

Ways To Improve the Old-Age and Survivors Insurance Program

By A. J. Altmeyer*

The Advisory Council on Social Security held its first meeting in Washington on December 4-5. The Council, consisting of 17 members representing employers, employees, and the public, was created by the Senate Finance Committee to assist the Committee in a comprehensive study of the present social security system and of various proposals for its expansion. The following statement, presented to the Council by the Commissioner for Social Security, deals specifically with the Federal program of old-age and survivors insurance.

SOCIAL SECURITY in the most inclusive sense of the term includes all the things necessary to enable the individual citizens of a country to lead a personally satisfying and socially useful life. In this large sense, social security would certainly include decent housing, education, and health, as well as the elimination of destitution.

There is considerable danger that this broad use of the term social security will destroy its usefulness as a term to describe a specific program of action. Therefore, I shall use the term in a more restricted sense as applicable to a specific program designed to eliminate want by preventing loss of income and affording protection against large and unpredictable economic hazards, such as the cost of medical care.

I should like to point out that, even though we achieve the goal of full employment and full production, it is still necessary in a system of private enterprise such as ours to have a program designed to eliminate want, because the working people of this country will still be confronted with the great economic hazards of sickness, physical disability, want, old age, and death, as well as intermittent unemployment. All these great hazards mean interruption of income to the individual family and still spell want in a land of plenty.

I mention intermittent unemployment as a continuing major cause of loss of income because, under a system of free enterprise, we must encourage invention, improvement, variety, and continual adaptation to changing ideas and circumstances.

* Commissioner for Social Security.

This must mean that, as the processes of production and distribution change, individuals will be forced out of one employment and be obliged to seek another. This is the price, if it can be called a price, that we pay for maximum production, free enterprise, and free labor.

Of course, to the extent that we fail to achieve full employment and full production, a system of social security designed to eliminate want is all the more necessary. Nor should we overlook the fact that a system designed to eliminate want also does actually make a great contribution to the maintenance of full production and full employment by helping maintain mass purchasing power, upon which mass production must depend.

In presenting to you a specific social security program, it will not be necessary to propose strange and new methods. We have a world history and world experience upon which to base our planning and our action. Indeed we already have in our own Social Security Act the fundamental elements of a program of social security designed to eliminate want. Therefore, in my judgment it is only necessary for us to extend, expand, and improve our present Social Security Act in the light of the experience and thinking that have been developed since that act was passed in 1935.

Since the security of the large majority of people is dependent upon their earnings, the focal point of our efforts should be to provide reasonable protection against interruption of income due to sickness, accidents, old age, death, and unemployment.

In other words, we should strive to devise a system which will spread income over periods of nonearning as well as over periods of earning. This can be accomplished to a large extent by a system of social insurance under which benefits are paid to compensate for a reasonable proportion of the wage loss sustained. The cost of such benefits should be financed out of contributions made by the workers of this country and by their employers, supplemented ultimately with some contribution from the Government, representing the entire community.

The Relationship of Social Insurance and Public Assistance

Even a comprehensive contributory social insurance system, however, cannot provide complete protection under all conceivable circumstances. Certainly an insurance system cannot insure against hazards that have occurred before the system was established. Therefore, there is also need for a basic and comprehensive system of public assistance to meet the needs of individuals and their families which cannot be met out of their own resources.

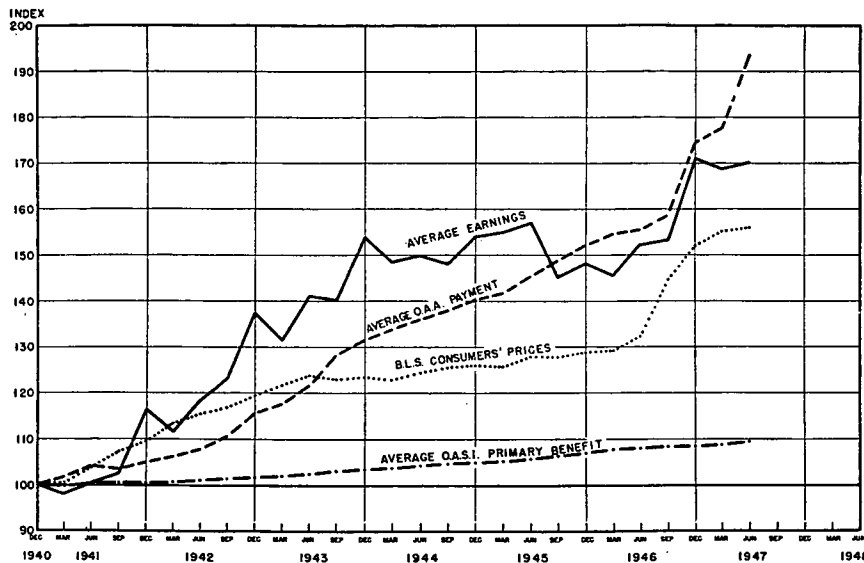
The late Oswald Stein, the world's greatest authority on social security at the time of his tragic death, best characterized the true nature of these two systems. He said, in a report of the International Labor Office: "Social assistance is a progression from poor relief in the direction of social insurance, while social insurance is a progression from private insurance in the direction of social assistance." This statement suggests that there are areas of similarity and areas of distinction in the two programs.

Assistance and insurance are alike in that they seek to provide a minimum degree of economic security. In so doing, both strive to remove uncertain and subjective tests of eligibility and to create certainty and objectivity. Both have endeavored to obtain improved methods of financing and thus to create confidence that benefits will be available when they are needed.

