

ADVISORY COUNCIL ON SOCIAL SECURITY

APPOINTED BY A SUBCOMMITTEE OF THE COMMITTEE
ON FINANCE IN COOPERATION WITH THE SOCIAL
SECURITY BOARD TO STUDY THE ADVIS-
ABILITY OF AMENDING THE
SOCIAL SECURITY ACT

FINAL REPORT

DECEMBER 10, 1938



PRESENTED BY MR. HARRISON
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FOREWORD

The Advisory Council on Social Security was appointed by the Senate Special Committee on Social Security (subcommittee of the Committee on Finance) and the Social Security Board in May 1937. The following announcement, which was issued at that time, explains the purposes for which the council was appointed and lists its members:

At a hearing before the Committee on Finance of the United States Senate on February 22, 1937, it was agreed that the chairman of the Committee on Finance would appoint a special committee to cooperate with the Social Security Board to study the advisability of amending titles II and VIII of the Social Security Act. The chairman of the Committee on Finance has appointed such a special committee consisting of Senator Pat Harrison, Senator Harry Flood Byrd, and Senator Arthur H. Vandenberg. It was agreed that this special committee in cooperation with the Social Security Board would appoint an Advisory Council on Social Security to assist in studying the advisability of amending titles II and VIII of the Social Security Act.

It is desired that the Advisory Council on Social Security cooperate with the Special Committee of the Committee on Finance of the United States Senate and with the Social Security Board in considering the following matters:

- (1) The advisability of commencing payment of monthly benefits under title II sooner than January 1, 1942;
- (2) The advisability of increasing the monthly benefits payable under title II for those retiring in the early years;
- (3) The advisability of extending the benefits in title II to persons who become incapacitated prior to age 65;
- (4) The advisability of extending the benefits of title II to survivors of individuals entitled to such benefits;
- (5) The advisability of increasing the taxes less rapidly under title VIII;
- (6) The advisability of extending the benefits under title II to include groups now excluded;
- (7) The size, character and disposition of reserves;
- (8) Any other questions concerning the Social Security Act about which either the Special Senate Committee or the Social Security Board may desire the advice of the Advisory Council.

It is understood that the Social Security Board will make all necessary studies and furnish all necessary technical assistance in connection with the consideration of the foregoing subjects. It is further understood that these subjects will be considered jointly by the Advisory Council, the Special Senate Committee, and the Social Security Board.

The Special Committee on Social Security of the Committee on Finance of the United States Senate and the Social Security Board join in appointing the following persons to serve as members of an Advisory Council on Social Security:¹

REPRESENTING EMPLOYEES

G. M. Bugniazet, secretary, International Brotherhood of Electrical Workers of America, and president, Union Cooperative Insurance Association, Washington, D. C.

Harvey Fremming, president, Oil Field, Gas Well and Refinery Workers International Union, Fort Worth, Tex.

John P. Frey, president, Metal Trades Department of the American Federation of Labor, Washington, D. C.

Sidney Hillman,² president, Amalgamated Clothing Workers of America, New York, N. Y.

¹ Where the connections or positions of the members of the council have changed since their appointment, the present position is indicated.

² Lee Pressman, general counsel, Congress of Industrial Organizations, Washington, D. C., served as alternate for Mr. Hillman.

Philip Murray, vice president, United Mine Workers of America, Washington, D. C.

Matthew Woll, vice president, International Photo Engravers' Union of North America, and president, Union Labor Life Insurance Co., New York, N. Y.

REPRESENTING EMPLOYERS

Marion B. Folsom, treasurer, Eastman Kodak Co., Rochester, N. Y.

Walter D. Fuller, president, Curtis Publishing Co., Philadelphia, Pa.

Jay Iglauer, vice president and treasurer, Halle Brothers Co., Cleveland, Ohio.

M. Albert Linton, president, Provident Mutual Life Insurance Co., Philadelphia, Pa.

E. R. Stettinius, Jr., chairman of the board, United States Steel Corporation, New York, N. Y.

Gerard Swope, president, General Electric Co., New York, N. Y.

REPRESENTING THE PUBLIC

J. Douglas Brown, Princeton University, Princeton, N. J.

Henry Bruère, president, The Bowery Savings Bank, New York, N. Y.

Paul H. Douglas, University of Chicago, Chicago, Ill.

William Haber, University of Michigan, Ann Arbor, Mich.

Alvin H. Hansen, Harvard University, Cambridge, Mass.

Lucy R. Mason,² general secretary, National Consumers' League, New York, N. Y.

Theresa McMahon, University of Washington, Seattle, Wash.

Gerald Morgan, Hyde Park, N. Y.

A. H. Mowbray, University of California, Berkeley, Calif.

T. L. Norton, University of Buffalo, Buffalo, N. Y.

George W. Stocking, University of Texas, Austin, Tex.

Elizabeth Wisner, past-president of the Association of Schools of Social Work, New Orleans, La.

Edwin E. Witte, University of Wisconsin, Madison, Wis.

The council held its first meeting in Washington on November 5 and 6, 1937. Other meetings have been held in December 1937 and February, April, October, and December 1938. To provide for the continuous study of the problems before the council and to plan the agenda of the full sessions of the council, an interim committee of the council was appointed. This committee, including two representatives of industry, two representatives of labor, and three representatives of the public, has held frequent meetings during the past year and has been of great assistance to the council in its work. At the same time, the individual members of the council have continued their study of the questions before the council through the use of a large number of documents and reports prepared by the Social Security Board and the interim committee. Discussions at meetings have been supplemented by a large volume of correspondence among the members of the council and between them and the Social Security Board.

The Social Security Board has been most generous in assigning a large number of its research and administrative technicians for protracted periods to the preparation of material requested from time to time by the council. At the meetings both of the council and of the interim committee, the principal officials of the Board have afforded their help in the study of the technical aspects of the problems before the council. At the invitation of the council, experts from the Treasury Department and the Post Office Department have been present when subjects affecting these Departments have been considered.

² Resigned. Miss Josephine Roche, the Rocky Mountain Fuel Co., Denver, Colo., was appointed to fill the vacancy.

In addition to the assistance afforded by the Social Security Board, the council has received valuable suggestions from the members of the Senate Special Committee. It has also studied the proposals concerning old-age security advanced by a large number of bodies representing industry, labor, professional, social welfare and general-citizen groups. The recommendations developed by committees of experts and by individual students of social insurance have been carefully analyzed and examined. To the extent time has permitted, the council has invited a number of outstanding experts on various aspects of the problem of old-age security to present their views orally.

In accordance with the terms of its appointment, the council has concentrated its attention on problems connected with the old-age insurance program established by titles II and VIII of the Social Security Act and the means by which the program there established might be improved or extended. While keenly interested in the other phases of social security affected by the Social Security Act as a whole, the council considered its specific task to be concerned with these two titles of the law, including their relation to the old-age assistance program provided in title I.

From time to time in the course of its deliberations, the council has submitted to the Senate Special Committee and the Social Security Board interim recommendations or statements on subjects upon which immediate comment seemed desirable. In December 1937, the council unanimously approved proposals developed by the Social Security Board for the amendment of titles II and VIII in regard to coverage. The amendments then approved are outlined in the body of this report. On April 29, 1938, the council made further recommendations as to coverage, which are likewise repeated herein, and also approved a statement concerning the financing of the old-age insurance system which will be found in the appendix of this report.

The recommendations which follow, while stated in principle, have been developed through intensive study of the practical problems involved in their application. In the course of the deliberations, the council has had before it a series of carefully developed proposals, accompanying financial and actuarial studies, and administrative provisions in outline form. Each proposal, applying the principles under discussion, has been examined in order to test the principle involved and its practicability. The council in presenting its recommendations has confined itself to statements of principle supplemented by brief summaries of the reasons for each conclusion.

