

Social Security Act Amendments of 1954: A Summary and Legislative History

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The Eighty-third Congress enacted amendments to the Social Security Act that make significant improvements in the old-age and survivors insurance program and also affect public assistance. The article that follows summarizes the major changes; articles on specific aspects of the amendments will appear in future issues of the Bulletin.

THE Social Security Amendments of 1954 became Public Law No. 761 (Eighty-third Congress), on September 1, 1954, when President Eisenhower affixed his signature to H.R. 9366.

The amendments were characterized by Oveta Culp Hobby, Secretary of Health, Education, and Welfare, as representing "the most significant advance for the social security system since the inception of survivors insurance 15 years ago." The inclusion of self-employed farmers—the largest group covered by the amendments—will have the "eventual effect of reducing materially the need for public assistance in rural areas just as it has in urban areas. . . . The expansion of the social security system as a result of these important amendments will contribute materially to building a stronger and better America."

The new law amends the Federal old-age and survivors insurance provisions of the Social Security Act, the corresponding provisions of the Internal Revenue Code, the public assistance titles of the Social Security Act, and the Railroad Retirement Act. Eight major amendments to the Social Security Act and other important modifications were adopted.

The major changes in the old-age and survivors insurance program are as follows:

(1) Coverage is extended, effective January 1, 1955, to approximately 10

million persons who in the course of a year work in jobs that have not previously been covered. Approximately 6 million of these persons are covered on a compulsory basis and about 4 million on an elective basis. The largest groups are farmers, members of State and local government retirement systems (under voluntary agreement), additional farm and domestic workers, ministers and members of religious orders (on a voluntary basis), and self-employed members of specified professions.

(2) Primarily to overcome the handicap of the late entry into the system for these newly covered workers, up to 5 years of lowest or no earnings are dropped in computing benefits and the insured-status requirements are liberalized.

(3) The total annual earnings on which benefits and contributions are based is raised from \$3,600 to \$4,200.

(4) Benefits are increased, on the average, about \$6 a month for persons now receiving old-age benefits, with proportionate increases for dependents and survivors; the minimum old-age benefit is \$30.00 and the maximum \$98.50. The increase is effective with the September benefit payments. For those coming on the rolls in the future the range will be from \$30.00 to \$108.50 for an individual and to \$200 for a family.

(5) The retirement test is liberalized and improved.

(6) The benefit rights of disabled persons are protected.

There are two major amendments in the public assistance program:

(1) The present Federal matching formula for public assistance is ex-

tended 24 months, to September 30, 1956.

(2) Approval of the Pennsylvania and Missouri laws for aid to the blind is extended for 2 additional years.

Old-Age and Survivors Insurance

Extension of Coverage

At the end of 1953 the old-age and survivors insurance program covered about 8 out of 10 of the Nation's jobs; under the new law about 9 out of 10 jobs will be covered at the beginning of 1955. The act extends coverage to about 10 million persons who, in the course of a year, work in jobs that were not covered under previous law.

Under the new law, coverage is extended to farmers, members of State and local retirement systems (other than policemen and firemen), additional farm workers and domestic workers, ministers and members of religious orders, and certain other smaller groups, including some professional self-employed persons. The exclusion in the earlier law of self-employed lawyers and of self-employed physicians, dentists, and members of several other medically related professions is continued. Other major groups that are still excluded are members of the Armed Forces, most Federal civilian employees, and policemen and firemen covered by a State or local government retirement system. (A temporary provision enacted earlier grants free wage credits of \$160 a month for periods of service in the Armed Forces.)

Farm operators.—The amendments extend coverage to about 3.6 million self-employed farm operators. One of the major stumbling blocks to their coverage has been the apparent necessity of requiring low-income farm operators, who may have no income-tax liability, to keep records that they would not ordinarily maintain. The new legislation includes a

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simplified reporting procedure for the use of the low-income farmer. The farm operator with gross income of not more than \$1,800 in a year who reports his income tax on a cash basis may report either his actual net earnings from farm self-employment, as determined on his income-tax return, or 50 percent of his gross income. If his gross income is more than \$1,800, he must compute his net earnings, although he may report an assumed income of \$900 if his actual net income is less than that amount.

Employees of State and local governments under retirement systems.— In the course of a year about 3.5 million employees (other than policemen and firemen) are in positions covered by State and local retirement systems.¹ The 1950 law provided for covering State and local government employees under voluntary agreements between the individual States and the Federal Government. It excluded from coverage under such an agreement, however, employees in positions covered by a State or local retirement system on the date the agreement was made applicable to the coverage groups to which they belong.²

Under the 1950 law the only way in which employees under a retirement system could be covered was by dissolving the system before the group was brought under the Federal-State agreement. Several States and a large number of local governments have secured old-age and survivors insurance coverage for employees by this method. In all but a few cases, where old-age and survivors insurance alone provides greater protection than the dissolved system, a supplemental system has then been established to replace the one abandoned.

Under the new law, a State may bring members of a State or local retirement system (except policemen and firemen) under its old-age and

¹ Of this number, about 300,000 employees were already covered under old-age and survivors insurance in December 1943. In addition, about 500,000 employees were in State and local government employment covered by old-age and survivors insurance but not by State or local retirement systems.

² Coverage was made available for members of the Wisconsin retirement fund by special provisions enacted in 1943.

survivors insurance agreement, if a referendum by secret written ballot is held among the members of the system and a majority of those eligible to vote in the referendum vote in favor of coverage.

The law continues the present exclusion of policemen and firemen who are covered by a State or local retirement system. These two groups, because of the special demands of their work, usually have special provisions in their retirement systems (lower retirement ages, for example), and most of the organizations representing policemen and firemen were opposed to the coordination of their provisions with the provisions of the old-age and survivors insurance system.

It is the policy of Congress, the law states, that the protection of members and beneficiaries of the retirement systems should not be impaired as a result of coverage of the members under old-age and survivors insurance. This statement of policy was designed by Congress to make clear its intent in providing for coverage of this group; it does not have the effect of requiring that the provisions of the retirement system be subject to Federal review. The law also removes the possibility that members of a system (other than firemen and policemen) may be covered without a referendum by dissolving the retirement system.

A State may cover without a referendum employees who are in positions covered by a retirement system but who are not themselves eligible for membership. A State may also cover without a referendum at any time before January 1, 1958, employees who are not now under a retirement system and who could not have been covered when their coverage group was brought in because at that time they were under a retirement system.

A State may hold a referendum among all of the members of a retirement system or, for the purposes of a referendum, it may treat any political subdivision or any combination of political subdivisions as having a separate retirement system. Each public institution of higher learning may also be considered as having a separate retirement system. Special provision is made for the

coverage under a State agreement, at the option of the State, of civilian employees of State National Guard units and certain inspectors of agricultural products. Special provision is also made for coverage under the Utah agreement of employees of certain educational institutions in positions covered by a retirement system and for retroactive coverage of members of the Arizona Teachers' Retirement System.

Farm workers.— Under the 1950 law, to be covered a farm worker needed to be "regularly employed" by one employer and to receive cash wages of \$50 or more in a calendar quarter from that employer. The definition of "regularly employed" was complicated and difficult to apply. In general, after a farm worker had worked for one employer continuously for an entire calendar quarter, he was "regularly employed" in succeeding quarters if he worked for that employer on a full-time basis on at least 60 days during the quarter. Records must have been kept over a substantial period before it was clear whether or not an individual was covered.

The new law substitutes a simple coverage test for the old test. A farm worker is covered with respect to his work for an employer if he is paid at least \$100 in cash wages by that employer in a calendar year. The new test continues to exclude from coverage intermittent and short-term workers and to avoid nuisance reporting of small amounts of wages but will result in the coverage of most workers who make a living from farm work. These workers will be credited with 1 quarter of coverage for \$100 of annual wages, 2 quarters for \$200, 3 for \$300, and 4 for \$400. Coverage is extended to cotton gin workers.

The specific exclusion of turpentine workers remains effective. Mexican contract farm workers also continue to be excluded, and a new provision excludes workers brought in from the British West Indies (under certificates of the Department of Agriculture) for short-term farm work.

The law as amended covers a total of approximately 2.1 million additional farm workers over the course of a year.

Accountants, architects, engineers, and funeral directors.—The earlier extension of coverage to the self-employed specifically excluded certain professions. The 1954 amendments bring under coverage some 100,000 accountants, architects, engineers, and funeral directors on the same basis as that on which other non-farm self-employed persons are covered.

Civilian employees of the Federal Government not covered by a retirement system.—The new law extends coverage to about 150,000 civilian employees of the Federal Government and its instrumentalities who are not now covered by retirement systems. Services of Federal employees covered by old-age and survivors insurance under the former provisions are also creditable retroactively under the civil-service retirement system for those individuals who are later covered by the civil-service retirement system. The amendments prohibit, for the newly covered Federal employees, the crediting of the same period of Federal service under any other Federal retirement system.

Domestic workers in private homes and others who perform work not in the course of the employer's business.—The new law covers all domestic workers who work in nonfarm private homes and who are paid \$50 in cash wages by an employer in a calendar quarter. It deletes the time requirement of the 1950 legislation limiting the coverage of domestic workers to those who work for a single employer on at least 24 days during a calendar quarter. The simplified test means coverage during the course of a year for about 200,000 more household workers than does the old law. It also affords additional coverage for 50,000–100,000 workers who under the old law were covered on some but not all of their domestic jobs. Most of the domestic workers still excluded from coverage are students, housewives, and others who spend comparatively little time working for pay. Almost 90 percent of the persons whose major activity is domestic employment are covered by the law as amended.