The methods that each program employs complement one another, and

Indexes of consumers' prices, average earnings in covered industry, average primary insurance benefit in current-payment status, and average old-age assistance payment, last quarter, 1940-47

[Data for fourth quarter 1940 = 100]



both programs are essential in order that protection may be well-rounded and able to meet all foreseeable contingencies that are common to mankind. In this country, public assistance is playing the dominant role at the moment since it must care for those cases in which the wage earner was old or died before our social insurance program got under way. As social insurance develops and spreads its protection more widely, it is hoped that eventually—perhaps before another generation has passed—it will become the predominant program and will take care of the bulk of the problem, providing benefits for the great mass of the population. Such a development would not mean, however, that a system of social security can ever dispense with public assistance. Assistance would always be needed as a residual program for those who are not protected by social insurance because it is not feasible to cover them or because they do not qualify for social insurance benefits. Assistance would also be required to supplement social insurance benefits when they prove inadequate to meet special needs of individuals.

The two programs, similar in purpose but differing in the provisions that enable them to meet their respective obligations, show certain rather significant contrasts as they are con-

stituted today. To illustrate, an applicant for social insurance benefits may qualify without regard to his other resources, whereas the applicant for public assistance will have his other resources taken into account. Associated with this difference is another: insurance benefits are provided on the presumption that most people, when they meet certain defined risks, will be in need of cash income, although it may happen that an individual beneficiary may not be. The applicant for public assistance, on the other hand, must show actual need if he is to qualify for a grant.

This Advisory Council will be confronted with the necessity of determining how far these twin programs have advanced us toward the goal of a minimum level of well-being for everybody. Without undertaking to prejudge your conclusions, I think you will find that we are still a considerable distance from our goal.

Improvements in the Old-Age and Survivors Insurance System

Since I understand, however, that this Advisory Council wishes first to consider the ways and means of improving the present Federal old-age and survivors insurance system, I shall therefore concentrate on this

particular phase of social insurance, which deals with what might be called the long-term economic risks to which the workers and their families of this country are exposed, namely, death, old age, and permanent and total disability.

In considering any type of social insurance, it is necessary to keep in mind two fundamental principles. The first is that only a minimum degree of protection can be afforded; second, that this minimum degree of protection is a general minimum which does not always cover the individual needs of each worker and his family. In other words, I believe that social insurance should be looked upon as providing a minimum degree of protection on which the worker himself through his individual efforts may build more surely and effectively a higher standard of living for himself and his family. We should assume that, in a country such as this, workers by and large will have an opportunity to accumulate some savings, take out some private insurance, and own their own homes. The success of a system of social insurance should be measured by whether such a system, together with private savings, private insurance, and home ownership, enables most of the people of this country to maintain themselves in decency and comfort. This test might be called the test of social adequacy. But in addition, I believe, any social insurance program functioning within a system of free enterprise must also take into account individual equities and incentives. Therefore, while I believe that the low-wage earner and the worker who is already advanced in age should be compensated for a larger proportion of the wage loss sustained, I also believe that the benefits paid to younger wage earners receiving higher wages should take into account the length of time that they have contributed and the larger wage loss they sustain when their employment ceases.

As the Advisory Council knows, the Federal old-age and survivors insurance program is the only part of the Social Security Act that is administered wholly by the Federal Government. Employers and employees have each been making contributions of 1 percent of taxable wages since Jan-

Improvement of Old-Age and Survivors Insurance Benefits

More adequate benefits.—The benefit scale established in 1939 provided a relatively small replacement of wages for most beneficiaries, even in terms of the wage and price levels of that period. Since then the benefits have become increasingly inadequate as prices have risen some 60 percent or more. The following changes in the benefit provisions are suggested to adapt the benefits to changed conditions:

(a) **Benefit formula.** The benefit formula should be revised to provide a replacement of wages, in terms of present levels, at least as large as was provided in 1939 by the present formula. One formula which would accomplish the result for most workers would be one that replaced 40 percent of the first \$100 (instead of \$50) of the average monthly wage and 10 percent of the next \$300 (instead of \$200).

Illustrative primary benefits under present law and proposed revision

Average monthly wage	Present law			Proposed revision		
	Basic benefit	10 years' coverage	20 years' coverage	Basic benefit	10 years' coverage	20 years' coverage
\$50-----	\$20	\$22	\$24	\$20	\$22	\$24
100-----	25	27.50	30	40	44	48
150-----	30	33	36	45	49.50	54
200-----	35	38.50	42	50	55	60
250-----	40	44	48	55	60.50	66
300-----	40	44	48	60	66	72
400-----	40	44	48	70	77	84

(b) **Minimum benefit.** If the change suggested above is made in the benefit formula and the average monthly wage is redefined as proposed below, the amounts payable to most individuals would not be less than \$20. If the minimum primary benefit were set by law at \$20 (instead of the present \$10) this would assure a man and his wife a minimum combined benefit of \$30.

(c) **Wage base.** At present, only the first \$3,000 of wages in a year is counted for benefit purposes. If this amount were raised to \$4,800 it would permit about 96 percent of the workers now covered to have all their wages counted for benefits, as compared with the 97 percent who had all their wages counted in 1939 under the \$3,000 wage base.

(d) **Maximum benefit.** The present law limits benefits to \$85 per month, twice the primary benefit amount, or 80 percent of the average monthly wage of the employee, whichever is least. A higher maximum dollar amount, such as \$120, would reflect the increase to

\$4,800 in the maximum annual earnings credited and would recognize the desirability of providing a relatively wide range of benefits under a program of contributory insurance. Omission of the requirement that the family total must not exceed twice the primary benefit amount would provide more adequate benefits when a worker is survived by a large family.

