
FIX RATE OF TAX UNDER FEDERAL INSURANCE CONTRIBUTIONS ACT ON EMPLOYER AND EMPLOYEE FOR CALENDAR YEAR 1945

DECEMBER 7 (legislative day, NOVEMBER 21), 1944.—Ordered to be printed

Mr. GEORGE, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 5564]

The Committee on Finance, to whom was referred the bill (H. R. 5564) to fix the rate of tax under the Federal Insurance Contributions Act on employer and employees for the calendar year 1945, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

This bill provides for "freezing" the rate of tax on pay rolls and wages for old-age and survivors' benefits on employees and employers at the rate of 1 percent for the year 1945, thus postponing an increase to 2 percent on employers and employees as would otherwise result under existing law. This issue has been discussed at length before the Congress.

Your committee believe that the rates of these taxes should not be doubled for 1945. The considerations which moved the committee to take the action are in part stated in the majority report of the Committee on Ways and Means of the House and for the information of the Senate that report, together with the dissenting views, is attached hereto.

[H. Rept. No. 2010, 78th Cong., 1st sess.]

The Committee on Ways and Means, to whom was referred the bill (H. R. 5564) to fix the rate of tax under the Federal Insurance Contributions Act on employer and employees for the calendar year 1945, having considered the same, report favorably without amendment thereon and recommend that the bill do pass.

This bill provides for "freezing" the rate of tax on pay rolls and wages for old-age and survivors' benefits on employees and employers at the rate of 1 percent for the year 1945, thus postponing an increase to 2 percent on employers and employees as would otherwise result under existing law. Your committee is convinced that it is not necessary to double existing rates for 1945 in order to protect the solvency of the old-age and survivors' insurance fund.

When the social security law was amended in 1939, your committee and the Congress were both definitely of the opinion that the reserve contemplated in the

original act, and variously estimated under the original schedule of tax rates to reach from 47 billion to 49 billion dollars, was not necessary for the solvency of the fund.

The estimate furnished to the committee and the Congress in 1939 indicated that the reserve would amount to \$3,122,000,000 in 1944 with a graduated schedule of tax rates. However, the reserve has now reached the sum of approximately \$6,000,000,000 with a tax rate of 1 percent on employee and employer, and will approximate \$7,250,000,000 by the end of 1945. Thus the reserve fund will be more than 2 times the amount that was contemplated under the estimates used when the social security system was revised in 1939, and was placed on what was then considered to be a sound actuarial basis. In the hearings of 1939, the Secretary of the Treasury, Mr. Morgenthau, testified as follows:

"Specifically, I would suggest to Congress that it plan the financing of the old-age insurance system with a view to maintaining for use in contingencies an eventual reserve amounting to not more than three times the highest prospective annual benefits in the ensuing 5 years."

Congress has upon 3 occasions applied this rule and as a result has 3 times postponed the statutory increase in pay-roll taxes. Your committee finds that the old-age reserve as of June 30, 1944, was \$5,450,000,000, and approximately \$6,000,000,000 as of the end of this year and that according to the most recent estimates of the Social Security Board the highest annual expenditure will be between \$450,000,000 and \$700,000,000 in the next 5 years. Therefore, the existing reserve is from 8 to 12 times the highest annual expenditure instead of 3 times, as recommended by the Secretary of the Treasury.

It should be also pointed out that the tax collections at 1 percent on employee and 1 percent on employer now exceed the amount originally anticipated from the higher tax rate provided in the Social Security Act as amended in 1939. Tax collectors, even with the tax rate retained at 1 percent on employee and employer respectively, have substantially exceeded the estimate furnished in 1939 and the benefits paid have fallen far below the estimates furnished to the Congress in 1939. Therefore, since the automatic increase in tax to 2 percent on employer and employee, respectively, effective next January is unnecessary for benefit payments (for many years to come), or for the maintenance of a contingent reserve 3 times the highest anticipated expenditure in the next 5 years, we submit that these taxes should not be doubled at this time.

