Economic Security, 1935–85

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The economic well-being of both working and retired persons has improved significantly since the Social Security Act was passed in 1935. This progress is reflected in a substantial growth in real output of goods and services and in the size of the workforce. Families within households are smaller today and the distribution of earners in families has also shifted. More family units have multiple earners or have no income from earnings. The ratio of nonworkers to workers—a broad measure of dependency—is lower now than ever before. For every 100 employed persons today, 115 persons are not in the workforce (children, retired and disabled persons, and unpaid homemakers) compared with 165 in 1940 and 155 in 1960. Social security has grown and matured to become a strong foundation of retirement income, and other work-related employee benefits have grown in tandem with social security.

The improved economic status of the aged as a whole and of new retirees under social security has been documented in a series of surveys that have been conducted by the Social Security Administration since the program began. New retirees in the early 1980's, compared with those in the late 1960's and the early 1940's, report being in better health and are more likely to say that they retired because they wanted to. Social security benefits continue to be their main source of income, though many more today have supplemental pensions or some asset income. Relatively fewer new retirees now have incomes below the poverty threshold than was true in earlier years, in part because social security benefit levels kept pace with real wage growth in the 1950's and 1960's, then rose in relation to earnings in the 1970's. Benefits for new retirees in the future are now projected to stabilize in relation to earnings.

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When President Roosevelt submitted the original Economic Security Bill in January 1935, observers recognized that many titles of the legislation—such as those granting Federal funds to States to help provide cash assistance to the impoverished elderly and to low-income families with dependent children—were designed to address immediate, pressing needs brought about by the Great Depression. At the President's insistence, however, the Social Security Act also included old-age insurance, which he envisioned as the long-range plan for ensuring that the future aged could rely on an assured income to prevent, rather than alleviate, destitution in old age. Title II of the Act, which provided for old-age insurance, posed a revolutionary idea in the United States. The idea, however, had been tested in European countries, and was examined and adapted to U.S. conditions by the Committee on Economic Security, whose 1934 report provided the blueprint for the original social security legislation. The old-age insurance title of the Act provided a Federal program in which current and future workers would contribute to a system to ensure income in old age for themselves as well as for generations retiring before them.

In the 50 years that have elapsed since the Social Security Act was passed, the old-age insurance program has grown to include survivors insurance (in 1939), disability insurance (in 1954 and 1956), and health insurance for the aged (in 1965) and for the disabled (in 1972). The social insurance features of the original Social Security Act have become an accepted American institution. Over the past 50 years, other private and public employee benefits have expanded to complement the protection provided by social security both by supplementing the level of benefits paid to the retired, disabled, and survivors, and by covering some of the risks not covered by the Social Security Act.

The first part of this article reviews broad economic changes over the past 50 years that are related to economic security for workers. These include the growth in the economy and in the workforce, the decline in the number of immediate family members who rely on the earnings of workers, and the expansion of work-related employee benefits, including the foundation provided by the social security program. The second part of the article focuses on the aged in general and on the newly retired in particular. It notes the dramatic change in economic well-being of the aged since the years just before benefits were first paid. It also documents the significant improvement in the economic status of new retirees from the early 1940's to the early 1980's.

The Economic and Social Context, Then and Now

In the half century since the Social Security Act was passed, the United States has experienced significant economic growth and social changes that have improved the economic well-being of both working and retired persons.

Economic and Population Growth

After adjusting for price changes, the total output of goods and services in the United States has grown more than seven-fold since the depth of the Depression in 1933. Real gross national product (GNP) more than doubled between 1933 and 1950, and has more than tripled again since then (table 1). At the same time, the population of the United States has also grown rapidly—by more than 100 million, from 125.6 million in 1933 to 236.6 million in 1984. The sharp increase in the birth rate during the "baby boom" in the 20 years following World War II and the rise since the mid-1960's in the life expectancy of older persons has contributed to this population growth. Also, the population of the United States was augmented in 1959 by the addition of Alaska and Hawaii as the 49th and 50th States, marking the last expansion of U.S. borders since New Mexico and Arizona were added in 1912. Finally, immigration has contributed to the size of the population, particularly in the last decade. During the 1970's, about 4.5 million persons, predominantly from Asia and Latin America, were admitted to the United States for permanent residence.[1]

The age composition of the U.S. population has undergone important shifts since the mid-1930's. In 1933, persons aged 65 or older accounted for only 6 percent of the population, compared with 12 percent today (table 2). In 1933, persons under age 20 represented 37 percent of the population, compared with 30 percent today. Young persons not only represent a smaller portion of the population today than they did 50 years ago, but their absolute number has also declined since the early 1970's as the birth rate has declined and the children born during the baby-boom have reached adulthood. In 1971, persons under age 20 numbered 77.5 million, compared with 70.8 million in 1983.

[1] Bureau of the Census, **Statistical Abstract of the United States, 1985**, 1985, table 125.

Table 1.—Gross national product (GNP) in 1984 dollars and U.S. population, 1933–84

Year	GNP in 1984 dollars (in billions)	Population (in millions)
1933	$496.1	125.6
1940	768.7	132.1
1950	1,194.6	152.3
1960	1,646.8	180.7
1970	2,425.0	205.1
1980	3,294.8	227.7
1984	3,661.2	236.6

Source: **Economic Report of the President**, February 1985, tables B-1, B-2, and B-28.

Table 2.—Age distribution of the population and percent employed, 1933-83

Year	Percent of population by age				Employment [1]	
	Total	Under 20	20-64	65 or older	Number (millions)	Percent of population
1933	100	37	57	6	38.8	31
1940	100	34	59	7	47.5	36
1950	100	34	58	8	60.1	40
1960	100	38	52	9	67.6	37
1970	100	38	52	10	80.8	39
1980	100	32	57	11	100.9	44
1983	100	30	58	12	102.5	44

[1] For 1933 and 1940, civilian employment aged 14 or older. For subsequent years, civilian employment and resident Armed Forces aged 16 or older.

Source: **Economic Report of the President**, February 1985, tables B-28, 29.

Employment

Today, the proportion of the population who are of prime working age—ages 20-64—is about the same as it was in 1933 and 1940 (about 58 percent), but the proportion of the population who are employed has increased sharply. The total number of employed persons in the United States grew from 39 million in 1933 to 103 million in 1983, or from roughly 31 percent to 44 percent of the entire U.S. population. As the following discussion indicates, the growth in employment reflects a decline in unemployment and a significant increase in the employment of women. At the same time, the expectations of the young and the elderly have changed as more young persons remain in school longer and more of the aged are fully retired.

Unemployment. Part of the growth in employment since 1933 reflects the decline in unemployment—the number of persons without jobs and actively seeking work. The civilian labor force, currently defined as persons aged 16 or older who are employed or actively seeking work, included 7.1 percent who were seeking work in October 1985, a sharp contrast from the roughly 25 percent of the workforce who were without jobs and in search of them in 1933.

Changes in workforce definitions, by themselves, signal improvements in job opportunities since the 1930's. One sign of improvement can be seen in the disappearance in the official labor-force measure of the concept used in the 1940 census, "employment on public emergency work projects." This category, which was considered something between official "employment" and "unemployment," counted those employed by such government projects as the Works Progress Administration (WPA), the Civilian Conservation Corps (CCC), and State or local emergency work projects. In 1940, such workers represented 5 percent of the workforce, in addition to the 10 percent who were totally without jobs and actively seeking employment.[2]

[2] Bureau of the Census, **Sixteenth Census of the United States: 1940 Population, Vol. III, The Labor Force**, table 5.

Table 3.—School enrollment of teenagers and educational attainment of young adults, 1940 and 1980

Item	1940	1980
Percent in school, by age:		
13	95	99
14	92	98
15	88	97
16	76	93
17	61	84
18	36	62
19	21	43
20	12	35
Years of school completed:		
Persons aged 25-29, total	100	100
No high school	40	5
1-3 years of high school	22	11
High school graduates, total	38	84
No college	25	39
1-3 years of college	7	23
4 or more years of college	6	22

Sources: Bureau of the Census, **1980 Census: Detailed Population Characteristics, United States Summary**, Section A: United States, PC80-1-D1-A, table 260, pages 26-27, and table 262, pages 40-41; and Bureau of the Census, **1940 Census: Volume IV, Characteristics by Age**, Part 1, **United States Summary**, table 14, page 39, and table 18, page 78.