(e) **Average monthly wage.** Under present law, benefits are based on total covered wages averaged over all months since 1936 (including months of little or even no earnings). Lack of wages in insured employment in any period reduces the average to an excessive degree when, as in the early years of the program, the period of coverage is short. To avoid this, the average wage could be determined by relating it only to periods when the worker's earnings exceeded a certain amount, that is, by excluding periods of little or no earnings. In order to afford some variation in the amount of the benefit in relation to the length of time a person made contributions, the benefits might continue to be increased by 1 percent for each year of coverage, as is now the case, and reduced by 2 percent for each year the worker was out of covered employment.

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

Eligibility.—To be fully insured a worker must have been paid wages of at least \$50 in (a) half the calendar quarters elapsed since 1936 or since age 21, or (b) 40 calendar quarters. This requirement would be difficult for newly covered workers to meet. Thus it would take a farmer who had never worked in insured employment previously, 10 years before he could qualify for an old-age retirement benefit. To make it easier for these workers, a person might also be deemed to be insured if he had covered wages of \$200 in at least 5 of the 10 years before retirement or death.

Retirement test.—Benefits under the existing law are not paid for any month in which a person earns at least \$15. In view of increased wage levels, a person aged 65-69 whose earnings did not exceed \$40 could be considered as not engaged in regular employment and therefore in need of his benefit payments. Beginning at age 70, benefits could be paid irrespective of whether the individual was employed or not.

uary 1, 1937. Under the original provisions of the Social Security Act, monthly benefits would not have been payable until January 1, 1942; the 1939 amendments, however, advanced that date to January 1, 1940. The 1939 changes also resulted in the pay-

ment of more adequate benefits during the early years of the system's operation. Above all, the amendments added both dependents' and survivors' benefits, so that now, in addition to the payment of old-age benefits to the retired worker,

monthly benefits are also payable to the aged wife and young children of a living beneficiary and to the widow, children, and, in some cases, the dependent parents of an insured worker who dies. Just as contributions are paid on the basis of wages received, so

these benefits are paid on the basis of the past wages of the insured worker and thus compensate for a portion of the wage loss caused by his retirement or death.

Federal old-age and survivors insurance constitutes the largest permanent insurance system in the world. Therefore, unprecedented problems were encountered in putting it into effect. All these administrative problems have been solved, however. The total cost of administration at the present time is less than 3 percent of the contributions collected and less than 10 percent of the benefit payments. We confidently expect that, as benefit rolls increase, the cost of administration will decline to less than 5 percent of the benefit payments.

At the present time there are 1,950,000 aged persons, widows, and orphans receiving monthly benefits. More than 89 million individual worker accounts have been established. The cost of maintaining these wage records is less than 12 cents per account per year.

There can no longer be any question as to the effectiveness and practicability of this Federal old-age and survivors insurance system. However, the years that have passed have indicated various ways and means by which it could be improved and also demonstrated that its benefits could

be extended to cover all gainfully employed persons, including the self-employed.

Liberalization of Benefits

The level of benefits now provided was enacted in 1939. Since 1939 the cost of living has increased by at least 60 to 65 percent. Average wages of individuals credited under the insurance system have increased by 55 percent (from \$881 in 1939 to \$1,370 in 1946). Various studies have shown that the present benefits were inadequate even before these increases in cost of living and wage levels.

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

I believe that the wage base for both contributions and benefit computations should be the first \$4,800 in taxable earnings in a year, rather than the first \$3,000. Such a change would recognize the general increase in wage levels and would result in benefits representing a somewhat larger proportion of the wage loss actually sustained by families in the middle and upper income brackets.

Certain items of income, such as tips and dismissal wages, that are not now considered "wages" under the definition in the act should be in-

cluded as wages, so that the base for benefits would represent the worker's actual earnings from employment.

I also believe that certain changes should be made in the provisions governing minimum and maximum benefit amounts. A reasonable standard of adequacy would seem to require a minimum benefit of \$20 for an eligible worker rather than the present \$10 a month, even though most workers would have earnings that would qualify them or their survivors for more than the minimum amount.

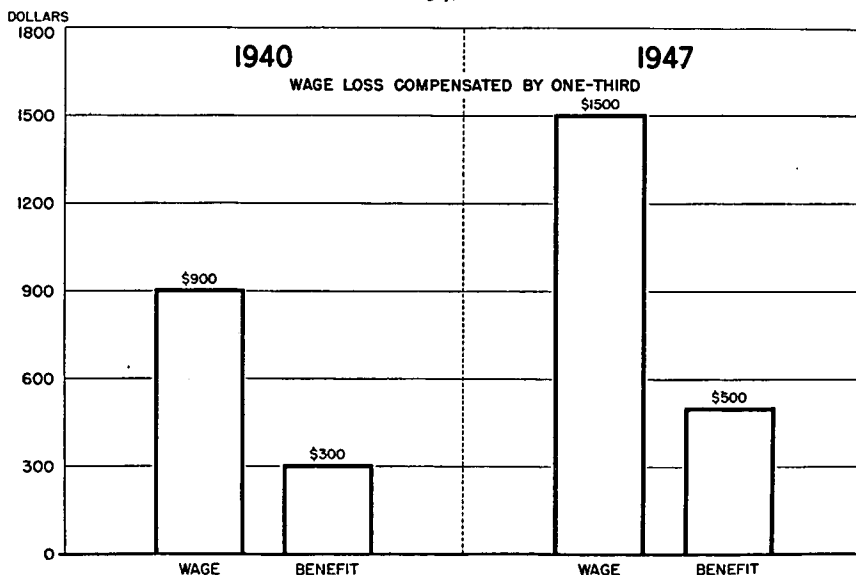
At present, the maximum total amount payable to the worker and his dependents, or to a widow and her young children, is \$85 a month, twice the primary benefit amount, or 80 percent of the average monthly wage of the insured worker, whichever is least. I believe that the \$85 maximum limit should be raised to \$120 and that the second limitation of twice the primary benefit should be removed. The chief effect of these changes would be to provide more adequate benefits in the case of a widow with several children.

