

# Improving Old-Age and Survivors Insurance

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*Testifying before the House Committee on Ways and Means, now holding hearings on the need for amending and extending the Social Security Act, the Chairman of the Social Security Board on February 25 made the following statement on old-age and survivors insurance.*

THE FEDERAL old-age and survivors insurance program is the only part of the Social Security Act which is administered wholly by the Federal Government. Employers and employees have each been making contributions of 1 percent of taxable wages since January 1, 1937. Under the original provisions of the Social Security Act, monthly benefits would not have been payable until January 1, 1942; the 1939 amendments, however, advanced that date to January 1, 1940. The 1939 changes also resulted in the payment of more adequate benefits during the early years of the system's operation. Above all, the amendments added dependents' benefits and survivors' benefits so that now, in addition to the payment of old-age benefits to workers themselves, monthly benefits are also payable to the aged wife and young children of a living beneficiary and to the widow, children, and, in some cases, the dependent parents of an insured worker who dies. Just as contributions are paid on the basis of wages received, so these benefits are paid on the basis of the past wages of the insured worker and thus compensate for a portion of the wage loss sustained by his retirement or death.

I believe that the Ways and Means Committee has a right to be proud of the way this law has functioned to date. At the present time there are 1.3 million aged persons, widows, and orphans receiving monthly benefits. By the end of this present calendar year the number will probably have increased to almost 2 million.

This Federal old-age and survivors insurance system constitutes the largest permanent insurance system in the world. Therefore, unprecedented problems have been encountered in putting it into effect. However, all of these administrative problems have been solved. The total cost of administration at the present time is about 2 percent of contributions col-

lected and about 10 percent of benefit payments. We confidently expect that, as benefit rolls increase, the cost of administration will decline to less than 5 percent of benefit payments.

At the present time over 84 million individual worker accounts have been established.

There can no longer be any question as to the effectiveness and practicality of this Federal old-age and survivors insurance system. However, the years that have passed have indicated various ways and means in which it could be improved and also demonstrated that its benefits could be extended to cover all gainfully employed persons, including the self-employed.

## Liberalization of Benefits

The level of benefits provided in the existing law was enacted in 1939. Since 1939 the cost of living has increased by at least one-third. Average wages of individuals under the insurance system have increased by nearly 50 percent (from \$881 in 1939 to \$1,300 in 1945). Various studies by the Board have shown that the present benefits were inadequate even before these increases in cost of living and wages.

Among the changes which the Board recommends for consideration is a modification of the benefit formula so as to represent a larger proportion of the wage loss sustained by claimants, particularly those with low earnings.

The Board also believes that the wage base for both contributions and benefit-computation purposes should be the first \$3,600 in taxable earnings in a year, rather than the first \$3,000. Such a change would recognize the general increase in wage levels and would result in benefits representing a somewhat larger proportion of the wage loss actually sustained by families in middle income brackets.

Certain items of income, such as tips and dismissal wages, which are

now not considered "wages" under the definition in the act should be included as wages, so that the base for benefits would represent the worker's actual earnings from employment.

The Board also believes that certain changes should be made in the provisions governing minimum and maximum benefit amounts. A reasonable standard of adequacy would seem to require a higher minimum benefit for an eligible worker than the present \$10 a month, even though most workers would have earnings that would qualify them or their survivors for more than the minimum amount.

At present, the maximum total amount payable to the worker and his dependents is \$85 a month, twice the primary benefit amount, or 80 percent of the average monthly wage of the insured worker, whichever is least. The Board believes that the \$85 maximum limit should be raised and that the second limitation of twice the primary benefit (which is the amount payable to a worker without dependents) should be eliminated. The chief effect of these changes would be to provide more adequate benefits in the case of a widow with several children.

It has been well established that women retire from gainful employment at an earlier age than men. It is also well known that wives are ordinarily younger than their husbands. Of the married men who reach age 65 each year, less than 20 percent have wives who also have reached age 65. The age requirement is lower for women than for men in many of the social insurance programs of foreign countries and also in many of the retirement systems established in this country by various State and local governments and private concerns. The Board therefore recommends that consideration be given to reducing the age at which women may qualify for a retirement benefit or a wife's benefit from 65 years to 60 years.

