. Rodgers supports this dissent concerning the "5 percent trigger, " but does not dissent on the "re-capture" provision.

Supplementary Statement on CP I I ndexing

by Mr. Cohen, M s . Duskin, and Ms. Miller

We cannot join in this recommendation to change the basis of calculating the amount to be paid to future beneficiaries on the rolls. The complexities of the proposal would introduce uncertainty and confusion among beneficiaries and could engender continuing controversy in Congress, without any long-run advantage to the contributory system or any sense of continuing security to the beneficiaries. By opening up the entire question, a Pandora's box is opened up, the results of which cannot be foreseen. For instance, the foods used in the CPI are based upon consumption standards of 1972-73. They should be revised probably along with the treatment of mortgage interest costs. But any revision should be a professionally independent decision by the Bureau of Labor Statistics and not by legislative fiat or political intervention.

CHAPTER 8 - Coverage of Social Security

Dissenting Statement on Mandatory Social Security Coverage of Government Workers

by Ms. Miller

I cannot support the Commission's recommendation for extension of Social Security coverage to all civilian employees of the Federal government hired after 1984; to all employees of State and local government units not now covered by a retirement system; and to State and local employees hired after 1984 to positions which are covered by a retirement system. At the very least, such a recommendation is premature.

I welcome the fact that the Commission has stated that in making its proposal, it wishes to assure a number of specified protections of government employees and retirees and the plans under which they are presently covered. But the Commission cannot know now whether or not any specific proposals for mandatory coverage of such workers would, in fact, incorporate such protections. Indeed, the Commission, in effect, acknowledges such doubt by recommending creation of a Federal Employee Benefit Protection Board "to assess the effectiveness of the coordinated system in providing appropriate benefits" presumably including the protections the Commission has recommended as essential.

It is precisely because nobody can know in advance whether any specific proposal does or does not assure such protections that neither the Universal Social Security Coverage Study Group nor the Secretary of the Department of Health and Human Services has recommended the extension of coverage the Commission has proposed.

I think the Commission has put the cart before the horse. I agree with the Commission's recommendation for creation of a board to assess the effectiveness of proposals for extension of coverage. But only after the board has found that one or more such proposals do, in fact, assure the protections the Commission has specified should consideration be given to mandatory coverage. Therefore, I cannot support the Commission's recommendation for such coverage at this time.

Supplementary Statement on Universal Coverage

by Mr. Dillman, Mr. Laxson, Mr. MacNaughton, and Mr. Rodgers

The National Commission's recommendation that all Federal Civil Service employment of persons hired after December 31, 1982 be covered by Social Security carries with it the provisos that "protection for new employees...would not be less than that provided under the current government plans" and "not interfere with future improvements in the Civil Service Retirement System." The Commission underscores this commitment by suggesting an independent watchdog board to oversee the transition to a combined system.

Given the vast differences between the Civil Service Retirement System (CSRS) and Social Security (the former providing for retirement as early as age 55 without actuarial reduction, cost of living adjustments twice a year, a more liberal definition of disability, refundable contributions, etc.), we believe it impossible to devise a CSRS for new hires which, combined with Social Security, will be equivalent to the present CSRS. Even a direct 100 percent offset plan would not accomplish this. Making certain in a new CSRS that most participants fare as well under most plan segments will inevitably result in a combined package somewhat richer and more costly than the present CSRS.

Currently the normal cost of the CSRS is just under 37 percent of payroll, of which employees contribute 7 percent. This cost is projected to move to 41 percent within the next decade, a level significantly higher than any private plan with which we are familiar.

The National Commission has recognized that with the substantial increase in the proportion of over age 65 people beginning 30 years out, there must be some adjustment in the Social Security program, and has recommended moving the age at which full retirement benefits are paid from age 65 to 68. It is incongruous certainly to bring Civil Service workers into the Social Security system but exempt them from the effect of this and any other necessary program revisions.

We believe Civil Service employees should be covered by Social Security, but at the same time it must be recognized that present CSRS benefits are much more liberal than those available to essentially all employees in private industry who are paying taxes to provide CSRS benefits. As we are concerned about rising cost levels of Social Security and Hospital Insurance, we should also give attention over a period of time to bringing the CSRS structure into a more reasonable relationship with the combined Social Security and private plan pattern of non-governmental employment.

