

**TRANSACTIONS OF SOCIETY OF ACTUARIES  
1961 VOL. 13 NO. 36AB**

**1960 AMENDMENTS TO THE SOCIAL SECURITY ACT**

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**T**HE Presidential election year of 1960 proved no exception to the precedent that in each of the even-numbered years after 1949, major amendments to the Social Security Act have been enacted. Changes were made in the Old-Age, Survivors, and Disability Insurance system, the Unemployment Insurance system, and the Public Assistance program. As background, this paper first summarizes the recent operations of the OASDI and PA programs. Then, the legislative history of the 1960 Amendments is presented in some detail, since proposals advocated unsuccessfully, or even passed by one House, often are embodied in subsequent legislation. Finally, the provisions of the OASDI system following the 1960 Amendments are summarized by categories, with particular emphasis on changes made and on financing aspects.

The principal change in the OASDI system in 1960 was the elimination of the requirement that the insured worker must be at least age 50 in order to receive disability benefits. The most significant debate, however, covered the provision under OASDI of hospital and related medical benefits for aged beneficiaries. Although the OASDI approach was rejected, the medical-care features of the Old-Age Assistance programs were considerably augmented. Since it seems certain that the subject of medical-care provisions through social insurance will continue to be publicly debated, a consideration of what transpired may be of some significance in considering the possible future course of events. The Unemployment Insurance amendments were primarily of a minor and technical nature, dealing with the over-all financing of the state systems.

The 1950 Amendments had modified the OASI system by extending coverage to many employments previously not included, by roughly doubling the benefits, by liberalizing the retirement test, and by providing a definite long-range financing basis. The principal effects of the 1952 Amendments were to raise the benefit level slightly and to liberalize further the retirement test. The 1954 Amendments extended coverage even further (to virtually all types of employment), again increased the benefit level, further liberalized the retirement test, introduced the "disability freeze" provision, and increased the ultimate contribution rates.

The 1956 Amendments extended OASI coverage on a regular contributory basis to the armed forces and to certain small groups, enlarged some beneficiary categories (by lowering the minimum eligibility age for women from 65 to 62, and by providing child's benefits beyond age 18 if disabled), added monthly disability benefits beginning at age 50 (the program thus becoming OASDI), and provided an immediate increase in the tax rates (in order to support the disability benefits). The 1958 Amendments increased benefits, liberalized the disability benefits by adding dependents' benefits, and strengthened the financing basis of the system. The 1960 Amendments, besides eliminating the age-50 requirement for disability benefits, included some extensions of coverage to certain small categories, a slight liberalization (but considerable improvement in concept) of the retirement test, a liberalization of the eligibility or insured-status conditions, an increase in child survivor benefits, and a change in the interest basis for trust fund investments.

## EXPERIENCE SINCE 1950

*Old-Age, Survivors, and Disability Insurance*

Table 1 shows the growth in the number of beneficiaries and in the benefit disbursements under the OASDI program that has occurred since the 1950 Amendments. The dates are selected to show the status of the system immediately before the various amendments became effective and immediately afterward (except in regard to the 1956 and

TABLE 1  
SELECTED DATA ON MONTHLY BENEFITS UNDER OASDI SYSTEM

MONTH	BENEFICIARIES (MILLIONS)			ANNUAL RATE OF BENEFITS (MILLIONS)†	AVERAGE MONTHLY BENEFIT FOR RETIRED WORKERS
	Retired Workers*	Disabled Workers‡	Total‡		
August 1950.....	1.41	.....	2.96	\$ 740	\$26.36
September 1950.....	1.44	.....	3.02	1,368	46.62
August 1952.....	2.43	.....	4.65	1,992	42.36
September 1952.....	2.50	.....	4.75	2,325	48.79
August 1954.....	3.60	.....	6.53	3,419	51.95
September 1954.....	3.64	.....	6.59	3,911	58.75
June 1956.....	4.73	.....	8.32	5,273	62.76
November 1958.....	6.92	.27	12.43	8,370	66.35
January 1959.....	6.97	.30	12.20	9,117	71.40
August 1960.....	7.92	.55	14.22	10,874	73.91

\* Aged 65 and over until November 1956; then includes women aged 62 and over.

† Aged 50 to 64.

‡ These figures are somewhat understated by reason of retroactive payments, made some months later in respect to specific past months. These figures have been modified so as to eliminate all duplication in regard to persons receiving more than one type of benefit (such as both an old-age benefit as a retired worker and a widow's benefit).

1960 Amendments, under which the general level of benefits was not increased). The number of retired workers has increased 460% in the decade since August 1950, as a result of the maturing of the system and of the liberalized qualifying requirements, retirement test provisions, and extensions of coverage under the various amendments. A smaller rise occurred for total beneficiaries under the program. The average monthly benefit increased about 180% during the period and will continue to rise because current awards are somewhat higher than benefits for those on the roll. As a result of these two trends, the annual rate of benefit disbursements for those on the roll increased almost 15-fold in the decade.

Table 2 contrasts the actual operations of the OASI and DI Trust

TABLE 2  
COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF  
OASDI TRUST FUNDS, 1959-60

ITEM	1959			1960		
	Actual (millions)	Estimated* (millions)	Ratio, Actual to Estimated	Actual (millions)	Estimated* (millions)	Ratio, Actual to Estimated
OASI Trust Fund						
Contributions.....	\$ 8,052	\$ 8,632	93%	\$10,866	\$10,621	102%
Benefit Payments.....	9,842	9,504	104	10,677	10,027	106
Administrative Expenses.....	200†	161	124	203	166	122
Payment to Railroad Retirement‡.....	275	219	126	309	196	158
Interest on Fund.....	525	567	93	506	590	86
Fund at End of Year....	20,141	20,971	96	20,324	21,794	93
DI Trust Fund						
Contributions.....	\$ 891	\$ 980	91%	\$ 1,010	\$ 991	102%
Benefit Payments.....	457	431	106	568	492	115
Administrative Expenses.....	34†	21	162	36	23	157
Payment from Railroad Retirement‡.....	21	10	210	5	-20	.....
Interest on Fund.....	41	42	98	53	59	90
Fund at End of Year....	1,825	1,887	97	2,289	2,402	95

\* As shown in Tables 9 and 10 of "The 1958 Amendments to the Social Security Act," by Robert J. Myers, TSA XI, 1.

† Adjusted to allow for effect of amounts due one Trust Fund from the other Trust Fund.

‡ Under the financial interchange provisions.

Funds during 1959 and 1960 with the estimates made at the time the 1958 Amendments were being considered. Contribution income in 1960 was \$11.9 billion, or about  $4\frac{1}{2}$  times as high as in 1950. This increase resulted from the doubled contribution rates, the 60% higher maximum earnings base subject to taxes, the increase of 50% in coverage, and the general rise in earnings levels.

In 1959, for the third consecutive year, OASI contributions were lower than the benefit payments, by about \$1.8 billion, but in 1960 this trend was reversed, with contributions at the higher rate of 6% for employer and employee combined (as against 5% in 1959) exceeding benefit payments by about \$200 million. As a result, the Trust Fund decreased by about \$1.7 billion during 1959, but increased by \$200 million in 1960. The actual contributions in 1959 were 7% lower than had been estimated, but the actual benefit payments were 4% above the estimate. The apparent sizable over-estimate of 1959 tax receipts is explained by the fact that the cash receipts are on an estimated basis; the combined income-tax withholding and OASDI taxes paid by employers are subdivided into these two components by estimate but with subsequent appropriate adjustments based on employer wage-reports. In this particular case, the "actual" taxes were unduly deflated by this estimation procedure. In 1960, the actual contribution income and benefit payments were above the estimates, by 2% and 6% respectively. The estimated administrative expenses for both years were considerably lower than the actual, which represented only 2% to  $2\frac{1}{2}$ % of contributions. The actual balance in the Trust Fund at the end of 1960 was about 7% less than estimated.

The contribution income to the DI Trust Fund in 1959 and 1960, as contrasted with the estimate, showed the same pattern as for the OASI Trust Fund. On the other hand, the benefit payments were above the estimate in both years. It must be emphasized that the major factor involved in the experience for these years was the extent of backlog cases, rather than current disability incidence and termination experience. As a result, the balance in the DI Trust Fund at the end of 1960 was 5% lower than estimated.

### *Public Assistance*

From 1936 to 1950, the old-age assistance (OAA) roll increased steadily, but it then declined slowly, even though the aged population was increasing by about 3% per year. The roll declined from a peak of 2.81 million in September 1950 to 2.33 million in December 1960 (including 40,000 in Guam, Puerto Rico, and the Virgin Islands, not in the program before

the 1950 and 1958 Acts). The steady rise in the average payment (from \$44 a month to \$69) resulted in an increase in the annual rate of payments from \$1.48 billion to \$1.93 billion. Despite the significant increases in the Federal matching proportion over the years as a result of the amendments (see Table 3), the total Federal share of the cost of OAA has not risen sharply. Thus, the Federal share varied between 46% and 49% during 1937-46, then rose to 52% in 1947 and 1948, to about 55% in most years in 1949-57, and to 59% in 1959. This trend is not as sharply upward as might be expected because more and more states have been making payments in excess of the matchable individual maximums or matchable average maximums.

The number of child recipients under the aid to dependent children program was about 1.7 million in 1950 and fluctuated from about 1.4 to 1.7 million until the beginning of the 1957-58 business recession; since then, the number has risen to a level of 2.4 million at the end of 1960. Total assistance expenditures under this program rose from a rate of about \$550 million a year in 1950 to \$1.1 billion a year at the December 1960 rate. Recipients of aid to the blind were virtually constant during the decade at about 100,000, with the annual rate of payments currently at about \$95 million. The number of recipients of aid to the permanently and totally disabled (established in 1950) rose gradually and in December 1960 numbered about 375,000, with payments at an annual rate of about \$300 million.