The law now provides a small lump-sum payment if there are no surviving dependents entitled to monthly benefits at the time of the worker's death. The Board recommends that this small lump sum be paid whether or not there are surviving dependents entitled to monthly benefits, since the need for it is as great in either case.

Under the existing law, benefits are suspended for any month in which

## Improvement of Existing Benefits

**More Adequate Benefits.**—The cost of living and wage levels have increased substantially since 1939, when the present law was enacted. Increased cost of living makes benefit amounts less adequate. Increased wage levels mean that the benefits now paid represent a smaller proportion of the wage loss sustained. The following changes in the benefit provisions are suggested to adapt the benefits to these changed conditions:

**Basic Benefits.**—The present formula might be changed to 40 percent of the first \$75 (instead of \$50) of average monthly wage, plus 10 percent of the remainder up to \$300 (instead of \$250).

**Minimum Benefit.**—If the change suggested above is made in the benefit formula and the average monthly wage is redefined as proposed below, the amounts payable to most individuals would be no less than \$20. If the minimum primary benefit were set by law at \$20 (instead of the present \$10) this would assure a man and wife a minimum combined benefit of \$30.

**Wage Base.**—At present only the first \$3,000 of wages in a year is counted for benefit purposes. If this amount were raised to \$3,600, it would permit a larger number of persons to have all of their wages counted and would thus increase benefits for higher-paid employees.

**Maximum Benefit.**—The present law limits benefits to \$85 per month, twice the primary benefit amount, or 80 percent of the average monthly wage of the employee, whichever is least. A higher maximum dollar amount, such as \$120, would reflect the increase to \$3,600 in the maximum annual earnings credited and would recognize the desirability of providing a wide range of benefits under a program of contributory insurance. Omission of the requirement that the family total must not exceed twice the primary benefit amount would provide more adequate benefits when a number of dependents survive.

**Modifications if Coverage Is Extended.**—Extension of the program to cover additional occupations would call for changes in eligibility and average monthly wage

provisions to reduce the handicap which newly covered workers would otherwise suffer.

**Average Monthly Wage.**—Under present law, benefits are based on wages averaged over all months since 1936. Lack of wages in insured employment in any period reduces the average to an excessive degree when, as in the early years of the program, the period of coverage is short. To avoid this, the average wage could be determined by relating it only to those periods when the worker's earnings exceeded a certain amount. In order to afford reasonable recognition of the length of time a person contributed to the system, the benefits might continue to be increased by 1 percent for each year of coverage, as is now the case, and reduced by 2 percent for each year the worker was out of covered employment.

**Eligibility.**—To be fully insured a worker must have been paid wages of at least \$50 in half the calendar quarters elapsed since 1936 or since age 21. This requirement would be difficult for newly covered workers to meet. Thus, if farmers were brought into the system as of January 1, 1947, it would take a farmer who had never worked in insured employment previously, 10 years before he could qualify for an old-age retirement benefit. Therefore, to make it easier a worker might also be deemed to be insured if he had covered wages of \$200 in at least 5 of the 10 years before retirement or death.

**Retirement Test.**—Benefits under the existing law are not paid for any month in which a person earns at least \$15. In view of increased wage levels, a person who earned no more than \$30 might be considered outside regular employment and therefore in need of his benefit payments.

**Age of Eligibility.**—The age for women might be reduced to 60. Since wives are, on the average, about 5 years younger than their husbands, this change would in most cases permit the payment of supplementary benefits to the wife at the time the wage earner retires. Women wage earners and aged widows should be eligible at the same age as wives.

the beneficiary earns more than \$14.99 in covered employment. The amount of permissible earnings could well be increased without fear that beneficiaries will encroach on the job opportunities of regular, full-time workers. The Board believes that earnings of \$30 a month should be permitted without suspension of benefits.

## Simplification of Administration

Administration of the benefit provisions of the Federal insurance sys-

tem has brought to light a number of ambiguities and anomalies which need correction. Some of these anomalies result in unintentional and unnecessary injustice to claimants. Experience has also demonstrated administrative complexities which can be eliminated or reduced by minor changes in the law.