Therefore, although there would be a substantial plus during the next 50 years to the Social Security trust funds through extending coverage to new Federal Civil Service workers (this infusion of employee contributions and general revenues is expected to be essentially offset by less dollars going into the CSRS fund - except to the extent the new CSRS plan is more costly), we believe it irresponsible to recommend extending this coverage if it is coupled with a commitment to establish the present CSRS benefit structure as a floor for all time.

However, the so-called "windfall" Social Security retirement benefits received by Civil Service workers who have short periods of covered employment should be phased out as recommended by the National Commission.

Also, since about 80 percent of Civil Service retirees will have worked in covered employment for sufficient periods to qualify for Medicare Hospital Insurance, it seems practicable, as the National Commission has recommended, to extend Hospital Insurance coverage to all Federal Civil Service employees and begin collecting the HI portion of payroll tax from all such employees.

As to State and local public employees the situation seems more complex. The vast effort and confusion in changing over the hundreds of different plans (some very generous, some quite modest) are enormous, with the probability of generating increased long-term costs.

Compulsory Social Security and Hospital Insurance coverage would transfer to the trust funds some State and local dollars now being invested privately, and seems certain to increase at least the short and medium term costs for those governmental units now financing retirement plans purely on a pay-as-you-go basis.

CHAPTER 9 - Disability Programs

Dissenting Statement on Liberalization of Maximum Family Benefits for Disabled Workers

by Mr. Laxson, Mr. MacNaughton, Mr. Myers, and Mr. Rodgers

The majority of the National Commission has voted to reverse the decision of the Congress to set the level of the Maximum Family Benefit for disability beneficiaries at amounts which do not provide benefits that are in excess of previous net take-home pay. This decision of Congress, enacted by large majorities, was not made hastily and was the result of careful study and thought over a period of several years.

Before the Social Security Disability Amendments of 1980 were enacted, many disability-beneficiary families were awarded tax-free benefits which were in excess of the previous net take-home pay of the disabled worker. This could hardly be a deterrent to going on the benefit rolls in border-line cases of disability or for going off the rolls by recovery or rehabilitation.

It is argued that having more income after disability than before is needed because of larger medical and other costs. Although this may be necessary in some cases, it certainly is not so in all cases, and in these it would undesirably increase the likelihood of going on the roll and of not recovering or being rehabilitated. The problem of additional income being required by some should not be solved by throwing excessive money at the remainder.

Following the enactment of these amendments, quite adequate replacement rates for disability beneficiaries with eligible spouses and children are available, with net replacement rates of 75-80 percent of previous earnings being available for low-paid and average-paid workers. In fact, in the case of two-worker families, when one is disabled, there are many instances where the family's net take-home income is larger than before the disability occurred. The benefit level for disability beneficiaries who do not have an eligible spouse or children was not at all affected by these Amendments.

The majority of the National Commission recommends that the present Maximum Family Benefit for disability cases (the lesser of 150 percent of the Primary Insurance Amount and 85 percent of the Average Indexed Monthly Earnings) should be changed to the lesser of the previous-law Maximum Family Benefit (a varying percentage of the Primary Insurance Amount--ranging from 150 percent for the lower earnings levels to 188 percent at the middle levels, and then down to 175 percent at the highest levels) and 80 percent of the highest five-consecutive-years average earnings (indexed). The latter condition would have relatively little effect --being applicable only for the lowest-paid workers.

We believe that such a change is undesirable. The disability benefits resulting will, in many cases, be excessive and will encourage over-utilization and discourage rehabilitation. We would agree, however, that the alternative maximum of 80 percent of the highest five-consecutive-years average earnings (indexed) would be somewhat preferable to the present alternative maximum of 85 percent of Average Indexed Monthly Earnings, but it should be in combination with the present maximum of 150 percent of the Primary Insurance Amount. In the aggregate, there would be no cost effect for such a change, but it would produce somewhat more equitable results, as between different types of beneficiaries (namely, those at the lower earnings levels).

CHAPTER 12 - Supplemental Securitv Income

Supplementary Statement on the Concept of Poverty

by Mr. Laxson and Mr. Myers

We believe that the concept of "poverty", as widely used, and based on the figures that have been developed by the Social Security Administration and the Bureau of the Census is mechanistic, arbitrary, and of little significance and meaning. Accordingly, we believe that this concept should not be used in any analysis of the appropriate level of Social Security benefits.

