

## APPENDIXES—OLD-AGE AND SURVIVORS INSURANCE

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### APPENDIX I—A. THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

As stated in its recommendations, the Council does not favor a full reserve plan sufficient to cover all liabilities. Under a contributory system of old-age and survivors insurance, however, qualifying requirements—even though liberal—unavoidably result in lower benefit disbursements in the early years of operation than in the later years. If contributions in the early years were no more than sufficient to cover disbursements, they would be so small in relation to benefit rights currently being established that the system could scarcely be called contributory. For example, on a strictly current-cost basis, contribution rates at present could not be set above 0.3 of 1 percent of pay roll for employers and 0.3 of 1 percent of pay roll for employees. The contributory nature of the system, therefore, inevitably develops at least a limited reserve.

This reserve has been invested in United States Government securities, which, in the opinion of the Council, represent the proper form of investment for these funds. We do not agree with those who criticize this form of investment on the ground that the Government spends for general purposes the money received from the sale of securities to that fund. Actually such investment is as reasonable and proper as is the investment by life-insurance companies of their own reserve funds in Government securities. The fact that the Government uses the proceeds received from the sales of securities to pay the costs of the war and its other expenses is entirely legitimate. It no more implies mishandling of moneys received from the sale of securities to the trust fund than it does of the moneys received from the sale of United States securities to life-insurance companies, banks, or individuals.

The investment of the old-age and survivors insurance funds in Government securities does not mean that people have been or will be taxed twice for the same benefits, as has been charged. The following example illustrates this point: Suppose some year in the future the outgo under the old-age and survivors insurance system should exceed pay-roll tax receipts by \$100,000,000. If there were then \$5,000,000,000 of United States 2-percent bonds in the trust fund, they would produce interest amounting to \$100,000,000 a year. This interest would, of course, have to be raised by taxation. But suppose there were no bonds in the trust fund. In that event, \$100,000,000 to cover the deficit in the old-age and survivors insurance system would have to be raised by taxation; and, in addition, another \$100,000,000 would have to be raised by taxation to pay interest on \$5,000,000,000 of Government bonds owned by someone else. The bonds would be in other hands, because if the Government had not been able to borrow from the Old-Age and Survivors Insurance Trust

Fund, it would have had to borrow the same amount from other sources. In other words, the ownership of the \$5,000,000,000 in bonds by the old-age and survivors insurance system would prevent the \$100,000,000 from having to be raised twice—quite the opposite from the “double taxation” that has been charged.

Under present conditions the Government is operating with a budget surplus and is not borrowing. The trustees of the Old-Age and Survivors Insurance Trust Fund, therefore, when they invest the excess income in Government securities, in effect cause Government debt to be transferred from private ownership to the Old-Age and Survivors Insurance Trust Fund. The same saving of the amount of the interest for the general taxpayer will occur in this instance as in the one described above.

The members of the Advisory Council are in unanimous agreement with the statement of the Advisory Council of 1938 to the effect that the present provisions regarding the investment of the moneys in the Old-Age and Survivors Insurance Trust Fund do not involve any misuse of these moneys or endanger the safety of the funds.

## APPENDIX I-B. ACTUARIAL COST ESTIMATES FOR OLD-AGE AND SURVIVORS INSURANCE RECOMMENDATIONS

Estimates of future costs of the old-age and survivors insurance system are affected by many factors that are difficult to determine; hence, assumptions may differ widely and yet be reasonable. Some of the factors concerning which assumptions must be made are indicated below.

### FACTORS IN ASSUMPTIONS

#### *How many persons will reach age 65*

To determine how many persons may eventually qualify for retirement benefits, it is necessary to estimate the number of men and women who can be expected to attain age 65 each year. Such estimates involve assumptions as to birth, mortality, and net immigration rates. Although fairly reliable data on fertility and mortality over long periods are available, wide variations in the next half century are possible and may cause considerable change in the size and age structure of the population. Immigration, although not recently significant, could become of great importance.

#### *How many will be eligible for benefits*

Next, the number of persons reaching age 65 who will be "insured" for benefits must be ascertained. Since insured status is based on the number and proportion of quarters in which covered workers have earnings of \$50 or more, such factors as wage levels, employment duration, unemployment—whether due to economic, health, or other conditions—labor mobility, and related matters must be taken into account, with special attention to variations by age and sex. Estimating the number of persons likely to be insured—or uninsured—at different periods involves assumptions concerning wage and salary rates by age and sex, as well as the extent and steadiness of employment.

#### *How many will retire*

Having estimated how many persons will qualify for benefits, the next query is how many will actually receive them. Since the law specifies that benefits will be withheld or reduced when the beneficiary earns more than a stated amount, it is necessary to estimate how many beneficiaries will be affected, and how many will work continuously or intermittently after the minimum retirement age. The retirement rate will depend on such factors as the level of benefits, extent of private group and individual insurance, job prospects, and the current philosophy in regard to displacement of older by younger workers.

#### *How long will benefits be paid*

It is not enough to know how many persons will be placed on the benefit rolls; the duration of their benefit payments is equally signifi-

cant. To estimate duration, mortality rates for men and women must be applied to each group entering beneficiary status to gage the number who will die each year.

*How much will be paid as retirement benefits*

This basic inquiry primarily involves application of the benefit formula to the wage histories of those eligible for benefits. Benefits depend on the "average monthly wage," which in turn depends on total wages received over a period of time. Just as in estimating the number of persons with insured status, assumptions must be made concerning sustained versus sporadic employment, wages, and the level of employment.

*How much will be paid as supplementary and survivor benefits*

To estimate the cost of benefits to survivors and dependents of insured persons, many of the same factors applying to the worker must be considered, such as birth, mortality, retirement rates, and their interlocking effect. In addition, the same problem arises of estimating the number of insured workers and the amount of their primary benefits on which the survivor and supplementary benefits will be based. Because survivor benefits are terminated when certain changes in family and age status occur, assumptions have to be made concerning the marital and parental status of the insured group. Such factors as remarriage rates of widows, marriage rates of child beneficiaries, economic dependency of parents, and existence of specified surviving relatives must also be taken into account. The "work clause" affects the benefits of survivors and dependents as well as those of retired workers.

*Adjustments*

Lastly, there remain various adjustments affecting the number and size of benefits which arise from contingent features of the law, such as reduction or increase in the average size of benefits because of minimum and maximum provisions and eligibility for concurrent benefits of different types.

Among the many assumptions necessary for the cost estimates, the following were perhaps most important:

1. *Mortality.*—The low-cost estimates assume a continuation of mortality at the present levels, while the high-cost estimates assume that mortality will decrease in the future (or in other words, that longevity will increase).