One example of both hardship to deserving individuals and administrative complexity is the provision that lump-sum death benefits must be paid to relatives if such relatives exist, even where they were not living with the

wage earner and when his burial expenses have been borne by others. There are many delays in locating relatives, and sometimes payments must be withheld because of the unknown whereabouts or the possible existence of a relative with legal rights preceding those of the individual who filed a claim for the benefit. The Board recommends that the provision for lump-sum benefits be modified so that payment will be made to a spouse living in the same household or, in the absence of such spouse, to any individual equitably entitled to

the benefit by reason of having paid the burial expenses.

### Benefits for Permanent Total Disability

Disability is among the important causes of insecurity. On an average day of the year, about 3½ million persons are suffering from disabilities which have already lasted 6 months or more. About 1½ million of these persons are in the ages between 15 and 65 and, but for their disability, would

have been engaged in productive work. Disability is one of the major causes of dependency. A study made by the Board, covering a large sample of urban families, shows, for example, that in 70 percent of the households where the head of the family was disabled, per capita income was less than \$250 a year. The extent to which dependency is due to invalidity is evidenced also by State reports to the Board, which show that nearly one-fourth of the children granted aid under the assistance program are the

children of disabled fathers. Various State and local studies have found that even larger proportions of recipients were receiving general relief primarily because of dependency resulting from the disability of the breadwinner. The cost of dependency falls largely on the public purse.

These and other studies leave no doubt that a comprehensive program of social security must protect families and individuals against loss of earning capacity by reason of disability. It is significant that every other country in the world which has an old-age retirement program provides for retirement necessitated by chronic or permanent disability.

On the basis of extended study and of the actual experience in the payment of monthly benefits since January 1, 1940, the Board strongly recommends the inclusion of permanent total disability insurance in the Federal system.

### Extension of Coverage

If the old-age and survivors insurance system is improved in accordance with the foregoing suggestions, it becomes increasingly desirable and necessary that the coverage of the system be extended as widely as possible, since the whole population of this country is subject to these hazards in varying degrees.

The present Federal old-age and survivors insurance program covers, with certain important exceptions, employers of one or more employees. Despite these exceptions, social security account cards have already been issued under this program to more than 84 million persons, of whom 73 million already have had some wage credits posted to their accounts because of work in insured employment. It is apparent from these figures that a large proportion of the gainfully occupied population already has some measure of protection against old age and death. However, it is also apparent that many persons pass back and forth between insured employment and uninsured employment. In 1944, while only 31 million individuals were engaged in insured employment at any one time, over 47 million individuals worked in insured employment during the course of the year.

### Permanent Disability Benefits

*Need for Disability Protection.*—The loss of income suffered by a family when the breadwinner is stricken with a serious and long-lasting disability is fully as great as in cases of old age or death. On any one day about 1.5 million workers are suffering from major disabilities that have lasted 6 months or longer. The desirability of providing cash insurance benefits in such cases is reflected by the disability benefit provisions incorporated in all of the old-age insurance systems of foreign countries. In this country, many plans, both public and private, contain disability provisions.

*Scope of "Permanent" Disability Benefits.*—Monthly cash benefits would be payable to insured workers who are afflicted with serious disabilities which have lasted 6 months or more.

*Concept of Disability.*—Disability benefits should be payable only if there is a substantial loss of earning capacity for work in general. They should be payable only if the worker is found incapable of earning more than a given amount at any work which he might reasonably be expected to do.

*Eligibility Conditions.*—To receive benefits, a disabled worker would have to be insured. The insurance requirement should be a test of both substantial and fairly recent covered employment. As in the case of old-age benefits, disability benefits would not be paid for any month in which the beneficiary earned more than the amount permitted under the retirement test. Also, benefits would be terminated if recovery occurred.

*Types and Amounts of Benefits.*—The disabled worker should receive a monthly benefit computed in the same way as the benefit of an aged retired worker. The wife and children of a disabled worker should also receive benefits. Their benefits should be computed in the same way as benefits for wives and children of retired workers.

*Integration With Old-Age and Survivors Insurance.*—Under the existing program a period of nonemployment due to disability reduces the benefits for which the worker or his family may subsequently qualify, and may cause the complete loss of insurance protection. Were disability benefits added, the worker's insurance protection would be maintained during a period of disability. The facilities of the Bureau of Old-Age and Survivors Insurance, including the wage records and the field organization, would be available for the administration of disability benefits.

