

# Social Contingencies, the Aged, and Public Policy

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UNTIL RECENTLY, PERVASIVE AND UNIQUE LEVELS of need among the aged have accorded old age a high place on the social policy agenda. Today, however, the aggregate markers of old age are notably different from those of the past. Over a 30-year period, poverty rates have declined by a factor of three, access to health care has risen dramatically, private pension coverage has (until recently) expanded steadily, and three-quarters of the older population own their homes.

These improvements and other emergent demographic patterns are changing the social and political discourse centered on contemporary elders. Discussions are no longer simply about “the old,” but also about the young-old and the old-old, or the able old, in contrast to the vulnerable and disadvantaged old. Persons in their traditional middle years are now said to enter a Third Age before entering the Fourth. “Diversity” is a new catchword in aging, denoting both the new population mixes entering old age and the differential effect of early life-course events in shaping well-being in old age.

Public policy is one of several arenas where this growth in old-age diversity is immensely important. Despite the attention devoted to them over the years, age-related policies and their underlying assumptions have changed little since their inception. Public pension benefits, designed partly to remove individuals from the labor market, can be taken at age 62 rather than the traditional age 65; the spousal benefit

continues on the assumption of a single male breadwinner with a wife at home; disability benefits assume that the recipient is entering an extended period outside the labor force analogous to retirement and accord little formal attention to rehabilitation potential; and the acute illnesses of the old and sick have been recognized by social insurance whereas chronic illness and functional incapacity are only marginally covered.

The critical policy question centers on the appropriateness of fit between age-based assumptions and allocations on the one hand and current population dynamics on the other. The need to pose this question is remarkably recent. For more than half a century, federal social policy on aging was both well targeted and enormously successful. Both its popular support and its role in reducing poverty are unequaled in the American policy experience. While acknowledging these successes (which are expected to continue), we must ask how well policy now fits contemporary circumstances.

The classic welfare state notion of “social contingencies” is the vehicle used here to reassess the design and direction of age-related public policy by posing the key question of what is truly contingent about advanced age and what is not. What are the contingencies or “negative events” elders face that they cannot or should not be expected to protect themselves against? Critical to this discussion is whether old age itself continues to be a “contingent event.” Is old age a near-perfect proxy for a host of economic, physical, and psychological insufficiencies, or have matters evolved to a point where this definitional property can be appropriately shed, rendering the relation between age and risk a correlational rather than a definitional one?

My central arguments are, first, that ongoing policies do not adequately recognize the emerging contingencies that face growing numbers of older persons; second, that it may now be in order to consider some reallocations of responsibility among different societal sectors—public and private, formal and informal—for assuring well-being in old age; and, third, that using a “risk-response” typology may provide a means for guiding decisions about both targets of protection and loci of responsibility.

## Old Age as a Contingent Event

The idea of social contingencies, or risks, as a basis for public social welfare intervention lies at the heart of the contemporary welfare state. In

1935, the Committee on Economic Security introduced its report to President Roosevelt by observing that the need for “some safeguard against misfortunes which cannot be wholly eliminated in this man-made world of ours is tragically apparent” (Perkins et al. 1935, 1). Language calling attention to “common misfortunes” (Weale 1990), “losses from ordinary contingencies in the workingman’s life” (Brandeis 1911, 157), threats to the “wage of the male breadwinner” (Boris and Bardaglio 1983, 80), and bluntly warning that “things happen” (Rubinow 1934, 17) captures the essential idea of social contingencies.

Old age has long been recognized as a contingent status in life. Cross-nationally, old-age protection was always among the first benefits offered (Lubove 1968). In the case of Great Britain, Hecllo notes that “indeed, it was the quiet desperation of economic insecurity in old age that gave rise to one of the first and largest forms of public income support—old age pensions” (1974, 154). In the United States, it trailed only workmen’s compensation in the chronology of income-maintenance program adoptions. Today, protection against the vicissitudes of old age is a universal component of welfare programming worldwide.

The need of the aged for public support has been based on the demonstration or presumption of a series of interrelated limitations. Most basically, aging was long viewed as an illness (Laslett 1987). One expects little productivity of the ill, especially when the logic of the assumption is that they cannot recover. The expectation that at some point one could not work was reinforced by the long-standing devaluation of the efforts of persons who were in late-middle or old age. Osler made the point plainly in his 1905 valedictory on the “comparative uselessness of men over 40” and “the incalculable benefit it would be in commercial, political and in professional life if, as a matter of course, men stopped work at [60]” (Graebner 1980, 4). The twin assumptions that one could not and should not work lay behind the core fear of old age as a time of living beyond one’s earned income.