2. *Employment.*—The estimates of future costs assume that the general level of employment will be about the same as during 1944-46. Corrections have been made, however, for the temporary wartime dislocations in the labor force. A "normal" age and sex distribution for the labor force has been assumed.

3. *Wage levels.*—With a \$3,000 maximum wage base, it is assumed that four-quarter male workers earn \$2,400 per year, while for women the corresponding figure is \$1,440. For persons working in less than four quarters, these averages were reduced in the proportions shown in actual wage records. With a maximum wage limit of \$4,200, these two figures for four-quarter workers become \$2,600 and \$1,450, respectively.

4. *Retirement rates.*—The old-age and survivors insurance program has been in effect too short a time to give much useful evidence as to

the probable retirement rates of the future. Moreover, the war has made the few years of experience with retirement rates under old-age and survivors insurance a poor basis for projection. Furthermore, the larger retirement benefits provided by the proposed plan, as contrasted with the relatively inadequate benefits under the present system, might cause more persons to retire voluntarily. Since little is really known on this subject, the estimates are based on two widely different assumptions so as to encompass a wide range of possibilities.

It is assumed under the low-cost estimates that under a mature program about 45 percent of the eligible men aged 65 to 69 would get benefits, while for women aged 60 to 69 about 70 percent of those eligible would get benefits (all eligible persons beyond age 70 would receive benefits regardless of work). For the high-cost estimate the corresponding figures are 60 percent for men and 80 percent for women. In the early years all these figures are materially lower, since more of those eligible have recently been in employment and would thus be more likely to continue at work.

#### THE ESTIMATES

The tables that follow (pp. 56-59) summarize actuarial cost estimates for the expanded old-age and survivors insurance program recommended by the Advisory Council.

In table 4, the benefit costs are in terms of percentage of pay roll for various future calendar years, starting in 1955 and running up to the "ultimate" year 2000, when benefit disbursements will more or less level off; "level premium"<sup>1</sup> costs are also shown.

Table 5 gives comparable data in absolute dollar amounts. In both these tables the costs are shown as increases or decreases in the cost arising under the present program, taking successive account of each major change recommended by the Council. The order in which these various changes are considered determines in many instances how much of the increase in cost is attributed to a specific recommendation. For example, the increased cost arising from the revised work clause follows the estimates of cost changes resulting from extension of coverage, but precedes the estimated effect of the new benefit formula. Thus, the estimated cost of abolishing the retirement test for all beneficiaries aged 70 and over represents increases in benefit payments based on the present formula. If the cost effect of the new benefit formula had preceded the figures on the effect of the proposed new work clause, the increase in cost arising from the new work clause would have been greater, since it would have been based on the payment of higher benefits to those aged 70 and over. On the other hand, considering the benefit formula first would result in showing the cost effect of the new benefit formula as smaller than it is shown in these tables because the present work clause would prevent the payment of benefits to many of those over age 70. The order in which the changes are considered does not, of course, affect the final or net cost of the recommendations.

<sup>1</sup> The level-premium contribution rate is the rate which would support the system into perpetuity if collected from the first year. It is higher than the contribution rate which would be required to pay the benefits of any one generation of workers because it covers also the cost of the accrued liability resulting from the payment of full benefits to workers already middle-aged or older at the time the system goes into effect. In computing the level premium rate it is assumed that benefit payments and taxable pay rolls remain level after the year 2000 and that accumulated reserves earn interest at the rate of 2 percent.

Table 6 presents the estimated costs as a percentage of pay roll for each of the various categories of benefits under the proposed expanded plan, along with the "level premium" cost for each category. Table 7 gives the corresponding dollar figures.

Table 8 presents the estimated taxable pay rolls under the present coverage (with the \$3,000 maximum wage) and under the expanded coverage (with the \$4,200 maximum wage). These estimates are based on the employment and wage levels of 1944-46 which are somewhat below present levels but still represent a relatively high level of economic activity.

In table 9 are estimates of the percentage of persons in various future years who will be fully insured when they attain age 65, both for the present limited coverage and for complete extension of coverage under the eligibility conditions recommended by the Council. Table 10 shows estimates of the percentage of all persons aged 65 and over who will be fully insured in various future years.

Table 11 presents the estimated operations of the trust fund under the expanded program recommended by the Advisory Council. The proposed program is assumed to become effective at the beginning of 1949, when the trust fund will probably amount to about \$10.5 billion. Further, it is assumed that the benefit disbursements in 1949 will bear the same relationship to the expanded covered pay roll as the benefit disbursements under the present system bear to the present limited-coverage pay roll. The effect of immediate changes in benefits paid (principally, the liberalized benefit formula and the reduction in the retirement age for women) is thus assumed to be relatively equal to the proportionate increase in pay roll (namely, about 60 percent). Thereafter, until 1955, the increase in disbursements will at first be gradual and then more rapid as workers in the newly covered groups acquire insured status.

The estimates of trust fund operations have been developed under the contribution schedule which most nearly approximates the Council's proposals, namely, a combined employer-employee rate of 2 percent until 1948, 3 percent in 1949-56, and 4 percent thereafter until the Government contribution has reached one-half the revenue from the combined employer-employee contribution, at which point under the high-cost estimate further increases are assumed in the combined employer-employee rate. This contribution-rate schedule, in contrast with the present law (combined rate of 2 percent through 1949, 3 percent in 1950-51, and 4 percent thereafter), increases the rate immediately on establishment of the expanded program, but defers the next increase until 1957, which is about when disbursements may exceed income at the 3-percent combined rate (this is anticipated in 1959 under the low estimate and in 1955 under the high estimate).

The Council has recommended that the Government contribution be postponed until the income of the trust fund at the combined 4-percent contribution rate for employers and employees first falls short of meeting the outgo. The Government contribution will be of such amount as to maintain the trust fund at its highest point without any decrease thereafter (disregarding any minor, short-range cyclical fluctuations). It is assumed that the Government contribution will not be allowed to exceed one-half the combined employer-employee contributions. Under the low-cost estimate the 4-percent employer-employee rate is sufficient to prevent the Government contribution

from exceeding one-half, but under the high-cost estimate the rate would have to be increased to 5 percent in 1972-80, 6 percent in 1981-89, and 7 percent thereafter. These specific years are the ones which reflect the assumptions of the high-cost estimates. It is not expected, of course, that all these assumptions will turn out to be the correct ones and that the years specified will be the ones in which increases in rates necessarily have to be made.

Since both the low-cost and the high-cost estimates assume a high future level of economic activity, the pay rolls are substantially the same under the two estimates in the early years (see table 8). Accordingly, there is little difference in the contribution income in the two estimates. The assumptions which affect benefits, however, have widely different effects even in the early years of the program. The range of error in the estimates, nevertheless, may be fully as great for contributions as it is for benefits.