*Vocational Rehabilitation.*—Expenditures for rehabilitation should be authorized from the trust fund to rehabilitate the disabled workers vocationally where a promise of success exists. If the rehabilitation is successful, the payment of benefits can be discontinued.

## Extension to All Gainful Employment

*General Desirability.*—Because of their low incomes, many of those who do not now have coverage under old-age and survivors insurance have little chance to make individual provision against the risks covered by this Federal insurance system. Some of them work at times in employment covered by the present system but do not do so sufficiently to gain an insured status and so derive nothing from the contributions they have paid. Extension of coverage to all gainful employment (including self-employment) would furnish the basic protection of the program to all members of the labor force, regardless of type of work or changes in jobs.

While some now excluded workers are already covered under special benefit systems, they would gain not only a continuity of protection but also survivorship and disability protection, which seldom are provided in limited plans. An extension of old-age and survivors insurance coverage to groups now covered by special systems would not involve the dissolution or merging of such systems. They would no doubt be adjusted to provide supplementary protection while continuing to operate independently of the basic system, as in the case of the supplementary retirement systems operated by private employers.

*Agricultural and Household Wage Workers.*—Workable solutions have been developed for the administrative problems of covering agricultural and household workers. Reporting of wages and the paying of contributions could be accomplished either by a stamp method or through employer reports. The problem of evaluating noncash wages, such as meals and lodging, could largely be met by use of a schedule of presumed values. It would be advisable to exclude unpaid family labor and exchange labor among farmers.

*Employees of Nonprofit Institutions.*—No administrative problems are involved in covering nonprofit employees. If desired, the exclusion of clergymen and members of religious orders might be continued. The legislation might also contain a reassurance that coverage of nonprofit employment should not be construed

as violating the traditional tax-exempt status of nonprofit organizations.

*Members of the Armed Forces.*—A permanent extension of coverage to members of the armed forces, if adopted, should probably be retroactive to the beginning of the war emergency. If a limited plan, designed to solve only the immediate problems, is desired, a guaranteed insured status, with guaranteed minimum benefits, might be provided for all World War II veterans from the time of discharge (which is when survivorship protection under veterans' legislation is usually lost) until the time old-age and survivors insurance protection would otherwise be regained.

*Federal Civilian Employees.*—An extension of coverage to civilian employees of the Government, coupled with appropriate adjustments in the civil-service retirement system, would be of substantial value to most workers and need not cause a loss of benefits to any. The administration of the revised civil-service system would remain completely apart from the Social Security Board. Should coverage extension in this area be deferred, it might be desirable to provide a period of guaranteed protection for war-duration employees, as might be done for members of the armed forces.

*Employees of State and Local Governments.*—The constitutional question involved in levying a tax against State governments could be met by authorizing the Social Security Board to enter voluntary agreements with States for the coverage of their employees. Local governmental units could participate in the State agreements. Compulsory coverage might be provided for some groups of proprietary employees.

*Railroad Workers.*—Through appropriate adjustments in the railroad retirement system, railroad workers could gain substantially improved protection if basic coverage were provided for them under old-age and survivors insurance. As in the case of civilian Federal employees, no loss to any railroad worker need be involved.

*Self-Employed Persons.*—A separate statement describes one way in which the self-employed could be covered under old-age and survivors insurance.

Since the amount of a benefit depends to a considerable extent upon the length of time an individual actually works in insured employment and the amount of his earnings in such employment, persons who pass in and out of insured employment get lower benefits than they would have, on the basis of the same amount of total earnings, if all their work had been in insured employment. Persons who always work in uninsured employment are unable, of course, to develop any benefit rights whatsoever.

The main groups now excluded are

agricultural laborers, domestic servants, employees of nonprofit organizations, public employees (Federal, State, and local), and self-employed persons, including small businessmen and farmers.

### *Agricultural Labor and Domestic Service*

Between 4 and 5 million agricultural workers and about 2¼ million domestic servants are excluded from old-age and survivors insurance. These two are the largest and most necessitous groups of the workers now

unprotected. A principal reason for exclusion of these two groups was the administrative difficulty due to the large number of small employers involved and the fact that most of these employers do not keep books and would find difficulty in making reports. On the basis of studies made during the past 7 years, the Board believes that it is administratively feasible to extend coverage to these groups through the use of a stamp-book system. Under such a system each employee would receive a stamp book in which stamps would be placed

by his employer to evidence contributions made by the employer and the worker. In rural areas the employer could purchase these stamps from the mail carrier, and in urban areas they could be purchased at post offices. A stamp plan could be used also by smaller industrial and commercial establishments which found it more convenient.