These perceptions contributed to the view of old age as a contingent event, not unlike unemployment, illness, or disability. In Lubove’s words, it was one of these “long and short term risks which interrupted income flow” (1968, 3). Odd as it seems to lump aging with other “common misfortunes,” the father of America’s social insurance movement, Isaac Rubinow, saw aging as perhaps the most problematic of all. In other areas of social insurance, preventive measures lessened the risks; in the case of aging, such measures “aggravated” the risk. Moreover, aging as “the final emergency” came after problems earlier in life may

have well depleted once available resources. In Rubinow's words, "How many vicissitudes may not [the workingman's] savings have to face through all these long years?" (1934, 250).

Contributing to aging's contingent nature was the relatively low probability that one would, in fact, turn 65 or 70. Life expectancy for persons born early in the century was 49, and the remaining life expectancy of survivors to age 20 was roughly 42 years (Torrey 1982). Supporting these survivors to advanced age, which was seen as necessary because of the desire to retire them, was socially bearable given their small numbers. Prior to the New Deal, being old and unable to work were seldom frequented waters, but their shoals were known to all who had seen the "county home" or other evidence of the devastating possibilities of advanced age. In short, for all but a few, old age was in and of itself a contingent event.

### Old Age Today: Risk, Institution, or Both?

The enactment of Old Age and Survivors Insurance (OASI), followed by economic growth and program liberalizations of the post-1950s period, considerably brightened the economic security picture for the aged. Total and abject destitution is today essentially a thing of the past, notwithstanding the marginal and precarious condition of millions, which are matters central to my later discussion. Nonetheless, in an important and now familiar litany, the life span has been extended, poverty among the elderly has been slashed, male labor force participation has plunged, mortgage-free home ownership extends to over half of the population, and access to acute health care services is vastly increased.

Conditions for the aged overall have, in fact, improved sufficiently that entirely new constructs have been offered on the new realities of aging. Neugarten's "age or need" (1982), Estes' "aging enterprise" (1979), Hudson's "graying of the budget" (1978), Binstock's "the aged as scapegoat" (1983), and *Forbes's* "Consuming Our Children?" (Chakravorty 1988) speak to a near-complete transformation of imagery in aging.

More fundamental yet are theoretical formulations of advanced adult life based on newly emergent, but historically unparalleled, social and demographic structures. Neugarten (1974) identified the "young-old,"

and Morris and Bass (1988) speak of the "productive old." Most elegant is Peter Laslett's (1987) identification of the "Third Age" as an entirely new division of the life experience in contemporary societies: one in which "the life plan is realized," but which is conceptually distinct from retirement (marking the end of one's Second Age) and decrepitude (the fate held for many in their Fourth, and final, Age).

Each of these constructs has been proclaimed as both empirically valid and normatively desirable: they all say in different ways that aging is no longer a marginal experience, but rather has become, in Kohli's words, "a distinct phase of life" (1988). The proposition seems indisputable. As calculated by Laslett's "Third Age Indicator" (a .5 or greater probability that persons, having attained age 20, will live to age 70, and that at least 10 percent of the population is age 65 or above), the Third Age, which was nowhere a "majoritarian reality" prior to the twentieth century, became a settled feature of the industrial nations in the 1980s. Today a man in his mid-thirties can expect to spend more time in retirement than remains for him at work, and a woman aged 25 can expect to spend more time in Laslett's Third Age than in his Second.

The emergence of a new adult population for whom neither work nor illness is a defining feature is a matter of considerable sociological, economic, and political importance. Kohli (1988), the German sociologist, sees a need in the modern "work society" to acknowledge appropriately the place of a larger population that has been structurally removed from the labor force. Doing so would recognize ethics other than work-related ones, such as deferred gratification and self-actualization. A number of American economists have also been impressed by the growing consumption capacity of contemporary older persons. Their reaction, however, has been one less of celebration than of concern about policy provisions that encourage early retirement and about looming questions of equity within the older population and between select groups of elders and younger families (Haveman 1988; Smolensky, Danziger, and Gottschalk 1988). Politically, consumption concerns of well elders might further marginalize the population of vulnerable elders, who have indeed entered a Fourth Age (Hudson 1987).

Public policy everywhere has been a central ingredient in bringing about the remarkable transformation in aggregate well-being. Between 1930 and 1980, the percentage of workers across 18 industrial countries covered by old-age pension insurance increased from just under 20 percent to nearly 80 percent. Over the same time period, the income re-

placement rate for the standard worker increased from 14 to 55 percent (Palme 1990). This fundamental shift in pension emphasis from relief to income maintenance has brought with it a tide of rising expectations. Earnings and pension contributions have grown steadily, and population growth has assured for older workers both a steady stream of future contributors and persons eager to assume their positions at the earliest possible age.