#### *Relationship between OASDI and OAA*

The number of OASDI beneficiaries aged 65 and over (including wives and widows) exceeded OAA recipients for the first time in the early part of 1951. In December 1960, there were over 4½ times as many beneficiaries as recipients (10.6 million versus 2.35 million).

A growing number of individuals aged 65 and over receive both OASDI and OAA benefits. Since, over the long range, OASDI is intended to be the major program for providing basic old-age security, it is important to consider the trend in the number of concurrent recipients, shown for recent years in the accompanying table.

Although some have been removed from OAA because of eligibility for OASDI or because of increased OASDI benefits, the concurrent recipients showed an increase because of two factors—a larger number of those on OAA who became eligible for low OASDI benefits and still needed supplementary OAA, and the growth of the OASDI roll, with more persons thus “exposed” to the need for supplementary OAA.

Another important comparison is the proportionate relationship be-

DATE	NUMBER OF CONCURRENT RECIPIENTS (THOUSANDS)	CONCURRENT RECIPIENTS AS PERCENTAGE OF	
		OASDI Beneficiaries Aged 65 and over	OAA Recipients
June 1948.....	146	10.0%	6.1%
September 1950.....	276	12.6	9.8
February 1952.....	406	12.0	15.1
February 1954.....	463	9.7	18.0
February 1956.....	516	8.0	20.4
February 1958.....	597	7.1	24.2
February 1960.....	676	6.7	28.5

tween aged OASDI beneficiaries, OAA recipients, and total aged population (where "aged" means aged 65 and over). The following table summarizes these relationships as of June of even-numbered years from 1950 to 1960:

YEAR	PERCENTAGE OF AGED POPU- LATION RECEIVING		
	OASDI	OAA	OASDI or OAA or Both
1950.....	17.0%	22.6%	37.5%
1952.....	26.0	20.3	43.2
1954.....	35.8	18.7	51.1
1956.....	45.4	17.3	59.1
1958.....	58.2	16.2	70.4
1960.....	66.4	14.8	76.9

Since 1950, the relative proportion of the aged population receiving OASDI benefits has quadrupled, while the proportion receiving OAA has decreased about 35%. At the same time, the proportion receiving either or both has doubled. In addition to the 77% currently receiving OAA or OASDI, another 8% of the aged population is eligible for OASDI benefits but not receiving them because of continued employment.

#### HISTORY OF LEGISLATION

##### *OASDI Changes*

In 1959, the House Ways and Means Committee held two series of public hearings on social security legislation. One hearing dealt with

hospitalization and related benefits for OASDI beneficiaries. The other dealt with the operations and administrative aspects of the DI portion of the program.

Beginning in March 1960, the Ways and Means Committee held executive sessions on all aspects of the Social Security Act (see appended bibliography for the most important legislative documents). The Executive Branch of the Government had previously made no major recommendations for legislation. The Committee reported a bill (H.R. 12580) making changes not only in the OASDI system but also in the unemployment insurance program, in the public assistance program, and in the maternal and child health and the child welfare provisions of the Social Security Act. This bill was passed by the House, under a rule not permitting amendments, by the usual overwhelming vote on June 23. Provisions relating to hospitalization and related benefits within the OASDI system for beneficiaries were not included in the bill. Instead, a new program was included that would furnish Federal grants to the states to aid them in providing medical care for the aged who are not OAA recipients. These provisions, and subsequent developments, are discussed in the following section. The following major changes in the OASDI program were contained in the bill:

1. Age-50 requirement for disability benefits would be eliminated, and changes would be made to encourage rehabilitation.
2. Fully-insured-status provision would be liberalized to require only 1 quarter of coverage, regardless of when earned, for every 4 quarters elapsing after 1950, instead of "1 out of 2" as under existing law.
3. All child survivor benefits would be 75% of primary benefit, instead of 75% for first child and 50% for other children.
4. Survivors of persons who died before 1940 but had at least 6 quarters of coverage would become eligible for benefits prospectively.
5. Coverage would be extended to a number of small categories, including self-employed physicians, certain state and local government employees, American employees of foreign governments and international agencies employed in the United States, non-domestic-service employment of parents by son or daughter, and employment in Guam and American Samoa. Coverage of domestic workers would be extended by reducing the quarterly earnings requirement from \$50 to \$25.
6. Interest-rate basis for new trust fund special-issue investments would be changed so as to be on a current average market-yield basis, instead of an average coupon-rate basis (in general, as recommended by the 1958 Advisory Council on Social Security Financing and by the Administration).

The Senate Committee on Finance held public hearings on the House bill in June and August. The bill was then reported out with the following significant OASDI changes:

1. Liberalization of the fully-insured-status provision was eliminated.
2. Extension of coverage to certain categories (physicians, employment by international agencies, family employment, additional domestic workers, and employment in Guam and American Samoa) was eliminated.
3. Annual exempt amount in retirement test would be increased from \$1,200 to \$1,800.
4. Minimum eligibility age for men for all types of old-age benefits would be reduced from 65 to 62, with actuarially-reduced benefits (as for women under existing law).

The Senate, by a record vote of 91 to 2, passed the bill on August 23, making no significant changes in the OASDI provisions of the Finance Committee bill.

The Conference Committee between the House and the Senate resolved the differences between the two versions of the bill in the following manner:

1. Fully-insured-status is on a "1 out of 3" basis.
2. Extension of coverage is to all groups in the House bill except self-employed physicians and the additional group of domestic workers.
3. Retirement test is revised by continuing the \$1,200 annual exempt amount but providing that, for excess earnings, \$1 of benefit is withheld for each \$2 of the first \$300, with a \$1 for \$1 basis thereafter.
4. No change is made in the minimum eligibility age for men.

Both bodies accepted these changes, and the bill was signed by the President on September 13 as Public Law 86-778.

#### *Medical Benefits for the Aged and Related Matters*

For several years before 1960 there had been legislative proposals for providing hospital and related benefits for eligible monthly beneficiaries of the OASDI system, to be financed by an additional payroll tax under the program.

The best-known proposal was that of Congressman Forand, under which all persons eligible for OASDI benefits except disability beneficiaries would have available the following service benefits: a maximum of 60 days of semiprivate hospital care per year, a maximum of 120 days (less days of hospitalization) of skilled nursing-home care after transfer from hospital in connection with further medical treatment, and surgical services. The benefits would be available not only to persons actually on the benefit roll, but also to those eligible for benefits but not receiving them because of the retirement test, the flexibility of which would make it difficult to differentiate between those who are "retired" and those who are not. The bill provided for an increase of  $\frac{1}{3}\%$  in the combined em-



ployer-employee contribution rate, which was slightly below the original estimate of cost on a level-premium basis, but considerably below the subsequent estimate of .79%. Representative Forand, however, took the position that he was willing to provide whatever tax rate was necessary to finance the benefits on a sound basis.

The House Ways and Means Committee held hearings on this bill in July 1959. Strong support for the bill came from various labor and social welfare organizations. Those opposed included the Executive Branch, medical societies, and business organizations. In general, the differences in opinion arose over the issue of whether the growing, but by no means complete, voluntary coverage in this area could handle the problem of medical cost for the aged, who have higher-than-average risks and lower-than-average income. The question of the merits of an "insurance" plan versus a "means test" plan also entered into the discussion.

The Ways and Means Committee took no action after these hearings, but the subject came up for considerable discussion in its executive sessions on the 1960 Amendments. The Committee rejected the social-insurance approach as embodied in the Forand Bill, and also several modifications thereof which eliminated surgical benefits, restricted the benefit protection to aged eligibles, or provided alternative cash benefits for those not desiring medical-service benefits, by a vote of approximately 2 to 1 in each case.

Following the hearings on medical care in 1959, the Executive Branch developed a plan not related to the OASDI system and with an income test (but not an individual means test). This was presented to the Ways and Means Committee early in May 1960. Under this proposal, there would be Federal grants to states to help finance comprehensive medical benefits for persons aged 65 and over with annual income of \$2,500 or less (\$3,800 for a couple). The state plans would have to be of a major-medical type, with a \$250 annual deductible (\$400 for a couple) and 20% coinsurance on the part of the participant (with certain inside limits, such as a maximum of 180 days of hospital care and a maximum of \$350 per year for prescribed medicines). The participant would pay an annual enrollment fee of \$24, except that for OAA recipients the fee and coinsurance would be waived and the initial deductible of \$250 would be paid by the OAA program. Alternatively, without enrollment fee, eligible persons would obtain 50% reimbursement of premiums (with a maximum reimbursement of \$60 a year) for private major-medical policies.

The balance of the cost of the program under the Executive Branch proposal would be paid jointly by the Federal government and the state,

with the Federal proportion ranging from  $\frac{1}{3}$  to  $\frac{2}{3}$  depending upon the relative per capita income in the state (and averaging about 50%). This proposal would, of course, necessitate state action in order for it to be effective. It was estimated that, if all states participated, the total annual cost falling on the general treasury of the Federal government would be close to \$700 million, with somewhat more than \$600 million coming from state and local governments, and almost \$200 million from the enrollment fees. This plan, like the Forand Bill, was rejected by the Ways and Means Committee.

The only action taken by the Ways and Means Committee was the provision in its bill for a new public assistance program furnishing medical assistance for aged persons not receiving OAA and having heavy medical expenses. The Federal share of the costs would range from 50% to 65%, depending upon the per capita income in the state. In addition, increased medical care under the OAA program would be encouraged by (1) requiring that OAA recipients receive medical benefits at least as adequate as those available under the new program, and (2) increasing the regular Federal matching proportion for OAA by 5 percentage points for additional medical expenditures made for OAA recipients (up to a monthly average of \$5 per recipient).

The provisions approved by the Ways and Means Committee and passed by the House of Representatives were extensively considered by the Senate Finance Committee, as were also a number of proposals embodying the social-insurance approach and the voluntary individual participation lines, such as the Executive Branch plan. As in the case of the Ways and Means Committee, the Senate Finance Committee rejected the non-means-test proposals by a vote of about 2 to 1 and then expanded the public-assistance approach of the House bill. The Senate Finance Committee provisions were adopted by the Senate and accepted by the Conference Committee and are now law.