The effect of the new eligibility conditions and the "new start" in computing the average monthly wage are particularly difficult to estimate during the early years of operation. The number of persons who will qualify and get benefits on the new basis is more uncertain when we are dealing only with older workers and the qualifying work period is relatively short. While an attempt has been made to allow for this very important factor, the costs shown here for 1955, and possibly for 1960, may, nonetheless, be overstatements.

Table 12 gives the results of an actuarial study to determine the hypothetical "current" experience under the plan recommended by the Advisory Council if that plan had been in effect long enough (say, for a century) to be relatively "mature"—that is, to have a relatively stable number of qualified beneficiaries.<sup>2</sup>

While more precise data are available on many of the factors which enter into these estimates since they deal with the present or past rather than the future, it is still necessary to show some range in the figures because some factors are unknown; for example, the extent of retirement if the proposed benefits were available to all the current aged population.

Table 12 gives low and high estimates of the number of beneficiaries and benefit disbursements by type of benefit. In estimating the number of beneficiaries, account has been taken of past trends in employment, mortality, etc. As a result, the table shows relatively fewer female primary beneficiaries than there will be in the future if the upward trend in employment of women continues.

Under assumption A, the estimated benefit disbursements are assumed to be based on past trends in wages, which have been sharply upward during the past century. For the most part, the benefits paid currently would therefore reflect the lower wages of the past, hence the amounts involved are relatively low in terms of current wages and price levels. Thus, the average primary benefit would be about \$30-\$35, while an average on the basis of 1948 earning levels would be about \$50-\$55 or approximately 50 percent higher. Nevertheless, the average of the primary benefits on which some of the survivor benefits are based would be somewhat higher than \$30-\$35, because it would be related to the recent earnings of young workers

<sup>2</sup> In a fully mature program the number of beneficiaries added to the rolls would equal the number dropped by death, remarriage, attainment of age 18, or similar reasons. The program could not be fully mature, however, until the population is also stable or mature—i. e., births equal deaths and age distributions are stable.

who leave survivors eligible for widow's current and child survivor benefits.

Under assumption B, the average wage or benefit provisions of the program or both are assumed to have been continuously modified in such a way as to take full account of the increases which have occurred in wage levels and to provide benefits related at all times to current wage levels.

The total number of beneficiaries receiving monthly payments during an average month of 1948 under the assumptions of this study would be about 10.3-12.6 million. Among them, 3.4-4.1 million would be men aged 65 and over (representing 65-80 percent of the 5.1 million men aged 65 and over in the United States), while 5.2-6.2 million would be women aged 60 and over (representing 60-75 percent of the 8.5 million women aged 60 and over in the population). The aged who would not be receiving benefits would represent, for the most part, those still at work or those whose husbands were still working. There would also be some aged persons who failed to qualify because of lack of sufficient employment resulting from disability and other causes.

Under the assumption that benefits are based on the wages actually paid in the past, the total benefit disbursements in 1948 would range from 3.4 to 4.2 billion dollars, representing from 2.4 to 3.0 percent of current pay rolls which would be about \$140,000,000,000<sup>3</sup> if all occupations were covered by the program. On the other hand, under the assumption that benefits are always based on current wage levels, the disbursements would range from 5.7 to 6.9 billion dollars, or in other words from 4.1 to 4.9 percent of pay roll. These estimates are considerably lower than the estimates of the ultimate cost of the proposed plan which is shown on table 4 to be from 5.9 to 9.7 percent of pay roll. The difference is explained largely by the increasing number of the aged in the population.

It should be noted that in all the estimates the coverage is assumed to be universal and to include railroad and all governmental employment, the goal the Council hopes will be attained.

<sup>3</sup> This figure is higher than those shown for expanded coverage in 1955, table 8, appendix I-B, because the figures in table 8 are based on the somewhat lower wage rates of 1944-46.



TABLE 4.—Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by major changes, in terms of percentage of pay roll

Calendar year	Cost of present program	Increase in cost arising from—							Net cost of expanded plan
		Extension of coverage	Age 60 for women	Revised lump-sum <sup>2</sup>	Revised work clause	Higher rate for first child <sup>3</sup>	Additional benefits in re women <sup>4</sup>	New benefit formula <sup>5</sup>	
Low-cost estimate <sup>1</sup>									
1955.....	1.31	-0.34	0.11	-----	0.43	0.04	0.02	0.82	2.39
1960.....	1.75	-.28	.15	-0.01	.61	.06	.02	1.06	3.26
1970.....	2.56	-.28	.29	-.01	.62	.06	.02	1.20	4.46
1980.....	3.33	-.33	.42	-.01	.67	.07	.03	1.12	5.30
1990.....	4.02	-.47	.46	-.02	.71	.07	.03	1.03	5.83
2000.....	4.19	-.42	.44	-.02	.71	.07	.03	.87	5.87
Level premium <sup>6</sup>	3.26	-.38	.36	-.01	.63	.06	.03	.95	4.90
High-cost estimate <sup>1</sup>									
1955.....	1.87	-0.43	0.19	-----	0.29	0.04	0.01	1.14	3.11
1960.....	2.46	-.37	.28	-0.01	.35	.06	.02	1.28	4.07
1970.....	3.66	-.47	.47	-.01	.46	.06	.02	1.39	5.58
1980.....	5.18	-.72	.65	-.01	.57	.06	.02	1.37	7.12
1990.....	6.93	-1.14	.75	-.01	.68	.06	.02	1.34	8.63
2000.....	8.12	-1.32	.79	-.02	.78	.06	.02	1.27	9.70
Level premium <sup>6</sup>	5.66	-.91	.60	-.01	.59	.06	.02	1.26	7.27

<sup>1</sup> Based on assumption of continuation of employment and wage levels of 1944-46.

<sup>2</sup> Lump-sum death payment for all deaths but only in amount of 4 times primary benefit (rather than 6 times as at present).

<sup>3</sup> Including also higher rate for parent's benefit.

<sup>4</sup> Supplementary and survivor monthly benefits in respect to insured women.

<sup>5</sup> Including also revision in computation of average wage and higher limit on maximum annual wages counted toward benefits.

<sup>6</sup> Level premium contribution rate (based on 2 percent interest) for benefit payments after 1949 and into perpetuity, not taking into account accumulated funds.