SUMMARY OF RECOMMENDATIONS

A. RECOMMENDATIONS ON BENEFITS

I. The average old-age benefits payable in the early years under title II should be increased.

II. The eventual annual cost of the insurance benefits now recommended, in relation to covered pay roll and from whatever source financed, should not be increased beyond the eventual annual disbursements under the 1935 act.

III. The enhancement of the early old-age benefits under the system should be partly attained by the method of paying in the case of a married annuitant a supplementary allowance on behalf of an aged wife equivalent to 50 percent of the husband's own benefit; *provided*, that should a wife after attaining age 65 be otherwise eligible to a benefit in her own right which is larger in amount than the wife's allowance payable to her husband on her behalf, the benefit payable to her in her own right will be substituted for the wife's allowance.

IV. The minimum age of a wife for eligibility under the provision for wives' supplementary allowances should be 65 years; *provided*, that marital status had existed prior to the husband's attainment of age 60.

V. The widow of an insured worker, following her attainment of age 65, should receive an annuity bearing a reasonable relationship to the worker's annuity; *provided*, that marital status had existed prior to the husband's attainment of age 60 and 1 year preceding the death of the husband.

VI. A dependent child of a currently insured individual upon the latter's death prior to age 65 should receive an orphan's benefit, and a widow of a currently insured individual, *provided* she has in her care one or more dependent children of the deceased husband, should receive a widow's benefit.

VII. The provision of benefits to an insured person who becomes permanently and totally disabled and to his dependents is socially desirable. On this point the council is in unanimous agreement. There is difference of opinion, however, as to the timing of the introduction of these benefits. Some members of the council favor the immediate inauguration of such benefits. Other members believe that on account of additional costs and administrative difficulties, the problem should receive further study.

VIII. In order to compensate in part for the additional cost of the additional benefits herein recommended, the benefits payable to individuals as single annuitants after the plan has been in operation a number of years should be reduced below those now incorporated in title II. If the national income should increase in future years, these reductions may not be necessary.

IX. The death benefit payable on account of coverage under the system should be strictly limited in amount and payable on the death of any eligible individual.

X. The payment of old-age benefits should be begun on January 1, 1940.

B. RECOMMENDATIONS ON COVERAGE

I. The employees of private nonprofit religious, charitable, and educational institutions now excluded from coverage under titles II and VIII should immediately be brought into coverage under the same provisions of these titles as affect other covered groups.

II. The coverage of farm employees and domestic employees under titles II and VIII is socially desirable and should take effect, if administratively possible, by January 1, 1940.

III. The old-age insurance program should be extended as soon as feasible to include additional groups not included in the previous recommendations of the council and studies should be made of the administrative, legal, and financial problems involved in the coverage of self-employed persons and governmental employees.

C. RECOMMENDATIONS ON FINANCE

I. Since the nation as a whole, independent of the beneficiaries of the system, will derive a benefit from the old-age security program, it is appropriate that there be Federal financial participation in the old-age insurance system by means of revenues derived from sources other than pay-roll taxes.

II. The principle of distributing the eventual cost of the old-age insurance system by means of approximately equal contributions by employers, employees, and the Government is sound and should be definitely set forth in the law when tax provisions are amended.

III. The introduction of a definite program of Federal financial participation in the system will affect the consideration of the future rates of taxes on employers and employees and their relation to future benefit payments.

IV. The financial program of the system should embody provision for a reasonable contingency fund to insure the ready payment of benefits at all times and to avoid abrupt changes in tax and contribution rates.

V. The planning of the old-age insurance program must take full account of the fact that, while disbursements for benefits are relatively small in the early years of the program, far larger total disbursements are inevitable in the future. No benefits should be promised or implied which cannot be safely financed not only in the early years of the program but when workers now young will be old.

VI. Sound presentation of the government's financial position requires full recognition of the obligations implied in the entire old-age security program and treasury reports should annually estimate the load of future benefits and the probable product of the associated tax program.

VII. The receipts of the taxes levied in title VIII of the law, less the costs of collection, should through permanent appropriation be credited automatically to an old-age insurance fund and not to the general fund for later appropriation to the account, in whole or in part, as Congress may see fit. It is believed that such an arrangement will be constitutional.

VIII. The old-age insurance fund should specifically be made a trust fund, with designated trustees acting on the behalf of the prospective beneficiaries of the program. The trust fund should be dedicated exclusively to the payment of the benefits provided under

the program and, in limited part, to the costs necessary to the administration of the program.

IX. The consideration of change in the tax schedule under title VIII of the law should be postponed until after the rates of 1½ percent each on employer and employee are in effect since information will not be available for some time concerning (a) tax collections under varying conditions, (b) effective coverage under taxes and benefits, (c) average covered earnings, period of coverage, time of retirement, and average amount of benefits, (d) the possibilities of covering farm labor, domestic employees or self-employed persons, and (e) the possibilities of introducing new types of benefits.

X. The problem of the timing of the contributions by the government, taking into account the changing balance between pay-roll-tax income and benefit disbursements, is of such importance as to require thorough study as information is available.

XI. Following the accumulation of such information, this problem should be restudied for report not later than January 1, 1942, as to the proper planning of the program of pay-roll taxes and governmental contributions to the old-age insurance system thereafter, since by that time experience on the basis of 5 years of tax collections and 2 years of benefit payments (provided the present act is amended to that effect) will be available. Similar studies should be made at regular intervals following 1942.

FINAL REPORT OF THE ADVISORY COUNCIL ON SOCIAL SECURITY

INTRODUCTION

The Social Security Act became law on August 14, 1935. A major purpose of the statute was to provide a constructive program for meeting the growing national problem of old-age dependency. Under title I of the act provision was made for Federal subsidies to approved State programs for old-age assistance. By the use of the method of assistance, encouraged and aided under this title, needy persons already old or becoming old in the future without the opportunity of accumulating sufficient rights to benefits under an insurance program were afforded basic protection against want. Under titles II and VIII, through separate provisions for old-age benefits and pay-roll taxes on employers and employees, there was established, in effect, a national system of old-age insurance. The method of insurance was approved by Congress as a means of *preventing* old-age dependency and of assuring protection to qualified individuals as a matter of right, without the use of the means test. These two measures provide a coordinated approach to a well-rounded program of old-age security.

The old-age benefits provided in title II of the Social Security Act are payable to qualified persons 65 years of age and over commencing January 1, 1942. The amount of benefit is determined by the application of graduated percentages to the total covered earnings of the beneficiary under the system prior to age 65. A minimum monthly benefit of \$10 is established as well as a maximum monthly benefit of \$85. It is estimated that the average monthly benefit payable by 1945 under existing provisions would be approximately \$19. Persons not qualified to receive the monthly benefit at the time of attainment of age 65, or the estates of persons dying before that age, receive a settlement equivalent in amount to 3½ percent of wages covered under the program. Under the present legislation no provision is made for the supplementary protection of male annuitants with a dependent aged wife, for the protection of the aged widow, or the younger widow and dependent, surviving children of a deceased wage earner except upon a means test under titles I or IV.

