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OLD-AGE AND SURVIVORS INSURANCE

A REPORT TO THE
SENATE COMMITTEE ON FINANCE
FROM
THE ADVISORY COUNCIL ON
SOCIAL SECURITY



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LETTER OF TRANSMITTAL

APRIL 8, 1948.

The Honorable EUGENE D. MILLIKIN,
Chairman, Committee on Finance,
United States Senate, Washington 25, D. C.

DEAR SENATOR MILLIKIN: There is transmitted herewith the report of the Advisory Council on Social Security to the Senate Committee on Finance concerning the old-age and survivors insurance program. The Council has studied the program and its implications carefully and has endeavored to take full account of the interests—both present and future—of all segments of the Nation. It is the hope of the Council that this report will be of value to the Congress in bringing about necessary and desirable changes in the present old-age and survivors insurance program.

I wish to express here my deep appreciation of the earnest and fine-spirited efforts of all members of the Council and particularly of the splendid work done by the Associate Chairman, Dr. Sumner H. Slichter.

Respectfully submitted.

EDWARD R. STETTINIUS, Jr.,
Chairman.

FOREWORD

The Advisory Council on Social Security was appointed by the Committee on Finance of the United States Senate under authority of Senate Resolution 141 (appendix C). Members of the Council, citizens from various walks of life and representing different parts of the country, were appointed on September 17, 1947. Preliminary meetings to plan the work of the Council were held in October and November and, at the first meeting of the full Council held in Washington on December 4-5, an interim committee was designated to make a continuing study of the problems before the Council and to develop proposals for the consideration of the full Council. The Council has met for two full days each month and the interim committee has met for one full day between Council meetings. On the average, 15 of the 17 members attended each meeting of the Council. Between meetings the Council members continued their study through analysis of a large amount of material prepared by the interim committee and the Council's research staff.

The present report contains the Council's recommendations concerning the risks of old age and death only. Recommendations for improvements in the other parts of the social-security program will be made in subsequent reports.

The Social Security Administration and the Treasury Department have been most generous in rendering technical service. Representatives of the two agencies made oral presentations to the Council at its first meeting and have filled many requests for information on the operation of the program. Information was also obtained from statements of many interested groups and individuals. Letters from the public have been helpful in pointing up the areas in which the present provisions fall short of the protection they are designed to yield.

In some areas the present provisions of the old-age and survivors' insurance program fail to provide basic security. The weaknesses of the existing program have been taken into consideration, and recommendations are made for ways to close the gaps in the protection now offered. Account has been taken also of changes that have occurred in our economy since 1939, when the general structure of the present program was adopted. Particular attention has been given to the problem of financing the program. The recommendations regarding the contribution rates recognize the need for a rate which is high enough to establish a reasonable relationship between contributions and benefits and which will increase gradually to the full amount necessary to support the future program, but not so large as to build up excessive amounts in the trust fund in the early years.

The proposals contained in this report are designed to provide a program that will meet the present needs of the people without imposing too heavy a burden on the taxpayers of the future. The Council anticipates that still further revisions in the program will be needed as future events affect family life, the labor force, and the general conditions under which people live.

MEMBERSHIP OF THE ADVISORY COUNCIL

Edward R. Stettinius, Jr., rector, University of Virginia; Chairman.
Sumner H. Slichter, Lamont University professor, Harvard University; Associate Chairman.
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OLD-AGE AND SURVIVORS INSURANCE

INTRODUCTION AND SUMMARY

Opportunity for the individual to secure protection for himself and his family against the economic hazards of old age and death is essential to the sustained welfare, freedom, and dignity of the American citizen. For some, such protection can be gained through individual savings and other private arrangements. For others, such arrangements are inadequate or too uncertain. Since the interest of the whole Nation is involved, the people, using the Government as the agency for their cooperation, should make sure that all members of the community have at least a basic measure of protection against the major hazards of old age and death.

In the last analysis the security of the individual depends on the success of industry and agriculture in producing an increasing flow of goods and services. However, the very success of the economy in making progress, while creating opportunities, also increases risks. Hence, the more progressive the economy, the greater is the need for protection against economic hazards. This protection should be made available on terms which reinforce the interest of the individual in helping himself. A properly designed social-security system will reinforce the drive of the individual toward greater production and greater efficiency, and will make for an environment conducive to the maximum of economic progress.

THE METHOD OF SOCIAL INSURANCE

The Council favors as the foundation of the social-security system the method of contributory social insurance with benefits related to prior earnings and awarded without a needs test. Differential benefits based on a work record are a reward for productive effort and are consistent with general economic incentives, while the knowledge that benefits will be paid—irrespective of whether the individual is in need—supports and stimulates his drive to add his personal savings to the basic security he has acquired through the insurance system. Under such a social insurance system, the individual earns a right to a benefit that is related to his contribution to production. This earned right is his best guaranty that he will receive the benefits promised and that they will not be conditioned on his accepting either scrutiny of his personal affairs or restrictions from which others are free.

Public-assistance payments from general tax funds to persons who are found to be in need have serious limitations as a way of maintaining family income. Our goal is, so far as possible, to prevent dependency through social insurance and thus greatly reduce the need for assistance. We recognize that, for a decade or two, public assistance will be necessary for many persons whose need could have been

met by the insurance program if it had been in effect for a longer time and had covered all persons gainfully employed. The Council looks forward, however, to the time when virtually all persons in the United States will have retirement or survivorship protection under the old-age and survivors' insurance program. If insurance benefits are of reasonable amount, public assistance will then be necessary only for those aged persons and survivors with unusual needs and for the few who, for one reason or another, have been unable to earn insurance rights through work. Under such conditions the Federal expenditure for public assistance can be reduced to a small fraction of its present amount.

The Council has studied the existing system of old-age and survivors insurance and unanimously approves its basic principles. The Council, however, finds three major deficiencies in the program:

1. Inadequate coverage—only about three out of every five jobs are covered by the program.

2. Unduly restrictive eligibility requirements for older workers—largely because of these restrictions, only about 20 percent of those aged 65 or over are either insured or receiving benefits under the program.

3. Inadequate benefits—retirement benefits at the end of 1947 averaged \$25 a month for a single person.

The Council's recommendations are designed to remedy these major defects.

The Council has agreed unanimously on 20 of its 22 specific recommendations. The two instances of dissenting opinions have been noted in connection with the recommendations themselves, and the reasons for the dissents have been given in appendixes F and G.

SUMMARY OF RECOMMENDATIONS

Recommendations on coverage

1. *Self-employment.*—Self-employed persons such as business and professional people, farmers, and others who work on their own account should be brought under coverage of the old-age and survivors insurance system. Their contributions should be payable on their net income from self-employment, and their contribution rate should be $1\frac{1}{2}$ times the rate payable by employees. Persons who earn very low incomes from self-employment should for the present remain excluded.

2. *Farm workers.*—Coverage of the old-age and survivors insurance system should be extended to farm employees.

3. *Household workers.*—Coverage of the old-age and survivors insurance system should be extended to household workers.

4. *Employees of nonprofit institutions.*—Employment for nonprofit institutions now excluded from coverage under the old-age and survivors insurance program should be brought under the program, except that clergymen and members of religious orders should continue to be excluded.

5. *Federal civilian employees.*—Old-age and survivors insurance coverage should be extended immediately to the employees of the Federal Government and its instrumentalities who are now excluded from the civil-service retirement system. As a temporary measure designed to give protection to the short-term Government worker, the wage credits

of all those who die or leave Federal employment with less than 5 years' service should be transferred to old-age and survivors insurance. The Congress should direct the Social Security Administration and the agencies administering the various Federal retirement programs to develop a permanent plan for extending old-age and survivors insurance to all Federal civilian employees, whereby the benefits and contributions of the Federal retirement systems would supplement the protection of old-age and survivors insurance and provide combined benefits at least equal to those now payable under the special retirement systems.

6. *Railroad employees.*—The Congress should direct the Social Security Administration and the Railroad Retirement Board to undertake a study to determine the most practicable and equitable method of making the railroad retirement system supplementary to the basic old-age and survivors insurance program. Benefits and contributions of the railroad retirement system should be adjusted to supplement the basic protection afforded by old-age and survivors insurance, so that the combined protection of the two programs would at least equal that under the Railroad Retirement Act.

7. *Members of the armed forces.*—Old-age and survivors insurance coverage should be extended to members of the armed forces, including those stationed outside the United States.

8. *Employees of State and local governments.*—The Federal Government should enter into voluntary agreements with the States for the extension of old-age and survivors insurance to the employees of State and local governments, except that employees engaged in proprietary activities should be covered compulsorily.

9. *Social security in island possessions.*—A commission should be established to determine the kind of social-security protection appropriate to the possessions of the United States.

10. *Inclusion of tips as wages.*—The definition of wages as contained in section 209 (a) of the Social Security Act, as amended, and section 1426 (a) of subchapter A of chapter 9 of the Internal Revenue Code should be amended to specify that such wages shall include all tips or gratuities customarily received by an employee from a customer of an employer.

Recommendations on eligibility

11. *Insured status.*—To permit a larger proportion of older workers, particularly those newly covered, to qualify for benefits, the requirements for fully insured status should be 1 quarter of coverage for each 2 calendar quarters elapsing after 1948 or after the quarter in which the individual attains the age of 21, whichever is later, and before the quarter in which he attains the age of 65 (60 for women) or dies. Quarters of coverage earned at any time after 1936 should count toward meeting this requirement. A minimum of 6 quarters of coverage should be required and a worker should be fully and permanently insured if he has 40 quarters of coverage. In cases of death before January 1, 1949, the requirement should continue to be 1 quarter of coverage for each 2 calendar quarters elapsing after 1936 or after the quarter in which the age of 21 was attained, whichever is later, and before the quarter in which the individual attained the age of 65 or died.

Recommendations on benefits

12. *Maximum base for contributions and benefits.*—To take into account increased wage levels and costs of living, the upper limit on earnings subject to contributions and credited for benefits should be raised from \$3,000 to \$4,200. The maximum average monthly wage used in the calculation of benefits should be increased from \$250 to \$350.

13. *Average monthly wage.*—The average monthly wage should be computed as under the present law, except that any worker who has had wage credits of \$50 or more in each of six or more quarters after 1948 should have his average wage based either on the wages and elapsed time counted as under the present law or on wages and elapsed time after 1948, whichever gives the higher result.

14. *Benefit formula.*—To provide adequate benefits immediately and to remove the present penalty imposed on workers who lack a lifetime of coverage under old-age and survivors insurance, the primary insurance benefit should be 50 percent of the first \$75 of the average monthly wage plus 15 percent of the remainder up to \$275. Present beneficiaries, as well as those who become entitled in the future, should receive benefits computed according to this new formula for all months after the effective date of the amendments.

15. *Increased survivor protection.*—To increase the protection for a worker's dependents, survivor benefits for a family should be at the rate of three-fourths of the primary insurance benefit for one child and one-half for each additional child, rather than one-half for all children as at present. The parent's benefit should also be increased from one-half to three-fourths. Widows' benefits should remain at three-fourths of the primary insurance benefit.

16. *Dependents of insured women.*—To equalize the protection given to the dependents of women and men, benefits should be payable to the young children of any currently insured woman upon her death or eligibility for primary insurance benefits. Benefits should be payable also (a) to the aged, dependent husband of a primary beneficiary who, in addition to being fully insured, was currently insured at the time she became eligible for primary benefits, and (b) to the aged, dependent widower of a woman who was fully and currently insured at the time of her death.

17. *Maximum benefits.*—To increase the family benefits, the maximum benefit amount payable on the wage record of an insured individual should be three times the primary insurance benefit amount or 80 percent of the individual's average monthly wage, whichever is less, except that this limitation should not operate to reduce the total family benefits below \$40 a month.

18. *Minimum benefit.*—The minimum primary insurance benefit payable should be raised to \$20.

19. *Retirement test.*—No retirement test (work clause) should be imposed on persons aged 70 or over. At lower ages, however, the benefits to which a beneficiary and his dependents are entitled for any month should be reduced by the amount in excess of \$35 which he earns from covered employment in that month. Benefits should be suspended for any month in which such earnings exceed \$35 but, each quarter, beneficiaries should receive the amount by which the suspended benefits exceeded earnings above the exemption.

20. *Qualifying age for women.*—The minimum age at which women may qualify for old-age benefits (primary, wife's, widow's, parent's) should be reduced to 60 years.

21. *Lump-sum benefits.*—To help meet the special expenses of illness and death, a lump-sum benefit should be payable at the death of every insured worker even though monthly survivor benefits are payable. The maximum payment should be four times the primary insurance benefit rather than six times as at present.

Recommendations on financing

22. *Contribution schedule and Government participation.*—The contribution rate should be increased to 1½ percent for employers and 1½ percent for employees at the same time that benefits are liberalized and coverage is extended. The next step-up in the contribution rate, to 2 percent on employer and 2 percent on employee, should be postponed until the 1½-percent rate plus interest on the investments of the trust fund is insufficient to meet current benefit outlays and administrative costs. There are compelling reasons for an eventual Government contribution to the system, but the Council feels that it is unrealistic to decide now on the exact timing or proportion of that contribution. When the rate of 2 percent on employers and 2 percent on employees plus interest on the investments of the trust fund is insufficient to meet current outlays, the advisability of an immediate Government contribution should be considered.

Technical and minor amendments

In addition to these major recommendations, several minor and technical amendments are needed to correct certain inequities and administrative problems resulting from the present provisions. The Council has preferred in the main to leave recommendations on such questions to the Social Security Administration. The Council would like to call attention, however, to the need for additional adjustments to protect the rights of men who served in World War II. Our general recommendations, if put into effect, would remove most of the inequities which these veterans would otherwise suffer; but, in addition, section 210¹ of the present act should be temporarily extended to protect veterans during the transitional period until our general recommendations become fully operative. The Council also wishes to call attention to the lack of coverage for American citizens employed outside the United States by American firms.

INTERDEPENDENCE OF RECOMMENDATIONS

The Council stresses the fact that its recommendations are a consistent whole and that many of the 22 specific proposals are interdependent. If coverage is not broadly extended, for example, the Council would propose very different modifications in the present provisions for insured status, benefit structure, method of determining the average monthly wage, and financing. Accordingly, the Council strongly urges that its recommendations be considered as a whole.

¹ Section 210 provides special survivor benefits to dependents of veterans who died within 3 years of discharge if such dependents are not entitled to survivor benefits under veterans' laws.

PLAN OF THE REPORT

The Council's proposed remedies for the three major deficiencies of the present program—inadequate coverage, unduly restrictive eligibility requirements, and inadequate benefits—are outlined in this section. The test of retirement, financing, and the importance of a broad informational program are also discussed. The section which follows treats the 22 specific recommendations in more detail. Appendixes A and B are concerned with special aspects of costs and financing.

GOAL OF UNIVERSAL COVERAGE

The basic protection afforded by the contributory social insurance system under the Social Security Act should be available to all who are dependent on income from work. The character of one's occupation should not force one to rely for basic protection on public assistance rather than insurance.

Earlier decisions to exclude the self-employed, workers in agriculture, and workers in domestic service from coverage of the insurance system were based on expectation there would be administrative difficulties in collecting contributions and obtaining wage reports for these groups. Other groups such as railroad workers, Government employees, and employees of religious, charitable, and educational institutions were excluded for various reasons—because some of the workers were protected under existing retirement plans, because of the constitutional barrier to the levy of a Federal tax on State and local governments, or because of objections to taxing traditionally tax-exempt nonprofit organizations.

The Council believes that none of the reasons for the original exclusions justifies continued denial of basic social insurance protection to these groups. The administrative difficulties which may arise from including the self-employed and workers in agriculture and domestic service seem far less formidable today than they did 10 years ago when the social insurance system was new and in the early stages of developing its administrative organization.

Ten years' experience with incomplete coverage has revealed the many inequities and anomalies which arise when workers move between covered and noncovered employments. In many cases these workers pay contributions but never receive benefits, and in others they may become entitled to benefits which, though small, are worth far more in relation to their contributions than are the benefits of workers covered regularly.

The present incomplete system of social insurance affords uneven protection in different parts of the United States. Coverage restrictions cause relatively fewer people to receive old-age and survivors insurance benefits in agricultural States than in States where industry predominates. Conversely, the number of persons receiving old-age assistance per 1,000 aged population is considerably larger in the agricultural States (see appendix D). As a consequence, the taxpayers of the agricultural States must meet, from general revenues, a disproportionate share of the costs of old-age security and aid to families of workers who die prematurely. Since the per capita income of most predominantly agricultural States is far below that of the largely industrial and commercial States, the former have relatively

more people in need of assistance and smaller revenues from which to meet this need.

Employers as well as employees suffer from the lack of protection for the noncovered occupations, because employers offering noncovered jobs cannot furnish as attractive labor conditions as those of their competitors in the labor market who are in covered industries. Some workers who have been protected by social insurance during the war have been unwilling to return to such noncovered jobs as agriculture or domestic work or work in nonprofit organizations, where they will lose that protection.

An incidental but important result of extension of coverage will be a reduction in the percentage of pay rolls required to meet the costs of old-age and survivors insurance. Extension of coverage would increase the revenue of the program more than it increases benefit payments. The net saving would be roughly one-half percent to 1 percent of pay roll under the present provisions. Under a program of liberalized benefits such as we recommend, costs would, of course, be increased, but under such a program the net saving as a result of the extension of coverage would also be increased—possibly to as much as 2 percent of pay roll. The saving occurs in the main because under the present limited coverage system, those who move in and out of covered employment have low average monthly wages in covered employment and receive the advantage of a formula weighted in favor of those with low average wages. Under extended coverage such persons will have to pay contributions on all the wages which they earn, and although their benefits will be increased, they will be increased at the lower rate of the formula (the present formula pays 40 percent of the first \$50 of average monthly wage, but only 10 percent above) and the income to the fund will increase more than the claims against it.

There are no immediate obstacles to extension of coverage to the self-employed, farm employees, workers in domestic service, employees of nonprofit institutions, the armed forces, and employees of State and local governments. Accordingly, the Council recommends that coverage be extended to these groups without delay. A similar recommendation applies to the Federal civilian employees who are not under the civil-service retirement system. Extension of coverage to Federal civilian employees who are subject to the Federal retirement plan and to the employees of the railroads, however, requires solution of various technical problems before legislation is enacted. The civil-service retirement system and the railroad retirement system will have to be modified to take into account the protection which would be afforded by coverage under old-age and survivors insurance. The Council believes that the best way to work out these problems is through joint studies by the Social Security Administration and the Civil Service Commission in the case of Federal civilian employees, and the Social Security Administration and the Railroad Retirement Board in the case of the railroad employees. The Council has recommended that the necessary studies be required by Congress. Extension of coverage to types of employment with existing staff retirement systems or compulsory insurance protection can and should be accomplished without any loss of benefits to the workers regularly covered by these systems. This result can be achieved by making

their present special pension plans supplementary to old-age and survivors' insurance.

Since the present civil-service retirement plan and railroad retirement system now give more protection to those regularly covered than would old-age and survivors insurance, the question may be asked: "Why extend old-age and survivors insurance to Federal civil-service employees or to railroad workers?" This question is discussed under the specific recommendations in the Council's report. In essence, the answer is that some workers, particularly short-service workers and those who move in and out of Federal or railroad employment, are inadequately protected under present arrangements. An extension of coverage would help these workers without reducing the combined protection available for long-service workers. In addition, if the Council's recommendation for an eventual Government contribution were followed, an extension of coverage would mean that these employers and employees would pay less for that protection.

LIMITATIONS OF VOLUNTARY METHODS

Voluntary coverage under old-age and survivors insurance has been suggested. In the opinion of the Council, voluntary coverage is defensible only where the Federal Government cannot under the Constitution apply compulsion. Since it is apparently unconstitutional for the Federal Government to tax the States and localities, we believe it necessary to allow these units to enter into voluntary compacts for the coverage of their employees. We are convinced that to offer voluntary coverage in any area where it can possibly be avoided would be a grave mistake.

Since the chief objective of the old-age and survivors insurance program is basic family protection adequate for the needs that can be presumed to exist in various family situations, the program contains eligibility and benefit provisions which, especially in the early years of operation and in the case of workers with large families, allow for the payment of benefits considerably in excess of the value of contributions. These provisions make the program vulnerable if voluntary participation by individuals is allowed. The "adverse selection" which would occur would have serious effects on the program's solvency.

