

## Facing Forward to Peace: Recommendations of the Social Security Board in Its Tenth Annual Report\*

*In the first decade of the Social Security Act, the social insurance and public assistance programs it established have shown their worth. On that decade of experience the Social Security Board bases its recommendations for extending the program to the millions of families still partly or wholly unprotected, for covering the risks against which little or no provision has yet been made, for strengthening present provisions, and for improving and simplifying administration and financing.*

IN THE FIRST 10 years of the social security program a Nation-wide basis has been laid for defenses against most of the major causes of economic insecurity. New governmental techniques and resources have been effectively developed through the collaboration of the Federal Government and the States. Widespread public support evidences the extent to which the program is meeting generally recognized individual and social needs. Yet, as President Truman pointed out on the tenth anniversary of the Social Security Act, "we still have a long way to go before we can truthfully say that our social security system furnishes the people of this country adequate protection." The Social Security Board believes that major steps toward that goal are now both feasible and necessary.

### *A Comprehensive Program of Social Security*

**Social insurance.**—The objective of social insurance is to provide, for all the working population, a basic minimum protection against involuntary interruption of earnings or loss of capacity to earn and against other common risks to family livelihood, such as the costs of medical care. Our present system is incomplete in the coverage of both risks and persons. Among those who have some protection under the Social Security Act or other public

\*This summary is based on Section Five of the *Annual Report of the Federal Security Agency, Social Security Board, 1945*. Section Five describes the basis and character of the Board's recommendations and outlines fiscal-year developments in the social security program. For a comprehensive review of the first decade of the Social Security Act, see the *Social Security Bulletin*, August 1945: U. S. Government Printing Office, 20 cents.

laws relating to similar risks, great and wholly illogical differences exist in the extent and character of protection.

The Social Security Board believes that the most effective and economical method of providing social insurance in the United States is through a comprehensive basic national system, which can be supplemented by special or additional programs for particular groups. Provision for all common risks within a single system would make it possible to establish appropriate relationships between the amounts and duration of various types of benefits and, with supplementation by special systems, to avoid gaps in protection. It would permit the simplicity and economy of unified administrative organization.

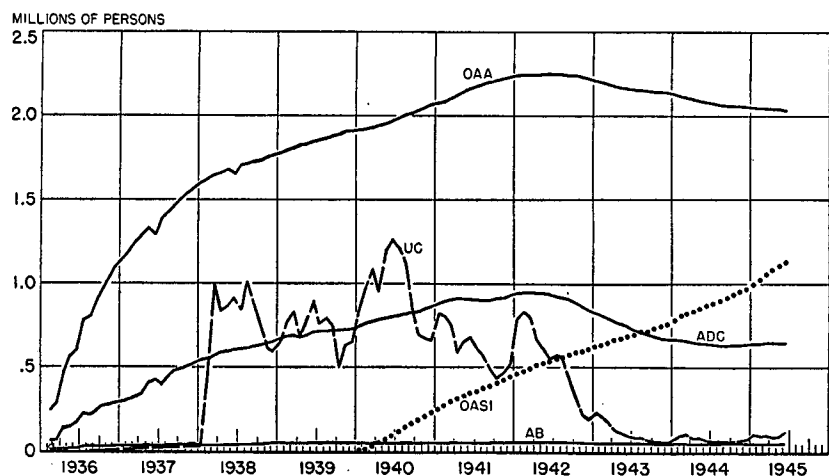
A social insurance system in which benefits are related to past earnings automatically adjusts payments to the different levels of wages and of

living in various parts of the country. Though the benefit formula would be the same, the prevailing level of benefit would be higher in high-wage cities and States than in places where wage rates are lower, but individuals in similar circumstances would be treated similarly wherever they are. With comprehensive coverage, benefit amounts would reflect the actual wage losses of many workers more closely than at present, since earnings in any job a worker had had could be counted in computing the amount of his benefit.

Under a unified basic system, a single local office could serve employers and workers with respect to any part of the program. Only one wage record need be maintained for a worker, only one contribution paid on his behalf, and only one wage report made for him by his employer. At present, duplication of Federal and State reports and records adds appreciably to public administrative costs and business expense.

Contributory social insurance automatically provides the funds to pay benefits and automatically controls costs. Since a very large part of the population would have protection under a comprehensive system, a Government contribution from general tax funds would be warranted. The stabilizing effect of an adequate system would be important even for persons who did not share in it directly, and public costs otherwise necessary for public aid and social services would be gradually reduced as the insurance system took over responsibility

*Social insurance beneficiaries and public assistance recipients under the Social Security Act, February 1936–June 1945*<sup>1</sup>



<sup>1</sup> Excludes persons receiving lump-sum payments under the old-age and survivors insurance program.