The committee does not feel that any unnecessary increase in the existing high tax burden should be made now in view of the problems of reconversion from war to peace that soon will confront us and which must be solved. It should be clearly understood that this legislation has no connection with the question of expansion of social security benefits or coverage, but refers solely to the problem of financing existing benefits and coverage. It does not involve in any way, benefit payments under the old-age assistance or so-called old-age pension systems which are paid out of annual appropriations.

As has been stated, actual experience in the operation of the system has demonstrated the inaccuracy of the estimates made only 5 years ago to say nothing of those made in 1935.

In order that your committee may have the benefit of expert advice based upon the experience of the past 9 years, it has unanimously voted to commence a study, at an early date, of what constitutes an adequate contingent reserve fund and the rates required to produce and maintain that fund on a sound financial basis.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in the Federal Insurance Contributions Act made by the bill, as introduced, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

"SEC. 1400. RATE OF TAX.

"In addition to other taxes, there shall be levied, collected, and paid upon the income of every individual a tax equal to the following percentages of the wages (as defined in section 1426 (a)) received by him after December 31, 1936, with respect to employment (as defined in section 1426 (b)) after such date:

(1) With respect to wages received during the calendar years 1939, 1940, 1941, 1942, 1943 [and] 1944, and 1945, the rate shall be 1 per centum.

[(2) With respect to wages received during the calendar year 1945, the rate shall be 2 per centum.]

【3】 (2) With respect to wages received during the calendar years 1946, 1947, and 1948, the rate shall be 2½ per centum.

【4】 (3) With respect to wages received after December 31, 1948, the rate shall be 3 per centum.

* * * * *

“SEC. 1410. RATE OF TAX.

“In addition to other taxes, every employer shall pay an excise tax, with respect to having individuals in his employ, equal to the following percentages of the wages (as defined in section 1426 (a)) paid by him after December 31, 1936, with respect to employment (as defined in section 1426 (b)) after such date:

(1) With respect to wages paid during the calendar years 1939, 1940, 1941, 1942, 1943, [and] 1944, and 1945, the rate shall be 1 per centum.

【(2) With respect to wages paid during the calendar year 1945, the rate shall be 2 per centum.】

【(3) (2) With respect to wages paid during the calendar years 1946, 1947, and 1948, the rate shall be 2½ per centum.

【(4) (3) With respect to wages paid after December 31, 1948, the rate shall be 3 per centum.”

DISSENTING VIEWS

The undersigned members of the Ways and Means Committee respectfully submit their dissenting views relative to H. R. 5564, which has been favorably reported by the majority of the committee.

We deeply regret that our considered opinion with respect to this bill is at variance with a majority of our colleagues and that we cannot concur in the recommendation that the bill should be reported favorably.

The bill reported by a majority of the committee will prevent the rate of contributions under the Federal old-age and survivors insurance system from increasing on January 1, 1945, in accordance with the schedule contained in the present law. We believe this action to be unwise and detrimental to the basic principles underlying a contributory social-insurance system. Our reasons are summarized as follows:

SUMMARY OF OBJECTIONS TO THE BILL

1. The success of a contributory system of social insurance is at stake.

We believe that the very success of this contributory social-insurance system which Congress established in 1935 is at stake and not merely the fixing of a tax rate in the usual sense of the term. The Congress of the United States in 1935 took a long step forward in undertaking to substitute for a hit-and-miss method of relieving destitution through a Government dole a systematic long-range method known as contributory social insurance. Under a system of contributory social insurance, benefits are paid as a matter of right without a means or a needs test and are related in an equitable manner to the length of time a person has been insured and the amount of his past earnings. An essential characteristic of any contributory social-insurance system is that the benefits are financed wholly or in large part from contributions made by or on behalf of the beneficiaries. It is just as true of a social-insurance system as of any insurance system that its security depends upon the certainty and soundness of the methods used to finance it. In financing a contributory social-insurance system it is necessary to make certain that the promises made today to pay benefits in the future can be and will be fulfilled. Under a social-insurance system providing old-age annuities based upon the length of time insured initial costs are low and ultimate costs are high. In the case of this social-insurance system it has been estimated that the eventual annual cost will be 15 to 20 times what they are today.