Under title VIII of the act pay-roll taxes are levied upon covered employers and employees commencing at the rate of one percent on each in the years 1937-39, 1½ percent in the years 1940-42, and rising one-half of 1 percent on each in 3-year intervals until a permanent rate of 3 percent on each is reached in 1949. The proceeds of such taxes are covered into the general funds of the Treasury. Congress is authorized under title II of the act to appropriate to an old-age reserve account each year an amount sufficient as an annual premium to provide for the payment of the benefits afforded, such amount to be determined on a reserve basis in accordance with accepted actuarial principles. Investment of amounts credited to the account is limited

to the securities issued or guaranteed by the Federal government and yielding not less than a 3-percent return. The amount of pay-roll taxes collected through November 1938 was \$963,800,000. The amount in the old-age reserve account at that time was nearly \$1,132,700,000, of which \$830,300,000 was invested in special Treasury notes bearing 3-percent interest, approximately \$300,000,000 was held to the credit of the appropriation made by Congress, and nearly \$2,400,000 was held by the Treasury disbursing officer for the payment of benefits. Payments from the account for lump-sum settlements had amounted to \$10,000,000.

Since the enactment of the Social Security Act, the problem of old-age dependency in this country has been studied more thoroughly than in any other period in our history. Not only have the normal operations of the Social Security Board made available a large amount of additional material, but the research and actuarial staffs of the Board have, during the past 3 years, had an opportunity for the analysis and interpretation of rapidly accumulating data. While such studies are by no means definitive and must ever be subject to revision in the light of new information, the estimates of the present and future problem now available are of significance in planning any revision of our old-age security program.

It is estimated that approximately 65 percent of all persons aged 65 and over are wholly or partially dependent, of whom nearly one-third are dependent on public or private social agencies and two-thirds on friends and relatives. The number of aged persons in our population, moreover, is steadily growing. In 1900 there were only 3,080,000 persons 65 and over, representing 4.1 percent of the population. These figures reached 6,634,000, or 5.4 percent, in 1930, and will be about 8,180,000, or 6.3 percent, on January 1, 1939. Recent estimates by the National Resources Committee indicate that by 1980 we may have over 22,000,000 persons aged 65 and over, representing 14 to 16 percent of the total population. Recognizing these facts, it is possible to foresee that we shall have a growing number of aged persons for whom some provision must be made. This has been the experience of all industrial countries as their population became older and industrialization advanced.

The experience thus far developed in the application of title I of the Social Security Act is likewise of significance in planning any revision of the old-age insurance provisions of the act. The old-age assistance plan therein provided is already in operation in the 48 States, the District of Columbia, and the Territories of Alaska and Hawaii. Over \$800,000,000 has been expended by the Federal, State, and local governments for this purpose since February 11, 1936, when Federal funds first became available. Of this amount it is estimated that about \$380,000,000 will be expended for this purpose during the calendar year 1938. During September 1938 about 1,738,000 persons were in receipt of old-age assistance in the States. This number has grown from the 206,000 who were in receipt of old-age assistance in 27 States at the end of 1934 just prior to consideration of the Social Security Act in Congress. The average grant for old-age assistance was \$19.21 for the month of September 1938, but this varied from \$6.37 in Mississippi to \$32.39 in California. A recent study by the Social Security Board of recipients accepted by the States for assistance shows that about 35 percent received less than \$15 per month, over 50

percent amounts between \$15 and \$30, and nearly 15 percent \$30 and over. Of all married persons accepted for old-age assistance during 1937-38, over 40 percent had a spouse receiving a separate grant. The total to an aged couple may therefore be substantially higher than the general average.

In the month of September 1938 about 21.6 percent of all persons aged 65 and over were in receipt of assistance. This proportion varied from 54.5 percent in Oklahoma to 7.2 percent in New Hampshire.

After a thorough consideration of the growing problem of old-age dependency facing our country and of the experience thus far under the program of old-age assistance, the council is convinced of the wisdom of Congress in establishing a contributory program of old-age insurance. The council believes that such a method of encouragement of self-help and self-reliance in securing protection in old age is essentially in harmony with individual incentive within a democratic society. It is highly desirable in preserving American institutions to remove from as many individuals as possible, in the years to come, the necessity for dependency relief and to substitute instead protection afforded as a matter of right, related to past participation in the productive processes of the country. It is only through the encouragement of individual incentive, through the principle of paying benefits in relation to past wages and employment, that a sound and lasting basis for security can be afforded.

The council believes that the contributory insurance method safeguards not only the wage earner but the public as well. By this method benefits have a reasonable relation to wages previously earned, and costs may be kept in control relative to tax collections. Through careful planning, the continued payment of benefits can be assured without undue diversion of funds needed for other governmental services. At the same time, the routine nature of contributory old-age insurance permits the perfection of effective administrative machinery. The council is impressed by the effectiveness already attained in the administration of old-age insurance by the Social Security Board and believes that available skill in handling large-scale accounting operations is sufficient to meet new problems successfully.

Since contributory old-age insurance possesses these advantages over dependency relief or old-age assistance, it is in the public interest that the insurance program be improved and extended to cover additional groups. The council is convinced of the necessity of gradual evolution in the development of a broad social program such as this. At the same time, the speed of evolution in a democratic society must be related to the economic and social conditions present. The council is cognizant of the fact that a large amount of experience under similar insurance programs has developed abroad and that only in recent years has our country realized the necessity of social insurance systems under modern industrial conditions.

The council is also aware of the great financial costs, particularly in the future, involved in an insurance program. The pattern cannot be larger than the cloth; the degree of security afforded must be limited by the national income and the proportion of that income properly available for any specific purpose. Old-age insurance is only one element in the whole structure of governmental social services. The protection of the aged must not be at the expense of adequate protec-

tion of dependent children, the sick, the disabled, or the unemployed; or at the cost of impairing such essential services as education and public health or of lowering of the standard of living of the working population. However, the cost of old-age insurance is by no means a net addition to the costs of government. An old-age insurance program is not only an improvement upon the method of relief, but is also aimed to control and reduce the inevitable pressure to divert a larger and larger proportion of public funds in the form of free pensions to aged persons. The value to society of *preventing* dependency in old age, as far as possible, must be weighed against the cost of the insurance method.

In the course of its study of the problem, the council has become increasingly impressed by the need to revise the existing old-age insurance program in the direction of fitting the structure of benefits more closely to the basic needs of our people, now and in the future. With limited funds available for this type of insurance protection, the program will never be sufficient to afford the ideal standard of life for our aged citizens except insofar as insurance benefits are supplemented by individual savings. As a means of affording basic protection, however, the existing system can be much improved. With the advantage of more than 3 years of further study and experience since the passage of the act and with a greatly enhanced public understanding of the method of social insurance, the time seems ripe for the revision of the program to afford more adequate protection to more of our people. At the same time, the council has studied the financial problems involved and the best means by which the costs may be met. With a view to assuring basic protection for the largest possible number of our people, the council has thoroughly reexamined the principles upon which the financial aspects of the existing program were planned.

In the following outline of its recommendations, the council has departed somewhat from the precise order of the questions submitted to it by the Senate special committee and the Social Security Board. In the deliberations of the council, it was found that the logical development of its conclusions could best be presented under the following headings:

1. The improvement in the structure and scope of benefits.
2. The expansion of the system to cover a larger proportion of the population.
3. The best method of financing the program and of handling the necessary funds.

The council has sought in this way to answer to the best of its ability the questions submitted for its consideration.