## A Comprehensive Program of Social Security

The Social Security Board recommends the establishment of:

*A comprehensive basic national system of social insurance*, covering all major risks to economic independence and all workers and their dependents to whom such risks apply. Such a program would include insurance against wage loss in periods of disability and against costs of medical care, as well as old-age and survivors insurance and unemployment insurance, relating benefits to past earnings with provision for additional benefits for dependents. It would be designed to close existing gaps in the coverage of both persons and risks, to remove present inequities in the protection of workers and the financial burdens of employers, and to provide a consistent relationship among insurance provisions for the various risks and between provisions of the basic system and of supplementary special systems for particular groups. As compared with separate programs to meet particular risks, such a system would reduce administrative costs and burdens and simplify arrangements as they affect workers, employers, and public agencies. It would greatly strengthen protection against want and dependency at a minimum cost.

*A comprehensive program of public assistance*, on a State-Federal basis, under which payments financed from State and Federal funds would be available to any needy person in the United States irrespective of the reason for need or the place of residence. Such a program would be designed to remove the great disparities which now exist in the treatment of various classes of needy persons and in the treatment of persons who are in like circumstances but live in different parts of the country. It would also be designed to remove serious present inequities in the relative burdens borne by States and localities in financing public assistance.

ties that now must be financed from general tax funds.

*Public assistance.*—The newness of social insurance under the Social Security Act, its limitations in coverage and benefit amounts, and the lack of social insurance against wage loss in disability or medical costs make it clear that public assistance must remain an important means of combating need in old age and among children and the handicapped for at least some time to come. For all groups in the population, moreover, assistance must remain a second line of defense, no matter how comprehensive the provisions for social insurance.

To complement insurance adequately, assistance provisions must be sufficiently flexible to provide for need in any group of the population and for need arising from any cause. The special types of assistance under the Social Security Act lack that flexibility, since they are limited to particular groups and are further restricted by eligibility conditions of the State programs and limitations of available State funds.

The ending of the war intensifies

the need to revise the basis of Federal financial participation in public assistance. Collapse of boom towns, loss or decrease of earnings by many who helped support their relatives, and cessation of allowances to servicemen's dependents are particularly serious in many areas which even in wartime lacked means of meeting continuing need among their people.

### *Additional Insurance Provisions*

*Disability insurance.*—The United States is practically alone among the major countries of the world in having old-age insurance without provision for retirement for disability. Prolonged disability may be even more serious for family security than old age. Disability may come suddenly, at a time when a worker has heavy family responsibilities and has had little chance to save. It commonly involves not only wage loss but also costs of medical care.

In 1942, the first full year of our participation in the war, temporary and chronic disability, partial disability, and premature death probably cost the Nation the equivalent of the working time of 13 million persons, more than the total number engaged

at any time in the armed forces. In ordinary years, wages lost in temporary or extended disability by workers who are ordinarily in the labor force total not less than \$3-4 billion. The U. S. Public Health Service has estimated that losses of employers from sickness and disability among their workers are at least 1½ times the wage loss of the workers themselves. In 1943, such losses and the wage loss of workers, it is estimated, totaled not less than \$15 billion, or more than \$100 per capita of the entire population of the United States.

The great majority of American wage earners have no protection under any public program against wage loss from disability of nonoccupational origin. Voluntary insurance against extended disability is necessarily expensive on an individual basis, and most major life insurance companies have ceased to write it. Commercial insurance against loss of earnings in temporary disability has been increasing but is not likely to protect the persons most in need of it. Contributory social insurance, which averages losses of large groups and over periods of time, can bring costs of disability insurance within amounts that employers and workers can pay.

With reasonably adequate provisions, costs of extended disability insurance could be expected to be equivalent to 1 or 2 percent of pay roll after 15 to 20 years of operation; in earlier years, costs would be lower. Substantial protection against wage loss from temporary disability could be made from the equivalent of 1 percent of pay roll.

## Additional Insurance Provisions

The Social Security Board recommends:

Cash benefits to insured workers and their dependents during both temporary disability (less than 6 months) and extended disability (6 months and over).

Insurance against costs of medical care, including payments to physicians and hospitals, with provision for decentralization of administration and possible utilization of State administration.