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

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

Under the existing law, benefits are suspended for any month in which the beneficiary earns more than \$14.99

Average annual wage and proposed average annual primary insurance benefit, 1940 and 1947



in covered employment. The amount of permissible earnings could well be increased without fear that beneficiaries will encroach on the job opportunities of regular, full-time workers. I believe that earnings of \$40 a month should be permitted without suspension of benefits and that when the retired beneficiary reaches age 70,

he should receive his benefits whether or not he is employed and irrespective of his earnings.

Benefits for Permanent Total Disability

Disability is among the important causes of insecurity. On an average day of the year, about 3.5 million per-

sons are suffering from disabilities which have already lasted 6 months or more. About 1.6 million of these persons are in the ages between 14 and 65 and, but for their disability, they would be engaged in productive work. Disability is one of the major causes of dependency. The extent to which dependency is due to invalidity

Permanent Disability Benefits Under Old-Age and Survivors Insurance

Need for disability protection.—The loss of income suffered by a family when the breadwinner is stricken with a serious and long-lasting disability is fully as great as in cases of old age or death. Prolonged incapacity to work, whether due to accident, extended illness, or chronic disease, is a risk against which most workers and their families find it difficult to budget on an individual basis, or to secure protection through existing insurance or other benefit systems. On any one day, about 1.6 million persons are kept out of the labor force because of major disabilities that have lasted 6 months or longer.

Extended disability is a major cause of destitution because the incidence of total disability is individually unpredictable, the wage loss suffered is frequently complete, and added medical expenses may make the burden of disablement heavier upon the family than that caused by old age or death. The fact that the incidence of permanent disability is reasonably predictable in the aggregate—although not individually—makes it an insurable risk and one which, like old age and death, can be effectively met through contributory social insurance.

Administrative feasibility.—The administrative feasibility of providing cash insurance benefits in such cases is reflected by the disability benefit provisions incorporated in the old-age insurance system of every foreign country. In this country many retirement plans, both public and private, contain disability provisions. Furthermore, there has been extensive administrative experience in the adjudication of disability under the Federal and State workmen's compensation programs, the veterans' programs, Federal and State civil-service retirement and disability programs, and the railroad retirement program. The existing facilities of the Bureau of Old-Age and Survivors Insurance, including the wage records and the field organization, would be available for the administration of disability benefits. Administrative control of the program would be aided by the regular wage reports received from employers, if the disabled persons were still employed.

Scope of "permanent" disability benefits.—Monthly cash benefits would be payable to insured workers who are afflicted with serious disablements that have lasted 6 months or more.

Concept of disability.—Disability benefits should be payable only if there is a substantial loss of earning

capacity for work in general. They should be payable only if the worker is found incapable of earning more than a small amount at any work which he might reasonably be expected to do.

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

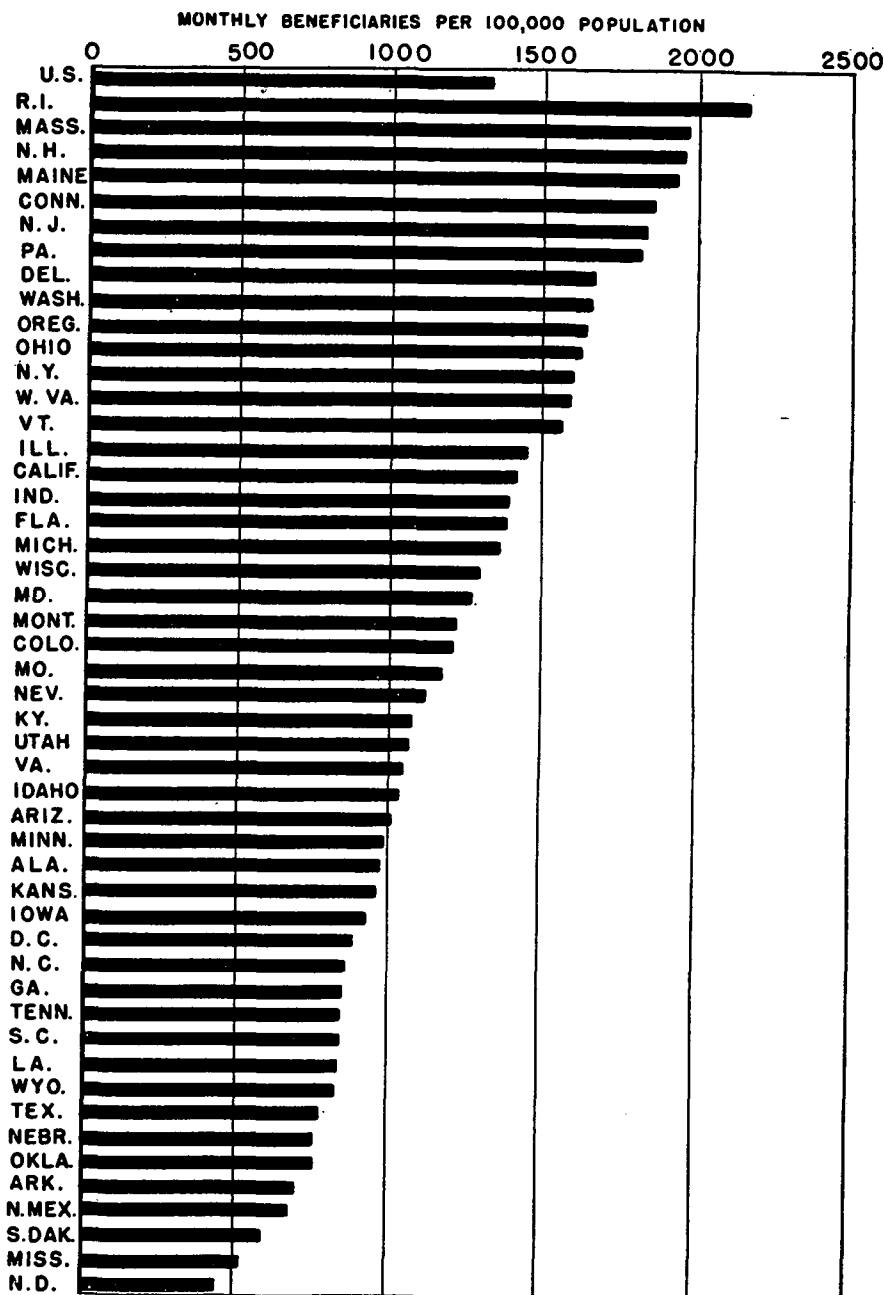
Extent, types, and amounts of benefits.—More than half of the cases of protracted disability occur at ages under 55, when the worker has heavy family responsibilities and has not had an opportunity to build up adequate protection through savings or insurance. In order for a disability insurance program to meet the test of social adequacy, benefits should be paid to persons with dependents and be related to the number of dependents. The disabled worker should receive a monthly benefit computed in the same way as the benefit of an aged retired worker; the wife (if she has a child entitled to benefits in her care or if she is aged 60 or over) and children of a disabled worker should also receive benefits. Their benefits should be computed in the same way as benefits for wives and children of retired workers.