TABLE 5.—Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by major changes (in millions of dollars)

Calendar year	Cost of present program	Increase in cost arising from—							Net cost of expanded plan
		Extension of coverage	Age 60 for women	Revised lump-sum <sup>2</sup>	Revised work clause	Higher rate for first child <sup>3</sup>	Additional benefits in re women <sup>4</sup>	New benefit formula <sup>5</sup>	
Low-cost estimate <sup>1</sup>									
1955.....	\$1,046	\$173	\$138	-----	\$540	\$50	\$22	\$1,222	\$3,189
1960.....	1,469	441	195	-\$13	662	78	26	1,647	4,505
1970.....	2,421	772	406	-14	867	84	28	2,057	6,621
1980.....	3,474	965	621	-15	990	103	44	2,136	8,318
1990.....	4,509	1,066	722	-31	1,114	110	47	2,176	9,713
2000.....	5,072	1,227	736	-33	1,188	117	50	2,064	10,421
High-cost estimate <sup>1</sup>									
1955.....	\$1,482	\$323	\$238	-----	\$363	\$50	\$19	\$1,675	\$4,150
1960.....	2,062	677	366	-\$13	458	78	26	2,012	5,666
1970.....	3,442	1,056	662	-14	648	84	28	2,457	8,363
1980.....	5,191	1,312	917	-15	831	87	29	2,653	11,035
1990.....	7,125	1,498	1,116	-15	1,012	89	30	2,795	13,650
2000.....	8,463	1,711	1,182	-30	1,167	90	-30	2,765	15,378

<sup>1</sup> Based on assumption of continuation of employment and wage levels of 1944-46.

<sup>2</sup> Lump-sum death payment for all deaths but only in amount of 4 times primary benefit (rather than 6 times as at present).

<sup>3</sup> Including also higher rate for parent's benefit.

<sup>4</sup> Supplementary and survivor monthly benefit in respect to insured women.

<sup>5</sup> Including also revision in computation of average wage and higher limit on maximum annual wages counted toward benefits.

TABLE 6.—Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by type of benefit, in terms of percentage of pay roll

Calendar year	Primary	Wife's <sup>2</sup>	Widow's <sup>2</sup>	Parent's	Child's	Widow's current	Lump-sum death	Total
Low-cost estimate <sup>1</sup>								
1955.....	1.24	0.28	0.29	0.03	0.34	0.11	0.10	2.39
1960.....	1.66	.36	.54	.04	.43	.13	.11	3.23
1970.....	2.27	.42	.98	.04	.47	.14	.14	4.46
1980.....	2.80	.43	1.24	.04	.49	.14	.15	5.30
1990.....	3.29	.41	1.29	.03	.50	.15	.16	5.83
2000.....	3.43	.36	1.22	.03	.51	.15	.17	5.87
Level premium <sup>3</sup> .....	2.75	.37	1.01	.03	.46	.14	.15	4.90
High-cost estimate <sup>1</sup>								
1955.....	1.85	0.39	0.30	0.05	0.31	0.12	0.09	3.11
1960.....	2.42	.48	.54	.07	.34	.13	.10	4.07
1970.....	3.43	.59	.95	.08	.30	.11	.12	5.53
1980.....	4.58	.71	1.24	.09	.27	.10	.14	7.12
1990.....	5.89	.79	1.37	.08	.24	.09	.16	8.63
2000.....	6.89	.84	1.41	.08	.22	.09	.18	9.70
Level premium <sup>3</sup> .....	4.92	.69	1.08	.08	.26	.10	.14	7.27

<sup>1</sup> Based on assumption of continuation of employment and wage levels of 1944-46.  
<sup>2</sup> Including the relatively negligible amount of husband's and widower's benefits.  
<sup>3</sup> Level premium contribution rate (based on 2 percent interest) for benefit payments after 1949 and in perpetuity, not taking into account accumulated funds.

TABLE 7.—Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by type of benefit (in millions of dollars)

Calendar year	Primary	Wife's <sup>2</sup>	Widow's <sup>2</sup>	Parent's	Child's	Widow's current	Lump-sum death	Total
Low-cost estimate <sup>1</sup>								
1955.....	\$1,657	\$378	\$383	\$41	\$456	\$144	\$130	\$3,189
1960.....	2,291	500	739	54	588	178	155	4,505
1970.....	3,372	623	1,451	61	704	207	203	6,621
1980.....	4,400	679	1,944	62	771	225	237	8,318
1990.....	5,484	675	2,144	57	841	243	269	9,713
2000.....	6,099	637	2,162	49	910	265	299	10,421
High-cost estimate <sup>1</sup>								
1955.....	\$2,468	\$517	\$400	\$68	\$421	\$154	\$122	\$4,150
1960.....	3,359	671	745	97	479	176	139	5,666
1970.....	5,134	880	1,417	126	455	171	180	8,363
1980.....	7,094	1,101	1,920	137	413	158	212	11,035
1990.....	9,325	1,253	2,162	132	379	149	250	13,650
2000.....	10,915	1,333	2,236	127	341	142	254	15,378

<sup>1</sup> Based on assumption of continuation of employment and wage levels of 1944-46.  
<sup>2</sup> Including the relatively negligible amount of husband's and widower's benefits.

TABLE 8.—Estimated taxable pay rolls under present coverage and under expanded coverage (in billions of dollars)

Calendar year	Present coverage <sup>1</sup>		Expanded coverage <sup>2</sup>	
	Low-cost estimate	High-cost estimate	Low-cost estimate	High-cost estimate
1955.....	\$80	\$79	\$134	\$133
1960.....	84	84	138	139
1970.....	95	94	149	150
1980.....	104	100	157	155
1990.....	112	103	167	158
2000.....	121	104	178	158

<sup>1</sup> Based on \$3,000 maximum creditable wage.  
<sup>2</sup> Based on \$4,200 maximum creditable wage.

## RECOMMENDATIONS FOR SOCIAL SECURITY

TABLE 9.—*Estimated percentage of persons attaining age 65 in various future years who will be fully insured, if high employment conditions prevail*

Calendar year	Complete extension of coverage		Present coverage	
	Men	Women	Men	Women
1955.....	66-74	12-17	46-52	8-11
1960.....	74-84	16-23	50-58	10-14
1970.....	81-91	22-31	61-71	15-20
1980.....	84-93	30-38	72-82	24-32
1990.....	86-96	43-52	74-84	36-46
2000.....	88-96	50-60	74-84	40-50

TABLE 10.—*Estimated percentage of persons aged 65 and over in the population of various future years who will be fully insured, if high employment conditions prevail*

Calendar year	Complete extension of coverage		Present coverage	
	Men	Women	Men	Women
1955.....	57-66	10-13	39-44	6-7
1960.....	69-81	13-17	44-49	7-10
1970.....	76-86	17-25	54-62	10-14
1980.....	81-91	23-31	64-73	16-22
1990.....	84-94	33-40	72-81	27-34
2000.....	86-95	43-51	74-84	35-43

