

STAFF DATA WITH RESPECT TO
H.R. 17550
SOCIAL SECURITY AMENDMENTS
OF 1970

PREPARED BY THE STAFF
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
RUSSELL B. LONG, *Chairman*

PART 5

OTHER ISSUES ASSOCIATED WITH
SOCIAL SECURITY CASH BENEFITS



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1. BENEFITS FOR ADOPTED CHILDREN

A. Background and History

There has been some dissatisfaction with the provisions of the present law as they relate to benefits for children who are adopted by a retired or disabled worker. As a result, there have been a number of inquiries from Members of both the Senate and the House as to how the law might be changed to permit the payment of benefits in a more equitable manner.

Until the enactment of the Social Security Amendments of 1965, a child adopted by a retired worker entitled to social security benefits could get social security benefits as soon as the adoption was completed. As a result of the 1965 amendment and subsequent legislation, however, this provision was changed to limit the benefits to certain cases in which the adoption took place within 2 years of the time the worker became entitled to benefits. In order to qualify for benefits under present law, the child must have been receiving at least one-half of his support from the adopting worker and either have been living with the adopting worker at the time he became entitled to benefits or the adoption proceedings must have been started before that time.

The 1965 change had been recommended by the administration as the result of a situation which the then chairman of the Committee on Finance, Senator Harry F. Byrd, Sr., had brought to its attention. Senator Byrd was concerned with certain adoptions which had taken place in Greece, seemingly for the sole purpose of qualifying a child for social security benefits under a simplified judicial proceeding.

In 1967, a Senate floor amendment became law which was designed to pay benefits in a particular case involving a child adopted by a disability insurance beneficiary, and in the pending 1970 amendments (sec. 121) the House adopted an exception to the 1967 legislation designed to provide benefits in another particular situation.

While the pre-1967 legislation was technically complex, the 1967 change and the House-passed 1970 change would make for further complications and the policy underlying the provisions would become even more difficult to ascertain. Moreover, even with these changes, benefits would not be payable in a number of the situations which have been brought to the attention of the staff. The general problem concerns children who were living with and dependent on a worker at the time he became entitled to disability or old-age benefits, but whose adoption was not completed within 2 years of the time the worker became entitled to benefits.

B. Adoption by Disability Insurance Beneficiaries

Under present law, when a worker is entitled to disability insurance benefits and adopts a child, the child cannot become entitled to benefits unless—

1. the child is the worker's natural child or stepchild; or
2. the adoption was within 24 months after the month the worker last became entitled to disability insurance benefits and

either the adoption proceedings were instituted on or before the first month of the worker's period of disability, or the child was living with him in such month; and

3. the adoption took place under the supervision of a public or private child-placement agency, and (a) the adoption was decreed by a court of competent jurisdiction in the United States; and (b) the adopting parent had continuously resided in the United States for at least 1 year prior to the date of the adoption; and (c) the child was under age 18 at the time the adoption took place.

Section 121 of the House-passed bill would provide an exception to the requirement (instituted by the 1967 amendment) that the adoption take place under the supervision of an adoption agency if—

1. the child is related to the disabled worker, by blood, adoption, or step relationship; and

2. the child was living with the disabled worker for at least the five consecutive years just before the worker became entitled to disability insurance benefits; and

3. the child was receiving at least one-half of his support from the worker for at least the 5 consecutive years just before the worker became entitled to disability insurance benefits; and

4. the continuous 5-year period began before the child was 18.

While the House-passed provision would provide benefits for a child in the specific situation it is designed to cover, it would not take care of other situations about which concern has been expressed—children adopted by both disabled and retired workers who were living with and dependent on a worker for at least 1 year but for less than 5 years but who cannot meet the particularized exception in the 1967 amendments and the House-passed bill, for example, the requirement that the adoption must be supervised by a child-placement agency.

C. Adoption by Old-Age Insurance Beneficiaries

A child who is adopted by an old-age insurance beneficiary cannot become entitled to a child's benefit unless—

1. the child is the worker's natural child or stepchild; or

2. the adoption was within 24 months after the month the worker became entitled to retirement insurance benefits; and

3. the adoption proceedings were instituted in or before the month the parent applied for retirement benefits or the child was living with him in such month; and

4. the child received one-half of his support from the worker for the year before the worker applied for retirement benefits, or if the worker had a period of disability which continued until he became entitled to retirement benefits, for the year before the period of disability began.