The new program to provide help in paying medical costs for aged persons who are not OAA recipients but who have limited resources is termed Medical Assistance for the Aged. The scope of services that may be provided under state plans established under this program is extremely broad. Liberal interpretation of need is encouraged by prohibiting both liens during a recipient's lifetime and duration requirements as to citizenship or residence. The Federal matching proportion ranges from 50% to 80%, depending on the per capita income in the state (under a matching formula described later).

At the same time, the Senate Finance Committee liberalized the Federal matching proportions for OAA in regard to amounts spent for

medical care in the form of vendor payments (but did not require that a state must furnish as comprehensive medical care under OAA as under its MAA program). This change, too, was accepted by the Senate and the Conference Committee and is now law. For states with average total payments (cash and vendor medical) of more than \$65 per month, Federal matching at a rate of 50% to 80%, depending on per capita income, is made on the average vendor medical payment that brings the total average payment above \$65, but not beyond \$77. For states with average payments of \$65 or less, there is an additional Federal payment of 15% of the first \$12 of average vendor medical payments—in other words, a Federal matching percentage of 65% to 80% on the portion of the average payment due to the first \$12 of average medical vendor costs (even more is possible in the rare case where a state has an average total payment of less than \$30). If the latter method produces a more favorable result for states with average payments above \$65 (generally only when slightly above this amount), it is used.

It was estimated that the cost of Medical Assistance for the Aged would in a few years amount to about \$325 million per year, with somewhat more than half coming from the Federal government. In the first year, when new state programs would be established, the cost was estimated to be only about one-third as large. The additional matching for vendor medical payments under OAA was estimated to have a first-year cost of about \$140 million to the Federal government, but only a slight amount to the states since many already have sizable programs in this field.

Extensive consideration of other programs of medical-care benefits for the aged was given during the Senate debate. Senator Javits proposed a plan that was a combination of the Executive Branch proposal and one that he had previously developed (providing “first dollar” or “diagnostic and short-term illness” benefits), with the same basic principles. There would be state programs with individual voluntary participation, but with an income limit (\$3,000 for single persons and \$4,500 for couples). Participants would pay enrollment fees that would amount to at least 10% of the average benefit cost of the program. The remainder of the financing would come from Federal and state and local funds, with Federal government matching ratios of  $\frac{1}{3}$  to  $\frac{2}{3}$ , depending upon the per capita income in the state. Three alternative benefit bases would be available:

1. A “first dollar” plan (in a year, 21 days of hospitalization or nursing home services, 12 physician visits, laboratory and X-ray services up to \$100, and home health care for 24 days).

2. A "major medical" plan (in a year, \$250 deductible and 20% coinsurance, with a maximum of 120 days of hospitalization and with unlimited nursing home and home health care services).
3. Reimbursement of private insurance premiums for health benefits (50% of premium, with annual maximum reimbursement of \$60), with no enrollment fee being charged.

It was also provided that state plans could be somewhat more liberal than the above specifications, with further Federal matching available. This proposal, for the minimum benefits, would have a total government cost of about \$700 million a year, approximately equally divided between the Federal government and the state and local governments. It was defeated by a vote of somewhat more than 2 to 1.

The Senate also considered a social-insurance approach to the problem, sponsored by Senators Anderson and Kennedy, which was a development and extension of the Forand Bill. Semiprivate hospital benefits for a maximum of 120 days per year would be available to all OASDI eligibles aged 68 and over after an initial deductible of \$75. In addition, there would be skilled nursing-home care after discharge from hospital and for an associated condition, home health services, and diagnostic outpatient hospital services. It will be noted that no surgical benefits would be provided. Certain other medical benefits, however, would be included—specifically, certain hospital outpatient diagnostic services and organized home health services which would be intended to prevent unnecessary use of hospitals when services could be furnished more inexpensively by other ways. The proposal would be financed by an increase of  $\frac{1}{2}\%$  in the combined employer-employee contribution rate, the lower rate than for the Forand Bill being adequate in view of the age-68 limitation and the \$75 deductible. This proposal was defeated by a vote of 51 to 44.

Table 3 shows the matching basis for the various public assistance programs as it has developed over the years. The Federal matching ratios under the variable grant procedure are explained by the following formula, where  $P$  is the Federal grant percentage applicable to the upper portion of the average payment in the state (i.e. above \$30), and  $N$  and  $S$  are the national and state per capita incomes:

$$P = 100 - 50 \cdot \frac{S^2}{N^2} \quad \text{and} \quad 50 \leq P \leq 65,$$

except that for vendor medical payments for OAA and MAA payments,  $50 \leq P \leq 80$ . Under this formula (as it will apply for the period July 1961 through June 1963), for other than medical payments, 15 of the 51

jurisdictions (the 50 states and the District of Columbia) have a Federal matching proportion of 50% (as by law do Guam, Puerto Rico, and the Virgin Islands), while 17 have the maximum proportion of 65%, leaving only 19 falling between 50% and 65%. When the 65% maximum is extended to 80% in respect to medical payments, only 3 states are affected by the maximum.

TABLE 3  
 MAXIMUM MATCHABLE AMOUNTS AND FEDERAL MATCHING PROPORTIONS FOR PUBLIC ASSISTANCE UNDER VARIOUS LAWS\*

Law	Maximum Matchable Individual Payment†	Federal Matching Proportion‡
Old-Age Assistance, Aid to Blind, and Aid to Disabled§		
1935 Act.....	\$30	$\frac{1}{2}$
1939 Act.....	40	$\frac{1}{2}$
1946 Act.....	45	$\frac{2}{3}$ of first \$15 + $\frac{1}{2}$ of remainder
1948 and 1950 Acts.....	50	$\frac{2}{3}$ of first \$20 + $\frac{1}{2}$ of remainder
1952 and 1954 Acts.....	55	$\frac{2}{3}$ of first \$25 + $\frac{1}{2}$ of remainder
1956 Act.....	60	$\frac{2}{3}$ of first \$30 + $\frac{1}{2}$ of remainder#
1958 Act.....	None	$\frac{2}{3}$ of first \$30 + variable grant (ranging between 50% and 65%) on next \$35
1960 Act.....	None	Same as 1958 Act, plus additional amount on first \$12 of average vendor medical payment (see text)
Aid to Dependent Children		
1935 Act.....	\$18 and \$12	$\frac{1}{2}$
1939 Act.....	18 and 12	$\frac{1}{2}$
1946 Act.....	24 and 15	$\frac{2}{3}$ of first \$ 9 + $\frac{1}{2}$ of remainder
1948 and 1950 Acts.....	27 and 18	$\frac{2}{3}$ of first \$12 + $\frac{1}{2}$ of remainder
1952 and 1954 Acts.....	30 and 21	$\frac{2}{3}$ of first \$15 + $\frac{1}{2}$ of remainder
1956 Act.....	32 and 23	$\frac{2}{3}$ of first \$17 + $\frac{1}{2}$ of remainder#
1958 Act.....	None	$\frac{2}{3}$ of first \$17 + variable grant (ranging between 50% and 65%) on next \$13

\* Not applicable to Puerto Rico and the Virgin Islands (included for the first time in 1950 Act), and Guam (included for the first time in 1958 Act), for which territories there is 50-50 matching within certain limits.

† Per month. For aid to dependent children, first figure is applicable to first child (and beginning with 1950 Act, to one adult in the family), while second figure is applicable to all other children.

‡ Dollar figures relate to average matchable payment (for ADC, averaged over all child recipients for 1946 and 1948 Acts, and over all child and adult caretaker recipients for later Acts).

§ Aid to permanently and totally disabled was introduced in 1950 Act.

# In addition, Federal matching on a 50-50 basis was made available for vendor medical payments up to a maximum of \$6 for adults and \$3 for children (averaged over all recipients). This provision was eliminated in 1958.

*Other Public Assistance Changes*

Under H.R. 12580 as reported by the Ways and Means Committee and passed by the House, there were no major changes in the public assistance programs other than those noted previously. This bill increased *authorizations* for the maternal and child welfare programs—from a total of \$58½ million a year to \$70 million, which was raised to \$75 million in the Senate bill and the final law.

The Senate Finance Committee amended the aid to the blind program by increasing the exemption of earned income in determining need from \$50 a month to \$1,000 a year plus 50% of all excess over \$1,000. The Conference Committee changed this provision to a monthly exemption of \$85 plus 50% of the excess.

An amendment to the OAA program was added on the Senate floor to provide Federal financial participation in payments made to individuals in mental and tuberculosis institutions. This had an estimated Federal cost of about \$120 million per year. The Conference Committee deleted this provision.

*Unemployment Insurance Changes*

The 1960 Amendments made a number of relatively noncontroversial changes in the Federal-state program of unemployment insurance, as follows:

1. The net portion of the Federal unemployment tax (the remainder of the Federal tax may be offset by credit for taxes paid under a state program) is increased from .3% to .4%, applied to the first \$3,000 of annual covered wages, effective in 1961.
2. The proceeds of this higher Federal tax, after covering the administrative expenses of the employment security program, is available to build up a larger fund for loans to states whose reserves may become depleted. The maximum possible size of the loan fund is increased from the \$200 million under previous law to either \$550 million or .4% of total wages subject to state unemployment taxes, whichever is higher.
3. Improvements are made in the arrangements for financing the administrative costs of the program by building up a revolving fund of \$250 million for such expenditures.
4. The conditions relating to eligibility for and repayment of loans are tightened.
5. Coverage is extended to some 60,000 to 70,000 additional employees, such as those working in Federal Reserve Banks, Federal credit unions, and commercial and industrial activities of nonprofit institutions.
6. Puerto Rico is brought into the program.

These provisions were contained in the bill reported out by the House Ways and Means Committee. With the exception of those relating to the

increased size of the loan fund and the eligibility for a repayment of loans, they were deleted by the Senate Finance Committee. The Senate reinserted the extension of the program to Puerto Rico. The Conference Committee restored all the provisions of the House Bill, and so these are contained in the final law.