If the Committee does not consider it advisable to extend coverage to all agricultural workers at this time, the Board strongly recommends that at least the language of the present exception relating to "agricultural labor" be modified to make certain that this exception applies only to the services of a farm hand employed by a small farmer to do the ordinary work connected with his farm. The wording of the present exception relating to agricultural labor excludes from the system employment by large-scale operators of a commercial and industrial character who employ 600,000 to 700,000 individuals during the course of a year. Many of these excluded workers are not engaged in "agricultural labor" in the usual sense of the term. Many of them work in towns and cities and are engaged in processes identical with or similar to those performed by workers in factories and in industries now covered by the Social Security Act. For instance, more than 15,000 of the workers excluded by the agricultural exception are carpenters, painters, engineers, bookkeepers, accountants, and the like. About 10,000 additional persons are employed in grain elevators, while some 40,000 work in cotton gins. Another 125,000 persons so excluded are employed at the peak of the season in packing fruits and vegetables. Thousands of persons employed by large-scale business firms (such as chain stores or commission houses), which purchase and harvest the entire crop of many farmers, are also excluded. The extension of coverage to these quasi-industrial and commercial employees would not raise any of the problems which arise in connection with coverage of the ordinary farm worker.

#### *Employment by Nonprofit Organizations*

The Board also recommends the inclusion of service performed for religi-

### Coverage of the Self-Employed

*Present Status.*—The majority of self-employed persons are just as much in need of old-age and survivors insurance protection as are wage earners. A number of social insurance programs in foreign countries now cover the self-employed. Many self-employed persons now pay contributions on behalf of their employees covered under the program, and so are very conscious of their own exclusion. The owner of a business large enough to be incorporated acquires protection as an officer of the corporation, but the owner of a small unincorporated concern has no similar advantage. Moreover, many self-employed persons work at times as wage earners but fail to build up and maintain an insured status because their income from self-employment is not credited toward such status. Experience gained in the administration of the present law has made it possible to develop adequate methods of meeting the problems involved in coverage of the self-employed. One such method is outlined below.

*Reporting.*—Contributions and benefits would be based on income from self-employed activity. For both the self-employed and the Government, the simplest way of reporting such income is as a part of the income-tax return. The integrated returns would be for a calendar year and would be due on March 15 of the following year, as at present. Income would be reported on either a cash or accrual basis, depending on the method selected by the taxpayer for income-tax purposes. Social security reporting should be required only from persons with annual gross income of \$500 or more (exclusive of income in kind for home use) and contributions required only from those whose "net income from self-employment," as defined below, is \$200 or more. Consistent with the provisions for employees, the maximum net income from self-employment on which contributions would be payable for any calendar year would be \$3,600, less the amount of any covered wages received during that year.

*Contribution Rate.*—To avoid undue burdens upon the low-income self-employed, the contribution rate on income from self-employment should be only the employee rate on the first \$500 of annual net income from self-employment and the combined employer-employee rate on all such income in excess of \$500 up to the maximum.

*Definition of Net Income From Self-Employment.*—Net income from self-employment could be determined on the basis of three figures already included in the income-tax return, namely: income from rents and royalties (Schedule B of the Individual Income Tax Return), income from business or profession (Schedule C), and income from partnerships (Schedule E).

*Retirement Test.*—Under the present program, old-age benefits are paid only if the beneficiary substantially retires from employment. The worker who continues at his job suffers no economic loss and so can be presumed not to need benefits. The self-employed person should likewise not receive benefits unless he has substantially retired from gainful activity. If his annual income from self-employment were \$360 or less, the individual would be presumed to be retired. Also it would be presumed that for each \$30 of income in excess of \$360 there was no more than 1 month of activity. Since the contribution base will in some cases include income from investment, as well as income based directly on work or activity, such investment income will continue to be reported even though the person who receives it has actually retired. Hence, if the amount of income from self-employment exceeds \$360, benefits will be withheld for each \$30 in excess thereof only if there has been substantial activity directed toward the production of such income.

ous, educational, charitable, and similar nonprofit organizations. No administrative difficulties would be involved in extending coverage to these groups.