Young persons. Another change in the definition of the workforce reflects changing expectations for children, who today pursue their educations in lieu of leaving school at a very young age to enter the workforce to support themselves or their families. In 1930, measures of "gainful activity" (the concept of employment then used) counted children aged 10 or older among the gainfully employed. When the current labor-force concepts were introduced in 1940, the officially defined labor force included children aged 14 or older. In 1949, amendments to the Fair Labor Standards Act of 1938 introduced the first Federal restrictions on the employment of children under the age of 16 during normal school hours and in hazardous occupations. When labor-force concepts were revised in 1967, children under age 16 were no longer included in the official definition of the labor force.[3]

Evidence of the greater educational expectations for young persons can be seen in the school enrollment of teenagers and in the educational attainment of young adults (table 3). Of persons aged 25-29, only about 3 in 8 had completed high school in 1940, while nearly 7 in 8 were high school graduates in 1980. Those with a year or more of college education accounted for 13 percent of all young adults in 1940, compared with 45 percent in 1980.

The aged. Employment among elderly men has declined sharply since the 1930's as retirement income programs have grown to offer a viable and attractive alternative to continued work for many. Between 1940 and 1984, the labor force participation rate of men aged 65 or older declined from 42 percent to 16 percent (table 4). Part of the decline in the employment of

[3] Daniel N. Westcott, "The Youngest Workers: 14 and 15 Year Olds," **Monthly Labor Review**, February 1981, page 65.

Table 4.—Labor force participation rates of persons aged 65 or older, 1940-84

Age group	1940	1947	1960	1984
	Men			
Total, aged 65 or older	42	48	33	16
Aged 65-69	(1)	62	47	25
Aged 70 or older	(1)	36	24	11
	Women			
Total, aged 65 or older	6	8	11	8
Aged 65-69	(1)	15	19	14
Aged 70 or older	(1)	5	6	4

[1] Published labor-force data for the aged in 1940 show rates for those aged 65-74 (51 percent for men and 8 percent for women) and for those aged 75 or older (18 percent for men and 2 percent for women).

Sources: Bureau of the Census, **1940 Census, Volume III, The Labor Force**, table 5, page 19; Office of the Actuary, **Economic Projections for OASDI Cost and Income Estimates, 1984** (Actuarial Study No. 94), tables 10b and 10c, January 1985; and **Employment and Earnings**, January 1985, table 3, page 156.

Table 5.—Labor force participation rates of women by marital status and age, 1940-85

Year	Aged 25-44			Aged 45-54		
	Total	Married, husband present	Other	Total	Married, husband present	Other
1940	30	16	72	22	(1)	(1)
1950	35	26	75	34	(1)	(1)
1960	38	32	69	48	40	72
1965	42	36	70	50	44	70
1970	48	43	71	54	50	70
1975	55	50	72	55	50	71
1980	66	61	79	60	56	71
1985	71	67	81	66	62	74

[1] Data not available.

Sources: For 1940, Bureau of the Census, **1940 Census, Volume III, The Labor Force**, tables 5 and 6, page 19; for 1950, **1950 Census of the Population, U.S. Summary, Detailed Characteristics** (Bulletin P-C1), tables 120 and 121, pages 254-255.

elderly men is due to the fact that more are living to advanced ages at which employment was uncommon even 50 years ago. But even among younger elderly men aged 65-69, labor-force participation declined from 62 percent in 1947 to 25 percent in 1984. Among elderly women, labor force participation rates have changed relatively little.

Women. In the 1930's, women—particularly those who were married—were discouraged from seeking paid jobs. Jobs were scarce and wives with employed husbands were often barred from employment by informal, if not formal, arrangements. Employment of women surged during World War II, when they filled wartime production jobs and jobs left vacant by the wartime mobilization of young men. After the war, many young women left the workforce to raise families. During the 1950's, the most rapid rise in women's employment occurred among women beyond childbearing ages. The labor force participation rate of women aged 45-54 grew from 34 percent to 48 percent between 1950 and 1960 (table 5). Employment of younger women has risen most rapidly since 1970: The labor force participation rate of women aged 25-44 grew from 48 percent to 71 percent between 1970 and 1985.

Historically, employment has been common among women without husbands—the widowed, divorced, separated, and never married. About 7 in 10 unmarried women aged 25-44 were in the labor force from 1940 through 1975, and about 8 in 10 were by 1985. Married women with husbands present account for the major growth in women's employment. About 2 in 3 of those aged 25-44 are in the labor force today, compared with only 1 in 6 in 1940. Much of the increase among married women has been among mothers of minor children, whose labor force participation rate rose from 40 percent in 1970 to 59 percent in 1984.[4]

[4] Howard Hayghe, "Working Mothers Reach Record Number in 1984," **Monthly Labor Review**, December 1984, page 31.

Family Composition

In official census data, a "family" is defined as relatives living together in a household. More than one generation living in a household are considered to be one family under this definition. For example, aged persons living with their adult children or young adults living with middle-aged parents are considered part of one family while such persons living in separate households are considered separate families. (Persons living alone or with nonrelatives only are called unrelated individuals in the census data and are counted as one-person family units here.) By this definition, the number of family units has increased dramatically and the average size of family units has grown smaller over the past 5 decades. Increasingly, family ties reach across households instead of being concentrated under one roof as young adults and aged persons live independently instead of doubling up with another generation. The distribution of earners in families has also shifted as fewer families depend on the earnings of only one worker, while more have multiple earners or have no income from earnings.

Family size and presence of children. Between 1930 and 1984 the number of family units more than tripled from 30 million to 91 million (table 6). Unrelated individuals living independently have increased from 8 percent to 32 percent of family units since 1930. In 1984, aged persons living independently accounted for about 3 in 10 of the one-person family units. Over the same period, large families have become less common. Families of five or more related persons living together accounted for 30 percent of family units in 1930, 25 percent in 1940, but only 10 percent in 1984.

Declining birth rates account, in part, for smaller families. Families with three or more related children under age 18 accounted for 15 percent of family units in 1940, 18 percent in 1964, but only 8 percent of all family units in 1984. Family units without any minor children

Table 6.—Family size and presence of related children under age 18, 1930-84

Family size and presence of related children	1930	1940	1964	1984
Total number of family units (in millions)	29.9	35.1	59.9	91.3
Total percent	100	100	100	100
Unrelated individuals	8	10	20	32
2 persons	23	26	26	27
3 persons	21	22	17	16
4 persons	18	18	15	14
5 or more persons	30	25	22	10
Total percent	(1)	100	100	100
No children under age 18	(1)	49	53	64
1 child	(1)	21	15	15
2 children	(1)	14	14	13
3 or more children	(1)	15	18	8

[1] Data not available.

Sources: Data for 1930 and 1940 are from Bureau of the Census, **1940 Census, Families: General Characteristics**, tables 2, 8, 13, and 14. Data for 1964 from **Trends in the Income of Families and Persons in the United States, 1947-64**, Technical Paper No. 17, Census Bureau, tables 2, 4, and 5. Data for 1984 from **Money Income of Households, Families and Persons, 1983**, P-60, No. 146, tables 14, 25, 27, and 29-30.

increased from 49 percent of all units in 1940 to 64 percent in 1984.

Earners in families. Because of changes in the workforce and in family composition, earners today have fewer family members in their immediate households who rely on the income from their work. It is far less likely than in the past for only one earner to be supporting an entire family.

In 1947, multi-person families with only one earner accounted for nearly half of all family units. Today, such families represent only about 1 in 5 family units (table 7). Increasingly, when a family unit has only one earner, it is a one-person unit with no dependent family members. Unrelated individuals supporting themselves with their own earnings account for 20 percent of all family units today, compared with 12 percent in 1947. Families with two or more earners are also more common. They account for 37 percent of all family units today, compared with 29 percent in 1947. Finally, family units without an earner are more common than in the past. They account for 22 percent of all family units, compared with 11 percent in 1947.

Table 7.—Earners in families, 1947-84

Earners in family units	1947	1964	1984
Total number of family units (in millions)	45.3	59.9	91.3
Total percent	100	100	100
No earners	11	14	22
Unrelated individuals	6	8	12
Families of 2 or more	5	6	10
1 earner	60	47	41
Unrelated individuals	12	12	20
Families of 2 or more	48	35	20
2 earners	22	29	28
3 or more earners	7	9	9

[1] Data not available.

Sources: Data for 1947 are from Bureau of the Census, **1940 Census, Families: General Characteristics**, tables 2, 8, 13, and 14. Data for 1964 from **Trends in the Income of Families and Persons in the United States, 1947-1964**, Technical Paper No. 17, Census Bureau, tables 2 and 6. Data for 1984 from **Money Income of Households, Families and Persons, 1983**, P-60, No. 146, tables 14, 25, 27, and 29-30.