These developments taken together have meant that in a century or less the marginal have become the exception and the “normalized” have become the rule (or will, as soon as theory and popular perceptions catch up with the new realities). Public policy served to create retirement as a social institution. The consequence of changing expectations, improved well-being, and roles more oriented toward consumption has been the emergence of old age as a structurally distinct and, for many, an economically secure phase of life. Old age, per se, has ceased to be a contingent event.

This transformation and all its contributing factors are creating growing turbulence around current public policy related to the aged. Policy elites—if not the general public (Cook 1990)—are pressing for cuts, limitations, and exclusions in age-related programs. Income testing under Medicare, more stringent means testing under Medicaid, “targeting” and client “cost sharing” under the Older Americans Act (OAA) have each become topical within the past few years. Officials are disinclined to touch age-related benefits but, by virtue of escalating budgetary pressures related to health care and other entitlement spending, find themselves drawn in that direction.

Shifting realities and perceptions have reframed the key question: what are the risky or contingent situations elders face today and what kinds of alterations do they suggest in the programmatic emphases of contemporary public policies? The contingency approach recognizes the need for appropriate protections for different populations of elders while acknowledging the transition of old age from a category definitionally at risk to one that is increasingly becoming an institutionalized—albeit diverse—“age” of its own.

## Contingencies and Aging

Contingent events are about negative outcomes. The central policy question posed by the “bad things” that can happen to people is distin-

guishing the ones that should be addressed collectively through public auspice from those that should be left to individual providence, whether through savings or private insurance.

The idea of social insurance is of surprisingly recent origin, having been delayed in its development by nineteenth-century liberal dogma centered on the proposition, "Take your risks and accept responsibility for your negligence" (Lowi 1990, 28) and the corollary tenet that "people should not be able to insure themselves for injuries caused by their own negligence" (Lowi 1990, 30). Socializing the costs of risk emerged only with the dawning of industrialization and the realization that the complete assumption of risk by entrepreneurs and businesses was inimical to economic growth (Aharoni 1981). Liability for injuries suffered by industrial workers arose as well, and from these concerns emerged industrial accident insurance and workers' compensation as the earliest forms of social protection (Zollner 1982; Berkowitz and Berkowitz 1984). In both instances, the fundamental break was "translating moral questions of responsibility into instrumental questions of risk" (Lowi 1990, 31).

The "instrumental question" at the heart of risk or contingency insurance is ascertaining how much protection should be provided against what set of events. As Bishop notes, economists have argued that "an individual's well-being over a lifetime is enhanced if he or she is able to buy actuarially fair insurance against the risks of expense, when spending would be desired only in specific probabilistic situations" (1980, 63). The product sold and bought is a "contingent claim" that simply states, "If event A occurs, the company will pay \$x." Both private and social insurance are forms of such protection, although, as noted below, the compulsory participation that characterizes the latter has critical consequences for both the makeup of the insurance pool and the determination of payout to individuals in different circumstances.

The critical next step is how to assess the impact of events that befall people and how to structure the most appropriate response to such events. Table 1, using reciprocal categories of event and response, places contingent events along three interrelated continua.

### *Severity*

Douglas captures the centrality of severity: "A risk is not only the probability of an event, but also the probable magnitude of its outcome, and everything depends on the value that is set on the outcome" (1990, 10).

TABLE 1  
Policy Typology of Contingent Events

Nature of event	Criterion of response
Severity	Adequacy
Likelihood	Insurability
Variability	Assessibility

The severity of risk is a function of an event's economic, psychological, and physical toll when weighed against the corresponding resources that can be brought to bear in addressing it. However, different events—meager income, devastating illness, and home eviction—may be assessed by more than one cultural standard, depending on both the nature of the event and the identity of its victim. Such standards may legitimate differential risk exposure faced by different populations—for example, the placement of dangerous and noxious “not-in-my-backyard” projects in disadvantaged neighborhoods (Roberts 1992). Variable standards may also lead to differential assessment of the adequacy of response, as Berkowitz and Fox (1989) note in the case of disability, where disability “represents a social judgment [and] not an objective medical condition” and policy is formulated in response to this judgment.

The cultural standards applied to elders in need have generally been sympathetic: older people obviously do have needs, probably due to no fault of their own. Also, when viewed objectively, the severity of contingent events associated with aging and the adequacy of responses to them can be ascertained in a fairly straightforward manner. Income can be readily determined, and a number of different bases can be used to gauge its adequacy. Complications do arise when determining a standard against which severity and adequacy should be judged. The well-known options are judging adequacy of response against an index of need, in comparison with the well-being of other members of society, or with an individual's own preretirement status. How individuals and society choose between these is a matter of the highest order and speaks to Douglas's admonition.