Persons performing other types of service not in the course of the employer's trade or business will, like

domestic workers, be covered if they are paid \$50 in cash wages by an employer in a calendar quarter. They may number as many as 50,000 in the course of a year. The provision retains the principle in the old law of applying the same coverage test for these nonbusiness services that is applied to domestic services performed in private homes. Congress believed it was important to establish uniform tests for these two types of work because there are certain kinds of nonbusiness services that are not, strictly speaking, domestic service in private homes but that are difficult to distinguish from domestic service.

Ministers and members of religious orders.—The old law excluded from coverage any service performed by a minister of a church in the exercise of his ministry or by a member of a religious order in the exercise of the duties required by the order. The amendments permit ministers, Christian Science practitioners, and those members of religious orders who have not taken a vow of poverty to obtain coverage by filing a certificate indicating their desire to be covered as self-employed persons. In general, application can be filed within 2 years after coverage becomes available or after the individual has become a minister, a Christian Science practitioner, or a member of a religious order. An election of coverage will be effective for the taxable year with respect to which it is filed, and for all subsequent years.

It was believed by Congress that voluntary coverage on an individual basis, while not generally desirable, was justified for this group. Some churches have expressed the fear that their participation in the program as employers of ministers might interfere with the principle of separation of church and State. Many church representatives also believe that individual ministers who do not want coverage, on grounds of conscience, should not be required to participate. About 250,000 ministers and members of religious orders are affected.

A special provision, designed primarily to take care of missionaries working in a foreign country, permits ministers and members of re-

ligious orders working in a foreign country or in a possession of the United States to compute their net earnings from self-employment without regard to the "earned income" deduction provisions in the Internal Revenue Code. Without such a provision they would not be able to include their wages and salaries in computing their self-employment earnings for purposes of social security coverage.

Lay employees of nonprofit organizations.—The amendments contain three provisions that make coverage possible for additional lay employees of religious and other nonprofit organizations (whose coverage is on a voluntary group basis) and so afford relief for certain employees who have suffered hardship under the provisions previously in effect.

One of these provisions extends the period allowed for election of coverage by additional employees of a nonprofit organization that, with the concurrence of at least two-thirds of the lay employees, has elected coverage. The other two provisions permit retroactive coverage in certain cases where coverage was not secured because of a mistake or misunderstanding on the part of either the organization or the individual.

United States citizens employed outside the United States by foreign subsidiaries of American employers.—The 1950 law covered United States citizens working outside the United States for American employers. The new law extends this coverage to include United States citizens working for foreign subsidiaries of American companies, at the option of the American company involved. These provisions make coverage available to roughly 100,000 United States citizens.

American employers frequently find it necessary to carry on their operations in other countries through subsidiaries established under the laws of a foreign country. The United States citizens working for such subsidiaries are likely to have the same close economic and personal ties with the United States, and the same expectation of returning to the United States, as do United States citizens working abroad for American employers. Their coverage will prevent

the gaps in protection under old-age and survivors insurance that would otherwise occur.

Because the United States cannot levy the employer tax of the old-age and survivors insurance program upon foreign subsidiaries of American employers, the United States citizens employed by these subsidiaries must be covered under voluntary provisions. Accordingly, the American employer involved must make an agreement with the Secretary of the Treasury to pay the social security taxes for all the United States citizens employed abroad by the foreign subsidiary. To avoid adverse selection the law provides that all the American citizens employed by a given subsidiary would have to be covered if any were covered.

Home workers.—The new law extends employee coverage to about 100,000 additional home workers. Home workers who have the status of employees under the usual common-law rules applicable in determining employer-employee relationship have been covered since 1937. In addition, under the 1950 amendments, home workers who do not have employee status under the usual common-law rules are covered as employees if (1) they work according to the specifications of the person for whom the work is done on materials or goods furnished by that person and required to be returned to him or the person he designates; (2) they are paid cash wages of \$50 or more during a calendar quarter by a given employer; and (3) they are subject to State licensing laws. The 1954 amendments cover as employees those home workers who meet the first two conditions but not the third. By eliminating the licensing requirement, the law provides employee coverage to all home workers who perform service under substantially the same conditions, irrespective of the State in which they are located. On the other hand, any home worker in a rural area, for example, who is not subject to any supervision or control by any person, and who buys raw materials and makes and completes any article and sells the same to any person, even though it is made according to the specifications and

requirements of some single purchaser, continues to be excluded from coverage as an employee.

Home workers who are not covered as employees would continue to be covered as self-employed persons if they meet the requirement of \$400 in net income from self-employment.

Employees engaged in fishing and related activities.—Employees engaged in the catching of fish, shellfish, and other aquatic species (except salmon and halibut), either from the shore or as officers or crew members of vessels of 10 net tons or less, were excluded from coverage by the 1939 amendments. The protection of the program has thus been denied to many of the lower-paid workers in the fishing industry. This gap in protection has been particularly evident since 1951, when self-employed owners of fishing vessels were covered. The 1954 law covers employees, such as fishermen and clam diggers, who have been excluded. About 50,000 additional people will be covered in the course of a year under this provision.

United States citizens employed by American employers on vessels and aircraft of foreign registry.—The 1950 amendments extended coverage to United States citizens employed abroad by American employers, but not to United States citizens employed by American employers on vessels and aircraft of foreign registry. The new law corrects the situation by covering this small group of American citizens on the same basis as other American citizens working outside the United States for American employers.

Computation of Average Monthly Earnings

The 1954 amendments change the method for computing the average monthly wage, on which the primary insurance amount (and thus the amount of every dependent's and survivor's benefit) is based. For individuals who qualify for benefits after the effective date of the new law, or who meet certain other conditions after that date, computation of their average monthly wage will ignore up to 5 years in which their earnings were lowest (or nonexistent). In general, every individual

who first qualifies for benefits after the effective date, or who had at least 6 quarters of coverage after June 1953, or who qualifies for certain types of benefit recomputations after the effective date, can eliminate up to 4 years of lowest or no earnings from the computation. If, in addition to meeting these requirements, he has at least 20 quarters of coverage (acquired at any time), he can eliminate an additional low year.

This "dropout" of years of low earnings will benefit both those individuals to whom coverage is extended by the new law and those who were covered in the past. Without such a provision, individuals first brought under coverage on January 1, 1955, would be under a severe handicap, since all the months in the years 1951-54, during which they had no covered earnings, would be included as divisor months in the computation of their average monthly wage. Under the change, as newly covered persons qualify for benefits, their benefit amounts will be based entirely on their covered earnings after 1954 and the years 1951-54 dropped out in the computations. After 20 quarters of work in covered employment they can drop an additional year, which would be the year in which their covered earnings were lowest. Individuals who are already covered by the program can also drop the 4 or 5 years of lowest or no covered earnings whenever they occurred. Years in which their earnings were low because of sickness or unemployment will no longer reduce their average monthly wage and benefit amount unless such years exceed five.

The computation of the average monthly wage is also simplified by providing for the use of standard first-of-the-year closing and end-of-the-year starting dates, with all computations generally based on calendar years for both wage earners and self-employed persons.

Maximum Earnings Base

Under the new law the maximum amount of covered earnings considered for both tax and benefit purposes is raised from \$3,600 to \$4,200 a year, effective January 1, 1955. It is estimated that, as a result of this

amendment, some 70 million persons will receive additional credits in 1955.

Old-age and survivors insurance benefits, within limits, vary with the individual's previous earnings. Since benefits are related to past earnings, it follows that the basic factor in the determination of benefit amounts is the level of previous earnings. More than three-fifths of the male workers regularly covered by the program now earn more than \$3,600, the maximum amount counted for benefit purposes under the 1950 amendments. The congressional committees took the position that, if the principle that benefits should vary with earnings is to be maintained, earnings above the \$3,600 limit must be counted toward benefits in the future.

Raising the earnings base to \$4,200

restores approximately the same relationship between general earnings levels and the maximum earnings base that existed in 1951. In 1953, approximately 43 percent of the regularly employed male workers covered by old-age and survivors insurance had earnings of more than \$4,200, and in 1951 about 48 percent had earnings in excess of \$3,600.

