

Social Security and the Armed Forces

IN RESPONSE TO several inquiries and requests from members of the Congress for information concerning the protection of the social security rights of individuals in the military service, the following statements by Arthur J. Altmeyer, Chairman of the Social Security Board, were presented in the Congress in October. These statements, dealing with possible methods of extending the protection of the Federal system of old-age and survivors insurance to members of the armed forces and questions of policy which would need to be considered in the development of a national

system of demobilization unemployment allowances for servicemen, are presented here for their general interest in discussion and study of problems of social security.

In a message to the Congress on November 23, outlined on page 3 of this issue, President Roosevelt recommended legislation to provide a uniform system of allowances to unemployed servicemen and women, and to extend credit under Federal old-age and survivors insurance, on a uniform basis, to all members of the armed forces during their period of military service.

*Policy Questions in the Development of a National System of Demobilization Unemployment Allowances*¹

General Nature of Plan

The first fundamental policy question is whether the allowances shall be in accordance with a uniform national pattern or in accordance with the varying patterns developed under the 51 State, Territorial, and District unemployment compensation laws. Since the payments are to be made as a result of Federal military service, it is assumed that a uniform national pattern is desired so that benefits shall be calculated in the same manner, regardless of where the ex-serviceman makes application or where he lives.

Amount, Character, and Duration of Benefits

Another fundamental question is whether the amount of allowance should be a flat amount and for a fixed period of time, or whether it should be related to the amount of the serviceman's base pay or the length of his service. It is assumed that a flat allowance is desired regardless of the amount of base pay or length of service. A \$12-a-week or a \$15-a-week allowance for a specified number of weeks of unemployment during the 12 months immediately succeeding the period for which a "mustering-out" payment would be made might be considered reasonable for a person without dependents. It should be noted that only three State unemployment compensation laws pay benefits uniformly for more than 20 weeks,

and most States pay for a considerably shorter period. Payment for a maximum of 26 weeks during a 12-month period or payment for all weeks of unemployment during a 12-month period might be considered. This 12-month period would be required in many cases for a serviceman to develop new benefit rights under a State unemployment compensation law.

Another fundamental question is whether the amount of the allowance should be varied in accordance with the number of dependents. While only the District of Columbia unemployment compensation law provides dependents' allowances, it is assumed that it is desirable to take account of dependents, especially since provision is made for dependents' allowances for persons while in service. However, a secondary question is whether the amounts allowed for dependents should be the same as (or be related to) the allotments and allowances now being provided or whether a separate schedule of dependents' allowances should be established. Either approach would be feasible administratively; however, if the dependents' allowances are to be related to the allotments and allowances now being received several questions would have to be decided. To mention only the more important, is it desired to pay to dependents only the allowances or both the allotments and allowances in addition to the unemployment allowance that the man himself would receive? Is it desired to pay to Class B dependents? Is it desired

¹This statement was also distributed to all State employment security agencies on October 18, 1943.

to consider a working wife to be a dependent? Is it desired to fix a maximum amount on dependents' allowances?

If a separate schedule of dependents' allowances is established, the amount of the basic allowance may largely determine the number of dependents who may be taken into account because of the desirability of establishing a maximum allowance. For example, if the basic weekly allowance were made \$12, a dependent's allowance of \$6 a week for each dependent, up to a maximum of two or three dependents, might be considered reasonable. If the basic weekly allowance were made \$15, a dependent's allowance of \$7.50 a week for each dependent, up to a maximum of two dependents, could be considered.

All but two State unemployment compensation laws provide for compensation for partial unemployment—that is, when a person works so little in a week that he earns less than his weekly benefit amount. It is assumed that allowances should be paid to ex-servicemen for partial unemployment on a basis which would encourage them to accept part-time work. Such a formula might exempt the first \$3 or \$6 of weekly earnings, in making deductions for earnings from the total weekly allowance.

Another question is whether allowances should be paid on a daily or weekly basis. All but one State law provides for compensating for unemployment in units of a week, although the method of paying on a daily basis has certain advantages.