Determination of severity may also be relatively clearcut in the case of health-related contingencies, as evidenced by the use of diagnostic and functional assessment protocols developed in recent years. However,



coincidental events and differentially perceived costs associated with illness and functional impairments still create clinical and financial problems in crafting adequate responses. Not only may otherwise adequate amounts of income evaporate in the face of severe illness, but culture may also sanction risk-taking for certain groups or illnesses and not for others. As a group, older Americans have been relieved of considerable risk for acute and intensive health-care episodes, but have witnessed a much less adequate response to the costs of care surrounding long-lasting and debilitating conditions.

### *Likelihood*

Likelihood or probability of an event's occurrence conditions how it is both understood and anticipated. Economic theory suggests that the rational actor would insure against a negative event with a low probability that would inflict severe loss should it occur (Bishop 1980). Actual behavior, however, often reflects a seriously flawed adherence to this standard, that is, the less one anticipates a negative event, the less one is likely to guard against its occurrence. Aaron and Thompson (1987) observe that individuals tend to be least rational regarding widely separated events and contingencies with low probabilities. Laslett, in calling on Britons to awaken to the coming of the Third Age, observes that "people have to be confident very early in their lifetimes that they will live long enough to experience the Third Age in order for them to plan for it" (1987, 137).

Historical developments and shifting generational experiences have affected the probabilities of aging-related contingencies in important ways. Most notable is the differential likelihood of spending time in a Third Age in light of the distribution of negative events within and across different generations of elders. For some groups, old age itself is only recently a nonexceptional occurrence; for others, who may have long taken a period in old age for granted, the vagaries of very advanced age are the new development.

These changes lead to startling contrasts in aging. Images of elders in rockers and wheelchairs are now matched by characterizations such as those noted by Falkingham and Victor (1991) in contemporary Britain: "Woopies" (well-off older people), "Opals" (older people with affluent lifestyles), and "Jollies" (jet-setting oldies with lots of loot). The Commonwealth Fund (1988) seeks to ameliorate the economic and social

problems facing "Elderly People Living Alone" while the *Washington Post* worries about our "Soaking the Young While We Enrich the Old" (Taylor 1986). Clearly, the older population has both new entrants and new survivors, both of whom contribute to a new risk profile that is stereotyped in the media and insufficiently appreciated in Washington.

Differential probability of experiencing contingent events also varies across generations. Having only recently succeeded in going beyond simply relieving the poverty of a first generation of contemporary elders to maintaining the income of a second generation, social insurance advocates now face a "generational equity" movement that predicts both want and a bad deal for a third generation, a generation, in Phillip Longman's (1987) words, that is "born to pay." An extended debate continues between the so-called generational equity movement and its critics (Quadagno 1989) on the matter of defining the movement's primary intent: generational equity or privatization. The debate, however, has brought the previously arcane notion of birth cohorts to political center stage and has generated thoughtful discussion about the relative prospects of different generations. Perhaps most provocative has been David Thomson's (1989) positing of the cohort born between the early 1920s and the early 1940s as a "welfare generation" throughout the industrial West, one that hindsight will reveal to have fared considerably better throughout its entire life span than generations both preceding and following it.

### *Variability*

Variability refers to the difficulty in predicting an event's onset, duration, and course and, in turn, the difficulty in determining both the occurrence and continuity of a "triggering event." Different contingent events associated with old age have different properties. Gauging the onset of an event's occurrence is the most straightforward of the three. Population estimates about mortality and survivorship status can be calculated with great precision. The "whens and wherefores" of exiting the labor force are well researched in the voluminous "retirement decision" literature. Less precise but quite reliable estimates can be made about the onset of acute illness and even about functional impairments of varying degrees of severity.

The duration and course of most age-related contingent events can be differentiated as well. The widespread existence and success of retire-

ment annuities illustrates the accuracy that can be achieved when estimating the duration of negative or risky events (historically, retirement has been considered both of these). In the case of acute health care, the widespread institutionalization of prospective payment systems based on diagnostic groupings speaks as well to policy makers' ability to isolate the duration of needed care.

In the case of long-term care, the diagnostic-centered approach has increasingly given way to functionally centered ones, but firm predictions of the duration of impairments are more difficult to make and measure than are assessments at one point in time (Kane and Kane 1981; Kane, Finch, and Geron 1991). The vagaries of long-term-care needs over time present clinicians, administrators, and insurers with dilemmas of client assessment, treatment, and coverage that are more problematic than other late-life contingent events. Behaviors deemed morally hazardous (by both client and provider) and false negative-positive diagnoses are more likely to occur around chronic and functional impairments than other late-life events.