The reasons for the foregoing view are as follows:

(1) The original base line figure of $3,000 per year for an urban family of husband, wife, and two children (developed in the early 1960s) was completely arbitrary, and now an extensive network of data for other sizes of families and other periods has been developed on this "foundation of sand".

(2) The income of families and individuals which are compared with the so-called "poverty standard" do not include significant non-cash items such as the value of food stamps and other government subsidy payments, and the very significant item of the imputed rental value of home ownership.

(3) It is likely that reported income is, in many instances, lower than actual income, because of such matters as memory lapses with regard to occasional income (such as gifts from relatives and friends). Furthermore, it is likely that, in many cases, income is considerably under-reported, because the recipients fear that accurate reporting will cause difficulties with the income tax or with the earnings test under Social Security (whether or not this is a valid fear).

(4) The term is misleading and confusing, because many persons with income under the poverty standard are not living in a condition which could be described as "poverty", no matter how defined. This is so for the reasons given in (2) and (3), and it is also true for the many cases of aged persons with moderate income, but below the poverty standard, living with their children.

(5) The poverty standard, although admittedly not representing a high standard of living, is far above the level of grinding poverty existing in many nations. Likely, some critics of the United States will point out that we admit to having considerable poverty, whereas their countries have none (even though their populations live at far lower levels than ours and have far higher proportions below our "poverty" level).

Mr. MacNaughton and Mr. Rodgers agree in principle.

Supplementary Statement on the Concept Poverty

by Mr. Cohen, Ms. Duskin, and Ms. Miller

We believe the governmental poverty figures are useful and essential devices in developing and appraising policy and programs.

Despite the limitations of the existing estimates, it is necessary and desirable to have some benchmarks for evaluation of benefit levels in various programs. We believe the elements used in making the basic estimates for 1963 are now conservative and out of date. For instance, the lowest of four Department of Agriculture food plans was used at that time and are now assumed to be still utilized by all poor people in 1981. The income threshold is obtained by multiplying these minimal (and unrealistic) consumption standards and food expenses by a multiplier of three. The kinds of foods included in the present estimates and the price adjustments for these foods are no longer representative and should be completely revised. In addition, the poverty figures make no allowance for Social Security taxes or any other taxes which must be paid from the income thresholds. The 125 percent poverty level also included in the official government estimates is currently a more realistic level for policy purposes for four-person families and probably a 140 percent level for aged persons. It is 17 years since the basic poverty concept was formulated. Any revision would raise the figures substantially above the existing levels for 1981-82.

CHAPTER 13 - Medicare and Medicaid

Supplementary Statement on Medicare/Medicaid

by Ms. Duskin and Ms. Miller

We believe that many of the problems of Medicare and Medicaid are problems of the health care system as a whole and can only be adequately addressed in the larger context. In our opinion, the majority of the Commission erred in its narrow interpretation of the legislative mandate.

A number of the Commission's recommendations move in the right direction and we are in complete agreement in many cases. The error made was one of omission. A number of problems were not considered at all.

What are these problems?

First, health care is not available to all people even though it is a basic necessity of life.

Millions of Americans are unable to receive health care services in spite of the availability of public and private insurance programs and in spite of the fact that health care in the United States is supposed to be among the best in the world. Over 26 million Americans have no health insurance coverage at all, public or private! They are the unemployed, and working poor and other low-income people who don't qualify for Medicaid. And they are predominantly women.

As many as 50 million Americans have inadequate health care coverage. Clearly, the approach used today fails for too many people.

A second major problem is that the mode of health care may not be the most efficient and effective.

What we have today is not health care: it is sick care. People are hospitalized when they could be effectively treated as outpatients; they are overmedicated, overdiagnosed and overcharged; but little concern is given to helping people maintain good health and prevent illness.

A third problem is that there is a poor distribution of the health care resources we have.

Not only are they unevenly distributed across the population, but also they are biased toward specialization and the use of -high technology medicine. Primary care, the care needed most often by most people, is inadequate.

Fourth, health care is getting more and more expensive.

From 1970 to 1979, the Consumer Price Index rose 87 percent for all items, while Medical Care Service Charges rose 200 percent. The elderly in particular have felt the effects of the increasing costs of medical care in spite of the existence of Medicare. In 1978, the most recent year for which data are available, medical bills for persons age 65 and over averaged $2,026 per capita, compared with $764 for those age 19-64 and $286 for those under age 18.