Integration with old-age and survivors insurance.—Under the existing program a period of nonemployment due to disability reduces the benefits for which the worker or his family may subsequently qualify, and may cause the complete loss of insurance protection. If disability benefits are added, the worker's insurance protection would be maintained during a period of disability.

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

Adjustment of duplicating benefits.—Because benefits should not be in excess of the individual's previous wages, consideration should be given to provisions for adjusting duplicate benefits among different disability systems.

Number of persons receiving monthly benefits under old-age and survivors insurance, June 30, 1947, per 100,000 population in each State¹



¹ Total civilian population as of July 1, 1947, from the U. S. Bureau of the Census.

is evidenced also by State reports to the Social Security Administration, which show that one-fourth of the children granted aid under the assistance program are the children of disabled fathers. Various State and local studies have found that even larger proportions of recipients were receiving general relief primarily because of

dependency resulting from the disability of the breadwinner. The cost of dependency falls largely on the public purse.

These and other studies leave no doubt that a comprehensive program of social security must protect families and individuals against loss of earning capacity by reason of disability. It is

significant that every other country in the world which has an old-age retirement program provides for retirement necessitated by chronic or permanent disability.

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

Extension of Coverage

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

The present program covers, with certain important exceptions, employers of one or more employees. Despite these exceptions, social security account cards have already been issued under this program to more than 89 million persons, of whom 82 million already have had some wage credits posted to their accounts because of work in insured employment. It is apparent from these figures that a large proportion of the gainfully occupied population already has some measure of protection against old age and death. However, it is also apparent that many persons pass back and forth between insured employment and uninsured employment. In 1946, while only 33 million individuals were engaged in insured employment at any one time, more than 49.5 million individuals worked in insured employment during the course of the year.

Since the amount of the benefit depends to a considerable extent on the length of time an individual actually worked in insured employment and the amount of his earnings in such employment, persons who pass in and out of insured employment get lower benefits than they would have, on the basis of the same amount of total earnings, if all their work had been in insured employment. Some of them may never acquire insured status or may lose it before benefits become payable, and so may receive no returns at all on their contributions. Persons who always work in uninsured em-

Extension of Old-Age and Survivors Insurance to All Gainful Employment

Destrability.—Many wage earners not now covered under old-age and survivors insurance do not have any protection against the risks of old age, death, and disability. Many of those who shift between employment covered by the program and noncovered employment do not acquire insured status under the insurance program, and derive no protection from the contributions they have made. An extension of coverage to all gainful employment (including self-employment) would assure the basic protection of the program to all members of the labor force, regardless of type of work or changes in jobs.

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

Employees of nonprofit institutions.—No administrative problems would be involved in covering nonprofit employees. If religious organizations desired, clergymen and members of religious orders might continue to be excluded from coverage. The legislation might also declare that coverage of nonprofit employment is not intended to violate the traditional tax-exempt status of nonprofit organizations.

Federal civilian employees.—An extension of coverage to civilian employees of the Federal Government, coupled with appropriate adjustment in the civil-service retirement system, would be of substantial value to most workers. Workers who shift between Federal employment and employment covered under old-age and survivors insurance would have continuity of coverage, while career employees of the Federal Government would gain the valuable survivorship protection pro-

vided under old-age and survivors insurance. The rights of annuitants and employees under the civil-service retirement system would, of course, be preserved, and the separate administration and financing of that system would be retained.

Employees of State and local governments.—Constitutional difficulties in the levy of a tax against State governments could be avoided by authorizing the Federal Security Administrator to enter into voluntary agreements with States for the coverage of their employees. Local governmental units could participate in the State agreements. Compulsory coverage might be provided for some groups of proprietary employees.

Railroad workers.—While the survivor benefits of the railroad retirement program are coordinated with those of old-age and survivors insurance, the retirement benefits of the two programs are separate. If old-age and survivors insurance were extended to railroad employment, workers who shift between employment covered by old-age and survivors insurance and railroad employment would have continuity of retirement coverage. As in the case of governmental employees, no loss of present rights need be involved.