The utility of these dimensions—severity, likelihood, and variability—lies in their providing a scale against which to assess the individual and collective costs of different events. The highest scoring on this contingency scale would be the event that is highly severe, least likely, and validly and reliably assessed. These points represent the “purest” insurability situation, for which a fully adequate, predictable response to bounded events is clearly stated in the insurance coverage. Because of the coincidental occurrence of various events and the varying problem and resource profiles particular subpopulations bring to old age, these clear rank orderings can seldom be expected in real life. Nonetheless, this typology does provide a means for comparing the properties of different contingent events with current programs and allocations.

Using this framework, it becomes possible to present preliminary arguments on the questions of where to apply more or less effort and which sector might most appropriately shoulder the burden of responsibility.

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with their increasing allocations toward the old. This shift is acknowledged across the board by those who celebrate what these expenditures have accomplished (Bernstein and Bernstein 1988), those who defend them but worry about future distribution (Marmor, Mashaw, and Harvey 1990), those who fear today's "welfare generation" may prove to be a one-time cohort (Thomson 1989), and, finally, by those who worry that the entrepreneurial spirit of the industrial world is being sapped by excessive socialization of risk of all sorts (Aharoni 1981).

Explicit use of a contingency-based approach is suggested as a means of framing the "success versus excess" debate centered on the distribution of costs and benefits in aging-related social insurance programming. As a question of policy, the contingency approach provides a basis for ascertaining which events may be unrecognized or underrecognized and, more pointedly, which events, at least as a matter of balance, may be receiving more or less than their due. As a question of politics, the contingency approach would provide a rational basis for defending legitimate allocations and, where appropriate, insisting on greater ones.

The policy questions raised by this typology of contingent events are obviously complicated because reasonable people may disagree about the costs of different events and the appropriateness of social protection. The typology, however, does provide a means for assessing our current policy choices about risk and responsibility and suggests a framework for weighing alternative courses of action.

### *The Weighing of Contingencies*

The U.S. social welfare system has been much more successful in addressing the highly likely and long-term events centered on income outside the labor force than it has been in dealing with other more episodic and potentially devastating occurrences. Income security is obviously important, but it is not the only determinant of economic security in old age. Holden and Smeeding have noted that economic well-being is about both meeting current consumption needs and having holdings that "can be drawn upon to cover the costs of uncertain contingencies" (1990, 191). Elders below the poverty line will obviously find it difficult to meet current consumption needs. For those ranging just above it, means are extremely tight, but, in the absence of other dire occurrences, can be assumed to be at least barely adequate. In the face of an unexpected calamity, however, the next step is a retreat into the world of

public assistance. Using Barr's (1992) terminology, we have done remarkably well at "income smoothing," but less well at protecting accustomed living standards against "unaccustomed drops."

This situation lends something of a countercontingent quality to U.S. social insurance policy. We provide the best protection against events that are likely, nonvariable, and *potentially* not severe. In E.R. Kingson's words, we do best in addressing "the uncertainty associated with predictable events" (1992: personal communication). In the case of income maintenance, Old Age Insurance provides inflation-adjusted benefits for an event that is near certain and whose course is broadly predictable, again barring the onset of other events that can appropriately be considered discretely. The probability factor declines somewhat in the case of acute illness, but even here Collopy (1985) refers to an expanding "meritarian gap" between Medicare coverage and medical costs. This construct speaks directly to the question of severity of event and adequacy of response because Medicare coverage can be increasingly faulted for "hiding individual calamity under aggregate comfort" (Collopy 1985, 11).

Larger problems arise in the case of the great age-related contingency of the late twentieth century: functional impairments resulting from chronic illness and disability. More persons entering old age and living longer has meant an increased volume of physically and mentally handicapping conditions, and current projections see the problem becoming yet more severe (Zedlewski and McBride 1992). For the vast majority of the impaired older population, services for assisting with normal activities of daily living (ADLs) are paid for either out of pocket or through the means-tested Medicaid program.

Yet the properties associated with functional incapacity conform well to the contingency criteria presented here. The key issues facing long-term-care insurance, in fact, are operational, not conceptual. Far more than either protection of consumption income or financial protection against acute illness, long-term care faces formidable moral hazard barriers. What Barr (1992) says of medical care in general holds especially for long-term care: "health is both hard to define and measure, hampering contractual specification of individual loss as measured by the severity of illness." By most estimates, long-term care is an insurable albeit expensive proposition (Bishop 1980; Rivlin and Weiner 1988), and the severity of the condition requiring it is increasingly ascertainable through ongoing refinements in various impairment-scale protocols.

