Social Security Recommendations

In its final report as a three-member, policy-making body,[1] the Social Security Board reaffirms its conviction, developed over eleven years of operation of the programs and of study and analyses for which the Board was responsible under the Social Security Act, that it is both necessary and feasible to strengthen the existing social security system and to link it more closely with other measures to promote the well-being of families and of the Nation.[2]

SOCIAL SECURITY PROGRAMS in the fiscal year 1945–46 provided means of forestalling or alleviating distress that had not been available after any previous war in the Nation's history. Yet provisions for family security in this year of transition to peace gave varying protection against wage loss. The inadequacy of the protection reflected in part the absence of provision against certain hazards and in part the restricted coverage and immaturity of programs established too recently to reach more than a minor segment of the population for whom the risk had already occurred.

In peace as in war, high levels of employment and earnings do not of themselves give complete security to families. Disability, old age, death of the family earner, and the "frictional" unemployment that reflects change and development in a dynamic economy are hazards against which provision must be made at all times. Future progress in improving health and preventing needless suffering and premature death will depend largely on the ability of all the population to obtain adequate individualized services for attaining maximum physical and mental efficiency and for the diagnosis and care of sickness.

[1] On July 16, 1946, the functions of the Social Security Board and its Chairman were transferred to the Federal Security Administrator, under the President's Reorganization Plan No. 2, and on the same date the Social Security Administration was set up as a branch of the Federal Security Agency. The Board's report, from which this summary of recommendations is taken, constitutes Section 6 of the *Annual Report of the Federal Security Agency, 1946.*

[2] After the close of the fiscal year, with which the report is concerned, Congress enacted the Social Security Act Amendments of 1946, some provisions of which had a bearing on the recommendations. For a summary of the amendments enacted, see the *Social Security Bulletin*, September 1946, pp. 2–8.

A Comprehensive Program of Social Security

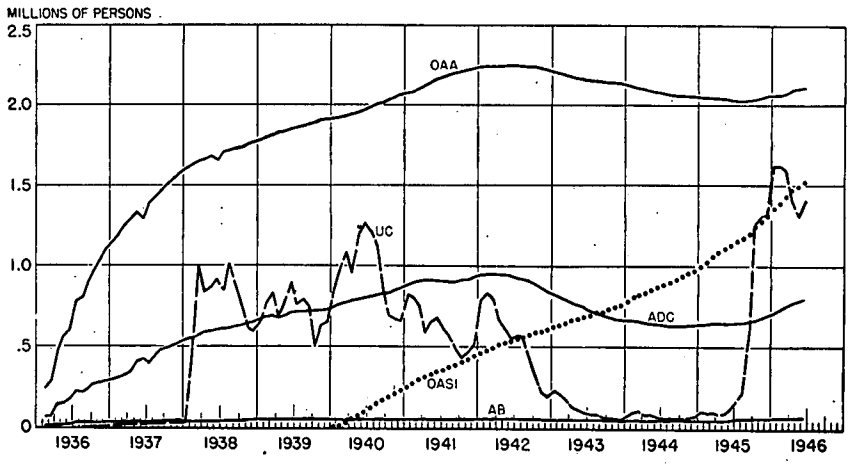
Social security not only protects the individual against certain predictable risks but also, through benefiting large groups and contributing to the morale of large numbers, helps to assure the security and development of the Nation as a whole. The war years showed dramatically that the overwhelming majority of Americans prefer jobs to insurance benefits or assistance. At the same time, industry and the economy in general benefit from the greater sense of confidence that exists when workers know that they will have some means of livelihood if age or other circumstance beyond their control cuts off their ability to earn. Assurance of a basic minimum protection in adversity stimulates rather than destroys the interest of individuals in making what additional provision they can for themselves; any savings they can put by and any additional insurance they can purchase individually become more worth while.

The Board believes that comprehensive and adequate provision for contributory social insurance is essential to national and individual security in the circumstances of modern life. Social insurance can make it possible for the great majority of all families to maintain their economic independence when they meet with common risks over which they have little or no individual control.

At the same time, there is and will continue to be need for comprehensive and adequate provision for public assistance. Even with complete coverage of risks and of population, some families will fail to qualify for insurance benefits and will require public assistance. There will always be some individuals and families who will meet with catastrophes in which their requirements exceed the benefits for which they qualify and who may need supplementary assistance.