Payment During Disability

Another fundamental question is whether unemployment allowances should be paid regardless of whether the unemployment is due to lack of work or physical disability. There are six possibilities:

- (a) Pay unemployment allowances regardless of whether the unemployment is due to lack of work or physical disability;
- (b) Pay no unemployment allowances if the person is physically unable to work;
- (c) Pay unemployment allowances if the beginning of the period of unemployment was due to lack of work, even though after the period started the person became physically disabled;
- (d) Pay unemployment allowances if the be-

ginning of the period of unemployment was due to lack of work, even though after the period started the person became physically disabled, except when the individual fails to accept suitable work offered to him through the employment office;

- (e) Pay unemployment allowances if the beginning of the period of unemployment was due to lack of work, even though after the period started the person became physically disabled, so long as he would have been held to be "available for work" under the State unemployment compensation law of the State in which he is residing; or
- (f) Pay unemployment allowances if the beginning of the period of unemployment was due to lack of work, so long as the extent of any period of unavailability within a week is not such as to preclude a finding under Federal regulations that he was available for work "for the week." As indicated in (e), this is in accordance with the present practice of some States.

At the present time one State is paying disability benefits. Other States administer their laws in the manner indicated in (b), (e), or (f). Alternatives (c) and (d) are intermediate suggestions. In part, the decision as to whether to pay allowances during periods of disability will depend upon the decision as to the effective date of the program since administrative considerations must be weighed with respect to any inclusion of disability benefits. There can be no doubt as to the social desirability of providing the ex-servicemen and their families protection during periods of sickness and disability. With an appropriate allowance of time to get ready it would not be impossible to administer disability benefits. It would be comparatively simple if disability benefits are payable only for disability occurring within periods of unemployment. If benefits are payable for disability, regardless of whether it occurs within a period of unemployment, the administrative task is more difficult and of a different character, since it would be necessary to have Nation-wide facilities to determine the fact of disability in individual cases. On the other hand,

payment of benefits for disability occurring within periods of unemployment and failure to pay benefits for disability not occurring within periods of unemployment will cause some anomalies and may be difficult to understand.

Disqualification Provisions

Another fundamental question is whether there shall be uniform provisions relative to disqualification for the receipt of benefits or whether the disqualification provisions in the various State, Territorial, and District unemployment compensation laws shall be applicable. The most important of the disqualifying conditions in these various unemployment compensation laws relate to discharge for misconduct, voluntary quitting, or unreasonable refusal to accept suitable employment. The laws vary in defining the type of discharge, quit, or refusal which disqualifies and in the extent of the attendant disqualification. It is assumed that specific and uniform disqualification provisions are desired. It is also assumed that refusal or failure without good cause to attend a training course as directed shall be one of the causes for disqualification.

A related question is whether the interpretations of the disqualification provisions and other provisions of the law shall be in accordance with rules and regulations promulgated by a Federal authority or whether they shall be in accordance with rules and regulations promulgated by the various State unemployment insurance agencies. There is considerable variation between the States in their interpretation of identical language. It is assumed that the provisions should be interpreted in accordance with rules and regulations promulgated by the Federal agency.

Relation to Existing State Legislation

Final decisions as to what the allowances should be, what the disqualification conditions should be, and who should be responsible for interpretations are dependent to a considerable extent upon the relationship envisaged between the ex-servicemen's unemployment allowances and the regular unemployment insurance benefits payable under the various State, Territorial, and District unemployment compensation laws. All but three States have enacted legislation to freeze any unemployment benefit rights which persons entering the armed forces may have possessed at the time of

such entrance. It is estimated that probably 50 percent of the persons entering the armed forces had benefit rights in varying degrees under some State law. Twenty of the States which provide for freezing the benefit rights of persons entering the armed forces have included a proviso to the effect that the benefits frozen shall not be payable until unemployment allowances payable under a Federal law to such persons are exhausted. Six additional States provide that the frozen benefits payable for a given week shall be reduced by the amount of the Federal benefits. There is likewise a general provision which is found in most State laws to the effect that benefits are not payable for any period for which unemployment benefits are payable under an unemployment compensation law of another State or of the United States. Therefore, it is doubtful whether a Federal statute could be drawn to supplement for each week the benefits otherwise payable under State unemployment insurance laws which would not require amendment of the majority of existing State laws, in order to make certain that ex-servicemen actually could receive combined State and Federal benefits up to the desired amount.

The States could be compelled to amend their laws to pay the frozen benefits through the insertion of sanctions in the Social Security Act relative to Federal grants for the administration of State unemployment insurance laws and the approval of State unemployment insurance laws which is necessary in order that employers may qualify for the 90-percent offset against the 3-percent Federal unemployment tax. However, this would undoubtedly be resented by the States. Even if the States were compelled to pay these frozen benefits, the determination of the respective State and Federal obligation in individual cases would be complicated.