#### OASDI BENEFICIARY CATEGORIES

Fully insured individuals are eligible for old-age benefits upon attainment of the minimum retirement age (men at age 65 and women at age 62). The amount of this benefit is 100% of the primary insurance amount, PIA (defined later), except in the case of a woman worker first claiming benefit before age 65. In the latter case, there is reduction in the benefit of  $\frac{5}{8}\%$  for each month below age 65 at time of retirement. Thus, a woman retiring at exact age 62 receives a 20% lifetime reduction, which closely approximates an "actuarial equivalent" basis; this "early retirement" provision, however, involves additional cost because fully insured status and average monthly wage are determined as of age 62 for women, instead of at age 65, as for men. Benefits are paid only after an individual files a claim and is substantially retired (retirement test provisions described hereafter). Retroactive payments may be made for as many as 12 months before the individual filed claim; this is also done in respect to all other monthly benefits.

An individual is eligible for disability insurance benefits if (a) he is permanently and totally disabled and has been so disabled for at least 6 months (except that, under the 1960 Amendments, no second waiting period is required in the case of a recovered disability beneficiary who has a relapse within 5 years), and (b) he has fully and disability insured status (before the 1960 Amendments, attainment of age 50 was also required). Total and permanent disability is statutorily defined as inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration. The waiting period of 6 consecutive months of disability is not a presumptive period that, if satisfied, "proves" the existence of a qualifying permanent disability. The determinations of disability are made by state agencies (generally the vocational rehabilitation unit) with review by the Social Security Administration (which may reverse the finding of disability but may not reverse a denial of the existence of disability except on a direct appeal of the individual). The determination of continuance of disability is made by the Social Security Administration.

The disability benefit is 100% of the PIA and is not reduced by the

amount of any other Federal disability benefit or by any workmen's compensation payment. Generally, an individual must undertake vocational rehabilitation training; during the first 12 months thereof or, as a result of the 1960 Amendments, during the first 12 months of any employment, benefits will be paid regardless of earnings if the individual has not medically recovered from his disability. The 1960 Amendments also provide that any individual who medically recovers from his disability will, nonetheless, continue to receive benefits for 3 months (but these payments, together with any "trial work" benefits, cannot exceed 12 months). There is no permitted amount of earnings as there is for other beneficiaries (retirement test). Rather, a disability beneficiary might have small earnings and still continue to receive benefits as long as he is considered not able to engage in any substantial gainful activity. The disability benefits terminate at age 65, when the beneficiary then goes on the old-age benefit roll.

If the retired or disabled individual has a wife aged 65 or over (regardless of her age, if she has an eligible child in her care), an additional benefit of 50% of the PIA is payable, with a similar addition for each eligible child. A wife between age 62 and 65 without an eligible child can elect to receive reduced benefits. These are based on a reduction factor of  $\frac{25}{36}$ % for each month under age 65 at time of claiming benefit, which reduction continues during the joint lifetime of the couple. Thus, a wife claiming benefit at exact age 62 has a 25% reduction—somewhat less than the approximately 30% needed on an "actuarial equivalent" basis. A larger reduction than that for the woman worker is required because it applies during the shorter joint lifetime of the couple, as compared with the single lifetime of the woman worker. Husband's benefits are payable to a man if he is aged 65 or over and has been chiefly dependent on the retired or disabled female worker and she was currently insured at time of retirement or disablement.

Widow's benefits are payable at age 62 if the deceased husband was fully insured. Parallel benefits are payable to dependent widowers aged 65 or over. The benefit is 75% of the PIA.

When a fully insured worker dies, parent's benefits are payable (upon attainment of age 65 for men and 62 for women) to parents who have been dependent upon such individual. The benefit is 75% of the PIA for each parent.

When a fully or currently insured individual dies leaving a child under age 18 or permanently and totally disabled since before age 18, benefits are payable to such child and to the widowed mother while an eligible child is in her care. In case of the death of an insured female



worker, the child must be dependent on her or the woman must have been currently insured. The survivor benefits are 75% of the PIA for each beneficiary (before the 1960 Amendments, children after the first child received only 50%).

In all cases of death of a fully or currently insured individual, there is a lump-sum death payment of the lesser of 3 times the PIA and \$255, the maximum amount available under the 1952 Act, which it is important to note has not been increased. The lump sum is payable in full to a surviving spouse; in other cases it may not exceed the actual burial costs. This benefit must be claimed, in general, within 2 years of death.

Certain limitations apply to these benefits. No individual can receive the full amount of more than one monthly benefit. For instance, if a woman has her own old-age benefit as well as a wife's or widow's benefit, then only the amount of the larger benefit may be received. In addition, there are certain minimum and maximum benefit provisions (described subsequently), and restrictions on payment of benefits in the case of persons convicted of crimes affecting the security of the nation.

The 1960 Amendments made a number of changes in regard to eligibility or continuing eligibility of beneficiaries in case of adoptions, marriages, etc. For example, the requirement for duration of marriage for spouses of retired workers (formerly 3 years) is now the same as for survivor cases (1 year). Also, a child can now draw benefits in respect to his father even though he is living with and being supported by a stepfather.

#### OASDI BENEFIT AMOUNTS

The primary insurance amount, from which all benefits are determined, is based on the average wage of the insured individual and a benefit formula.

##### *Average Monthly Wage*

The concept of average monthly wage used in the OASDI program is a "career average" computed over the entire period of potential coverage; however, certain periods of low earnings are excluded. The 1960 Amendments made some minor, yet significant, changes in the specific provisions for computation of the average wage. Formerly, there were complicated rules for using or not using earnings before age 22. Also, when persons eligible for benefits worked beyond the minimum retirement age, the average was computed either as of that age or as of age of actual retirement even though a computation point at an intermediate age was more favorable and could be used by the knowledgeable individual who filed advantageously. Under the new basis this situation is eliminated,

and in fact there is an incentive to defer retirement when there is the possibility of high earnings in the future.

In general, for future cases the average wage is computed over a number of years equal to the number of years after 1955 (or year of attainment of age 26, if later) and before the year of disablement, death, or attainment of retirement age (if fully insured then), whichever occurs first. Allowance is thus made in the computation—as under previous law—for the drop-out of 5 calendar years after 1950 (or attainment of age 21, if later). The years equal to this number can be selected from those with highest earnings after 1950, including before attainment of age 22, in or after the year of attainment of the minimum retirement age, and in the “5-year drop-out period.” In addition, under the “disability freeze” provision, established periods of disability are excluded. The average wage may also be computed back to the beginning of the system in 1937, on the same basis, if a larger benefit will result. For current retirement cases not involving a disability freeze, the average wage must be computed over at least 5 years. A minimum period of 2 years is prescribed, to apply only in unusual survivor and disability situations.

In summary, the new average-wage method has the result that persons becoming entitled after 1960 who reach the minimum retirement age in 1961 and have not had a period of disability have their average computed over the best 5 years following 1950; applicants after 1960 who reached the minimum retirement age before 1961 may also use this method. This period increases 1 year for every year that the year of attainment of the minimum retirement age exceeds 1961, until the maximum of 38 years for men and 35 years for women is reached. Thus, eventually, when no disability is involved, the average wage for retirement benefits for men is based on the best 38 years in the entire working lifetime (and the best 35 years for women).

Under the previous law, except under very unusual circumstances, an individual retiring in the next few decades could not obtain the maximum average wage of \$400—and thus the maximum PIA—since he would have to include at least 3 years in the period 1951–58, when the maximum earnings base was less than \$4,800. This differed from the situation when the earnings base was changed previously (1950 and 1954 Acts), because “new start” provisions made the new maximum average wage fully available for benefit purposes within 1½ years.

The revised basis for computing the average wage under the new law will be particularly advantageous for individuals who work several years beyond the minimum retirement age, especially in the early years of operation of the system. As a specific example, consider a fully insured

man who attains age 65 at the beginning of 1962. His average wage at that time is based on his best 6 years in the 11 years, 1951-61. If he continues to work through 1964 (until the end of the year in which he attains age 67), his average wage will be based on his best 6 years in a 15-year period, and he could qualify for the maximum PIA of \$127 a month if he had the maximum creditable earnings of \$4,800 a year in 1959-64. Similarly, a person attaining the minimum retirement age in 1961 or before can obtain the maximum PIA by deferring retirement until having had the maximum covered earnings in each of the 5 years 1959-63.

The maximum family benefit of \$254 (discussed later) is immediately available for retirement, disability and survivor cases.

### *Benefit Formula*

In all acts before the 1958 Amendments, a definite benefit formula for the PIA was prescribed. For example, the benefit formula under the 1954 Act applicable to earnings after 1950 was 55% of the first \$110 of average monthly wage, plus 20% of the next \$240 of such wage (reflecting the \$4,200 earnings base). Under the 1958 Act and under present law, an apparently considerably different procedure is used. A benefit table gives the PIA (in integral dollars) for various ranges of average monthly wage (e.g., for an average wage of \$114 to \$118, the PIA is \$66). The benefit table also shows the maximum family benefit applicable for each PIA (e.g., \$99 where the average monthly wage is \$114 to \$118).

Actually, the benefit table is based on a definite formula and on definite minimum and maximum benefit provisions that are incorporated in the table. Thus, no change has been made in the basic principle that has prevailed in the past. The benefit formula is 58.85% of the first \$110 of average monthly wage, plus 21.40% of the next \$290 of such wage, with adjustment because of rounding. For average wages under \$85, a slightly higher amount is payable than results from the formula, so as to make a smooth junction with the minimum PIA of \$33. The benefit table also provides for the determination of the PIA when it is more advantageous to the beneficiary to compute the average wage back to 1937 and to use the benefit computation method of the 1939 Act.