Ratio of Nonworkers to Workers

With the growing number of women in the workforce and the decline in the absolute number of young persons in the population, the size of the working population has grown relative to that of the nonworking population, despite the growth in the retired population. One measure of this phenomenon is the number of persons of all ages who are out of the labor force per 100 employed persons.

This ratio represents, on average, the number of noneconomically active persons (children, unpaid homemakers, retired and disabled persons) who rely directly or indirectly on the current income produced by a given number of paid workers and can be thought of as a dependency ratio.[5] This dependency ratio is far lower today than it has been at any time since the 1930's. The total number of persons out of the labor force per 100 paid workers has declined from 165 in 1940 to only 115 today (table 8).

- The relative number of younger persons has changed dramatically. In 1940, there were 87 young people out of the labor force for every 100 paid workers. This ratio rose to 94 in 1960, but has declined to only 60 today.
- The sharpest decline among the nonemployed

[5] This dependency ratio differs from others that are often used in that it is based on the employment status of the total population. An alternative measure that is often used is based solely on the age distribution of the population and relates the number of children and/or aged persons to the "working-age" population (typically aged 20-64), regardless of their employment status. Yet another dependency ratio relates the number of social security beneficiaries to the workforce covered under the program. The latter measure does not take account of a large portion of the population (children and unpaid adults) who are neither workers nor social security beneficiaries yet presumably rely in large part on the income of workers.

Table 8.—Trend in number of nonemployed persons per 100 workers, 1940-83

Item	1940	1950	1960	1970	1980	1983
Total employed persons (in millions) [1]	47.7	60.6	68.3	81.8	101.4	103.1
Number of persons not in the labor force per 100 employed persons:						
Total, all ages	165	142	156	142	114	115
Under age 20	87	78	94	85	62	60
Aged 20 to 64						
Men	7	4	4	5	6	7
Women	57	46	40	33	25	25
Aged 65 or older	14	14	18	19	21	22

[1] Annual average of monthly employment.

Sources: For 1950-83, labor force and employment data are for the noninstitutionalized population aged 16 or older, including the Armed Forces in the United States and overseas. See Office of the Actuary, **Economic Projections for OASDI Cost and Income Estimates, 1984** (Actuarial Study No. 94), January 1985. Population of children under age 16 are from **Economic Report of the President**, February 1985. Data for 1940 are from the 1940 census.

- has been in the relative number of unpaid homemakers. The number of women aged 20-64 out of the workforce has declined from 57 per 100 paid workers in 1940 to only 25 today.
- While the number of children and homemakers has declined in relation to the paid workforce, the number of aged has grown, from 14 per 100 workers in 1940 to 22 today.

The decline in the average number of dependents for each worker has been accompanied by a change in the nature of support for persons not in the workforce. In the past, more of the support of economically inactive persons was provided directly: Workers and homemakers were more likely to be sharing their cash income and home-produced goods and services, not only with children, but also with nonemployed relatives either inside or outside the household. Over the years, the support for the retired, unemployed, sick, and disabled has increasingly been provided through public and private systems of social insurance and related employee benefits. These systems have filled an increasingly important role in ensuring economic security to workers. At the same time, the smaller size of families, the reduced obligations of workers to support relatives inside or outside the household, and the growing prevalance of multiple earners in families have helped workers achieve a higher standard of living for themselves and their families.

Shares of Personal Income

Personal income statistics document higher standards of living achieved for the population as a whole and the increased importance of social insurance and related employee benefits. Personal income is that portion of the gross national product that is distributed to individuals and families in the form of wages, salaries, and proprietors' income from self-employment (net of contributions to social insurance), social insurance and other public cash transfer benefits, property income from interest, dividends and rents, and employers' contributions to their employees' health, welfare, and private pension benefit funds. Per capita real personal income—that is, after adjustment for price changes and population growth—has more than tripled since the depth of the Depression (table 9).

Income from work (wages, salaries, and self-employment earnings) remains, by far, the largest share of personal income, though the share from self-employment has declined. Property income in 1984 was roughly the same share of total personal income as it was 50 years ago.

Cash benefits from public programs grew from 4 percent to 14 percent of total personal income between 1933 and 1984. Today, social insurance benefits under programs authorized by the Social Security Act are the major source of public transfers. Fifty years ago, such benefits consisted mainly of veterans' benefits for those who had served in World War I and the Spanish-American War, Federal and State employee retirement benefits, and assistance benefits initiated by individual States for selected categories of the needy. Finally "other labor income" is that portion of total compensation for workers that is in the form of employers' contributions to employees' health, welfare, and private pension funds (other than public social insurance funds). This share has grown from less than 1 percent of total personal income in 1933 to 6.5 percent today.

Growth in Work-Related Income Security Programs

Work-related income security programs encompass a broad range of social insurance and related employee benefits from a diverse mix of Federal, State, local government, and private arrangements. The programs share the common attribute of being financed by employer contributions and, in the case of social security

Table 9.—Trends in aggregate personal income, 1933-84

Item	1933	1940	1950	1960	1970	1984
Aggregate personal income (in billions)	$47.0	$77.9	$227.2	$402.3	$811.1	$3,013.2
Total percent	100.0	100.0	100.0	100.0	100.0	100.0
Wages and salaries [1]	61.7	64.1	64.7	67.6	67.6	59.9
Other labor income	.8	.8	1.6	2.8	4.0	6.5
Proprietors' income	12.3	16.7	17.0	11.7	8.2	5.1
Rents, dividends, and interest	20.6	15.4	11.3	13.0	13.7	19.1
Transfer payments	4.5	4.0	6.7	7.2	9.9	13.8
Social security	...	...	.4	2.8	4.7	7.9
Unemployment insurance	...	.6	.7	.7	.5	.5
Veterans' benefits	1.3	.6	3.4	1.1	.9	.5
Government employee retirement	.4	.4	.4	.8	1.3	2.1
Other	3.0	2.2	1.8	1.7	2.4	2.5
Personal contributions for social insurance	-.4	-.9	-1.3	-2.3	-3.4	-4.4
Per capita personal income:						
Current dollars	$374	$590	$1,492	$2,227	$3,956	$12,734
1984 dollars [2]	3,324	4,535	6,223	7,241	9,663	12,734

[1] Excludes employer contributions for social insurance.
[2] Adjusted by implicit price deflator for gross national product.

Source: **Economic Report of the President**, February 1985, tables B-3, B-22, and B-28.

and some others, by employee contributions as well. These programs also share a common purpose: to provide continuity of income to workers and their families when earnings are interrupted by unemployment, curtailed by disability or death, or ended at retirement. They also insure workers and their families against the risk of incurring costly health care expenditures.

The part of the total compensation package for workers that is in the form of employer contributions to these social insurance and related employee benefit programs has grown more rapidly than have cash wages and salaries alone. In 1929, employer contributions to such employee benefit programs amounted to an aggregate supplement to wages and salaries of only 1.3 percent. By 1983, employers' aggregate contributions amounted to a supplement of 19.7 percent of cash wages and salaries (table 10). Employer contributions to old-age, survivors, disability, and health insurance (OASDHI) represent an important part of employer contributions to all programs. But contributions to other employee benefits have grown in tandem with those to OASDHI. In 1983, employer contributions for OASDHI supplemented aggregate wages and salaries by 5.5 percent, while contributions to private pension and profit-sharing plans and to public retirement systems for Federal civilian and State and local employees added another 6 percent. Contributions to group health and life insurance for public and private employees added another 5.4 percent.

Other employee benefits in the form of paid leave from work also have grown significantly over the past 5 decades. Instead of being supplements to wages and salaries for long-term income maintenance, these benefits represent that portion of cash pay that covers brief periods of leisure or temporary sickness, such as paid holidays, vacations, and sick leave. The U.S. Chamber of Commerce estimates that pay for time not worked grew from less than 1 percent of all cash wages and salaries for public and private employees in 1929 to 10 percent in 1983, amounting to roughly 26 days a year.[6] According to these estimates, paid holidays in 1983 amounted to 3.4 percent of cash pay, or just under 9 days a year on average, while paid vacations amounted to 5.1 percent of pay, or just under 14 days a year on average.