D. Comment

The staff believes that these provisions are confusing and that the several proposals which have been made to modify them, while securing a specific goal, add to the confusion. Therefore, it is suggested that the administration of the law, the understanding of it by the public, and the equities of a social insurance program could be improved if

the law were changed so that a single set of requirements would apply to adoptions undertaken by both old-age insurance and disability insurance beneficiaries. Such a provision could be designed in a way that would preserve the objectives of present law in preventing abuse of the program through adoptions which would be entered into only for the purpose of increasing social security benefits.

Thus, it is suggested that the provisions relating to children adopted by disability and old-age insurance beneficiaries be changed so that benefits would be payable to a child adopted by a person who is entitled to either type of benefit without regard to the time at which the adoption takes place if—

1. the child was living in the United States with the worker for the full year just before the worker became entitled to disability or old-age insurance benefits;
2. the child was under 18 at the time he went to live with the worker and lived with him up to the time he is adopted;
3. the child was receiving at least one-half of his support from the worker for the full year just before the worker became entitled to benefits; and
4. the adoption takes place in a court located within the United States.

The Social Security Administration is in agreement with this proposal.

These requirements should provide the necessary safeguards to discourage adoptions the primary objective of which is to increase a family's social security benefits, particularly adoptions outside the United States. On the other hand, the proposal would permit the payment of benefits on a more uniform and equitable basis, including those anomalous cases where a dependent child has lost his right to benefits based on his father's account because of an adoption but cannot qualify for benefits on the record of the adopting worker.

2. MAXIMUM FAMILY BENEFITS

Since 1940, when monthly benefits were first provided for dependents and survivors, there has been a limitation on the total monthly benefit payable to a family on a worker's earnings record. The purpose of the limitation is to assure that generally a family will get no more in benefits after a worker dies, becomes disabled, or retires than it had in earnings while he was working. The limitation—the so-called family maximum—is related to the worker's average monthly earnings under the program; under present law it is 80 percent of the first \$436 of average monthly earnings (two-thirds of the maximum possible average monthly earnings—\$650 under the \$7,800 contribution and benefit base), plus 40 percent of the next \$214 of average monthly earnings, but not less than 1½ times the primary insurance amount.

There is some concern about the way in which the family maximum provisions of the present law work when there is a benefit increase. Under the present law, the family maximum is related to a worker's average earnings which do not change when benefits are increased. Therefore, it is necessary to provide a savings clause with each across-the-board benefit increase to assure that families on the benefit rolls do not lose benefits and to assure that the family as a whole will get in-

creased payments. This results in a situation in which people on the benefit rolls on one day get an increase while people who come on the rolls the next day do not.

For example, a family with average earnings of \$300 a month under the law is subject to a limitation on total family benefits of \$240 a month. A family whose benefits began in September 1970 would receive \$240 a month. If the family began receiving benefits in 1968, however, they would have received a 15-percent increase in 1970 to give them a \$267 family benefit. If the family began receiving benefits in 1966, their benefit would be about \$312. If the family began receiving benefits in 1964, the family benefit would now be about \$334. If the family began receiving benefits in 1957, they would now receive benefits of about \$357—almost 50 percent more than a family with the same average earnings applying for benefits today.

This does not seem to be a desirable situation and it could be corrected either by relating the family maximum to the worker's primary insurance amount, rather than to average earnings, or by increasing the family maximum by the same percentage that benefits are increased.

If the family maximum is increased by the same percentage as the percentage increase in benefits generally, families coming on the benefit rolls after the benefit increase, as well as families already on the rolls, would have their family benefits increased by the full increase in the primary insurance amount, and there would be no need for saving clauses.

Enactment of the proposal would meet the criticism made by families who come on the benefit rolls just after a benefit increase—that they get less in benefits than another similar family with comparable earnings. In the past the point has been made that periodic increases in the family maximums would eventually result in family benefits being higher than the earnings that the worker had before he retired, became disabled, or died.