## Old-Age and Survivors Insurance

The Social Security Board recommends:

Coverage of all gainful workers, including agricultural and domestic employees, public employees and employees of nonprofit organizations, and self-employed persons, including farmers.

Credit to servicemen for their period of service in the armed forces.

Reduction of the qualifying age for all women beneficiaries to 60 years, rather than 65.

Increase in benefit amounts, particularly for low-paid workers.

Increase from \$3,000 to \$3,600 a year in the amount of earnings subject to contribution and counted in computation of benefits.

Increase in the amount of earnings permitted a beneficiary without suspension of benefits, with a less severe penalty than at present for the first failure to report earnings in excess of the permitted amount.

Deletion of the requirement of school attendance as a condition for receipt of benefits by children aged 16 and 17.

Greater uniformity in defining, for purposes of the insurance system, family relations qualifying members of a worker's family for benefits.

Benefits during periods of extended or permanent disability like those for old-age retirement.

Provision for ensuring uniformity in coverage decisions relating to liability for contributions and eligibility for benefits, which are based on identical language but are made by two separate Federal agencies—the Bureau of Internal Revenue and the Board.

Adoption of a long-range plan for financing old-age and survivors insurance which looks toward an eventual tripartite division of costs among employers, employees, and the Government.

*Medical care insurance.*—The United States is far from enjoying the high place in health that it is commonly believed to hold or to which its wealth and other advantages entitle it. Each year records more needless deaths from causes that could be prevented or controlled than occurred from our participation in nearly 4 years of war. Much of the great gap between our present and potential levels of health is due to two factors: lack of adequate public health and medical resources in some areas, especially rural areas, and the barrier of medical costs that keeps many persons from getting care when it would be most effective.

In an ordinary year, the bill for health and medical services, including hospital construction, totals about \$4 billion, of which about four-fifths comes directly from family pocket-books. On the average, families spend 4 percent of income for sickness bills; low-income families, which have much more sickness and receive much less care, spend more than 4 percent. For even the well-to-do, however, sickness bills may wipe out savings and pile up debts, because such costs are irregular and cannot be foreseen or controlled.

Medical care insurance is a method

of enabling families that are ordinarily self-supporting to pay for the medical care they need through small regular contributions to a fund from which payments are made to doctors, hospitals, and others that furnish the services. It is not "socialized medicine" but a method of paying medical costs.

A few million persons now have comprehensive protection under voluntary medical care prepayment plans and a larger number have such voluntary protection against hospital costs. Voluntary insurance plans are valuable within their field, but in general they give only limited protection, reach too small a share of the population, fail to reach those who most need protection, and are necessarily more costly than a system with wider sharing of sickness risks and with the administrative economies feasible for large units. Neither experience in the United States nor experience in other countries indicates any likelihood that such arrangements can serve the need of the whole Nation to take comprehensive action to minimize the insecurity, dependency, and needless suffering that result from the failure of many of our people to get prompt and adequate medical care.

## Old-Age and Survivors Insurance

*Coverage.*—Limitation of coverage continues to be the most important single shortcoming of old-age and survivors insurance. In an average week of 1944, only about three-fifths of all gainfully employed civilians were in jobs covered by the system and more than 21 million civilians and between 11 and 12 million servicemen were excluded from it. Over a year many workers shift between covered and noncovered employment and, because of this division of earnings, qualify ultimately for lower benefits than they would have had if all their work was covered, or they fail to qualify for any benefits.

Wartime shifts in employment have greatly increased the difficulties and injustices of coverage restriction, especially for servicemen and for Federal civilian "war-duration" employees. Many persons in these groups are lessening or losing protection they previously earned under the system without gaining any alternative protection, and all are losing credits they might have earned except for their service to the Nation. Many persons who shifted to covered jobs during the war will lose protection when they return to farming, self-employment, domestic service, or other former work unless coverage is extended promptly; at least the older among them may never be able to qualify for old-age benefits though they have contributed to the system.

Nine years' operating experience has shown methods of solving administrative problems which initially caused exclusion of some groups of workers and has emphasized the importance, for all workers, of coverage by this basic system. Extension of coverage can and should be made without impairing any rights which individuals or groups have built up under other public retirement plans.