Voluntary participation by employing organizations would have less serious but still highly undesirable effects. The organizations most likely to participate in an elective program would be those whose employees as a group would stand to gain disproportionately large benefits in return for their contributions, such as organizations largely made up of persons nearing retirement age or men with large families. Furthermore, many employers in the groups now excluded employ only a few persons. The smaller the staff, the greater the probabilities that the distribution of employees by age, sex, and family dependents will differ from the distribution which obtains among the employee population as a whole and therefore the greater are the possibilities of adverse selection. Under a voluntary system, the employers who pay the lowest wages and whose employees consequently may be in greatest need of protection would be least likely to elect coverage.

The history of voluntary social insurance indicates that those who most need the protection seldom participate. Usually the persons

who choose to participate are those who can expect a large return for their contributions and who can easily spare the money. We see no justification whatever in offering insurance protection at extreme bargain rates to a select group, consisting primarily of those who recognize the opportunity for a bargain and are well able to take advantage of it, and in requiring the covered group as a whole to bear the cost of the difference between what the select group pays and what it receives.

MORE LIBERAL ELIGIBILITY REQUIREMENTS FOR OLDER WORKERS

Old-age and survivors insurance now offers basic retirement protection to the majority of younger workers, but many of those in the middle and higher-age groups will not be eligible for benefits when they retire. The worker who is now young and has a whole working lifetime of some 40 years ahead has ample opportunity to build up credits toward meeting the present eligibility requirements. Older workers, however, have only relatively limited opportunity to build up such credits, and many fail to qualify who would have done so had the program come into existence when they were young. The Council believes that, in establishing eligibility requirements, special allowance should be made for those who were already at the higher ages when the system began. Liberalization of the present eligibility requirements is made even more necessary if coverage is extended. As a group, newly covered workers will have had no opportunity to build up credits in the past and, unless some change is made in the requirements, very few of the older workers in the newly covered groups would ever be eligible for retirement benefits.

If the effectiveness of the social-insurance method of meeting income loss in old age is not to be unduly postponed, the period of covered employment required for insured status will have to be substantially reduced. It should not, of course, be reduced so far as to endanger the character of the benefit as an earned right based on contributions and work records. We propose as a method of reducing the requirements for insured status a "new start" which will require the same qualifying period for an older worker now as was required for a person who was the same age when the system began operation. As pointed out in the report which follows, this recommendation is contingent on a broad extension of coverage.

MORE ADEQUATE BENEFITS NOW

The benefit amounts now being paid under the old-age and survivors insurance program are inadequate for the security of most of the beneficiaries. At the end of 1946 the average benefit for a retired male worker alone was \$24.90 a month, the average benefit for a retired man and wife was \$39, and the average family benefit for a widow and two children was \$48.20. If the old-age and survivors insurance program is to do an effective job of insuring gainfully occupied individuals and their families against dependency in the old age or on the death of a family breadwinner, the level of benefits must be raised.

Under the present program, benefits are computed as a basic amount which is increased by 1 percent for each year in which the wage earner received \$200 or more in wages. Full-rate benefits, under this system

of computation, will not be paid until after 1980, when those now young will be able to retire on benefits some 40 percent larger than the basic amounts payable at the beginning of the system's operation.

The Council believes that the primary benefit should be 50 percent of the first \$75 of the average monthly wage and 15 percent of the remainder up to the maximum average monthly wage (\$350 a month) that can be counted toward benefits. Under this formula, the full rate of benefits contemplated for the future would be paid at once and the 1-percent increment would be eliminated. Without the increment, which commits the system to an automatically increasing level of benefits, a higher level of benefits can be paid immediately than would be warranted under a formula such as that in the present law.

Our proposed benefit formula was chosen because it combines the advantages of relatively high benefits in the low-wage brackets with a considerable spread of benefit amounts for the middle- and higher-wage levels.

In addition to the revision in the benefit formula, several other changes we recommend would have the effect of making benefits more adequate. Extension of coverage will achieve this result for those who move in and out of the employments now covered, since their future benefits will be based on all their earnings up to the maximum base rather than only on those earned in certain types of employment. By reducing the age of eligibility for women from 65 to 60, benefits payable to a family consisting of a primary beneficiary and his wife aged 60 to 64 would be increased immediately by 50 percent. By raising the base for computation of benefits from the present \$3,000 to \$4,200, the benefits for workers at the higher-wage levels will be increased somewhat in the near future and to a greater extent as additional years elapse—an increase for which in a mature program these workers will have paid by additional contributions. An increase in benefits would also result from our recommendation for basing benefits solely on wages earned after 1948 if such wages result in a higher average monthly wage than that derived from all wages earned under the program. After this "new start" provision becomes effective, the over-all effect of our recommendations would be to increase the benefit currently awarded a retired male worker alone from the present average of about \$25 a month to an average of about \$55. An average benefit for man and wife would be about \$55 a month, and the average family benefit for a widow and two children would be about \$110. These amounts are higher than those which would be paid under the proposed formula before the new start becomes effective.

TEST OF RETIREMENT

The rapidly increasing number of aged in the population has made the Council conscious of the need for modification of the present retirement test, which prevents the payment of benefits to all who earn \$15 a month or more in covered employment. Since the time of the passage of the original act, the number of persons aged 65 and over has risen from somewhat more than 7.8 million to nearly 11 million. In another 25 years there may be nearly 20 million aged persons in the United States. In these circumstances it is particularly important that the aged make the contribution to production of which they are capable.

Most aged persons, it is true, do not retire voluntarily. Generally speaking, those who retire do so at the will of the employer or because they are unable to work. The existence of a work clause in old-age and survivors insurance probably has little effect on this basic fact; since few people are likely to give up full-time jobs because of the availability of old-age and survivors insurance benefits. The present very restrictive work clause, however, probably discourages some of those who have retired from their regular jobs from making such contribution to production as they are capable of making. We have therefore suggested liberalizations in the retirement test which will remove some of the barriers to gainful activity on the part of beneficiaries.

The Council believes that further study of the broad problem of the aged in our society is desirable. We recommend that the Federal Government establish a commission to undertake such a study. We have in mind particularly consideration of employment opportunities for the aged, their adjustment to retirement, the availability of recreational facilities, housing for the aged, care for the chronically ill, and other services. The maintenance of income for those who have retired is only part of the provision of security for the aged.

FINANCING

A primary consideration in evaluating proposals for social security benefits must be the impact of their present and future costs on the Nation's economy. The recommendations of the Council for changes in benefits and in coverage have been made only after careful consideration of the probable costs and the method for financing them. The Council, however, would be less than frank if it failed to stress the difficulties of estimating the ultimate cost of the system. Appendix B of this report deals with the problem of estimating costs and discusses in some detail the nature and purpose of long-range cost estimates.

Exactly what future costs will be will depend on a number of factors that are more or less uncertain—the proportion of men and women in covered employment who will reach the age of retirement, the proportion of persons reaching the age of retirement who will have fully insured status, the proportion of persons eligible for benefits who will elect to work rather than retire, and the length of time retired persons will draw benefits. Similar questions arise in connection with survivorship benefits.

In setting the contribution rates for the system, the essential question is probably not "What percentage of pay roll would be required at some distant time to pay benefits equal to the money amount provided in the Council's recommendations?" Rather it is "What percentage of pay roll will be required to pay benefits representing about the same proportion of future monthly earnings that the benefits recommended by the Council represent of present monthly earnings?" If past trends continue, monthly wage earnings several decades hence will be considerably larger than those of today, and benefits will probably be revised to take these increased wages into account. The long-range estimates presented by the Council, however, disregard the possibility of increases in wage levels and state the costs of the proposed benefits as a percentage of the pay rolls based on continuation of the wage

levels of the last few years. If increasing wage levels had been assumed, the costs of these benefits as a percentage of pay rolls would be lower than those presented. Use of the level-wage assumption, therefore, has the effect of allowing for liberalizations of benefits to keep pace with any increases in wages and pay rolls which may occur. If wages continue to rise and such liberalizations are not made, these estimates overstate the cost as a percentage of pay roll and a contribution rate based on them would be too high.

The percentage-of-pay-roll figures are the most important measure of the financial effort required to support the system and are the basis for determining ultimate contribution rates. Dollar figures taken alone are misleading. For example, extending coverage to groups now excluded would greatly increase the dollar costs because more people would become eligible for benefits, but as indicated earlier it will actually decrease the cost as a percentage of pay roll. As a result of coverage extension the income of the insurance system will be increased more than the outgo. In appendix B, however, we have included both the dollar figures and the percentage-of-pay-roll figures.

As indicated in appendix B, the percentage of pay roll required to maintain the relationship between benefits and monthly earnings recommended by the Council would average somewhere between 4.9 percent and 7.3 percent of covered pay roll under a system of nearly universal coverage. The cost in the early years of the system is much lower than it will be when those attaining age 65 have had a working lifetime under the program in which to gain insured status. By that time, the number of persons over age 65 will be much larger than at present and a much larger proportion of the aged population will be eligible for benefits. Our estimates show that the cost of the expanded plan in 1955 will probably be between 2.4 percent and 3.1 percent of pay rolls. In the year 2000 a program which maintains the same relationship between benefits and monthly earnings as the program now being recommended by the Council might cost from 5.9 percent to 9.7 percent of pay rolls. These costs are well within the range of costs expected for the program adopted in 1935 and for the amended program of 1939. Our recommendations therefore do not make necessary any increase in contribution rates over those contemplated from the beginning.

Appendix B also contains an estimate of what the Council's proposals would cost now as a percentage of covered pay rolls under a nearly universal system, had the Council's recommendations been in effect over the last 100 years. These estimates are included to give a sense of what these recommendations would mean if they were now fully operative. Using the estimate of the actual wages paid over the last 100 years, such a system would cost this year from 2.4 percent to 3.0 percent of pay rolls. If it were assumed that the benefits being paid now under such a system were based on current wage levels rather than past wages, such a system would cost this year from 4.1 percent to 4.9 percent. These figures are lower than the estimates for the future, largely because the number of old people will be much greater in the future than now.

Contribution rate

The Council believes that, at the time benefits are liberalized, the contribution rate should be raised to 1½ percent for both employees and employers. The present 1-percent rate has remained unchanged

for more than 10 years. The longer it remains unchanged, the greater the danger that the public will fail to appreciate that in the long run there must be a close relationship between contributions and benefits. It is also desirable to achieve the increase in contribution rates to the level which will eventually be necessary by gradual and more or less evenly spaced changes. Even at the present level of benefits, contributors pay but a fraction of the actuarial value of the benefits to which they are entitled. If benefits and eligibility requirements are changed as the Council recommends, current contributions will bear an even smaller ratio to the actuarial value of benefits. For these reasons, the Council believes that the contribution rate should be increased when benefits are liberalized.

An incidental effect of the recommendation just outlined is that the trust fund will continue to increase for a number of years. Changes in the size of the trust fund, whether increases or decreases, may present certain problems of fiscal policy, the character of which will depend on prevailing economic conditions. The Council does not believe that the short-range increases in the trust fund which will result from its recommendations will confront the Government with fiscal problems that cannot be readily handled. We favor, however, keeping this excess of income over outgo as low as is consistent with public understanding that in the long run there must be a close relationship between benefits and contributions. We believe that the second step-up in the tax rate, to 2 percent on employer and 2 percent on employee, should not take place until actually needed to cover current disbursements.

Government participation

The Council believes that old-age and survivors insurance should be planned on the assumption that general taxation will eventually share more or less equally with employer and employee contributions in financing future benefit outlays and administrative costs. Under our recommendations, the full rate of benefits will be paid to those who retire during the first two or three decades of operation even though they pay only a fraction of the cost of their benefits. In a social insurance system, it would be inequitable to ask either employers or employees to finance the entire cost of liabilities arising primarily because the act had not been passed earlier than it was. Hence, it is desirable for the Federal Government, as sponsor of the program, to assume at least part of these accrued liabilities based on the prior service of early retirants. A Government contribution would be a recognition of the interest of the Nation as a whole in the welfare of the aged and of widows and children. Such a contribution is particularly appropriate in view of the relief to the general taxpayer which should result from the substitution of social insurance for part of public assistance.

The Council has suggested that the introduction of the Government contribution be considered when the 2 percent rate for employer and employee plus interest on the trust fund is insufficient to meet current costs. If the Government contribution is delayed beyond the point at which costs begin to exceed 4 percent, the result might well be that the contribution would never be as much as one-third of eventual benefit outlays, because under our low-cost estimates, the annual cost of the benefits never exceeds 6 percent of pay roll even though under the high estimates the cost reaches 9.7 percent.

Purchasing power of benefits

For millions of persons the social security system represents a guaranty of future security. If that guaranty is to be valid and meaningful, the purchasing power of benefits must not be destroyed by large increases in price levels. A special obligation rests on the Government and all groups in the community with an interest in the social-insurance system and in the security it offers to make sure that monetary policies, price policies, and wage policies contribute to the objective of preventing such a large rise in the price level. If the people of the United States are unable to prevent steep increases in price levels, benefits will have to be readjusted to preserve their purchasing power for unless the purchasing power of the benefits is preserved, the security guaranteed by the social-insurance plan will be illusory.

IMPORTANCE OF A BROAD INFORMATIONAL PROGRAM

The Council recommends a broad informational program to give publicity to any new amendments passed by the Congress. Under old-age and survivors insurance, contributors have established an equity in the trust fund. The Government as trustee has an obligation to inform the beneficiaries of their rights. The reporting and tax provisions as well as the benefit provisions will affect millions heretofore outside the scope of the law; unless they are fully informed of the duties they must now assume, records will be incomplete and the resulting confusion may tend to defeat the purpose of the extended protection. No social-security program can be effective unless those who are entitled to participate know their rights and obligations.

RECOMMENDATIONS ON COVERAGE

1. *Self-employed persons such as business and professional people, farmers, and others who work on their own account should be brought under coverage of the old-age and survivors insurance system. Their contributions should be payable on their net income from self-employment, and their contribution rate should be 1½ times the rate payable by employees. Persons who earn very low incomes from self-employment should for the present remain excluded.*

The self-employed—business and professional people, farmers, and others who work on their own account—represent more than one-third of all persons in jobs now excluded from coverage and constitute by far the largest single group denied the protection of the system. They include about 6 million persons in urban self-employment and perhaps 5 million farmers, though the number of individuals actively engaged in farm operation as a business is probably only about 3.5 million.²

The desirability of extending coverage to the self-employed has long been generally acknowledged. Their need for the basic protection afforded by old-age and survivors insurance is as great as that of the groups now covered and, like persons in all other excluded groups, they move back and forth between covered and noncovered work. The Advisory Council of 1937-38 recommended extension of coverage to the self-employed as soon as administratively feasible plans could be worked out; since then, the issue has been largely one of administration.

The fact that almost all full-time and a large proportion of part-time self-employed persons have for the last few years been required to file income-tax returns has radically changed the outlook for extending coverage to this group. It has been demonstrated that income reports can be obtained from the great majority of the self-employed, and it is now apparent that the coverage of the insurance system can be extended to them by tying in a self-reporting system for social insurance with the income tax. Certain items now reported for income-tax purposes can be used as the contribution base for old-age and survivors insurance and entered on a social-security report form. In the main, these items are net income from a business, profession, or farm (schedule C of the Federal income-tax return), and from partnerships, syndicates, etc. (schedule E).

If the contribution base for the self-employed is to be strictly comparable to that for the groups now covered, only the net income from self-employment attributable to personal services should be taxable. We believe, however, that this refinement would be administratively impossible. The contribution base for the self-employed can readily exclude certain types of income which are obviously not work-connected, such as dividends, interest, annuities, capital gains

² The census figures on farm operators include many persons who are principally engaged in other kinds of employment or are retired persons, disabled persons, people of independent means, and operators dependent on the wage income of someone else in the family group.

and losses, and some types such as rental income from real property that largely arise from capital investment. Each dollar of income from typical self-employment such as retail trade or a profession or farming, however, is income derived partly from personal services and partly from capital investment, combined in such a way as to make any separation virtually impossible.

For many persons with relatively high income from a business, profession, or farming, the failure to make the distinction between income from personal services and income from investment will be of little significance, since that part of their income (the first \$4,200 a year of net income) on which they will pay contributions may be presumed to be derived from personal services. Self-employed persons with lower incomes who yet have substantial capital invested in their business, however, will get higher benefits and pay more in contributions than they would if it were possible to tax only their income from personal services.

One of the reasons for our recommending that self-employed persons contribute at a rate of $1\frac{1}{2}$ times the employee-contribution rate rather than at the combined rate for employer and employee is the fact that some of them will be paying on income from capital investment as well as on income from personal services. Moreover, if they were required to pay twice the normal employee rate, the high-income self-employed persons who contributed over a long period might be "overcharged" for their coverage in relation to what they would have to pay for comparable protection under private insurance. The later retirement age which characterizes the self-employed will lengthen their contribution period, reduce the number of years they receive retirement benefits, and result in savings to the trust fund. As a reasonable compromise, we recommend that the self-employed person—who is at once his own employer and employee—should contribute at $1\frac{1}{2}$ times the employee rate.

The Council believes that, at the outset, extension of coverage to the self-employed should be limited to those at income levels to which the requirement for filing Federal income-tax returns has applied, i. e., those with gross annual incomes of at least \$500. We therefore recommend exclusion of those whose self-employment yields gross income of less than \$500 or a net income of less than \$200. Setting a minimum net income for coverage in addition to a minimum gross income will prevent a large volume of returns from persons who earn so little from self-employment that they could not qualify for benefits. This exclusion will avoid reporting with respect to inconsequential amounts of income and will avoid collecting contributions at an expense out of all proportion to the benefits afforded.

We advocate limiting coverage to those who have been required to file income-tax returns in the past. The coverage of the old-age and survivors insurance system should not vary with changes in the income-tax exemption. The Treasury Department should require returns for social-security purposes from anyone who has a gross income of \$500 or more and net income of at least \$200, regardless of changes in income-tax requirements.

The application of a retirement test for the self-employed presents special and difficult problems. This is one of the reasons for the recommendation in proposal 19 that benefits be paid at age 70 or over without reduction for earnings. Since many self-employed persons

remain at work until at or near age 70, the application of the retirement test only to beneficiaries under that age will avoid the need to make many of the more difficult administrative determinations connected with such a test. The work clause for those between 65 and 70 will, of course, have to be modified for the self-employed in view of the fact that their income will be reported annually.

2. Coverage of the old-age and survivors insurance system should be extended to farm employees

During the course of a year about 3.5 million agricultural workers are excluded from old-age and survivors insurance. The social desirability of extending coverage to these workers has long been a matter of common agreement, and it is now evident that administrative considerations no longer constitute an important barrier to their receiving the protection of the system. The Treasury Department and the Social Security Administration have developed plans which the Council believes are workable, although reporting problems may be difficult in the early years.

The Treasury Department in cooperation with the Social Security Administration should be left free to select the method of collecting contributions for these workers. Although we believe that either the stamp system or some modification of the present reporting plan would be practicable, we believe that it would be a mistake at this point to stipulate the exact method to be used and thus preclude further study by the agencies concerned.

Wages credited toward benefits should include wages-in-kind, when substantial. Without credits for wages-in-kind, many farm workers would be ineligible for benefits, and the benefit amounts for which many others could qualify would be very small. Although evaluating wages-in-kind may prove difficult at the outset, the same type of problem is now being met satisfactorily for groups covered under the present system. Wage credits of workers in restaurants, hotels, and cafeterias and of maritime workers, building superintendents, and resident managers, among others, already include wages-in-kind. Minimum presumptive schedules setting the value of the more important types of wages-in-kind, such as regular meals and lodging, might be of assistance to farm workers and their employers in reporting wages. Inconsequential facilities or privileges, which might create a reporting nuisance out of all proportion to their significance, should be excluded.

3. Coverage of the old-age and survivors insurance system should be extended to household workers

The 2.5 million persons who work in household employment during the course of a year should be covered under old-age and survivors insurance. They need social insurance protection fully as much as does any other group, and the Council believes that it is now administratively feasible to extend protection to them.

Though there was ample reason at the outset to postpone undertaking the special problems of including household workers in the system, the administrative agencies are now in a position to deal adequately with these problems. A strong argument for the delay was the difficulty anticipated in collecting wage reports and contributions from the employers of domestic workers. Since employers may be expected to outnumber employees in this area, the relatively high

costs and administrative problems generally associated with obtaining reports from small employers will be heavily concentrated here. The Social Security Administration and the Treasury Department, however, have now had 11 years of experience in collecting wage reports and contributions from small employers, and the administrative machinery of the insurance system functions satisfactorily for these small establishments. In the first quarter of 1946, for example, employers with only one employee represented one-fourth of the total number who reported for purposes of old-age and survivors insurance.

In the early years of coverage for household workers, some difficulties may arise from delinquency in the payment of contributions and from incomplete understanding of the program by household workers and their employers. We believe, however, that these problems can be solved fully as effectively and quickly as were the very considerable problems met when the present program was started.