Administration

Even though the States were not required to pay the frozen benefits first or were not required to share any financial responsibility for the payment of allowances to ex-servicemen, it would still be possible to utilize the State unemployment insurance agencies for the administration of Federal unemployment allowances. However, it is assumed that in order to assure administrative flexibility and adaptation to changing circumstances it is desired to make it optional with the

Federal agency as to whether the allowances will be paid directly by the specific Federal agency designated to administer the law or by other cooperating Federal or State agencies.

In any event, it seems that there should be a specific requirement that applicants for allowances shall register at an office of the U. S. Employment Service. That service is now being operated by the War Manpower Commission but is being utilized by the State unemployment insurance agencies. The U. S. Employment Service is required by the Wagner-Poyser Act (48 Stat. 113) to "maintain a veterans' service to be devoted to securing employment for veterans." Prior to January 1, 1942, the U. S. Employment Service consisted of 51 separate services maintained by the various unemployment insurance agencies although almost 100-percent financed by grants from the Federal Government. On that date all of the State agencies, at the request of the President, consented to the transfer of the employment offices to the Federal Government for direct operation by the Federal Government. In consenting to this transfer practically all of the Governors and other State officials specified that they considered this transfer temporary and justified only because of the war emergency.

Regardless of whether the employment offices are returned to the States or directly operated by the Federal Government, it should be possible to administer this program simply, and in practically all cases to have local offices pay allowances without referral to either State or Federal central offices, since the schedule of allowances would be uniform and the ex-servicemen's discharge papers would contain all the information necessary to process the individual's claim.

Policy Questions in Extending Protection of Federal Old-Age and Survivors Insurance to Members of the Armed Forces

General Nature of Plan

There are two methods that could be utilized in extending the protection of the Federal old-age and survivors insurance system to persons in the armed forces. One is the moratorium plan whereby all preexisting rights under the Federal old-age and survivors insurance system, possessed by persons entering the armed forces, would be frozen at the time they entered the armed forces.

Effective and Terminal Dates of Plan

Finally, there is the question of when such a program should become effective. Already thousands of individuals have been discharged from the service and it is possible that there may be some demobilization of the armed forces before complete victory over both Germany and Japan. Consequently, the effective date should be determined in relation to possible military developments and possible demobilization plans. One alternative is to begin payment of allowances upon a specified date; another upon occurrence of a specific event, such as an armistice or a substantial demobilization; another is to provide that the President shall determine the date by proclamation, taking due account of certain factors specified in the law.

It is also necessary to decide for how long a period after the termination of hostilities the program will be in effect. The period for which such a program should be in effect depends in large part upon the length of time it takes to demobilize the armed forces and the economic conditions prevailing during the post-war period. It is possible, in view of the fact that our forces are distributed all over the world, that it may take some time for demobilization to be nearly complete. Provision could be made for the program to operate for a specified time after the termination of hostilities, say 3 years. If the Congress should decide later on that this was not long enough to permit individuals to take advantage of the provisions of the law because of a slower process of demobilization, the Congress would have sufficient time and opportunity to amend the law to extend the duration of the program or, if experience should so indicate, to shorten the duration of the program.

The other method is simply to extend the coverage of the old-age and survivors insurance system to include service in the armed forces.

The moratorium plan has three disadvantages. One is that a large proportion of persons entering the armed forces have no previous existing benefit rights to be frozen. The second is that there is no increase in the benefit rights as occurs in the case of periods of insured employment. If these

men had not been in the armed forces during the war but had continued at their regular jobs or gone into war industry, in most cases they would have been building up their benefit rights. The third is that it is more difficult to understand because it would be necessary to explain in each individual case that the period of military service would be blocked out in computing an individual's average wage (upon which benefits are paid) and in determining eligibility for benefits, both of which are related to the period of time elapsing from the date the Federal system originally went into effect (or from the date the individual became 21 years of age, whichever is the later).

It seems preferable, therefore, to treat service in the armed forces as though it were insured employment and to credit to the serviceman's social security account the wages received during his military service.