Members of the armed forces.—An extension of coverage to future service in the armed forces would assure continuity of coverage for individuals who spend only part of their working lifetime in military service. The survivorship protection provided career servicemen would be especially valuable to them after they leave military service. The special survivorship protection under old-age and survivors insurance now provided World War II veterans would seem adequate if coverage were generally extended in the fairly near future and if the provisions for the average monthly wage and insured status were modified to remove handicaps because of prior periods of noncoverage.

Self-employed persons.—A separate statement describes a method for providing old-age and survivors insurance protection for the self-employed.

ployment are unable, of course, to develop any benefit rights whatsoever under the system.

The main groups now excluded from old-age and survivors insurance and unemployment insurance are agricultural workers, domestic employees, employees of nonprofit organizations, railroad employees, government employees (Federal, State, and local), and self-employed persons, including small businessmen and farmers.

Agricultural Labor and Domestic Workers

About 3.5 million agricultural workers and more than 2.5 million domestic

workers are excluded from old-age and survivors insurance during the course of a year. These two are the largest and most necessitous groups of workers now unprotected. A principal reason for their exclusion was the administrative difficulty involved, because of the large number of small employers concerned and the fact that most of these employers do not keep books and would find it difficult to make reports. On the basis of studies made during the past 10 years, I believe that it is administratively feasible to extend coverage to these groups through the use of a stamp-book sys-

tem. Under such a system each employee would receive a stamp book in which stamps would be placed by his employer to evidence contributions made by the employer and the worker. In rural areas the employer could purchase these stamps from the mail carrier, and in urban areas they could be purchased at post offices. A stamp plan could be used also by smaller industrial and commercial establishments that found it more convenient.

Employment by Nonprofit Organizations

I also recommend the inclusion of services performed for religious, edu-

cational, charitable, and similar non-profit organizations. No administrative difficulties would be involved in extending coverage to these groups.

Public Employment

I believe that it would be highly desirable to extend the basic protection

of the social insurance system to all public employees—Federal, State, and local.

Special retirement systems now cover approximately three-fifths of all public employees. It would be possible to revise these special retirement systems so that their benefits would be superimposed on those payable under the basic social insurance system. Such a revision would of course have to be made in such a way as to increase, not reduce, the total protection afforded government employees. In the case of Federal employees, if agreement cannot be reached as to the necessary adjustments in the existing Federal retirement systems, I recommend that at least the Federal employees who are not protected by an existing retirement system be covered under the basic old-age insurance system.

In the case of State and local employees, I see no major administrative difficulties in permitting the governmental units to be covered voluntarily, provided there are proper safeguards to protect the social insurance system against adverse selection.

Railroad Employment

At present, employment within the railroad industry and that outside the industry are covered by two different social insurance systems. These are coordinated on only a limited basis. Under the 1946 amendments to the Railroad Retirement Act, eligibility for and the amount of the benefits payable to survivors are based on combined earnings under both systems. No coordination is provided for retirement benefits, however. As a result, workers who move between railroad employment and employment covered by old-age and survivors insurance may lose all retirement protection under old-age and survivors insurance and, because of the time spent in employments covered by the latter program, may also suffer a reduction in the benefits payable under the railroad system. On the other hand, depending on when the shift in employment took place, dual benefits may be paid upon retirement. The only completely adequate remedy is the extension of old-age and survivors insurance to railroad employment. As

Coverage of the Self-Employed Under Old-Age, Survivors, and Permanent Disability Insurance

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

Reporting.—Contributions and benefits would be based on income from self-employed activity. For both the self-employed person and the Government, the simplest way of reporting such income is as part of the income-tax return. The integrated returns would be for a calendar year and would be due on March 15 of the following year, as at present. Social security reporting would be required only from persons with annual gross income of \$500 or more (exclusive of income in kind for home use), and contributions would be required only from those whose "net income from self-employment," as defined below, is \$200 or more. Consistent with the provisions for employees, the maximum annual net income from self-employment on which contributions would be payable would be \$4,800, less the amount of any wages received during that year from other covered employment.

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

Definition of net income from self-employment.—Net income from self-employment could be determined on the basis of two figures already included in the income-tax return, namely, income from business or profession (schedule C), and income from partnerships (schedule E).

Retirement test.—It would be presumed that, if the individual is between the ages of 65 and 70 and his annual income from self-employment is less than \$480, the individual is retired. If his income exceeds this amount, his benefits would be withheld only if there has been substantial activity directed toward the production of such income. In such case, 1 month's benefit would be withheld for each \$40 of income in excess of \$480, with a maximum of 12 months' benefits withheld on the basis of any 1 year's income from self-employment. If the individual's income is not the result of substantial activity on his part, he would continue to receive his benefits without regard to the amount of his income from self-employment. Beginning at age 70, irrespective of whether the individual was employed or the amount of his income or earnings, benefits could be paid.

in the case of the coordination of old-age and survivors insurance and systems covering government workers, those covered by the railroad act need not suffer any loss or diminution of benefit rights under such coordination.