Increase in Benefits

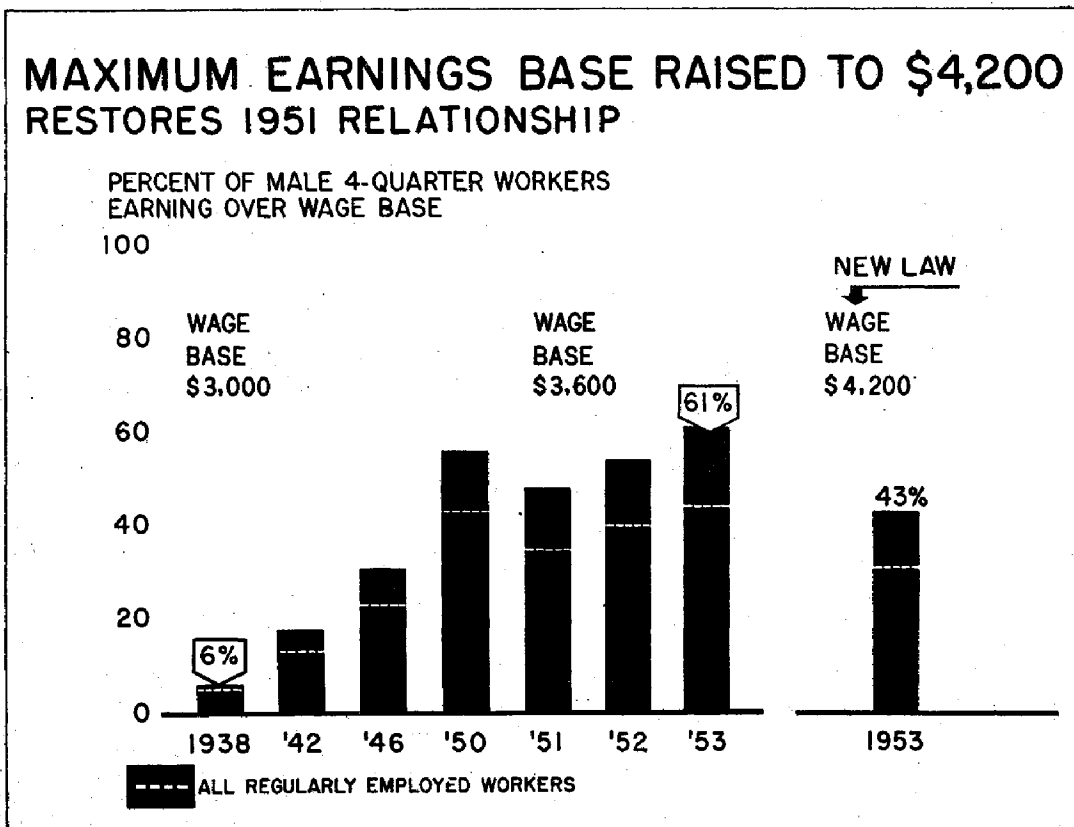
A general increase in the benefit levels will result from the provisions already discussed and from the provision, discussed later, preserving the benefit rights of persons with extended total disability. In addition, the new law provides for an increase in the percentage of average monthly earnings yielded by the benefit formula.

Benefit payments are increased for

beneficiaries presently on the rolls as well as for those qualifying in the future. For workers now retired, monthly payments will range from \$30.00 to \$98.50, compared with \$25.00 to \$85.00 under the old law; the average increase will be about \$6.00. For those coming on the rolls in the future, the range of benefit payments, taking into account the higher earnings base, will be from \$30.00 to \$108.50.

Revised benefit formula.—The new law raises from \$100 to \$110 the amount of average earnings to which the 55-percent factor in the formula is applicable.

A further amendment in the formula is made by increasing the factor for the second step from 15 percent to 20 percent and raising the maximum earnings to which the formula applies from \$300 a month to \$350,



in line with the increase in the annual earnings base from \$3,600 to \$4,200. Table 1 compares illustrative benefits for a retired worker under the new law and under the old law.

The revised formula, which is applicable to average earnings computed over the period since 1950, will be used for workers coming on the rolls in the future who are eligible for dropping out low years of earnings from the average wage computation. If, however, the individual's benefit would be larger without the dropout and with computation made by means of the conversion table, which will be used to raise the benefits of persons now on the rolls, he will receive the larger amount.

Increase for present beneficiaries.—The new law increases benefits for the 6.6 million beneficiaries on the rolls in September. It thus follows the precedent of the 1950 and 1952 amendments. The purpose of helping beneficiaries to meet their current living needs through their benefit payments is served only if the value of the benefits is kept adjusted to changes in economic conditions.

Table 1.—Illustrative monthly benefits for retired workers

Average monthly wage		Old law		New law	
On basis of old law	With dropout	Single	Married †	Single	Married †
Assuming level earnings					
\$50	\$50	\$27.50	\$41.30	\$30.00	\$45.00
100	100	55.00	82.60	60.00	90.00
150	150	82.50	123.90	90.00	135.00
200	200	110.00	165.20	120.00	180.00
250	250	137.50	206.50	150.00	225.00
300	300	165.00	247.80	180.00	270.00
350	350	(*)	(*)	210.00	315.00
Assuming specified increase in earnings arising from dropout					
\$50	\$70	\$27.50	\$41.30	\$38.50	\$57.80
100	120	55.00	82.60	62.50	93.80
150	170	82.50	123.90	92.50	139.80
200	220	110.00	165.20	122.50	185.80
250	270	137.50	206.50	152.50	231.80
300	320	165.00	247.80	182.50	277.80
350	370	(*)	(*)	212.50	323.80

* Amounts produced by use of new formula; with level average monthly wage amounts of less than \$130, slightly higher benefits result from use of 1952 formula and conversion table.

† With wife aged 65 or over.

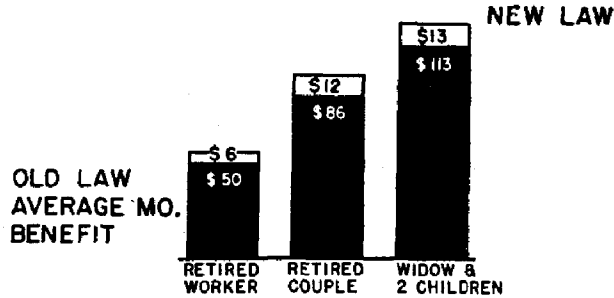
‡ Application of 80-percent maximum may not reduce benefit to less than \$45.

§ Reduced to 80 percent of average wage.

¶ Application of 80-percent maximum may not reduce benefits to less than the larger of 1½ times primary insurance amount or \$50.

‡ Old law included earnings only up to \$300 a month.

BENEFIT INCREASES FOR 6,600,000 PRESENT BENEFICIARIES



For persons now on the rolls, the increase in old-age insurance benefits (or primary insurance amounts on which dependents' and survivors' benefits are based) is determined by use of a conversion table. Selected primary insurance amounts under the old law and the new, higher amounts are shown below.

Under old law	Under new law
\$25.00	\$30.00
30.00	35.00
40.00	45.00
50.00	55.00
60.00	65.10
70.00	78.50
80.10	91.90
85.00	98.50

The new amounts approximate the results that would be obtained by applying the new formula to the average monthly earnings on which the previous benefit was based, and by providing also a guarantee of a benefit of at least \$5.00 more than was payable under the old law. The minimum benefit is now \$30.00. The new maximum of \$98.50 is the result of the application of the new formula to the maximum average earnings of \$300.00 considered under the previous law.

The conversion table may also be applicable for some workers coming on the rolls in the future—those who

are not eligible for dropping out low years from the computation of their average monthly wage, as well as those who do not have their benefits increased by at least \$5 by use of the dropout and the new benefit formula. For the relatively few workers eligible for the dropout who would get a higher benefit on the basis of average earnings computed over the period since 1936, the low 4 or 5 years may be dropped from the computation based on the modified 1939 act formula and the conversion table applied.

Family benefits.—Dependents' and survivors' monthly benefits will be increased automatically in line with the increase in primary insurance amounts, since they are computed as percentages of that amount. The maximum amount of benefits that may be paid on an individual's record is raised from \$168.75 to \$200.00.

The former provision that family benefits may not exceed 80 percent of the average monthly earnings on which they are based is retained. In no case, however, can application of this maximum reduce total benefits below the larger of 1½ times the primary insurance amount, or \$50.00. In this way the benefits for a retired worker and his wife, as well as for any two survivor beneficiaries, will

always be payable in their full proportions. Under the old law, application of the 80-percent maximum sometimes prevented a wife from getting the full one-half of the husband's benefit amount. The new provision replaces the former stipulation that family benefits may not be reduced below \$45.00.

The minimum amount payable when only one survivor beneficiary is drawing payments on an individual's record is \$30.00 a month, the same as the minimum old-age insurance benefit. This amount accordingly becomes the minimum payment for any single surviving widow, widower, child, or parent, instead of a proportion of the minimum primary amount as provided under the old law. Table 2 presents illustrative survivor benefits under the old law and under the new law.

Lump-sum death payment.—The new law retains the former provision setting the lump-sum death payment at three times the primary insurance amount but places a maximum of \$255 on the amount that can be paid.

Improvement of the Retirement Test

Monthly benefits under the old-age and survivors insurance system are paid upon the retirement or death of the family earner. The law provides that benefits are not payable to persons otherwise eligible for benefits if they have substantial employment or self-employment earnings, as determined under the retirement test set out in the act. The new law maintains this principle, but changes have been made to increase the equity of the retirement test and to afford greater opportunities to retired individuals to supplement their benefits through earnings from part-time or intermittent work.

Age.—Under the old law, benefits were payable at age 75 without regard to the test of retirement. The amendments reduce the "age 75" provision to age 72. The reduction in the age at which benefits are paid as a straight annuity rather than as a retirement benefit was made largely in recognition of the typically later retirement ages of some of the newly covered groups, particularly farmers.

