

Social insurance and our delicate balance

Stephen C. Goss

The COVID-19 pandemic reminds us that all things are in delicate balance. Our lives, our society, our planet are all the result of a remarkable series of past events which can and will be altered in the future. There are no guarantees for the future. Change is inevitable. But our preferences and actions will determine how we adapt to changes.

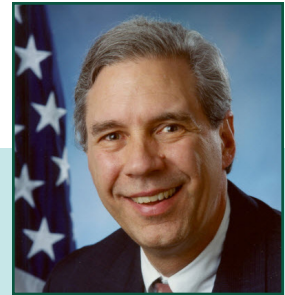
Social Security and Medicare are not legal enforceable contracts. They are, like all laws, statements of intent by our elected representatives that will be altered over time. Benefits in the law are commitments but not immutable promises. Each generation will, by its actions, determine what level of income will be available for all members of our society, and will by its preferences decide how what is produced will be shared.

Since Social Security was enacted in 1935, many unforeseen changes have occurred that have altered our society and our possibilities. Among the most significant is the changing age distribution of our population caused by the drop in the birth rate after 1965 (the end of the baby boom that followed World War II). This change in the age distribution of our population was the primary factor in the rising cost of the Disability Insurance program as a share of national income between 1990 and 2010. Many believed that the program was out of control — but, as foreseen and predicted, stabilization of the age distribution under 65 has halted this rise. But this changing age distribution will require further reconsideration and realignment of our sharing of income among workers, retirees, survivors, disabled individuals, and other members of our society as the share of our population over age 65 increases through the year 2035, and then stabilizes.

The existence of social insurance does not alter the need for this realignment of the income sharing in our economy, rather it provides a mechanism to realize our collective preferences for realignment. The amendments to Social Security enacted in 1983 were an important first step in this realignment, creating a balance between reductions in benefits and increases in tax revenue reflecting the preference of the generations represented in Congress at that time. Between now and 2035 further changes and realignment will be needed, because the increasing share of our population that is over 65 is making the currently scheduled tax rates inadequate to fully finance currently scheduled benefits.

STANDING THE TEST OF TIME

Social insurance has provided the mechanism to create a balance between the recognition of and respect for a strong national work ethic, and the desire and obligation to care for and share with retirees and those otherwise unable to work. This balance has stood the test of time and is broadly accepted and supported across generations and segments of our population. There should be no



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doubt of its continued existence and strength, or of our ability to make changes as needed, directed by the collective preferences of generations to come. The efficiency of Social Security is unparalleled, with administrative costs well below one percent of benefits paid. The near-universal support for the program is no surprise.

The COVID-19 pandemic is an additional challenge for our society, requiring additional actions based on our collective preferences. The delicate balance of all aspects of our economy and our society is again being tested. Like the Great Depression, wars, globalization of the economy, shift of jobs to a service economy, and the deep recession of 2008, the pandemic requires current generations to reassess and adjust the balance in many aspects of our existence.

Whether the pandemic will be brief and recovery fast and complete is as yet unknown. The biology of the virus and our actions will determine that. But through this and other challenges to the balance of our existence, social insurance (including unemployment insurance) has provided and is providing a stabilizing force. The need for social insurance is clear to all inasmuch as challenges do not affect us all equally, or predictably. Together, with continued sharing of what we have produced based on the preferences of each generation, we will continue to be able to meet this and future challenges to our delicate balance.

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