

# Long-Range Actuarial Deficit of Social Security and Dependency Ratios

YUNG-PING CHEN\*

For many years, long-range cost estimates for social security were made in perpetuity. In recent years, they have been made for a period of 75 years. Despite the 1977 amendments to the Social Security Act, the cash benefit portion of social security (old age, survivors, and disability insurance, or OASDI) still carries a long-range actuarial deficit of 1.4 percent of taxable payroll over the 75-year period 1978–2052.

Cost estimates over a long period of time must, of necessity, be based on relevant assumptions about economic and demographic conditions within the context of existing political and social institutions. However, the future is difficult if not impossible to predict, and the difficulty of prediction increases with time. Some feel therefore that the actuarial evaluation period should be changed from 75 to 50 or 25 years. While this suggestion has merit, it is inadvisable because it surely will be interpreted as an attempt to define the long-range deficit out of existence: whereas the 75-year evaluation shows an actuarial deficit, the 50-year evaluation shows an actuarial balance and the 25-year evaluation

shows an actuarial surplus. This result will not be reassuring to the general public.

This paper is organized as follows. After indicating the concept of actuarial balance in Section I, four options for dealing with the long-range deficit are presented in Section II. Because of the impact of Option IV on the size of the trust funds, Section III is devoted to a discussion of the funding principle of OASDI and of the proposal for a borrowing authority. In Section IV, the prediction of rising aged dependency ratio is discussed, together with the deficit-reducing effect of the postponement of retirement age. Section V contains some concluding remarks.

## I. Definition of Actuarial Balance

OASDI's actuarial condition is measured by the difference between (1) the average of scheduled tax rates for future years and (2) the estimated average of future expenditures, both expressed as a percentage of taxable payroll. When (1) exceeds (2), the system has an actuarial surplus. When (2) exceeds (1), an actuarial deficit results. The system is considered to be "in close actuarial balance" if the difference between (1) and (2), over a 75-year period, is no more than 5 percent relatively (*not* 5 percent of the taxable payroll).

The projected deficit of 1.4 percent of taxable payroll during 1978–2052 represents approximately 10 percent of the estimated average of the 75-year expenditures at 13.55 percent of taxable payroll. According to the above definition, the system is not "in close

\*Professor of Economics, The American College, Bryn Mawr, PA, and Research Director, McCahan Foundation for Research in Economic Security, Bryn Mawr, PA. On leave from UCLA, the author was a member of the Consultant Panel of Actuaries and Economists of the 1979 Advisory Council on Social Security. Any opinions expressed are his own and do not represent any organization with which he is affiliated. All actuarial data were supplied by the Office of the Actuary, Social Security Administration, for which he is grateful to Mr. Francisco R. Bayo, FSA, Deputy Chief Actuary, who is not responsible for the analysis presented here.

actuarial balance." When (typically) the 75-year evaluation period is divided into three 25-year periods, there would be a surplus of 1.02 percent in the first 25 years, a deficit of 1.11 percent in the second, and a deficit of 4.1 percent in the third.

**II. Options for Dealing with the Deficit**

There are a large number of options for dealing with the projected deficit. Four options that are consistent with the self-supporting principle of financing OASDI with payroll taxes are presented here.<sup>1</sup>

Option I would be to do nothing about the deficit, maintaining the status quo of the system and leaving it with a long-range actuarial imbalance. In tabular form, the actuarial status of this option would be as follows:

	(1) Estimated Expenditures	(2) Scheduled tax rates	(3) Difference (1) and (2)
	<i>(in percent of taxable payroll)</i>		
25-year averages:			
1978-2002	10.64	11.67	+1.02
2003-2027	13.51	12.40	-1.11
2028-2052	16.50	12.40	-4.10
75-year average:			
1978-2052	13.55	12.16	-1.40

This option may be defended on the grounds that since the future is unpredictable and the 4.1 percent deficiency during 2028-2052 would not occur for at least 50 years, there is no need to deal with it now. The disadvantage of this approach is that the projected deficit would prove disquieting or even disturbing to many. In fact, the magnitude of this esti-

<sup>1</sup>Possible solutions that utilize other financing principles or methods are not discussed. For example, counter-cyclical financing is an interesting option that is not considered because it uses general revenue and deals with short-term shortfall in OASDI revenue. Another illustration is the proposal for tripartite financing that would use general revenue to finance one-third of the OASDI cost. Still another plan is to institute a new revenue source such as the value added tax in order to help finance OASDI.

mated deficit is the basis for the charge that the program is bankrupt.