### *Minimum and Maximum Family Benefits*

The minimum family benefit for survivors (applicable only to a 1-survivor family) is \$33. The maximum family benefit is the smaller of \$254 (twice the maximum PIA) or 80% of average monthly wage (the top of the range of average wages in the table). For example, if the average monthly wage is \$198 to \$202, the maximum family benefit is \$161.60—

80% of \$202. The 80% maximum, however, may not reduce benefits below the larger of 150% of the PIA or the PIA plus \$20. Thus, full benefits are paid in all cases where there are only two beneficiaries. The following table shows the maximums applicable for various average wages:

Average Monthly Wage	Primary Insurance Amount	Maximum Family Benefit
\$ 67 or under . . . . .	\$ 33-\$ 40	PIA + \$20
67-\$127 . . . . .	40- 68	150% of PIA
128- 314 . . . . .	69- 108	80% of average wage
315- 400 . . . . .	109- 127	\$254

Table 4 shows some illustrative monthly benefits, considering the minimum and maximum benefit provisions and the reductions for women workers and wives claiming benefits before age 65.

#### OASI RETIREMENT TEST

In general, benefits for retired workers and their dependents are not paid when the retired-worker beneficiary is engaged in substantial employment. This provision also applies to survivor beneficiaries and to dependents of a retired or disabled worker, insofar as the individual's benefit is concerned, when the beneficiary engages in substantial employment. This provision is termed the "retirement test"—a misnomer in regard to young beneficiaries.

Benefits are payable for all months in a year if the annual earnings from all types of employment are \$1,200 or less. In no event are benefits withheld for a month in which the individual has wages of \$100 or less and does not render substantial self-employment services (the monthly test). Moreover, the retirement test is not applicable after the individual reaches age 72. If annual earnings exceed \$1,200, benefits for months not affected by the monthly-test exemption are reduced—by \$1 for each \$2 of the first \$300 of "excess earnings" and by \$1 for each \$1 of subsequent "excess earnings." Under this basis an individual will always have more income from earnings and benefits combined by increasing his earnings beyond \$1,200 than if he so limits them. This important principle was introduced by the 1960 Amendments; formerly, it was often possible for an individual to decrease his total income by working beyond the \$1,200 point.

#### PAYMENT OF OASDI BENEFITS ABROAD

Benefits are not payable to deported persons, whose rights are terminated until they are subsequently lawfully admitted. This is also the

case for persons residing in countries where there is no reasonable assurance that checks can be delivered or cashed at full value, under which circumstances the benefits are credited to the individual and can subsequently be claimed when conditions change. For aliens residing outside the United States coming on the roll after 1956, benefits are payable only if the insured worker had 40 or more quarters of coverage or had resided in the United States for 10 or more years, or if the country of which he is a citizen has an appropriate reciprocity treaty with the United States

TABLE 4  
ILLUSTRATIVE MONTHLY BENEFITS UNDER OLD-AGE, SURVIVORS,  
AND DISABILITY INSURANCE SYSTEM FOR VARIOUS FAMILY  
CATEGORIES BASED ON EARNINGS AFTER 1950  
(All Figures Rounded to Nearest Dollar)

AVERAGE MONTHLY WAGE*	RETIRED WORKER ALONE		RETIRED WORKER† AND WIFE		RETIRED WORKER† WIFE, AND 1 CHILD‡
	Aged 65 or over at Retirement†	Woman Retiring at Age 62	Wife Aged 65 or over at Retirement‡	Wife Aged 62 at Retirement	
\$ 50.....	\$ 33	\$ 26	\$ 50	\$ 45	\$ 53
100.....	59	47	89	81	89
150.....	73	58	110	100	120
200.....	84	67	126	116	162
250.....	95	76	143	131	190
300.....	105	84	158	144	210
350.....	116	93	174	160	232
400.....	127	102	191	175	254

  

Average Monthly Wage*	1 Survivor	2 Survivors	3 Survivors	4 + Survivors
\$ 50.....	\$ 33	\$ 50	\$ 53	\$ 53
100.....	44	89	89	89
150.....	55	110	120	120
200.....	63	126	162	162
250.....	71	143	202	202
300.....	79	158	236	240
350.....	87	174	254	254
400.....	95	191	254	254

\* As defined in the law; see text for detailed explanation.  
 † Also applies to disability beneficiary.  
 ‡ Also applies to worker and dependent husband aged 65 or over, and to worker and 1 child.  
 § Also applies to worker and 2 children, or to worker, dependent husband aged 65 or over, and 1 child.

or has a general social insurance or pension system that will continue full benefits to United States citizens residing outside that foreign country.

#### COVERAGE PROVISIONS OF OASDI SYSTEM

The 1960 Amendments added only slightly to the coverage of the program by bringing in a small number of individuals in certain categories, principally in the area of state and local government employment. Also, the employment of a parent by his child was covered except for domestic service.

Virtually all gainfully employed persons are covered under the program or could be covered by election. The major exceptions are self-employed physicians, most policemen and firemen with their own retirement systems, Federal government employees under the Civil Service Retirement system, low-income self-employed persons, and farm and domestic workers with irregular employment. Railroad workers are, in essence, covered under the OASDI program as a result of the provisions for transfer of wage credits for those with less than 10 years of railroad service and as a result of the financial interchange provisions applicable to all railroad employees.

#### *Nonfarm Self-employed*

All nonfarm self-employed persons, nonprofessional and professional, except doctors of medicine, are covered. Earnings are reported annually on the income tax return, provided that such earnings are at least \$400.

#### *Farm Operators*

Farmers are covered on the same general basis as other self-employed persons, except for a special simplified reporting option for those with low net incomes. A farmer with gross income of \$1,800 a year or less may, instead of itemizing income and expense, use two-thirds of his gross income as his earnings for OASDI purposes. Consistent with this, farmers with gross incomes of over \$1,800, but net incomes of less than \$1,200, may report earnings of \$1,200.

#### *Employees of Nonprofit Organizations*

Coverage for employees of nonprofit organizations is at the option of each employing unit. As a result of the 1960 Amendments, the employer may elect coverage, with each employee then having the individual option on coverage. Previously, the election of coverage also required a two-thirds favorable vote of the employees concerned, and then employees voting favorably were covered. Once coverage is obtained, however, it is compulsory for new employees.

### *Ministers*

Ministers may, by individual voluntary election, be covered. Their earnings are considered as self-employment income even if they are employees. Such elections must, in general, be made within 2 years after coverage is first available to the individual as a result of his having at least \$400 of income from the ministry. The 1960 Amendments again extended (but not on a fully retroactive basis) the election period for ministers who could have elected coverage as early as 1955.

### *Employees of State and Local Governments*

Employees of state and local governments can be covered at the option of the state and of the employing unit. In addition, if there is an existing retirement system, a majority of the employees eligible must also vote in favor of coverage; however, policemen and firemen under an existing retirement system can be covered only in 16 named states. There are a number of special provisions for designated states that facilitate coverage extension to employees under existing retirement systems by making certain subdivisions, with each being separately considered for coverage.

### *Employees of Federal Government*

Virtually all Federal civilian employees not under an existing retirement system are covered on a regular contributory basis, as are members of the uniformed services. The "gratuitous" wage credits of \$160 a month for military service after September 15, 1940, are not given for service after 1956, when regular contributory coverage began. Both trust funds are reimbursed for benefit costs arising from such wage credits. Also, there is OASDI coverage on a coordinated basis for two small existing retirement systems (Tennessee Valley Authority and Board of Governors of the Federal Reserve Board).

### *Employees of Foreign Governments and International Organizations*

The 1960 Amendments cover all American citizens employed in the United States by foreign governments (and wholly-owned instrumentalities thereof) and by international organizations (such as the United Nations). This coverage is effected by considering these individuals to be self-employed, since it is not possible to levy taxes on their employers.

### *Farm Workers*

Farm employment is covered if cash wages in a year from a single employer amount to at least \$150. As an alternative, coverage is also applicable if there are 20 or more days of employment remunerated on a

time basis (rather than a piece-rate basis). Foreign farm workers admitted on a temporary basis are not covered.

### *Domestic Workers*

The coverage provisions for this group are cash wages of at least \$50 in a quarter from a single employer.

### *Employment Abroad*

The preceding coverage applies to employment in the United States (including Puerto Rico and the Virgin Islands and, as a result of the 1960 Amendments, Guam and American Samoa), or on American vessels or airplanes. In addition, United States citizens working for American employers abroad are covered, as also, at the option of the employer, are United States citizens working for foreign subsidiaries of American companies.

### OASDI INSURED STATUS CONDITIONS

There are three types of insured status, defined in terms of quarters of coverage. "Fully insured" is a requirement for old-age, disability, and dependents benefits. "Currently insured" provides limited eligibility for survivor benefits and is an auxiliary requirement for certain other benefits. "Disability insured" status is an auxiliary requirement for the "disability freeze" and for disability benefits.

A quarter of coverage requires \$50 in nonagricultural wages paid in a calendar quarter or \$100 of covered agricultural wages paid in a year. Self-employed individuals are credited with 4 quarters of coverage if their earnings meet the minimum test of \$400 in a year. Employees are credited with 4 quarters of coverage if their wages are at least equal to the maximum amount subject to tax.

Fully insured status requires that the number of quarters of coverage obtained at any time must equal at least one-third (reduced from one-half by the 1960 Amendments) of the quarters elapsed after 1950 (or year of attainment of age 21, if later) and before the year of death, disablement, or attainment of retirement age (65 for men and 62 for women). A minimum of 6 and a maximum of 40 quarters are required.

Currently insured status requires that 6 quarters of coverage are acquired in the 13-quarter period ending with the quarter of death, disablement, attainment of retirement age, or subsequent retirement.

Disability insured status requires that 20 quarters of coverage are obtained in the 40-quarter period ending with the quarter of disablement. An alternative requirement provided in the 1960 Amendments is applicable only to persons who became disabled before 1955.



The "disability freeze" provision permits the exclusion of established periods of disability in determining the number of elapsed quarters. Fully and disability insured status are measured to the beginning of such period of disability.