TABLE 11.—*Estimates relating to size of trust fund under expanded program recommended by Advisory Council (in millions of dollars)*

Calendar year	Contributions		Benefit payments	Administrative expenses	Interest on Fund	Increase in Fund	Fund at end of year
	Employer-employee <sup>1</sup>	Government					
Low-cost estimate							
1955.....	\$3,833	-----	\$3,189	\$87	\$451	\$1,008	\$23,276
1960.....	5,279	-----	4,505	109	581	1,246	29,950
1970.....	5,683	\$419	6,621	146	665	0	33,645
1980.....	6,003	1,825	8,318	175	665	0	33,645
1990.....	6,370	2,877	9,713	199	665	0	33,645
2000.....	6,792	3,177	10,421	213	665	0	33,645
High-cost estimate							
1955.....	\$3,823	-----	\$4,150	\$128	\$338	* -\$117	\$16,999
1960.....	5,318	\$163	5,666	159	344	0	17,362
1970.....	5,726	2,500	8,363	213	344	0	17,362
1980.....	7,408	3,548	11,035	265	344	0	17,362
1990.....	10,209	3,413	13,650	316	344	0	17,362
2000.....	10,606	4,777	15,378	349	344	0	17,362

<sup>1</sup> Joint contribution schedule assumed is as follows: Low-cost estimate, 3 percent for 1949-56 and 4 percent thereafter. High-cost estimate, 3 percent for 1949-56; 4 percent for 1957-71; 5 percent for 1972-80; 6 percent for 1981-89; and 7 percent thereafter.

<sup>2</sup> Fund reaches a peak in 1954 and then declines for 2 years, but thereafter increases to another peak in 1959.

<sup>3</sup> Interest is figured at 2 percent on average balance in fund during year but is payable at end of year. After fund reaches maximum size the interest income is slightly less than 2 percent of the balance at the end of the year as shown in the last column, since the fund decreases slightly during the year. The interest payable at the end of the year brings it back to the level shown.

TABLE 12.—*Estimated beneficiaries and disbursements in 1948 under expanded program recommended by Advisory Council, if the plan had been in effect for a century, under two assumptions*<sup>1</sup>

Type of benefit	Number of beneficiaries (in thousands)		Benefit disbursements <sup>2</sup> (in millions)			
			Assumption A		Assumption B	
	Low	High	Low	High	Low	High
Total.....			\$3,400	\$4,160	\$5,720	\$6,930
Primary.....	4,780	6,060	1,820	2,290	3,050	3,810
Wife's.....	1,220	1,280	250	260	430	450
Widow's.....	2,430	2,650	660	710	1,270	1,380
Parent's.....	100	270	20	50	30	100
Widow's current.....	330	420	120	160	170	220
Child's.....	1,470	1,940	430	570	590	780
Lump-sum death.....	830	930	100	120	180	190

<sup>1</sup> Benefit-disbursement estimates are shown on the basis of 2 different assumptions:

A. Benefits determined under average wage provisions and benefit formula proposed by Council using estimates of wages actually paid over the last 100 years.

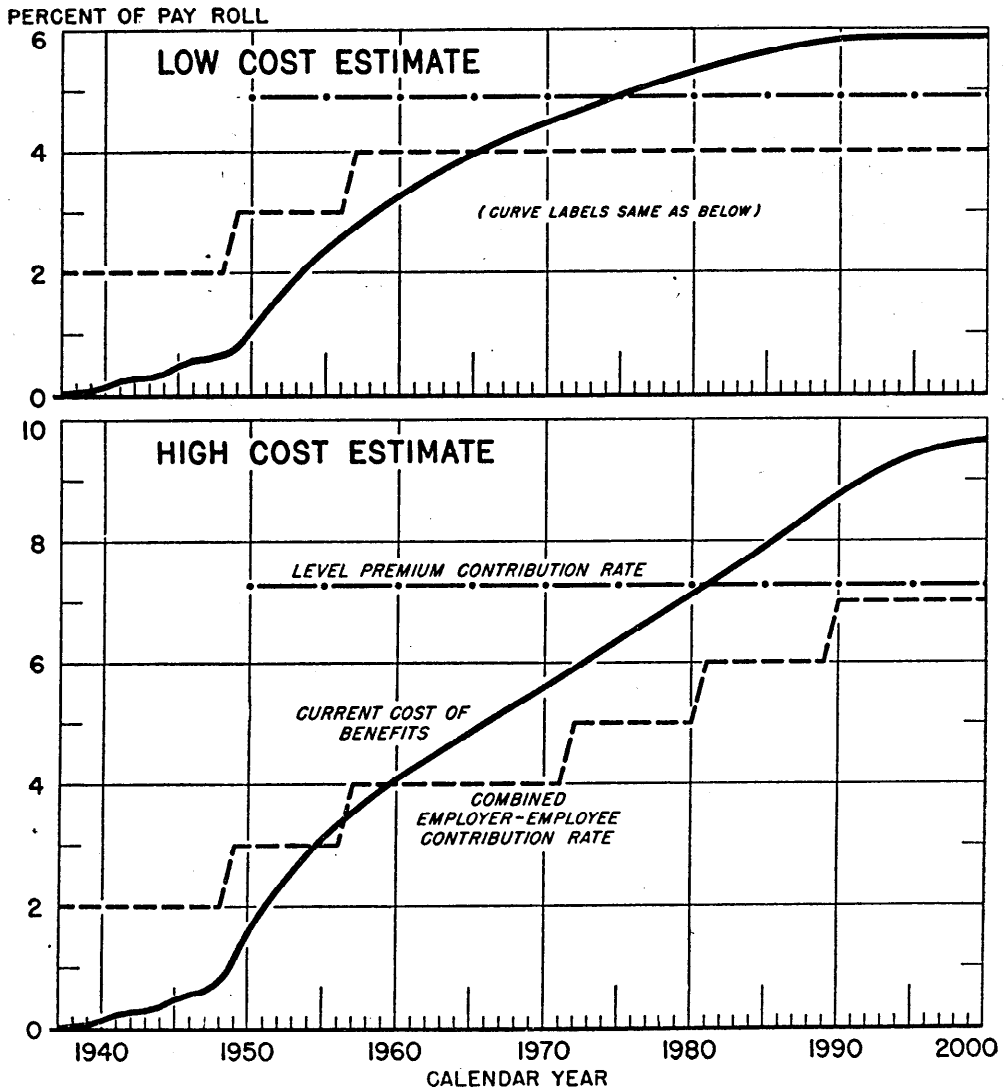
B. Benefits determined under average wage and benefit provisions continuously revised so that benefits are related to current wage levels.