As we indicated with respect to farm workers, we believe that, for household workers, substantial wages-in-kind in the form of meals and lodging should be reported and recorded as wage credits, but that wages-in-kind of relatively small value should be disregarded. As in the case of farm workers, also, the administrative agencies concerned should be left free to decide on the methods to be used for collecting wage information and contributions.

4. *Employment for nonprofit institutions now excluded from coverage under the old-age and survivors insurance program should be brought under the program, except that clergymen and members of religious orders should continue to be excluded.*³

Approximately a million employees of nonprofit organizations are at present denied the protection of the old-age and survivors insurance program. Almost half are in the service of charitable organizations, one-fourth are in educational institutions, and another fourth work in religious institutions. These employees include not only professional persons such as nurses, teachers, and clergymen, but also office workers, laboratory assistants, janitors, and maids.

The extension of coverage to employees of nonprofit organizations presents no administrative difficulties and the need for old-age and survivors insurance protection of these workers and their families is as great as for workers who are now covered. Especially when they work in nonprofessional jobs, the tasks and earnings of employees of nonprofit organizations, as well as the extent to which they move from one job to another, are equally characteristic of industrial and commercial workers.

Probably not more than two-fifths of the employees of nonprofit organizations are covered by any formal retirement plan and very few of such plans extend protection to survivors. Moreover, in general, the right to pensions from the private plans is contingent on long periods of service, hence, persons who transfer from one nonprofit organization to another or between nonprofit and other organizations, may forfeit all retirement rights.

Although many clergymen are covered by retirement programs, in some denominations the lower-paid clergymen do not participate, while benefits for those who do are often inadequate; more serious,

³ Two members of the Council favor extension of coverage to the nonprofit group on an elective basis, for reasons given in appendix E.

however, is the fact that few lay employees of churches have any assurance of economic security in their old age through staff pension plans. Not more than half the college teachers of the Nation actually participate in retirement systems, and in private colleges most such systems do not cover nonteaching personnel. Coverage under old-age and survivors insurance can and should be effected for teachers, employees of charitable and scientific organizations, and lay employees of churches, without impairing any of the rights which individuals may have built up under private systems.

Leaders of religious, charitable, scientific, and educational organizations apparently agree on the desirability of providing protection under old-age and survivors insurance for employees of these institutions. Some, however, have feared that an extension of the compulsory insurance system to employment for religious institutions might impair religious freedom by undermining the principle of the separation of church and state. Others evidently feel that a tax on employers under the Federal Insurance Contributions Act would tend to weaken the traditional tax-exempt status of such institutions.

The members of the Council are unanimous in believing that freedom of religion should be protected, but we are convinced that a tax on employment—a function which employers in the nonprofit area have in common with all others—for the special purpose of giving equal social insurance protection to all employees would in no way imply or lead to Government control over the performance of the religious function. To make it absolutely clear that the legislation is not concerned with the performance of religious duties, we recommend that persons directly engaged in religious duties, such as clergymen and members of religious orders, remain exempt from coverage under the program. Our recommendation would extend coverage only to lay personnel who perform services which are secular in character.

We also believe that public encouragement of religious, charitable, scientific, and educational enterprise should be continued through preservation of the traditional tax-exempt status of such institutions. That encouragement, however, would be better expressed, we believe, by extending social insurance protection to their employees than by continuing to deny it. Employers in the nonprofit field are at a considerable disadvantage in the labor market because they cannot offer retirement and survivorship protection, hence, coverage exclusion handicaps these organizations and fails to promote their services to the community.

Religious, charitable, scientific, and educational organizations, which have been traditionally exempt from taxation on income and property dedicated to the purposes which the community wishes to promote, can and should continue to enjoy their traditional tax exemption when the old-age and survivors insurance program is extended to their employees. It has long been customary to require such institutions to pay certain types of special assessments for property improvement, to pay Federal excise taxes, and in some States to pay the local and State taxes on commodities which they use. Even in some States with exclusive State funds, they have been required to carry workmen's compensation insurance. The use of Government compulsion in connection with these special taxes and levies has not led to taxation on the property and general income of these institu-

tions. Moreover, many organizations such as trade-unions, trade associations, fraternal and beneficial organizations, and the like, which are exempt from the Federal income tax and certain other taxes, pay the old-age and survivors insurance contribution without appearing to be in danger of losing their exemptions under other laws.

Old-age and survivors insurance levies a special-purpose tax on the function of employment. The proceeds are automatically appropriated to a trust fund dedicated to benefits for those who have contributed. It has always been clear that it is a special kind of tax which should not serve as a precedent for other forms of taxation any more than would a special assessment levied by a local government. We believe, however, that Congress should indicate its intent that the taxation of nonprofit organizations for old-age and survivors insurance in no way implies a departure from the principle of promoting the function of these organizations through tax exemption, and that a major reason for extending protection to this area of employment is to assist these institutions in fulfilling their purpose.

5. *Note.*—The enactment of Public Law 426 by the Eightieth Congress has strengthened and improved the Civil Service Retirement Act. Some 500,000 Federal workers⁴ remain outside the coverage of any retirement system, however, and neither retirement nor survivorship protection is afforded Federal employees with less than 5 years of service. Estimates developed from prewar employment figures indicate that, in general, only about 60 percent of all persons entering Federal service remain for 5 years or more.

Persons who leave Federal service after having been employed for as much as 5 years but less than 20 years may elect to withdraw their contributions instead of accepting a deferred annuity. When they so elect, they lose all retirement protection under the Civil Service Retirement Act. Whatever survivorship protection an individual may have acquired under the civil-service plan lapses as soon as he leaves the Federal service.

Old-age and survivors insurance coverage should be extended immediately to the employees of the Federal Government and its instrumentalities who are now excluded from the civil-service retirement system. As a temporary measure designed to give protection to the short-term Government worker, the wage credits of all those who die or leave Federal employment with less than 5 years' service should be transferred to old-age and survivors insurance. The Congress should direct the Social Security Administration and the agencies administering the various Federal retirement programs to develop a permanent plan for extending old-age and survivors insurance to all Federal civilian employees, whereby the benefits and contributions of the Federal retirement systems would supplement the protection of old-age and survivors insurance and provide combined benefits at least equal to those now payable under special retirement systems.

The Advisory Council believes that the civil-service retirement system—which now covers about 1.5 million workers—should be maintained as a supplementary retirement system because of its importance in furthering the efficient conduct of the business of government. The civil-service retirement system performs the function of a private staff-pension plan. For this function to be performed successfully and for the Government to meet the obligations created by its compulsory retirement of its employees, benefits larger than those payable under the general old-age and survivors insurance system must be provided. Hence, nothing should be done to weaken the Federal civil-service retirement system.

⁴ This figure includes an unknown number of foreign nationals.

We are convinced, however, that extension of the coverage of old-age and survivors insurance to all Federal civilian employees (including those, other than foreign nationals, who are employed outside the United States) would strengthen rather than weaken the civil-service system. Such extension would remedy three major defects in the protection now afforded Federal employees—the lack of adequate survivorship protection, the lack of continuity of protection for those who move in and out of Government service, and the exclusion of many Federal workers from any Government retirement system.

The survivor benefits provided by Public Law 426 (80th Cong., 2d sess.), while of considerable value for long-term workers, are quite inadequate for the survivors of workers with relatively short periods of Federal service. First, no monthly survivor benefits are payable unless the employee has had at least 5 years' service. Second, survivor benefits are very small if the employee has had only a short period of service and annual wages at about the current average. Thus, the widow of a Federal employee who had 5 years of service and an average annual salary of \$3,000 would receive a monthly payment of about \$11, and his child's monthly payment would be about \$6. The Federal employee, like all others, needs survivorship protection based on the insurance principle of full protection for the young worker as well as for the older age groups.

As noted above, persons who leave Federal employment with less than 5 years' service receive only a refund of their contributions to the civil-service retirement system, while those who leave after 5 years but before 20 years of service have the option of receiving either a refund of their contributions or a deferred annuity. Almost 20 percent of all Federal employees leave in their first year of Government employment and another 10 percent leave during the second year. According to data developed from prewar histories, only about one-third stay on to retirement. The time spent in Federal employment, moreover, reduces the possibility of obtaining adequate protection under old-age and survivors insurance. Extension of old-age and survivors insurance coverage to Federal employment would provide continuing protection for these short-time workers as well as for career employees.

The 500,000 persons who are now working for the Federal Government in civilian jobs and who are not covered by any Federal retirement program represent nearly one-fourth of the total of all Federal employees. The group includes some postal workers, and certain temporary, part-time, contract, and piecework employees.

Pending the development of a suitable plan, recommended by the agencies concerned, for extending old-age and survivors insurance coverage to all employees (except foreign nationals) and congressional action on such general extension, coverage should be extended immediately to the employees of the Federal Government and its instrumentalities who are not now covered under any system. Old-age and survivors insurance coverage would be particularly valuable to many employees in this group because they are temporary or part-time workers who may ordinarily work in employment now covered under old-age and survivors insurance.

In addition, we advocate some immediate provision for the employee whose Federal service is too short to furnish protection under the civil-service retirement system, even though he is covered by that

system. Accordingly, as a temporary measure, pending complete extension of coverage to all Federal workers, we recommend that—when separated from Federal service, whether by death, resignation, or dismissal before having served for 5 years—the Federal employee receive appropriate wage credits under old-age and survivors insurance for his Federal service.

When the employee leaves the service, he should receive a refund of his contributions to the civil-service retirement system, less an amount equal to the employee contribution which he would have paid on his wage credits if he had been contributing toward old-age and survivors insurance. The latter amount should be transferred to the Federal Old-Age and Survivors Insurance Trust Fund, and this transfer of credits and contributions should be irrevocable. In addition, the Federal Government, through an annual appropriation by the Congress, should pay the old-age and survivors insurance trust fund the employer's share of the contributions which would have been collected for old-age and survivors insurance with respect to the wage credits given for Federal service. To be eligible for full civil-service retirement benefits if he later returns to Federal service, the employee should be required, after completing 5 years of total service, to re-deposit the full amount of his previous contributions to the civil service retirement and disability fund. In some such instances, he will thus have duplicate credits for the same period of service. In a temporary plan, however, this duplication does not seem serious, since the employee will have paid for his credits under each program.

When the employee dies during his first 5 years of service, the old-age and survivors insurance trust fund should be reimbursed for the cost of that part of the benefits payable to his survivors which is attributable to his civil-service wages. This reimbursement should be based on recommendations by the Civil Service Commission and Social Security Administration as to the most equitable method for such reimbursement.

This proposal falls short of an adequate permanent solution to the problem. It does nothing, for example, for persons who, on leaving Federal service after 5 years, elect to take an immediate refund rather than a deferred annuity; it also fails to provide survivorship protection for those who leave Federal service. A temporary measure obviously cannot avoid all possible situations in which hardship may develop. The measures we propose are a stopgap to prevent the most glaring anomalies, until such time as complete old-age and survivors insurance coverage of Federal employees, with appropriate supplementation by the civil-service retirement system, can be adopted.

6. *Note.*—Like the civil-service retirement system, the Railroad Retirement Act has recently been substantially revised. The amendments of 1946 (Public Law 572, 79th Cong.) established survivorship protection for railroad workers based on a combination of their earnings in the railroad industry and in employment covered by old-age and survivors insurance, under eligibility and benefit provisions closely resembling those of old-age and survivors insurance. No such coordination, however, is provided for retirement protection under the two programs, hence workers with earnings from both railroad employment and employment covered by old-age and survivors insurance, but with only a relatively few years in either one, may receive considerably lower retirement benefits in relation to their contributions than they would if all their employment had been covered under one program or the other. The extent of shifting between the two employment areas is substantial.

The Congress should direct the Social Security Administration and the Railroad Retirement Board to undertake a study to determine the most practicable and equitable method of making the railroad retirement system supplementary to the basic old-age and survivors insurance program. Benefits and contributions of the railroad retirement system should be adjusted to supplement the basic protection afforded by old-age and survivors insurance, so that the combined protection of the two programs would at least equal that under the Railroad Retirement Act.

The railroad retirement system developed out of special conditions on the railroads and has a distinctive history. It grew out of, and superseded, many private pension plans which had existed in the railroad industry, and through its adoption the protection which formerly had been afforded to only a limited number of railroad workers was made available to all. The protection against old age and premature death provided by the railroad retirement program is generally more liberal than that provided under old-age and survivors insurance, and long-service railroad workers are insured against the risk of permanent and total disability. Moreover, the contributions of the railroad program are considerably larger than those now payable under old-age and survivors insurance.

While the railroad program provides adequately for the workers who remain in the industry during their entire working lifetimes, inadequate protection is given in some instances to those who move between railroad and other employment. That this movement is very large is indicated by a comparison of the total number of workers employed by the railroads during a year with the average number at work at any one time. While average railroad employment in 1945 was nearly 1.7 million, about 3.1 million individuals had some railroad earnings during the year. Thus, for every 100 railroad employees working at a given time in 1945, 183 acquired railroad-retirement credits in that year; in 1940 this ratio was 100 to 140. During 1937-46 probably about 4,000,000 persons had wage credits under both railroad retirement and old-age and survivors insurance; this group represents more than half the workers (approximately 7,000,000) with wage credits under the Railroad Retirement Act during the 10-year period.

Extension of old-age and survivors insurance to railroad employees would prevent losses in protection that may now result from these shifts in employment. It would also prevent the disproportionately high total of benefits which may result from shifting employment in some cases. Such cases arise when a higher-paid worker employed for the most part in the railroad industry, and so eligible for substantial railroad benefits, acquires enough credit under old-age and survivors insurance to qualify for benefits under that program also and receives the advantage of the weighting in the benefit formula of the latter program which is intended to favor lower-paid workers.

The railroad-retirement program gives railroad workers vested rights in retirement benefits regardless of the length of time they are employed. Thus, unlike Government employees, employees of non-profit organizations, and members of the armed forces, railroad workers are certain to qualify for at least some benefits under at least one retirement system. Nevertheless, we believe that employees who spend all or part of their working lives in the railroad industry should

have all their employment credited under the old-age and survivors insurance program; otherwise, some railroad workers will contribute substantially toward that program without qualifying for its benefits. Furthermore, during the early years of the old-age and survivors insurance program, some persons who work for only a few years in railroad employment will have less in combined protection than they would if they had been under old-age and survivors insurance continuously.

If the basic protection of old-age and survivors insurance were extended to railroad employment, supplementary benefits under the railroad program would be needed to prevent railroad workers from receiving less retirement and disability protection than is now available to them. If the survivor benefits of old-age and survivors insurance are increased as we propose, they would be higher than survivors benefits under the present Railroad Retirement Act.

We believe that the basic differences between the structures of the retirement benefits under old-age and survivors insurance and the Railroad Retirement Act preclude any coordination short of extending old-age and survivors insurance coverage to railroad workers and making the Railroad Retirement Act a supplementary program. In our opinion, a satisfactory plan can be developed for extending old-age and survivors insurance to all railroad employees and thus strengthening the protection now afforded railroad workers. A report on such a plan should be made to Congress at the earliest practicable date.

Extension of old-age and survivors insurance to railroad employees and making the railroad system supplementary to old-age and survivors insurance would result in lower pay-roll contributions by railroad workers and their employers for the same protection as at present if, as we propose, old-age and survivors insurance is ultimately financed in part by appropriations from general revenues.

7. Old-age and survivors insurance coverage should be extended to members of the armed forces, including those stationed outside the United States

Although the career serviceman is eligible for retirement benefits after 20 years of service, the person who spends a shorter period in the armed forces is seriously handicapped by the fact that his military or naval service is not covered under old-age and survivors insurance. At his death his survivors may not be eligible for any benefits, since protection of peacetime servicemen under the programs for veterans ceases immediately on discharge from service; while if he lives to retirement age, he may fail to be eligible for retirement benefits under either old-age and survivors insurance or one of the special retirement plans. In other cases, benefits will be payable only under old-age and survivors insurance and at a greatly reduced rate because of the time spent in the armed forces. Extension of old-age and survivors insurance to the armed forces will give continuous basic protection both to the career serviceman and to those with shorter periods of military or naval service.

We believe that an adequate staff system affording retirement and survivorship protection for peacetime servicemen is essential to maintaining a strong and efficient military establishment. Although benefits payable under service retirement systems and the programs for veterans should be adjusted to supplement the basic benefits

payable under old-age and survivors insurance, nothing should be done to weaken the military staff retirement system. The combined protection under the various programs should at least equal that afforded servicemen at present.

Wage credits under old-age and survivors insurance for personnel of the armed forces should represent the amount of remuneration actually received, including the cash value of perquisites and the amount of allowances to the extent that such perquisites and allowances can be regarded as remuneration for services performed. Perquisites furnished and allowances paid solely in consideration of the serviceman's dependents, however, probably cannot be so regarded, since they do not vary with the grade of the serviceman or the type of services performed.

The Federal Government, as the employer, should pay the equivalent of the employer tax under the Federal Insurance Contributions Act, and the servicemen themselves should bear the cost of the employee contribution. Servicemen should have the same interest and stake in the system that other covered workers have, and the contributory character of the basic insurance program should be maintained.

8: *The Federal Government should enter into voluntary agreements with the States for the extension of old-age and survivors insurance to the employees of State and local governments, except that employees engaged in proprietary activities should be covered compulsorily*

Voluntary coverage of a limited group under an otherwise compulsory social insurance system is ordinarily undesirable and unwise. Under a system such as old-age and survivors insurance, in which benefits are not directly related to the value of the contributions paid, voluntary participation is likely to result in disproportionately large benefits for those who elect coverage. Even if voluntary participation is limited to entire groups of workers, the organizations that elect coverage are likely to be those in which most employees are persons nearing retirement age or men with large families. The smaller the organization, of course, the greater the danger of this "adverse selection."

Because of the apparent constitutional barrier against Federal taxation of the States, however, coverage of the employees of State and local governments, except for those engaged in proprietary functions, will have to be on a voluntary basis unless these Government employees are to be denied the protection of the Federal program. Because of this fact, and because a clear need exists for old-age and survivors insurance protection of these employees, the Council believes that a voluntary plan should be offered to State and local governments in their capacity as employers.

Coverage can and should be extended on a compulsory basis to Government employees engaged in proprietary—as opposed to Government—functions of the employing units. Proprietary activities include, for example, State liquor stores, municipal subway systems, and other public utilities that are owned and operated by the Government unit. Compulsory extension of coverage to these groups appears to raise no constitutional questions and would immediately give 150,000 to 200,000 workers the advantages of basic social insurance protection.

Under a voluntary system, adverse selection occurs when coverage is elected by only a part of the total employee group and that part is

not representative of the entire group. Such selection can be controlled to some extent by restricting the employer's latitude of choice in determining coverage of the plan. The Council, therefore, recommends that coverage be permitted only when elected for all employees within an occupational or departmental group. Thus, when coverage is extended to a government department, bureau, or other administrative division of the State or of a locality, all employees of the department would have to be covered. If coverage is extended to an occupational group, all employees of a State or of a local government unit who are engaged in the specified type of work (such as teachers, typists, truck drivers, janitors) would have to be covered.

As further assurance that the covered group will contain a reasonably representative distribution of risks, coverage should be permitted only if one-fourth of the employees of the State or local government (such as a county, township, municipality, or school district) are brought into the program. This requirement would probably be adequate for the larger local government units, but a more restrictive one is recommended for localities with less than 400 employees. If the locality has less than 400 but more than 100 employees, coverage would have to be elected for at least 100 employees. If the local government unit has 100 or fewer employees, all would have to be covered.

It is recommended that agreements be entered into only with States, although political subdivisions of the State should be permitted to participate. A State entering into an agreement would assume the responsibilities of an employer under old-age and survivors insurance; that is, the State, both for itself and for those of its political subdivisions which participate in the agreement, would collect and transmit to the Federal Government wage information and contributions. The fact that the Federal Government would deal only with the States would greatly reduce an otherwise heavy administrative burden. Since the agreements would be voluntary, no question of the Federal right to levy a tax on States and localities would be raised.

As of April 1947, nearly 4,000,000 employees of States, political subdivisions of States, and instrumentalities of State and local governments were excluded from old-age and survivors insurance. The average earnings of these employees as a rule are somewhat lower than those in private industry. The average monthly salary during April 1947 was \$160 for nonschool employees and \$185 for school employees as compared with an average monthly wage of about \$205 in manufacturing industries.