To obtain the objectives of a social security program, social insurance and public assistance must provide against all common hazards to livelihood among all groups of the population. Our present provision for social security is seriously deficient in both these respects. Moreover, existing arrangements to safeguard or enhance the economic security of families have grown up at different times and places and for various separate groups. As a result, the character and extent of present protection, when it exists, differ greatly for persons in essentially similar circumstances. Our social and political traditions as a democracy and the

Social insurance beneficiaries and public assistance recipients under the Social Security Act, February 1936–June 1946



A Comprehensive Program of Social Security

The Social Security Board recommends the establishment of:

A comprehensive basic national system of contributory social insurance, covering all major risks to economic independence and all workers and their dependents threatened by such risks. The program would include insurance against wage loss in periods of disability and against costs of medical care, for which no general provision now exists in the United States, as well as old-age and survivors insurance and unemployment insurance, with benefits related to past earnings and 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 cost and reporting burdens and simplify arrangements as they affect workers, employers, and public agencies.

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

continuing progress of our free competitive economy require a broader, sounder, and more equitable basis for ensuring individual and national well-being.

Additional Insurance Provisions

Disability insurance.—In the United States the wage loss from disabilities lasting 6 months plus the first 6 months' loss in extended disabilities amount in ordinary years to some $3–4 billion. For the families affected, the consequences in lowered living standards—and in many instances sheer deprivation—are likely to be felt over a long period.

Most of the wage loss due to disability is uncompensated. Social insurance benefits are available to relatively few of the daily average of 2 million or more disabled wage earners who, but for their incapacity, would be working or looking for work. Industrial and commercial workers are covered by workmen's compensation, but conditions of work-connected origin apparently account for less than 10 percent of the wage loss from disability. Only 2 States have programs for paying disability benefits to workers covered by their unemployment insurance laws, and those benefits are of temporary duration. Excepting payments to disabled veterans, the only public provisions for compensating permanent disability of non-work-connected origin are the somewhat restricted programs for railroad and government employees. Commercial insurance is of course available, but most insurance companies have stopped issuing extended disability policies, and few workers can afford the relatively high cost of temporary disability policies.

One effect of the lack of a general disability insurance program has been a relatively large representation of the disabled on the public assistance rolls. In June 1946, recipients of aid to the blind numbered 74,000. The families of some 65,000–70,000 incapacitated men were receiving aid to dependent children, and the 278,000 cases receiving general assistance included many adults whose working capacity was seriously impaired by disability.

Medical care insurance.—Equally as serious and important as the wage loss from disability is the problem of paying for adequate medical care, a problem which concerns not only wage earners but the population as a whole. In the aggregate, the financial burden of illness is not excessive. The Nation's bill for health services of all kinds amounts to about 4 or 5 percent of the national income. The problem lies in the uneven incidence of this burden. In a given year most families have only nominal expenditures for medical care; others are overwhelmed. Except on a prepayment basis it is, for all practical purposes, impossible for an individual or family to budget for medical care. These two characteristics of medical care cost—their unpredictability for the individual family and their manageable proportions when averaged—provide the basis for the Board's recommendations that medical costs be put on a prepayment basis.

Prepayment of such costs is not a new principle. All States but one require employers to carry the cost of workmen's compensation. Voluntary medical care plans also use the prepayment principle but are limited by inadequacy of coverage, restrictions on services and on membership, inability to adjust contributions to income, and relatively high costs.

Additional Insurance Provisions

The Social Security Board recommends:

Provision under Federal law for 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, dentists, nurses, hospitals, and laboratories, with provision for decentralization of administration and 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, railroad employees, and self-employed persons, including farmers and small businessmen.

Legislation to prevent servicemen from losing the protection of the old-age and survivors insurance system because of service in the armed forces.

Reduction of the qualifying age for all women beneficiaries from 65 to 60 years.

Changes in the average monthly wage and benefit formula to increase benefit amounts, particularly for low-paid workers.

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

Increase in the amount of earnings a beneficiary may receive in covered employment without suspension of benefits.

Greater uniformity in defining, for purposes of the insurance system, family relations and conditions of dependency that qualify 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 in the Social Security Act and Internal Revenue Code 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.

Federal, State, and local governments have assumed some responsibility for the care of certain groups of the population. In the fiscal year 1944–45, expenditures to carry out governmental health and medical functions amounted to more than $1 billion, excluding care of members of the armed forces but including care of veterans and public health services. Tax funds, in other words, provided about one dollar in five of the Nation's total health bill.

There is general agreement on the desirability of a larger governmental contribution to the cost of keeping the Nation in good health. The major difference is as to the most appropriate way of making it. Free care on a means-test basis, the Board believes, is not the solution. The great majority of normally self-supporting persons can and would prefer to pay for their medical care through some system of prepayment that distributes costs over groups of people and periods of time, rather than seek free care after they have been reduced to dependency.