While work-related benefits constitute the major income-maintenance programs in the United States, means-tested transfer payments also fill a very important role for persons and families whose income from earnings and work-related benefits falls short of meeting basic needs. In 1984, means-tested cash benefits under the aid to families with dependent children (AFDC) program and the supplemental security income (SSI) program for the needy aged and disabled accounted for 0.8 percent of personal income in the United States. In contrast, cash benefits from the major public, work-related systems—OASDI and unemployment insurance—accounted for 6.7 percent of personal income.

As the foundation of the work-related income maintenance system, the social security program encompasses features present since its beginning that have been designed to encourage the development of private supplementary benefits or individual savings. First, the payment of benefits based on prior work, rather than on proven need, has meant that employer and worker initiatives to provide additional employee benefits and savings result in a real gain in economic security for workers, rather than simply being a substitute for the benefits provided by social security. Consequently, both

[6] U.S. Chamber of Commerce, **Employee Benefits 1983,** table 20.

Table 10.—Employer contributions to social insurance and other employee benefits as a percent of aggregate wages and salaries, 1929–83

Employer contributions	Percent of wages and salaries in—						
	1929	1940	1950	1960	1970	1975	1983
Aggregate wages and salaries (in billions)	$50.5	$49.9	$147.0	$271.9	$548.7	$806.4	$1,658.8
Employer contributions to social insurance and other employee benefits, total	1.3	4.6	5.3	8.5	11.5	15.5	19.7
Social insurance, total	.2	3.3	2.8	4.3	5.6	7.5	9.2
Social security	...	.7	.9	2.1	3.4	4.5	5.5
Public employee retirement [1]	.2	.5	.6	1.0	1.3	1.8	2.1
Other [2]	2.1	2.1	1.3	1.2	.9	1.2	1.6
Other employee benefits [3]	1.1	1.4	2.5	4.1	5.9	8.0	10.4
Pension and profit-sharing plans	(4)	(4)	1.2	1.2	2.4	3.5	3.9
Group health and life insurance	(4)	(4)	.7	1.0	2.7	3.5	5.4
Workers' compensation	(4)	(4)	.5	.6	.7	.8	1.0
Other	.8	.8	.1	.1	.1	.1	1.0

[1] Includes employer contributions for Federal civilian employees and State and local government employees.

[2] Includes unemployment insurance contributions (Federal and State), railroad retirement, State temporary disability insurance, workers' compensation contributions to Federal or State trust funds, and veterans' life insurance.

[3] "Other labor income" in National Income Accounts.

[4] Data not available.

Sources: Total wages and salaries are from table B-22, **Economic Report of the President,** February 1985. Employer contributions are from **Employee Benefits, 1983,** U.S. Chamber of Commerce (derived from National Income Account data from the Department of Commerce).

employees and employers have an incentive to support and participate in the development of supplementary benefits as well as to adapt benefit packages to the specific needs of their occupations, industries, or firms. Secondly, the earnings-related benefits under the social security system fall far short of providing full replacement of earnings, especially for higher income workers who have greater prospects for acquiring supplemental benefits and savings. Today, the level of benefits in relation to prior earnings for a worker retiring at age 65, or becoming disabled, would range from 23 percent for one who had always earned the maximum amount covered under the social security program to 66 percent for one who always earned the Federal minimum wage (table 11). The expectation that higher income workers will acquire supplementary private or public employee benefits and/or income from savings is, in large part, borne out in the experience of recent retirees under the social security program.[7]

Development of the Social Security Program

Sponsors of the original social security legislation in 1935 acknowledged that the old-age insurance features of the Act were only a beginning, implying that further legislative modifications would undoubtedly be needed, and that the provisions enacted would take a number of years to be fully effective. In fact, the law was amended in 1939 before benefits were actually paid and the scheduled date for the first payment of benefits was advanced from 1942 to 1940. Still, the program grew slowly in the early years after the Social Security Act was passed. Coverage under old-age insurance was limited, benefit entitlements accrued gradually, and benefit amounts, typically, were small. The program, however, was further modified and did mature so that by the mid-1960's coverage was almost universal and by the early 1970's almost all of the aged were entitled to benefits. Benefits grew relative to earnings during the 1970's, and are now projected to stabilize in their relationship to earnings for new retirees in the future.

Coverage of workers. Originally, only wage and salary workers in commerce and industry were covered by the old-age insurance program; in 1939, covered workers accounted for only about 55 percent of paid civilian employment in the United States. During the 1940's, coverage was not extended by law, but the coverage rate grew slightly as self-employment and farm employment, which were not then covered, grew more slowly than did the industrialized workforce. After coverage was extended in the 1950's to include the self-employed, farm and domestic workers, and State and local government workers at the option of the governmental entity, the covered work force grew to include about 9 in 10 U.S. workers by the mid-1960's and has remained at about that level since then.[8]

Benefit eligibility. Because benefit eligibility was based on covered earnings, and coverage had only begun in 1937, relatively few of the aged qualified for old-age benefits in the early years. Means-tested old-age assistance benefits were more commonly received than were social security benefits throughout the 1940's and into the 1950's. By 1960, however, social security beneficiaries accounted for the majority of the aged and they far outnumbered recipients of old-age assistance. By 1970, social security benefits were received by about 9 out of every 10 aged persons and the benefit receipt rate has remained at about that level ever since that time (table 12).

Benefit levels. The decade of the 1970's brought significant increases in benefit levels. Before the 1970's, benefits had been adjusted on an ad hoc basis and more or less kept pace with the growth in the earnings of workers covered under the program. In 1940 the average monthly retired-worker benefit was $23, equivalent on an annual basis to roughly 27 percent of the average an-

[7] Christine Irick, "Income of New Retired Workers by Social Security Benefit Levels: Findings From the New Beneficiary Survey," **Social Security Bulletin,** May 1985, pages 7-23.

[8] **Annual Statistical Supplement** to the **Social Security Bulletin, 1983,** 1984, table 4.

Table 11.—Social security benefits as a percent of preretirement earnings for three illustrative workers retiring at age 65 in January 1986

Lifetime earnings level	Earnings in 1985	1986 benefits as a percent of 1985 earnings
Worker who always earned:		
Federal minimum wage	$6,968	66
Average wage	16,595	42
Maximum earnings counted under social security	39,600	23

Source: Office of the Actuary, Social Security Administration.

Table 12.—Percent of the aged population receiving social security benefits or assistance benefits (old-age assistance or supplemental security income), 1940-82

Year	Percent receiving—			
	Social security	Assistance	Both	Neither
1940	0.7	21.7	0.1	77.7
1945	6.2	19.4	.5	74.9
1950	16.4	22.4	2.2	63.4
1955	39.4	17.9	3.4	46.1
1960	61.6	14.1	4.1	28.4
1965	75.2	11.7	5.2	18.3
1970	85.5	10.4	6.3	10.4
1975	90.4	11.1	7.8	6.2
1980	91.4	8.7	6.1	5.9
1982	93.0	7.5	5.2	4.7

Source: **Annual Statistical Supplement** to the **Social Security Bulletin, 1983,** 1984, table 158.

nual earnings of covered workers (table 13). Benefit levels were not adjusted during the 1940's and their value declined precipitously in relation to both wages and prices. By 1949, the average retired-worker benefit was equivalent to less than 15 percent of the average earnings of covered workers. Amendments in 1950 updated benefit levels and subsequent ad hoc amendments throughout the 1950's and 1960's kept average benefits in line with the growth that occurred in the earnings of workers.

During the 1970's, legislative action with respect to the social security program raised the level of benefits by 20 percent, then instituted an automatic cost-of-living adjustment so that benefits would keep pace with inflation. Amendments enacted in 1977 and modified in 1983 now provide that initial benefits for new retirees will rise with the growth in earnings levels, while benefits for those already retired will keep pace with inflation, unless inflation should persistently outpace wage growth and jeopardize the financial stability of the system.[9]

At least one observer has noted that the relationship of benefits to earnings for new retirees today, while somewhat higher than that paid in past years, is not inconsistent with the earnings replacement levels envisioned for a fully mature system when the program began 50 years ago.[10] Both the 1935 law, and the 1939 amendments to it, provided that benefits for new retirees a half century later, who had spent a lifetime covered under the system, would be considerably higher than those paid to retirees in the early years, who had been covered for only a short part of their worklives. The projections of future benefit levels made in the 1930's did not anticipate either the real wage growth or the price changes that have occurred since then. Nonetheless, with the forecasting methods used then, benefits for a worker retiring in the early 1980's (after a lifetime of coverage under the system) would, under the 1935 Act, represent a somewhat higher percentage of earnings than those currently paid, while benefits under the 1939 Act would represent roughly the same percentage of earnings as are currently paid.