<sup>2</sup> Benefit disbursements in percentage of pay rolls would be as follows:

Assumption A:		Assumption B:	
Low.....	2.4	Low.....	4.1
High.....	3.0	High.....	4.9

CHART A

**ESTIMATED COST OF EXPANDED PROGRAM  
RECOMMENDED BY ADVISORY COUNCIL, IN TERMS OF  
PERCENTAGE OF PAY ROLL**

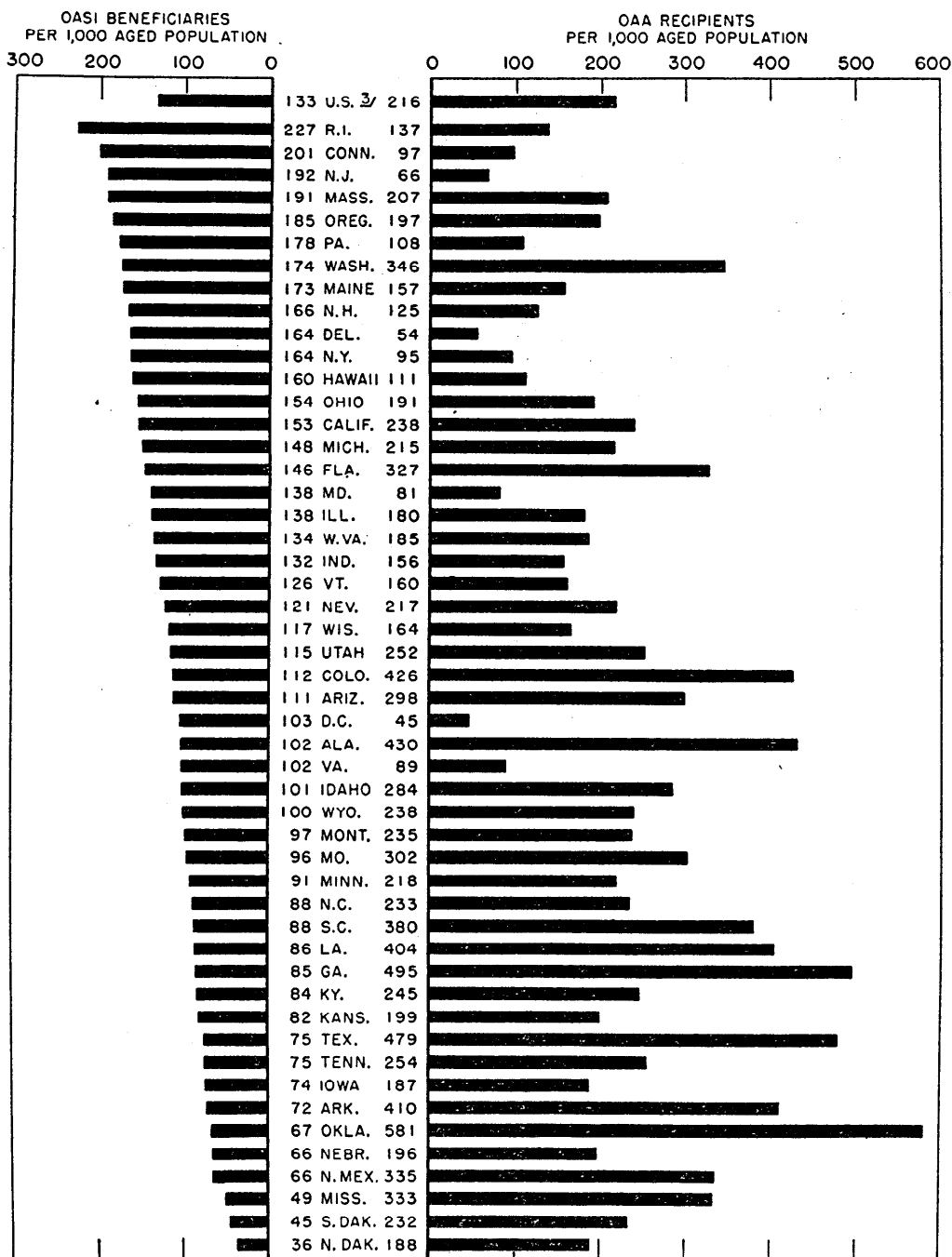


NOTE: ESTIMATES BASED ON ASSUMPTION OF CONTINUATION OF EMPLOYMENT AND WAGE LEVELS OF 1944-46.  
NOTE: SEE TEXT FOR DESCRIPTION OF TERMS.

# APPENDIX I-C

## CHART B

NUMBER OF AGED PERSONS RECEIVING BENEFITS UNDER OLD-AGE AND SURVIVORS INSURANCE<sup>1</sup> AND NUMBER RECEIVING OLD-AGE ASSISTANCE PER 1,000 PERSONS AGED 65 YEARS AND OVER, BY STATE,<sup>2</sup> JUNE 1948



<sup>1</sup> Primary, wife's, widow's, and parent's benefits in current-payment status at end of June.

<sup>2</sup> Aged population as of July 1, 1948, estimated by Social Security Administration.

<sup>3</sup> Includes Hawaii.

## APPENDIX I-D. FAMILY BENEFITS UNDER PRESENT PROGRAM, DECEMBER 1947

TABLE 13.—Percentage distribution of beneficiary families by monthly amount of family benefits in current-payment status at end of 1947, for each specified family group in receipt of benefits

[Based on 20-percent sample. Average benefits shown to the nearest 10 cents. Corrected to May 20, 1948]

Monthly family benefit amount	Retired worker only		Retired worker and wife	Retired worker and 1 child	Aged widow	Widowed mother and children			Children only				
	Male	Female				1 child	2 chil-dren	3 or more children	1 child	2 chil-dren	3 chil-dren	4 or more children	
													1 child
Total number 1.....	470,800.0	118,800.0	269,000.0	10,500.0	164,200.0	69,100.0	39,300.0	22,600.0	83,100.0	37,400.0	15,400.0	20,100.0	100.0
Total percent.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less than \$10.....	4 24.3	4 46.1	6 10.4	6 10.7	2 0.8	0	0	0	3 5.1	3 0.1	0	0	0
\$10 to \$19.99.....	4 47.6	4 47.1	6 10.7	6 10.7	2 49.5	8 6	4 5	3 0.1	3 90.8	20 6	12 6	3 0.3	3 0.3
\$20 to \$29.99.....	22 3	5 8	31 9	11 6	39 7	21 6	5 9	12 3	6 4.1	50 8	12 6	18 0	18 0
\$30 to \$39.99.....	6 5.9	6 1.0	25 3	35 8	6 10.0	36 1	14 8	8 2	24 6	24 6	37 8	11 1	11 1
\$40 to \$49.99.....	6 5.9	6 1.0	25 3	23 4	23 7	23 7	27 8	21 5	6 3.9	6 3.9	26 1	24 8	24 8
\$50 to \$59.99.....	6 5.9	6 1.0	25 3	12 4	23 7	23 7	24 7	24 6	6 3.9	6 3.9	26 1	24 8	24 8
\$60 to \$69.99.....	6 5.9	6 1.0	25 3	6 6.0	23 7	23 7	14 3	19 3	6 3.9	6 3.9	26 1	24 8	24 8
\$70 to \$79.99.....	6 5.9	6 1.0	25 3	6 6.0	23 7	23 7	6 8.0	4 7	6 3.9	6 3.9	26 1	24 8	24 8
\$80 to \$85.00.....	6 5.9	6 1.0	25 3	6 6.0	23 7	23 7	6 8.0	4 7	6 3.9	6 3.9	26 1	24 8	24 8
Average monthly amount per family.....	\$25.30	\$19.90	\$39.60	\$38.40	\$20.40	\$35.40	\$43.80	\$52.20	\$13.20	\$25.60	\$36.30	\$47.70	\$47.70