### *Public Employment*

The Board believes that it would be highly desirable to extend the basic protection of the social insurance system to all public employees—Federal, State, and local.

Special retirement systems now cover approximately two-thirds of all public employees. While it would be possible to revise these special retirement systems so that their benefits would be superimposed on those payable under the basic social insurance system, such a revision is a complicated process and would of course have to be made in such a way as to increase, not reduce, the total protection afforded to public employees. The Board, therefore, recommends that in the case of Federal employees, if agreement cannot be reached as to the necessary adjustments in the existing Federal retirement systems, at least the Federal employees who are not protected by an existing retirement system be covered under the basic old-age insurance system.

In the case of State and local employees, the Board sees no major administrative difficulties in permitting the governmental units employing sufficient numbers of such persons to be covered voluntarily, provided there are proper safeguards to protect the social insurance system against adverse selection.

### *Railroad Employment*

At present, employment within the railroad industry and outside the railroad industry is considered separately, with the result that many such workers who engage in both types of employment either acquire no rights under the old-age and survivors insurance system or have their benefit rights reduced.

The Board believes it is most important that consideration be given to coordinating the basic old-age and survivors insurance system and the railroad retirement system so that persons whose employment during their working life has been divided between the railroad industry and

other industries will not suffer a loss or diminution of benefit rights.

### *The Self-Employed*

The Board recommends that consideration be given to extending to self-employed persons the protection of the old-age and survivors insurance system. However, if this protection is not extended to all the self-employed, the Board suggests that consideration be given to at least one segment of this group which could readily be covered immediately. This segment comprises the employers who will be regularly reporting wages and making contributions on behalf of their employees. Since such employers are already sending in the necessary earnings reports and contributions for their employees, no serious administrative problems would be involved in extending coverage to them.

### *Disadvantages Suffered by Newly Insured Groups*

If the Committee acts favorably on the Board's recommendations relative to broad extension of coverage of the old-age and survivors insurance system, it will be necessary to adjust the eligibility requirements and the method for determining the average monthly wage upon which benefits are based so that the newly insured groups will not be unduly disadvantaged because of their late entrance into the system. As the law now stands, a person who has not been working in insured employment for roughly one-half of the time since the law went into effect on January 1, 1937 (or one-half the time since the date he became 21 years of age, if that date is later), is not fully insured and therefore not entitled to an old-age retirement benefit. Therefore, if farmers were now brought into the system as of January 1, 1947, it would take a farmer, who had never worked in insured employment previously, 10 years before he could qualify for an old-age retirement benefit. Even at the end of 10 years the average monthly wage would be one-half of the average wage he had earned during that time, since his wages during that time would have to be averaged over the whole period since January 1, 1937, namely 20 years. The Board is prepared to submit various alterna-

tive proposals which would help correct both of the foregoing types of inequities.

### *Protection of Veterans*

If the old-age and survivors insurance program were extended to include all Federal employment, both in the civilian and military establishments, soldiers and civilian employees would have the basic protection of this system at all times. It would also be possible to provide additional special protection on a consistent and certain basis. Any other approach to the problem of providing protection to soldiers and civilian employees of the Federal Government inevitably results in some gaps, overlaps, anomalies, and administrative difficulties.

The lapse of time since millions of persons entered military service and the fact that many millions have already left military service create additional problems which make it impossible to arrive at an ideal solution. Besides the approaches outlined in the report of the Ways and Means Committee staff, there is another possible approach which would provide protection during the critical period following the termination of military service, when the veteran may have lost the protection of veterans' benefits and not have acquired the protection of the old-age and survivors insurance system.