Option II would be to add a tax rate of 1.4 percent to those already scheduled in the law for each of the three subperiods, as follows:

	(1) Estimated expen- ditures	(2) Scheduled tax rates	(3) New tax rates	(4) Difference between (1) and (3)
	<i>(in percent of taxable payroll)</i>			
25-year averages:				
1978-2002	10.64	11.67	13.07	+2.43
2003-2027	13.51	12.40	13.80	+0.29
2028-2052	16.50	12.40	13.80	-2.70
75-year average:				
1978-2052	13.55	12.16	13.55	0

The advantage of this method is that the long-range deficit would be removed completely. In addition, some persons may prefer this approach because the actuarial surplus, especially during 1978-2002, would accumulate a large sum in the trust funds. A disadvantage of this option is that during the first 25 years it raises tax rates from the 11.67 percent currently scheduled to 13.07 percent, a 12 percent increase. Aside from the burden it would impose on workers, the increase would raise the cost of production to employers and could be inflationary. Moreover, the new tax rates would produce an actuarial surplus of 2.43 percent of taxable payroll, and some would view the resulting substantial accumulations in the trust funds as a disadvantage.

Option III would be to charge tax rates exactly as called for by estimated expenditures. The actuarial status of the program under this option would be as follows:

	(1) Estimated expen- ditures	(2) Scheduled tax rates	(3) New tax rates	(4) Difference between (1) and (3)
	<i>(in percent of taxable payroll)</i>			
25-year averages:				
1978-2002	10.64	11.67	10.64	0
2003-2027	13.51	12.40	13.51	0
2028-2052	16.50	12.40	16.50	0
75-year average:				
1978-2052	13.55	12.16	13.55	0

This method may be viewed as a true form of pay-as-you-go or current-cost financing. One advantage is that it removes the deficit. However, there are disadvantages, of which the most significant involves the consideration of intergenerational equity or fairness. One view of social security is that the program represents an implicit social compact between generations. Each generation of workers supports the nonworking, and it, in turn, expects to be supported by the workers in the following generation. The system would enable the workers in each generation to receive comparable rates of return on their contributions if the working population in each generation is of comparable size, other things being equal. With virtually constant replacement rates,<sup>2</sup> the relative rates of return to workers in different generations depend upon the contributions they are required to make. As shown in the above table, the tax rates required in the second period are approximately 27 percent higher than those in the first period, and the rates in the third period are more than 22 percent greater than those in the second period. This raises an important issue of fairness between generations of workers.

Finally, Option IV sets the tax rates at near current-cost levels during the first two periods and below current-cost in the third, with the overall 75-year average tax rate within 5 percent of the 75-year average estimated expenditures, thus meeting the criterion for "close actuarial balance." The following table shows the results of this method:

	(1) Estimated expen- ditures	(2) Scheduled tax rates	(3) New tax rates	(4) Difference between (1) and (3)
	<i>(in percent of taxable payroll)</i>			
25-year averages:				
1978-2002	10.64	11.67	10.77	+0.13
2003-2027	13.51	12.40	13.40	-0.11
2028-2052	16.50	12.40	14.90	-1.60
75-year average:				
1978-2052	13.55	12.16	13.02	-0.53

Like the previous options, this method has advantages and disadvantages. The chief advantage is that the tax rates are so structured as to remove the actuarial imbalance according to the currently accepted definition of "close actuarial balance" for OASDI. Another advantage is that the tax rates are much closer to current-cost levels than are those scheduled in the present law. Still another advantage is that during the next 50 years tax rates rise much more gradually (over 5-year intervals) than do the rates currently scheduled. The lower rates set under this approach would avoid large "trust fund ratios," which, under current law, would reach 113 by 1992; 203 by 1999; 262 by 2005; and 279 by 2010. The trust fund ratio is the relationship between the balances in the trust fund at the beginning of a year to the projected expenditures during that year. The lower rates and more gradual increases would ease adjustment problems for the workers, the employers, and the economy and would thus reduce inflationary potentials of high and accelerating payroll taxes.

There are disadvantages, the most important of which is the impact of this method on the size of the trust funds. Table 1 compares the tax rates and trust fund ratios under the present law with those under Option IV.

**III. Funding Principle of OASDI and Option IV.**

Because of the low trust fund balances under Option IV, it is necessary to review the funding principle of OASDI to date and, against that background, to discuss a suggested borrowing authority for OASDI.