The cost of a proposal to increase family maximums by the same percentage as the percentage increase in benefits generally is estimated to be .02 percent of taxable payroll, about \$100 million annually.

If the family maximum were a multiple of the worker's benefit rather than basing it on the average monthly earnings, each time benefits were increased (either on an ad hoc or automatic basis) the family maximum would be increased.

This approach would be more costly than the proposal for increasing the maximums by the same percentage as the percentage increase in benefits generally; how much more costly would depend on the multiple used.

3. EQUALIZING COMPUTATION OF AVERAGE WAGES FOR WOMEN AND MEN

Under present law, retirement benefits for men are figured differently, and less advantageously, than are the benefits for women. For a man, the period for determining the number of years of earnings that are used in figuring the average monthly earnings on which his benefits are based ends with the beginning of the year in which he reaches age 65. For a woman, the period ends with the beginning of the year in which she reaches age 62. Thus, 3 more years are used for a man than are used for a woman of the same age.

The difference in calculating average benefits for men and women under the program can result in significantly lower benefits being paid to a retired man than are paid to a retired woman with the same earnings. For example, take the case of a man and a woman who reach age 65 and retire in 1971. They each have maximum creditable earnings under the program in each year up to 1971. The woman's benefit beginning at age 65 would be \$200.30 a month under present law while the man's benefit would be only \$193.70 a month. If both workers reach age 62 in 1971, the woman's benefit would be \$155 a month while the man's benefit would be only \$148.80 a month.

The House bill would equalize the computation of average wages for men and women by permitting men to disregard—as women do—an additional 3 years of earnings in calculating average wages.

An alternative way of equalizing the computation points for both men and women would be to provide that the benefits paid women applying in the future be based on earnings up to age 65, as is the case in present law for men. Such an objective could be achieved in a gradual way by providing that women becoming entitled to benefits in 1972 would have their average earnings based on the number of years ending with age 63, those becoming entitled in 1973 at age 64 and those becoming entitled in 1974 and thereafter at age 65. Such a provision would decrease the cost of the House-passed bill by .20 percent of payroll (about \$1 billion annually), equivalent to the cost of about a 2-percent benefit increase.

4. THE SOCIAL SECURITY RETIREMENT TEST

A. Annual Earnings Limitations

Each beneficiary under age 72 (except disabled workers or disabled children of retired, disabled, or deceased workers—to whom the test is not applicable) may earn as much as \$1,680 per year without any reduction in OASDI benefits. If a beneficiary exceeds this limit, his benefits will be reduced by \$1 for every \$2 of annual earnings between \$1,680 and \$2,880, and by \$1 for every \$1 of annual earnings in excess of \$2,880.

Under the House-passed bill, the annual limit would be increased to \$2,000 and the reduction for excess earnings would be \$1 for each \$2 of earnings (without any limit) above \$2,000. In the future the exemption would be increased as average covered earnings increase. (This is discussed in the committee print on Automatic Adjustments in Social Security Benefits and Taxable Wage Base.)

B. Cost of Repealing the Test

In every Congress bills are introduced to repeal the retirement test. Such legislation would cost 0.56 percent of payroll more than the House-passed provision on a level-cost basis, or an average of about \$2½ billion a year.

C. Cost of Increasing the Annual Exempt Amount (With Corresponding Change in Monthly Measure)

(1) \$2,400—\$1 of benefits withheld for each \$2 of earnings between \$2,400 and \$3,600.

Cost: 0.07 percent of taxable payroll more than the House-passed bill; about \$250 million in first year.

(2) \$3,000—\$1 of benefits withheld for each \$2 of earnings between \$3,000 and \$4,200.

Cost: 0.20 percent of taxable payroll more than the House-passed bill; about \$600 million in the first year.

(3) \$2,400—\$1 of benefits withheld for each \$2 of earnings above \$2,400, without limit.

Cost: 0.8 percent more than the House-passed bill of taxable payroll; about \$280 million in the first year.

(4) \$3,000—\$1 of benefits withheld for each \$2 of earnings above \$3,000, without limit.

Cost: 0.21 percent of taxable payroll more than the House-passed bill; about \$645 million in the first year.