Almost half the total number of State and local employees are not covered under any retirement system, and of those who are so covered, probably about four-fifths lack adequate survivorship protection. The need of this group for the protection of the old-age and survivors insurance program is clear. An equally important reason for extending old-age and survivors insurance to employees of State and local governments is to give public workers continuous protection when they shift from one government unit to another, or between government units and private industry. Existing State and local staff retirement systems are designed primarily for those who continue in the service of the particular unit until their retirement; the majority of those who leave the service before retirement age normally forfeit any rights to retirement benefits they may have acquired. Similarly, persons who enter Government employment from private industry

may lose all or part of the protection they have acquired under old-age and survivors insurance.

Although jobs in State and local government agencies are more stable than in many areas of private industry, there is nevertheless a substantial turn-over. In April 1946, a typical month, 3.4 million persons were employed by State and local governments, while during the whole year about 4.3 million were so employed. Thus, several hundred thousand had temporary employment in these units, or shifted from permanent government jobs to work in other fields. In 1944, about one-seventh of all nonschool employment for State and local government units was on a part-time basis and about one-eighth of all State and local employment was temporary. Even for the permanent, full-time jobs, the annual turn-over probably ranges from 4 to 7 percent.

Many proposals previously advanced for covering these workers have advocated excluding, on either a permissive or a mandatory basis, various limited groups of State and local employees, apparently in fear that coverage under old-age and survivors insurance would weaken or even completely destroy their State and local retirement system. As pointed out in the Council's recommendations for coverage of Federal and railroad employees, retirement systems supplementary to old-age and survivors insurance perform a valuable and necessary function. When coverage is extended to State and local employees who are members of staff retirement systems, those systems can be adjusted to supplement the basic old-age and survivors insurance benefits. Private employers have demonstrated that such adjustments can be made satisfactorily and without any loss in total retirement protection. The Council believes that in light of (a) the incontrovertible merit of the retention and development of supplementary plans, (b) the fact that employees under industrial pension systems did not suffer losses in benefits attributable to adjustment to the old-age and survivors insurance program, and (c) the fact that State and local governments have recognized the need for, and taken action to provide, retirement protection for their employees, any fear that the availability of old-age and survivors insurance will lead government units to reduce the total protection afforded their employees is unjustified.

9. A commission should be established to determine the kind of social-security protection appropriate to the possessions of the United States

The social insurance and public assistance provisions of the Social Security Act do not at present apply to Puerto Rico, the Virgin Islands, Guam, or other possessions of the United States, even though the livelihood and security of the people of such possessions are bound up with the United States economy. The kind of social-security protection to be afforded to these people should be based on detailed studies of economic and social conditions in the islands. Matters that require investigation include wage rates, regularity of employment, extent of unemployment, incidence of illness, and the nature of public assistance and public-health provisions now administered by the insular governments.

The extended inquiry which would be called for, particularly since areas outside the continental United States are involved, is believed

by the Council to be beyond its function. For this reason the Council proposes that a special commission be established to make such inquiry and recommend appropriate social-security legislation. The commission should represent the general public, including residents of the possessions, as well as agencies such as the Federal Security Agency and the Departments of Labor, Agriculture, Interior, Commerce, and Treasury, which either have a special interest in the islands or would normally concern themselves with the problems at issue.

10. *The definition of wages as contained in section 209 (a) of the Social Security Act, as amended, and section 1428 (a) of subchapter A of chapter 9 of the Internal Revenue Code should be amended to specify that such wages shall include all tips or gratuities customarily received by an employee from a customer of an employer*

Tips or gratuities paid directly to an employee by a customer of an employer, but not "accounted for" by the employee to the employer, are not now included in wages as defined for benefit and contribution purposes. Only a small part of all tips are now accounted for. Consequently, substantial numbers of workers in such service industries as hotels, restaurants, barber shops, and beauty parlors are denied the degree of protection they would acquire if all such payments were included in their wage records. Some workers may fail to qualify for benefits because, except for tips, their remuneration is inconsequential. This condition is especially illogical since tips are frequently contemplated in the wage contract, are earned in the service of the employer, and are received for services generally recognized as performed in the interest of the employer.

Tips are included in taxable income under the Federal income-tax law. Moreover, in about half the States, such payments are reported under the State unemployment insurance laws on a more inclusive basis than under the program of old-age and survivors insurance.

Estimates indicate that full inclusion of tips and gratuities would sharply increase the wage credits of approximately a million workers now covered by the old-age and survivors insurance program. The increase for roughly two-thirds of that number would amount to about 40 percent of their wages as reported under present interpretation of the law. According to Department of Commerce estimates, \$183,000,000 was paid in tips in 1939; \$196,000,000 in 1940; \$238,000,000 in 1941; \$308,000,000 in 1942; and \$396,000,000 in 1943. If a similar rate of increase continued after 1943, as seems likely during years of high prices, the total amount now paid in tips might well exceed half a billion dollars a year. The inclusion of such additional sums in the wage credits of approximately a million workers in covered service industries would clearly have an important effect on their benefits rights and their contributions to the trust fund.

In the absence of an exact reporting of tips by persons receiving them, it would be possible to permit employers to report a reasonable estimate of the tips received by their employees, as is now done under some of the State unemployment insurance laws. In making such estimates, the employer would take into account the volume of business handled by the employee, the tips reported by other employees, the type of establishment, and any other pertinent factors. The employer should not be held responsible for any inaccurate reporting of tips by his employees, however, and should be protected from

penalties on this account. Procedural and administrative questions could be settled by appropriate regulations designed to implement the intent of the law.

Adoption of this recommendation, the Council believes, would bring the contributions paid and the benefits received by a large number of people more nearly in line with their actual earnings, thus ending an inequity to persons whose employment is covered by the program but who receive much of their remuneration for such employment in a form not now considered wages. It would also result in greater uniformity in interpretation of wages in laws relating to income taxes, unemployment insurance, and old-age and survivors insurance.

RECOMMENDATIONS ON ELIGIBILITY

11. *To permit a larger proportion of older workers, particularly those newly covered, to qualify for benefits, the requirements for fully insured status should be 1 quarter of coverage¹ for each 2 calendar quarters elapsing after 1948 or after the quarter in which the individual attains the age of 21, whichever is later, and before the quarter in which he attains the age of 65 (60 for women) or dies. Quarters of coverage earned at any time after 1936 should count toward meeting this requirement. A minimum of 6 quarters of coverage should be required and a worker should be fully and permanently insured if he has 40 quarters of coverage. In cases of death before January 1, 1949, the requirement should continue to be 1 quarter of coverage for each 2 calendar quarters elapsing after 1936 or after the quarter in which the age of 21 was attained, whichever is later, and before the quarter in which the individual attained the age of 65 or died.*

The Council recommends a "new start" in the eligibility requirements which will require the same qualifying period for an older worker now as was required for a person who was the same age when the system began operation. All workers who will have attained age 62 before the middle of 1949 would be insured with the minimum of 6 quarters of coverage, just as workers of the same age in 1937 could be insured with the minimum number.

A major reason for the fact that the old-age and survivors insurance program has been slow in replacing public assistance as the chief method of meeting income loss in old age is the difficulty which older people face in meeting the present eligibility requirements. Eleven years after the inauguration of the program only about 20 percent of the population aged 65 and over is either insured under the program or receiving benefits.

Eligibility requirements for the older workers as difficult to meet as those of the present program (24 quarters of coverage will be required under present provisions for those attaining age 65 in the first quarter of 1949) mean an unwarranted postponement of the effectiveness of the insurance method in furnishing income for the aged. In a contributory social insurance system, as in a private pension plan, workers already old when the program is started should have their past service taken into account. The unavailability of records of past service prevents giving actual credits under old-age and survivors insurance for

¹ As under the present program, a calendar quarter in which the worker has \$50 or more in earnings from covered employment.

employment and wages before the coverage becomes effective, but eligibility requirements and the benefit formula can and should take prior service into account presumptively. To pay benefits to all the current aged—including those who have not worked at all since the inauguration of the system—might endanger the character of the benefit based on contributions and work records, but in getting the system started, it is important to make due allowance for those who, because of age, will probably continue at work for only a short period.

All persons who reached age 62 before the middle of the year in which the system began to operate (1937) could be fully insured under the present act if they acquired six quarters of coverage. Those who attained age 62 in the third or fourth quarters of 1937 needed 7 quarters, and so on, while, as indicated above, those attaining age 65 in the first quarter of 1949 will need to have had 24 quarters. After 1956, under the present provisions, all persons who had attained age 21 before 1937 will need the maximum requirement of 40 quarters.

Unless the present provisions are modified, all persons covered for the first time in January 1949 who are less than 57 years old will have to have 10 years of coverage before they can become eligible for retirement benefits, while even those aged 65 will need six more years of steady employment before they can receive benefits. A "new start," treating those newly covered workers in the same way that the program treated other occupational groups when they were first covered, seems reasonable and fair.

While it would theoretically be possible to liberalize requirements only for newly covered workers and to retain the present provisions for all others, this is not a practical or desirable solution. Shifts between covered and noncovered employment are so common that it would be all but impossible to establish a fair criterion for determining, for the purpose of special eligibility requirements, which individuals should be treated as belonging to a newly covered occupation. Any liberalization designed to reduce the handicap of newly covered workers must be a generally applicable provision.

The Council recommends that the liberalization of eligibility requirements should apply only to individuals living at the date of coverage extension. This proposal is consistent with the treatment accorded survivors under the 1939 amendments when the provisions for survivor benefits were made applicable only in cases of death after December 31, 1939. Considerable administrative difficulty would arise if the eligibility for benefits of individuals who died before the amendment of the law were reconsidered.

Of the various possible methods of adjusting the fully insured status requirement for newly covered workers, the one we recommend seems to us to offer the advantages of uniformity and simplicity and at the same time to provide a much-needed liberalization in the requirements for all older workers. It would also reduce the disadvantages which many workers normally in covered employment now face because of their work during the war in Government shipyards, munitions plants, emergency Government agencies, and other noncovered occupations.

The new-start method would be impractical if extension is on a piecemeal basis. More than one "new start," we believe, would be indefensible and would tend to weaken public confidence in the program. It would be possible to use the new-start plan, however,

even though coverage is not extended to Federal and railroad workers until later, since available records of past employment and wages for these workers would permit crediting their back wages. Under such an arrangement, amounts equivalent to the contributions which would have been collected if the workers had previously been covered under old-age and survivors insurance could be transferred to the old-age and survivors insurance trust fund from the trust funds for their separate Federal retirement systems.

The "new start" would result in payment of retirement benefits to a much higher proportion of the aged during the early years of the system, but it would not increase beneficiary rolls and costs in the later years since the eligibility requirements would remain the same for workers now young.

RECOMMENDATIONS ON BENEFITS

12. *To take into account increased wage levels and costs of living, the upper limit on earnings, subject to contributions and credited for benefits should be raised from \$3,000 to \$4,200. The maximum average monthly wage used in the calculation of benefits should be increased from \$250 to \$350.⁶*

A social insurance program must be adjusted periodically to basic economic changes. In a dynamic economy, provisions which were appropriate at the time they became effective inevitably become outmoded. This is what has happened to the limitation placed on the amount of wages subject to contributions and allowed as wage credits.

In 1939, when the \$3,000 maximum wage base was established, nearly 97 percent of all workers in covered employment had wages of less than \$3,000 a year, and thus they were required to pay contributions on their total wages and could have their total wages counted toward benefits. Even among workers who were steadily employed throughout 1939, fewer than 5 percent received wages of more than \$3,000 a year. With the general rise in wage levels since 1939, however, the \$3,000 limitation has tended to exclude from taxation and use in benefit computations part of the wages of a substantial proportion of covered workers. In 1945 about 14 percent of all covered workers had wages exceeding \$3,000, and among workers who were steadily employed throughout the year, about 24 percent had wages in excess of that amount.

The wage base for contributions and benefits under the program should be higher not only because of increases in the level of wages but also because of price increases. Since the base has not kept pace with rising prices, benefits now supply a smaller proportion of the costs of maintaining the beneficiary's previous standard of living than they did in 1939. Today for example, \$4,200 a year represents a somewhat lower standard of living than \$3,000 a year could purchase a decade ago. Raising the upper limit on wages is necessary if the relationship between benefits and standards of living which was intended in the 1939 amendments is to be maintained.

To take full account of the increase in wages and prices, the limitation on taxable wages would have to be raised to somewhat more

⁶ While the majority of the Council favor increasing the upper limit to \$4,200, some favor keeping the limit at \$3,000 and some favor increasing it to \$4,800. The reasons for these two positions are given in appendix G.

than \$4,800. The Council, however, recommends that a part of the increase in wages be disregarded by changing the limitation to \$4,200 as a conservative adjustment to the rise in wage and price levels which has occurred since the \$3,000 figure was adopted. With a wage base of \$4,200, about 95 percent of the workers in covered employment in 1945 would have had all their wages from covered employment available for benefit purposes.

If the old-age and survivors insurance program is to fulfill its function, benefits for all insured workers must be increased. Since the American system of relating benefits to past wages rests on the principle that considerations of individual security and individual incentive require a relationship between benefits and the previous standard of living of the retired person, benefits must be increased for higher-paid wage earners as well as for workers in the lower-income brackets. Comparisons between the primary insurance benefits payable under the plan proposed by the Advisory Council and those payable under the present program appear in table 1. As those figures show, we recommend that a worker with an average monthly wage of \$350 (the maximum) shall have the potential protection of a primary insurance benefit representing 22.5 percent of his average monthly wage. Under the present program, that percentage represents the primary insurance benefit of a worker who has earned \$3,000 or more a year and who has had 40 years of coverage.

TABLE 1.—Primary insurance benefit and its ratio (percent) to specified average monthly wages under the Advisory Council's proposals and under the present law¹

Average monthly wage	Advisory Council's proposal ²		Present law					
			10 years of coverage		20 years of coverage		40 years of coverage	
	Primary insurance benefit	Percent of average monthly wage	Primary insurance benefit	Percent of average monthly wage	Primary insurance benefit	Percent of average monthly wage	Primary insurance benefit	Percent of average monthly wage
\$50.....	\$25.00	50.0	\$22.00	44.0	\$24.00	48.0	\$28.00	56.0
\$75.....	37.50	50.0	24.75	33.0	27.00	36.0	31.50	42.0
\$100.....	41.25	41.2	27.50	27.5	30.00	30.0	35.00	35.0
\$150.....	48.75	32.5	33.00	22.0	36.00	24.0	42.00	28.0
\$200.....	56.25	28.1	38.50	19.2	42.00	21.0	49.00	24.5
\$250.....	63.75	25.5	44.00	17.6	48.00	19.2	56.00	22.4
\$300.....	71.25	23.8	44.00	14.7	48.00	16.0	56.00	18.7
\$350.....	78.75	22.5	44.00	12.6	48.00	13.7	56.00	16.0

¹ The percentage is higher when a wife's benefit is also payable.

² Uniform for all years of coverage.

³ Maximum primary insurance benefit possible under the benefit formula.

An objective of the present law is to have workers in the highest wage brackets covered by the system pay the costs of their own benefits over a full working lifetime. Under the benefit formula we have recommended, benefits for the \$4,200-a-year man bear approximately the same relation to his contributions as benefits under the present law bear to the contributions of the \$3,000-a-year man.

With the increased base, the high-paid worker will have somewhat higher benefits than he would have had if only the formula were changed, but he will in the long run, pay for nearly all the increase in

the cost of his benefits. If the wage base is not increased, those in the higher wage brackets will have higher benefits without having contributed toward the cost of the increases.

13. *The average monthly wage should be computed as under the present law, except that any worker who has had wage credits of \$50 or more in each of six or more quarters after 1948 should have his average wage based either on the wages and elapsed time counted as under the present law or on the wages and elapsed time after 1948, whichever gives the higher result*

Persons whose occupations have been excluded from coverage under the present program will suffer serious disadvantage after coverage is extended, unless an alternative is permitted for the present method of calculating the average monthly wage. Under the present law, benefit amounts are based on an average computed, in general, by adding all wage credits a worker has received for covered employment and dividing that sum by all the months elapsing since 1936, except for quarters before the worker reached age 22 in which he received less than \$50. On this basis, a worker who has been in an employment hitherto excluded from coverage will always be penalized for his former lack of coverage, since, in effect, his wages from newly covered employment will be averaged over all the months elapsed since 1936 or since he reached age 22, if later. His low average wage, in turn, will result in a low benefit amount.

The Council believes that an appropriate way to eliminate this handicap for newly covered groups would be to have their average wages computed from the date of the coverage extension, just as the average wage now disregards periods before January 1, 1937, for those in employments first covered as of that date. Since large numbers of workers have been in both covered and noncovered employment, however, it would be almost impossible to establish a sound basis for determining which individuals should be treated as belonging to a newly covered group. The opportunity to profit from the provisions designed for the newly covered groups must, therefore, be open to all persons.

Unless previously covered workers also have the alternative of a "new start," moreover, many will fare worse than those newly covered, since the relatively low wages paid in the late thirties and early forties will tend to reduce their average wages and thus yield benefit amounts lower than those of newly covered persons in comparable jobs.

Some insured persons will have little or no covered employment after the date coverage is extended; others will have too small an amount to form a fair basis for determining an average; and others may have employment after the "new start" at wages much lower than their previous earnings. The starting point of January 1937 specified in the present law should, therefore, be retained as an alternative and the individual worker's average wage computed from that date if it gives a higher amount than would the "new start."

The new start for all, on an alternative basis, appears to be the only equitable plan, but for the reasons pointed out in the recommendation for a new start on insured status (recommendation 11), we do not recommend a new start unless coverage is extended broadly as of one date.

14. *To provide adequate benefits immediately and to remove the present penalty imposed on workers who lack a lifetime of coverage under old-age and survivors insurance, the primary insurance benefit should be 50 percent of the first \$75 of the average monthly wage plus 15 percent of the remainder up to \$275.⁷ Present beneficiaries, as well as those who become entitled in the future, should receive benefits computed according to this new formula for all months after the effective date of the amendments.*

The benefit formula of the present program, with its automatic increase of 1 percent for each year of coverage, in effect postpones payment of the full rate of benefits for more than 40 years from the time the system began to operate. Under such provisions, if the benefit amount of a retired worker after he has had a lifetime of coverage represents a reasonable proportion of his average wage, that for older workers who have been in the system for only a few years and for the survivors of younger workers will almost of necessity be inadequate. Thus, the survivors of a man who began working at age 20 and dies at age 30 will have rights to benefits only about three-fourths as large as those which the same average monthly wage would have provided if he had lived to age 65. Yet the worker who dies at an early age has had less opportunity than have older workers to accumulate savings and other resources to supplement the benefits payable to his survivors. The Advisory Council believes that adequate benefits should be paid immediately to retired beneficiaries and survivors of insured workers but considers it unwise to commit the system to automatic increases in the benefit for each year of covered employment.

Benefits payable under old-age and survivors insurance, with the beneficiaries' other permanent resources, should suffice to supply at least the basic necessities of life for the great majority of beneficiaries. The present program does not achieve this objective. Field studies made by the Bureau of Old-Age and Survivors Insurance in 1941 and 1942 in seven cities showed that one-third of the primary beneficiaries surveyed had insufficient nonrelief income, assets, and possible help from relatives in their household for a maintenance level of living and that, taking account of their own permanent resources only, nearly two-thirds of the beneficiaries had less than was required for a maintenance budget.⁸

Inadequate as benefits were in 1941-42, they are even less adequate now that costs of living have increased by at least 60 percent. The average primary benefit now being paid is only about 10 percent higher than that paid in 1940. The table in appendix E shows the distribution of benefits being paid under the present program at the end of 1947. The inadequacy of these benefits is self-evident.

⁷ The members of the Council who favor retaining \$3,000 as the maximum annual wage credit and taxable wages would retain \$250 as the maximum average monthly wage. They advocate a primary insurance benefit representing 50 percent of the first \$75 of that monthly wage plus 15 percent of the remainder up to \$175.

⁸ The standard used was based on the WPA maintenance budget. For a single man living alone, it ranged from \$463 in Philadelphia-Baltimore to \$505 in St. Louis. For an aged couple it ranged from \$773 to \$814. Possible aid from relatives in the household, the imputed rental value of homes the beneficiaries owned, income from employment, and income from the liquidation of assets were among the resources taken into account. Since the studies were made shortly after the beneficiaries became entitled to benefits, many of them still had incomes and resources that could not be expected to continue in later years. For a fair picture of their economic security, therefore, the studies attempted to differentiate between temporary resources and those which could be considered permanent, such as old-age and survivors insurance benefits, retirement pay, insurance annuities, imputed rent from the homes they owned, and the estimated amounts that could be realized from their assets prorated over their life expectancy.