Reverting to the financial plan adopted in 1935, Congress declared in 1950 that social security should be completely self-supporting on the basis of payroll taxes alone and

<sup>2</sup>Replacement rate refers to the ratio of a person's social security benefits to his/her earnings in the year just before retirement.

TABLE 1. Comparison of Scheduled Tax Rates and Trust Fund Ratios With Option IV  
Tax Rates and Trust Fund Ratios for OASDI, 1978-2052

	Tax Rates		Trust Fund Ratios	
	Scheduled	Option IV	Scheduled	Option IV
1978	10.10	10.10	37	37
1979	10.16	10.10	28	28
1980	10.16	10.10	24	24
1981	10.70	10.10	21	20
1982	10.80	10.10	25	18
1983	10.80	10.25	30	17
1984	10.80	10.25	35	17
1985	11.40	10.25	40	17
1986	11.40	10.25	49	16
1987	11.40	10.25	58	15
1988	11.40	10.70	67	13
1989	11.40	10.70	75	14
1990	12.40	10.70	82	15
1991	12.40	10.70	98	16
1992	12.40	10.70	113	16
1993	12.40	11.15	127	16
1994	12.40	11.15	141	18
1995	12.40	11.15	154	21
1996	12.40	11.15	167	23
1997	12.40	11.15	179	25
1998	12.40	11.65	191	26
1999	12.40	11.65	203	32
2000	12.40	11.65	215	37
2001	12.40	11.65	226	42
2002	12.40	11.65	236	47
2003	12.40	12.25		50
2004	12.40	12.25		59
2005	12.40	12.25	262	67
2006	12.40	12.25		73
2007	12.40	12.25		79
2008	12.40	12.85		83
2009	12.40	12.85		90
2010	12.40	12.85	279	96
2011	12.40	12.85		101
2012	12.40	12.85		103
2013	12.40	13.50		103
2014	12.40	13.50		107
2015	12.40	13.50	253	108
2016	12.40	13.50		108
2017	12.40	13.50		105
2018	12.40	14.20		101
2019	12.40	14.20		99
2020	12.40	14.20	186	96
2021	12.40	14.20		91
2022	12.40	14.20		85
2023	12.40	14.20		77
2024	12.40	14.20		68
2025	12.40	14.20		57
2026	12.40	14.20		45
2027	12.40	14.20		33
2028-2052	12.40	14.90	(Exhausted in 2028)	(Exhausted in 2030)

repealed the 1943 provision for potential governmental subsidy. There has been no change in the policy of using payroll taxes to pay benefits, under ongoing "permanent" provisions, despite the use of general revenue for financing certain minor benefit components under the program for certain small closed groups of beneficiaries.

In 1972 there was a change in the procedure for implementing the self-supporting principle that had been adopted in 1950. Prior to 1972 the procedure for carrying out the self-supporting principle was what may be called a "partial reserve" financing basis. While they did not change the self-supporting principle itself, the 1972 amendments did, to some extent, alter the financing basis from that of "partial reserve" to that of "current cost" or "pay-as-you-go," although relatively large funds were to be built up in 1990 to 2010.

In setting the tax rates under the 1972 amendments, Congress acted upon the 1971 Advisory Council's recommendation that the system be moved toward the policy of current-cost financing. However, Congress did not adopt the council's recommendation for maintaining the trust funds at a level equal to one year's estimated disbursements. Nor did Congress adopt the council's recommendation that a ratio between the size of trust funds at the close of one year and the estimated expenditures in the following year which falls outside the 75 to 125 percent range must be reported. In fact, the tax rates scheduled in the 1972 legislation would not raise the size of the trust funds to one year's expenditures until about 1990, a lapse of some 18 years.

According to the funding philosophy adopted by Congress, the schedule of tax contributions that will make the system self-supporting is based on the estimated operations of the trust funds with the "intermediate-cost" estimates.<sup>3</sup> While it is true that a "low-cost" or a "high-cost" condition may

develop, congressional intent has been to prevent the occurrence of either by adjusting the tax rates. The large trust fund accumulations projected under schedule tax rates are, quite likely, purely hypothetical, because rate increases scheduled in the law have frequently been revised downward or postponed by Congress.