D. Effects of Retirement Test

The Social Security Administration estimates that as of January 1, 1970 there were—

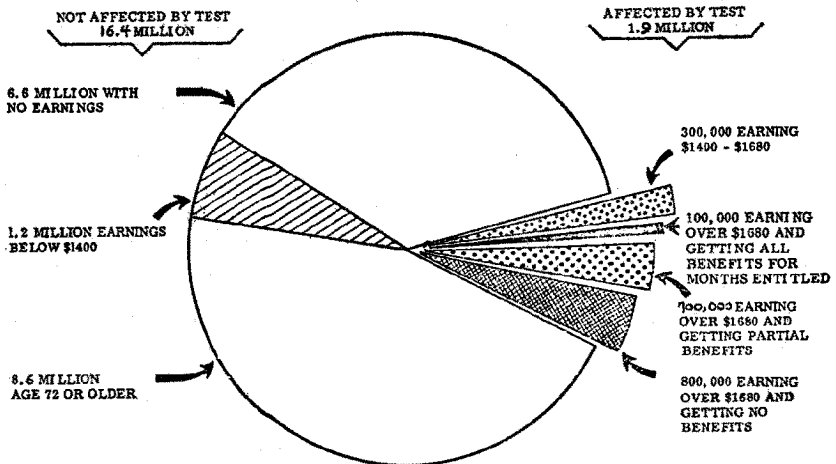
6.6 million social security beneficiaries aged 65–72 who had no earned income in 1969;

1.2 million, aged 65 to 72, with earned income of less than \$1,400 in 1969;

700,000 aged 65 to 72, who earned over \$1,680 and who received some benefits for 1969;

800,000, age 65 to 72, who earned over \$1,680 and who received no benefits.

NUMBER OF PEOPLE* AFFECTED BY RETIREMENT TEST IN 1969



18.3 MILLION ELIGIBLE PEOPLE AGED 65 AND OLDER

(AS OF JANUARY 1, 1970)

5. MINIMUM SOCIAL SECURITY BENEFITS

Benefits under the social security program are related to average monthly earnings. However, workers and widows are guaranteed a minimum benefit under present law of \$64 per month. (The minimum benefit may be subject to an actuarial reduction.)

H.R. 17550 would increase the minimum benefit from \$64 to \$67.20, a 5-percent increase. This minimum benefit would be payable to persons with average earnings of \$76 or less. Various proposals have been made to increase the minimum benefit by more than this amount, and in 1969 an amendment passed in the Senate to increase the minimum benefit to \$100. Under H.R. 17550, a benefit of about \$100 would be payable to a person with average earnings of \$128.

Aged persons drawing benefits based on the minimum primary insurance amount (PIA) are those who had very low earnings in covered employment, irregular covered employment, a short period of such employment, or some combination of such circumstances. For example, social security coverage may have been earned on a second job either before, while, or after working in a job where they earned another public pension. There is a fair amount of evidence that low average earnings are more a reflection of only a partial attachment to the labor force rather than a reflection of longtime regular employment at low wages.

This is reflected in the Social Security Administration's statistics. About half of the cases with a minimum primary insurance amount represented retired women who were either widowed or had never been married. This high proportion undoubtedly reflects their low earnings and nominal labor force attachment during the years of child-bearing and child-rearing.

For married couples with benefits based on the minimum primary insurance amount, a significantly higher proportion received a second public pension (railroad retirement, civil service, or military retirement) than among social security beneficiaries receiving higher social security benefits.

Social Security Administration statistics show that about 16 percent of the men and 25 percent of the women entitled to benefits based on the minimum primary insurance amount had *no* covered earnings during the 11 years prior to entitlement. More than two-thirds of the men and four fifths of the women had worked during 8 or less of the 15 years prior to entitlement. Since 60 percent of the men and 45 percent of the women having 8 or fewer years of covered earnings worked under social security in the year before becoming entitled to the minimum benefit, this would tend to support the assumption that many persons receiving minimum benefits had not worked in covered employment until their later years, and then acquired insured status in the years shortly before filing for benefits.