Table 2.—Illustrative monthly benefits for survivors of insured workers

Average monthly wage		Aged widow or widower ¹		Widow and 1 child ²		Widow and 2 children		Widow and 3 children	
On basis of old law	With dropout as provided in new law	Old law	New law	Old law	New law	Old law	New law	Old law	New law
Assuming level earnings									
\$50.....	\$50.....	\$20.70	*\$30.00	†\$41.80	‡\$45.00	§\$45.00	¶\$30.00	‡\$45.00	§\$50.00
100.....	100.....	41.30	*\$41.30	†\$60.00	‡\$60.00	§\$60.00	¶\$60.00	‡\$60.00	§\$60.00
150.....	150.....	46.90	‡\$51.40	†\$83.80	‡\$83.80	§\$83.80	¶\$83.80	‡\$83.80	§\$83.80
200.....	200.....	52.50	‡\$58.90	†\$105.00	‡\$105.00	§\$105.00	¶\$105.00	‡\$105.00	§\$105.00
250.....	250.....	58.20	‡\$66.40	†\$116.80	‡\$116.80	§\$116.80	¶\$116.80	‡\$116.80	§\$116.80
300.....	300.....	63.80	‡\$73.90	†\$127.50	‡\$127.50	§\$127.50	¶\$127.50	‡\$127.50	§\$127.50
350.....	350.....	(*)	‡\$81.40	(*)	‡\$82.80	(*)	‡\$82.80	(*)	‡\$82.80
Assuming specified increase in earnings arising from dropout									
\$50.....	\$70.....	\$20.70	*\$30.00	†\$41.80	‡\$67.80	§\$45.00	¶\$37.90	‡\$45.00	§\$47.80
100.....	120.....	41.30	‡\$46.90	†\$60.00	‡\$83.80	§\$60.00	¶\$60.00	‡\$60.00	§\$66.00
150.....	170.....	46.90	‡\$54.40	†\$83.80	‡\$105.00	§\$83.80	¶\$83.80	‡\$83.80	§\$86.00
200.....	220.....	52.50	‡\$61.90	†\$105.00	‡\$123.80	§\$105.00	¶\$105.00	‡\$105.00	§\$106.00
250.....	270.....	58.20	‡\$69.40	†\$116.80	‡\$138.80	§\$116.80	¶\$116.80	‡\$116.80	§\$117.00
300.....	310.....	63.80	‡\$75.40	†\$127.50	‡\$150.80	§\$127.50	¶\$127.50	‡\$127.50	§\$128.00
350.....	360.....	(*)	‡\$81.40	(*)	‡\$162.80	(*)	‡\$162.80	(*)	‡\$162.80

* Amounts produced by use of new formula; with level average monthly wage amounts of less than \$130, slightly higher benefits result from use of 1952 formula and conversion table.
 † Same for single surviving parent or child.
 ‡ Same for 2 aged parents.
 § Application of \$30 minimum family benefit.
 ¶ Application of 80-percent maximum may not reduce benefits below \$45.

‡ Application of 80-percent maximum may not reduce benefits below \$50.
 § Reduced to 80 percent of average wage.
 ¶ Application of 80-percent maximum may not reduce benefits below 1½ times the primary insurance amount.
 ‡ Dollar maximum on benefits.
 § Maximum average wage under old law is \$300.

Establishment of uniform annual test for wage earners and self-employed persons.—Two separate tests of earnings were provided under the old law, applicable to beneficiaries under age 75. Wage earners were subject to an "all-or-none" monthly test, under which benefits for the individual and for any dependents drawing benefits on his record were withheld for any month in which he earned covered wages of more than \$75. The test for self-employed persons was on an annual basis; 1 month's benefit was withheld for each \$75 (or fraction thereof) of self-employment earnings in excess of \$900 in a year, except that no benefit was withheld for any month in which the self-employed person did not render substantial services in his trade or business.

The new law puts the test on an annual basis for both wages and self-employment earnings, and the two types of income are combined for purposes of determining the individual's total earnings. The amount of earnings that individuals may have without loss of benefits is raised to \$1,200. One month's benefit will be

withheld for each \$30 (or for each fraction of that amount) in excess of \$1,200, but no benefit will be suspended for any month in which the individual neither earned wages of more than \$30 nor rendered substantial services as a self-employed person in his trade or business.

Wage earners will no longer lose a benefit each month they earn more than a specified amount. They will be able to take intermittent, full-time work or more regular part-time work than was possible in the past without the loss of benefits or with the loss of only a few months' benefits, depending on what they earn. A beneficiary may work throughout the year at \$110 a month, for example, and lose only 2 months' benefits; under previous law he would lose all 12. As another example, a beneficiary may earn \$300 a month for 3 months without losing any benefits, while under previous law he would lose 3 months' benefits.

The combination of wages and self-employment earnings for retirement test purposes eliminates the discriminatory dual exemption that had been possible for some individuals

having both types of earnings, because of the separate tests formerly contained in the law.

Earnings in noncovered work.—For administrative reasons the retirement test under the old law applied only to earnings in work covered by the old-age and survivors insurance program, and individuals who worked in noncovered employment could continue to draw benefits regardless of their earnings. The new law eliminates this anomaly by providing that earnings from any type of employment or self-employment in the United States, whether or not covered by the system, be taken into account in determining if benefits should be withheld. Such a provision is now administratively feasible, since coverage of the system will be nearly universal.

Employment outside the United States.—The retirement test under the new law continues to apply to covered earnings outside the United States in the same way as in this country. In addition, a test is established for employment in noncovered work outside the United States. Beneficiaries residing abroad will thus be on a generally comparable basis with those living in the United States.

No specific earnings amount could possibly differentiate between full-time and part-time work in all the countries where beneficiaries might be working. For this reason a different type of test is provided; benefits are withheld for any month in which a beneficiary under age 72 engages in noncovered remunerative activity (either employment or self-employment) outside the United States on seven or more different calendar days. For administrative reasons, the monthly test, rather than the annual test, is provided.

Eligibility Conditions

The new law makes three important changes in the eligibility conditions of the program. They are (1) including, as an alternative for acquiring fully insured status, a transitional provision for persons continuously employed during 1955-58; (2) making survivor benefits payable in cases of deaths between December 1939 and September 1950 if the

deceased individual had 6 quarters of coverage; and (3) making individuals eligible for the disability "freeze" when they had 6 quarters of coverage out of the previous 13 quarters and 20 quarters of coverage during the previous 40-quarter period ending with the quarter in which the disability started.

Continuous employment.—The 1950 amendments greatly liberalized the requirements for insured status by granting a "new start," whereby an individual was fully insured if he had quarters of coverage, acquired at any time, equal in number to half the calendar quarters elapsing after 1950 (rather than 1936) and before age 65 or death. The congressional committees concerned with the 1954 legislation believed that it was unnecessary to provide for another new start in the requirements for insured status. In their opinion, successive new starts, reducing the insured-status requirements to the minimum of 6 quarters of coverage, "tend to weaken the principle that benefits should be payable only on the basis of a substantial degree of attachment to employment covered by the system."

The committees believed, however, that there was "good reason to grant a temporary liberalization to benefit those newly covered workers who, although they are continuously engaged in covered work after 1954, die or retire before they can meet the requirements for insured status." For this reason, an individual is now deemed to be fully insured at the time of his death or attainment of age 65, whichever is earlier, if all the quarters elapsing after 1954 and up to that time are quarters of coverage, provided that he has had at least 6 quarters of coverage after 1954. The transitional provision ceases to be applicable to those reaching age 65 or dying after the third quarter of 1958, since any newly covered individual who works continuously in covered employment after 1954 and through the third quarter of 1958 will meet the insured-status requirements as in the 1950 law.

Deaths before September 1950.—The new law makes benefits payable to about 200,000 persons on the basis of earnings of certain individuals who died after 1939 and be-

fore September 1950. Any deceased worker who was not fully insured under the law in effect at that time but who had at least 6 quarters of coverage is deemed to have been fully insured at the time of his death, except for purposes of determining the entitlement of a widower or of a former wife (divorced) to mother's insurance benefits.³ This amendment makes the new-start provisions of the 1950 law applicable for survivors of insured individuals who had died before September 1950, just as the 1950 law had made those provisions applicable to persons who had retired before September 1950.

The primary insurance amount of such a deceased worker will be computed only through the use of the conversion table in the 1954 law, using the closing and starting dates contained in the law as it was in effect before September 1950. Proof of support, when required, may be filed any time before September 1956. Monthly benefits will be payable only for months after August 1954 on the basis of applications filed after the month.

Persons deported from the United States.—The legislation provides that old-age insurance benefits shall not be payable to any person deported from the United States after August 1954 because of illegal entry, conviction of a crime, or subversive activity. Dependents' or survivors' benefits based on the record of a deportee are payable unless the beneficiaries are noncitizens who leave the United States. A deported person who is later lawfully readmitted to this country for permanent residence here will be able to receive old-age and survivors insurance benefits for months following his reentry.

Disability freeze.—The eligibility conditions for the disability freeze are discussed in the following section. There are, however, two eligibility conditions for the freeze that are in the nature of insured-status conditions, although the law does not

³ Before the 1950 amendments, benefits were not payable to the widower or to the former wife (divorced). Moreover, survivor benefits were not payable on the earnings of persons who died before 1940, since such benefits were not included in the program until that date.

so characterize them: a requirement identical with that for currently insured status (6 quarters of coverage out of the last 13 quarters) and a longer requirement (20 quarters of coverage out of the last 40 quarters) to test a reasonably substantial as well as recent attachment to the labor force.

Preservation of Benefit Rights for the Disabled

Under the old law, a worker's rights to old-age and survivors insurance benefits might be impaired or lost entirely if he had periods of total disability before reaching retirement age.⁴ Unless the worker was already permanently insured when he became disabled, he lost his fully insured status when he reached retirement age because the entire period of his disability was included in the elapsed time that was the basis for determining his insured status. Benefit amounts, whether for retirement or survivor benefits, were based on the average monthly wage, which was computed by taking an individual's total earnings from a specified starting date up to age 65 or death and dividing that total by the full elapsed time, including any periods of total disability. The 1954 amendments, freezing old-age and survivors insurance status during extended total disability, remove this disadvantage by preventing such periods of disability from reducing or wiping out retirement and survivor benefits. In addition, there is available to the disabled individual the 4- or 5-year dropout period provided by the new law for all persons.