[9] The 1983 amendments include a "stabilizer" provision under which automatic annual benefit increases are to be based on the lower of price or wage increases if trust fund balances are low (less than 15 percent of outgo through 1988, 20 percent thereafter) and are to be adjusted later to reflect full cost-of-living increases, if trust fund balances rise about 32 percent.

[10] Robert J. Myers, **Social Security** (3rd edition), Richard D. Irwin, Inc., 1985, pages 333-337.

The Economic Status of the Aged, Then and Now

The economic status of the aged has improved substantially in the half century since the Social Security Act was passed. In 1935, there were no comprehensive, national surveys on the incomes of the elderly. Nevertheless, it was clear that the aged were experiencing severe economic problems that lent support to old-age security legislation. A section of the old-age security legislation directed the Social Security Board to study the most effective methods of providing economic security. Today, as part of that mandate, the economic status of the aged is regularly monitored. This section focuses on what was known of the economic status of the aged in the 1930's and 1940's, the development of surveys of the aged by the Social Security Administration, and what is known today about the aged as a whole and about recent retired-worker beneficiaries under the social security program.

The Aged Before Social Security

The first issue of the **Social Security Bulletin**, published in March 1938, contained an article by Marjorie Shearon, who attempted to quantify the economic status of the aged in 1936 and 1937, after the Social Security Act had been passed in 1935 and before first benefits were paid in 1940. This article was based on a brief Shearon had written for use by the Supreme Court in its

Table 13.—Average covered wages and average monthly retired worker benefit, 1940-84

Year	Average annual covered wages and salaries		Average monthly retired-worker benefit in December		Ratio of benefits to earnings [1]
	Current dollars	1984 dollars	Current dollars	1984 dollars	
1940	$1,009	$7,390	$23	$166	0.27
1945	1,543	8,806	24	138	.19
1950	2,274	9,702	44	187	.23
1955	2,881	11,049	62	237	.26
1960	3,523	12,217	74	257	.25
1965	4,128	13,437	84	273	.24
1970	5,484	14,505	118	312	.26
1975	7,557	14,420	207	395	.33
1980	11,252	14,013	341	425	.36
1984	14,587	14,587	461	461	.38

[1] Ratio of average benefit in December of the year to one-twelfth of average annual wages and salaries in the year.

Sources: **Annual Statistical Supplement** to the **Social Security Bulletin, 1983**, 1984, tables 20, 21, and 78. Average earnings for 1984 estimated under II-B assumptions in 1985 Trustees' Report. The 1984 benefit is from table Q-2, **Social Security Bulletin**, June 1985.

decision concerning the constitutionality of the Social Security Act. Shearon remarked that any available surveys were out-of-date, biased, or inadequate in scope. She therefore compiled data from many diverse sources to determine indirectly the economic status of the aged. She divided the aged into three large groups and three miscellaneous groups: (1) those with earnings; (2) those with savings; (3) those with public assistance under the Social Security Act; (4) those with pensions other than social security; (5) those with public assistance not covered under social security; and (6) the institutionalized. The number of persons with earnings was estimated by means of figures from the Committee on Economic Security and the Social Engineering Institute of New York. The number of those with savings was estimated by figures from the State Commission on Old-Age Security in New York and by means of estate data for the years 1912-23. The number of persons with public assistance under social security was known from actual counts. Numbers in the miscellaneous groups were partly estimated and partly counted. Pension data were gathered from the Veterans Administration, the Civil Service Commission, State and city reports on their pension plans, the National Education Association, the Bureau of Labor Statistics, a study of industrial pensions in the United States and Canada, the Church Pensions Conference, the Carnegie Foundation for the Advancement of Teaching (on private teacher pensions), and insurance companies (on annuities). Welfare data were gathered from the Social Security Board, the Works Progress Administration, and the Resettlement Administration. Data on the institutionalized were gathered from the Bureau of the Census.

On the basis of all of these data, Shearon estimated that roughly one-third of the noninstitutionalized aged were "self-dependent"—sustaining themselves on earnings, income from assets, veterans' benefits, or public or private pensions. Possibly half of these persons, however, were partially dependent on friends and relatives. The other two-thirds of the aged in 1937 were dependent—a fifth relying almost entirely on public assistance or aid from private social agencies, and the rest having no apparent means of support. In addition, Shearon estimated that about 2.5 percent of those aged 65 or older were institutionalized—which at that time included "the friendless and destitute, the infirm, delinquent, dependent, and defective."

The Early Beneficiaries

At the end of 1940—the first year in which benefits were paid—there were fewer than 100,000 aged beneficiaries, or less than 1 percent of the approximately 9 million aged persons in the United States. The first social security benefits were based on covered earnings going back to only 1937, when the program began. Old-age assistance, in contrast, was received by about 2 million aged persons, or 22 percent of the aged (table 12). Within 2 years of the initial payment of old-age and survivors insurance benefits, the Social Security Board conducted the first in a series of surveys to assess the situation of beneficiaries. The Bureau of Old-Age and Survivors Insurance conducted a series of surveys between 1941 and 1944 in 19 large and small cities. Interviews were conducted with 4,491 beneficiaries in their homes. Each sample was selected from all the beneficiaries in the city or group of cities who had become entitled to benefits in a specified period and who had received one or more benefit payments after their entitlement. To get a complete picture of the postentitlement experience of all the beneficiaries, those whose benefits had been suspended because of earnings in covered employment were included as well as those who were receiving benefits regularly each month.[11]

The data collected covered such information as age, health, reasons for retirement, preentitlement occupation, average monthly wage, and primary and family insurance benefits of beneficiaries. The postentitlement experience of beneficiaries was studied with respect to the amounts and sources of their income during the 12 months preceding the date of the interview, their assets, liabilities, net worth, and homeownership. Also studied were living arrangements and relatives in the households of beneficiaries, adequacy of their resources (measured by their ability to live at a maintenance level), their employment after entitlement, and their likelihood of receiving public assistance.

Edna Wentworth and Margaret Stecker summarized the conclusions of these studies in an article in the November 1949 issue of the **Social Security Bulletin**. In the early days of the social security program, few elderly persons stopped working because they wanted to do so. Up to 36 percent of beneficiary men and 45 percent of beneficiary women had left their jobs for health reasons, and up to 60 percent of beneficiary men and women had lost their jobs. If health permitted, as many as 44-60 percent supplemented their retirement income with earnings in noncovered or part-time covered employment.

For several reasons the first benefits were low even for those who were awarded the largest amounts possible in 1941-42. Unemployment was high and earnings were low during the Depression. Only a few years had elapsed between January 1, 1937, when contributions began, and the early 1940's, when the surveys were conducted. And only a small proportion of jobs was covered. Thus, the median family benefit was $16-$19 a month for aged widows, $18-$21 for female worker beneficiaries, and $22-$26 for nonmarried men, men with nonentitled wives, and entitled couples.

[11] At the time, benefits were suspended if earnings exceeded $14.99 a month.

The resources of beneficiaries varied widely. Despite low benefits, some beneficiaries had no other money income. Many of these persons lived with relatives. Some had, in addition to their social security benefits, only public assistance or help from relatives outside the household. Others had additional independent income but in such small amounts that they were relying heavily on social security. Others had resources other than social security but were noticeably more comfortable with their social security benefits than they would have been without them. And a few would have been well off whether or not they had any social security benefits. When the family benefit was less than $20 a month, only 9-19 percent of the male primary beneficiaries had enough retirement resources to meet the cost of a maintenance level of living, a measure of minimum income adequacy then used. When the family benefit was $40 or more, 73-100 percent had enough resources to meet the maintenance level.

After becoming beneficiaries, many had to make some adjustments to get by economically. As mentioned earlier, some went back to work. Some filed for public assistance, although more were eligible for this source. And others used their assets, went into debt to pay living expenses, skimped on food or clothing, went without necessary medical care, or sold their homes. About one-third of the female primary beneficiaries and nonmarried men, one-fifth of the entitled couples, and one-seventh of the aged widows either received public assistance or probably were eligible to receive it. But only about one-eighth of the primary beneficiaries and one-sixteenth of the aged widows received public assistance. From 12-34 percent of the primary beneficiaries withdrew assets to meet living expenses during the survey year, with median amounts ranging from $100 to $300. Roughly 2 percent to 8 percent of primary beneficiaries and two to six times as many widows combined households with relatives.