#### INVESTMENT PROCEDURES

Throughout the entire period of operation of the OASDI program, the method of investing the assets of the Trust Funds has changed relatively little. In general, it may be said that the Trust Funds, under the direction of the Secretary of the Treasury, receive the contribution income and pay the benefits and administrative expenses. The excess of income over outgo is invested in obligations of the Federal government, and the interest therefrom further augments the income of the system.

The investments can be in special issues or in any other securities of the Federal government, bought on the open market or at issue. Some regular issues have been bought, both on the open market and when they were offered to the general public. Most of the investments, however, have been in special issues. The special issues acquired before 1940, according to statute, bore an interest rate of 3%. From then until the 1956 Amendments became effective in October 1956, they carried an interest rate slightly below the average coupon rate on all interest-bearing obligations of the United States.

The 1956 Amendments changed the interest-rate basis for special issues so that it was based on the average coupon rate on all *long-term* Government obligations (issued initially for 5 or more years). The 1960 Amendments again revised this interest basis so that it is now determined from the average *market yield* rate on Government obligations that are not due or callable for at least 4 years (from the date of determination of the interest rate).

Initially, the special issues were for durations of about 5 years. Beginning in 1944, new investments of this type were for 1 year or less, and so this part of the investment portfolio was reinvested each year (on July 1). Currently, the special issues of the Trust Funds have maturity dates spread about equally over the next 15 years.

The special-issue interest rate was initially 2½% (in 1940), but as large volumes of long-term Government bonds were floated to finance the war effort, the rate gradually decreased and reached a low of 1½% in the period May 1943 to July 1946. Thereafter it rose to a level of 2¼% to 2¾% in the period July 1951 to March 1956. There was then a gradual rise to 2½% for the period July 1958 to September 1960, which was the last month before the new basis provided by the 1960 Amendments went into effect. When the interest basis was changed by the 1956 Amendments

(October 1956), there was no change in the actual computed rate. As it happened, the new method of basing the rate on long-term obligations (rather than on all obligations) produced a slightly lower unrounded rate, but the change in the rounding procedure produced a final rate that was exactly the same as on the previous basis.

The new basis under the 1960 Amendments produced a sharp increase in the special-issue interest rate, with  $3\frac{3}{8}\%$  for October,  $3\frac{3}{4}\%$  for November, and  $4\%$  for December, or appreciably in excess of the  $2\frac{5}{8}\%$  rate in effect for September (and the  $2\frac{3}{4}\%$  rate that would have been in effect for October to December under the old basis).

#### ACTUARIAL COST ESTIMATES FOR OASDI SYSTEM<sup>1</sup>

Table 5 presents the estimated level-premium cost, according to the intermediate-cost estimate, of the benefits by type and also similar figures for administrative expenses and for interest on the existing Trust Funds. An interest rate of  $3.02\%$  is used, as against  $3\%$  in the estimates for the system as it was before the 1960 Amendments, so as to reflect the effect of the new interest-rate basis for Trust Fund investments. Payments to insured workers account for  $70\%$  of the total level-premium benefit

<sup>1</sup> For more complete details on these estimates see Item 10 of the Legislative Bibliography.

TABLE 5

#### ESTIMATED LEVEL-PREMIUM COST OF BENEFIT PAYMENTS, ADMINISTRATIVE EXPENSES AND INTEREST EARNINGS ON EXISTING TRUST FUND AS PERCENTAGE OF TAXABLE PAYROLL,\* INTERMEDIATE-COST ESTIMATE

Item	OASI (Percent)	DI (Percent)
Primary benefits.....	5.98	0.44
Wife's benefits.....	.58	.05
Widow's benefits.....	1.25	†
Parent's benefits.....	.02	†
Child's benefits.....	.45	.07
Mother's benefits.....	.11	†
Lump-sum death payments.....	.12	†
Total benefits.....	8.51	.56
Administrative expenses.....	.10	.02
Interest on existing trust fund‡.....	— .19	— .02
Net total level-premium cost...	8.42	.56

\* Including adjustment to reflect the lower contribution rate for the self-employed as compared with the combined employer-employee rate.

† This type of benefit not payable under this program.

‡ This item is taken as an offset to the benefit and administrative expense costs.

cost, while 8% represents payments to dependents of such workers, and the balance of 22% is survivor benefits.

Table 6 gives the estimated cost of the total benefits as a percentage of payroll for various future years and also the level-premium cost under the low-cost, high-cost, and intermediate-cost estimates. The level-premium cost for the OASI benefits ranges from 7.4% to 9.6%, while the range for the ultimate costs is, of course, wider—namely, from 9.9% to 14.8%. For the DI benefits, both the year-by-year figures and the level-premium costs have close to a two-fold range from the low-cost estimate to the high-cost one.

The basic assumptions for the disability cost estimates have been changed from those used when this program was first adopted in 1956 and

TABLE 6  
ESTIMATED COST OF BENEFITS AS PER-  
CENTAGE OF PAYROLL\*  
(In Percent)

Calendar Year	Low-Cost Estimate	High-Cost Estimate	Intermediate-Cost Estimate†
OASI Benefits			
1970.....	6.69	7.02	6.85
1980.....	7.55	8.57	8.05
1990.....	7.73	9.78	8.71
2000.....	6.94	9.89	8.29
2025.....	7.81	13.01	9.97
2050.....	9.90	14.85	11.81
Level-Premium Cost‡....	7.40	9.65	8.42
DI Benefits			
1970.....	0.40	0.65	0.52
1980.....	.41	.72	.56
1990.....	.39	.71	.54
2000.....	.39	.74	.55
2025.....	.45	.82	.60
2050.....	.49	.85	.63
Level-Premium Cost‡....	.42	.73	.56

\* Taking into account lower contribution rate for the self-employed, as compared with combined employer-employee rate.

† Based on the average of the dollar costs under the low-cost and high-cost estimates.

‡ Level-premium contribution rate, at 3.02% interest rate, for benefits after 1959, taking into account interest on the December 31, 1959, trust fund, future administrative expenses, and the lower contribution rates payable by the self-employed.

when it was amended in 1958. The 1956 experience on disability incidence rates for men fell practically midway between the low-cost and high-cost assumptions. For women, however, the actual experience was about 25% lower than for men instead of 50% to 100% higher as had been assumed. Accordingly, the original incidence rates for men were continued, and those for women were lowered to the same values as the male rates (a small margin of safety). It is, of course, recognized that in many disability benefit programs the experience of the early years is much lower than in later years. In adopting these assumptions for the long-range estimates, account is taken of the fact that it is not within the jurisdiction of the Social Security Administration to liberalize the definition of disability by administrative action. Furthermore, it is assumed that there will be no court decisions that will have the general effect of liberalizing the definition of disability. As has been pointed out previously, the actual experience in 1959-60 was somewhat above the previous estimates, but this was due in large part to backlog cases rather than to current disability experience (which is controlling for the long-range estimates).

In the high-cost estimates, disability incidence rates for men are based

TABLE 7  
ESTIMATED PROGRESS OF OASI TRUST FUND, LOW-COST  
AND HIGH-COST ESTIMATES  
(In Millions)

Calendar Year	Contributions	Benefit Payments	Administrative Expenses	Railroad Retirement Financial Interchange*	Interest on Fund	Balance in Fund
Low-Cost Estimate						
1970 . . . . .	\$20,061	\$15,790	\$230	-\$100	\$1,420	\$ 45,530
1975 . . . . .	21,873	18,494	240	— 41	2,090	71,951
1980 . . . . .	23,821	21,168	250	41	2,841	98,122
2000 . . . . .	34,065	27,807	332	126	7,521	259,577
High-Cost Estimate						
1970 . . . . .	\$19,951	\$16,476	\$260	-\$220	\$1,157	\$ 36,974
1975 . . . . .	21,474	19,594	280	— 141	1,600	54,617
1980 . . . . .	22,833	23,014	290	— 39	1,913	64,999
2000 . . . . .	28,888	33,603	379	46	680	20,668†

\* A positive figure indicates payment to the Trust Fund from the Railroad Retirement Account, and a negative figure indicates the reverse.

† Fund exhausted in 2005.

on the 165% modification of Class 3 rates (which includes increasingly higher percentages for ages above 45). This corresponds roughly to insurance company experience in the early 1930's. Termination rates are Class 3 rates (relatively high, to be consistent with the high incidence rates assumed).

For the low-cost estimates, disability incidence rates for men are based on 25% of those used in the high-cost estimates—on the average, about 45% to 50% of the Class 3 rates, considering the larger adjustments above age 45. Termination rates are based on German social insurance experience for 1924-27, which is the best available experience as to relatively low disability termination rates that could be anticipated in conjunction with low incidence rates.

The incidence rates actually used for both estimates are 10% below the above rates because, unlike the general definition in insurance company policies, disability is not presumed to be total and of expected long-continued duration after 6 months' duration, but rather anticipated long-continued duration must be proven at that time.

It will be noted that the low-cost estimate includes low incidence rates (which produce low costs) and also low termination rates (which

TABLE 8  
ESTIMATED PROGRESS OF DI TRUST FUND, LOW-COST  
AND HIGH-COST ESTIMATES  
(In Millions)

Calendar Year	Contributions*	Benefit Payments	Administrative Expenses	Interest on Fund	Balance in Fund
Low-Cost Estimate					
1970.....	\$1,180	\$ 934	\$51	\$180	\$ 5,622
1975.....	1,287	1,049	55	223	7,599
1980.....	1,401	1,160	58	285	9,805
2000.....	2,004	1,573	78	743	25,537
High-Cost Estimate					
1970.....	\$1,174	\$1,525	\$55	\$ 42	\$ 1,089
1975.....	1,263	1,752	62	†	†
1980.....	1,343	1,943	66	†	†
2000.....	1,699	2,522	82	†	†

\* Transfers, which are expected to be relatively small, under the railroad retirement financial interchange provisions are included here.

† Fund exhausted in 1973.

produce higher costs, but which are considered necessary since with low incidence rates there would tend to be few recoveries). On the other hand, the high-cost estimate contains high incidence rates that are somewhat offset by high termination rates.