However, the information–behavior vagaries associated with moral hazard represent major hurdles to broadened coverage.

In short, functional impairment must be categorized as a highly variable contingency, often marked by widely differing spells of severity and different combinations of presenting symptoms. Yet, 42 percent of nursing-home costs are paid for out of pocket as contrasted with only 5 percent of elder hospital costs (Rice and Gabel 1986), and nursing-home costs consume over 80 percent of out-of-pocket expenses for elders whose total out-of-pocket expenditures exceed \$2,000 (Waldo and Lazenby 1984).

### *Differential Exposures to Risk*

The blurring of the lines of what is and is not genuinely contingent about events in old age may exacerbate inequities individuals bring to old age. In this context income issues join health and disability issues at center stage. Liberalization in OASI and aggregate increases in asset and pension income have contributed to a reduction in old-age poverty levels, and, in fact, the United States has done a better job than all other industrial countries in maintaining preretirement income levels for the old (Myles 1988).

However, “because [the United States] has one of the least egalitarian systems of income distribution prior to retirement, it produces a very high level of relative poverty among the elderly after retirement” (Myles 1988, 270). As a result, many of those previously poor individuals have moved only to a “near poor” category, with incomes ranging from just above the poverty threshold to as much as twice that level. In fact, despite OASI’s success and its progressive benefit formula, Crystal and Shea (1990) argue that Social Security does little to offset the considerable inequalities found in their “cumulative advantage–disadvantage model,” in which overall income disparities widen rather than narrow in old age. Social Security is found simply to be much less unequal than other income sources.

Lifelong inequities and the greater emphasis that welfare states—including the American—place on horizontal than on vertical equity (Barry 1990; Barr 1992; Weale 1990) underlie the vulnerabilities of the large number of near-poor elders who would otherwise be able to live marginally well. Holden and Smeeding’s (1990) analysis of sources of economic insecurity finds near-poor elders (a group Smeeding here and



elsewhere [1986] refers to as “the ’tweeners”) especially at risk to the costs of uncertain contingencies. Not only is a higher proportion of elders than nonelders in the range 1.0 to 2.0 times the poverty level, but also this group has neither the assets of the affluent nor the public assistance coverage of the poor to protect them against contingent events. For this group, in fact, even OASI can be a source of insecurity because, if other sources of income fail, the constant availability of OASI benefits may render the near-poor ineligible to receive Supplemental Security Income (SSI) as a needed supplement. Holden and Smeeding find that, of elders whose income ranges from 1.0 to 2.0 times the poverty level, 61 percent confront at least two of their five high economic risk situations, in decided contrast with persons above that income level, only 22 percent of whom face such risks and, more strikingly, with the officially poor, of whom 43 percent are similarly at risk.

House, Kessler, and Herzog (1990) extend this reasoning in examining the relation of socioeconomic status (SES) to levels of chronic illness and functional impairment. They conclude that “the vast bulk of what might be termed excess or preventable morbidity and functional limitations in the U.S. population—that is, morbidity and functional limitations prior to age 75 at least—is concentrated (both absolutely and relatively) in the lower socioeconomic strata of our society” (House, Kessler, and Herzog 1990, 401). Persons in the lowest two of four SES groups manifest levels of both chronic conditions and ADL limitations in their middle years (ages 45 to 64) that the upper groups do not reach until after age 75. The highest group is actually shown as approximating the “utopian” vision of the “squaring of the morbidity curve.” Nor does there appear to be reason to think these differentials are lessening. Using longitudinal data, Ford et al. (1992) find a new young-old cohort of low-income urban elders to be more impaired, disabled, and disadvantaged than a predecessor cohort 12 years earlier.

The data and arguments here strongly suggest that our relative success in boosting most elders above an income threshold is seriously eroded by that income’s failure to offer adequate protection against incapacities that identifiable populations bring to old age. With its relatively heavy emphasis on horizontal equity and the low priority given to highly severe and variable events, American social insurance denies needed benefits to a precarious but protectable population. The inefficiencies in our social insurance system lie not so much in whom we protect—the usual argument aimed at the Palm Springs set—but in what

we protect—reasonable income in the face of overwhelming events. In the face of non-income-based contingencies, our otherwise successful income maintenance policies are found to be too little and too late.

These data also address the variability to be found within Thomson's welfare generation, among Longman's baby boomers born to pay, and by those worried about their exposure to Social Security's uncertain future based on Kotlikoff's (1992) "generational accounting." Generations may, indeed, fare differently, but the within-generation differences may well outweigh those found across generations. Individuals born after 1965 will understandably worry about the return on, if not the existence of, their public transfer benefits, but the personal and material resources associated with high status will continue selectively to serve members of all generations.