RECOMMENDATIONS AND CONCLUSIONS

A. RECOMMENDATIONS ON BENEFITS

I. The average old-age benefits payable in the early years under title II should be increased.

Since it is the purpose of old-age insurance to prevent dependency in old age, the benefits payable under the program should, as soon as possible, be sufficient in amount to afford the aged recipient at least a minimum subsistence income. This does not mean that *minimum* old-age benefits must always exceed *maximum* old-age assistance grants since the two types of payment are based on different considerations in the individual case. Further, old-age benefits and old-age assistance grants cannot be properly compared in terms of national averages but should be examined relative to state or community conditions as to wage levels, living costs, and assistance grants. After study of such comparisons, however, the council believes that in a considerable proportion of cases, the schedule of old-age benefits established in title II will not provide reasonable benefits in the early years of the program. While, in some cases, it will be necessary to supplement insurance benefits by assistance grants despite any reasonable enhancement of early benefit payments, it is sound public policy to reduce this overlap considerably. Only by relieving a large proportion of the beneficiaries under the insurance system from the necessity of resorting to old-age assistance to supplement their benefits, will the social advantages of old-age insurance be realized.

The policy of paying higher benefits to persons retiring in the earlier years of the system than are the equivalent of the individual contributions is already established in the present act. Such a policy is not only sound social insurance practice but has long been recognized as necessary in private pension programs. Only through the payment of reasonable benefits can older workers be retired. It is believed that the reasoning which led to the application of the principle in the law in 1935 inevitably leads to a further application of the principle in the light of experience now available. The methods by which it is proposed to accomplish this are outlined in this report.

Since old-age insurance benefits are related to past wages, the upward adjustment of early minimum benefits in line with this recommendation can be attained only in terms of minimum needs as related to such wages, and not, as in old-age assistance, through investigation in the individual case. The council is convinced that the structure of the benefit schedule can be adjusted to meet more effectively the needs of insured persons retiring in the early years of the system. At the same time, it believes that the payment of higher benefits to persons retiring in the earlier years of the system than are the equivalent of their individual contributions should not be at the expense of reasonable differentials in benefit payments as related to taxable wages earned. As the system matures it may be advisable

to limit more strictly the "unearned" portion of the benefit payments where persons have spent but short periods of their working lives in covered employment.

II. The eventual annual cost of the insurance benefits now recommended, in relation to covered pay roll and from whatever source financed, should not be increased beyond the eventual annual disbursements under the 1935 Act.⁴

In considering specific improvements in the benefit structure under title II, the council believes it to be essential to avoid proposals which would increase the eventual annual disbursements under the old-age insurance system above those involved in the present act. While future years may bring changes in these eventual disbursements, it is unwise at this time to assign any larger share of our national income to old-age and survivors' protection some decades hence while other pressing social needs exist. The council is agreed, however, that the annual benefit disbursements in the earlier years of the program should be considerably increased in order that the insurance system fulfill its proper function more adequately. So far as possible, therefore, the council has sought to level out the progressive increases in the annual costs of the system to avoid a great upward acceleration of future disbursements, at the expense of inadequate protection in the early years, and at the risk of exceeding proper eventual limits. While old-age insurance disbursements will increase in years to come, a closer approximation of disbursements to available tax proceeds is in itself desirable in financing a continuing social insurance program.

It is possible to make only approximate estimates of the eventual disbursements under any insurance program. Information now available indicates that the benefit structure under title II of the present act will involve financing from all sources of an annual disbursement equivalent to 10 to 12 percent of covered pay roll by 1980 when persons now in their twenties will be at retirement age.⁵ The council believes that any revised benefit structure recommended at this time should not involve eventual annual disbursements in excess of this approximate level.

It is recognized that further periodic studies of the disbursements under the program will permit a refinement of present actuarial estimates just as existing estimates are in turn a refinement of those made before the initiation of the program. It is reasonable to expect that surveys in the years to come may lead to a revision of best judgments concerning the probable eventual cost of any program. The council is agreed that the recommendations for revisions in the existing benefit structure here submitted can be reasonably implemented within the eventual cost limit now suggested.

It is understood by all members of the council that this recommendation relates only to the benefits recommended unanimously and does not apply to the disability benefits referred to in Recommendation VII.

⁴ Several members of the council believe, in view of the other types of benefits which later may be added to the plan, that in adopting revised old-age and survivors' benefits their eventual cost should be kept within 10 percent of pay rolls, the original estimate of the probable eventual cost of the present old-age benefits when the act was adopted.

⁵ Two members of the council who are actuaries fear that the upper limit of the eventual cost of the benefits provided by title II of the present Act will be higher than here estimated.

III. The enhancement of the early old-age benefits under the system should be partly attained by the method of paying in the case of a married annuitant a supplementary allowance on behalf of an aged wife equivalent to 50 percent of the husband's own benefit; *provided*, that should a wife after attaining age 65 be otherwise eligible to a benefit in her own right which is larger in amount than the wife's allowance payable to her husband on her behalf, the benefit payable to her in her own right will be substituted for the wife's allowance.

The inadequacy of the benefits payable during the early years of the old-age insurance program is more marked where the benefits must support not only the annuitant himself but also his wife. In 1930, 63.8 percent of men aged 65 and over were married. Payment of supplementary allowances to annuitants who have wives over 65 will increase the average benefit in such a manner as to meet the greatest social need with the minimum increase in cost. The council believes that an additional 50 percent of the basic annuity would constitute a reasonable provision for the support of the annuitant's wife. To increase the annuity in all cases, regardless of marital status, by this amount would, it is believed, involve unwarranted costs. It is true that in some instances a single annuitant will need to support an aged dependent relative. To make such relatives eligible for allowances would create many administrative problems. After careful consideration of many alternatives, the council believes the supplementary wives' allowance here proposed is an effective method of enhancing early benefits in accordance with Recommendation I.

Among the possible alternative methods of raising the average level of early benefits is that of a substantial readjustment of the present benefit formula to raise materially the amount paid all persons on the basis of the lowest segment of *accumulated wages* under the system. While such a readjustment would enhance the level of early benefits, it would likewise add a large and permanent burden of cost which would not be warranted in the later years of the program after a large proportion of aged wage earners had been under coverage for many years. The council believes that any adjustment in the benefit formula which raises the level of early benefits should be so designed as to avoid adding to this eventual burden. The method of the supplementary wives' allowance, while providing more adequate protection where needed, meets this limitation, since the allowance would be payable only where the wife is not eligible for a larger annuity on her own account.

In addition, the council believes that careful study should be given to the substitution of an *average wage* formula for the *accumulated wage* formula incorporated in the present Act. An average wage formula would more readily permit an increase in the early benefit payments and enable eventual costs to be kept within the limits prescribed under Recommendation II. Furthermore, in Recommendation VI the council is on record as approving the average wage formula for computing survivorship benefits. By basing all benefits under title II upon average wages, simplicity of understanding and administration is achieved as well as a consistent and related pattern of benefit payments.

As indicated in Recommendation VIII hereafter, the council recommends that the cost of the program of wives' allowances here proposed be financed in part through some reduction in the eventual rates of benefits payable to individuals as single annuitants. Not only does such a readjustment of the benefit structure seem socially desirable but such an adjustment can and should be made without doing violence to the principle of individual equity in the case of widowers, bachelors, and women workers, since such persons should receive in all cases insurance protection at least equal in value to their individual direct contributions invested at interest.

IV. The minimum age of a wife for eligibility under the provision for wives' supplementary allowances should be 65 years; provided, that marital status had existed prior to the husband's attainment of age 60.

This minimum age requirement with respect to eligibility for wives' allowances appears to the council to be necessary on the grounds of cost, internal consistency of the program, and administrative feasibility. It is recognized that the wives of a considerable proportion of aged men are several years younger than the men themselves and that where this discrepancy in ages occurs, the payment of the wives' allowance will be delayed some time after possible retirement of the husband. After thorough consideration of all possible alternatives, the council is convinced that the minimum age requirement here proposed is necessary and justifiable at this time.