The benefit formula in the present Social Security Act provides a primary benefit representing 40 percent of the first \$50 of the average monthly wage and 10 percent of the next \$200. It is thus weighted in favor of workers whose average wages are low. As a result of increases in wage rates, the effect of the original weighting, however, has been substantially reduced. In 1939, when the program was drafted and approved, \$50 represented about one-half the average monthly earnings of fully employed persons in covered employment. By 1947, fully employed workers were receiving an average of about \$185 a month. As a conservative recognition of the effect of wage increases on the original weighting, the Council recommends a change in the benefit formula to make \$75 the upper limit for that part of the average monthly wage to which the higher percentage is applied.

This change, however, will not in itself sufficiently increase the primary benefits of low-wage workers. Many beneficiaries now on the rolls receive benefits based on an average monthly wage of less than \$75. These beneficiaries and others in the future whose benefits are based on low wages lack outside resources and should not be denied the right to more liberal benefits. If the benefit formula gave 50 percent, rather than 40 percent, of the first \$75 of the average monthly wage, the beneficiaries whose rights are based on low wages would receive fairly substantial increases in their benefit amounts.

We also propose that the percentage applied to the portion of the average wage above \$75 be increased to 15 percent. If that percentage remains fixed at 10 percent, there will be too little spread between the benefit amounts of low-income and high-income workers. Thus, for an average monthly wage of \$100, the primary benefit would be only \$10 less than that for an average wage of \$200, a differential that we believe is insufficient for the wage interval of \$100-\$200, which now includes the great majority of workers in covered employment.

We believe that benefits should be related to the continuity of the worker's coverage by and contributions to the system, as well as to the amount of his earnings. Under our recommendations, accordingly, benefits will continue to vary—as they now do—with both these factors. Thus, in figuring the average monthly wage (recommendation 13), a worker's total wage credits are—and would continue to be—divided by the total number of months that he might have been contributing to the system. His average wage, and consequently his primary benefit, will therefore be the smaller for each month lacking in his record of covered employment. In our opinion, this method of adjusting benefits permits sufficient differentiation between workers who are steadily employed in covered jobs and those whose covered employment is only brief or intermittent. Thus, an increment is not needed for the purpose of such differentiation.

With coverage broadly extended, the increment would serve largely to reward younger workers for their greater contributions by paying them higher retirement benefits than those paid to persons who were old when the system started. To us, such discrimination seems undesirable. The older worker should not be penalized for the fact that he could not contribute throughout his life. We propose, in effect, that, as in many private pension plans, the older worker receive credit for his past service and acquire rights to the full rate of benefits now.

TABLE 2.—*Illustrative old-age benefits under present formula¹ and that proposed by Advisory Council²*

[NOTE.—Potential beneficiary in covered employment continuously from Jan. 1, 1937, to date shown]

Average monthly wage	Basic amount ³		Entitlement date					
			Jan. 1, 1944 (12 years of coverage)		Jan. 1, 1957 (20 years of coverage)		Jan. 1, 1977 (40 years of coverage)	
	Present law	Advisory Council proposal	Present law	Advisory Council proposal	Present law	Advisory Council proposal	Present law	Advisory Council proposal
\$50	\$20.00	\$25.00	\$22.40	\$26.00	\$24.00	\$25.00	\$23.00	\$25.00
\$75	22.50	37.50	25.20	37.50	27.00	37.50	31.50	37.50
\$100	25.00	41.25	28.00	41.25	30.00	41.25	35.00	41.25
\$125	27.50	45.00	30.80	45.00	33.00	45.00	38.50	45.00
\$150	30.00	48.75	33.60	48.75	35.00	48.75	42.00	48.75
\$200	35.00	56.25	39.20	56.25	42.00	56.25	49.00	56.25
\$250	40.00	63.75	44.80	63.75	48.00	63.75	55.00	63.75
\$300	40.00	71.25	44.80	71.25	48.00	71.25	55.00	71.25
\$350	40.00	78.75	44.80	78.75	48.00	78.75	55.00	78.75

¹ 40 percent of the first \$50 of the average monthly wage plus 10 percent of the next \$300, increased by 1 percent of the sum of the foregoing for each year of coverage.

² 50 percent of the first \$75 of the average monthly wage plus 15 percent of the next \$225.

³ Under present law, the benefit amount without the increment for years of coverage; under the Advisory Council's proposal, the amount payable.

⁴ Maximum average monthly wage used in computing benefits under present law is \$250.

A major draw-back in liberalizing a benefit formula that contains an increment lies in the danger that benefits in future years will be excessively high. By eliminating the increment, the benefits paid now can be more adequate than would seem feasible if the level of benefits were also to be raised automatically in future years by the application of an increment in the formula.

15. *To increase the protection for a worker's dependents, survivor benefits for a family should be at the rate of three-fourths of the primary insurance benefit for one child and one-half for each additional child, rather than one-half for all children as at present. The parent's benefit should also be increased from one-half to three-fourths. Widows' benefits should remain at three-fourths of the primary insurance benefit.*

Adoption of this recommendation would serve mainly to provide higher benefits for children of deceased workers, since few parents of insured workers are eligible for benefits. Families consisting of young children and widowed mothers would benefit particularly from this recommendation. Studies made by the Bureau of Old-Age and Survivors Insurance in 1940-42 indicate that this beneficiary group is the one most in need of benefit increases. Of the widows with entitled children, 44 percent—a larger percentage than for any other beneficiary type—were found to have insufficient income for a maintenance level of living⁹ and had net assets of less than \$2,500. Of the widows with three or more children, 73 percent had to live below this maintenance level.

Under the present program, the benefit rates of family groups of the same size vary, before the application of the maximums, in ways unrelated either to need or to insurance principles. There are three

⁹ The standard used in this study was based on the WPA budget for a maintenance level of living and was found to have been very close to the relief standard. In the cities investigated, it ranged from \$1,062 a year in Philadelphia-Baltimore to \$1,145 in Los Angeles for a widow and two children (aged 10 to 16).

types of monthly benefits, in addition to the primary insurance benefit, which an individual may receive without other benefits being payable in the same family group. An aged widow as a sole beneficiary receives three-fourths of the primary insurance benefit, and the survivor benefit payable to one child or to one dependent parent of a deceased insured worker equals one-half the primary benefit. Family groups with two beneficiaries may receive one and one-half times the primary benefit (husband and wife), one and one-fourth times the primary benefit (widow and child), or the same amount as the primary benefit (two children or two dependent parents). Families with three beneficiaries may receive twice the primary benefit (retired worker, wife, and child), or one and three-fourths times the primary benefit (widow and two children), or one and one-half times the primary benefit (three children).

There is no good reason for these differentials in benefit rates. The Council's recommendation would result in a uniform ratio to the primary benefit for all survivor benefits paid to a sole beneficiary and for all two-person and three-person beneficiary groups, except for those consisting only of children.

16. *To equalize the protection given to the dependents of women and men, benefits should be payable to the young children of any currently insured¹⁰ woman upon her death or eligibility for primary insurance benefits. Benefits should be payable also (a) to the aged, dependent husband of a primary beneficiary who, in addition to being fully insured, was currently insured at the time she became eligible for primary benefits, and (b) to the aged, dependent widower of a woman who was fully and currently insured at the time of her death*

Under the present program, insured women lack some of the rights which insured men can acquire. Thus, when an insured married woman dies or retires, monthly benefits can seldom be paid to her children on the basis of her wage record and are never payable to her husband. If she has been working steadily before her death or retirement, the Council believes her participation in the insurance program should carry protection against the loss of her earnings, which presumably have been an important part of the family income.

The changes proposed by the Council would mainly affect orphaned children. At present, young children of a deceased insured woman can receive monthly benefits based on her wage record only if the father has died or if the child was not living with his father and had been supported by his mother. Under our proposal, monthly benefits would be payable to the young children of any woman who died currently insured, in recognition of the fact that the earnings of a working wife are an important contribution toward the support of the family.

Supplementary child's benefits should be payable to the young children of any retired woman who was currently insured when she attained age 60. If both husband and wife are primary beneficiaries, however, the child would receive only the benefits based on the larger of the two wage records. In the majority of such instances, the child's benefits would thus be based on the father's wage record rather than on the mother's, but the mother's insurance should be the basis

¹⁰ To be currently insured, a worker must have had 6 quarters of coverage within the period consisting of the quarter in which he died and the 12 quarters immediately preceding such quarter.

of the benefit if it would yield a larger addition to the family's benefit income. Since very few women aged 60 or over have children under age 18, however, supplementary child's benefits will be payable with respect to retired women in relatively few cases.

We also believe that a widower who was dependent on his fully and currently insured wife at the time of her death should receive a benefit based on her wage credits when he attains age 65, but as is now the case for aged widows, he should receive his widower's benefit only if it is larger than the primary benefit based on his own earnings.

Similarly, supplementary benefits should be payable to the dependent husband (at age 65 or over) of a female primary beneficiary who was currently insured at the time she attained age 60. These husband's benefits would be comparable to the present wife's benefits for wives of male primary beneficiaries. Such benefits will be payable in relatively few cases, however, because the man would receive only the larger of the husband's benefit or his own primary benefit.

Except in the case of family situations in which supplementary or survivor benefits are payable under present law, we advocate that supplementary or survivor benefits be payable only on the wage record of a woman who was currently insured on her attainment of age 60 or her death. A woman who has not worked in at least half the calendar quarters of the 3 years immediately preceding her retirement or death is not likely to have been responsible for even partial support of her family. If she is fully but not currently insured, all her gainful employment will in most cases have antedated her marriage or the birth of her children, and her death will mean no loss of income for the family.

The cost of paying the proposed supplementary and survivor benefits to dependents of women workers will be very small. Relatively few aged dependent husbands and widowers or children of retired women workers will qualify for benefits, for most of the men will be eligible for higher primary benefits in their own right and few aged women have children under 18. Although benefits to children of deceased insured younger women will be paid more frequently, they will cost considerably less than 0.1 percent of pay rolls.

17. To increase the family benefits, the maximum benefit amount payable on the wage record of an insured individual should be three times the primary insurance benefit amount or 80 percent of the individual's average monthly wage, whichever is less; except that this limitation should not operate to reduce the total family benefits below \$40 a month

The Advisory Council believes that the wife of a retired beneficiary and each of his children under age 18 should receive 50 percent of the primary insurance benefit, the same proportion as under the present program. According to recommendation 15, however, the widow and the first child of a deceased insured worker would each receive 75 percent of the primary insurance benefit, while each additional child would receive 50 percent. The total monthly amount of benefits payable when deceased insured workers leave very large families might thus be excessive unless some maximum limits the total monthly amount of benefits payable on the basis of a single wage record.

Under present law, whenever the total of all monthly benefits payable with respect to the wage record of an individual exceeds (1) \$85,

or (2) twice the primary benefit amount, or (3) 80 percent of the wage earner's average monthly wage, the total must be reduced to the least of these three. These limitations, however, do not operate to reduce the total family benefits below \$20 a month.

The increase in the wage base (recommendation 12) and the changes in the benefit formula (recommendation 14) which the Council has recommended make the \$85 maximum too restrictive. The average primary insurance benefit under our proposals will be about \$50 and the maximum primary insurance benefit will be \$78.75. At higher levels of average monthly wages (about \$200), full benefits could not be paid to the wife of a primary beneficiary or to a widow and one child if the \$85 maximum were retained. If the primary beneficiary also had a minor child, full benefits could not be paid to the family even at average monthly wages of about \$110. The majority of family benefits would be reduced by this dollar maximum, and much of the value of a family benefit system would be lost. To maintain a proper recognition of family need, the \$85 maximum limitation must be removed.

Moreover, it is unnecessary in our opinion to place any specific dollar limit on the benefit amount. The other maximums we propose will serve to keep benefits at reasonable levels. The highest payments that can be made under our proposals are justified by the large amount of the worker's contributions as well as by the large number of his dependent survivors.

The maximum of 80 percent of the average monthly wage should be retained. The Council is convinced of the soundness of the principle that social insurance benefits should be less than the former wages of the worker covered by the program. This principle, however, should not be applied to reduce total family benefits below \$40 a month. A widow and two children should receive an amount based on the full minimum primary benefit (recommendation 18), as they can at present, even though the amount exceeds 80 percent of the insured worker's average monthly wage.

The Council recommends an additional maximum of three times the primary benefit. The present maximum of twice the primary benefit is too restrictive. It reduces the family benefits of larger families in the moderate income groups more sharply than do either of the other maximums in the present program. Probably few groups for whom more liberal benefits should be recommended are in greater need of additional income than are these larger families. The hardship to the children is intensified by the fact that, by their very numbers, they have limited their parents' ability to make other savings from their moderate wages.

The cost of raising the maximum benefit payment from twice the primary insurance benefit to three times that benefit will not be great. This maximum will seldom affect a family containing a retired worker, for it can apply only if he has a wife entitled to wife's benefits and more than one minor child, or if he has three minor children. Among families of survivor beneficiaries, only about 6 percent are large enough to receive more in benefits under the maximum of three times the primary benefit than under a maximum of twice the primary.¹¹ This 6 percent, however, includes more than 20 percent of the survivor

¹¹ A maximum of twice the primary benefit would apply to survivor benefits when the deceased insured worker leaves a widow and three or more minor children or more than three minor children and no widow.

families in which children are entitled to benefits. The liberalization we propose would be extremely significant to the welfare of the relatively small number of families it would affect.

Under our proposals, in no case will any group of survivors receive more than 80 percent of the average monthly wage, unless entitled to the minimum benefit, and when that average wage exceeds \$225, our proposed maximum of three times the primary insurance benefit will become effective and will reduce the total monthly benefits for the family below 80 percent of the average wage.

TABLE 3.—Maximum amounts of benefits payable under the present law¹ and under Advisory Council's proposal,² at various levels of average monthly wage, to survivor families consisting of a widow and 1 or more child beneficiaries

Average monthly wage	Applicable provisions	Primary insurance benefit	Maximum family benefit	Benefit amount payable to				
				Widow	First child	Second child	Third child	Fourth child
\$50	Present law	\$22.00	\$40.00	\$16.00	\$11.00	\$11.00	\$1.50	-----
	Advisory Council	25.00	40.00	18.75	14.75	2.50	-----	-----
\$75	Present law	34.75	49.50	18.65	12.38	12.38	6.18	-----
	Advisory Council	37.50	60.00	28.13	23.13	3.74	-----	-----
\$100	Present law	37.50	55.00	20.63	13.75	13.75	6.57	-----
	Advisory Council	41.25	80.00	30.94	30.94	18.13	-----	-----
\$125	Present law	30.25	60.50	22.66	15.13	15.13	7.55	-----
	Advisory Council	45.00	100.00	33.75	33.75	22.50	10.00	-----
\$150	Present law	33.00	66.00	24.75	16.50	16.50	8.25	-----
	Advisory Council	48.75	120.00	36.85	36.85	24.38	22.50	-----
\$200	Present law	38.50	77.00	28.85	18.25	18.25	9.63	-----
	Advisory Council	56.25	160.00	42.19	42.19	28.13	28.13	\$19.36
\$225	Present law	41.25	82.50	30.94	30.63	20.63	10.30	-----
	Advisory Council	60.00	180.00	45.00	45.00	30.00	30.00	30.00
\$250	Present law	44.00	88.00	33.00	32.00	22.00	8.00	-----
	Advisory Council	63.75	191.25	47.81	47.81	31.88	31.88	\$1.87
\$300	Present law	51.00	102.00	38.00	36.00	24.00	8.00	-----
	Advisory Council	71.25	213.75	53.44	53.44	35.63	35.63	\$4.61
\$350	Present law	58.00	116.00	42.00	40.00	28.00	8.00	-----
	Advisory Council	78.75	236.25	59.05	59.05	39.38	39.38	\$8.57

¹ It is assumed that the insured worker had 10 increment years. Maximum family benefit is least of: (1) 80 percent of average monthly wage, (2) twice the primary insurance benefit, or (3) \$84. Widow receives three-fourths of primary benefit; each child receives one-half of primary benefit.

² Assumes benefit formula in Advisory Council's proposal. Maximum family benefit is lesser of: (1) 80 percent of average monthly wage, or (2) 3 times the primary insurance benefit. Widow and first child each receive three-fourths of primary benefit. Each additional child receives one-half of primary benefit.

18. The minimum primary insurance benefit payable should be raised to \$20

The present minimum primary benefit of \$10 is too small to serve any social purpose. If the coverage of the program is extended to include nearly all types of gainful employment, this minimum should be raised to \$20. With a \$20 minimum primary benefit a widow, parent, or the first child survivor beneficiary in a family would receive minimum monthly benefits of \$15, and a wife or any child beneficiary after the first would have a minimum monthly benefit of \$10.

The minimum benefit is necessarily limited by the previous standard of living of the lowest wage group covered by the program, for it seems undesirable to pay social insurance benefits which would give retired persons a higher income than they previously had, or enable them to maintain a higher standard of living than is possible for others in the community who are employed at work comparable to that on which the benefits are based. A social insurance system cannot appropriately attempt to correct, after retirement, the basic problems of low living standards stemming from inadequate wages and sporadic employment.

Taking account of the areas where living standards and costs are the lowest and the fact that, in general, retired persons need less money

than those who are employed, \$20 for a single person and \$30 for a couple is probably as high a minimum as could reasonably be allowed at the present time. These amounts, of course, are hardly large enough to meet the full cost of subsistence in any part of the country and are far below the amount needed in most parts of the United States. Only a variable benefit related to previous wages and living standards on an individual basis can provide benefits which are significant for the higher-paid workers, without at the same time exceeding the previous earnings of some insured workers.

In a program in which the benefits represent a reasonable proportion of past wages, the minimum will be paid to very few persons, particularly if coverage is nearly universal. Even under the present method of computing benefits and the present limited coverage, persons at the minimum primary benefit levels a few decades hence would usually be married women who left covered employment after becoming permanently insured or individuals whose covered employment was part-time or intermittent.

Under the benefit formula recommended by the Council (recommendation 14), those whose average monthly wage was at least \$10 would receive at least \$20 without operation of the minimum. Over a lifetime, nearly all persons would average wages of more than \$40 a month or would be dependent on persons who did. Consequently, only a few persons would have to have their computed benefit raised to the minimum of \$20. The minimum, however, would make a significant contribution toward the living expenses of the few beneficiaries who otherwise would receive a smaller amount, and would aid in promoting the program's objective of reducing old-age dependency to the extent that it is feasible for an insurance system to do so for short-term or very low paid workers.

The Council's recommendation on this point is conditioned on broad extension of coverage, because otherwise many persons would work for only short periods in covered employment and receive the relatively high minimum benefit. Workers who contribute regularly to a system of limited coverage should not be required to subsidize short-term workers to the extent which would result if the increased minimum were paid under limited coverage.

A \$20 minimum coupled with broad coverage would help provide a basic security at no significant additional costs and without destroying the range in benefits whereby an individual's equity in the system is related to the amount of wages he receives from covered employment.

19. No retirement test (work clause) should be imposed on persons aged 70 or over. At lower ages, however, the benefits to which a beneficiary and his dependents are entitled for any month should be reduced by the amount in excess of \$35 which he earns from covered employment in that month. Benefits should be suspended for any month in which such earnings exceed \$35 but, each quarter, beneficiaries should receive the amount by which the suspended benefits exceeded earnings above the exemption.

The larger the proportion of aged persons who find suitable employment, the greater the output of goods and services, and consequently the higher the standard of living in the community. In the opinion of the Advisory Council, accordingly, the work clause should not be designed to encourage persons to cease all gainful work. The chief

purpose should be to prevent the payment of benefits to persons who continue working for wages at or near the level of those earned during much of their working lives; such persons have not suffered the loss of earnings against which the system insures.

The Council recognizes that the great majority of retirements are involuntary. Most workers want to continue working after age 65 even though their earnings are small. The work clause should therefore be liberalized to encourage those who can earn moderate amounts which will contribute toward their support to do so without being entirely deprived of old-age benefits. The fact that opportunities to work in noncovered employment will be practically eliminated by extension of coverage is an additional reason for liberalization.

The present program calls for suspension of benefits for any month in which the beneficiary earns wages of \$15 or more in covered employment. When a primary beneficiary works, dependents' benefits are also suspended. We propose that monthly earnings of \$35 or less should be permitted without reduction of benefit income.

The present provision, or any work clause which requires suspension of benefits for earnings in excess of a specified amount, may in some instances mean that a beneficiary has a smaller total income when he works than when he remains unemployed or does a small amount of work. This will result whenever he earns more than the exempt amount but less than the sum of that amount and the total benefits to which he and his dependents are entitled.