The simplest, most economical, and most effective basis for medical care insurance is through Federal legislation to establish a comprehensive program under governmental auspices, financed out of periodic contributions by employers and employees. Such a program is not "socialized medicine" but a method of insurance payment. The law might authorize use of State and local official—and even private—agencies in administering the program and furnishing services to insured persons. In any event, subject to national standards, administration of benefits should be decentralized under arrangements worked out locally with doctors, hospitals, and others concerned, with the collaboration of professional organizations. Policies and operations in each area of administration—Federal, State, and local—should be guided by advisory bodies representing the contributors to the system and the groups that furnish services. The system need not, and should not, supplant existing voluntary group arrangements for persons who may wish to use the services such group plans offer.

Old-Age and Survivors Insurance

Extension of coverage to all workers and coordination of the basic Federal system with special systems for railroad, government, and other employees are essential for adequate protection of aged workers and their dependents and of the survivors of insured wage earners.

At the beginning of 1946, nearly half of all civilian jobs were excluded from coverage, and two in five of all persons with wage credits from covered employment were neither fully nor currently insured. The mobility characteristic of the American labor force means that workers who shift between covered and noncovered employment lose or fail to gain protection for themselves and their survivors, though they have contributed to the system. Many more who acquire and retain insured status will have benefits based on lower average wages than they actually received, because their wages from noncovered employment cannot be counted.

A decade's experience in operating the program has shown several feasible methods of solving the administrative problems which caused the initial exclusion of such groups as agricultural and domestic employees and the self-employed. Other groups which opposed inclusion under the Social Security Act initially for various reasons are coming to realize the value of the continuity of the survivorship protection which the basic system would offer and of the survivorship protection which many of the special retirement systems lack. Without jeopardizing any existing rights, retirement benefits can be provided under the basic system to members of excluded groups, many of whom are not members of special retirement systems, and the special systems can be adjusted so as to provide benefits supplementary to those of the basic Federal system.

Another area in which improvement is necessary concerns eligibility for benefits and benefit amounts. The general level of benefits should be

raised, particularly in view of higher living costs. If coverage is extended, modifications should be made so that newly covered workers will not suffer either undue delay in establishing rights to benefits or reduction in the amount of benefits for which they may qualify. The conditions of benefit payments should be amended, also, to eliminate anomalous and inequitable situations and to simplify administration.

Unemployment Insurance

In 1945–46, unemployment compensation was an invaluable resource to millions of families and to the Nation as a whole in the emergency of economic and military demobilization. High wartime earnings and the improved benefit provisions of State laws gave many workers substantial rights to benefits, yet most of those who were laid off found other jobs within a short time and did not even file a claim for benefits. For those who received benefits because suitable work was not available, unemployment insurance provided some income during their search for work. Not all workers got jobs immediately, however. More than a million workers exhausted their benefits. Limitations in benefit provisions restricted the usefulness of the system and will continue to restrict it. Much can and should be done to strengthen the program for the long run, both by extending coverage and increasing the adequacy of protection.

In view of accumulated reserves, which are much greater than needed for a current-risk program, the Board recommends a revision in method of financing. Abolition of the credit-offset features of the present tax and substitution of a straight Federal tax of 1 percent, from the proceeds of which matching Federal grants could be made to States to pay benefits and administrative costs, would solve many basic administrative problems and simplify present financing. The wide variations in employer contribution rates would be lessened, and States would have far greater flexibility in financing benefit costs.

If the credit offset is retained, however, the Board recommends that the Federal unemployment tax be reduced to 2.0 percent and that employers be permitted to offset as much as 1.8 percent for contributions made or excused under State laws. If, in turn, the States adjust their standard contribution rate to that figure, about half a million employers would benefit from the lower rates. They would be chiefly small businessmen newly starting in business, many of them veterans.

As a condition of the tax offset, minimum benefit standards should be adopted to assure general adequacy of benefits and equity to workers. If such standards are adopted, the Board recommends a permanent reinsurance fund, replacing the present temporary provision for Federal loans to States whose unemployment funds run low.

On the other hand, it may be seriously questioned whether the Federal tax—and by inference State taxes—should be further reduced while risks of temporary disability remain unprotected by most States. If States could use their accumulated funds for benefits to workers unemployed through illness as well as through lack of work, establishment of State programs for temporary disability insurance would be furthered substantially.