A reduction of the age for eligibility for wives' allowances to 60 would involve anomalies and inequities between the wives of annuitants and women with wage credits in their own account against which benefits would not be payable until age 65. A reduction in the minimum age requirement to age 60 for both wives' allowances and annuities to all women, while eliminating such anomalies, would add greatly to the cost of the program. Women annuitants are already heavily favored by the plan since no account is taken in either contributions or benefits of their relatively longer-life. The council believes such a large additional cost for this purpose to be unwarranted so long as far more pressing needs exist.

The requirement that the wives' allowance be payable only where marital status existed prior to the husband's attainment of age 60 is intended to serve as protection against abuse of the plan through the contracting of marriages solely for the purpose of acquiring enhanced benefits. If the marriage takes place at least 5 years before any old-age benefits can be paid, a reasonable assumption exists that it was contracted in good faith.

V. The widow of an insured worker, following her attainment of age 65, should receive an annuity bearing a reasonable relationship to the worker's annuity; provided, that marital status had existed prior to the husband's attainment of age 60 and 1 year preceding the death of the husband.

A haunting fear in the minds of many older men is the possibility, and frequently the probability, that their widows will be in need after their death. The day of large families and of the farm economy, when aged parents were thereby assured comfort in their declining years, has passed for a large proportion of our population. This

change has had particularly devastating effect on the sense of security of the aged women of our country.

Women as a rule live longer than men. Wives are often younger than their husbands. Consequently, the probabilities are that a woman will outlive her husband. Old-age insurance benefits for the husband, supplemented during his life by an allowance payable on behalf of his wife, fall considerably short, therefore, of providing adequate old-age security.

Lump-sum death benefits, such as payable under the present act, are a very unsatisfactory and ineffective form of protection. The amount in the individual case is quite unlikely to bear any reasonable relationship to the needs of the surviving widow. Payable immediately in one sum, such settlements are likely to be used for many other purposes long before her old age.

The council believes, therefore, that the old-age insurance program should include provision for old-age annuities for the widows of all covered workers. Where the worker had been an annuitant at time of death, it appears reasonable that his widow, if 65 or over, should receive an annuity equal to approximately three-fourths of the husband's annuity which would be equal to one-half of their combined annuity. Similar protection should be afforded if death occurred before the husband had reached old age. In the latter event, especially, there is some likelihood that the widow may reenter covered employment. If so, a systematic procedure should be available whereby she may build upon a *deferred* old-age annuity accruing to her as a result of her deceased husband's earnings. By such a supplement the needs in old age of women becoming widows either early or late in life can be more adequately met.

As in the case of wives' allowances, it is believed desirable to protect the provisions for widows' benefits against abuse by the requirement of a minimum period of marital status. It would also be necessary to provide that such widows' benefits terminate on remarriage.

The cost of financing the program of widows' protection here recommended can be met, in the judgment of the council, from the savings to the system in the revision of the present provisions for death benefits (as proposed in Recommendation IX), and in the reduction of the eventual rates of old-age benefits payable to single annuitants (as proposed in Recommendation VIII). It is believed that such a readjustment in the benefit structure is both in the public interest and equitable in its effect upon the various classes of beneficiaries under the system and may be expected to reduce the costs of old-age assistance.

VI. A dependent child of a currently insured individual upon the latter's death prior to age 65 should receive an orphan's benefit, and a widow of a currently insured individual, provided she has in her care one or more dependent children of the deceased husband, should receive a widow's benefit.

The council believes that a program of survivors' insurance, intended primarily for the protection of the dependent orphans of deceased wage earners, is of as much importance to the community as an old-age insurance program. While public assistance is now being provided to a large number of dependent children in this country on a needs-test basis, the arguments for substituting benefits as a matter

of right in the case of children are even more convincing than in the case of aged persons. A democratic society has an immeasurable stake in avoiding the growth of a habit of dependency among its youth. The method of survivors' insurance not only sustains the concept that a child is supported through the efforts of the parent, but affords a vital sense of security to the family unit.

The need for providing cash allowances for the care of dependent children has long been recognized in this country. "Mothers' aid" legislation was first adopted over 25 years ago and was greatly expanded through the program for aid to dependent children incorporated in the Social Security Act in 1935. Over 626,000 children in 254,000 families were receiving aid during the month of September 1938. The total expenditures for this aid in that month were over \$8,000,000, of which less than one-third was from Federal funds available through the Social Security Act. The average amount of aid per family for the month of September was \$31.72, or approximately \$13 per dependent child.

A recent study made by the Social Security Board of families accepted for aid to dependent children in 1937-38 showed that in about 43 percent of the families receiving such aid the father was dead.

While the expansion of aid to dependent children under the Social Security Act has been gratifying, there is great need for further protection of dependent children. In many instances, the aid is insufficient to maintain normal family life or to permit the children to develop into healthy citizens. Many deserving cases are not able to obtain any aid. Above all, the relief method is not the most desirable way of meeting childhood dependency. Social insurance offers an improved method of dealing with the problem.

A program of survivors' insurance providing for dependent children can be most effectively administered in conjunction with an old-age insurance program. Moreover, survivors' protection in the event of the early death of a wage earner with young children is the counterpart of the protection of the wage earner and his aged wife or widow should he live to retirement after his children are grown. These two types of protection can, therefore, be most effectively financed under a single insurance program. In addition to the fact that lump-sum settlements are undesirable, the death benefits under the existing provisions of title II, which are so payable, do not provide adequate survivors' protection. The council therefore recommends that the savings to the system accruing through the elimination of larger death benefits (proposed in recommendation IX) be used in part for the financing of a program of benefits to surviving dependent children.

The council recommends that, in addition to benefits for such children, benefits be payable to widows who have in their care one or more of their children of the deceased wage earner. Such payments are intended as supplements to the orphans' benefits with the purpose of enabling the widow to remain at home and care for the children. It is recommended that as soon as the last child attains the upper limit of age for eligibility for benefits, the payments to the widow shall cease. This is not intended, however, to affect her eligibility to an old-age annuity on her attainment of age 65.

As contrasted with the payments to widows with dependent children, here recommended, benefits to *all* younger widows would not only greatly increase the cost of the total program but would, it is

believed, divert funds from more pressing social needs. It is normal for a large majority of younger widows without dependent children to reenter employment. To provide continuing benefits to such widows would create not only many anomalies and inequities, but serious administrative difficulties as well.

In order to provide orphans' benefits of reasonable amount and related to the normal income of the deceased wage earner, it is recommended that such benefits be computed on a basis of average wages rather than of accumulated earnings as now provided in the case of old-age benefits under title II. Since death may occur at any age, average wages, on the one hand, and the number of dependents, on the other, are the significant factors. Survivors' insurance must be looked upon as current protection, closely related to the current earning status of the insured worker. At the same time, reasonable provision should be made for the continuance of insured status for a limited time where a period of sickness or unemployment precedes the death of the wage earner.

VII. The provision of benefits to an insured person who becomes permanently and totally disabled and to his dependents is socially desirable. On this point the council is in unanimous agreement. There is difference of opinion, however, as to the timing of the introduction of these benefits. Some members of the council favor the immediate inauguration of such benefits. Other members believe that on account of additional costs and administrative difficulties, the problem should receive further study.

With the growth of industry and urban life, the problem of providing for wage earners who become permanently and totally disabled before the age of retirement has become increasingly serious. While the number of persons who reach old age is much larger than the number who become disabled at younger ages, the latter state when it does materialize, is likely to be of more serious concern to the individual, his family, and the community. Moreover, protection against this hazard, except to the extent that workmen's compensation coverage applies, is even further out of the question for most wage earners than is protection against dependency in old age.