The Council believes that beneficiaries should not have their total income reduced because of work. Otherwise some beneficiaries may refrain from taking jobs because the only opportunities available to them would pay an amount which would result in an income loss. Furthermore, beneficiaries who take jobs will run the risk of income loss if they are unable to continue working until they have earned more than the exempt amount plus their benefits. To prevent the possibility of such losses, we propose that the beneficiary should forego only as much of his benefits as the amount by which his earnings exceed the exemption of \$35 a month.

We recommend that the beneficiary earning more than \$35 in a month should be required to report to the Social Security Administration the amount of his wages in that month. The Social Security Administration should then suspend his benefit. After the Administration receives the employer's quarterly tax return, adjustments should be made if necessary. If the amounts reported by the beneficiary for the 3 months in the quarter agree reasonably with the total quarterly wages shown for him on the employer's return, payment should be made of as much of his monthly benefits for the 3 months in question as exceeds the difference between his earnings in each of the 3 months and the exemption. Ordinarily, of course, a full-time worker will be getting wages high enough so that no adjustment need be made. This would be true if his earnings were more than the exempt amount plus his benefits. If the amounts reported by the beneficiary do not agree with his total quarterly wages shown on the employer's return and adjustments are necessary, the employer should be asked for a monthly break-down of the reported wages, and adjustments would be made on the basis of the information furnished. In view of the

annual reports of the self-employed, some modification would have to be made in the application of the work clause to them.

Full benefits should be paid to all beneficiaries who are aged 70 or over, regardless of their earnings. Many old-age insurance beneficiaries undoubtedly consider any work clause a hardship and restriction on their freedom of activity. In our opinion, the savings effected by a work clause for beneficiaries who are 70 years old or more would not be significant enough to outweigh the advantage of giving some recognition to the beneficiary's desire to receive benefits without qualification. The cost of eliminating the work clause at age 70 would be about one-third of the estimated cost of removing it for all beneficiaries. Obviously, however, not all the cost of eliminating the work clause at age 70 would be a net burden on the community. To the extent that beneficiaries would be encouraged to continue working, the elimination of the work clause would increase the output of goods and the utilization of the plant and equipment of industry.

The social-insurance system of the future will probably have to take into account, more than does the present one, both the need for the economic contribution of the aged and their desire to make that contribution. We suggest that the Federal Government establish a commission to study the broad problem of the aged in our society including employment opportunities and the adjustment of the aged to retirement. This study might well furnish the basis for additional changes in the retirement provision of the old-age and survivors insurance program.

20. The minimum age at which women may qualify for old-age benefits (primary, wife's, widow's, parent's) should be reduced to 60 years

Under the present program, 65 is the qualifying age for all aged beneficiaries—wives, widows, dependent parents, and retired workers. The Council recommends that the age requirement for women be reduced to 60.

Until a retired worker's wife reaches age 65, no wife's benefits are now payable. In most instances, the husband's retirement benefit and other family resources are inadequate to maintain the family. Surveys indicate that the proportion of beneficiary families with retirement income and other assets sufficient for a maintenance level of living is substantially less among those in which the wife is not entitled to a wife's benefit than among those in which she is so entitled. Although less than one-fifth of the married men who attain age 65 have a wife of the same age or older, more than half have a wife who has reached age 60. Since many workers do not retire until several years after attaining age 65, a reduction of the age requirement for wife's benefits to age 60 will permit the wives of about three-fourths of the married men who claim primary or retirement benefits to receive wife's benefits as soon as their husbands retire.

Women aged 60 or over find it practically impossible to get a job unless they have recently been employed. Aged widows and aged dependent mothers of deceased insured workers therefore should also be able to qualify for benefits at age 60. If the age requirement for women were reduced to 60 years, about two-fifths of the insured workers' widows without minor children in their care would be eligible for benefits immediately.¹²

¹² Widows caring for a minor child of a deceased insured worker can draw benefits at any age.

If the age requirement for wives, widows, and aged dependent mothers of insured workers is lowered to 60, the same qualifying age should also apply to women who become primary beneficiaries through their own covered employment. If insured women are not made eligible for retirement benefits at age 60, benefits would be payable at an earlier age, and thus for a longer life expectancy, to the wife, widow, or mother of an insured worker who had not herself contributed directly to the program, than to a woman worker who had perhaps paid contributions for many years.

21. To help meet the special expenses of illness and death, a lump-sum benefit should be payable at the death of every insured worker even though monthly survivor benefits are payable. The maximum payment should be four times the primary insurance benefit rather than six times as at present

The present provision for lump-sum benefits, which allows for a payment only if no survivors are immediately eligible for monthly benefits, evidently developed primarily from the idea of guaranteeing some return for the contributions insured workers had paid. The lump sum would serve a more useful purpose than it now does if it were payable for all deceased insured workers, regardless of the monthly benefits that might also be paid at the same time.

Monthly benefits for survivors provide only a partial replacement of the income earned by the deceased worker and are needed to meet current living expenses. No allowance is made in these monthly payments for such expenses as the cost of the last illness and burial. The need for a lump-sum death payment is therefore fully as great when monthly benefits are payable as when they are not. In fact, when survivors are immediately entitled to monthly benefits, the need for a lump-sum payment may be even greater than in other cases, since these survivors are persons who are presumed to have been currently dependent on the wages of the deceased worker.

The increase in the primary insurance benefit which the Council has recommended (recommendation 14) would automatically result in a substantial increase in the lump-sum payment if the present formula of six times the primary insurance benefit were retained for lump-sum payments. We do not recommend a general increase in the dollar amounts of the lump-sum payment and therefore believe that the formula should be reduced to four times the primary insurance benefit.

The lump sum should be payable, as at present, to a spouse if such spouse were living with the deceased insured worker at the time of his or her death. If no spouse survives, the payment should be made to the person equitably entitled to such payment on the basis of having paid the funeral expenses. In this event the amount should be limited to the funeral expenses, if such expenses were less than the maximum of four times the primary insurance benefit.

RECOMMENDATIONS ON FINANCING

22. *The contribution rate should be increased to 1½ percent for employers and 1½ percent for employees at the same time that benefits are liberalized and coverage is extended. The next step-up in the contribution rate, to 2 percent on employer and 2 percent on employee, should be postponed until the 1½-percent rate plus interest on the investments of the trust fund is insufficient to meet current benefit outlays and administrative costs.*

There are compelling reasons for an eventual Government contribution to the system, but the Council feels that it is unrealistic to decide now on the exact timing or proportion of that contribution. When the rate of 2 percent on employers and 2 percent on employees, plus interest on the investments of the trust fund, is insufficient to meet current outlays, the advisability of an immediate Government contribution should be considered.

The present rate of contributions of 1 percent payable by employers and 1 percent by employees has remained unchanged for more than 10 years. If benefits and eligibility requirements are liberalized as the Council recommends, the contribution rate should be raised to 1½ percent each. This increase is desirable to promote public understanding of the fact that, in the long run, a close relationship exists between the rate of contribution and the size of benefits. It is desirable also to permit spacing, more or less evenly, small increases in the rate of contributions as they rise to their ultimate level. It is also fair because, at present rates, contributions fall far short of covering the value of the benefit rights that workers are acquiring.

The step-up to 2 percent should be postponed until actually needed. The Council believes that the excess of income over outgo, inevitable in the early years of the program, should be kept as low as is consistent with the contributory character of the program. Even with the increase to 1½ percent, assets of the trust fund may rise for a few years at an annual rate of about \$2,000,000,000.

For the reasons given above, the Council believes that the first step-up is needed when the liberalized program becomes effective, but we wish to emphasize that building up the trust fund is not the purpose of our proposed increase in the contribution rate, and we therefore urge that additional increases in the rate be postponed. The increase in the trust fund is an incidental result of the contribution rates, the benefit rates, and the eligibility requirements that seem to us desirable on other grounds. Unlike private insurance, a social-insurance scheme backed by the taxing power of the Government does not need full reserves sufficient to cover all liabilities.

Some people fear that additions to the trust fund will have adverse effects on the economy. Whether the economic effects of additions to the trust fund are good or bad will depend on the general economic situation and on the fiscal policies of the Government. In any circumstances, an annual surplus for a few years of as much as

\$2,000,000,000 would not, in our opinion, be unduly large or unmanageable; in fact, such a surplus would be small in comparison with the amounts involved in many recent financial operations of the Government. On the other hand, the Council sees no reason to increase this surplus even further by moving to the 2-percent rate before the demands of the system actually call for such an increase.

The Council believes that the Federal Government should participate in financing the old-age and survivors insurance system. A Government contribution would be a recognition of the interest of the Nation as a whole in the welfare of the aged and of widows and children. Such a contribution is particularly appropriate, in view of the relief to the general taxpayer which results from the substitution of social insurance for part of public assistance.

The old-age and survivors insurance program starts with an accrued liability resulting from the fact that, on retirement, the present members of the labor force will not have contributed toward their benefits over a full working lifetime. Furthermore, with the postponement of the full rate of contributions recommended above, even young people who enter the labor force during the next decade will not pay the full rate over a working lifetime. If the cost of this accrued liability is met from the contributions of workers and their employers alone, those who enter the system after the full rate is imposed will obviously have to pay with their employers more than is necessary to finance their own protection.¹³ In our opinion, the cost of financing the accrued liability should not be met solely from the pay-roll contributions of employers and employees. We believe that this burden would more properly be borne, at least in part, by the general revenues of the Government.

Old-age and survivors insurance benefits should be planned on the assumption that general taxation will eventually share more or less equally with employer and employee contributions in financing future benefit outlays and administrative costs. The timing and exact proportion of this contribution, however, cannot be decided finally now. They will depend in part on the other obligations of the Government and the relationship between such obligations and current income. We believe that a Government contribution should be considered when the 2-percent rate for employer and employee plus interest on the investments of the trust fund is insufficient to meet current costs. To increase the pay-roll contributions above the 2-percent rate before the introduction of a Government contribution might mean that the Government contribution would never reach one-third of eventual benefit outlays, since under our low-cost estimates the annual cost of the benefits never exceeds 6 percent of pay roll even though it reaches 9.7 percent under the high estimate.

¹³ It is estimated that the cost of the protection for a generation of workers under the program for a full working lifetime would be from 3 to 5 percent of pay roll, while the level premium cost of the whole system, including the accrued liability, is from 4.9 to 7.3 percent of pay roll.

APPENDIXES

APPENDIX A. THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

As stated in its recommendations, the Council does not favor a full reserve plan sufficient to cover all liabilities. Under a contributory system of old-age and survivors insurance, however, qualifying requirements—even though liberal—unavoidably result in lower benefit disbursements in the early years of operation than in the later years. If contributions in the early years were no more than sufficient to cover disbursements, they would be so small in relation to benefit rights currently being established that the system could scarcely be called contributory. For example, on a strictly current-cost basis, contribution rates at present could not be set above 0.3 of 1 percent of pay roll for employers and 0.3 of 1 percent of pay roll for employees. The contributory nature of the system, therefore, inevitably develops at least a limited reserve.

This reserve has been invested in United States Government securities, which, in the opinion of the Council, represent the proper form of investment for these funds. We do not agree with those who criticize this form of investment on the ground that the Government spends for general purposes the money received from the sale of securities to that fund. Actually such investment is as reasonable and proper as is the investment by life-insurance companies of their own reserve funds in Government securities. The fact that the Government uses the proceeds received from the sales of securities to pay the costs of the war and its other expenses is entirely legitimate. It no more implies mishandling of moneys received from the sale of securities to the trust fund than it does of the moneys received from the sale of United States securities to life-insurance companies, banks, or individuals.

The investment of the old-age and survivors insurance funds in Government securities does not mean that people have been or will be taxed twice for the same benefits, as has been charged. The following example illustrates this point: Suppose some year in the future the outgo under the old-age and survivors insurance system should exceed pay-roll tax receipts by \$100,000,000. If there were then \$5,000,000,000 of United States 2-percent bonds in the trust fund, they would produce interest amounting to \$100,000,000 a year. This interest would, of course, have to be raised by taxation. But suppose there were no bonds in the trust fund. In that event, \$100,000,000 to cover the deficit in the old-age and survivors insurance system would have to be raised by taxation; and, in addition, another \$100,000,000 would have to be raised by taxation to pay interest on \$5,000,000,000 of Government bonds owned by someone else. The bonds would be in other hands, because if the Government had not been able to borrow from the Old-age and Survivors Insurance Trust

Fund, it would have had to borrow the same amount from other sources. In other words, the ownership of the \$5,000,000,000 in bonds by the old-age and survivors insurance system would prevent the \$100,000,000 from having to be raised twice—quite the opposite from the “double taxation” that has been charged.

Under present conditions the Government is operating with a budget surplus and is not borrowing. The trustees of the Old-Age and Survivors Insurance Trust Fund, therefore, when they invest the excess income in Government securities, in effect cause Government debt to be transferred from private ownership to the Old-Age and Survivors Insurance Trust Fund. The same saving of the amount of the interest for the general taxpayer will occur in this instance as in the one described above.

. The members of the Advisory Council are in unanimous agreement with the statement of the Advisory Council of 1938 to the effect that the present provisions regarding the investment of the moneys in the Old-Age and Survivors Insurance Trust Fund do not involve any misuse of these moneys or endanger the safety of the funds.

APPENDIX B. ACTUARIAL COST ESTIMATES FOR OLD-AGE AND SURVIVORS INSURANCE RECOMMENDATIONS

Estimates of future costs of the old-age and survivors insurance system are affected by many factors that are difficult to determine; hence, assumptions may differ widely and yet be reasonable. Some of the factors concerning which assumptions must be made are indicated below.

FACTORS IN ASSUMPTIONS

How many persons will reach age 65

To determine how many persons may eventually qualify for retirement benefits, it is necessary to estimate the number of men and women who can be expected to attain age 65 each year. Such estimates involve assumptions as to birth, mortality, and net immigration rates. Although fairly reliable data on fertility and mortality over long periods are available, wide variations in the next half century are possible and may cause considerable change in the size and age structure of the population. Immigration, although not recently significant, could become of great importance.

How many will be eligible for benefits

Next, the number of persons reaching age 65 who will be "insured" for benefits must be ascertained. Since insured status is based on the number and proportion of quarters in which covered workers have earnings of \$50 or more, such factors as wage levels, employment duration, unemployment—whether due to economic, health, or other conditions—labor mobility, and related matters must be taken into account, with special attention to variations by age and sex. Estimating the number of persons likely to be insured—or uninsured—at different periods, involves assumptions concerning wage and salary rates by age and sex, as well as the extent and steadiness of employment.

How many will retire

Having estimated how many persons will qualify for benefits, the next query is how many will actually receive them. Since the law specifies that benefits will be withheld or reduced when the beneficiary earns more than a stated amount, it is necessary to estimate how many beneficiaries will be affected, and how many will work continuously or intermittently after the minimum retirement age. The retirement rate will depend on such factors as the level of benefits, extent of private group and individual insurance, job prospects, and the current philosophy in regard to displacement of older by younger workers.

How long will benefits be paid

It is not enough to know how many persons will be placed on the benefit rolls; the duration of their benefit payments is equally signifi-

cant. To estimate duration, mortality rates for men and women must be applied to each group entering beneficiary status to gauge the number who will die each year.

How much will be paid as retirement benefits

This basic inquiry primarily involves application of the benefit formula to the wage histories of those eligible for benefits. Benefits depend on the "average monthly wage," which in turn depends on total wages received over a period of time. Just as in estimating the number of persons with insured status, assumptions must be made concerning sustained versus sporadic employment, wages, and the level of employment.

How much will be paid as supplementary and survivor benefits

To estimate the cost of benefits to survivors and dependents of insured persons, many of the same factors applying to the worker must be considered, such as birth, mortality, retirement rates, and their interlocking effect. In addition, the same problem arises of estimating the number of insured workers and the amount of their primary benefits on which the survivor and supplementary benefits will be based. Because survivor benefits are terminated when certain changes in family and age status occur, assumptions have to be made concerning the marital and parental status of the insured group. Such factors as remarriage rates of widows, marriage rates of child beneficiaries, economic dependency of parents, and existence of specified surviving relatives must also be taken into account. The "work clause" affects the benefits of survivors and dependents as well as those of retired workers.

Adjustments

Lastly, there remain various adjustments affecting the number and size of benefits which arise from contingent features of the law, such as reduction or increase in the average size of benefits because of minimum and maximum provisions and eligibility for concurrent benefits of different types.

Among the many assumptions necessary for the cost estimates, the following were perhaps most important:

1. *Mortality*.—The low-cost estimates assume a continuation of mortality at the present levels, while the high-cost estimates assume that mortality will decrease in the future (or in other words, that longevity will increase).

2. *Employment*.—The estimates of future costs assume that the general level of employment will be about the same as during 1944-46. Corrections have been made, however, for the temporary wartime dislocations in the labor force. A "normal" age and sex distribution for the labor force has been assumed.

3. *Wage levels*.—With a \$3,000 maximum wage base, it is assumed that four-quarter male workers earn \$2,400 per year, while for women the corresponding figure is \$1,440. For persons working in less than four quarters, these averages were reduced in the proportions shown in actual wage records. With a maximum wage limit of \$4,200, these two figures for four-quarter workers become \$2,600 and \$1,450, respectively.

4. *Retirement rates*.—The old-age and survivors insurance program has been in effect too short a time to give much useful evidence as to

the probable retirement rates of the future. Moreover, the war has made the few years of experience with retirement rates under old-age and survivors insurance a poor basis for projection. Furthermore, the larger retirement benefits provided by the proposed plan, as contrasted with the relatively inadequate benefits under the present system, might cause more persons to retire voluntarily. Since little is really known on this subject, the estimates are based on two widely different assumptions so as to encompass a wide range of possibilities.

It is assumed under the low-cost estimates that under a mature program about 45 percent of the eligible men aged 65 to 69 would get benefits, while for women aged 60 to 69 about 70 percent of those eligible would get benefits (all eligible persons beyond age 70 would receive benefits regardless of work). For the high-cost estimate the corresponding figures are 60 percent for men and 80 percent for women. In the early years all these figures are materially lower, since more of those eligible have recently been in employment and would thus be more likely to continue at work.

THE ESTIMATES

The tables that follow summarize actuarial cost estimates for the expanded old-age and survivors insurance program recommended by the Advisory Council.

In table 4, the benefit costs are in terms of percentage of pay roll for various future calendar years, starting in 1955 and running up to the "ultimate" year 2000, when benefit disbursements will more or less level off; "level premium"¹ costs are also shown.

Table 5 gives comparable data in absolute dollar amounts. In both these tables the costs are shown as increases or decreases in the cost arising under the present program, taking successive account of each major change recommended by the Council. The order in which these various changes are considered determines in many instances how much of the increase in cost is attributed to a specific recommendation. For example, the increased cost arising from the revised work clause follows the estimates of cost changes resulting from extension of coverage, but precedes the estimated effect of the new benefit formula. Thus, the estimated cost of abolishing the retirement test for all beneficiaries aged 70 and over represents increases in benefit payments based on the present formula. If the cost effect of the new benefit formula had preceded the figures on the effect of the proposed new work clause, the increase in cost arising from the new work clause would have been greater, since it would have been based on the payment of higher benefits to those aged 70 and over. On the other hand, considering the benefit formula first would result in showing the cost effect of the new benefit formula as smaller than it is shown in these tables because the present work clause would prevent the payment of benefits to many of those over age 70. The order in which the changes are considered does not, of course, affect the final or net cost of the recommendations.

¹ The level-premium contribution rate is the rate which would support the system into perpetuity, if collected from the first year. It is higher than the contribution rate which would be required to pay the benefits of any one generation of workers because it covers also the cost of the accrued liability resulting from the payment of full benefits to workers already middle-aged or older at the time the system goes into effect. In computing the level premium rate it is assumed that benefit payments and taxable pay rolls remain level after the year 2000 and that accumulated reserves earn interest at the rate of 2 percent.

Table 6 presents the estimated costs as a percentage of pay roll for each of the various categories of benefits under the proposed expanded plan, along with the "level premium" cost for each category. Table 7 gives the corresponding dollar figures.

Table 8 presents the estimated taxable pay rolls under the present coverage (with the \$3,000 maximum wage) and under the expanded coverage (with the \$4,200 maximum wage). These estimates are based on the employment and wage levels of 1944-46 which are somewhat below present levels but still represent a relatively high level of economic activity.

In table 9 are estimates of the percentage of persons in various future years who will be fully insured when they attain age 65, both for the present limited coverage and for complete extension of coverage under the eligibility conditions recommended by the Council. Table 10 shows estimates of the percentage of all persons aged 65 and over who will be fully insured in various future years.