*Adequacy.*—The adequacy of an insurance system depends on the extent to which its benefits, together with individual resources, provide reasonable security for the large majority of beneficiaries. Existing provisions of the Federal system do not meet that test. Most beneficiaries have been pinched by the rising cost of living and many aged workers and survivors have refrained from claiming their benefits while they could get work because they did not think they

could live on the amount. Now their chances to hold jobs will be fewer, and it is desirable socially that benefits should be large enough to permit marginal workers to leave the labor force—among them aged workers in failing health, widows whose children need them at home, and children who should get more schooling. Extension of coverage would tend to raise benefit amounts, but in addition benefit scales should be increased, especially for low-paid workers, and certain benefit conditions that have proved unduly severe or restrictive should be liberalized.

### *Unemployment Insurance*

At the end of this first decade, the Federal-State program of unemployment insurance is an important bulwark of protection. It continues, however, to present serious weaknesses. Coverage under most State laws is even narrower than that of old-age and survivors insurance. Despite recent improvements, benefit standards under those laws are in general not yet reasonably adequate. Disqualification provisions are unduly severe. The basis of financing is irrational and a source of administrative complexity and of inequity. The variety of the 51 State laws, which bears little relationship to economic differences among the States, also increases complexities for employers, workers, and administrative agencies. For both workers and employers, the program fails to meet one of the commonly accepted criteria of social insurance—similar treatment of similarly situated participants, wherever they are.

For example, in one State an insured worker with a given wage record can draw up to \$546 in benefits in a year if he cannot get a job; in another State, a worker with exactly the same wage record cannot draw more than \$210. In the fiscal year 1944-45, average payments for a week of total unemployment ranged among the States from \$9.22 to \$19.39. Under State experience-rating provisions, employer contribution rates likewise differ widely for employers who are in similar circumstances but in different States.

If a Federal-State system is retained, the Board believes that the tax-offset method of financing might well be replaced by Federal matching

## Unemployment Insurance

The Social Security Board recommends:

Extension of the Federal Unemployment Tax Act to all employers of one or more in covered industries and to as many other excepted employments as is administratively feasible.

Immediate provision for unemployment benefits during the reconversion period for workers employed by the Federal Government on a uniform basis regardless of the State in which they work.

Immediate provision for unemployment insurance for seamen in coastal, intercoastal, and foreign commerce under a Federal law.

If a Federal-State system of unemployment insurance is continued:

Abolition of the credit-offset features of the present tax and substitution of a straight Federal tax from the proceeds of which matching Federal grants to the States would be made for both benefits and administration.

Provision for minimum benefit standards either as a condition of tax-credit (including additional credits) or of Federal matching of State administrative and benefit costs. Among such standards would be:

Extension of unemployment insurance coverage to all employees in covered industries, regardless of size of firm, and to as many other noncovered groups as is administratively feasible.

Provision of a maximum weekly benefit amount, for workers whose past earnings entitle them to the maximum, of at least \$25 for the worker with dependents.

Provision of as much as 26 weeks' duration of benefits for all workers eligible for benefits whose unemployment extends over so long a period.

Provision for the minimum proportion of wage loss to be compensated, including additional allowances for dependents, and for minimum qualifying earnings.

Provision that disqualifications for voluntary leaving without good cause, discharge for misconduct, or refusal of suitable work should entail merely postponement of benefits for not more than 4 weeks and not cancellation of benefit rights or reduction of benefits.

Definition of good cause for voluntary leaving or for refusing suitable work to include good personal reasons, not merely causes attributable to the job or the employer.

If minimum benefit standards are adopted but the credit-offset feature of the present tax is retained, change in the additional credit provisions so that employers may obtain rate reductions either through experience rating, State-wide reduction, or some other method.

If minimum benefit standards are adopted, permanent provision through a reinsurance fund—rather than loans, as now temporarily provided—to States whose unemployment funds run low.

grants-in-aid to States to pay benefits and administrative costs. Either as a condition of the tax-offset or of a Federal grant, minimum benefit standards should be adopted to assure general adequacy of benefits and equity to workers.

Adoption of such measures, extension of coverage to small firms and to all other commonly excluded groups of employees for whom coverage is administratively feasible, and special provisions to cover Federal war-duration employees and maritime workers would strengthen the Federal-State system for the reconversion and for

the long run. The Board, however, continues to believe that the most satisfactory solution of the difficulties experienced in the first decade of the program would be incorporation of unemployment compensation in a single comprehensive national system of social insurance. Such a step would give great positive advantages in simplicity and economy of operation and in coordination of provisions for the various risks. It would place unemployment insurance on a sounder financial basis and would relate it more constructively to the economy as a whole.