The freeze provision is analogous to the "waiver of premium" commonly used in life insurance and endowment annuity policies to maintain the protection of these policies for the duration of the policyholder's disability. About 375 life insurance companies, including all of the largest, offer a waiver-of-premium clause to individuals purchasing ordinary life insurance. About half the

standard ordinary life insurance issued currently carries this waiver.

Great advances have been made in rehabilitation techniques and efforts in recent years. It is recognized that prompt referral of disabled persons for appropriate vocational rehabilitation services increases the effectiveness of such services and enhances the probability of their success. The new law specifically states that it is the policy of Congress that disabled individuals applying for disability determinations are to be promptly referred to State vocational rehabilitation agencies, to the end that as many as possible may be restored to gainful work.

The disabled individual, to qualify for the new disability freeze, must have not less than 6 quarters of coverage during the 13-quarter period that ends with the quarter in which the period of disability begins, and 20 quarters of coverage during the 40-quarter period that ends with such quarter. These requirements are intended to limit the application of the provisions to individuals who have had a reasonably long, as well as recent, record of earnings in covered work. They operate to screen out those individuals who had voluntarily retired from gainful activity and had not been compelled to leave the labor force because of their disability.

Disability must have lasted for 6 months before it may be considered. This provision is intended to exclude from consideration temporary conditions. The law also states that an individual filing an application for a disability determination must submit such proof of the existence of his disability as may be required.

Disability is defined in the new law as the inability to engage in any substantial gainful activity because of any medically determinable physical or mental impairment that can be expected to result in death or to be of long-continued and indefinite duration.

Blindness also constitutes disability and is defined in the law as central visual acuity of 5/200 or less in the better eye with a correcting lens; an eye in which the visual field is reduced to 5° or less concentric contraction is considered as having a central visual acuity of 5/200 or less.

A medical finding of blindness, as defined, would alone be sufficient proof that an individual is disabled. Individuals with a visual handicap that does not meet this definition may nevertheless meet the general definition of disability if they are found unable to engage in any substantial gainful activity because of visual impairment that can be expected to be of long-continued and indefinite duration.

The law sets forth the conditions under which disability determinations will be made. The State vocational rehabilitation agencies or other appropriate State agencies, will, under agreements with the Secretary of Health, Education, and Welfare, determine if the individual is suffering from a disability and the day the disability began and the day it ceases. Their determinations will be considered as the determinations of the Secretary, with the following exceptions.

The Secretary is authorized to review, on his own motion, any determination made by a State agency that a disability exists and, as a result of such review, to make a finding that no disability exists or that the disability began later than determined by the State agency, or that the disability ceased earlier than determined by the State agency. The law also gives an individual, dissatisfied with a determination by a State or the Secretary, the right to a hearing by the Secretary and to judicial review of the final decision of the Secretary after such hearing, to the same extent as provided in section 205 (b) and section 205 (g) of the 1950 law.

An agreement may cover all persons in the State or only certain classes of individuals, as may be designated in the agreement at the State's request. In the relatively few cases where there is no agreement with a State, then the disability determinations will be made by the Secretary. Such determination will also be made for the types or classes of cases that, because of their characteristics or their volume, the State has asked to have excluded from the agreement.

Standards for evaluating disability are to be worked out in consultation

⁴ The Social Security Act Amendments of 1952 contained provisions for a disability freeze that never became operative and that differ in many respects from the 1954 provisions. For a summary of the 1952 provisions, see the *Bulletin*, September 1952.

with the State agencies, and both the State agencies and The Bureau of Old-Age and Survivors Insurance will apply these standards for the purposes of the freeze. Equal treatment of all disabled persons under the old-age and survivors insurance system in all States will thus be promoted.

Disability evaluation has two aspects. There must be (1) medically determinable impairment of serious proportions that is expected to continue indefinitely and for a long time or to result in death, and (2) a present inability to engage in substantial gainful work by reason of such impairment; efforts toward rehabilitation will not, of course, be considered as interrupting a period of disability until the individual has actually been restored to gainful activity. The physical or mental impairment must be of a nature and degree of severity sufficient to justify its consideration as the cause of failure to obtain any substantial gainful work.

The provision that the freeze apply only for impairments that "can be expected to be of long-continued and indefinite duration" is not inconsistent with efforts toward rehabilitation, since it refers only to the duration of the impairment and does not require a prediction of continued inability to work. An individual would not meet the definition of disability if he can, by reasonable effort and with safety to himself, achieve recovery or substantial reduction of the symptoms of his condition.

Payments to the vocational rehabilitation agencies for their services will be met from the old-age and survivors insurance trust fund. The payments may be made in advance or as reimbursement, and before audit or settlement by the General Accounting Office. All payments must be used solely for the purposes for which they are made, and any money not used for such purposes must be returned for deposit in the trust fund.

January 1, 1955, was set as the earliest date a freeze application can be accepted in order to give the Department of Health, Education, and Welfare time to prepare its forms and procedures and negotiate necessary agreements with State agencies. An individual who files before July 1,

1955, must, however, be alive on that date to get credit for a period of disability.

Until July 1, 1957, the application can establish a period of disability beginning on the earliest date the individual was disabled and met the freeze earnings requirements. In other words, an individual who was disabled as early as the fourth quarter of 1941 could have sufficient qualifying earnings and establish a period of disability, provided he has been continuously disabled and has filed an application before July 1, 1957. Despite the administrative difficulties, Congress believed that the large number of persons who have been totally disabled for the years before the enactment of this provision should be included in the group receiving the advantages of the freeze provision, but only for periods of disability continuing to the date of application.

Benefit increases for disabled individuals already on the benefit rolls will be payable beginning July 1955. Newly entitled persons will be able to have their benefits computed with the exclusion of a period of disability beginning with benefits payable for July 1955. Survivors of workers who died after having qualified for a period of disability will receive increased benefits.

The amendments specifically provide that nothing in title II shall be construed as authorizing the Secretary of Health, Education, and Welfare or any other officer or employee of the United States to interfere in any way with the practice of medicine or with relationships between practitioners of medicine and their patients, or to exercise any supervision or control over the administration or operation of any hospital.

Financing Basis and Policy*

Congress carefully considered the problem of cost in determining the old-age and survivors insurance benefit provisions of both the 1950 and 1952 acts. The belief was expressed in the committee reports that the old-age and survivors insurance program should be on a completely self-

*This section was prepared in its entirety by the Chief Actuary of the Social Security Administration.

supporting basis from contributions of covered individuals and employers. Accordingly, the 1950 and 1952 legislation contained a tax schedule that it was believed would, under a level-wage assumption, make the system self-supporting as nearly as could be foreseen under circumstances then existing. The program's actuarial balance was virtually the same under the 1952 act as under the 1950 act; the reason was that the rise in earnings levels in the 3 years preceding the enactment of the 1952 act was taken into account in the estimates for the 1952 act. It was recognized that future experience might differ from the conditions assumed in the estimates, so that any tax schedule, at least in the distant future, might have to be modified.

After enactment of the 1952 act, new cost estimates⁵ were developed to take into account the considerable change in economic conditions during the past few years and the additional actuarial and statistical data available from the program's operations and from the 1950 Census. According to these estimates the level-premium cost of the benefit disbursements and administrative expenses under the 1952 amendments is somewhat more than ½ of 1 percent of payroll higher than the level-premium equivalent of the scheduled taxes (including allowance for interest on the existing trust fund).

This deficiency is of long-range importance. In this connection, the Committee on Ways and Means of the House of Representatives stated in its report on the 1954 amendments:

While we recognize that future costs estimates, particularly if earnings continue to rise, may indicate that a lower schedule of contribution rates will provide for a self-supporting system, we believe that our policy should be one of utmost prudence in this area. Consequently the long-range schedule of old-age and survivors insurance contributions should be adjusted so as to meet the additional costs of the changes now proposed and also to cover fully the deficiency which the new estimates indicate in the financing of the present program. With this in mind we have proposed that the scheduled rates on employer

⁵ Actuarial Study No. 36, June 1953.

Table 3.—Benefit costs and contributions under intermediate-cost estimates, 1952 Act and 1954 bills and law

Item	Level-premium equivalent (percent)			
	1952 Act	House-approved bill	Senate-approved bill	1954 amendments
Benefit cost ¹	6.62	7.34	7.65	7.50
Contributions.....	6.05	7.12	7.12	7.12
Net difference, or lack of actuarial balance.....	.57	.22	.53	.38

¹ Includes adjustments to reflect (a) lower contribution rate for the self-employed, compared with employer-employee rate, (b) the existing trust fund, and (c) administrative expenses.

and employee in 1970 be raised from 3¼ to 3½ percent and that in 1975 and thereafter the rate be increased to 4 percent, with corresponding changes for the self-employed.⁶

The changes made by the Senate Committee on Finance would have made the estimated long-range cost of the program significantly greater than did the bill as it passed the House of Representatives. Thus, the net effect of the benefit changes in the Senate-approved bill would have been to increase the long-range costs of the program by slightly more than 1 percent of payroll as against the corresponding figure of ½ of 1 percent for the House bill. The Senate committee made the following statement in this connection: "Nevertheless, we believe that the long-range schedule of old-age and survivors insurance contributions should be adjusted so as to meet the additional costs of the changes now proposed. On the other hand, we believe that there is no necessity now to attempt to cover fully, or even partially, the deficiency which the new estimates indicate in the financing of the present program."⁷ The Senate accordingly retained the rate schedule approved by the House.

In brief, then, the House-approved bill would be financed by a contribution schedule set so that, under the intermediate-cost estimate, the system would be self-supporting, or, in other words, so that there would be little or no "actuarial insufficiency."

⁶ House Report No. 1698, May 28, 1954.