Fifth, the increased cost of health care is crowding out other desirable uses of our national resources.

Total national expenditures for personal health care in 1979 was $212.3 billion. This represents 9 percent of the GNP, up from 8.3 percent as recently as 1975, and 4.6 percent in 1950.

Some of this growth may be attributable to increased coverage across the population; to some extent it may reflect increases in the quality of health care, but in general, it has occurred without any significant increase in the health of the Nation.

Why do we have these problems?

Basically, the problems are a result of the way the health care industry works:

First, providers make nearly all the decisions about the type, quality and quantity of care provided. This means that the medical care system can absorb every dollar available to it by providing more and more elaborate technology and treatment -- even it if doesn't increase the health of the Nation.

Second, widespread public and private third-party reimbursement insurance provides almost open-ended financing to the medical care system. Therefore, neither the provider nor the patient, when he or she has financial coverage, has any incentive to seek low-cost treatment even when it may be equally as effective as high-cost treatment.

Third, the incentives at work today encourage providers toward specialized, high technology, high-cost care. In part, it is the fault of the reimbursement mechanisms which, for instance, may cover the costs of care provided in a hospital, but not in a doctor's office. In part, it the fault of a system which permits the practitioner to make decisions without awareness of the costs or benefits, and without bearing any of the risks. The medical care provider can get rich by providing elaborate sick care; in general, the provider gets little or nothing for keeping people well. Thus, providers have no incentive to use health resources efficiently.

Fourth, the consumer is in no position to judge the effectiveness or efficiency of medical care, particularly at times of illness, and thus offers no check on the decision-making of the provider.

Fifth, the medical system has no ongoing mechanism for monitoring patient outcomes, nor is any provider accountable for the patient's health beyond individual services rendered. Thus, the system will tend to maximize services rather than health.

The inescapable conclusion is that significant reform of the health delivery system is required to meet the goals of financial protection of patients, equal access to medical care, equitable distribution of health care resources, improved quality and appropriateness of health care, and increased participation in the system by all of us who pay the national health bill.

A carefully designed national health system could reform the health care delivery system. The problems cannot be adequately resolved in the absence of comprehensive changes in reimbursement and delivery.

Dissentinq Statement on Role of HMOS

by Mr. Laxson, Mr. MacNaughton, Mr. Myers, and Mr. Rodgers

Medicare and Medicaid should neither discriminate against HMOs, nor offer them specially favorable reimbursement arrangements. Setting reimbursement rates for HMOs based on some relation to costs for persons receiving services elsewhere is impractical. The difference in the populations and the risks involved cannot be accurately assessed. The health of enrollees cannot be measured accurately enough to know how much of the difference is attributable to a difference in health status. If HMO payments were based on non-HMO costs, HMOs might have undeserved penalties if they had high-risk members and insufficient allowance were made for this. Therefore, the rate of reimbursement of HMOs by Medicare should not be increased. Present Medicare rules allow HMOs to compete adequately on their merits.

Dissenting Statement on Physician Assignment

by Mr. Dillman, Mr. Myers, and Mr. Rodgers

Assignment of Medicare benefits should be limited to physicians who agree to accept assignments for all Medicare billings (an exception should be made so that a physician who did not wish to accept assignments generally could accept dual Medicare-Medicaid cases, which are always by assignment). Some studies have shown that attempts to limit physician expenditures tend to be thwarted by physicians through (1) changes in mix of services and (2) increases in services provided. The proposal would have the effect of reducing the income of those physicians who now take assignments on an intermittent basis. We are not convinced that this change would have significant cost effects.

CHAPTER 14 - Administration of the Social Security Programs

Dissenting Statement on Removing Social Security from the Unified Budget

by Mr. Laxson and Mr. MacNaughton

We strongly oppose the majority's recommendation to eliminate Social Security and Medicare trust fund expenditures and income from the Federal unified budget. The Commission's proposal is particularly ironic and inconsistent in light of (1) its recommendation for general revenue financing of one-half of Hospital Insurance now and part of Social Security later and (2) the ongoing general fund financing of Supplementary Medical Insurance.