The ultimate source of financial adequacy for OASDI lies in the government power to tax, not in the existence of trust funds. Should a deficit develop under the program when current outgo exceeds current income, there are two ways in which the deficit may be offset, other than reductions in benefit payments. The Treasury may use excess revenue from other sources, if any, to redeem the necessary amount of government securities held by the trust funds. Alternately, the Treasury may borrow from other sources in order to redeem the securities held in the trust funds to the extent of the current deficit. If neither action is taken, the OASDI will be unable to issue benefit payments to the extent of the current deficit, even if the trust funds on the books of the Treasury show a considerable amount of assets in government securities.

From a psychological point of view the trust funds are important, since they seem to offer the general public a basis for confidence in the social security program. However, from the standpoint of public confidence in the program's solvency, even a trust fund ratio of 75 percent or 100 percent would not be particularly meaningful. For the purpose of liquidity rather than of solvency, trust fund balances should be sufficiently large to avoid

<sup>3</sup>Cost estimates are affected by a number of economic and demographic factors such as rates of fertility, mortality, net immigration, labor force participation, employment and unemployment, productivity and economic growth, inflation, retirement, disability, and the like. The low-cost estimate refers to the net effect of the developments in the above factors that results in a low cost for the program. The high-cost estimate is just the opposite. The intermediate-cost estimate lies between the low-and high-cost estimates.

cash-flow problems, and trust fund ratio of 15–20 percent would probably suffice.

If the liquidity function of the trust funds is accepted, then the seemingly low trust fund ratios under Option IV would not be a cause for concern.

In order to bolster public confidence and support, Congress should grant borrowing authority to OASDI. The Treasury would be authorized to make loans to OASDI, repayable with interest, so as to protect the latter's financial liquidity when short-term deficits occur due to unforeseen conditions. Since such a borrowing authority may be misunderstood as a guise for using general revenue to finance social security, it should be sharply distinguished from the government subsidy authorized by the Internal Revenue Act of 1943, which Congress repealed in 1950. A congressional mandate on borrowing authority for OASDI should also require that (a) the system's short-term deficits be removed by raising payroll taxes and/or reducing benefits over a period of no more than 15 years, and (b) any projected long-range deficit be removed by tax/benefit adjustments in order

to ensure that OASDI be "in close actuarial balance," as currently defined.

#### IV. Aged Dependency Ratio and Retirement Age

The long-range deficit is principally caused by the changing age composition of the population. The effect of the aging population on the cost of social security will be felt some 40–50 years from now. As the following table shows, estimated costs remain at below 11 percent of taxable payroll until the turn of the century. They rise to approximately 12 percent by the year 2010, and then increase rather rapidly to the eventual rate of over 16 percent during 2025–2055.

Selected Years	Estimated OASDI expenditures in percent of taxable payroll
1978	10.94
1999	10.99
2005	11.32
2010	12.08
2015	13.30
2020	14.74
2025	16.06
2055	16.29

Although improvement in mortality rates is

TABLE 2. Projections of Aged, Young, and Total Dependency Ratios, 1980–2055<sup>(1)</sup>

Year	Dependency Ratios					
	Aged (2)	% Increase (+) or Decrease (-) Over 1980	Young (3)	% Increase (+) or Decrease (-) Over 1980	Total (4)	% Increase (+) or Decrease (-) Over 1980
1980	.194	—	.555	—	.749	—
1990	.207	(+) 6.7	.491	(-) 11.5	.698	(-) 6.8
2000	.208	(+) 6.7	.486	(-) 12.4	.694	(-) 7.3
2010	.212	(+) 9.3	.455	(-) 18.0	.667	(-) 10.9
2020	.271	(+) 40.0	.468	(-) 15.7	.739	(-) 1.3
2025	.310	(+) 59.8	.482	(-) 13.2	.792	(+) 5.7
2030	.338	(+) 74.2	.489	(-) 11.9	.827	(+) 10.4
2040	.330	(+) 70.1	.481	(-) 13.3	.811	(+) 8.3
2050	.318	(+) 63.9	.484	(-) 12.8	.802	(+) 7.1
2055	.322	(+) 66.0	.486	(-) 12.4	.808	(+) 7.9

Notes: (1) Based on intermediate cost projections (Alternative II) in the 1978 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

(2) Population 65 and over as ratio to population 20–64.

(3) Population under 20 as ratio to population 20–64.