⁷ Senate Report No. 1987, July 27, 1954.

The policy according to the Senate-approved bill was that any proposed amendments should not add costs that are not offset by increased income and that any existing "insufficiency" as a result of new cost estimates, if relatively small, need not require legislative action until more experience bore out the indications.

The 1½-percent increase in the ultimate combined employer-employee rate, in both the House-approved and Senate-approved bills, represents an equivalent level increase of slightly more than 1 percent of payroll. As indicated by table 3, under the intermediate-cost estimate this amount meets the increased cost of the benefits provided by the Senate-approved bill although it does not appreciably reduce the currently estimated actuarial deficiency of the present system. Under the House-approved bill, on the other hand, the increase in the ultimate contribution rate serves to meet not only the increased cost but also to reduce the lack of actuar-

Table 4.—Estimated progress of trust fund under new law, 2.4-percent interest

Calendar year	[In millions]				
	Contributions	Benefit payments	Administrative expenses	Interest on fund	Fund at end of year
Actual data					
1953.....	\$3,945	\$3,006	\$88	\$414	\$18,707
1953.....	4,105	3,236	92	424	19,102
Low-cost estimate ¹					
1954.....	\$5,308	\$3,550	\$98	\$468	\$21,240
1955.....	5,939	4,405	101	526	23,199
1960.....	7,795	7,040	116	697	28,785
1970.....	12,522	10,559	144	1,029	44,831
1980.....	16,247	14,203	173	1,861	80,330
1990.....	17,735	17,114	200	2,647	113,146
2000.....	19,740	18,289	217	3,535	151,432
2020.....	23,262	23,407	268	6,556	279,638
High-cost estimate ²					
1954.....	\$5,149	\$3,722	\$95	\$464	\$20,898
1955.....	5,906	4,964	117	511	22,203
1960.....	7,725	7,890	131	553	23,418
1970.....	12,390	12,020	138	820	22,278
1980.....	15,829	16,071	233	998	29,538
1990.....	16,615	19,534	269	402	15,542
2000.....	17,753	21,231	290	(³)	(³)
2020.....	18,393	27,968	351	-----	-----

¹ Excludes effect of railroad coverage under financial interchange provisions.

² Includes effect of railroad coverage under financial interchange provisions, partly estimated.

³ All estimates based on high-employment assumptions.

⁴ Fund exhausted in 1995.

Table 5.—Changes in estimated level-premium costs of benefit payments as percent of payroll, by type of change, intermediate-cost estimate

Item	Level-premium cost
Cost of 1952 Act: ¹	
1952 estimate, 2¼-percent interest.....	6.00
Current estimate, 2¼-percent interest.....	6.74
Current estimate, 2.4-percent interest.....	6.82
Effect of changes:	
Extension of coverage.....	-.18
Raising earnings base to \$4,200.....	-.15
Increase in benefits.....	+ .82
Liberalization of retirement test.....	+ .20
Elimination of lowest years of earnings.....	+ .13
"Disability freeze" provision.....	+ .07
Cost of 1954 amendments, ² 2.4-percent interest.....	7.50

¹ Includes adjustments to reflect (a) lower contribution rates for the self-employed compared with employer-employee rate; (b) the existing trust fund; and (c) administrative expenses.

² Primarily reflects effect of new benefit formula and conversion table but includes effect of revised minimum and maximum benefit provisions and the minor changes in insured-status provisions.

ial balance to the point where, for all practical purposes, it may be said to be sufficiently provided for.

The benefit costs under the new law fall between those of the House-approved bill and those of the bill approved by the Senate. Accordingly, it may be said that under the 1954 amendments the increase in the ultimate contribution rate meets all the additional costs of the benefit changes and a substantial part of the deficiency that the latest estimates indicated in regard to the financing of the 1952 act.

Results of Cost Estimates on Range Basis

The level-premium cost for the benefits provided in the 1954 amendments, on the basis of 2¼-percent interest, is roughly 6.6-8.4 percent of payroll, while at 2½-percent interest the corresponding figures are 6.4 and 8.2 percent, respectively.⁸

Table 4 presents the estimated operations of the trust fund under the 1954 amendments, on the basis of a 2.4-percent interest rate, which is the interest rate used as the appropriate single rate in the estimates for the preceding version of the bill. During

⁸ For more details on the cost estimates see Robert J. Myers, *Actuarial Cost Estimates for the Old-Age and Survivors Insurance System as Modified by the Social Security Amendments of 1954*, prepared for the use of the House Committee on Ways and Means, August 20, 1954.

Table 6.—Estimated cost of benefit payments under 1952 Act and under new law, intermediate-cost estimate¹

Calendar year	Amount (in millions)		Percent of payroll	
	1952 Act	New law	1952 Act	New law
1955.....	\$1 075	\$4 715	3.05	2.94
1960.....	5 716	7 495	4.10	4.40
1970.....	8 318	11 290	6.26	5.94
1980.....	11 116	15 137	6.40	7.27
2000.....	14 512	19 769	7.31	8.11
2127.....	19 476	25 702	8.63	9.50
Level premium: ²				
2 1/4-percent interest.....			6.69	7.42
2 1/2-percent interest.....			6.80	7.32
2 3/4-percent interest.....			6.84	7.25

¹ All estimates based on high-employment assumptions.

² Level-premium contribution rate for benefit payments after 1952 and in perpetuity, not taking into account (a) lower contribution rate for self-employed compared with employer-employee rate, (b) existing trust fund, and (c) administrative expenses; assumes benefits and payrolls remain level after the year 2050.

the past fiscal year, this was the rate being earned. From July 1954 the rate has been only 2.3 percent, since the special issues in the trust fund, constituting almost 90 percent of total investments, now bear a rate of 2 1/4 percent, in comparison with 2 3/4 percent in the fiscal year ended June 30, 1954. For consistency, the 2.4-percent rate has continued to be used for the trust fund calculations.

Under the low-cost estimate, the trust fund builds up rather rapidly and even in 50 years will be growing at a rate of about \$6 billion a year and will amount to about \$180 billion. In fact, under this estimate, benefit disbursements will not exceed contribution income during the next 65 years, and even in the year 2000 will be about 6 percent smaller.

Under the high-cost estimate the trust fund will build up to a maximum of about \$30 billion in the next 25 years but will then decrease until it is exhausted in 1995. Benefit disbursements will exceed contribution income during 1958-69, and again in 1973-74 and after 1979. Accordingly, the trust fund will remain more or less stable at about \$25 billion during 1955-85 (since interest income offsets the excess of disbursements over contribution income).

Although there is a wide spread in the ultimate estimated amounts in the trust fund under the two estimates, the range offers a reasonable

guide to action. The trust fund is a cumulative item and thus tends over the course of years to move relatively rapidly in one direction or the other, under the necessary assumption that the provisions of the law remain unchanged whether the experience develops as "low cost" or "high cost." The cost as a percentage of payroll—the best measure of cost—has a relative range from the low-cost to the high-cost estimate of only about 10 percent in the early years of operation and about 50 percent ultimately.

The results under the two estimates are consistent and reasonable, since the system on an intermediate-cost estimate basis is intended to be approximately self-supporting. Accordingly, in most instances a low-cost estimate should show that the system is more than self-supporting, and a high-cost estimate should show that a deficiency would eventually arise. In actual practice, under the philosophy in the 1950 and 1952 acts as set forth in the committee reports, assuming no change in benefit provisions, the tax schedule would be adjusted in future years so that neither of the developments of the trust fund shown in table 4 would ever eventuate. Thus, if experience

followed the low-cost estimate, the contribution rates would probably be adjusted downward, or perhaps not be increased in future years according to schedule. If, on the other hand, the experience followed the high-cost estimate, the contribution rates would have to be raised above those scheduled. The high-cost estimate in table 4 does indicate that under the tax schedule adopted there would be ample funds to meet benefit disbursements for several decades, even under relatively high-cost experience. In any event, if a deficiency arises in the financing of the system some years hence, or if subsequent experience and actuarial estimates indicate the imminence of a deficiency, it is believed that the situation can readily and safely be handled by a future Congress when the occasion arises.

Results of Intermediate-Cost Estimate

Intermediate-cost estimates were developed by averaging the low-cost and high-cost estimates (using dollar estimates and then developing the corresponding estimates relative to payroll). This intermediate-cost estimate may not represent the most

Table 7.—Estimated benefit payments as percent of taxable payroll under new law, by type of benefit, intermediate-cost estimate¹

Calendar year	Monthly benefits						Lump-sum death payments	Disability freeze ²	Total benefits
	Old-age	Wife's ³	Widow's ³	Parent's	Mother's	Child's			
Actual data ⁴									
1951.....	0.99	0.15	0.14	0.01	0.07	0.24	0.05	-----	1.65
1952.....	1.11	.17	.15	.01	.08	.25	.05	-----	1.83
1953.....	1.60	.22	.20	.01	.09	.30	.07	-----	2.59
Estimated data									
1960.....	2.83	.35	.53	.01	.18	.42	.10	.04	4.46
1970.....	3.80	.40	.97	.01	.18	.39	.11	.06	5.94
1980.....	4.86	.44	1.24	.01	.17	.35	.13	.07	7.27
1990.....	5.71	.44	1.34	.02	.16	.34	.14	.08	8.22
2000.....	5.75	.43	1.25	.02	.15	.32	.14	.08	8.11
2127.....	6.99	.50	1.27	.01	.15	.32	.15	.09	9.50
Level premium: ⁵									
2 1/4-percent interest.....	5.17	.44	1.10	.01	.16	.34	.13	.07	7.42
2 3/4-percent interest.....	5.03	.44	1.08	.01	.16	.34	.13	.07	7.25

¹ All estimates based on high-employment assumptions.