Table 7 gives the estimated progress of the OASI Trust Fund according to the low-cost and high-cost estimates, while Table 8 similarly deals

TABLE 9  
PROGRESS OF OASI TRUST FUND, INTERMEDIATE-COST ESTIMATE  
(In Millions)

Calendar Year	Contributions	Benefit Payments	Administrative Expenses*	Railroad Retirement Financial Interchange†	Interest on Fund	Balance In Fund‡
Actual Data						
1951 .....	\$ 3,367	\$ 1,885	\$ 81	.....	\$ 417	\$ 15,540
1952 .....	3,819	2,194	88	.....	365	17,442
1953 .....	3,945	3,006	88	.....	414	18,707
1954 .....	5,163	3,670	92	.....	468	20,576
1955 .....	5,713	4,968	119	.....	461	21,663
1956 .....	6,172	5,715	132	.....	531	22,519
1957 .....	6,825	7,347	162	.....	557	22,393
1958 .....	7,566	8,327	194	-\$121	549	21,864
1959 .....	8,052	9,842	184	- 275	525	20,141
Estimated Data (Short-Range Estimate)						
1960 .....	\$10,747	\$10,726	\$205	-\$308	\$ 503	\$ 20,152
1961 .....	11,486	11,658	227	- 270	520	20,003
1962 .....	11,790	12,326	221	- 250	530	19,526
1963 .....	13,882	12,913	223	- 270	558	20,560
1964 .....	14,609	13,424	225	- 265	620	21,875
1965 .....	14,925	13,880	229	- 250	694	23,135
Estimated Data (Long-Range Estimate)						
1970 .....	\$20,006	\$16,132	\$245	-\$160	\$1,289	\$ 41,270
1975 .....	21,673	19,044	260	- 91	1,846	63,305
1980 .....	23,327	22,092	270	1	2,377	81,581
2000 .....	31,477	30,704	356	86	4,101	140,161
2020 .....	38,291	42,127	456	86	7,779	263,268

\* The figures for 1957 and after embody certain artificial and nonsignificant fluctuations because of the method of reimbursements between the two Trust Funds.

† A positive figure indicates payment to the Trust Fund from the Railroad Retirement Account, and a negative figure indicates the reverse.

‡ Not including amounts in the Railroad Retirement Account to the credit of the Old-Age and Survivors Insurance Trust Fund. In millions of dollars, these amounted to \$377 for 1953, \$284 for 1954, \$163 for 1955, \$60 for 1956, and nothing for 1957 and thereafter.

with the DI Trust Fund. According to the low-cost estimate, the OASI Trust Fund will grow rapidly, and in the year 2000 will be \$260 billion. On the other hand, under the high-cost estimate, the OASI Trust Fund builds up to a maximum of \$65 billion in about 25 years but decreases thereafter until it is exhausted shortly after the year 2000. It is unlikely that either of these two extreme situations could develop because the Congress would no doubt take appropriate action to prevent it. Thus, if experience followed the low-cost estimate, either the tax rates would be held below the schedule, or benefits would be liberalized. On the other hand, if experience followed the high-cost estimate, the contribution rates would probably be raised above those now scheduled.

According to the low-cost estimate, the DI Trust Fund grows steadily,

TABLE 10  
PROGRESS OF DI TRUST FUND, INTERMEDIATE-COST ESTIMATE  
(In Millions)

Calendar Year	Contributions*	Benefit Payments	Administrative Expenses†	Interest on Fund	Balance in Fund
Actual Data					
1957.....	\$ 702	\$ 57	\$ 3	\$ 7	\$ 649
1958.....	966	249	12	25	1,379
1959.....	891	457	50	41	1,825
Estimated Data (Short-Range Estimate)					
1960.....	\$1,012	\$ 570	\$ 44	\$ 53	\$2,276
1961.....	1,040	802	52	65	2,527
1962.....	1,066	864	51	76	2,754
1963.....	1,092	924	53	88	2,957
1964.....	1,126	978	55	98	3,148
1965.....	1,154	1,029	57	107	3,323
Estimated Data (Long-Range Estimate)					
1970.....	\$1,177	\$1,229	\$ 53	\$111	\$3,354
1975.....	1,275	1,401	58	95	3,108
1980.....	1,372	1,550	62	75	2,438
2000.....	1,852	2,048	80	‡	‡
2020.....	2,252	2,701	103	‡	‡

\* Transfers, which are expected to be relatively small, under the railroad retirement financial interchange provisions are included here.

† These figures embody certain artificial and nonsignificant fluctuations because of the method of reimbursements between the two Trust Funds.

‡ Fund exhausted in 1993.

reaching \$26 billion in the year 2000. On the other hand, under the high-cost estimate the DI Trust Fund grows for only a few years—to a peak of \$2½ billion—and then declines until it is exhausted in 1973.

Table 9 gives data on the past operation of the OASI Trust Fund and the intermediate-cost estimate for the future, while Table 10 gives corresponding data for the DI Trust Fund. The short-range estimates (for the next 5 years) take into account anticipated business-cycle trends, including a rising-wage assumption, whereas the long-range estimates are based on level economic assumptions. Since, according to this estimate the OASI system is close to being in balance, the Trust Fund grows steadily over the period shown, reaching a maximum of about \$275 billion in 65 years, and then decreases slowly. Similarly, the DI Trust Fund grows steadily throughout the next decade, reaching a maximum of \$3½ billion, and then decreases slowly until it is exhausted in some 30 years. It may be noted that the actual experience figures for 1960 shown in Table 2 differ slightly from these estimates prepared at the time the 1960 legislation was being enacted.

#### OASDI FINANCING PROVISIONS

The contribution or tax schedule was unaffected by the 1960 Amendments. The portion of the contributions allocable to the DI Trust Fund—½% in the combined employer-employee rate and ⅓% for the self-employed—remains the same. Accordingly, the total contribution rates for the OASDI system, applicable to the first \$4,800 of annual earnings is as follows:

Calendar Year	Combined Employer-Employee Rate	Self-employed Rate
1960-62 . . . . .	6%	4½%
1963-65 . . . . .	7	5¼
1966-68 . . . . .	8	6
1969 and after . . . . .	9	6½

Congress, in connection with the 1950 Act and subsequent amendments, has consistently enunciated the principle that the program should be self-supporting from the contributions of the covered workers and their employers, according to the intermediate-cost estimates. Of course, it would be only by coincidence that an exact balance would be shown. Generally, there has been a small deficiency under the intermediate-cost estimate of the level-premium costs of the benefits over the level-premium



equivalent of the contributions, as indicated in the accompanying table (in percentage of payroll):

LEVEL-PREMIUM EQUIVALENT	1958 Act				1960 AMENDMENTS	
	Original Estimate		Revised Estimate		OASI	DI
	OASI	DI	OASI	DI		
Benefit costs*.....	8.27	.49	8.38	.35	8.42	.56
Contributions.....	8.02	.50	8.18	.50	8.18	.50
Actuarial balance†.....	-.25	+.01	-.20	+.15	-.24	-.06

\* Including adjustments (a) to reflect lower contribution rate for self-employed as compared with employer-employee rate, (b) for existing trust fund, and (c) for administrative expenses.

† A negative figure indicates the extent of lack of actuarial balance. A positive figure indicates more than sufficient financing.

Congress has quite properly considered that the long-range actuarial cost estimates are not precise and that a reasonable range of variation may be present. Accordingly the principle has been established that the OASDI system is actuarially sound if it is in reasonably close actuarial balance. The Congress (at least the Congressional committees that deal with OASDI legislation) has used a "rule-of-thumb" that this condition is satisfied if the OASI portion of the program does not have an actuarial insufficiency in excess of .25% of payroll, with the corresponding point for the DI portion being about .05%. The actuarial balance of the program as it was affected by the 1960 Amendments is just within these limits.

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2. "Hearings before the House Ways and Means Committee on H.R. 4700 to Provide Insurance against Costs of Hospital, Nursing Home, and Surgical Service for Persons Eligible for OASI Benefits," July 13-17, 1959.
3. "Hearings before Subcommittee of House Ways and Means Committee on Administration of Social Security Disability Insurance Program," November 4-13 and December 7, 1959.
4. "Administration of Social Security Disability Insurance Program," Preliminary Report to House Ways and Means Committee (by its Subcommittee), March 11, 1960.

5. "The Retirement Test under OASI," Report Submitted to the House Ways and Means Committee by Department of Health, Education, and Welfare, March 29, 1960.
6. "Report of House Ways and Means Committee on H.R. 12580," June 13, 1960, House Report No. 1799, 86th Congress.
7. "Hearings before Senate Finance Committee on H.R. 12580," June 29-30, 1960.
8. "Report of Senate Finance Committee on H.R. 12580," August 19, 1960, Senate Report No. 1856, 86th Congress.
9. "Conference Report on H.R. 12580," August 25, 1960, House Report No. 2165, 86th Congress.
10. "Actuarial Cost Estimates and Summary of Provisions of OASDI System as Modified by Social Security Amendments of 1960," September 1960, House Ways and Means Committee.

## DISCUSSION OF PRECEDING PAPER

J. L. BROCKETT:

I'm sure that many younger members of the Society like myself who have recently studied for Part 8 of the Fellowship examinations have gained a deep respect for Mr. Myers. Through his papers on OASDI he performs a great service to his country and fellow man. Probably nowhere else can one gain a clearer picture of the ever increasing scope of this aspect of our Welfare State.

I wish to comment on "Administrative expenses" found in Table 5. To measure the size of this item for both OASI and DI, the administrative expenses (.10% + .02%) may be divided by the sum of total benefits and administrative expenses (8.51% + .56% + .10% + .02%). The quotient is 1.3% and may be represented as the portion of the "gross premium" needed for expenses. This is an unbelievably low percentage. No private insurer could, of course, operate on such a low margin. State premium taxes alone for life insurance companies are greater than this.