(4) Population 65 and over plus those under 20 as ratio to population 20–64.

also a factor, the aging of America is primarily the result of the continuous and sharp decline in fertility rates in recent years following the high fertility rates in the post-World War II period until the mid-1960s. The population of the aged (age 65 and over) is estimated to rise to more than 17 percent of the population during 2025–2055, from approximately 11 percent at present.

The critical issue in social security financing is the relationship between the number of retirees/beneficiaries and the number of workers/taxpayers. The "aged dependency ratio" (generally defined as population 65 and over to population 20–64) has been used as a convenient index of support costs for the increasing proportion of the aged. Under the 2.1 fertility assumption (2.1 children per woman), the aged dependency ratio will increase from .194 in 1980 to .322 in 2055, or a 66 percent growth for the period (Table 2). This increase implies an immense rise in the tax burden on the working population. However, declining fertility rates will reduce the "young age dependency ratio" (generally defined as population under 20 to population 20–64). Under the same 2.1 fertility assumption, this ratio will decrease from .555 in 1980 to .486 in 2055, a decline of approximately 12.5 percent (Table 2). The "total dependency ratio" (the sum of the above two ratios, suggesting the combined burden of support costs on the working population) will increase from .749 in 1980 to .808 in 2055, a growth of about 8 percent (Table 2).

An increase or decrease in the total dependency ratio implies a rise or decline in support costs for the dependents and tax burdens on the working population. However, the change in costs will depend upon the relative cost of supporting the old versus the young and upon the degree to which the aged and young dependency ratios change.<sup>4</sup> Moreover, the taxpaying ability of the working population is also affected by their preferences and the state of the economy (the level of earnings,

the labor force participation rate, and the employment rate, which are influenced, in turn, by the rates of productivity and economic growth).<sup>5</sup>

Concerning the future cost of supporting the aged, the problem is not imminent. As shown in Table 2, dramatic increases in the aged dependency ratio would not occur until after the year 2020. Until then, the rise is of minor magnitude; these small increases would be accompanied by larger declines in the young age dependency ratio, with the result that the total dependency ratio is expected to drop until 2020. During the next few decades, many changes in social and economic conditions may occur. One possibility is the change in the aged dependency ratio itself. With a smaller labor force implied by the relatively smaller population in the working ages (as they are defined now), and with improving mortality experience and better health status, individuals may choose to remain working beyond the present customary retirement age.<sup>6</sup> If age 68 instead of 65 is the age at which full retirement benefits begin, then the following tabulation shows the extent of change in dependency ratios between 1980 and 2055:

	Dependency Ratios		
	Aged	Young	Total
1980 Dependency Ages (Aged: 65 & over; Young: under 20)	.194	.555	.749
2055 Dependency Ages (Aged: 68 & over; Young: under 20)	.252	.460	.712
Increase (+) or Decrease (-) over 1980	(+)29.9%	(-)17.1%	(-)4.9%

<sup>4</sup>For a discussion of the relative cost of supporting the old and young dependents, see "Dependency Ratios and Costs" in Appendix to Report of the 1979 Advisory Council on Social Security (forthcoming).

<sup>5</sup>See Yung-Ping Chen and Kwang-wen Chu, "Total Dependency Burden and Social Security Solvency," *Proceedings, 29th Annual Meeting of the Industrial Relations Research Association, 1976*, in particular pp. 46–51.

<sup>6</sup>For a discussion of the retirement age, see "Retirement Age" in Appendix to Report of the 1979 Advisory Council on Social Security (forthcoming).

TABLE 3. Projections of Aged, Young, and Total Dependency Ratios With Two Definitions of the Aged, 1980–2055<sup>(1)</sup>

Year	Dependency Ratios					
	Aged (2)	% Increase (+) or Decrease (-) Over 1980	Young (3)	% Increase (+) or Decrease (-) Over 1980	Total (4)	% Increase (+) or Decrease (-) Over 1980
1980	.194	—	.555	—	.749	—
1990	.207	(+) 6.7	.491	(-) 11.5	.698	(-) 6.8
2000	.208	(+) 6.7	.486	(-) 12.4	.694	(-) 7.3
2010	.212	(+) 9.3	.455	(-) 18.0	.667	(-) 10.9
2020	.201	(+) 3.6	.442	(-) 20.4	.643	(-) 14.2
2025	.232	(+) 19.6	.454	(-) 18.2	.686	(-) 8.4
2030	.261	(+) 34.5	.461	(-) 16.9	.722	(-) 3.6
2040	.269	(+) 38.7	.459	(-) 17.3	.728	(-) 2.8
2050	.250	(+) 28.9	.459	(-) 17.3	.709	(-) 5.3
2055	.252	(+) 29.9	.460	(-) 17.1	.712	(-) 4.9

Notes: (1) Based on intermediate cost projections (Alternative II) in the 1978 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

(2) For 1980–2010, population 65 and over as ratio to population 20–64; for 2020–2055, population 68 and over as ratio to population 20–67.

