Research Department
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Quiet Revolution

Within a relatively short time-span, the nation has made some dramatic changes in the way in which it supports its aged population. Policymakers have adopted major improvements in social security and in public and private pension plans, partly to bring about a more adequate level of income for retirees and their dependents, and partly to ensure that their incomes are also protected against inflation. But like other revolutions, this quiet revolution of the aged is bound to be a costly one.

Through much of the 1960's the number of aged poor generally fell, but only at a moderate pace. Then, however, the aged poor declined from 24½ to 18½ percent of the 65-and-over population between 1970 and 1972 alone. Still, poverty remains more of a problem among the elderly than among the general population, where about 12 percent fall below the low-income level.

Guaranteed minimum

One of the major steps in ensuring income adequacy was the institution this January of a national minimum income for the aged, blind and disabled, under the Supplemental Security Income program (SSI). In 1973, almost 2 million aged relied on state public-assistance programs for aid, and about 60 percent of them were in poverty. This year they began to receive Federal checks directly—$140 monthly for a single person and $210 monthly for a couple, with benefits increasing after midyear. (Some states that had paid higher benefits may provide additional income supplements to SSI recipients.) Federal costs for existing programs amounted to about $2½ billion in 1973, but these should rise to over $5 billion this year with the guarantee of a Federal minimum income.

Nonetheless, the primary source of increased income has been the rapid expansion of old-age and survivors insurance benefits. In 1973, that program provided $42 billion in benefits to 25 million recipients. About one-sixth of these beneficiaries still fell below the poverty line last year, but their number should now decline with the rapid expansion of OASI benefits and the institution of SSI. Over the 1971-73 period alone, minimum benefits for a worker retiring at age 65 jumped 54 percent, and they will rise 11 percent more after two further increases this March and June. OASI payments in the aggregate are now about four times greater than in 1960.

Pension reform

Further moves in the direction of basic income adequacy may come from the pension-reform movement, which is now bearing fruit in Congressional legislation. (The Senate passed reform legislation last session, and the House is considering the bill this year.) Today, only about half of all workers aged 50 or over with at least 10 years' employment have vested (nonforfeitable) rights to retirement benefits; moreover, over half of all multi-employer plans

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lack vesting provisions completely. The proposed legislation should at least make a start in improving vesting, "portability," and financing provisions.

The average retiree today gets a pension that amounts to roughly 25 percent of his terminal or maximum salary. In Europe most pensioners get 50 to 70 percent of final pay, and the trend in this country is in the same direction. The landmark negotiations just concluded in the aluminum and container industries —with steel the next target—contained a provision to assure retirees about 85 percent of their regular pay through combined pension and social-security benefits, as well as a provision to lower the regular retirement age from 65 to 62. With negotiated increases of this type, and with legislative reforms, total pension costs may at least triple during the present decade—just as they did during the past decade, to $15 billion in 1970.

Protection against inflation

Retirees are increasingly successful in reaching their goal of inflation-proof pensions, along with their goal of basic income adequacy. The aluminum settlement was a pathbreaker in this regard, with its provision of cost-of-living increases in pensions. Beginning in 1975, those who retire under this plan will receive periodic pension adjustments of about 65 percent of the increases in the consumer price index.

This breakthrough in a major industrial-union agreement tends to ratify the basic decisions already taken in the public sector. Since 1963, military pensions have been adjusted automatically by the behavior of the consumer price index, and similar adjustments have been made since 1965 in pensions for Federal civil-service retirees and their beneficiaries. Until the late 1960's Congress increased social-security benefits periodically to permit retirees to keep abreast of inflation. (The more recent increases went much further and increased retirees' real income.) But beginning next year, social-security benefits will be increased annually to reflect increases in consumer prices.