Are significant expense items omitted from these administrative expenses? As an example, are the cost of field services and field office expenses omitted? A more detailed list of expenses connected with OASDI might include at least the following: cost of collecting taxes, cost of keeping records for the nonretired and nondisabled, cost of writing checks for the retired and disabled, cost of renting and buying computers, cost of building field offices, cost of investigating fraudulent claims, and salaries of state employees who assist in administrating the OASDI, particularly disability, benefits. Incidentally, as OASDI grows by leaps and bounds, many of these expenses will become ever more significant.

My primary concern with this item is not entirely with my own state of confusion. Rather, it is that I fear that the zealots of the Welfare State will lift Mr. Myers' amounts for administrative expenses and fail, either consciously or unconsciously, to point out what expenses this item does not cover. I would be pleased, therefore, to hear Mr. Myers define administrative expenses. I offer for his consideration that this item be properly footnoted in the future.

GEORGE H. DAVIS:

I would like to comment briefly with respect to that section of Mr. Myers' paper on medical benefits for the aged and related matters. Specifically, Mr. Myers cites an estimated level-premium cost of 0.79% for

the benefits provided in the bill introduced by Congressman Forand. At the time of the hearings on this bill, the American Life Convention, Health Insurance Association of America and Life Insurance Association of America, in connection with testimony in opposition to the bill, filed an appendix containing their estimates of the costs of the benefits provided by the bill. These costs were based on a study conducted by a group of actuaries representing the associations, and the level-premium cost of the benefits was estimated to be from 2.3% to 3.0%. In view of the fact that this estimate is considerably greater than the one given in the paper by Mr. Myers, it seems desirable to cite these figures.

Since the proposal to add medical care benefits, on a service basis, to the Social Security Act is a departure from previous legislation in connection with this act, there is no precedent for determining costs as is the case when additional pension benefits are added. This being so, and inasmuch as it is particularly difficult to estimate future costs in the area of hospital and medical care, it is to be expected that estimates of such cost will vary widely depending upon the particular methods and assumptions employed by those making the estimates. In the instance of cost estimates with respect to the Forand Bill, the relatively higher costs derived by the insurance associations have been computed using methods and assumptions which seemed reasonable for the purpose in the light of the experience of insurance company actuaries in the development of cost calculations in this particular area within their own companies. Based on the trends in costs in recent years in the field of medical economics they are deemed to be conservative.

A. M. NIESSEN:

To keep current on social security legislation is a "must" for every technician working in the field of insurance or pensions. This is not an easy task because our social security law has been getting more and more complex and voluminous. Frequent amendments, which have in recent years become a biennial election year ritual, generally add to the complexity of the law instead of working towards its simplification. Fortunately though, most of us do not need to be thoroughly familiar with all the details of the OASDI and other social security programs; what we need is an authoritative summary that cuts across the maze of detail and gives us the fundamentals and most essential highlights. This is exactly what Robert J. Myers has been doing for us through the years, and this is what he has done for us with his excellent paper on the 1960 Social Security Amendments. For this highly successful effort of his, we should all be grateful.

The paper not only gives a nutshell summary of the OASDI amendments since 1950 but also indicates the topics which are hotly debated today and which may become amendments "tomorrow." In the latter category, the subject of a medical care program for beneficiaries under OASDI obviously occupies the first place. The paper also gives us the legislative history of the most recent social security amendments, the effects of the various sets of amendments enacted since 1950, the relationship between OASDI and the assistance programs, the extent to which the OASDI program serves the aged population of the country, and many other most interesting items of information. Finally, the paper gives us a reliable picture of the actuarial condition of the OASDI program in terms of both level costs and projections.

Insofar as specific comments on Mr. Myers' paper are concerned, I have but a few and these are given below.

The average wage used in OASDI benefit computations is referred to as a "career average" type. At the same time, the paper states that for persons reaching minimum retirement age in 1961 or before, the wage used may be based on the best 5 years following 1950. It would take several decades from now until the wage base will begin to approximate a true "career average" for creditable earnings. While the paper gives all the facts so that the careful reader will not be misled by the term "career average," the less careful reader may miss the special connotation in which this term is used.

The fact that the experience under the disability insurance (DI) program has been somewhat better than expected is contrary to the often-heard assertion that a disability insurance program of a social insurance type is bound to get out of hand. That such an assertion is not true has also been demonstrated by the experience of the disability retirement program under the Railroad Retirement Act. This program has been in existence for almost 25 years, and there is no indication that it is getting out of hand even though its statutory eligibility requirements are much more liberal than those of the DI program. (Since 1947 the railroad retirement program has been providing occupational as well as total and permanent disability annuities.) The courts have not interfered much with the Board's administrative practices in the area of disability annuities and probably would also not greatly interfere with the Social Security Administration even if it had greater administrative authority over the DI program than it has today.

The paper states that determinations of disability under the Social Security Act are made by state agencies. It might be added that for certain classes of railroad workers the Railroad Retirement Board is em-

powered by law to make such determinations on its own. Whenever it appears that the case might come also to the attention of the Social Security Administration in connection with a disability benefit, the Board's determination is reviewed by the latter agency, and differences, if any, are reconciled by mutual agreement. Of course, the Board pays disability annuities to many thousands of retired railroad employees who cannot meet the medical requirements for a DI benefit under the Social Security Act.

As an additional bit of information relating to the DI program, I am giving below estimated rates of disability for railroad workers under the Social Security Act definition. These rates (technically, probabilities) are based on actual rates of "immediate" disability retirement among railroad workers in 1957-59 and on two sample studies dealing with "disability freeze" allowances. Immediate retirements are defined as persons who last worked in the railroad industry in the year of their retirement or in the calendar year immediately preceding. The exposures, which totaled approximately 2,400,000 man-years for the 3-year period, conform to this definition. Estimated rates are

Age	Rate per Thousand
Under 40.....	0.65
40-44.....	0.99
45-49.....	2.20
50-54.....	3.68
55-59.....	6.85
60-64.....	15.01

The above rates are for an active employee population consisting roughly of 95 percent males and 5 percent females. No adjustment was made for the 6 months waiting period which is required under OASDI but not under the Railroad Retirement Act, because in a substantial proportion of the railroad retirement cases the disability annuity is preceded by several months of cash sickness benefits.

Table 2 of Mr. Myers' paper indicates that the greatest relative discrepancy between actual and estimated amounts for 1959 and 1960 occurred in the financial interchange between the Railroad Retirement and the OASDI systems. A considerable portion of the underestimate in the net amount payable to Railroad Retirement was due to the sharp decline in railroad employment, which neither Mr. Myers nor we at the Railroad Retirement Board could have foreseen in 1957 or early 1958. Lower railroad employment decreases the amount of taxes on railroad payrolls that are credited to OASDI under the terms

of the financial interchange, without correspondingly decreasing the benefit credits in favor of Railroad Retirement. (The short-term effect of declining employment may even be an increase in benefits.) Since the amount payable to Railroad Retirement is the difference between benefit credits in its favor and tax credits in favor of OASDI, it is understandable how an unforeseen sharp decline in railroad employment could have resulted in a serious underestimate of the financial interchange transfers to the Railroad Retirement Account.

(AUTHOR'S REVIEW OF DISCUSSION)

ROBERT J. MYERS:

I appreciate the valuable contributions by the three discussants, each of whom has considered a different aspect of the subject.

Mr. Brockett raises some interesting questions about the administrative-expense assumptions in the cost estimates, pointing out that over the long range, these expenses represent only 1.3% of total outgo. He quite properly inquires whether this proportion is so low because of omission of certain expense items. In summary, I can state that virtually all administrative expenses are charged against the Trust Funds. Such charges include salaries, office and machine rentals, postage, and supplies—for keeping records on active and retired workers, for writing benefit checks, and for collecting contributions (also, I may say, for actuarial analysis). The ratio for the OASDI system for calendar year 1960 was 2.08%, and it may be anticipated that this will decrease in the future as benefit disbursements rise (more rapidly, it is estimated, than administrative expenses).

The most important administrative expenses not charged against the Trust Funds are (1) some of the employee-benefit costs (representing at most 10% of salaries), such as potential appropriations from general revenues to meet the anticipated deficiency cost of the Civil Service Retirement program (the employer share matching the employee contributions is paid from the Trust Funds), and (2) the value of space occupied in certain government buildings by smaller district offices (about 10% of the total number). The full cost for construction of the central-office building in Baltimore (over \$30 million) was charged to the Trust Funds during construction in 1957-61. A social insurance system naturally does not have many of the administrative expenses of private insurance, even group insurance. Such expenses include taxes (both premium and federal income) and acquisition expenses, such as commissions, salaries, and advertising (which OASDI often receives without charge). Further details

on this subject can be obtained from my note in the *Social Security Bulletin* for May-June 1960.

Mr. Davis points out that the cost estimates for the health benefits of the Forand Bill presented in my paper are considerably below those prepared by several insurance associations, being only about  $\frac{1}{3}$  as high. For a new service benefit in such a volatile area as medical care, there is likely to be a larger variation in the estimated cost than for the established cash-benefit program. My estimates were based on cost factors, developed by medical economists of the Social Security Administration, that I have reviewed and believe to be reasonable.

It will readily be recognized that the wide spread between the two sets of estimates results from differing assumptions as to the extent of hospital utilization when such benefits are available as a matter of right, and as to when hospitalization costs will "catch up" to, and thereafter parallel, the trend of wages. Further details in regard to comparisons of the two estimates and their underlying assumptions may be found on pages 85-88 of "Hospitalization Insurance for OASDI Beneficiaries," a Report submitted to the Committee on Ways and Means by the Secretary of Health, Education, and Welfare on April 3, 1959.

Mr. Niessen presents valuable information on the coordinated experience of the Railroad Retirement and OASDI systems. In particular, it is interesting that the disability benefit experiences of both programs are continuing at relatively low levels as compared with those of certain other disability programs. Further, we may note that the Railroad Retirement and the OASDI disability incidence rates are comparable, when proper adjustment is made for the different definitions of disability.