1 Families with retired worker, wife, and child, or retired worker and 2 or more children, or widowed mother only, or 1 or 2 aged parents not shown because too few cases in sample.

2 Widow's benefit reduced to less than \$10 by primary benefit to which widow was concurrently entitled.

3 Family benefit is less than minimum amount because one or more additional family members were entitled to benefits which were withheld at end of 1947.

4 The percentage at the \$10 minimum was 7.1 for retired male workers and 15.7 for retired female workers.

5 The percentage at the \$15 minimum was 5.9 for retired worker and wife and 6.2 for retired worker and 1 child.

6 The maximum possible in 1947 was as follows: \$22.20 for each child; \$33.30 for an aged widow; \$44.40 for a retired male or female worker; \$55.50 for a widowed mother and 1 child; \$66.60 for a retired worker and wife or 1 child; and \$77.70 for a widowed mother and 2 children.

APPENDIX I-E. MEMORANDUM BY TWO MEMBERS DISSIDENTING FROM  
THE MAJORITY REPORT WITH RESPECT TO MANDATORY COVER-  
AGE OF THE TRADITIONALLY TAX-EXEMPT INSTITUTIONS

As stated in the report of the majority of the Council members, it is highly desirable to establish as complete coverage as possible of employees under old-age and survivors insurance. The majority report recognizes special problems with respect to Federal civil-service employees, railroad employees, and the employees of State and municipal governmental units. Special problems exist also and should be recognized with respect to the traditionally tax-exempt religious, charitable, and educational institutions. A reasonable method of attaining maximum coverage of their employees should be possible without doing violence to traditional tax exemption.

There is no doubt that the contributions to old-age and survivors insurance are taxes. The statutory declaration of intent that the imposition of taxes for purposes of old-age and survivors insurance is not a precedent for other taxation of religious, charitable, and educational institutions, is at best a "pious hope," because the imposition of any tax on the institution is in fact an encroachment on its tax exemption.

There is in this problem no insuperable difficulty. The method of inclusion by voluntary adherence is no more difficult than in the case of employees of other employers that require special treatment. In each case there is a problem of method. The appropriate device, in order to safeguard immunity from the power to tax, which is the power to destroy, is an elective right to the institution to come in under the old-age and survivors insurance provisions.

Protection against adverse selection of risk would be adequately assured by requiring the electing institution to cover all its employees, except clergy and members of religious orders, within a reasonable period for exercising the election.

It seems unnecessary here to recount why a free society in its own self-interest has encouraged religious, charitable, and educational institutions to develop free from the political constraints of taxation. This basic protection of other freedoms surely should not be jeopardized where, as here, the desired social objectives can be reasonably accomplished by sound alternative methods.



APPENDIX I-F. RÉSUMÉ OF MINORITY OPINIONS ON CHANGES IN  
BENEFIT AND CONTRIBUTION BASE

THE PRESENT BASE OF \$3,000 SHOULD BE RETAINED

The following statement is a résumé of the various reasons why several Council members approve of retaining unchanged the present tax and benefit base of \$3,000. Some members lay more stress on one or more of the reasons stated than on others.

The proposed change from \$3,000 to \$4,200 in the present tax base and in the wages credited for benefits should be judged by the concrete results which the change would produce and not by theoretical considerations related to the fact that \$3,000 was chosen as the base when prices were lower. These results, boiled down, mean that the well-to-do, all those with average wages of \$4,200 a year *and over*, would receive larger increases in benefits both by amounts and by percentages than would those with average wages below \$3,000, with whom social security should primarily be concerned.<sup>1</sup> Moreover, these extra benefits to the well-to-do would be granted for many years without being covered by the additional taxes which they pay.

If the new benefit formula were applied to the present base of \$3,000 these errors would be avoided. This is illustrated in the following table which gives the monthly primary benefits for persons becoming entitled to benefits (1) in 1949 after continuous coverage since January 1, 1937, and (2) after 40 years of coverage. The figures above the horizontal line are those that would follow a retention of the \$3,000 base. Those below the line show the changes that would result from raising the \$3,000 to \$4,200. In considering the amounts of the benefits it should be borne in mind that if the retired worker has a wife aged 60 or over, 50 percent must be added in each case.

Average wage	Entitlement in 1949 after 12 years of coverage				Entitlement after 40 years of coverage			
	Present formula	AC formula	Amount of increase	Percent increase	Present formula	AC formula	Amount of increase	Percent increase
\$100-----	\$28.00	\$41.25	\$13.25	47	\$35.00	\$41.25	\$6.25	18
\$200-----	39.20	56.25	17.05	43	49.00	56.25	7.25	15
\$250-----	44.80	63.75	18.95	42	56.00	63.75	7.75	14
\$300-----	44.80	63.75	18.95	42	56.00	63.75	7.75	14
\$350 and over-----	44.80	63.75	18.95	42	56.00	63.75	7.75	14
\$300-----	44.80	71.25	26.45	59	56.00	71.25	15.25	27
\$350 and over-----	44.80	78.75	33.95	76	56.00	78.75	22.75	41

Looking at the left-hand half of the table, one may well ask why should those at the \$4,200 and other levels receive a 76-percent increase in benefits as compared with 42 percent for those at the \$3,000 level?

<sup>1</sup> It should also be stated that those with average wage between \$3,000 and \$4,200 also receive extra benefits that favor them as compared with those earning \$3,000, but not to the same extent as at the \$4,200 level and above.

Looking at the right-hand half, one may well ask why should the well-to-do receive a 41-percent increase in benefits and those at the \$3,000 level only 14 percent? The figures above the line represent reasonable changes. Those below depart from sound social-security principles by unduly favoring the high-income groups.