(3) For 1980–2010, population under 20 as ratio to population 20–64; for 2020–2055, as ratio to population 20–67.

(4) Sum of (2) and (3).

With old age defined at age 68, the increase in the aged dependency ratio during 1980 and 2055 would be approximately 30 percent and the decrease in the young age dependency ratio during the period would be about 17 percent, with the total dependency ratio declining by about 5 percent.

Table 3 shows the development of dependency ratios in selected years from 1980 to 2055, with the aged dependency defined to begin at age 65 during 1980–2010 and at age 68 during 2020–2055. Compared with the ratios in Table 2 the aged dependency shows much smaller rates of increase and the young dependency shows somewhat larger rates of decrease, with the total dependency ratios declining throughout the period, instead of rising.

Postponing eligible age for full retirement benefit from the present 65 to 68 would bring savings in long-range social security cost. The extent of cost savings depends upon when and how the new eligible age becomes effective. One method to implement the new rule would be to increase the age (at which full retire-

ment benefits are payable) by one-month for every two elapsed months reaching a maximum of age 68 in six years. To illustrate, if the new rule begins in the year 2000, then age 68 will be required at the beginning of 2006. For someone retiring in March 2000, he or she must reach age 65 years and one month; in May 2000, 65 years and two months; in March 2002, 66 years and one month; and the like. In other words, it will take 72 months (six years) to lengthen the retirement age for full benefits by three years (36 months, from 65 to 68), according to a phased-in schedule of one month for every two. The following table shows rough estimates of savings in long-range OASDI cost resulting from a gradual increase in the retirement age from 65 to 68 for full benefits:

If new retirement age becomes effective in	Savings in 75-year average cost (as percent of taxable payroll)
1990	1.37
2000	1.21
2010	1.02

Consequently, the long-range deficit of 1.4 percent, which is the actuarial status under Option I (maintaining the status quo), would be reduced to .03 percent, .19 percent, and .38 percent, respectively, if the new retirement begins to be implemented in 1990, 2000, and 2010. On the other hand, the long-range deficit of .53 percent under Option IV would be more than offset under all three starting dates for increasing the retirement age.

### V. Concluding Remarks

Several options for dealing with the projected long-range deficit have been presented. Option IV would set tax rates at near current-cost levels and meet the condition for long-range "close actuarial balance." Under this option, tax rates in the next 50 years would rise much more gradually than would the rates scheduled in the law now. Moreover, tax rates in the next 30 years would be lower than those currently scheduled, and would also permit reductions in OASDI tax rates immediately. For purposes of assuring liquidity, this option includes a proposal for a borrowing authority so that advances from the Treasury could be granted when trust fund ratios are too low for meeting payments.

Even though Option IV still leaves a long-range actuarial deficit, it appears acceptable. Since the projected deficit would occur in the distant future, there would be time to deal with it. Predictions made or believed by economists and demographers as bases for social and economic policies have had a humble record, but even if the projected fertility rates do materialize, the effect would not be felt

until a few decades from now. It may be fair to speculate that the society of the distant future would be willing as well as able to support high dependency costs for the aged. It is possible that members of the distant society might accept or devise methods and institutions to solve their problems in ways considered impractical today or in the near future. For example, to offset the effect of a smaller labor force implied by low fertility rates, retirement age in the future could be postponed owing to better health and improved mortality. Job redesign and other modifications of the work environment would also assist in enlarging labor force participation, especially among female workers and older workers. Immigration policy, too, may be modified as a means of increasing the potential labor force. Moreover, a rise in the number of elderly persons need not necessarily mean higher public expenditures in their behalf, since private provisions for retirement income protection (group pensions and individual savings) could well become much more meaningful supplements to social security benefits.

Such societal changes are, as yet, only possibilities but are very likely to have a beneficial effect on the status of OASDI by the midyears of the 21st century. Therefore, the public should be encouraged to look at the future of the system optimistically, realizing that a modest long-range deficit under the "close actuarial balance" definition could be manageable and that the system under such circumstances would remain strong and viable.