2. The cost of benefits promised is far in excess of the contributions being collected.

None of the witnesses appearing before the committee placed the average annual cost of this insurance system at less than 4 percent of pay roll. Some of the estimates placed the average annual cost as high as 7 percent and the eventual annual cost as high as 11 percent. Therefore, it is obvious that the actuarial soundness of this insurance system will continue to deteriorate so long as the current rate of contributions is kept at the present low level. Even if we accept the lowest estimate of 4 percent average annual cost, it may be said that the

reserve fund of this system already has a deficit of \$6,600,000,000. If we take the higher estimate of 7 percent average annual cost, it may be said that the reserve fund already has a deficit of about \$16,500,000,000. The fact that we are collecting as much at the present 1-percent rate as it was estimated in 1939 we would collect at the 2-percent rate does not affect these estimates of cost and the size of the deficit, since the liabilities assumed by the insurance system have likewise increased.

One of the arguments advanced for not permitting the automatic increase in rate to take effect is that there should be a study made of the financing of this system and of social security generally. Another argument advanced is that Congress will soon consider the extension and broadening of the social-security law. These arguments lack validity, since the minimum-cost estimate set forth above has not been disputed by any witness appearing before the committee and it is obvious that any extension and broadening of the social-security law will certainly not result in a reduction in cost. Therefore, there appears to be no good reason why present costs, which are not disputed, should not be properly financed.

3. The continuance of the present pay-roll-tax rate will require an eventual Government subsidy.

If the rate of contributions is continued at less than the average annual cost of this insurance system, it is a mathematical certainty that there will be one of the following three results: (1) The future pay-roll-tax rates will have to be much higher if the insurance system continues to be financed wholly by pay-roll taxes; or (2) the benefits promised will have to be reduced; or (3) the Federal Government will be obliged to provide a subsidy out of general tax revenues.

There is, of course, a limit to the amount of pay-roll taxes that can be levied in justice to employers and workers. In the case of the workers the actuarial figures indicate that if the eventual rate is placed higher than 3 percent large numbers will be required to pay more for their benefits under this insurance system than if they obtained similar protection from a private insurance company. Since such a result would be clearly inequitable and since the repudiation by the Government of benefits promised is unthinkable, the only real alternative is an outright Government subsidy.

In making these statements, it should not be concluded that we are opposed to some eventual contribution by the Government to the social-insurance system out of general revenues, provided it is not caused solely by the fact that an unjustifiably low rate is levied in the early years of operation and provided there is complete coverage of the workers in this country. However, at the present time, there are some 20,000,000 individuals engaged in occupations which are excluded from the insurance system. We believe, therefore, that before any such contribution is made to the social-insurance system out of general revenues consideration should be given to broadening the coverage of the insurance program.

4. Freezing costs taxpayers more later on.

A major argument that has been made by persons in favor of the tax freeze is that it does not make any difference to the taxpayers of the future whether they are required to pay taxes to cover the interest on Government bonds held by the reserve fund or are required to pay taxes for an outright Government subsidy to this insurance system. This argument was completely disproved in the course of the hearings, since not only the Chairman of the Social Security Board but M. A. Linton, president of the Provident Mutual Life Insurance Co., who advocates the freeze, both agreed that the amount of taxes to be raised in the future if there is no reserve fund will be twice as much as if there is a reserve fund. Both of these witnesses agreed that the interest payable on Government obligations held by the reserve fund would otherwise have to be paid to private investors who would be holding these obligations and in addition a subsidy of an equal amount would still have to be made to the insurance system.