Table 11 presents the estimated operations of the trust fund under the expanded program recommended by the Advisory Council. The proposed program is assumed to become effective at the beginning of 1949, when the trust fund will probably amount to about \$10.5 billion. Further, it is assumed that the benefit disbursements in 1949 will bear the same relationship to the expanded covered pay roll as the benefit disbursements under the present system bear to the present limited-coverage pay roll. The effect of immediate changes in benefits paid (principally, the liberalized benefit formula and the reduction in the retirement age for women) is thus assumed to be relatively equal to the proportionate increase in pay roll (namely, about 60 percent). Thereafter, until 1955, the increase in disbursements will at first be gradual and then more rapid as workers in the newly covered groups acquire insured status.

The estimates of trust fund operations have been developed under the contribution schedule which most nearly approximates the Council's proposals, namely, a combined employer-employee rate of 2 percent until 1948, 3 percent in 1949-56, and 4 percent thereafter until the Government contribution has reached one-half the revenue from the combined employer-employee contribution, at which point under the high-cost estimate further increases are assumed in the combined employer-employee rate. This contribution-rate schedule, in contrast with the present law (combined rate of 2 percent through 1949, 3 percent in 1950-51, and 4 percent thereafter), increases the rate immediately on establishment of the expanded program, but defers the next increase until 1957, which is about when disbursements may exceed income at the 3-percent combined rate (this is anticipated in 1959 under the low estimate and in 1955 under the high estimate).

The Council has recommended that the Government contribution be postponed until the income of the trust fund at the combined 4-percent contribution rate for employers and employees first falls short of meeting the outgo. The Government contribution will be of such amount as to maintain the trust fund at its highest point without any decrease thereafter (disregarding any minor, short-range cyclical fluctuations). It is assumed that the Government contribution will not be allowed to exceed one-half the combined employer-employee contributions. Under the low-cost estimate the 4-percent employer-employee rate is sufficient to prevent the Government contribution

from exceeding one-half, but under the high-cost estimate the rate would have to be increased to 5 percent in 1972-80, 6 percent in 1981-89, and 7 percent thereafter. These specific years are the ones which reflect the assumptions of the high-cost estimates. It is not expected, of course, that all these assumptions will turn out to be the correct ones and that the years specified will be the ones in which increases in rates necessarily have to be made.

Since both the low-cost and the high-cost estimates assume a high future level of economic activity, the pay rolls are substantially the same under the two estimates in the early years (see table 8). Accordingly, there is little difference in the contribution income in the two estimates. The assumptions which affect benefits, however, have widely different effects even in the early years of the program. The range of error in the estimates, nevertheless, may be fully as great for contributions as it is for benefits.

The effect of the new eligibility conditions and the "new start" in computing the average monthly wage are particularly difficult to estimate during the early years of operation. The number of persons who will qualify and get benefits on the new basis is more uncertain when we are dealing only with older workers and the qualifying work period is relatively short. While an attempt has been made to allow for this very important factor, the costs shown here for 1955, and possibly for 1960, may, nonetheless, be overstatements.

Table 12 gives the results of an actuarial study to determine the hypothetical "current" experience under the plan recommended by the Advisory Council if that plan had been in effect long enough (say, for a century) to be relatively "mature"—that is, to have a relatively stable number of qualified beneficiaries.²

While more precise data are available on many of the factors which enter into these estimates since they deal with the present or past rather than the future, it is still necessary to show some range in the figures because some factors are unknown; for example, the extent of retirement if the proposed benefits were available to all the current aged population.

Table 12 gives low and high estimates of the number of beneficiaries and benefit disbursements by type of benefit. In estimating the number of beneficiaries, account has been taken of past trends in employment, mortality, etc. As a result, the table shows relatively fewer female primary beneficiaries than there will be in the future if the upward trend in employment of women continues.

Under assumption A, the estimated benefit disbursements are assumed to be based on past trends in wages, which have been sharply upward during the past century. For the most part, the benefits paid currently would therefore reflect the lower wages of the past, hence the amounts involved are relatively low in terms of current wages and price levels. Thus, the average primary benefit would be about \$30-\$35, while an average on the basis of 1948 earning levels would be about \$50-\$55 or approximately 50 percent higher. Nevertheless, the average of the primary benefits on which some of the survivor benefits are based would be somewhat higher than \$30-\$35, because it would be related to the recent earnings of young workers

² In a fully mature program the number of beneficiaries added to the rolls would equal the number dropped by death, remarriage, attainment of age 18, or similar reasons. The program could not be fully mature, however, until the population is also stable or mature—i. e., births equal deaths and age distributions are stable.

who leave survivors eligible for widow's current and child survivor benefits.

Under assumption B, the average wage or benefit provisions of the program or both are assumed to have been continuously modified in such a way as to take full account of the increases which have occurred in wage levels and to provide benefits related at all times to current wage levels.

The total number of beneficiaries receiving monthly payments during an average month of 1948 under the assumptions of this study would be about 10.3-12.6 million. Among them, 3.4-4.1 million would be men aged 65 and over (representing 65-80 percent of the 5.1 million men aged 65 and over in the United States), while 5.2-6.2 million would be women aged 60 and over (representing 60-75 percent of the 8.5 million women aged 60 and over in the population). The aged who would not be receiving benefits would represent, for the most part, those still at work or those whose husbands were still working. There would also be some aged persons who failed to qualify because of lack of sufficient employment resulting from disability and other causes.

Under the assumption that benefits are based on the wages actually paid in the past, the total benefit disbursements in 1948 would range from 3.4 to 4.2 billion dollars, representing from 2.4 to 3.0 percent of current pay rolls which would be about \$140,000,000,000³ if all occupations were covered by the program. On the other hand, under the assumption that benefits are always based on current wage levels, the disbursements would range from 5.7 to 6.9 billion dollars, or in other words from 4.1 to 4.9 percent of pay roll. These estimates are considerably lower than the estimates of the ultimate cost of the proposed plan which is shown on table 4 to be from 5.9 to 9.7 percent of pay roll. The difference is explained largely by the increasing number of the aged in the population.

It should be noted that in all the estimates the coverage is assumed to be universal and to include railroad and all governmental employment, the goal the Council hopes will be attained.

³ This figure is higher than those shown for expanded coverage in 1966, table 8, appendix B, because the figures in table 8 are based on the somewhat lower wage rates of 1944-46.

TABLE 4.—Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by major changes, in terms of percentage of pay roll

LOW-COST ESTIMATE¹

Calendar year	Cost of present program	Increase in cost arising from—							Net cost of expanded plan
		Extension of coverage	Age 60 for women	Revised lump-sum ²	Revised work clause	Higher rate for first child ³	Additional benefits in re women ⁴	New benefit formula ⁵	
1955.....	1.31	-0.34	0.11	-----	0.43	0.04	0.02	0.82	2.99
1960.....	1.75	-.28	.15	-0.01	.51	.06	.02	1.06	3.26
1970.....	2.56	-.28	.29	-.01	.62	.06	.02	1.20	4.46
1980.....	3.33	-.33	.42	-.01	.67	.07	.03	1.12	5.30
1990.....	4.02	-.47	.46	-.02	.71	.07	.03	1.03	5.83
2000.....	4.19	-.42	.44	-.02	.71	.07	.03	.87	5.87
Level premium ⁶	3.26	-.38	.36	-.01	.63	.06	.03	.95	4.90

HIGH-COST ESTIMATE¹

1955.....	1.87	-0.43	0.19	-----	0.29	0.04	0.01	1.14	3.11
1960.....	2.46	-.37	.28	-0.01	.35	.06	.02	1.28	4.07
1970.....	3.66	-.47	.47	-.01	.46	.06	.02	1.39	5.58
1980.....	5.18	-.72	.68	-.01	.57	.06	.02	1.37	7.12
1990.....	6.93	-1.14	.75	-.01	.68	.06	.02	1.84	8.63
2000.....	8.12	-1.32	.79	-.02	.78	.06	.02	1.27	9.70
Level premium ⁶	5.66	-.91	.60	-.01	.59	.06	.02	1.26	7.27

¹ Based on assumption of continuation of employment and wage levels of 1944-46.
² Lump-sum death payment for all deaths but only in amount of 4 times primary benefit (rather than 6 times as at present).
³ Including also higher rate for parent's benefit.
⁴ Supplementary and survivor monthly benefits in respect to insured women.
⁵ Including also revision in computation of average wage and higher limit on maximum annual wages counted toward benefits.
⁶ Level premium contribution rate (based on 2 percent interest) for benefit payments after 1949 and into perpetuity, not taking into account accumulated funds.

TABLE 5.—Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by major changes (in millions of dollars)

LOW-COST ESTIMATE¹

Calendar year	Cost of present program	Increase in cost arising from—							Net cost of expanded plan
		Extension of coverage	Age 60 for women	Revised lump-sum ²	Revised work clause	Higher rate for first child ³	Additional benefits in re women ⁴	New benefit formula ⁵	
1955.....	\$1,046	\$173	\$135	-----	\$540	\$50	\$22	\$1,222	\$3,189
1960.....	1,469	441	195	-\$13	662	78	26	1,647	4,505
1970.....	2,421	772	406	-14	867	84	28	2,657	6,621
1980.....	3,474	965	621	-15	990	103	44	2,136	8,318
1990.....	4,509	1,066	722	-31	1,114	110	47	2,176	9,713
2000.....	5,072	1,227	736	-33	1,188	117	50	2,064	10,421

HIGH-COST ESTIMATE¹

1955.....	\$1,482	\$223	\$288	-----	\$563	\$50	\$19	\$1,675	\$4,150
1960.....	2,082	677	266	-\$13	458	78	26	2,012	5,666
1970.....	3,442	1,056	662	-14	648	84	28	2,457	8,363
1980.....	5,191	1,312	947	-15	831	87	29	2,653	11,035
1990.....	7,125	1,498	1,116	-15	1,012	89	30	2,795	13,660
2000.....	8,463	1,711	1,182	-30	1,167	90	30	2,765	15,379

¹ Based on assumption of continuation of employment and wage levels of 1944-46.
² Lump-sum death payment for all deaths but only in amount of 4 times primary benefit (rather than 6 times as at present).
³ Including also higher rate for parent's benefit.
⁴ Supplementary and survivor monthly benefit in respect to insured women.
⁵ Including also revision in computation of average wage and higher limit on maximum annual wages counted toward benefits.

TABLE 6.—Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by type of benefit, in terms of percentage of pay roll

LOW-COST ESTIMATE¹

Calendar year	Primary	Wife's ²	Widow's ²	Parent's	Child's	Widow's current	Lump-sum death	Total
1955.....	1.24	0.28	0.29	0.08	0.34	0.11	0.10	2.39
1960.....	1.66	.36	.54	.04	.43	.13	.11	3.26
1970.....	2.27	.42	.98	.04	.47	.14	.14	4.46
1980.....	2.80	.43	1.24	.04	.49	.14	.16	5.30
1990.....	3.29	.41	1.29	.03	.50	.15	.16	5.83
2000.....	3.43	.36	1.22	.03	.51	.16	.17	5.87
Level premium ³	2.75	.37	1.01	.03	.46	.14	.15	4.90

HIGH-COST ESTIMATE¹

Calendar year	Primary	Wife's ²	Widow's ²	Parent's	Child's	Widow's current	Lump-sum death	Total
1955.....	1.85	0.39	0.30	0.05	0.31	0.12	0.09	3.11
1960.....	2.42	.48	.54	.07	.34	.13	.10	4.07
1970.....	3.43	.59	.65	.08	.30	.11	.12	5.58
1980.....	4.58	.71	1.24	.09	.27	.10	.14	7.12
1990.....	5.89	.79	1.37	.08	.24	.09	.16	8.63
2000.....	6.89	.84	1.41	.08	.22	.09	.18	9.70
Level premium ³	4.92	.69	1.08	.08	.26	.10	.14	7.27

¹ Based on assumption of continuation of employment and wage levels of 1944-46.

² Including the relatively negligible amount of husband's and widower's benefits.

³ Level premium contribution rate (based on 2 percent interest) for benefit payments after 1949 and in perpetuity, not taking into account accumulated funds.

TABLE 7.—Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by type of benefit (in millions of dollars)

LOW-COST ESTIMATE¹

Calendar year	Primary	Wife's ²	Widow's ²	Parent's	Child's	Widow's current	Lump-sum death	Total
1955.....	\$1,657	\$378	\$383	\$41	\$456	\$144	\$130	\$3,199
1960.....	2,391	500	729	54	588	178	155	4,506
1970.....	3,372	623	1,451	61	704	207	208	6,621
1980.....	4,400	679	1,944	62	771	225	237	8,318
1990.....	5,484	675	2,144	57	841	243	269	9,713
2000.....	6,099	637	2,162	49	910	265	299	10,421

HIGH-COST ESTIMATE¹

Calendar year	Primary	Wife's ²	Widow's ²	Parent's	Child's	Widow's current	Lump-sum death	Total
1955.....	\$2,406	\$517	\$400	\$68	\$421	\$154	\$122	\$4,150
1960.....	3,359	671	745	97	479	176	139	5,666
1970.....	5,134	890	1,417	126	455	171	180	8,363
1980.....	7,094	1,101	1,920	137	413	163	212	11,035
1990.....	9,325	1,253	2,162	132	379	149	250	13,660
2000.....	10,916	1,333	2,236	127	341	142	274	15,378

¹ Based on assumption of continuation of employment and wage levels of 1944-46.

² Including the relatively negligible amount of husband's and widower's benefits.

TABLE 8.—Estimated taxable pay rolls under present coverage and under expanded coverage (in billions of dollars)

Calendar year	Present coverage ¹		Expanded coverage ²	
	Low-cost estimate	High-cost estimate	Low-cost estimate	High-cost estimate
1955.....	\$90	\$75	\$124	\$133
1960.....	84	80	138	139
1970.....	95	91	149	150
1980.....	104	98	157	155
1990.....	112	102	167	158
2000.....	121	104	178	158

¹ Based on \$3,000 maximum creditable wage.

² Based on \$4,200 maximum creditable wage.

TABLE 9.—Estimated percentage of persons attaining age 65 in various future years who will be fully insured, if high employment conditions prevail

Calendar year	Complete extension of coverage		Present coverage	
	Men	Women	Men	Women
1955.....	66-74	12-17	46-52	8-11
1960.....	74-84	16-23	50-58	10-14
1970.....	81-91	22-31	61-71	15-20
1980.....	84-93	30-38	72-82	24-32
1990.....	86-96	43-52	74-84	36-46
2000.....	88-96	50-60	74-84	40-50

TABLE 10.—Estimated percentage of persons aged 65 and over in the population of various future years who will be fully insured, if high employment conditions prevail

Calendar year	Complete extension of coverage		Present coverage	
	Men	Women	Men	Women
1955.....	57-66	10-13	30-44	6-7
1960.....	60-61	12-17	44-49	7-10
1970.....	76-86	17-26	54-62	10-14
1980.....	81-91	23-31	64-73	16-22
1990.....	84-94	32-40	72-81	27-34
2000.....	86-95	42-51	74-84	35-43

TABLE 11.—Estimates relating to size of trust fund under expanded program recommended by Advisory Council (in millions of dollars)

Calendar year	Contributions		Benefit payments	Administrative expenses	Interest on Fund	Increase in Fund	Fund at end of year
	Employer-employee ¹	Government					
Low-cost estimate							
1955.....	\$3,833		\$3,190	\$87	\$451	\$1,008	\$23,276
1960.....	5,279		4,505	109	581	1,246	29,950
1970.....	6,653	\$419	6,621	146	665	0	33,645
1980.....	6,003	1,825	8,318	175	665	0	33,645
1990.....	6,370	2,877	9,713	199	665	0	33,645
2000.....	6,792	3,177	10,421	213	665	0	33,645
High-cost estimate							
1955.....	\$3,823		\$4,150	\$128	\$338	\$-117	\$16,099
1960.....	5,318	\$163	5,865	159	344	0	17,362
1970.....	5,726	2,506	8,863	213	344	0	17,362
1980.....	7,498	3,648	11,035	265	344	0	17,362
1990.....	10,259	3,413	13,650	316	344	0	17,362
2000.....	10,606	4,777	15,378	349	344	0	17,362

¹ In contribution schedule assumed is as follows: Low-cost estimate, 3 percent for 1949-56 and 1 percent thereafter. High-cost estimate, 3 percent for 1949-56; 4 percent for 1967-71; 5 percent for 1972-80; 6 percent for 1981-89; and 7 percent thereafter.

² Fund reaches a peak in 1954 and then declines for 2 years, but thereafter increases to another peak in 1959.

³ Interest is figured at 2 percent on average balance in fund during year but is payable at end of year. After fund reaches maximum size the interest income is slightly less than 2 percent of the balance at the end of the year as shown in the last column, since the fund decreases slightly during the year. The interest payable at the end of the year brings it back to the level shown.

TABLE 12.—Estimated beneficiaries and disbursements in 1948 under expanded program recommended by Advisory Council, if the plan had been in effect for a century, under two assumptions ¹

Type of benefit	Number of beneficiaries (in thousands)		Benefit disbursements ² (in millions)			
			Assumption A		Assumption B	
	Low	High	Low	High	Low	High
Total.....			\$3,400	\$4,100	\$5,720	\$6,930
Primary.....	4,780	6,080	1,820	2,290	3,050	3,810
Wife's.....	1,720	1,290	260	260	430	450
Widow's.....	2,430	2,650	660	710	1,270	1,380
Parent's.....	100	270	20	50	30	100
Widow's current.....	390	420	120	160	170	220
Child's.....	1,470	1,940	430	570	590	780
Lump-sum death.....	830	930	100	120	180	190

¹ Benefit-disbursement estimates are shown on the basis of 2 different assumptions:

A. Benefits determined under average wage provisions and benefit formula proposed by Council using estimates of wages actually paid over the last 100 years.

B. Benefits determined under average wage and benefit provisions continuously revised so that benefits are related to current wage levels.

² Benefit disbursements as percentage of pay rolls would be as follows:

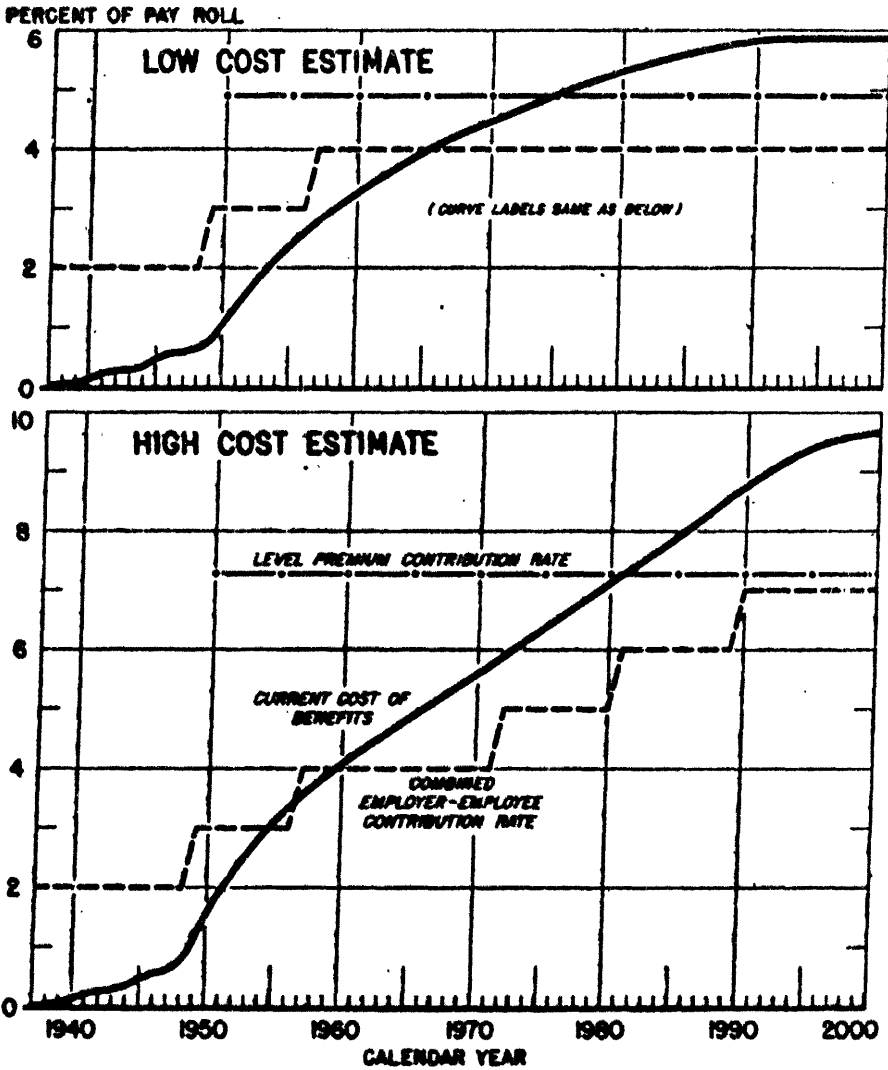
Assumption A:

Low..... 2.4
High..... 3.0

Assumption B:

Low..... 4.1
High..... 4.9

**ESTIMATED COST OF EXPANDED PROGRAM
RECOMMENDED BY ADVISORY COUNCIL, IN TERMS OF
PERCENTAGE OF PAY ROLL**



NOTE: ESTIMATES BASED ON ASSUMPTION OF CONTINUATION OF EMPLOYMENT AND WAGE LEVELS OF 1944-46.
NOTE: SEE TEXT FOR DESCRIPTION OF TERMS.