6. ADDITIONAL INFORMATION ON THE COST EFFECTS OF THE AUTOMATIC BENEFIT AND TAX PROVISIONS

September 28, 1970

MEMORANDUM

From : Francisco Bayo, Deputy Chief Actuary, SSA

Subject: Old-Age, Survivors, and Disability Insurance System--Financing under H.R. 17550 Using Various Assumptions Regarding Future Increases in Wages and in Consumer Price Index

Three illustrative projections have been prepared regarding the financing of the OASDI system under H.R. 17550 as passed by the House. All projections are based on an assumption that wages will increase by 5.4% in 1971 and by 5.0% in 1972, and that CPI will increase by 3% in 1972. For years after 1975, the projections are based on different assumptions. The first projection assumes that wages would increase at 4% per year, while CPI would increase at 2%. For the second projection, the assumptions are 4½% wages and 2½% CPI, while the third projection is based on 5% wages and 3% CPI.

The level-cost estimate of the OASDI system over the next 75 years for these projections are shown in the attached Table 1. Also shown in that table is the level-cost of the system under level-earnings assumption.

The income and outgo under each set of assumptions, along with the fund on hand, are shown for various years in the attached Table 2.

Attachments

Francisco Bayo
Francisco Bayo

RECEIVED SEP 30 1970

TABLE 1.—OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM, ESTIMATED LEVEL-COST¹ OF H.R. 17550 AS PASSED BY HOUSE UNDER VARIOUS WAGES AND PRICES INCREASES ASSUMPTIONS

[In percent]

Item	Assumed annual increases			
	0 percent wages and 0 percent prices	4 percent wages and 2 percent prices	4½ percent wages and 2½ percent prices	5 percent wages and 3 percent prices
Net level-cost.....	10.54	9.15	9.94	11.05
Contribution schedule.....	10.39	10.82	10.85	10.87
Actuarial balance.....	-.15	1.67	.91	-.18

¹ Computed over 75-year period and expressed as a percent of taxable payroll, including the effect of lower contribution rates on self-employment income and on tips as compared with the combined employer-employee rates.

TABLE 2.—OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM, PROGRESS OF COMBINED TRUST FUNDS UNDER H.R. 17550 AS PASSED BY HOUSE FOR VARIOUS WAGE AND PRICES INCREASES ASSUMPTIONS¹

[All amounts in billions]

Calendar year	Assumed annual increases								
	4 percent wages and 2 percent prices			4½ percent wages and 2½ percent prices			5 percent wages and 3 percent prices		
	Income	Outgo	Fund ²	Income	Outgo	Fund ²	Income	Outgo	Fund ²
1975.....	\$60	\$48	\$58	\$60	\$48	\$58	\$61	\$51	\$56
1980.....	89	60	153	93	62	156	94	64	148
1985.....	124	79	346	132	83	360	137	89	352
1990.....	169	103	632	180	112	659	192	123	654
1995.....	234	133	1,062	256	150	1,110	278	169	1,115
2000.....	318	169	1,705	354	197	1,790	399	230	1,834
2025.....	1,302	790	10,016	1,534	1,104	9,900	1,807	1,564	9,105
2040.....	2,660	1,780	20,373	3,168	2,757	16,475	3,665	4,395	6,944

¹ All projections are based on wage increases of 5.4 percent in 1971; 5 percent in 1972; 4.6 percent in 1973; 4.3 percent in 1974; 4.1 percent in 1975, and 4 percent in 1976 and thereafter unless the above indicated assumption is higher. CPI increases are assumed at 3 percent in 1973 and at half at the increase in wages thereafter unless the indicated assumption is higher.

² Total old-age, survivors and disability insurance fund on hand at the end of the calendar year.

7. ADDITIONAL AMENDMENTS RELATED TO SOCIAL SECURITY CASH BENEFITS

Amendment 949 (Schweiker)

Provides that any employee who is a member of a recognized religious sect in existence at least since 1950, who can show that he is an adherent of established teachings which cause him to conscientiously oppose acceptance of social security benefits (the Amish), may file an application to waive such benefits and be exempt from the employee portion of the social security taxes. The employer who employs him, however, would not be exempt from the employer portion of these taxes.

Amendment 974 (Eagleton and others)

Permits the State of Missouri to extend social security coverage to policemen and firemen who are members of State or local retirement systems. (No cost.)