Removing Social Security from the unified budget would be a step backward in terms of budget process efficiency and fiscal responsibility. Social Security benefits and payroll taxes impact in a major way on private sector economic activities; accordingly, Congress must consider their levels within the context of the entire budget as it formulates fiscal policy. Excluding Social Security from the unified budget would not remove the program from the budget or appropriations process, but would only confuse and hinder economic policymaking.

Dissenting Statement on an Independent Social Securitv Board and on Removina Social Securitv from the Unified Budget

by Mr. Gwirtzman

I am not impressed by the argument for removing the Social Security Administration from the Department of Health and Human Services and setting it up as an independent agency. Other pro-grams financed through separate taxation and trust funds, such as unemployment compensation and the Federal highway program exist under the general supervision of Cabinet departments. The internal administrative problems of the Social Security Administration seem to me to be of the type endemic to any large government organization, and which would be neither helped nor hurt by creating an independent board.

I am concerned that this proposal would mean further dismemberment of the Department of Health and Human Services, which has already seen its education programs transferred to the new Department of Education. Severing Social Security, Medicare, and Medicaid would result in the loss of about 60 percent of the Department's personnel, and would leave little to justify its continued existence as a separate Cabinet department.

In its recent report entitled U .S. Income Security System Needs Leadership, Policy, and Effective Management, the General Accounting Office has identified 37 separate income maintenance programs in the Federal government, and urged that they be better coordinated. By further separating Social Security, Medicare and Medicaid from the others, the Commission proposal goes in the wrong direction at a time when more uniformity and better policy control is needed over the income maintenance area, which accounts for about 40 percent of the Federal budget.

For similar reasons, I oppose removing the trust funds from the unified budget. When Social Security was young and needed to prove its independence in order to grow, there may have been good reason for excluding it from the budget. It is now too important a part of the Nation's domestic policy and the government's expenditures to be operated independently from the democratic controls that all other programs must face as part of the budget process. I have no doubt that when Social Security presents its needs to the Administration and Congress in competition with other national priorities, its program will be found important enough to deserve full funding. But it should not be exempt from this necessary policy competition.

CHAPTER 15 - Consumer Price Index for the Elderly

Dissenting Statement on Special Index for the Elderly

by Mr. Laxson, Mr. MacNaughton, and Mr. Rodgers

We reject the notion of a special consumer price index for the elderly. The existing CPI is fraught with numerous measurement biases and merely altering it to a special index for a group of the population would not correct the major problems. In addition to Social Security, the benefits of several government transfer programs are indexed to increases in the CPI. Accordingly, we recommend an in-depth analysis of the CPI and encourage the construction of a more accurate overall measure rather than diverting attention and resources to any special index covering one segment of the population.

further, it seems to us the whole concept of indexing needs thorough re-examination in terms of its effect on the stability and potential growth of the economy. Automatic indexing of Social Security benefits, COLA provisions in labor contracts, and ad hoc recognition of CPI increases in setting other wage and salary rates perpetuate a vicious circle of cost increases that contribute materially to a continued high rate of inflation.

CHAPTER 16 - Other Recommendations for Chanaes in Social Securitv

Supplementary Statement on Maximum Family Benefits Where Based on Earnings Records of Two or More Persons

by Mr. Cohen and Mr. Myers

When children are entitled to Social Security benefits on the basis of two or more earnings records (e.g., the case when both parents are deceased), the Maximum Family Benefit is the smaller of (1) the sum of the MFBs of the several workers and (2) the MFB for that month based on the formula for a person dying in that month as applied to an Average Indexed Monthly Earnings of 1/12 of the maximum taxable earnings base for that year, which we shall term the Maximum MFB.

Under this basis, the Maximum MFB will change from December of one year to the following January (because of the change in the earnings base and the different MFB formula applicable). If earnings are increasing at least as rapidly as the CPI, the Maximum MFB will increase (generally only slightly) as between the December and the following January. However, if the CPI increases more rapidly than wages, the reverse will occur (and this can happen even if the earnings base rises more rapidly than wages, as it did in 1979-81).

Specifically , in January 1981, the Maximum MFB is based on an AIME of $2,475 ($29,700 divided by 12) and is $1,243.10. The Maximum MFB in January-May 1980 was based on an AIME of $2,158 ($25,900 divided by 12) and was $1,111.80; when this was increased for June-December by the CPI adjustment of 14.3 percent, it became $1,270.80, or $27.70 more than the Maximum MFB for January 1981. As a result, a few families had their benefits reduced as between December 1980 and January 1981. We believe that this is not a reasonable result, nor was it intended in the 1977 Amendments.1/

Accordingly, we believe that the Maximum MFB provision should be changed so that the Maximum MFB should not be less for any month than the Maximum MFB determined for any preceding month, as adjusted by all subsequent CPI increases.