Amount of Wages To Be Credited

In selecting the amount of wages to be credited to the serviceman's social security account, consideration must be given to equity to the serviceman, and to administrative factors. The actual amount of pay received by the serviceman might be credited under the program plus an arbitrary amount such as \$60 or \$75 per month to represent the value of the subsistence which he receives. Crediting the actual pay, however, may involve substantial administrative difficulties. Two other simpler possibilities are either the highest pay during military service, or pay at time of discharge—plus some amount in lieu of subsistence. Another even more simple possibility is to provide some flat sum for all persons in the service, such as \$160 per month, as is provided in the military service amendments to the Railroad Retirement Act. It should be noted that the crediting of any amount less than \$250 per month (the maximum under the present insurance program) may reduce the amount of any benefit slightly for those few persons who had higher earnings and were covered under the insurance system before entering military service.

Contributions by Servicemen

Since the old-age and survivors insurance program is a contributory program, it is suggested that the legislation affording military service credit provide that contributions be paid just as they

are in private employment. This should add to the assurance that any benefits derived from military service are being provided through a contributory program. In private employment, the employer may pay the individual's contributions for him. Analogously, provision can be made that the Federal Government should pay the serviceman's contributions.

Duplicate Benefits

An important question to be decided is the relationship of regular veterans' benefits to benefits which would be payable under the Federal old-age and survivors insurance system. It is desirable not only to eliminate gaps, but also overlaps in providing protection against economic loss. In other countries having a social insurance system adjustments are usually made to prevent the payment of duplicate benefits for the same hazard. In Great Britain, for example, social security benefits usually are not payable if the person is eligible for veterans' benefits. In Germany the social insurance benefit may be reduced to one-third when veterans' benefits are payable.

In this country the problem of adjustment of duplicate benefits payable for the same hazards under the Social Security Act and other laws has not yet been faced or solved. If the social security law had been passed first it is probable that the various other laws—Federal, State, and local—providing protection against economic loss due to the same hazards would have taken into account the basic protection provided under the Social Security Act. That is to say, the benefits provided under such other laws would have been made supplementary to the extent necessary to a more desirable degree of protection. However, as it is, in this country benefits are paid under veterans' legislation, under workmen's compensation laws, and under other Federal, State, and local government retirement plans without any adjustment for the fact that we now have a basic social security law. The result is that frequently the benefits provided are in excess of the economic loss sustained.

In the case of workmen's compensation the duplication of benefit payments occurs only in the case of death, since disability benefits are not yet provided under the basic social security law. But in the case of death, while each type of law calculates benefits as a percentage of the wage loss

sustained, with a maximum to prevent payment of more than the wage loss, the payment of the given percentage under several laws results many times in a payment in excess of 100 percent of the wage loss sustained. If veterans' benefits are intended to cover a proportion of the economic loss, the same result occurs in the case of death as under workmen's compensation.

Duplicate benefits can also occur in the case of persons who are entitled to old-age retirement benefits under both the old-age and survivors insurance system and under some other Federal, State, or local government retirement plan. While this duplication is reduced somewhat by the fact that all old-age retirement benefits are generally related to the actual period of service, this duplication is by no means eliminated in its entirety, since the benefits provided under the Federal old-age and survivors insurance system have very little relationship to the actual actuarial value of the contributions that have been made by or on behalf of each individual who is insured. This is particularly true in the early years of the operation of the Federal old-age and survivors insurance system. Of course, if in the present instance the Government bears the cost of the employee's contributions as well as the employer's contributions, this is all the more true.

In this respect social insurance differs from private insurance. A comparison of the actuarial value of contributions and the actuarial value of benefits payable in the early years of the old-age and survivors insurance system will be found in table 5 of the report of the Senate Finance Committee on the Social Security Act amendments of 1939 (S. Rept. No. 734, 76th Cong., 1st sess.). That table indicates, for example, that a person who receives under the old-age and survivors insurance system \$27.50 a month makes contributions which would purchase an annuity of only 41 cents a month. However, eventually, as this table indicates, the employees' contributions will cover approximately one-half of the actuarial cost of the benefits for the high-paid employee.

The Federal Government would of course have no power to require our State or local governments to make adjustments in benefits to take account of the basic benefits provided under the Social Security Act. However, it would appear that the Federal Government should make adjustments in the benefits provided under vari-

ous Federal laws to cover economic loss in order to take account of the basic protection provided by the Federal old-age and survivors insurance system. This adjustment should, of course, be made in such a manner as to eliminate any gaps in the protection and to prevent any reduction in combined protection below a reasonable level. In the case of the various special Federal old-age retirement plans which relate the amount of benefits to length of service, while the problem of duplication exists, it is not quite so great, although its solution is more difficult. Therefore, any adjustment should start with Federal employee noncontributory plans where benefits are paid that are not related to the length of service—such as veterans' benefits and benefits payable under the U. S. Employees Compensation Act, the District of Columbia Workmen's Compensation Act, the Longshoremen's and Harbor Workers' Compensation Act, and various noncontributory retirement plans for officers of the armed forces.

