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THE WHITE HOUSE
WASHINGTON
August 4, 1982

ws 093802RD
4200
WE007

Dear Alan:

Recently you asked the paper we discussed at the Bohemian Grove be cleaned up so it might be used in another context. Enclosed is a copy of that paper for your use.

It was good visiting with you on the trip to California.

I hope to see you before too long.

Sincerely,



Edwin L. Harper
Assistant to the President
for Policy Development

The Honorable Alan Greenspan
president
Townsend-Greenspan & Company
One New York Plaza
New York, NY 10017

Social Security Reform Proposals

Tom McCoy -
Please send attachment
w/ letter.

SOCIAL SECURITY REFORM PROPOSALS

A. Possible Benefit Structure Changes in Social Security

1. Freeze bend points for three years and shift computation points to age 65.

This would result in an across the board cut in all categories of Social Security benefits for future beneficiaries. The cuts would be relatively equal in percentage terms for all beneficiaries. The benefit reductions would start out small, though still significant, and grow over time. This reduction will eventually save 1% of taxable payroll by itself, significant enough to be a factor in helping to solve the long-term financing problem.

The drawback of this proposal, however, is that it would result in a sudden, precipitous benefit cut for those about to retire. These individuals will probably have based their retirement plans on receiving currently expected benefits and will not have enough time to rearrange their plans and make up for the cuts through private alternatives.

If the impact of this change is delayed, however, to avoid this problem, then the change will not help solve the short-term financing problem. Nevertheless, I think that such a delay is probably necessary. I, therefore, believe that this proposal is not feasible as a possible solution to the short-term financing problem, but some slowly phased-in change in the bend point formula, though not necessarily this one (an alternative is described below), would be useful in addressing the long-term problem.

2. Lower early retirement actuarial reduction to 70%.

This would not affect existing beneficiaries and would reduce benefits only for future beneficiaries who chose to retire between the ages of 62 to 64. But this proposal will again result in a sudden, precipitous benefit cut for those about to retire during these ages.

If a delay in the retirement age from 65 to 68 is attempted for the long-term, however, then some changes would have to be made in the early retirement option. Ideally, individuals should be allowed to retire any time between 62 and 68, but the reduction in benefits for pre-68 retirement should be strict enough so that no extra costs are imposed on the system due to the exercise of this option. If this new system was phased in slowly along with the retirement age delay, over a 25 to 30 year period, then I think it would be feasible. I, therefore, think that this proposal is again not suitable as a possible solution to the short-term problem, but may be useful in addressing the long-term problem.