Supplementary Statement on Student Benefits

by Mr. Dillman, Mr. Myers, and Mr. Rodgers

We urge the Congress to examine in the future the educational benefits to students age 18-21. One in ten full-time students over 18 is a Social Security beneficiary. It is estimated that there will be about 900,000 students drawing benefits at a cost of $1.9 billion in 1985. Administrative costs are about 1 1/2 percent of the benefit payments.

In our view, Social Security is an inequitable system for dispensing aid to education for the following reasons:

1. Benefits are available only to dependents of Social Security insured workers.

1/ It should be noted that, for 1979 and before, when the "coupled" method of benefit computation was used, this anomalous result could not occur. As between December 1979 and January 1980, the problem did not arise, because the Maximum MFB for January 1980 was slightly higher than that for December 1979 -- $1,111.80 versus $1,097.10.

2. Students can exercise the option to obtain benefits by merely attending school.
3. Only unmarried students qualify.
4. Because of the maximum family benefit the result is an inequitable distribution of aid.

Social Security gives the lowest levels of aid to the neediest students. The student's level of need is not taken into account, because the family maximum benefit provision is applicable in other than small families. The more children are present, the lower the benefit, and also child's benefits are smaller when the insured worker was a low earner.

The Department of Education could provide aid more equitably at less cost than the cost to the Social Security trust funds. The gove rnment's role is to provide supplemental assistance, whereas the student and his or her parents are the, primary sources of school financing.

Most post-secondary student beneficiaries would qualify for Department of Education aid. About 90 percent of all student beneficiaries would qualify for Basic Grants. All students would qualify for the Guaranteed Student Loan Program, which is not needs-based. High school students age 18 or over, of whom there are 2,140,000, have minimum costs. The average annual cost for attending high school is about $170, while for private school it is $901. The average annual benefit of $1,967 is well over the cost of attending high school.

In 1980, the elimination of child school-attendance benefits would have saved $1.39 billion. It is estimated that the increased cost to the Basic Grant program would have been $.23 billion. The net savings to the taxpayers would have been $1 .16 billion.

In our opinion, it is the function of education to develop human resources. It is the function of insurance to secure human resources. Further, the purpose of government is to provide the best services at the lowest possible cost. The present program of benefits to students under Social Security does not accomplish this objective.

This is a change that should have an adequate lead time before it becomes effective, in order to cause the least possible hardship to parents who have planned on these benefits to educate their children. Suggestions have been made for a lead time of from IO to 21 years. The latter would not affect any children already born. Funding of the Basic Grant and Student Loan programs would have to be increased in the Department of Education.

Meanwhile, in our opinion, the present program could be tightened in the following ways:

(1) Payments to high school students should be made directly to the parents. After all, they are supporting the student.

(2) About 6 percent of students drop out of school during a semester. Meanwhile, they have been receiving student benefits. If a program could be devised to require proof of satisfactory academic progress, only serious students would receive benefits, and trust fund money would not be wasted on frivolous students.

(3) Better reporting methods should be developed for verification of full-time attendance and academic progress from schools.

(4) Perhaps a way could be found to reduce benefits when they exceed actual school costs.

The Commission has recommended suspending benefits during months when the student is not attending school (and is probably working, or could be). It is also recommending that diarying of over-payments be extended to IO years (instead of 3) to recover benefits from students who collect them after ceasing school attendance. These are proper steps to tighten up the program, but we believe that the other recommendations should also be considered in order to reduce costs.

Some of the most frequent criticisms that we hear about the Social Security system are about the student benefit provisions. This criticism comes even from parents who have benefited from it. In view of the recent reports that the OASI Trust Fund will become insolvent by late 1981 or early 1982, some means must be found to improve its financial condition. It is of primary importance that confidence be maintained in the program, so that the millions of beneficiaries will be assured that their benefit checks are not in jeopardy. After all, the aged who depend on their checks for a livelihood are of primary importance to our society. Other means can and should be found to finance student benefits, because developing human resources is important, too.

Mr. MacNaughton agrees in principle.