The members who favor the immediate inauguration of benefits for insured persons who become permanently and totally disabled prior to their attainment of age 65 and for their dependents call attention to the fact that this class of persons (except for the blind) is the only category of permanent social casualties who receive no insurance or assistance under the Social Security Act. No provisions whatever are made for them except general relief as administered by local communities, which is often entirely insufficient. No other group in our population is more completely dependent or in a more desperate economic situation. People who become permanently and totally disabled before reaching retirement age are economically in the same position, or a worse one, as those who are unable to work by reason of old age. By making early provisions for people who are permanently and totally disabled before age 65, it is hoped that much of the pressure for lowering the retirement age will be relieved.

The members who believe that immediate provisions should be made to provide protection for these unfortunates and their dependents recognize that the determination of permanent and total disa-

bility gives rise to difficult administrative problems and that a system of benefits such as they recommend may increase the total eventual benefit costs beyond the estimated ultimate costs of the benefits provided in the present law. They believe, however, that the administrative difficulties and those of calculating the exact costs are not so great as to warrant long continued delay. Nearly all other countries which have old-age insurance systems include protection for the permanently and totally disabled and have not found the administrative problems insurmountable. It is the opinion of these members, moreover, that the administrative problems involved will never be solved until benefit payments are actually begun. If the Social Security Act had not been launched until all administrative difficulties had been solved, this act would never have been put into operation.

Regarding costs, the members who favor immediate action direct attention to the fact that while estimates as to the eventual costs differ widely, it is agreed that, at least for some years, the additional costs of providing protection for this now unprotected group are but small. They also stress that society now bears a large cost for the support and care of the permanently disabled and their dependents in the form of relief and institutional care. In large part, the benefits under title II for the permanently and totally disabled will not be additional costs but a shifting of costs now borne in another form. For the unfortunates thus afflicted, however, the plan of including permanent and total disability along with old-age insurance means the substitution of the certainties of insurance for the uncertainties of relief.

While recognizing the desirability of providing protection against total and permanent disability and the advantages of contributory insurance as a method of attacking this problem, other members believe it is undesirable to recommend the initiation of a program of disability insurance at this time. The probable costs of such a program are extremely difficult to determine. Costs will vary with a large number of factors. The range between minimum and maximum estimates is wide. Until the probable costs of the old-age and survivors' insurance, recommended in this report, can be more accurately projected, it is unwise to recommend the assuming of the burden of a distinctly new type of protection, the cost of which is indeterminate and heavy.

Further, these members believe that disability insurance would introduce many administrative problems of great difficulty, and of a character apart from those involved in the program here recommended. The determination whether total and permanent disability exists in each individual case would not only require a highly skilled professional staff but would necessitate intensive and sustained local investigation to prevent abuse. The experience of the private insurance companies with total and permanent disability insurance has been so unfavorable that it has caused heavy and unexpected losses and has practically been abandoned.

These members believe that until coverage under the social security program has been widened to include other large groups in the population which are now excluded, there would be added administrative and financial problems resulting from shifts from uncovered to covered employment. Until the whole question of health insurance is given further consideration, definitive action on disability insurance should

be delayed. With added experience in the administration of the benefit programs now recommended, administrative problems under disability insurance should be more readily met.

VIII. In order to compensate in part for the additional cost of the additional benefits herein recommended, the benefits payable to individuals as single annuitants after the plan has been in operation a number of years should be reduced below those now incorporated in title II. If the national income should increase in future years, these reductions may not be necessary.

In order to provide more adequate basic protection to the wage earners of the country and at the same time fit the pattern of benefits to the financial cloth, it is believed that the formula used in the computation of old-age benefits should be revised in such a manner as to reduce the eventual rates of benefit payable to individuals as single annuitants. The council is convinced of the necessity of broadening the scope of insurance protection to include allowances for aged wives and benefits for aged widows and surviving dependent children. It is of the conclusion that the use of a part of the funds otherwise allocated to the payment of relatively high benefits to single individuals in future years to permit the immediate broadening of the protection afforded by the system is both socially justifiable and financially necessary. The single individual will not be deprived of adequate basic protection. Differentials in terms of past wages and employment will remain. It would not be necessary for the single individual to receive less in protection than the value of his direct contributions with interest. Meanwhile through life, the single person will have received directly or potentially the advantages of the protection of the family unit.

Certainty is more valuable than promises. Only by such readjustment of benefit schedules does the expansion of the scope of the insurance program seem financially feasible.

IX. The death benefit payable on account of coverage under the system should be strictly limited in amount and payable on the death of any eligible individual.

With the introduction of a systematic and adequate plan of survivors' protection under the old-age insurance program, all justification of the large lump-sum death benefits now possible under the existing provisions of title II disappears. The present lump-sum payments have been considered in the nature of rebates of contributions on a "savings-bank" basis and are in no way related in amount to the needs of a surviving family. At the same time the repayment of 3½ percent of covered wages to the estates of all deceased persons, regardless of the family situation, would consume a large amount of funds in the years to come. The council, therefore, recommends the substitution of a strictly limited death benefit such as 3 months' average wages but not in excess of \$200 and payable in all cases where the insured individual is eligible. On account of the diminishing number of cases affected as the program matures, it is recommended that no payment be made upon the death of an individual who is not eligible.

X. The payment of old-age benefits should be begun on January 1, 1940.

Since it is convinced of the importance of enhancing the effectiveness and adequacy of the contributory system of old-age protection in this country, the council recommends that benefits under the broadened program be begun on January 1, 1940. It is believed that such an advancement of the date of beginning benefits is not only financially and administratively feasible but of marked social advantage in enhancing public understanding of the method of contributory social insurance. Where existing needs can be met on an insurance basis, there seems little justification for unnecessary delay. Rather it is highly important that experience in the payment of benefits be obtained as soon as feasible in order to provide more definite experience for planning the financial program of the system. Many of the details of administering benefits can only be tested in operation. With marked progress already made in the administration of the program, the expansion of the existing benefit payment facilities of the Board could be readily accomplished in the course of the year 1939.

B. RECOMMENDATIONS ON COVERAGE

The council wishes to repeat the recommendations affecting coverage under the system adopted at its meeting in December 1937, and submitted to the Special Senate Committee and the Social Security Board at that time. These recommendations approved proposals developed by the Social Security Board for the amendment of titles II and VIII in the following particulars:

1. An amendment which would permit an individual to qualify for monthly benefits and to secure a larger monthly benefit because of employment after age 65.

2. An amendment which would exclude from the definition of wages certain types of payments made by an employer to or on behalf of an employee under plans for providing for retirement or disability benefits.

3. The coverage of seamen under the program.

4. The coverage of employees of national banks, and of State banks which are members of the Federal Reserve System and of certain other Federal and State instrumentalities.

5. An amendment defining coverage of services under the Act depending on whether the excepted or included services predominate.

In addition, the council makes the following recommendations at this time:

I. The employees of private nonprofit religious, charitable, and educational institutions now excluded from coverage under titles II and VIII should immediately be brought into coverage under the same provisions of these titles as affect other covered groups.

The council believes that there is no justification in social policy for the exclusion of the employees of such organizations from the protection afforded by the insurance program here recommended. Further, no special administrative difficulties exist in the coverage of the employees of such organizations under the system.

II. The coverage of farm employees and domestic employees under titles II and VIII is socially desirable and should take effect, if administratively possible, by January 1, 1940.