Other support

With the introduction of Medicare and Medicaid in 1965, the aged have begun to receive substantial increases in real income. Medical bills of persons over 65 tend to be much higher than those of younger age groups, so by shifting the burden of these bills from the individual to the public, the social-security program has effectively reduced the cost of living for the aged. The Medicare program paid $9 billion in

1973 for hospital and other medical services for the aged, while Medicaid paid out over $4 billion for services for the medically indigent, including some aged as well as other recipients. Benefits for both programs together have increased about 14 percent annually in recent years.

Some beginnings meanwhile have been made in protecting the asset holdings of the aged. Over half of all elderly persons own their homes, mostly mortgage free, and thus they have experienced an increase in property values because of inflation. However, they have also experienced sharp increases in maintenance costs, insurance rates — and property taxes. (In 1970, homeowners generally paid about 3½ percent of their income in real-estate taxes, but elderly homeowners paid over 8 percent for this purpose, and the average was an unbelievable 30 percent for low-income elderly homeowners in the Northeast.) Some states are now acting to relieve the overburden of the property tax, primarily by shifting the burden of school financing from the local property tax to state income and sales taxes.

Paying the bill

The cost of ensuring an adequate and inflation-proof income for all the aged will be met primarily by higher social-security and pension deductions from the paychecks of the working population. Since 1960, joint employer-employee contributions for social insurance have risen from 7½ to 13½ percent of total wages and salaries; while employer contribution to pension programs (wage supplements) have risen from 7 to 10 percent of the total wage bill. In coming years, higher social-security taxes will be applied to a steadily rising taxable wage base, and in the private sector, higher employer contributions will be required to pay for the extension of more liberal pension agreements.

Demographics will ease the problem for a while, as the recent baby-boom generation moves into the prime working-force age brackets, leading to a concentration of population growth in those high-earning categories. Still, the 65-and-over group will rise from 9.8 to 10.6 percent of the total population between 1970 and 2000, and the proportion should then rise sharply with the retirement of the post-World War II generation. The cost burden will increase even further if there is a continuation of the trend toward earlier retirement; universal retirement at 55, for example, would be about as costly as putting the entire labor force on a 27-hour workweek.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 2/6/74	Change from 1/30/74	Change from year ago Dollar	Percent
Loan gross adjusted and investments*	79,063	+ 289	+9,025	+ 12.89
Loans gross adjusted—total*	59,889	+ 43	+8,244	+ 15.96
Securities loans	1,280	+ 211	− 602	− 31.99
Commercial and industrial	20,599	− 67	+2,438	+ 13.42
Real estate	18,478	+ 33	+3,183	+ 20.81
Consumer instalment	9,171	+ 21	+1,191	+ 14.92
U.S. Treasury securities	6,268	+ 210	− 650	− 9.40
Other Securities	12,906	+ 36	+1,431	+ 12.47
Deposits (less cash items)—total*	74,401	− 721	+7,071	+ 10.50
Demand deposits adjusted	21,249	− 174	+ 920	+ 4.53
U.S. Government deposits	914	− 259	− 12	− 1.30
Time deposits—total*	51,086	− 316	+6,247	+ 13.93
Savings	17,649	+ 24	− 602	− 3.30
Other time I.P.C.	23,749	+ 8	+5,964	+ 33.53
State and political subdivisions	7,097	− 303	+ 570	+ 8.73
(Large negotiable CD's)	11,201	− 68	+4,214	+ 60.31

Weekly Averages of Daily Figures	Week ended 2/6/74	Week ended 1/30/74	Comparable year-ago period
Member Bank Reserve Position			
Excess Reserves	110	14	60
Borrowings	126	331	101
Net free (+) / Net borrowed (−)	− 16	− 317	− 41
Federal Funds—Seven Large Banks			
Interbank Federal funds transactions			
Net purchases (+) / Net sales (−)	+1,539	+1,137	+507
Transactions: U.S. securities dealers			
Net loans (+) / Net borrowings (−)	+ 156	+ 134	+315

*Includes items not shown separately.

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