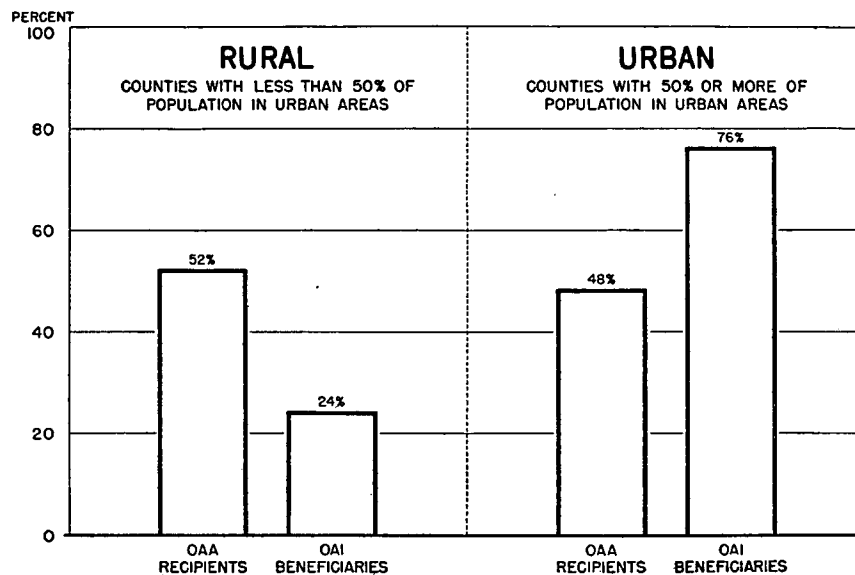
The Self-Employed

I recommend that the protection of the system be extended to self-employed persons, such as small businessmen and farm operators, whose need for such protection is as great as that of persons in the employ of others. The self-employed could report their earnings from self-employment as a part of their income-tax return. There is, of course, the special problem of determining how much income is due to self-employment as distinguished from return on investment. Since, however, a reasonable approximation of this can be derived from items already in the income-tax return, there are no insuperable administrative problems to prevent extension of coverage to the self-employed.

Disadvantages Suffered by Newly Insured Groups

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

Distribution of old-age assistance recipients and aged beneficiaries receiving old-age and survivors insurance benefits¹ among rural and urban counties, June 1946



¹ Primary, wife's, widow's, and parent's benefits.

period since January 1, 1937, namely, 20 years. I am prepared to submit various alternative proposals which would help correct both these types of inequities.

Protection of Veterans

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

With respect to veterans of World War II, the lapse of time since they entered military service and the fact that many millions have already left military service create problems which make it impossible to arrive at an ideal solution.

In 1946, Congress provided what was in effect free term-insurance protection to veterans who die during the 3 years immediately following their separation from active military or naval service. This period of time enables veterans to acquire at least

currently insured status if they work in insured employment for as much as one-half of that period. For those veterans who do not have insured employment, however, this insurance protection ceases upon the expiration of the 3-year period. Even veterans who do have insured employment suffer some reduction in their benefits because military or naval service is not insured employment. Thus their average wage, on which benefits are based, is less, and they do not receive the 1-percent increment in the benefit amount that is provided for each year a person earns \$200 or more in covered employment.

Costs

It was estimated in 1939, when the law was amended, that the most probable range in the average long-run cost of the benefits to be provided would be 4 to 7 percent of covered pay rolls. Of course, actuarial estimates must be presented within a wide range, since nobody can predict accurately future economic conditions, mortality rates, population growth, retirement rates, and many other such factors on which actuarial estimates must be based.

One fact is clear, however. The present old-age and survivors insurance system provides for a basic primary benefit of 40 percent of the first \$50

in average monthly wages and 10 percent of the next \$200. As an individual's wages increase, he always receives a larger benefit, but this benefit also represents a smaller proportion of his wages. For instance, the

Financing Old-Age, Survivors, and Permanent Disability Insurance

Strengthening the actuarial basis of the program.—The recommendations for changes in coverage should strengthen the actuarial basis of the program, both in the immediate future and in the long run. Income from contributions would be increased while at the same time the relative cost of insurance benefits paid to the group of individuals who move between uninsured and insured employments would be reduced. Benefit disbursements would be greater, particularly in the early years, so that the relative cost of all benefits in the early years would represent a higher proportion of ultimate disbursements under the expanded plan than at present. Consequently, since the slope of the benefit curve would be less steep, the expanded program would be a safer and sounder plan actuarially and financially and would also substantially increase social insurance protection.

Long-run financial plans essential.—A long-range plan should be developed to assure ample funds to finance benefit disbursements not only in the years just ahead but in the more distant future, without necessitating abrupt changes in premium rates. The contribution rates in the present law are as follows: 1 percent each for employers and employees during 1947, 1948, and 1949; 1½ percent in 1950 and 1951; and 2 percent each for 1952 and thereafter. These contribution rates will probably provide enough revenue to cover disbursements under the expanded program for 10 years or more.

Division of costs.—With practically complete coverage of the gainfully employed and their dependents, a Government contribution toward financing the program becomes equitable and appropriate. Such a contribution would be offset by the reduced public costs for public aid if coverage is extended and permanent disability benefits are included. Distribution of the ultimate cost of these benefits among employers, employees, and the Government should be governed by the degree to which coverage is extended and the method of financing other insurance benefits.

Cost of the present program.—The actuarial estimate of the original 1935 law indicated that the "level premium cost" of the benefits (the average contribution rate required to finance the system into perpetuity discounted at interest) would be slightly in excess of 5 percent of pay roll. Subsequent studies based on "probable maximum cost" assumptions showed a level premium cost of 7 percent of pay roll.

When the program was revised in 1939, bringing in survivors insurance and providing higher benefit payments in the early years, increased costs were counterbalanced by a reduction in average benefit payments in later years and a reduction in lump-sum death payments. The level premium cost of the 1939 law, therefore, was about the same as for the 1935 law. Actuarial estimates made at the time of the 1939 law indicated

that the level premium cost of the plan varied from 4 to 7 percent of pay roll.

The level premium cost of the present law, based on actuarial estimates published in 1947, is estimated to range between 3 and 7 percent of pay roll, or lower than previous estimates. The war and its aftermath, as well as the recovery from the depression of the early thirties, have been accompanied by important changes in many of the factors which determine the relationship between benefits and contributions. Among the more important factors leading to reduction in costs, measured as a percent of pay roll, are the increase in level of earnings and expanded employment in covered occupations.