² Includes excesses of wife's and widow's benefits over old-age benefits for female old-age beneficiaries also eligible for wife's and widow's benefits. Also includes husband's and widower's benefits.

³ Cost of the "disability freeze" shown separately, although in actual practice it is spread among the various types of benefits.

⁴ Excludes effect of railroad coverage under financial interchange provisions; partly estimated.

⁵ Level premium contribution rate for benefit payments after 1952 and in perpetuity, not taking into account (a) lower contribution rate for self-employed compared with employer-employee rate; (b) existing trust fund; and (c) administrative expenses; assumes benefits and payrolls remain level after the year 2050.

probable estimate; it is impossible to develop any such figures. Rather, the intermediate-cost estimate has been set down as a convenient and readily available single set of figures to use for comparative purposes.

Table 5 gives an estimate of the level-premium cost, tracing through the increase in cost from the 1952 law according to the major changes made. Table 6 shows the year-by-year cost of the benefit payments according to the intermediate-cost estimate for the 1952 act and for the 1954 amendments. These figures are based on a future level-earnings assumption and do not consider business cycles, which over a long period of years tend to average out. The 1955 benefit disbursements under the 1954 act are estimated at about \$4.7 billion, with a range of \$4.5 billion to \$5.0 billion (in contrast to contribution income of about \$5.9 billion). In 1955 the cost of the 1954 amendments will be about \$700 million more than that for the 1952 act would have been. The cost as a percentage of payroll is about the same because of the higher payroll resulting from the extension of coverage in the 1954 amendments. In subsequent years the benefit cost of the 1954 amendments, as a percentage of payroll, increasingly exceeds the cost of the 1952 act; the excess will be about 7/8 percent of payroll after 1970.

Table 7 presents the costs of the benefits under the 1954 amendments as a percent of payroll for each of the various types of benefits. Table 8 shows the estimated operation of the trust fund under the 1954 amendments according to the intermediate-cost estimate (using a 2.4-percent interest rate) and is comparable with table 4. According to this estimate, contribution income generally exceeds benefit disbursements for the next 30 years, although in 1959, 1963-64, and 1969 (the years preceding the next three scheduled increases in the contribution rates), there is an excess of benefit outgo over contribution income. This difference is in most instances more than counterbalanced by interest income, so that the fund is expected to grow more or less steadily until reaching a maximum of \$70 billion in 2011, and then to decrease until it is exhausted in the year 2031. The

decline in the far-distant future indicates that the revised tax schedule is not self-supporting under the intermediate-cost estimate with a level-earnings assumption, but this estimate may not represent the most probable estimate or what future experience will be. Any lack of self-support or any deficiency that eventually develops can, of course, be acted upon by Congress in later years.

Public Assistance

The new law extends through September 30, 1956, the provisions of the 1952 amendments, which were scheduled to expire at the close of September 30, 1954, with respect to Federal payments to States for public assistance programs. Until that date the Federal share in old-age assistance, aid to the blind, and aid to the permanently and totally disabled will continue to be four-fifths of the first \$25 of a State's average monthly payment per recipient, plus one-half the remainder, within individual maximums of \$55. For aid to dependent children the Federal share will be four-fifths of the first \$15 of a State's average monthly payment per recipient, plus half the balance, within individual maximums of \$30 for the adult,

\$30 for the first child, and \$21 for each additional child in a family. The congressional committees stated that this action was taken pending possible consideration of basic amendments in the Federal matching formula and to allow time for States to plan for operations under any revised law. The cost of continuing such increased Federal payments is about \$400 million for the 24-month period from October 1, 1954, to September 30, 1956.

A second public assistance amendment, extends for two years—from June 30, 1955, to June 30, 1957—the provision in section 344 of the Social Security Act Amendments of 1950. This section provided that certain State plans for aid to the blind that did not meet the requirements of clause (8) of section 1002 (a) of the Social Security Act could be approved for the period from October 1, 1950, to June 30, 1955. These requirements specify that, in determining need, any other income and resources of a person claiming aid to the blind must be considered, with the exception provided in clause 8. Only Pennsylvania and Missouri are now affected by the provision. Extending the time to June 30, 1957, will give these two States sufficient time to make the necessary modifications in their laws so that they, like all other States, will comply with the income-and-resources provision in the Act as a condition for Federal grants to the States.

Amendments to the Railroad Retirement Act

Four amendments are made in the Railroad Retirement Act, designed to preserve the present relationship between the railroad retirement system and old-age and survivors insurance. These amendments (1) change references in the Railroad Retirement Act to "the Social Security Act of 1952" to "the Social Security Act of 1954," (2) permit the retroactive payment of annuities under the railroad program for up to 12 months before the application is filed, (3) permit wages earned in employment covered by old-age and survivors insurance plus railroad compensation to go as high as \$4,200 for purposes of computing railroad survivor annuities,

Table 8.—Estimated progress of trust fund under new law, intermediate-cost estimate, 2.4-percent interest¹

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Interest on fund	Fund at end of year
Actual data					
1951.....	\$3,367	\$1,885	\$81	\$417	\$15,340
1952.....	3,819	2,194	85	365	17,442
1953.....	3,945	3,006	88	414	18,707
1953.....	4,105	3,236	92	421	19,102
Estimated data					
1954.....	\$5,228	\$3,036	\$91	\$466	\$21,060
1955.....	5,922	4,745	109	519	22,656
1956.....	7,700	7,495	134	610	26,102
1957.....	9,917	9,456	151	654	28,506
1970.....	12,456	11,290	188	774	35,554
1975.....	15,090	13,182	186	983	42,810
1980.....	16,034	15,137	203	1,279	51,334
1990.....	17,175	18,339	234	1,525	64,344
2000.....	18,747	19,709	254	1,539	65,036
2020.....	20,828	25,702	310	1,282	52,122

¹ All estimates based on high-employment assumptions.
² Excludes effect of railroad coverage under financial interchange provisions.
³ Includes effect of railroad coverage under financial interchange provisions; partly estimated.

and (4) include the amended old-age and survivors insurance retirement test as part of the retirement test applying to survivor annuitants under the railroad program.

Legislative History

President Eisenhower, in his State of the Union Message of February 2, 1953, recommended that the "old-age and survivors insurance law should promptly be extended to cover millions of citizens who have been left out of the social security system."

Shortly thereafter, Oveta Culp Hobby, Secretary of Health, Education, and Welfare, named a group of consultants to consider the extension of old-age and survivors insurance. Their report was submitted on June 24, 1953.⁹ On August 1, 1953, President Eisenhower submitted a special message to Congress, transmitting the Consultants' Report with the recommendation of the Secretary that specific additional groups should be covered. On August 3, Representative Daniel Reed, Chairman of the Ways and Means Committee of the House of Representatives, introduced a bill, H.R. 6812, carrying out the coverage recommendations.

During the fall of 1953, a subcommittee of the House Committee on Ways and Means held public hearings on various aspects of social security under the chairmanship of Representative Carl Curtis, of Nebraska. On January 6, 1954, Representative Curtis introduced a bill, H.R. 6863, which provided for blanketing-in the uninsured aged, widows, and dependent children, for extensive changes in the coverage, benefits, and financing of the old-age and survivors insurance program and for the termination of Federal grants to the States for old-age assistance and aid to dependent children.

On January 14, 1954, the President transmitted to the Congress a special message recommending important changes in the Federal old-age and survivors insurance system and the Federal programs of grants-in-aid for

⁹Consultants on Social Security, *A Report to the Secretary of Health, Education, and Welfare on Extension of Old-Age and Survivors Insurance to Additional Groups of Current Workers*, 1953. For a summary, see the *Bulletin*, September 1953, pp. 3-7.

public assistance. On the same day Representative Reed introduced H.R. 7199 and H.R. 7200, which carried out the President's recommendations on old-age and survivors insurance and public assistance, respectively. The Committee held public hearings on H.R. 7199 and on various other proposals from April 1 to 15. After extensive executive sessions a new bill, H.R. 9366, was introduced by Representative Reed on May 28 that embodied the Committee's recommendations.

The bill was reported favorably by the Committee on the same day and passed the House of Representatives on June 1 by a vote of 355 to 8 (with two members answering "present").

The Senate Committee on Finance held public hearings from June 24 to July 9 and reported the bill favorably, with amendments, on July 27; with nine amendments from the floor it passed the Senate by a voice vote on August 13.

The conferees from the House and Senate completed their report on August 20, and the report was adopted in both Houses on that same date.

The bill was signed by the President on September 1, 1954, and became Public Law No. 761.

House action on H.R. 7199 and H.R. 7200.—The House Committee on Ways and Means made 22 substantive changes in H.R. 7199 and H.R. 7200. These changes, embodied in H.R. 9366 as passed by the House without amendment, were:

1. Self-employed physicians would continue to be excluded.¹⁰
2. Self-employed ministers and Christian Science practitioners would be covered.
3. Coverage of agricultural workers would be on the basis of \$200 cash wages from one employer in a calendar year (instead of \$50 in a calendar quarter).
4. The referendum for State and local government employees would require that there be a majority of eligible employees participating in the referendum, in addition to at least two-thirds of those voting being in favor of coverage.

¹⁰The Committee first tentatively voted on May 20 to include physicians but later voted to exclude them (*Congressional Record*, May 20, 1954, p. D 562).

5. Certain employees in positions covered by a retirement system but not members of a retirement system would be covered.