Farm and domestic employees are, in general, among those wage earners most in need of protection against dependent old age and premature death. Low wages and intermittent employment frequently combine to make individual savings difficult. Their exclusion from the existing legislation was based to a considerable extent on grounds of administrative difficulties foreseen with respect to wage reporting and tax collections. Recent studies indicate that the additional cost of extending the coverage of the system to these classes of workers will be considerably less than originally estimated since a large number of such workers are already coming under the system through employment in covered occupations on a seasonal or part-time basis. Intermittent coverage of this character is not only unsatisfactory in the benefits afforded but is a factor of uncertainty in financing the program. These groups could probably be covered by means of some form of stamp-book system applied to a limited number of broad wage classifications.

III. The old-age insurance program should be extended as soon as feasible to include additional groups not included in the previous recommendations of the council and studies should be made of the administrative, legal, and financial problems involved in the coverage of self-employed persons and governmental employees.

Consistent with its acceptance of the contributory insurance method as socially necessary and desirable, the council recommends the extension of the coverage of this method to the largest possible proportion of our gainfully employed population. An important group outside the existing program are those persons working on their own account such as business and professional men, farmers, and mechanics. Not only would the inclusion of this group be socially desirable, but it would also be a marked advantage in planning the financial program of the system. At present, the shift in and out of insurance coverage among this group of individuals is an added factor of uncertainty.

Despite the reasons in its favor, extension of coverage to the self-employed cannot be recommended at this time. The council finds that the administrative problems of obtaining reports of earnings and of collecting contributions from persons without an employer, together with the problems of financing the benefits to be paid such persons, are extremely difficult. The council believes that attempts to find a solution should be made, and urges that studies directed toward this end be continued.

C. RECOMMENDATIONS ON FINANCE

The council is convinced that the problem of financing the amended program of old-age and survivors' insurance here proposed must be approached as a part of the general fiscal problem of the government in providing for a continuing social service mechanism. In planning financial policy, conservatism is a necessity but at the same time flexibility is vital. In a continuing social insurance program, the cost of future benefits can only be estimated. The sources of future income can likewise only be estimated. Frequent revaluations of future costs and future income are essential to the safe planning of the system.

In its recommendations, the council has sought to attack the present problem of continuing old-age and survivors' protection, doing the

most possible to solve what can be solved now, avoiding, however, impossible or unreasonable commitments for future generations. As has been stated, the council has had before it, at its request, a series of carefully developed proposals, accompanying financial and actuarial studies, and administrative provisions in outline form. On the basis of such studies the council believes that the ultimate annual cost of the revised program here proposed would not exceed that involved in title II of the existing act although the volume of benefit payments would be increased in the earlier years.

Much of the present controversy in regard to the financing of the old-age insurance program has been concerned with long-run future policy. Experience developing since the initiation of the program and further studies of probable future trends have already shed much new light on the problem. The revision of the structure of benefits along the lines here recommended will aid materially in resolving the problem. After thorough canvassing of this aspect of the insurance program, the council makes the following recommendations.

I. Since the Nation as a whole, independent of the beneficiaries of the system, will derive a benefit from the old-age security program, it is appropriate that there be Federal financial participation in the old-age insurance system by means of revenues derived from sources other than pay-roll taxes.

Dependent old age has become a national problem. A steadily rising proportion of aged, technological change, mobility, and urban life have combined to create a condition which cannot be met effectively by State governments alone. The council has indicated its conviction of the importance of an adequate contributory insurance program in the prevention of the growth of dependency in a democratic society. Since the Nation as a whole will materially and socially benefit by such a program, it is highly appropriate that the Federal Government should participate in the financing of the system. With the broadening of the scope of the protection afforded, governmental participation in meeting the costs of the program is all the more justified since the existing costs of relief and old-age assistance will be materially affected.

Governmental participation in financing of a social insurance program has long been accepted as sound public policy in other countries. Definite limits exist in the proper use of pay-roll taxes. An analysis of the incidence of such taxes leads to the conviction that they should be supplemented by the general tax program. The prevention of dependency is a community gain in more than social terms.

II. The principle of distributing the eventual cost of the old-age insurance system by means of approximately equal contributions by employers, employees, and the Government is sound and should be definitely set forth in the law when tax provisions are amended.

The council believes that this recommendation is a logical implementation of the principle of governmental financial participation.

III. The introduction of a definite program of Federal financial participation in the system will affect the consideration of the future rates of taxes on employers and employees and their relation to future benefit payments.

Future taxes under the program must be determined in relation to the future volume of benefits as knowledge becomes more definite.

The introduction of Federal financial participation will permit redetermination of tax rates and intervals between adjustments of tax rates in relation to benefit costs, as then estimated, if such redetermination is deemed appropriate. Such adjustments may, under these conditions, be so determined as to affect the amount remaining on balance in the old-age insurance fund without the creation of serious financial problems as the system matures. The council believes that with Federal financial participation, problems of financial policy can be far more readily resolved.

IV. The financial program of the system should embody provision for a reasonable contingency fund to insure the ready payment of benefits at all times and to avoid abrupt changes in tax and contribution rates.—

The council is of the conclusion that, in the financing of the insurance program, it is desirable to make provision for a contingency fund to insure ready payment of benefits at all stages of the business cycle and under varying conditions resulting from fluctuations in such factors as the average age of retirement, the total coverage under the program, and average wage rates. It is desirable that the payment of benefits should not be dependent upon quick congressional action in levying emergency taxes to meet deficits or in sudden raising of contribution rates when disbursements exceed current tax collections or normal appropriations to the system.

With the changes in the benefit structure here recommended and with the introduction of a definite program of governmental contributions to the system, the council believes that the size of the old-age insurance fund will be kept within much lower limits than are involved in the present act. Under social insurance programs it is not necessary to maintain a full invested reserve such as is required in private insurance, *provided* definite provision is made for governmental support of the system. The only invested fund then necessary would be a reasonable contingency fund as outlined above. The financial program inherent in the present act offers one means of meeting the future costs of an old-age insurance program. If the method of accumulating a relatively large reserve is eliminated, there must be, instead, the definite assurance that the program will be financed not by pay-roll taxes alone but, in addition, by governmental contributions from other sources. Without interest returns on a relatively large fund, pay-roll taxes alone would prove insufficient to meet the current disbursements necessary as the system matures. For this reason, the council insists that the principle of adequate governmental contributions should be definitely established in the law when tax provisions are revised, if the reserve policy under the old-age insurance program is changed.

V. The planning of the old-age insurance program must take full account of the fact that, while disbursements for benefits are relatively small in the early years of the program, far larger total disbursements are inevitable in the future. No benefits should be promised or implied which cannot be safely financed not only in the early years of the program but when workers now young will be old.

VI. Sound presentation of the Government's financial position requires full recognition of the obligations implied in the entire old-age security program and Treasury reports should annually estimate

the load of future benefits and the probable product of the associated tax program.

The council wishes to reiterate the necessity of taking full account of the greatly increasing costs of the old-age insurance program in future years. The council has kept this fact constantly in mind in its study of recommended revisions. It is of the belief that we should not commit future generations to a burden larger than we would want to bear ourselves. It is therefore important that Congress be kept fully informed of the obligations implied in the entire old-age security program in the years to come under both the assistance and the contributory insurance provisions of the Social Security Act.

VII. The receipts of the taxes levied in title VIII of the law, less the costs of collection, should through permanent appropriation be credited automatically to an old-age insurance fund and not to the general fund for later appropriation to the account, in whole or in part, as Congress may see fit. It is believed that such an arrangement will be constitutional.

VIII. The old-age insurance fund should specifically be made a trust fund, with designated trustees acting on the behalf of the prospective beneficiaries of the program. The trust fund should be dedicated exclusively to the payment of the benefits provided under the program and, in limited part, to the costs necessary to the administration of the program.