Since 1941, Social Security has periodically surveyed the economic situation of the aged. Between 1950 and 1960, the agency published brief reports in the **Social Security Bulletin**, semiannually and then annually, compiling numbers from published and unpublished Census Bureau data and from administrative record data of aged and other special population groups with income from various sources. In 1951 and 1957, the first national surveys of beneficiaries were conducted. In 1963, for the first time, a national sample of both beneficiaries and nonbeneficiaries was taken. In 1963 and again in 1968, the Social Security Administration (SSA) administered its own questionnaire and combined this data with social security record data of the survey respondents. In 1972, for the first time, SSA drew on data collected by the Census Bureau in its March **Current Population Survey** (CPS) and combined them with social security record data. In 1976 a biennial series on the income of the aged population was begun based on CPS data alone.

The surveys conducted by SSA covered an extensive list of subjects similar to those described above for 1941-42. The CPS includes only information on income, labor-force participation, and living arrangements. However, tabulations in the SSA biennial series using CPS data cover in much greater detail than in previous reports information on major sources of income for the aged, the relative importance or share of particular sources to total income, proportions of aged below the poverty line, and information describing the economic situation of the aged with varying levels of social security benefits and total money income.

The Aged Today and Changes Since 1960

The number of social security beneficiaries has grown from less than 1 percent of the aged population in 1940 to more than 90 percent today. Between 1950 and 1955, social security benefits surpassed old-age assistance as a source of income for the aged. Between 1955 and 1960, beneficiaries first outnumbered nonbeneficiaries among the aged. In 1963 the first national survey that sampled both beneficiaries and nonbeneficiaries was conducted. It reflected both an interest in how nonbeneficiaries differed from beneficiaries and a shift in the focus of policy toward the aged population as a whole and away from beneficiaries only. Some highlights of changes in the economic status of the aged since the early 1960's are summarized here.

The economic status of the aged has improved substantially since 1960. For both married couples and nonmarried persons, real income increased about 75 percent between 1962 and 1984—that is, their median income increased 75 percent more than the increase in the Consumer Price Index during that period (table 14). Also during this period, the proportion of the aged with income below the poverty line declined substantially (table 15). In 1983, only 8 percent of families headed by

Table 14.—Median total money income in 1984 dollars of aged married couples and nonmarried persons in 1962 and 1984

Marital status	1962	1984	Percentage change
All units	(1)	$10,170	(1)
Married couples	$9,780	17,250	76
Nonmarried persons	3,840	6,690	74
Men	4,640	7,490	61
Women	3,450	6,500	88

[1] Data not available.

Sources: Lenore Epstein and Janet Murray, **The Aged Population of the United States: The 1963 Social Security Survey of the Aged** (Research Report No. 19), Office of Research and Statistics, Social Security Administration, and unpublished figures from the March 1985 **Current Population Survey** of the Bureau of the Census.

aged persons had income below the poverty line; in 1960, the proportion was 27 percent. Among aged persons not living with relatives, the poverty rate declined from 66 percent to 26 percent.

The improved economic status of the aged is attributable to several factors, including the growing importance of social security, private pensions, government employee pensions, and assets as income sources of the aged. Offsetting the increased importance of these sources was a decline in the importance of earnings among the aged, as labor force participation rates of older persons declined.

More aged married couples and nonmarried persons now receive social security than have done so in the past. Social security is the largest single source of income for the aged. Since 1960 the value of social security benefits has increased by far more than the increase in prices:

- Ninety-one percent of aged units received social security benefits in 1984, compared with only 69 percent in 1962 (table 16).
- In 1984, social security benefits provided 38 percent of total income reported by the aged, compared with 31 percent in 1962. (Income from assets and earnings provided the next largest shares—28 percent and 16 percent, respectively—in 1984.)
- In 1984 dollars, the average social security monthly benefit for retired workers grew from $257 to $461 between 1960 and 1984; the average benefit for aged widows increased from $200 to $413. The real value of social security benefits increased despite an increase in the number of aged who received actuarially reduced social security benefits because they were claimed before age 65. Between 1961—when men became eligible to receive retired-worker benefits at age 62—and 1984, the proportion receiving reduced benefits increased from 5 percent to 59 percent. Between 1956—when women became eligible for retired-worker benefits at age 62—and 1984, the proportion receiving reduced benefits increased from 8 percent to 71 percent.

Growth in both private pensions and public employee pensions has also contributed to the increase in the real income of the aged. Almost three times as many aged couples and nonmarried persons received private pensions or government employee pensions in 1984 as in 1962. In 1984, 24 percent of the aged received private pensions and 14 percent of the aged received employee pensions from the Federal, State, or local governments. The share of aggregate income of the aged provided by private pensions doubled between 1962 and 1982 while the share of aggregate income provided by government employee pensions remained about the same.

Table 15.—Aged families and unrelated individuals with income below the poverty line, 1960 and 1983

Family status	Percent below poverty line	
	1960	1983
Families	27	8
Headed by men	26	7
Headed by women	31	17
Unrelated individuals	66	26
Men	60	22
Women	68	28

Source: Bureau of the Census, "Characteristics of the Population Below the Poverty Level," **Current Population Reports** (Series P-60), various years.

Table 16.—Percent of aged units with income from various sources and shares of aggregate income from these sources, 1962 and 1984

Income source	1962	1984
Percent of units with income from—		
Social security	69	91
Private pensions	9	24
Government employee pensions	5	14
Assets	54	68
Earnings	36	21
Share of aggregate income provided by—		
Social security	31	38
Private pensions	3	6
Government employee pensions	6	7
Assets	16	28
Earnings	28	16

Sources: Lenore Epstein and Janet Murray, **The Aged Population of the United States: The 1963 Social Security Survey of the Aged** (Research Report No. 19), Office of Research and Statistics, Social Security Administration, and unpublished figures from the March 1985 **Current Population Survey** of the Bureau of the Census.

Assets also are an increasingly important source of income for the aged. The proportion of aged couples and nonmarried persons with income from assets increased from 54 percent to 68 percent between 1962 and 1984, and the share of aggregate income provided by assets increased from 16 percent to 28 percent.

Real income of the aged is growing even though the proportion of older persons with earnings is declining. In 1962, 36 percent of those aged 65 or older had earnings; by 1984, the proportion was only 21 percent. Only half as many nonmarried aged had earnings in 1984 as in 1962. Three-fifths as many married couples had earnings in 1984 as in 1962.

The economic status of the aged has been improving not only compared with that of the aged in previous years but also compared with that of the nonaged. The difference between the income of the aged and that of the nonaged was smaller in 1983 than it was in 1970 or 1960. The magnitude of this difference depends greatly on the measure used. When mean family income is compared, families with an aged head had less than families with a nonaged head (table 17). But on a per capita basis in 1983, families with an aged head had only slightly lower incomes before taxes than families with a nonaged head and slightly higher incomes after taxes (table 18).

Table 17.—Mean before-tax total money income in 1983 dollars, aged and nonaged families and unrelated individuals, 1960–83

Year and demographic unit	Mean income		Aged as a percent of nonaged
	Aged	Nonaged	
Families:			
1960	$14,780	$23,090	64
1970	18,290	31,110	59
1983	21,420	30,940	69
Families per capita:			
1960	(1)	(1)	(1)
1970	7,660	8,130	94
1983	9,070	8,960	101
Unrelated individuals:			
1960	5,510	10,870	51
1970	7,390	15,840	47
1983	10,040	16,900	59

[1] Data not available.
Source: Bureau of the Census, "Money Income of Households, Families, and Persons in the United States," **Current Population Reports** (Series P-60), various years.

Aged unrelated individuals, however, had considerably lower annual incomes than did nonaged unrelated individuals.

The gap between income levels of the aged and nonaged widened between 1960 and 1970 but narrowed between 1970 and 1983 (table 17). One reason for the improvement in the economic status of the aged compared with that of the nonaged between 1970 and 1983 is that social security benefits on average rose faster than inflation during the period (there were ad hoc increases in benefits in the early 1970's of 10 percent and 20 percent) while wages, the primary income source of the nonaged, did not on average keep pace with inflation.

Table 18.—Mean before- and after-tax income in 1983 dollars, aged and nonaged households and household members, 1974 and 1983

Year and type of income	Mean income		Aged as percent of nonaged
	Aged	Nonaged	
Per household			
Before taxes:			
1974	$15,360	$30,420	50
1983	16,390	28,890	57
After taxes:			
1974	13,510	23,980	56
1983	14,310	22,280	64
Per household member			
Before taxes:			
1974	8,500	9,160	93
1983	9,290	9,660	96
After taxes:			
1974	7,480	7,220	104
1983	8,110	7,460	109

Source: Bureau of the Census, "Estimating After-Tax Money Income Distributions Using Data from the March Current Population Survey" and "After-Tax Money Income Estimates of Households: 1983," **Current Population Reports** (Series P-23, No.'s 126 and 143), various years.