APPENDIX C. SENATE RESOLUTION 141

[80th Cong., 1st sess., July 23, 1947]

Resolved, That the Committee on Finance, or any duly constituted subcommittee thereof, is authorized and directed to make a full and complete investigation of old-age and survivors insurance and all other aspects of the existing social-security program, particularly in respect to coverage, benefits, and taxes related thereto, for the purpose of assisting the Senate in dealing with legislation relating to social security hereafter originating in the House of Representatives under the requirement of the Constitution.

SEC. 2. For the purpose of this resolution, the Committee on Finance, or any duly constituted subcommittee thereof, is authorized to sit and act at such places and times during the sessions, recesses, and adjourned periods of the Eightieth Congress, to require by subpoena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, to procure such printing and binding, and to make such expenditures as it deems advisable.

SEC. 3. The committee is authorized to designate and appoint an Advisory Council to study, assist, consult with, and advise the Committee on Finance or its duly authorized subcommittee, and the committee is further authorized to designate and appoint such other officers, experts, or assistants as it deems necessary for the performance of the investigation directed by this resolution.

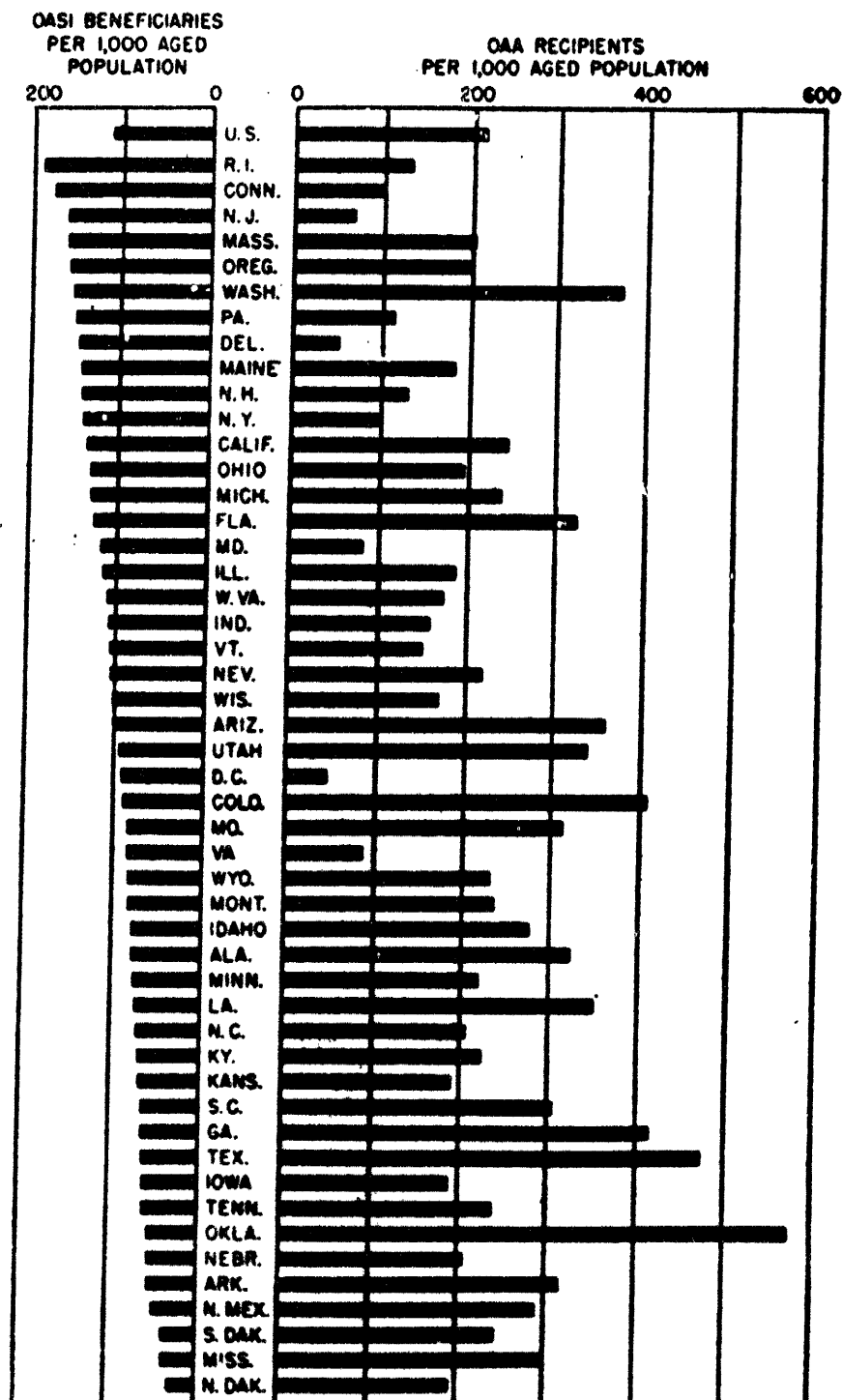
SEC. 4. The compensation of persons assisting the committee in the investigation directed by this resolution shall be fixed by the committee at such amounts or rates as the committee deems appropriate, but such amounts or rates shall not exceed the amounts or rates payable for comparable duties prescribed by the Classification Act of 1923, as amended.

SEC. 5. The committee, or its duly constituted subcommittee, is authorized, with the approval of the Committee on Rules and Administration, to request the use of the services, information, facilities, and personnel of the departments and agencies in the executive branch of the Government in the performance of its duties under this resolution.

SEC. 6. The expenses of the committee under this resolution, which shall not exceed \$25,000, shall be paid out of the contingent fund of the Senate upon vouchers signed by the chairman.

APPENDIX D

NUMBER OF AGED PERSONS RECEIVING BENEFITS UNDER OLD-AGE AND SURVIVORS INSURANCE¹ AND NUMBER RECEIVING OLD-AGE ASSISTANCE PER 1,000 PERSONS AGED 65 AND OVER², JUNE 1947



¹ PRIMARY, WIFE'S, MOTHER'S, AND FATHER'S BENEFITS IN CURRENT PAYMENT STATUS AT END OF MONTH.
² AGED POPULATION AS OF APRIL 1, 1947, ESTIMATED BY SOCIAL SECURITY ADMINISTRATION.

APPENDIX E. FAMILY BENEFITS UNDER PRESENT PROGRAM, DECEMBER 1946

TABLE 13.—Percentage distribution of beneficiary families by monthly amount of family benefits in current-payment status at end of 1946, for each specified family group in receipt of benefits

[Based on 20-percent sample. Average benefits shown to the nearest 10 cents. Corrected to June 5, 1947]

Monthly family benefit amount	Retired worker only		Retired worker and wife	Retired worker and 1 child	Aged widow	Widowed mother and children			Children only			
	Male	Female				1 child	2 children	3 or more children	1 child	2 children	3 children	4 or more children
Total number ¹	380,500	92,200	215,800	8,600	127,000	65,600	37,100	21,500	68,100	30,400	12,400	17,700
Total percent.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less than \$10.....					2.6	0	0	0	5.8	3.1	0	0
\$10 to \$19.99.....	25.5	46.0	10.8	12.6	51.1	9.3	4.7	2.2	90.1	22.0	12.9	8.4
\$20 to \$29.99.....	48.0	47.8	10.5	12.7	38.7	23.8	6.2	13.2	4.1	52.0	13.6	19.0
\$30 to \$39.99.....	21.2	5.3	33.0	36.0	9.6	37.8	16.3	8.7		21.8	39.4	11.3
\$40 to \$49.99.....	5.4	.9	25.4	22.8		20.0	28.4	23.0		4.0	24.6	25.4
\$50 to \$59.99.....			12.9	11.3		9.4	23.5	24.7			7.6	23.6
\$60 to \$69.99.....			7.4	4.6			12.9	16.8			1.9	13.1
\$70 to \$79.99.....							7.8	8.6				5.4
\$80 to \$85.00.....								4.9				1.8
Average monthly amount per family.....	\$24.90	\$19.60	\$39	\$37.20	\$20.20	\$34.60	\$48.20	\$51.40	\$13	\$25.10	\$35.50	\$46.80

¹ Families with retired worker, wife, and child, or retired worker and 2 or more children, or widowed mother only, or 1 or 2 aged parents not shown because too few cases in sample.² Widow's benefit reduced to less than \$10 by primary benefit to which widow was concurrently entitled.³ Family benefit is less than minimum amount because one or more additional family members were entitled to benefits which were withheld at end of 1946.⁴ The percentage at the \$10 minimum was 7.6 for retired male workers and 16.1 for retired female workers.⁵ The percentage at the \$15 minimum was 6.2 for retired worker and wife and 7.8 for retired worker and 1 child.⁶ The maximum possible in 1946 was as follows; \$22 for 1 child; \$33 for an aged widow; \$44 for a retired male or female worker; \$55 for a widowed mother and 1 child; \$66 for a retired worker and wife or 1 child; and \$77 for 2 widowed mother and 2 children.

**APPENDIX F. MEMORANDUM BY TWO MEMBERS DISSENTING FROM
THE MAJORITY REPORT WITH RESPECT TO MANDATORY COVER-
AGE OF THE TRADITIONALLY TAX-EXEMPT INSTITUTIONS**

As stated in the report of the majority of the Council members, it is highly desirable to establish as complete coverage as possible of employees under old-age and survivors insurance. The majority report recognizes special problems with respect to Federal civil-service employees, railroad employees, and the employees of State and municipal governmental units. Special problems exist also and should be recognized with respect to the traditionally tax-exempt religious, charitable, and educational institutions. A reasonable method of attaining maximum coverage of their employees should be possible without doing violence to traditional tax exemption.

There is no doubt that the contributions to old-age and survivors insurance are taxes. The statutory declaration of intent that the imposition of taxes for purposes of old-age and survivors insurance is not a precedent for other taxation of religious, charitable, and educational institutions, is at best a "pious hope," because the imposition of any tax on the institution is in fact an encroachment on its tax exemption.

There is in this problem no insuperable difficulty. The method of inclusion by voluntary adherence is no more difficult than in the case of employees of other employers that require special treatment. In each case there is a problem of method. The appropriate device, in order to safeguard immunity from the power to tax, which is the power to destroy, is an elective right to the institution to come in under the old-age and survivors insurance provisions.

Protection against adverse selection of risk would be adequately assured by requiring the electing institution to cover all its employees, except clergy and members of religious orders, within a reasonable period for exercising the election.

It seems unnecessary here to recount why a free society in its own self-interest has encouraged religious, charitable, and educational institutions to develop free from the political constraints of taxation. This basic protection of other freedoms surely should not be jeopardized where, as here, the desired social objectives can be reasonably accomplished by sound alternative methods.

APPENDIX G. RÉSUMÉ OF MINORITY OPINIONS ON CHANGES IN BENEFIT AND CONTRIBUTION BASE

THE PRESENT BASE OF \$3,000 SHOULD BE RETAINED

The following statement is a résumé of the various reasons why several Council members approve of retaining unchanged the present tax and benefit base of \$3,000. Some members lay more stress on one or more of the reasons stated than on others.

The proposed change from \$3,000 to \$4,200 in the present tax base and in the wages credited for benefits should be judged by the concrete results which the change would produce and not by theoretical considerations related to the fact that \$3,000 was chosen as the base when prices were lower. These results, boiled down, mean that the well to do, all those with average wages of \$4,200 a year *and over*, would receive larger increases in benefits both by amount and by percentages than would those with average wages below \$3,000, with whom social security should primarily be concerned.¹ Moreover, these extra benefits to the well to do would be granted for many years without being covered by the additional taxes which they pay.

If the new benefit formula were applied to the present base of \$3,000 these errors would be avoided. This is illustrated in the following table which gives the monthly primary benefits for persons becoming entitled to benefits (1) in 1949 after continuous coverage since January 1, 1937, and (2) after 40 years of coverage. The figures above the horizontal line are those that would follow a retention of the \$3,000 base. Those below the line show the changes that would result from raising the \$3,000 to \$4,200. In considering the amounts of the benefits it should be borne in mind that if the retired worker has a wife aged 60 or over, 50 percent must be added in each case.

Average wage	Entitlement in 1949 after 12 years of coverage				Entitlement after 40 years of coverage			
	Present formula	AC formula	Amount of increase	Percent increase	Present formula	AC formula	Amount of increase	Percent increase
\$100.....	\$28.00	\$41.25	\$13.25	47	\$35.00	\$41.25	\$6.25	18
\$200.....	39.20	56.25	17.05	43	49.00	56.25	7.25	15
\$250.....	44.80	63.75	18.95	42	56.00	63.75	7.75	14
\$300.....	44.80	63.75	18.95	42	56.00	63.75	7.75	14
\$350 and over.....	44.80	63.75	18.95	42	56.00	63.75	7.75	14
\$300.....	44.80	71.25	26.45	59	56.00	71.25	15.25	27
\$350 and over.....	44.80	78.75	33.95	76	56.00	78.75	22.75	41

Looking at the left-hand half of the table, one may well ask why should those at the \$4,200 and other levels receive a 76-percent increase in benefits as compared with 42 percent for those at the \$3,000 level?

¹ It should also be stated that those with average wages between \$3,000 and \$4,200 also receive extra benefits that favor them as compared with those earning \$3,000, but not to the same extent as at the \$4,200 level and above.

Looking at the right-hand half, one may well ask why should the well-to-do receive a 41-percent increase in benefits and those at the \$3,000 level only 14 percent? The figures above the line represent reasonable changes. Those below depart from sound social-security principles by unduly favoring the high-income groups.

If the \$3,000 base were retained, the primary benefit for persons with average wages of \$3,000 and over would, as indicated, be \$63.75 a month or \$95.62 for a man with a wife over age 60. Such monthly payments should be sufficient to provide the basic measure of protection which is the stated objective of old-age and survivors insurance.

It is important to realize that for many years the extra benefits to the well-to-do which would result from shifting the base from \$3,000 to \$4,200, would not be covered by the extra taxes which they pay as a result of the change. The extra taxes would be brought about by the fact that all earning \$4,200 and over, would pay taxes on an additional \$1,200 of earnings. If the combined employers and employees tax rates were 3 percent (1½ plus 1½), the trust fund would receive extra taxes of \$36 a year. If the combined rates were 4 percent (2 plus 2), the extra taxes would be \$48 a year.

Now consider the values of the extra benefits resulting from the change in the base. One way of showing what these would amount to is to compute the single premium values of the extra benefits as of the time they become payable. For example, the single premium value to a man aged 65 with a wife of the same age, of the extra benefits (\$15 a month to him, \$7.50 a month to her) is \$3,057. To meet this amount, the Government will have collected extra taxes of \$36 or \$48 a year. To get an idea of the values of the extra benefits for other conditions, the following table has been prepared.

Age	Single premium values of extra benefits		
	Single man	Married man with wife aged—	
		Same as himself	5 years younger
65.....	\$1,852	\$3,057	\$3,346
70.....	1,485	2,456	2,738

It is obvious from these figures that the extra taxes will not cover the extra benefits for those with average wages of \$4,200 or over who are *now middle-aged or older*. In essence we say to them that in addition to the very substantial subsidies required to provide the benefits they will receive on the \$3,000 base, they are to be still further subsidized for extra benefits of \$15 or \$22.50 a month. Why is it not reasonable to expect persons in such circumstances to make independent provision for these extra benefits without Government subsidy?

Another valid reason for retaining the \$3,000 base is the extensive changes that would have to be made in many of the more than 6,800 private pension plans covering about 10,000,000 employees which are now integrated into the present base.

Furthermore, unemployment insurance and old-age and survivors insurance now have the same tax base. The benefits under unemployment insurance have been raised substantially without a change in the base, and the same can be done in old-age and survivors insurance, as indicated above. Different tax bases in the two systems would complicate record keeping and tax reporting for all employers, resulting in much additional clerical work.

The time, of course, may come when the distortions that would be caused by much higher price levels than at present would justify a change both in the type of formula and in the tax base. When that time arrives, however, there should be no such special favoring of the well-to-do as would follow the adoption of the proposed change. Under present conditions, adherence to the \$3,000 base is the proper course.

THE PRESENT BASE OF \$3,000 SHOULD BE RAISED TO \$4,800

The following statement is a résumé of the various reasons why several Council members favor increasing the present tax and benefit base to \$4,800. Some members lay more stress on one or more of the reasons stated than do others.

The increase in the tax base from \$3,000 to \$4,200 and the corresponding change in the top limit of wages credited for benefits is not sufficient. The increase should be to \$4,800. Since the original base was set, the consumers' price index has risen by more than 60 percent, so that an income of \$4,800 today has less purchasing power than an income of \$3,000 had in 1939. Hence, raising the tax base and wages credited for benefits to \$4,800 would not be a real increase—it would, in fact, fall short of maintaining the 1939 relationship between the wage base and prices.

The rise in prices during the last 9 years has cut by over 38 percent the purchasing power of the savings which millions of people had accumulated against their old age. Increasing the tax base to \$4,800 and permitting wages up to this amount to be credited for benefits would help to correct some of the injustices which the rise in prices has inflicted.

The members of the Council who dissent from the proposal to increase the base seem to have based their dissent in part on the assumption that a large number of those who would receive larger benefits as a result of the increase can be classed as well-to-do. The great majority of such persons are not well-to-do by current standards. Only about 3 percent of all workers have wages in excess of \$4,800. A survey of the Department of Labor has indicated that 4 months ago a budget for an urban worker, his wife and two children ranges from \$3,121 in the lowest-cost city to \$3,565 in the highest-cost city surveyed. *This budget does not include any amount for cash savings.* It is not a luxury budget.

It is, of course, true that raising the wages credited for benefits from \$3,000 to \$4,200 or to \$4,800 would give a larger percentage increase in benefits to persons earning above \$3,000 than to persons receiving less than \$3,000. The reason for this is the obvious one that under the present formula no wages above \$3,000 affect the size of the benefits.

It has been argued that the increased benefits which would result from raising the wage base above \$3,000 will not be covered by the additional taxes paid. In the short run no one at any wage level pays the costs of even the present benefits. Even in the short run, however, the high-income person pays more of the costs of his own benefits than does one with low income. The higher the wage base, the greater percentage of the cost of their benefits do those in the top brackets pay.

On the basis of the majority recommendation for raising the limit to \$4,200, for example, the \$350 per month man would—

Pay in contributions—	But receive in benefits—
250 percent.....	90.9 percent. More than the \$100 per month-man.
75 percent.....	40 percent... More than the \$200 per month-man.
40 percent.....	23.5 percent. More than the \$250 per month-man.
16.7 percent.....	10.5 percent. More than the \$300 per month-man.

Taken as a whole and over the entire existence of the system, there is a net gain to the system by raising the wage base above \$3,000. Taken over the short run as well, the additional tax receipts on wages between \$3,000 and \$4,800 would more than offset the additional benefits based on these wages.

If one were to accept the argument that the wages credited for benefits should not be increased above \$3,000 a year because doing so would increase the benefits of persons receiving above \$3,000 a year by a larger percentage than those of persons receiving below \$3,000, one would be committed to permanent retention of the \$3,000 limit no matter how high prices and wages might go. That would be an untenable position. The tax base and the wages credited for benefits should be adjusted from time to time as the price level changes and also as the wage level changes. There are likely to be few periods in the country's history in which the price level rises by 60 percent in a 9-year period. Hence, there are likely to be few times when an adjustment of the tax base and the wages credited for benefits are more needed than today. The adjustment should be by approximately the amount of the increase in the consumer price index since 1939, that is, to \$4,800.

APPENDIX II. STAFF OF ADVISORY COUNCIL

Robert M. Ball, Staff Director.

Leona V. MacKinnon, executive assistant.

Fedele F. Fauri, professional assistant.

Irving Ladimer, professional assistant.

Milton M. Mayer, professional assistant.

Helen Livingston, research assistant.

Robert J. Myers, actuarial consultant of the Social Security Administration, prepared the cost estimates, which were reviewed by George W. K. Grange, a member of the staff of the Metropolitan Life Insurance Co.