At the time the Social Security Act was drafted it was deemed necessary for constitutional reasons to separate legally the taxation and benefit features of the program. It is believed that in the light of subsequent court decisions such legal separation is no longer necessary. Since the taxes levied are essentially contributions intended to finance the benefit program, it is not only logical but expedient to provide for automatic crediting of tax proceeds to the old-age insurance fund. It is believed by the council that such a procedure would enhance public understanding of the contributory insurance system. Since the tax proceeds thus credited are intended for payment of benefits, it is recommended that they be deposited in a trust fund under the control of designated trustees in accordance with appropriate legal provisions. The trust fund should be dedicated to the payment of benefits and, to a restricted amount, to the costs necessary to the administration of the program. It is recommended that these funds should continue to be invested in securities of the Federal Government as at present.

In recommending these technical changes in the method of handling the contributions under the program, the council wishes to record again its unanimous conclusion that the provisions of the existing law have been strictly respected by Congress and the Treasury Department. It is believed, however, that the technical improvements here recommended will simplify and strengthen the financial provisions of the program.

IX. The consideration of change in the tax schedule under title VIII of the law should be postponed until after the rates of 1½ percent each on employer and employee are in effect since information will not be available for some time concerning (a) tax collections under varying conditions, (b) effective coverage under taxes and benefits, (c) average

covered earnings, period of coverage, time of retirement, and average amount of benefits, (d) the possibilities of covering farm labor, domestic employees or self-employed persons, and (e) the possibilities of introducing new types of benefits.

With these and many other variable elements now present in any estimate of the future costs of a revised program under title II, the majority of the council is not ready to recommend any change in the tax schedule under title VIII of the act at this time. It does not feel that it could determine intelligently or with proper caution any precise adjustment of rates. Nor is immediate change considered necessary since in any case the amount accumulated in the old-age insurance fund for some years will not exceed that deemed appropriate for the contingency fund previously recommended. In view of the probable increase in the immediate cash outlay to begin in 1940 which the council's recommendations of benefits will entail, it is conservative policy to continue the taxes now provided in the present act. It seems the part of wisdom to make changes, as warranted, on the basis of more certain knowledge.⁴

X. The problem of the timing of the contributions by the Government, taking into account the changing balance between pay-roll-tax income and benefit disbursements, is of such importance as to require thorough study as information is available.

The timing of the governmental contributions here proposed is particularly a question requiring further study on the basis of better knowledge.

XI. Following the accumulation of such information, this problem should be restudied for report not later than January 1, 1942, as to the proper planning of the program of pay-roll taxes and governmental contributions to the old-age insurance system thereafter, since by that time experience on the basis of 5 years of tax collections and 2 years of benefit payments (provided the present act is amended to that effect) will be available. Similar studies should be made at regular intervals following 1942.

After thorough canvassing of the problem, the council is of the conclusion that by the close of 1941 sufficiently comprehensive knowledge will be available for definitive recommendations on changes in the tax program, if then deemed appropriate, and for definitive recommendations as to the timing of governmental contributions toward the financing of the insurance system. By that time approximately 5 years of experience in tax collection under varying conditions will be available. Even more important, approximately 2 years of benefit experience under a revised program will have developed, if suggested revisions are made. Further change in the tax rates under the existing schedules will not take place until January 1, 1943.

At that time, the determination of the long-run philosophy as to the financing of the program will come to have significance in terms

⁴ Several members of the council feel that the increase of 50 percent in the tax rate from 2 percent to 3 percent now provided by the law to be made in 1940 should be reconsidered. Unless the cost of the benefits payable in 1940 and 1941 shall exceed current income from the present 2-percent pay-roll tax, and in view of the probable size of the contingency fund on January 1, 1940, they feel that the increase in the tax rate should not take place before the study herein recommended to be made in 1941 shall have been completed. They believe that under the present conditions it would be better policy to allow the sum involved in the increase in the tax rate to remain in the hands of employees and employers than to use it to increase the contingency fund.

of tax rates. Discussion of such philosophy, while of great concern to all far-sighted students of fiscal policy, does not warrant departure from the recommendations on financial policy here presented.

The council has deemed it a privilege to cooperate in the study of the old-age security program carried on by the Senate special committee and the Social Security Board and hopes that its findings will be of service to the bodies which appointed it. While anxious to be of service as individuals, we assume that with the presentation of this report the task for which the council was appointed has been fulfilled.

Respectfully submitted.

(Signed) J. Douglas Brown, *Chairman*; Henry Bruère; G. M. Bugniacet; Paul H. Douglas; M. B. Folsom; Harvey Fremming; John P. Frey; W. D. Fuller; William Haber; Alvin H. Hansen; Jay Iglauer; M. Albert Linton; Theresa S. McMahon; Gerald Morgan; A. H. Mowbray; Philip Murray; Thomas L. Norton; Lee Pressman; Josephine Roche; E. R. Stettinius, Jr.; George W. Stocking; Gerard Swope; Elizabeth Wisner; Edwin E. Witte; Matthew Woll.

DECEMBER 10, 1938.

APPENDIX

On April 29, 1938, the council unanimously approved the following statement concerning the financing of the old-age insurance system:

The Advisory Council on Social Security has been giving much attention to the problem of financing the old-age insurance system. The council recognizes that there are other ways of financing the old-age insurance system which upon further study may prove to have greater advantages than the present system. The entire subject, however, is so complex that the council is not yet prepared to express a final judgment as to the method of financing which would be most desirable from a social and economic standpoint.

Upon one aspect of the general problem the Advisory Council deems it advisable to make a public statement at this time to allay unwarranted fears. This relates to the method of handling the funds collected for old-age insurance purposes.

In accordance with the statutes, the taxes collected from employers and employees under title VIII of the Social Security Act are paid into the general fund of the Treasury. While not expressly provided by law, it was understood at the time of the enactment of the Social Security Act that amounts equivalent to the entire proceeds of these taxes, less costs of administration, shall be appropriated annually by Congress to the old-age reserve account. Congress has not only done so, but to date has appropriated somewhat more to the old-age reserve account than has been collected from the taxes levied in title VIII of the Social Security Act. Thus, up to the end of March 1938, \$636,100,000 had been invested to the credit of the old-age reserve account, and \$577,447,532 had been collected from the taxes for old-age insurance purposes.

A proportionate part of the moneys appropriated by Congress to the old-age reserve account has been turned over periodically to this account and has been immediately invested in special securities of the United States Government bearing 3 percent interest.

The special securities issued to the old-age reserve account are general obligations of the United States Government, which differ from other securities of the Government only in the higher rate of interest they bear and in the fact that they are not sold in the open market. The issuance of such special securities is not only expressly authorized by law, but is required by the provision of the Social Security Act that the old-age reserve funds are to be invested so as to yield an interest return of 3 percent.

The United States Treasury uses the moneys realized from the issuance of these special securities by the old-age reserve account in the same manner as it does moneys realized from the sale of other Government securities. As long as the budget is not balanced, the net result is to reduce the amounts which the Government has to borrow from banks, insurance companies and other private parties. When the budget is balanced, these moneys will be available for the reduction of the national debt held by the public. The members of the Advisory Council are in agreement that the fulfillment of the promises made to the wage earners included in the old-age insurance system depends upon, more than anything else, the financial integrity of the Government. The members of the council, regardless of differing views on other aspects of the financing of old-age insurance, are of the opinion that the present provisions regarding the investment of the moneys in the old-age reserve account do not involve any misuse of these moneys or endanger the safety of these funds.