6. Certain employees of the National Guard would be covered as State and local employees.

7. Coverage would be extended to several additional groups of Federal employees.

8. Coverage would be extended, on an elective basis, to United States citizens employed outside the United States by foreign subsidiaries of American employers.

9. A fifth year of low earnings could be dropped, in computing average monthly earnings, by persons who had 20 quarters of coverage.

10. Persons who had all quarters of coverage in the quarters elapsing after 1954 would be fully insured at the time of retirement or death.

11. Computations of average earnings for benefit purposes would be made on an annual rather than a quarterly basis.

12. The maximum monthly family benefit would be increased from \$190 to \$200.

13. A husband and wife (and a widow and 1 child) would receive 1½ times the primary insurance amount even though the combined amount would exceed 80 percent of the average monthly earnings.

14. The minimum monthly benefit of \$30 for a retired worker would be applied to any sole survivor beneficiary (widow, widower, child, or parent).

15. The maximum lump-sum death payment would be \$255.00 instead of \$325.50.

16. Certain survivors of individuals who died before the insured status provisions were liberalized in 1950 would be eligible for benefits if the wage earner had enough quarters of coverage so that he would have been insured had he died after the provisions were liberalized.

17. Benefits would be withheld from dependents and survivors for months in which the beneficiary resided outside the United States unless the beneficiary met certain requirements as to earlier residence in the United States or the insured person was currently insured, at death or at the attainment of age 65, on the basis

of military service wage credits or employment outside the United States.

18. Earnings during periods of unlawful residence could not be used in determination of insured status or benefit amounts.

19. All benefits payable on an individual's record would be terminated if he was deported because of illegal entry, conviction of a crime, or subversive activity.

20. A revised schedule of contribution rates would be established, with increases to 3½ percent each for employer and employee in 1970 and 4 percent each in 1975 and thereafter, and corresponding increases for the self-employed.

21. The Federal matching provisions for public assistance would be extended 1 year, rather than on the new basis proposed in H.R. 7200.

22. Period for approval of Pennsylvania and Missouri plans for aid to the blind would be extended 2 additional years.

Senate action on H.R. 9366.—The Senate Committee on Finance made major changes in the bill as passed by the House.

1. Farmers and all self-employed professional persons would be excluded.¹¹

2. Ministers would be allowed to elect coverage as self-employed persons within 2 years; those electing such coverage would be compulsorily covered thereafter.

3. Christian Science practitioners would be excluded.

4. Coverage of farm workers would be broadened to include those receiving \$50 or more in wages in a quarter from an employer.

5. Provisions of State and local coverage would be modified to (a) require the vote of a majority of those who are members of the system in favor of referendum; (b) make institutions of higher learning a separate coverage group; (c) enable each political subdivision or any such subdivisions to be a separate coverage group; (d) include certain State government employees in Utah; and (e) include certain inspectors of

¹¹ This action reversed an earlier tentative action of the Committee covering these groups on an individual voluntary elective basis (*Congressional Record*, July 13, 1954, p. D 824).

agricultural products.

6. All Federal employees covered by the House bill would be excluded, and Federal employees would not be permitted to receive credit under two Federal retirement systems for the same period of Federal service.

7. The retirement-test provisions would be modified by (a) increasing the basic exemption of \$1,000 to \$1,200 a year; (b) limiting the retirement test, as it applies to employment in the United States, to covered employment; and (c) reducing from 75 to 72 the age at which benefits are payable irrespective of retirement.

8. The lump-sum death payment would continue to be three times the primary insurance amount (that is, up to \$325.50, instead of \$255.00 as in the House bill).

9. The House provisions restricting benefit rights for persons outside the United States, persons illegally in the United States, and persons deported would be eliminated.

10. The 1952 public assistance matching formula would be extended for 2 years instead of 1 year as in the House bill.

On August 13, the Senate passed H.R. 9366, as amended, by a voice vote. Nine additional amendments were adopted, six were rejected, and six amendments were presented but withdrawn.

The amendments adopted were:

1. The Smathers-Holland amendment to exclude temporary agricultural workers from the British West Indies.

2. The Ives amendment to permit coverage of employees of nonprofit institutions that fail to formally elect coverage but pay taxes.

3. The Morse amendment to permit employees of nonprofit institutions who failed to elect coverage and for whom taxes have been paid to be covered.

4. The Humphrey amendment to include funeral directors on a compulsory basis.

5. The Hayden-Goldwater amendment to permit retroactive coverage of employees who are members of the Arizona teachers' retirement system.

6. The Kerr amendment to make optional with the State—instead of mandatory—provisions for institu-

tions of higher learning to be a separate coverage group.

7. The Kerr amendment to permit Christian Science practitioners to be covered on a voluntary basis as self-employed persons.

8. The Kerr amendment to permit ministers who are engaged as missionaries outside the United States to be covered on a voluntary basis as self-employed persons.

9. The Long amendment to require the Department of Health, Education, and Welfare to study the feasibility and costs of providing increased minimum benefits of \$55, \$60, and \$75 a month under old-age and survivors insurance.

The amendments defeated were:

1. The Johnston (of South Carolina) amendment to reduce the eligibility age from 65 to 60 for old-age and survivors insurance.

2. The Stennis amendment that would have left the coverage of farm workers under the 1950 amendments unchanged.

3. The Humphrey amendment to increase the widow's benefit from three-fourths of the primary insurance amount to 100 percent.

4. The Long amendment to require States to disregard the increased old-age and survivors insurance benefits in determining need of public assistance recipients.

5. The Hennings-Symington-Martini-Duff amendment to make permanent the exemption of Missouri and Pennsylvania from the income-and-resources requirement for aid to blind.

6. The Humphrey amendment to increase payments under old-age assistance, aid to the blind, and aid to the permanently and totally disabled \$5 a month, and under aid to dependent children \$3 (with a floor provision), and to repeal the section relating to limitations on Puerto Rico and the Virgin Islands.

The amendments withdrawn were:

1. The Lehman amendment to extend coverage, increase benefits, add permanent and total disability benefits and temporary disability benefits, and make other changes.

2. The Humphrey amendment to extend coverage to dentists.

3. The Humphrey amendment to extend coverage to accountants.

4. The Kennedy amendment to pro-

vide extra credit for postponed retirement.

5. The Kennedy amendment to increase the minimum old-age and survivors insurance benefit to \$35 a month.

6. The Martin-Long amendment to require Congress to review estimated old-age and survivors insurance disbursements every 2 years and to make any adjustments in tax rates necessary to ensure that income to the trust fund will cover expenditures for the ensuing 2 years.

Conference action.—The House-Senate conferees reached agreement on August 20. They took the following action on the substantive differences in the two versions of the amendments.

1. Covered farm workers on the basis of earnings in a calendar year, as in the House version, but with \$100 as the amount rather than \$200.

2. Continued the exclusion of individuals performing services in connection with the production or harvesting of gum naval stores, as in the Senate bill.

3. Excluded temporary agricultural workers from the British West Indies (similar to the present exclusion of agricultural workers from Mexico), as in the Senate bill.

4. Extended coverage to Federal employees not covered by Federal staff retirement systems, as provided in the House bill; the employees of the District Federal Home Loan Banks and the Tennessee Valley Authority employees were excluded. The conferees suggested that a study be made of dual coverage under the old-age and survivors insurance program and Federal retirement sys-

tems.

5. Modified the Senate provision that Federal service credited under the old-age and survivors insurance program for benefit purposes could not be used to establish retirement credit under any other Federal retirement system, to provide that its limiting effect would be applicable to only those groups newly brought under the old-age and survivors insurance by the 1954 amendments.

6. Adopted the Senate provision permitting ministers, Christian Science practitioners, and members of religious orders who have not taken a vow of poverty, whether employees or self-employed, to secure coverage as self-employed persons but on an individual voluntary basis.

7. Extended coverage to farm operators under the terms of the House bill.

8. Continued exclusion of lawyers, dentists, and other medical practitioners, as in the Senate bill, but with extension of coverage to self-employed professional architects, accountants, and engineers, as in the House bill.

9. With respect to coverage of members of State and local retirement systems, concurred in Senate amendment requiring that a majority of the employees eligible to vote in the referendum vote in favor of coverage; (also concurred in Senate amendments making other minor changes relating to extension of coverage of State and local employees).

10. Agreed to House version providing for a maximum lump-sum death payment of \$255.

11. Agreed to Senate amendment reducing to age 72 the age at which

the retirement test no longer applies.

12. Raised to \$1,200 per year the exempt amount of earnings permitted to beneficiaries without loss of benefits, in accordance with the Senate version.

13. Agreed to House version that, in determining the amount of earned income that a beneficiary has received, earnings from noncovered as well as covered employment will be counted.

14. Agreed to Senate provision continuing present law with respect to payment of benefits to dependents and survivors of an insured worker, when such persons reside outside the United States.

15. Agreed to eliminate House provision disallowing wage credits earned by a person during a period of unlawful residence.

16. Agreed to retain, in modified form, the House provision for not paying benefits to an insured worker when he has been deported. Benefits would be continued to eligible dependents and survivors of deported persons if they stay in the United States or if they live abroad and are citizens of the United States.

17. Continued to September 30, 1956, the present matching formulas for old-age assistance, aid to the blind, aid to the permanently and totally disabled, and aid to dependent children, in accordance with the Senate amendment.

18. Agreed to Senate amendment adding a provision directing the Secretary of Health, Education, and Welfare to conduct a study with a view to determining the feasibility of increasing the minimum old-age insurance benefit to \$55, \$60, and \$75.