These revised figures are predicated on the maintenance of existing wage levels over the next 40 or 50 years. However, our history indicates that the level of income and earnings in the future is likely to be above that now prevailing. Increases in the past have been uneven but on the whole persistent over the decades. If the cost estimates of the present benefit provisions were amended to take account of a long-term tendency for wages to increase, the range of the level premium cost might be lowered from 3-7 percent to 2½-6 percent.

Cost of an expanded program.—Using as illustration the 1947 actuarial estimates based on present employment and wage levels, the level premium cost of a revised and expanded program would total 5½ to 8½ percent of pay roll, or not much more than the present system was estimated to cost in 1939. The ultimate annual cost of the expanded program based upon the above assumptions is estimated to range from 7 percent of pay roll to 12 percent. This is lower than the range for the 1935 law (9.4-13.4 percent) and not much different from the range for the existing law as estimated in 1939 (7-10½ percent). However, it is of course higher than the estimates of the cost of the 1939 benefits measured as a percentage of present-day pay rolls (4-8 percent). The explanation of the paradox of being able to grant more liberal benefits, both as to amount and type, at apparently the same cost in terms of pay roll is as follows. First, the change in the benefit formula, in general, parallels the changes in wages over the past 8 years, so that benefits under the new formula, on the average, will bear the same relation to wages as benefits under the present formula bore to the lower average wages prevailing before the war; thus, the change in the benefit formula can be said to be not a real liberalization but only a maintenance of the same level of relative adequacy as when the program was enacted. Second, the cost of the additional types of benefits and benefit liberalizations will be borne largely by the savings due to extending coverage.

worker who has average wages of \$100 a month receives a basic benefit of \$25 a month or 25 percent of his average wages; the \$250-a-month individual receives \$40 a month, which represents 16 percent. Thus, as the average wage of insured persons increases, the relative costs of the present benefits measured as a percentage of pay roll will decrease. At the present time the average wage of persons contributing to the insurance system is substantially higher than the average wages assumed in making the

actuarial cost estimates in 1939. This single factor has resulted in a great reduction in the relative costs of the insurance plan. In calculating the costs of the proposals I have presented, it must be borne in mind that extension of coverage would result in including all the wages of many individuals who are already under the insurance system part of the time. This would increase their taxable wages and reduce the relative cost of the insurance plan, as already explained.

Therefore, while it might be necessary eventually to increase somewhat the income of the system to meet the cost of the various additional benefits recommended, the schedule of rates payable by employers and employees, as reduced by Congress this year, would be sufficient to cover current costs of an expanded program for the next 10 years or more. I believe that, when the present schedule of rates fails to cover current disbursements, the Government should begin to contribute.

(Continued from page 1)

This rise has been carried over into the weekly volume of waiting-period claims, which increased during the last 2 weeks of November. It is likely, therefore, that the number of compensable claims will increase during succeeding weeks. In fact, seasonal increases in compensable claims have already taken place in some of the leading industrial States.

Number of claims for unemployment insurance benefits in the weeks ended October 25 and November 22, 1947, in selected States

State	Initial claims		Waiting-period claims		Compensable claims	
	Oct. 25	Nov. 22	Oct. 25	Nov. 22	Oct. 25	Nov. 22
N. Y.....	36,185	45,608	25,426	28,776	156,523	164,428
Calif.....	20,372	26,057	7,058	9,530	99,987	98,880
Pa.....	7,761	10,111	3,807	3,994	50,165	44,220
Mass.....	6,073	7,773	2,755	2,920	36,573	34,213
Ill.....	6,174	7,378	2,468	3,086	41,210	39,375
Mich.....	7,497	8,417	7,000	3,000	48,023	27,941
N. J.....	7,793	7,449	4,214	3,956	41,299	41,360
Ohio.....	3,423	3,820	4,488	4,747	17,630	18,454
Mo.....	2,352	3,552	1,764	2,142	15,612	14,763
Tenn.....	1,563	1,805	1,558	1,380	16,017	16,432

October in Review

Claims filed for unemployment insurance under the State systems in October reflected the general expansion of industrial production and employment, as well as unemployment in scattered industries. There was a sharp decline for the month in continued claims, which reached a new postwar low, while initial claims, mirroring new unemployment, increased slightly as certain types of seasonal employment passed their peak. Unemployment resulting from a halt in construction work because of bad

weather and from shortages of essential materials also contributed to the rise in initial claims. For the fourth successive month the average weekly number of beneficiaries went down. Benefit expenditures also dropped. The amount expended in the 10 months ended October 31 was almost a third less than payments in the same 10 months of 1946.

THE TOTAL NUMBER of monthly benefits awarded for old-age and survivors insurance reached an all-time high in October. New records were established for primary and wife's benefits, while more child's and widow's current benefits were awarded than in any other month since May, and more widow's benefits than in any month since April. At the end of October, retired workers and their families, numbering some 1.1 million persons, were receiving benefits at a monthly rate of \$24.8 million; another 800,000 survi-

vors of deceased workers were receiving \$12.4 million. These figures represent an increase over those for the preceding month for all beneficiary groups except widows with young children. Each year, from October to December, as Christmas jobs open up, many of these younger widows take temporary work.

TOTAL PUBLIC ASSISTANCE expenditures rose more sharply in October than in any other month since March, as need increased with the coming of cold weather and prices continued to advance. The largest percentage increase was in general assistance and reflected moderate increases in average payments in most States. In aid to the blind, on the other hand, a rise of \$9.63 in the average payment in California, which had raised its maximum payment, accounted for more than 70 percent of the national increase in that program.

Number of claimants for unemployment benefits, August 1945–November 29, 1947