As regards the sacrifice of rights under the old-age and survivors insurance system suffered by persons who entered the armed forces, a distinction can be made between the period of active military service and the period following active military service. During the period of active military service they have the continuous protection of veterans' benefits in case of death. That is to say, all deaths, whether occurring on active duty or on authorized leave, are considered service connected unless they are due to willful misconduct. The term willful misconduct has been liberally construed. Thus, venereal disease is not presumed to be due to willful misconduct if the person in service complies with the Army or Navy regulations requiring him to report and receive treatment. Survivors, with rare exceptions, would be entitled to benefits more adequate

## Financing

*Strengthening the Actuarial Basis of the Program.*—The Board's recommendations for changes in the coverage of the old-age and survivors insurance program should strengthen the actuarial basis of the program both in the immediate years ahead and in the long run. Contribution income of the program would be increased while at the same time the relative cost of insurance benefits paid to the group of individuals who move between uninsured and insured employments would be reduced. Although it would be necessary to expand the income of the system to meet the cost of the various benefit recommendations, the added disbursements would be relatively low at the outset and would rise slowly but steadily.

*Costs of the Program.*—The present rate of 1 percent each, payable by employers and employees, is probably sufficient to cover the total costs of the expanded program for the next 5 years or more. Increasing the premium rate to 2 percent each would probably provide enough revenue to cover disbursement for 10 years or more. Annual expenditures might eventually be 1 percent to 2 percent of pay roll higher than the estimated costs of the present program.

The best information now available suggests that with practically complete coverage the average cost of the expanded old-age, survivors, and permanent disability program over the next 50 years might be in the neighborhood of 7 percent. However, it must be emphasized that the cost figures are subject to a considerable margin of error. Changes in economic conditions, death rates, birth rates, and rate of retirement may result in substantial changes in the relationship between receipts and disbursements.

*Long-Run Financial Plan Essential.*—A long-range plan should be developed to assure that ample funds will be available to finance the benefit disbursements not only in the years immediately ahead but in the more distant future, without necessitating abrupt changes in premium rates.

*Division of Costs.*—With practically complete coverage of the gainfully employed and their dependents, a Government contribution toward financing the program becomes equitable and appropriate. A Government contribution toward the program would be partly offset by the reduced public costs for public aid, particularly because of the inclusion of permanent disability benefits. The Board believes that distribution of the ultimate cost of these benefits among employers, employees, and the Government should be made in the light of the degree to which coverage is extended and the financing of other types of social insurance benefits.

than those now provided under the Federal old-age and survivors insurance system. Therefore, it might be said that the veterans have protection equivalent to that which they had developed or would have developed under the Federal old-age and survivors insurance system if they had remained in insured employment.

However, during the period immediately following active military service there is great possibility that, in case of death, survivors would not be entitled to any veterans' benefits and, at the same time, the veterans would

not have the old-age and survivors insurance protection which they would have developed if they had been working in insured employment. Therefore, their survivors might fail to receive benefits under either veterans' legislation or the Federal old-age and survivors insurance system. This is because it takes a year and a half of insured employment to acquire "current insurance" status under the Federal old-age and survivors insurance system, if that status has been lost.

The fact that persons in military service are in uninsured employment

rather than insured employment also affects the amount of benefits under the Federal old-age and survivors insurance system. However, it will be recalled that the Board has recommended that the disadvantages suffered by newly covered groups, such as farmers, be corrected by an adjustment of the formula for determining eligibility and amount of benefits. If the Board's recommendation is followed, it would also protect servicemen from suffering material diminution in their benefits because of their military service.

Therefore, the chief problem, so far as affording servicemen and women the protection of the Federal old-age and survivors insurance system is concerned, is to make certain that survivors' benefits are payable during the period immediately following active military service when they will not yet have had an opportunity to build up survivors' benefit rights under the Federal old-age and survivors insurance system. One method would be to provide that, in case of any death to a serviceman or woman occurring during a fixed period following discharge, survivors would be guaranteed benefits under the Federal old-age and survivors insurance system based on an assumed average monthly wage, such as \$160.

## Costs

It has been estimated that the most probable range in the average long-run cost of the benefits now provided is 4 to 7 percent of covered pay rolls. Such actuarial estimates must be presented within a wide range since nobody can predict accurately future economic conditions, mortality rates, population growth, retirement rates, and many other such factors upon which actuarial estimates must be based.