5. Delay in automatic step-up will create future hardship for employers and workers.

It has been suggested that now is a difficult time for employers and workers to meet the additional 1-percent tax on pay rolls. We sympathize with the difficulties of meeting the present tax burden made necessary by the war. However, we are of the opinion that it will be far more difficult for employers and workers to absorb an increase in the rate a year from now or at any date in the near future. The profits of most employers are at a high level today. In fact, the majority of employers will be required to pay excess-profits taxes. Therefore, in most cases the increased pay-roll tax payable by employers will be partially offset by the reduction in the excess-profits taxes they will be required to pay. So far as

the workers are concerned, the committee was informed that both the American Federation of Labor and the Congress of Industrial Organizations are in favor of permitting the automatic increase to take effect. As members of the Committee on Ways and Means, the committee which has the difficult task of raising taxes, we are impressed by the willingness of the workers of this country to pay their equitable share of the cost of these benefits. We wish to commend these labor organizations for their statesmanlike action which indicates that they truly understand and appreciate the value of this contributory social-insurance system, and therefore desire to maintain its financial integrity.

6. Low contributions imply low benefits.

The real reason why many people advocate keeping the contribution rate at a level below the true cost of the benefits provided is that they fear the accumulation of a reserve fund will create a demand for an increase in the size of the benefits. However, in our opinion the continuation of the present unjustifiably low contribution rate has the effect of making people believe that the cost of the benefits provided is low and that the value of the benefits provided is inconsequential. As already pointed out the real cost and value is far in excess of the rate of contribution now being collected. The survivors benefits alone have a face value between \$3,000 and \$10,000 for most families and as high as \$15,000 for some families. The total amount of survivors benefits provided have a face value of \$50,000,000,000.

Most people estimate the value of what they buy by the price which they pay. Therefore, we believe that an increase in the contribution rate will result in less extravagant rather than more extravagant demands being made upon the Congress for an increase in the benefits provided.

7. Freezing not consistent with general congressional policy.

The policy embodied in the majority's recommendations to freeze the rate of contributions under the old-age and survivors insurance system is defended on the ground that only sufficient contributions should be collected to cover the cost of benefits currently being paid out. However, this policy is diametrically opposed to the policy which the Congress follows in the national service life insurance system for veterans of World War II, the Government life insurance system for veterans of World War I, the civil-service retirement fund, the Foreign Service life insurance fund, and several other of the retirement funds set up by the Congress. In completely departing from this principle for the Federal old-age and survivors insurance fund, we believe that the Congress is making a grave mistake.

CONCLUSION

For the reasons outlined above, we oppose the freezing of social-security contributions at the present time. We believe that the action of the majority of the committee is unwise and unsound.

We believe that it is important to strengthen the social-insurance provisions of the Social Security Act. We cannot do so unless we assure the continuation of the social-insurance provisions on a sound financial basis that will guarantee to every American citizen that he will get his social-insurance benefits as a matter of right and not as a dole.

We do not believe that the present provisions of the Social Security Act are perfect. We believe that many of the provisions in the existing law should be strengthened and expanded. We believe that the Committee on Ways and Means should give consideration to a comprehensive review of all of the provisions of the Social Security Act. Only in this way can the contributions and the benefit provisions be seen in proper perspective. However, we do not believe it is wise, pending such consideration, to emasculate the proper financing of the admitted true cost of the benefits now provided. We are opposed, therefore, to the piecemeal consideration of one aspect of social-security legislation and favor a comprehensive study of the entire social-security program with a view toward broadening, expanding, and strengthening its provisions so that it will make its full contribution to the preservation of our democracy and our system of free enterprise in the difficult reconversion and post-war periods.

JERE COOPER.
JOHN D. DINGELL.
A. SIDNEY CAMP.
WALTER A. LYNCH.
AIME J. FORAND.
HERMAN P. EBERHARTER.
CECIL R. KING.