New Beneficiaries Today and Changes Since the Early Forties

The first SSA survey, conducted soon after the program began, documented the situation of new beneficiaries.[12] Later surveys measured the income of a cross-section of the aged. SSA also has conducted two surveys of new retired-worker beneficiaries since the one in 1941—the Survey of Newly Entitled Beneficiaries (SNEB) in 1968–70 and the New Beneficiary Survey (NBS) in 1982.[13] Information on new beneficiaries allows one to answer questions about those retiring today. In comparison, information on a cross-section of the aged allows one to answer questions about the aged as a whole, including the very old.

New retired-worker beneficiaries in 1982 differed from the total aged beneficiary population in several respects. In 1982 the general economic well-being of new retired workers was better than that of all social security beneficiaries aged 65 or older in 1982 (table 19). New retired workers were more likely than all beneficiaries aged 65 or older to have earnings, pensions other than social security, and income from assets. The new retirees also had a higher median monthly income and their social security benefits accounted for a smaller proportion of total income than those of all beneficiaries aged 65 or older. The lower proportion of all beneficiaries aged 65 or older than of new retired workers with earnings is attributable to the older average age of the 65-or-older group and to the fact that the 65-or-older group included persons receiving benefits solely as spouses, widow(er)s, divorced wives, and surviving divorced wives who did not qualify for benefits based on their own work records or who had been receiving disabled-worker benefits. New retired workers were more likely than aged beneficiaries in general to have pensions other than social security because all of the retired workers had work histories, while dependent beneficiaries may have had little or no labor-force attachment and, therefore, little chance to acquire pension eligibility.

New retirees today are better off than the total aged, in part because many new retirees have not experienced changes likely to occur with advancing age, such as declining earning capacity, the loss of a spouse, and, perhaps, the erosion of the real value of income sources that do not keep pace with inflation. In addition, new retirees are entering retirement with more financial

[12] Most of the retired-worker beneficiaries in the 1941–42 surveys were aged 65 or 66 at entitlement to benefits. Because of provisions in the law, the period of time in which the required quarters of coverage could be earned in the short period of time between January 1, 1937, and the time of sample selection decreased as age at entitlement increased, and this affected the number of older workers who could qualify for benefits in the early 1940's.

[13] Most retired-worker beneficiaries in the two later surveys of new beneficiaries, conducted after reduced benefits were made available as early as age 62, were under age 65 at entitlement to benefits.

Table 19.—Percent of beneficiaries with income from various sources, median monthly income and share of aggregate income from social security, by sex and marital status: New retired workers and total aged beneficiaries, 1982

Income sources	New retired workers [1]			Total aged beneficiaries [2]		
	Married men and their wives	Unmarried		Married men and their wives	Unmarried	
		Men	Women		Men	Women
Percent receiving—						
Earnings	44	22	30	33	15	9
Income from assets	83	63	72	78	61	64
Pensions, total	56	41	43	50	36	24
Private	39	26	28	35	26	14
Public	20	16	16	17	11	11
Median monthly income	$1,490	$780	$760	$1,240	$600	$480
Share of aggregate income from social security (percent)	35	40	42	39	45	53

[1] Includes only married men retired workers and their wives and unmarried workers interviewed in the 1982 New Beneficiary Survey who received a first social security benefit payment during mid-1980 to mid-1981.
[2] Includes all couples and unmarried persons aged 65 or older in 1983 who reported receipt of social security benefits in 1982 in the March 1983 **Current Population Survey** of the Bureau of the Census.
Source: Linda Drazga Maxfield, "Income of New Retired Workers by Age at First Benefit Receipt: Findings From the New Beneficiary Survey," **Social Security Bulletin**, July 1985.

resources than was the case for new retirees in the past. To assess changes in the status of new retirees under the social security program, findings from Wentworth and Stecker's summary of the 1941-42 surveys of new beneficiaries are cited and compared with findings from the 1968-70 SNEB and from the 1982 NBS on reasons for retirement, reliance on benefits, receipt of pensions and asset income, total income and poverty rates, and asset holdings.

Reasons for retirement. Reported reasons for leaving the last job before claiming social security benefits have shifted dramatically since the early 1940's (table 20). In the early 1940's, only 10 percent of the nonemployed men receiving retired-worker benefits left the labor force for employee-initiated or voluntary reasons, such as wanting to retire or having a pension available. Their reasons were either employer-initiated (56 percent), such as mandatory retirement or being laid off, or they were health-related (34 percent). By 1968, employee-initiated or voluntary reasons for leaving the last job were reported by more than one-fifth of the nonworking men aged 65 or older and almost one-third of the nonworking men aged 62-64. By 1982, almost two-thirds of the nonworking men aged 65 or older and more than half of the nonworking men aged 62-64 reported employee-initiated reasons for leaving the last job that they had held.

Table 20.—Primary reason for leaving last job, nonemployed men [1] receiving retired-worker benefits, by age, [2] 1941-42, 1968, and 1982

Reason for leaving last job	1941-42	1968		1982	
	Aged 65 or older	Aged 62-64	Aged 65 or older	Aged 62-64	Aged 65 or older
Total percent	100	100	100	100	100
Employer initiated	56	17	57	17	20
Health problems	34	54	21	29	17
Employee initiated	10	29	22	54	63

[1] For 1968 and 1982 data, the self-employed on the last job are excluded.
[2] Age at entitlement to benefits in 1941-42 surveys and 1968 survey, age at receipt of first benefits in 1982 survey.
Sources: Edna C. Wentworth, "Why Beneficiaries Retire," **Social Security Bulletin**, January 1945, table 2; **Reaching Retirement Age: Findings From a Survey of Newly Entitled Workers, 1968-70** (Research Report No. 47), Office of Research and Statistics, Social Security Administration, table 4.5; and Sally R. Sherman, "Reported Reasons Retired Workers Left Their Last Job: Findings From the New Beneficiary Survey," **Social Security Bulletin**, March 1985, tables 5 and 7.

Not only is health a less common reason for retiring now than it was even 15 years ago, but new beneficiaries today also view themselves as being in good health generally. Two-thirds of retired workers reported no health-related work limitations and no moderate or severe functional limitations. Of those who did have limitations, more than half said that their limitations prevented them from doing any paid work. But even among the age group most likely to report themselves in poor health—those first claiming benefits at age 62—more than three-fifths report no work-limiting conditions.[14]

Reliance on benefits. In the early 1940's, social security benefits were small. Even so, they were the major portion of the total money income of 47 percent of married couples and 59 percent of nonmarried persons who received benefits (table 21). And 13 percent of married couples and 23 percent of nonmarried persons relied completely on social security benefits. In 1982, social security was still the largest single source of income of new retired workers. Almost as many bene-

[14] See Michael Packard, "Health Status of New Retired-Worker Beneficiaries: Findings From the New Beneficiary Survey," **Social Security Bulletin**, February 1985, pages 5-16.

Table 21.—Relative importance of social security to total income of new retired workers, 1941 and 1982

Social security as a proportion of total income	1941 [1]		1982	
	Married men and their wives	Nonmarried persons	Married men and their wives	Nonmarried persons
Total percent	100	100	100	100
0	3	2	2	3
1-49	50	39	56	40
50-99	34	36	39	46
100	13	23	3	11

[1] Sample for Saint Louis, Mo., only.

Sources: Edna C. Wentworth and Dena K. Motley, **Resources After Retirement** (Research Report No. 34), Office of Research and Statistics, Social Security Administration, table 5, and tabulations from the 1982 New Beneficiary Survey.

ficiaries in 1982 as in 1941-42 relied on social security for the major portion of their total money income (42 percent of married men and their wives and 57 percent of nonmarried persons). But fewer relied completely on social security (3 percent of married men and their wives and 11 percent of nonmarried persons).

Receipt of pensions and asset income. Social security was established as a floor of protection for the aged, intended to be supplemented by other pensions and income from assets. As the economic status of the aged has improved, more beneficiaries have such supplementary sources than was the case when the social security program began. In 1941-42, only 17 percent of married couples and 13 percent of nonmarried persons entitled to their own benefits had income from pensions other than social security (table 22). Income from assets was received by 44 percent of married couples and 37 percent of nonmarried persons. The new retired workers in 1982 were more than three times as likely as those in 1941-42 to have pensions other than social security (56 percent of married men and their wives and 42 percent of nonmarried persons) and almost twice as likely to have income from assets (83 percent of married men and their wives and 69 percent of nonmarried persons).