If the \$3,000 base were retained, the primary benefit for persons with average wages of \$3,000 and over would, as indicated, be \$63.75 a month or \$95.62 for a man with a wife over age 60. Such monthly payments should be sufficient to provide the basic measure of protection which is the stated objective of old-age and survivors insurance.

It is important to realize that for many years the extra benefits to the well-to-do which would result from shifting the base from \$3,000 to \$4,200, would not be covered by the extra taxes which they pay as a result of the change. The extra taxes would be brought about by the fact that all earning \$4,200 and over would pay taxes on an additional \$1,200 of earnings. If the combined employers and employees tax rates were 3 percent (1½ plus 1½), the trust fund would receive extra taxes of \$36 a year. If the combined rates were 4 percent (2 plus 2), the extra taxes would be \$48 a year.

Now consider the values of the extra benefits resulting from the change in the base. One way of showing what these would amount to is to compute the single premium values of the extra benefits as of the time they become payable. For example, the single premium value to a man aged 65 with a wife of the same age, of the extra benefits (\$15 a month to him, \$7.50 a month to her) is \$3,057. To meet this amount, the Government will have collected extra taxes of \$36 or \$48 a year. To get an idea of the values of the extra benefits for other conditions, the following table has been prepared.

Ago	Single premium values of extra benefits		
	Single man	Married man with wife aged—	
		Same as himself	5 years younger
65.....	\$1,852	\$3,057	\$3,346
70.....	1,485	2,456	2,738

It is obvious from these figures that the extra taxes will not cover the extra benefits for those with average wages of \$4,200 or over who are *now middle-aged or older*. In essence we say to them that in addition to the very substantial subsidies required to provide the benefits they will receive on the \$3,000 base, they are to be still further subsidized for extra benefits of \$15 or \$22.50 a month. Why is it not reasonable to expect persons in such circumstances to make independent provision for these extra benefits without Government subsidy?

Another valid reason for retaining the \$3,000 base is the extensive changes that would have to be made in many of the more than 6,800 private pension plans which are now integrated into the present base.

Furthermore, unemployment insurance and old-age and survivors insurance now have the same tax base. The benefits under unemployment insurance have been raised substantially without a change in the base, and the same can be done in old-age and survivors insurance, as indicated above. Different tax bases in the two systems would complicate record keeping and tax reporting for all employers, resulting in much additional clerical work.

The time, of course, may come when the distortions that would be caused by much higher price levels than at present would justify a change both in the type of formula and in the tax base. When that time arrives, however, there should be no such special favoring of the well-to-do as would follow the adoption of the proposed change. Under present conditions, adherence to the \$3,000 base is the proper course.

#### THE PRESENT BASE OF \$3,000 SHOULD BE RAISED TO \$4,800

The following statement is a résumé of the various reasons why several Council members favor increasing the present tax and benefit base to \$4,800. Some members lay more stress on one or more of the reasons stated than do others.

The increase in the tax base from \$3,000 to \$4,200 and the corresponding change in the top limit of wages credited for benefits is not sufficient. The increase should be to \$4,800. Since the original base was set, the consumers' price index has risen by more than 60 percent, so that an income of \$4,800 today has less purchasing power than an income of \$3,000 had in 1939. Hence, raising the tax base and wages credited for benefits to \$4,800 would not be a real increase—it would, in fact, fall short of maintaining the 1939 relationship between the wage base and prices.

The rise in prices during the last 9 years has cut by over 38 percent the purchasing power of the savings which millions of people had accumulated against their old age. Increasing the tax base to \$4,800 and permitting wages up to this amount to be credited for benefits would help to correct some of the injustices which the rise in prices has inflicted.

The members of the Council who dissent from the proposal to increase the base seem to have based their dissent in part on the assumption that a large number of those who would receive larger benefits as a result of the increase can be classed as well-to-do. The great majority of such persons are not well-to-do by current standards. Only about 3 percent of all workers have wages in excess of \$4,800. A survey of the Department of Labor has indicated that 4 months ago a budget for an urban worker, his wife and two children ranges from \$3,121 in the lowest-cost city to \$3,565 in the highest-cost city surveyed. *This budget does not include any amount for cash savings.* It is not a luxury budget.

It is, of course, true that raising the wages credited for benefits from \$3,000 to \$4,200 or to \$4,800 would give a larger percentage increase in benefits to persons earning above \$3,000 than to persons receiving less than \$3,000. The reason for this is the obvious one that under the present formula no wages above \$3,000 affect the size of the benefits.

It has been argued that the increased benefits which would result from raising the wage base above \$3,000 will not be covered by the additional taxes paid. In the short run no one at any wage level pays the costs of even the present benefits. Even in the short run, however, the high-income person pays more of the costs of his own benefits than does one with low income. The higher the wage base, the greater percentage of the cost of their benefits do those in the top brackets pay.

On the basis of the majority recommendation for raising the limit to \$4,200, for example, the \$350 per month man would—

Pay in contributions—	But receive in benefits—
250 percent.....	90.9 percent.. More than the \$100 per month man.
75 percent.....	40 percent... More than the \$200 per month man.
40 percent.....	23.5 percent.. More than the \$250 per month man.
16.7 percent.....	10.5 percent.. More than the \$300 per month man.

Taken as a whole and over the entire existence of the system, there is a net gain to the system by raising the wage base above \$3,000. Taken over the short run as well, the additional tax receipts on wages between \$3,000 and \$4,800 would more than offset the additional benefits based on these wages.

If one were to accept the argument that the wages credited for benefits should not be increased above \$3,000 a year because doing so would increase the benefits of persons receiving above \$3,000 a year by a larger percentage than those of persons receiving below \$3,000, one would be committed to permanent retention of the \$3,000 limit no matter how high prices and wages might go. That would be an untenable position. The tax base and the wages credited for benefits should be adjusted from time to time as the price level changes and also as the wage level changes. There are likely to be few periods in the country's history in which the price level rises by 60 percent in a 9-year period. Hence, there are likely to be few times when an adjustment of the tax base and the wages credited for benefits are more needed than today. The adjustment should be by approximately the amount of the increase in the consumer price index since 1939, that is, to \$4,800.

APPENDIX I-G. STAFF FOR OLD-AGE AND SURVIVORS INSURANCE

Robert M. Ball, staff director.

Leona V. MacKinnon, executive assistant.

Fedele F. Fauri, professional assistant.

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Helen Livingston, research assistant.

Robert J. Myers, actuarial consultant of the Social Security Administration, prepared the cost estimates, which were reviewed by George W. K. Grange, a member of the staff of the Metropolitan Life Insurance Co.