If the benefits provided under the old-age and survivors insurance system, standing alone, and the benefits provided under these other Federal noncontributory plans, standing alone, were considered completely adequate, it would probably be logical and reasonable to provide that benefits should be payable under only one law. Thus, one method would be to provide that no benefits shall be payable under the Federal old-age and survivors insurance system if benefits are payable under some other Federal law to cover the same hazard. This method is incorporated in Senate bill No. 281. Its defect is that the benefit payable under some other Federal law may not be adequate and also not be as great as the benefit payable under the Federal old-age and survivors insurance system. Moreover, it would seem to be inequitable to pay the noncontributory benefit and withhold all the "insurance" benefit toward which some contribution had been made by or on behalf of the insured.

Another method is to provide that there shall be subtracted from the benefits payable under the Federal old-age and survivors insurance system benefits payable under some other Federal law. This would make certain that a person would always receive an amount equal to the higher of the two benefits. However, again we could not be sure that even the higher of the two benefits was completely adequate. Moreover this method

also would not recognize that a person insured under the Federal old-age and survivors insurance system probably should receive some additional protection because of the contributions that he has made under that system.

A third method would be to provide that the full old-age and survivors insurance system benefits shall be paid in any case and that the benefits provided under any other Federal law shall be reduced by only one-half of the amount of the old-age and survivors insurance benefits or one-half of the amount of the benefits provided under the other law, whichever amount is the lesser. An alternative way of accomplishing the same result as achieved under the last-mentioned method would be to make an equivalent adjustment in the Federal old-age and survivors insurance system benefits but pay the full benefits provided under the other Federal law. While this alternative would accomplish the same result and might be considered more acceptable, it is not so logical if the Federal old-age and survivors insurance system is recognized as the basic social security system and all other governmental systems are considered supplemental thereto.

It should be recognized that even this third method does not bring about a fundamental readjustment of benefits under the various systems to take into account their relationship to each other. Therefore, this method does not make certain that the total combined benefits are adequate in all cases. However, it does make certain that in all cases where protection is provided under more than one system, the beneficiary receives more in total benefits than he would receive under any one system.

There are a number of other methods which would adjust, in part at least, the duplication of benefits occurring under the several Federal laws, but it is doubted whether they would be considered as understandable as any of the three mentioned above.

In deciding on the adjustment to be made, an important detail relates to the treatment of survivors who are already receiving old-age and survivors insurance benefits or would have been receiving such benefits if credit for military service had been granted in the past. For the survivors of persons already killed in service, retroactive credit might be granted and benefits adjusted so that all survivors of persons killed

in service will receive benefits according to the same plan. Some of the alternatives for adjusting benefits would result in reduced benefit amounts for a small number of persons already receiving or eligible for old-age and survivors insurance benefits. Therefore, consideration should be given to whether to apply the adjustment provisions only with respect to future deaths in order not to reduce benefits already payable, or to apply the adjustment with respect to all deaths in the military service since 1940.

Disqualification

It is assumed that since old-age and survivors benefits are payable under a contributory insurance program there will be no disqualification from receipt of any credit under the old-age and survivors insurance program if the discharge is not under honorable conditions.

Effective and Terminal Dates of Plan

Among the various dates which may be considered in determining the effective date of the plan are the following: September 8, 1939, at which time the emergency was proclaimed by the President; August 31, 1940, when the National Guard was called into active service; and September 16, 1940, when the Selective Training and Service Act was approved. As calendar quarters constitute the time unit with respect to wage credits under the old-age and survivors insurance system, the wage credits to be provided might begin with a calendar quarter, such as July 1, 1940, or October 1, 1940.

The providing of wage credits for servicemen under the old-age and survivors insurance program might be terminated at the end of the war or at the end of a reasonable period thereafter. It is impossible to determine now the length of time it will take for demobilization after the termination of hostilities. Moreover, it does not seem necessary that a terminal date be specified in the initial legislative enactment. If termination of the plan is desired at the end of the war, the appropriate date can be inserted at that time by amendment. However, there is no fundamental reason why the crediting of wages under the old-age and survivors insurance program for military service need be discontinued at all, since movement of individuals in and out of the armed forces will continue, although on a reduced scale.