Adoption of such measures and extension of coverage to small firms and to most of the groups now excluded would greatly strengthen the system. The Board continues to believe, however, that it would be simpler, cheaper, and safer to cope with the national problem of wage loss from unemployment through a national social insurance program.

Unemployment Insurance

The Social Security Board recommends:

Extension of the Federal Unemployment Tax Act to all employers of one or more workers in covered industries and to many excepted employments.

Provision, under Federal law, of unemployment benefits for seamen and for employees of the Federal Government on a uniform basis irrespective of the State in which they have worked.

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 of 1 percent of covered pay rolls, from the proceeds of which matching Federal grants to the States would be made for both benefits and administration.

Provision for minimum benefit standards as a condition of tax-offset credit (including additional credits). Among such standards would be:

Extension of unemployment insurance coverage to all employees in industries covered by the Federal tax.

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

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 that disqualifications for voluntary leaving without good cause, discharge for misconduct, or refusal of suitable work should entail only postponement of benefits for not more than 4 weeks rather than 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 the credit-offset feature of the present tax is retained, reduction of the tax to 2 percent and 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—for States whose unemployment funds are low.

Public Assistance

To provide the basis for a flexible and comprehensive public welfare program, the Board recommends strengthening and broadening the present assistance provisions of the Social Security Act, authorizing Federal participation in welfare services, and extending aid to needy persons not now eligible for assistance with Federal help.

Interrelated measures that would strengthen the financing of assistance include special Federal aid to low-income States, the requirement that a State apportion Federal and State funds to localities in relation to their need for funds, and removal of or increase in the maximums on individual payments subject to Federal matching. The low Federal matching maximums in aid to dependent children, which are far lower than those for old-age assistance and aid to the blind, constitute a particularly serious problem.

The Board recommends extension of the assistance programs to permit Federal financial participation in the cost of medical services made available to needy persons, as well as in cash assistance. Until a system of insurance to meet the costs of medical care for workers and members of their families is established, in which public assistance recipients could be included through payment of contributions on their behalf, the lack of provisions for medical assistance will remain a serious gap in the assistance program.

The Board further recommends that the Federal Government share in the cost of all welfare services provided by the staff of a public welfare agency and included in a State plan, including foster-care service for children.

Extension of the Social Security Act to provide grants-in-aid for general assistance is also urgent. In some places general assistance is now wholly lacking, and in many others is sharply limited by inadequacy of local funds or by legal or administrative restrictions on eligibility. There is no justification for limiting Federal grants to programs for the needy aged and blind and dependent children and excluding other needy persons, most of whom are in need because they are sick or have physical or mental handicaps.

Public Assistance

The Social Security Board recommends:

Special Federal aid to low-income States for assistance, administration, and welfare services to enable States with relatively low economic resources to develop adequate public welfare programs.

State distribution of available Federal and State funds to localities in accordance with their needs.

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

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

Extension of aid to dependent children to permit Federal participation in assistance to a parent or other person assuming responsibility for any child who is living in a family home and is needy for any reason whatsoever. Substantially the same objective could be achieved through the Board's recommendation 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, Federal financial participation should be available, under appropriate auspices, in the cost of foster-family care for children who have no parent able to care for them.

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

Elimination, as a condition of Federal grants, of State requirements for transferring title or control of property by an applicant or recipient to the State or locality. This action would not preclude any agency from claiming from the estate of a deceased recipient recovery of assistance formerly paid.

Extension of Federal grants-in-aid for all assistance programs to Puerto Rico and the Virgin Islands.

Federal financial participation in the costs of medical services made available to needy persons under State public assistance programs and in assistance payments to needy sick persons who reside in public or private medical institutions other than mental hospitals and tuberculosis sanatoria.

Federal financial participation in all types of welfare services administered by the staff of the public welfare agency to help families and individuals become self-supporting, make fuller use of community resources, or solve individual problems in family or community adjustments. Such services should be available, when requested, to recipients of assistance and to others not needing or requesting financial aid.

Definition by the States of the content of living to be afforded needy persons through assistance and their own resources, if any, and the development by States of standards that will assure equitable treatment of needy persons throughout the State. Consideration by the States, in determining the amount of assistance, only of resources actually available to the individual.

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

Social Security in a Democracy

In the opinion of the Board, no time should be lost in taking every feasible step to extend the present protection of the social security program to all households in the United States, and to wipe out limitations and inequities that can no longer be justified by logic or necessity. For a people, as for an individual, it is prudent to provide in good times against adversities that almost surely will arise sooner or later.