### *Social Contingencies and Social Sectors*

Weightings of different events on the contingency scale are helpful in reconsidering the relative places of public and private insurance in the face of different risks. Currently, the lion's share of public insurance is directed toward the large beneficiary pool represented by retirement: a highly likely and low-variable event. A smaller but rapidly growing proportion of public funds supports acute health-care insurance through Medicare, and very few social insurance dollars are directed toward long-term care.

Whether the public or private sector is a more appropriate arena for assuring retirement income is an intriguing question. In part, this is because, actuarially, retirement is no longer an insurable event. If social insurance can be defined as "compensation when a claim is made upon occurrence of an event for which an insurance has been taken out" (Zollner 1982, 20), in the case of retirement income most persons now experience the event and make the claim. For many, the "insured probability" of retirement is increasingly approaching unity.

By the tenets of social insurance, however, there is nothing necessarily wrong with this—the government oversees and insures an intergenerational compact on the matter of the ability and obligation to work beyond a certain age. Doubtlessly, the federal government will continue to underwrite an arrangement of this kind. Moreover, there can be no question that, without some combination of government compulsion and incentives, a very large number of citizens would have insufficient

retirement income. Nonetheless, the numbers are such that it can be argued that the government is increasingly ensuring the place of a new status as much as it is insuring against an old risk.

In addition to the monetary cost, massive public funding of retirement income brings with it a policy cost. In the current political and budgetary climate, it can be seen as precluding the development of a needed insurance pool for more severe, less predictable, highly variable, and unevenly distributed contingencies, most notably those associated with chronic incapacities and functional limitations.

For several reasons, social insurance is better suited to this latter set of contingencies than is private insurance. By being able to insist on what, by private insurance standards, is an artificially large risk pool, social insurance overcomes—although at a cost some might consider prohibitive—the adverse selection problem that often besets private insurance. The same compulsory feature also allows a breaking of “the link between premium and individual risk” (Barr 1992, 755). As the Medicare Catastrophic Care Act (MCCA) repeal made abundantly clear, it is not an easy matter to introduce a variable premium into social insurance; it, in fact, becomes an earmarked tax (Hudson and Kingson 1991; Barr 1992). However, taxation of the Social Security benefits of higher-income retirees and the long-standing income grading of the Medicare Part A payroll tax premium show that it can be done. Finally, social insurance is better suited to long-term-care issues because its contract can be less specific than is possible in private insurance (Barr 1992). Among other advantages, it can better accommodate risks that “change over time,” an element captured by the notion of variability in the scheme proposed here.

The goodness of fit between the need for long-term care as a contingent event and social insurance as a type of response seems self-evident. The unwillingness of persons to consider the likelihood of functional incapacity has made moral hazard an enormous problem in long-term care, one of the consequences being private policies whose heavy premiums curtail access by would-be purchasers (Zedlewski and McBride 1992). Compulsory participation brings an often overlooked efficiency dimension to social insurance: acknowledging the costs of nonparticipation (Barr 1992). By breaking the link between premium and benefit, social insurance takes on its greatest importance in the case of highly severe and volatile events, like those associated with chronic illness and functional impairment. The same benefit package could be offered to

persons of different means, while handling questions of vertical equity on the financing side (higher premiums, estate taxes) rather than on the benefit side (Weiner, Hanley, and Illston 1992).

This line of reasoning provides a strong rationale for expanding and reworking public protection against chronic and impairing conditions. It also suggests the possibility of expanding private sector involvement in the highly likely and relatively nonvolatile world of retirement income. Public sector financing and regulation would continue as bedrock features of the nation's retirement income system. So, too, would inflation-adjusted benefits, "unanticipated" inflation being the great risk in income maintenance and one against which only the public sector can adequately insure (Barr 1992). With these safeguards in place, an unspecified shift in emphasis could be made in the direction of a different set of contingent events. So doing, especially in today's policy environment, could provide a substantial down payment for a program of public, long-term-care insurance.

The suggestions of several analysts speak to this point. In *Starting Even*, Haveman (1988) calls for markedly curtailing OASI while maintaining its risk-sharing and intergenerational transfer features. All earners would continue to participate in the system and all would receive a standard OASI benefit pegged at some point in excess of the poverty line. However, arguing that there is no need for forced savings for individuals with significant existing or potential additional income flows, Haveman proposes education and incentives to encourage individuals to save for meeting consumption needs and preferences above the basic amount.