One fact is clear, however. The present old-age and survivors insurance law provides for the payment of primary benefits of 40 percent of the first \$50 in average monthly wages and 10 percent of the remaining amount up to \$200 additional. As an individual's wages increase, he always receives a larger benefit, but this benefit represents a smaller proportion of his wages as wages increase. For



instance, the individual receiving average wages of \$100 per month receives basic old-age insurance benefit of \$25 per month or 25 percent; the \$250 per month individual receives \$40 per month which represents 16 percent. Thus, as the average wages of insured persons increase, the relative costs of the present benefits will decrease as a percentage of pay roll. At the present time the average wages of persons contributing to the insurance system are substantially higher than the average wages assumed in making the actuarial cost estimates in 1939. This single factor results in a

reduction in the relative costs of the insurance plan. In addition, comprehensive coverage would cover all the wages of many individuals who are already under the insurance system part of the time, thus increasing their taxable wages and reducing the relative cost of the insurance plan.

Therefore, while it will be necessary to increase somewhat the income of the system to meet the cost of the various additional benefits recommended, the added disbursements will be relatively low at the outset and will rise slowly. The present rate of 1 percent each payable by employers

and employees would probably be sufficient to cover current costs of an expanded program for the next 5 years or more. Increasing the rate to 2 percent each would probably provide enough revenue to cover current costs for 10 years or more. The Board believes that a decision on distribution of the ultimate cost of these benefits among employers, employees, and the Government should be made in the light of decisions concerning extension of the coverage of the insurance system and the allocation of the costs of the other types of social insurance benefits.

*(Continued from page 2)*

disputes, which caused shortages of materials and consequent lay-offs in plants not directly involved in the disputes. Somewhat more than 1.2 million initial claims were filed during the month; less than one-fourth, however, were filed by persons entering a second or subsequent spell of unemployment during their benefit year. From August 1945, when such "additional" claims constituted 10 percent of all initial claims, the proportion had increased each month to 30 percent in December. The decrease in January would indicate that, for the country as a whole, fewer of the jobs obtained after the first lay-off had proved to be temporary. Continued claims rose in January to a new high of 8.2 million, nearly a million more than the previous high in July 1940. Payments for all types of unemployment aggregated \$134 million, \$27 million more than in December, and the weekly average number of beneficiaries was estimated at 1.6 million or 319,000 more. During the week ended January 12, claimants represented 7.2 percent of average monthly covered employment in the Nation, as against 6.2 percent in December.

IN OLD-AGE and survivors insurance, 46,000 monthly benefits were awarded in January, almost half of them pri-

mary benefits; a year earlier, 31,700 had been awarded, and only about one-third had gone to retired workers. Some 42 percent of the 1.5 million beneficiaries for whom benefits, at a monthly amount of \$28.1 million, were in force at the end of January were retired workers. Increase in the number of primary benefits awarded since the end of fighting in the Pacific reflects the fact that industry has less need of older workers and there is less pressure and inducement for them to remain at work; from more than half of all benefits in force in January 1941, the ratio of primary benefits to all benefits dropped slowly but continuously until July 1945, when it was only 40 percent.

IN PUBLIC ASSISTANCE, the number of recipients increased in January under all programs, for the fourth consecutive month. The rise in general assistance, 7.3 percent, was not only the largest among the programs but also the largest proportionate increase in general assistance since the war began. Reports from large cities throughout the country, moreover, indicate sharp increases in requests for assistance. In all programs, average payments were somewhat higher than in December. The total amount expended, \$90 million, was \$1.9 million more than the December amount.

### *Supreme Court Rules on Back Pay as "Wages"*

In an 8 to 0 decision, the U. S. Supreme Court ruled on February 25 that back pay awarded under the National Labor Relations Act to an individual who was, before his discharge, an employee under the Social Security Act must be treated as "wages" under the act in computing the individual's old-age and survivors insurance benefits.

The case arose over a finding by the National Labor Relations Board that a Ford Motor Company worker had been discharged for union activity. The NLRB ordered him reinstated, with a lump-sum payment of \$3,500 as back pay. Suit was brought to compel the Social Security Board to allow this amount as wage credits, after the Board had ruled that the lump-sum payment did not constitute "wages" within the definition of the act. The District Court of the United States for the Eastern District of Michigan upheld the Board's ruling, but the decision was reversed by the Circuit Court of Appeals, Sixth Circuit. In holding that the back pay is to be treated as "wages," the Supreme Court also ruled that it should be allocated to the periods when the regular wages were not paid as usual.