Table 22.—Percent of new retired workers with pensions other than social security and with income from assets, 1941-42, 1970, and 1982

Pension and asset income	1941-42	1970	1982
Percent with pensions other than social security:			
Married men and their wives	17	43	56
Nonmarried persons	13	25	42
Percent with income from assets:			
Married men and their wives	44	55	83
Nonmarried persons	37	40	69

Sources: Edna C. Wentworth and Dena K. Motley, **Resources After Retirement** (Research Report No. 34), Office of Research and Statistics, Social Security Administration, table 7; **Reaching Retirement Age: Findings From a Survey of Newly Entitled Workers, 1968-70** (Research Report No. 47), Office of Research and Statistics, Social Security Administration, tables 8.1 and 8.6; and Linda Drazga Maxfield, "Income of New Retired Workers by Age at First Benefit Receipt: Findings From the New Beneficiary Survey," **Social Security Bulletin**, July 1985, table A.

Total income and poverty rates. In the early 1940's, the total money income of beneficiaries was typically small. The median total income, adjusted to 1982 dollars, was just $5,100 for couples and about $2,700 for unmarried new beneficiaries in 1941-42 (table 23). The median income of new retirees in 1970 was more than twice as large. By 1982, the income of new retirees was more than three times as large as those in the early 1940's, with a median amount of about $18,000 a year for couples and just over $9,000 for the unmarried retired workers (table 22).

The Social Security Administration developed a measure of poverty in the 1960's that has been updated by indexing it by the Consumer Price Index (CPI). Poverty rates are presented here based on official poverty thresholds in 1970 and 1982, and in 1941-42 by deflating the official thresholds for 1982 by the change in the CPI. In all three years, income of only the new retired-worker couples or nonmarried persons is measured against the respective poverty thresholds for two persons and one person, even though they may be living with others.

Under today's measure of poverty for single persons and couples, the majority of new retirees in the early 1940's would have been counted as poor. In 1941-42, 57 percent of married couples, 75 percent of nonmarried men, and 80 percent of nonmarried women had incomes below the poverty thresholds (table 23). By 1970 the proportion of new retirees with incomes below the poverty thresholds dropped to 13 percent for couples

Table 23.—Median total money income of new retired workers and percent with income below the poverty threshold, 1941-42, 1970, and 1982

Item	1941-42	1970	1982 [1]
Median total annual income in 1982 dollars:			
Married men and their wives	$5,100	$13,270	$18,000
Nonmarried men	2,740	5,830	9,360
Nonmarried women	[2] 2,680	5,360	9,120
Percent with income below the poverty threshold: [3]			
Married men and their wives	57	13	5
Nonmarried men	75	38	20
Nonmarried women	[2] 80	42	18

[1] Median of average income in last 3 months multiplied by 12.

[2] Includes widow beneficiaries and retired women workers.

[3] Income of the couple or nonmarried person only in relation to the poverty threshold for an aged couple or individual living alone. Poverty thresholds for 1941-42 were estimated by adjusting the 1982 thresholds by the change in the Consumer Price Index (45.2 in 1941-42, 288.6 in 1982). Poverty rates in 1941-42 were estimated by interpolation from published income distributions.

Sources: Edna C. Wentworth and Dena K. Motley, **Resources After Retirement** (Research Report No. 34), Office of Research and Statistics, Social Security Administration, page 10; **Reaching Retirement Age: Findings From a Survey of Newly Entitled Workers, 1968-70** (Research Report No. 47), Office of Research and Statistics, Social Security Administration, table 8.5; Linda Drazga Maxfield, "Income of New Retired Workers by Age at First Benefit Receipt: Findings From the New Beneficiary Survey," **Social Security Bulletin**, July 1985, table 10; and unpublished tabulations from the New Beneficiary Survey.

and to about 40 percent for the nonmarried. By 1982, just 5 percent of the couples and about 20 percent of the nonmarried—less than one-tenth the proportion of couples and about one-fourth the proportion of nonmarried persons as in 1941-42—had incomes below the poverty threshold.

Asset holdings. In the early 1940's the net worth of new retired workers was usually low. Net worth is the total value of all assets reported in each period, including savings and checking accounts, other financial or property assets, and equity in the home. Equity in a home has been and continues to be the major component of net worth. In 1941-42, more than half of the couples but fewer than one-fourth of the nonmarried persons owned homes (table 24). Although median home equity for those beneficiaries amounted to $13,000 to $17,000 in 1982 dollars, median net worth of all new retired workers was only $11,230 for married men and their wives, $2,840 for nonmarried women, and $910 for nonmarried men.

Data were not collected in the 1968-70 SNEB on assets of new beneficiaries. Data on the asset positions of persons approaching retirement are shown here from the Retirement History Study (RHS), conducted by SSA in 1969, and the 1982 NBS to compare with data from the 1941-42 surveys. Homeownership and the real value of both home equity and net worth all increased substantially between 1941-42 and 1969 and between 1969 and 1982. By 1982, 87 percent of married men and their wives, 47 percent of nonmarried men, and 58 percent of nonmarried women owned homes. Between 1941-42 and 1982 the real value of median home equity for those who had equity in a home increased almost 3 fold for couples and nonmarried women and doubled for nonmarried men. Even after adjusting for price changes since the early 1940's, the median net worth of new retirees was quite small then. Many had virtually no assets. Since then the real value of median net worth increased 6 fold for married men and their wives, 19 fold for nonmarried men, and 11 fold for nonmarried women.

Table 24.—Assets of new retired workers,[1] 1941-42, 1969, and 1982

Asset ownership and marital status	1941-42	1969 [1]	1982
Percent owning their own homes:			
Married men and their wives	54	70	87
Nonmarried men	23	34	47
Nonmarried women	23	44	58
Median home equity for those with equity (in 1982 dollars):			
Married men and their wives	$17,300	$36,700	$48,000
Nonmarried men	17,270	29,700	35,000
Nonmarried women	13,180	33,300	38,000
Median net worth (in 1982 dollars):			
Married men and their wives	11,230	42,300	68,000
Nonmarried men	910	5,400	17,000
Nonmarried women	2,840	11,500	30,100

[1] 1969 data are for preretirees aged 58-63 in that year.

Sources: Edna C. Wentworth and Dena K. Motley, **Resources After Retirement** (Research Report No. 34), Office of Research and Statistics, Social Security Administration, tables 14 and 16; and Sally R. Sherman, "Assets of New Retired Worker Beneficiaries: Findings From the New Beneficiary Survey," **Social Security Bulletin**, July 1985, table 7.

Summary

The economic well-being of both working and retired persons has improved significantly since the Social Security Act was passed in 1935. More people are employed now than at any time since then, despite declining employment among the aged and more years of school attendance among the young. The ratio of nonworkers to workers—a broad measure of dependency—is lower now than at any time since the 1930's. Social security has grown and matured to become a strong foundation of retirement income, and other work-related employee benefits have grown in tandem with social security. Employer contributions for social insurance and related employee benefits have grown from being about a 1-percent supplement to aggregate wages and salaries in 1929 to nearly 20 percent today. Social security and Medicare account for just over a fourth of employer contributions, while other public and private retirement systems represent just over another fourth. The balance of benefits for active workers includes group health and life insurance, unemployment insurance, workers' compensation, temporary disability insurance, and related benefits. Pay for holidays, vacations, and sick leave is estimated to have increased from less than 1 percent of aggregate pay in 1929 to about 10 percent today.

The improved economic status of the aged has been documented by a series of surveys beginning in 1941-42 and carried out from time to time until 1972 and biennially since 1976. The earlier surveys were supplemented with estimates from record data and tables from the Bureau of the Census.

The income of the aged as a whole has grown by about 75 percent over the past 2 decades after taking inflation into account. The income of the aged as a whole grew faster than that of the nonaged in the 1970's and early 1980's when real social security benefits increased faster than inflation and wages lagged behind it.

New beneficiaries in 1982 were in better health and were more likely to retire because they wanted to than was true of their counterparts in the early 1940's. Not only have benefits continued to be the main component of income of the aged as total incomes have grown, but also benefits have become much larger in relation to average earnings than used to be the case. Retired workers are much more likely now than in the early 1940's to have other pensions or income from assets to supplement benefits. As a result, most retirees have incomes above the poverty line, and a net worth of considerable size based, for the most part, on the value of the home.