Judge (1987) makes essentially the same argument in the case of Great Britain, and he uses predictability as a basis for promoting private involvement. His generalization does not, however, incorporate the refinements suggested here:

Demands for many social care services are contingent upon some risks which are highly predictable. This is particularly true with respect to the elderly. In principle, therefore, provision for such services could be organized through private insurance markets. (38)

A proposal by Chen (1990) is less encompassing than those suggested by Haveman and Judge, but nevertheless implicitly acknowledges the differential contingencies of aging described here and explicitly endorses

the substitution idea. He calls for "trading off" some pension income in exchange for greater long-term-care coverage. In so doing, he is open to these trade-offs occurring through either public or private sector pension coverage.

### *Contingency Analysis as the Preferred Approach*

The contingency approach is a functional, not a population-centered one, and although a move in this direction need not eliminate age-based criteria, it does suggest greater benefit selectivity within groups and opens the possibility of applying the same event-based criteria across heretofore separate populations. Following this route will be extremely difficult politically, and, in fact, the slow demise of the retirement test under Social Security suggests that we are taking the opposite course. Nonetheless, eligibility determinations are becoming increasingly selective. In the case of long-standing age-related programs, targeting within the OAA (O'Shaughnessy 1990) and "buy-in" options under Medicaid (Rivlin and Weiner 1988; Tanenbaum 1989) are two of the most recent examples. Both of these efforts recognize the different risk profiles of individuals potentially eligible for program benefits. That the OAA effort is about tightening the eligibility process and the Medicaid buy-in option is about expanding the beneficiary pool (what Tanenbaum refers to as "entitlement through accretion") should not hide the common concern: aligning events and responses more exactly.

Assigning weights to different needs allows for the maintenance of a legitimately large beneficiary pool while highlighting concern with adequacy of response. The contingency approach can serve to refine this "targeting within universalism" approach (Skocpol 1991; Hudson and Kingson 1991) by suggesting both more appropriate targeting of benefits and reassessment of how protected groups should be constituted. Our most successful instance of targeting within universalism to this point has been in retirement income. The benefit formula favors lower-income workers and program financing now includes, in addition to the payroll tax revenues from future retirees, partial taxation of higher-income retirees' benefits.

Laudable as these features may be from a social insurance perspective, the argument here is that such weighting is more imperative in acute

and especially long-term care than it is in retirement income. Highly severe, unpredictable events that can destroy people financially demand both the most extensive group and the most progressive financing formula. The lesson from the MCCA episode in this context—beyond the flawed benefit package—was not only that the surtax may have been too steep but that the group—older people—was too small or, more precisely, too adversely selected. Although not discounting the political difficulties in moving on this front, a “revisionist” MCCA might have broadened the covered group beyond the old, funded by some combination of payroll tax revenue, scaled premiums, and “transfers” from broader—but progressive—taxation of Social Security benefits.

The contingency approach is responsive to growing opposition to the size and distribution of current old-age entitlements, but avoids the means-testing alternative most commonly put forth by critics of universal programs. Those who have not been impacted by a “negative outcome” receive nothing; those who have are provided with protections before they slip into impoverishment. In these and less extreme cases, the contingency approach represents something of an optimal course between residual, noncontributory, and stigmatizing means-tested programs on the one hand, and target-inefficient, morally hazardous universal or citizenship-based programs on the other.

Clearly, a major debate must take place about negative outcomes, especially how to assess responsibility for different types of outcome. My analysis suggests that in the case of health-care costs, especially those for long-term-care, risk pooling is essential and the social insurance approach has distinct advantages. Ironically, this analysis also suggests that the area in which social insurance has made the greatest difference—retirement income—is where some reassessment is in order. Might not modifications in the payroll tax’s allocational formula away from consumption income toward more episodic and potentially catastrophic events target needed benefits and distribute costs in a manner preferable to current policy? Might not extending downward the taxation of Social Security benefits and dedicating some or all of those revenues to a public long-term-care insurance fund be preferable to bolstering OASI? There are, in short, some events against which no one should be expected to bear the burden either individually or privately, whereas others contain more of a mix and the public sector role could be modified accordingly.

## Conclusion

Rethinking risks or contingencies in old age can improve the pattern of allocation that is currently in place. Principal improvements would include:

1. providing a rationale for appropriately placing functional impairments and the need for long-term care on the social insurance agenda
2. heightening the efficiency of universal programs while avoiding the stigmatization of means-tested ones
3. serving to defuse the elements of the intergenerational conflict debate by emphasizing events over populations

In this article, I have intentionally focused on the aged because dealing with the shifting array of accomplishments, needs, and costs associated with "the pension state" is the primary task in any substantial reworking of social welfare expenditures. The contingency scheme described here, however, could well be applied to issues of single-parent families and functional impairments that are not age specific, among other pressing issues. My hope is that rational discourse can inform political debate.

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