### Public Assistance

Needy people in every part of the United States are being assisted with the aid of matching Federal funds granted to States under the Social Security Act. The extent to which needy individuals and families benefit from Federal funds varies greatly, however, because such funds are provided only for three special groups of needy persons and for even these groups depend in amount on what the State or the State and its localities can themselves provide.

*General assistance.*—Matching Federal funds are granted to States only for payments to the needy aged, needy blind, and children who are in want for certain specified reasons. States and localities themselves must finance any aid given to other persons in need, such as incapacitated adults other than the aged and the blind, children whose need is due to causes other than the death, absence from home, or incapacity of a parent, needy families in which the breadwinner is unemployed or earns too little for subsistence, or persons with interim needs, such as need for aid in sickness.

The local traditions and, in large part, local basis of financing general assistance make present aid to these and other residual groups generally inadequate; in some places, general assistance is wholly lacking. Federal financial participation in general assistance is required to provide a flexible means of meeting need among any group in the population, irrespective of the cause of need.

*Basis of Federal participation.*—Because the Federal grant now matches the amount the State itself provides, relatively more Federal aid goes to rich States than to States with only small resources, where need is most prevalent. In 1944-45, the 12 States lowest in per capita income had 21 percent of the country's population but received only 15 percent of the Federal funds granted for assistance. The limits for Federal matching in individual payments are too low to provide adequately for many recipients, especially families with dependent children. States can make only small use of Federal funds for medical care of recipients.

Additional Federal aid to low-income States, increase or deletion of Federal matching maximums for in-

### Public Assistance

The Social Security Board recommends:

Federal grants-in-aid to States for general assistance to any needy person, irrespective of cause of need, as well as for old-age assistance, aid to the blind, and aid to dependent children.

Special Federal aid to low-income States, in addition to the equal-matching grant, to enable them to meet full need, as defined by the State, among all their needy population.

State distribution of available Federal and State assistance funds to localities in accordance with need in the locality and, where localities participate in financing assistance, also in relation to local fiscal capacity.

Federal financial participation in medical care payments made directly by the assistance agency to doctors, hospitals, or other agencies that furnish such care to needy persons under State public assistance programs.

Deletion of the Federal matching maximum for individual payments of aid to dependent children, and deletion or increase of such maximums for old-age assistance and aid to the blind.

Abolition of State residence requirements as a condition of eligibility for assistance in State plans approved under the Social Security Act.

Extension of Federal financial participation in aid to dependent children to include aid to any needy child, irrespective of the reason for need, who is living with a natural or adoptive parent, legal guardian, or relative. Substantially the same objective could be achieved through the Board's recommendations on Federal financial participation in general assistance. One or both changes, however, are urgently needed to assure more nearly adequate provision for needy children. In addition, appropriate provision under the Social Security Act for the care of a child who is in need of foster-home care.

Deletion of the requirement for Federal matching that, as a condition of eligibility for aid, children aged 16 and 17 must attend school.

Unification of the administration of State public assistance programs at both State and local levels as a condition of the Federal grant.

dividual payments, Federal participation in payments for medical care of recipients, and extension of Federal matching to aid any needy child are required to enable the States to lessen the great differences in the aid now given to needy persons in similar circumstances in various parts of the country. In June 1945, average monthly payments to the aged ranged among the States from \$11.42 to \$48.29, and for the other programs differed at least as widely.

Since the welfare of each part of the country is of direct concern to the prosperity of the whole, it is in the national interest that all States be able to provide a basic minimum security for all their needy people. Nearly all States have shown their willingness to spend their money for assistance when they have it. With the rise in living costs and improvement in State finances during the war, average assistance payments have risen in all States. In most low-income States, however, aid to the needy has continued woefully inadequate at even this time.

### Social Security and the Future

Just as the life of a man or a family is a whole, though particular needs and circumstances must change, so an adequate program of social security must have the unity, flexibility, and equity that will enable it to defend all families against any common economic risk that threatens their independence and well-being.

In so doing, social security does not weaken individual incentive and responsibility. In both assistance and insurance operations, the war years have shown clearly that Americans want to work and do so eagerly when they have a chance. Hope, not fear, drives men to greater endeavor. No country looks to sick or ill-fed people for its leaders or its workers or customers. Adequate social defenses against risks that individuals cannot meet singly are essential to maintain the individual initiative and enterprise on which our past was founded and to which we look for future progress. They are an essential part of the heritage and the future of democracy, of durable prosperity and peace.