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1961 AMENDMENTS TO THE SOCIAL SECURITY ACT

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SHORTLY after President Kennedy was inaugurated, he transmitted two messages to Congress containing recommendations for changes in several of the social security programs—the Old-Age, Survivors, and Disability Insurance system, the Unemployment Insurance system, and the Public Assistance program.[1] Most of these recommendations were enacted in 1961. This altered the legislative pattern of the previous decade—major amendments in each even-numbered year. The only action on the President's recommendation of a health benefits program for OASDI beneficiaries aged 65 and over was public hearings held by the House Ways and Means Committee. This paper summarizes the legislative history of the several 1961 amendments, with emphasis on those affecting OASDI, and the provisions of the health benefits proposal, particularly as to its financing.[2]

The proposed changes in the Social Security Act were advocated both as an antirecession measure and as a desirable step in the long-range development of the program. The principal changes in the OASDI system are (1) reducing the minimum retirement age for men from 65 to 62 (with reduced benefits), (2) raising the minimum benefit, (3) increasing benefits for widows aged 62 and over, (4) liberalizing the eligibility conditions (insured status), and (5) liberalizing the retirement test. These benefit changes are financed primarily by an increase in contribution rates. The Public Assistance programs are changed by providing additional Federal funds for medical care for Old-Age Assistance recipients, by providing additional Federal funds for cash payments under all programs except Aid to Dependent Children, and by making ADC available when there is no parental support because of unemployment (the last two changes are of a "temporary" nature). The Unemployment Insurance amendments that were enacted provide for a 50% extension in the number of weeks of unemployment benefits (subject to a 13-week maximum), to be paid from

[1] See appended bibliography for the most important legislative documents in regard to the OASDI changes.

[2] A detailed statement of the provisions of the OASDI system before the 1961 Amendments and its development in recent years, together with an analysis of recent operating experience of the OASDI and PA programs, is contained in "1960 Amendments to the Social Security Act," by Robert J. Myers, *TSA*, XIII, p. 227, hereafter referred to as "the previous paper."

Federal funds derived by increasing the employer tax rate (also a "temporary" provision).

In June, the Administration submitted legislative recommendations for "permanent" changes in the Unemployment Insurance system. These included: extension of coverage to employers of 1 to 3 employees and to nonprofit organizations such as schools, hospitals, and churches; making permanent the extended benefits described previously, but only for workers with long covered employment (although during proclaimed recession periods, for all workers); Federal "equalization grants" to states with high unemployment-insurance costs; certain Federal benefit standards; increase in the wage basis from $3,000 to $4,800; and making permanent the "temporary" increase in the employer tax rate described above. No action was taken on this proposal in 1961.

HISTORY OF LEGISLATION

OASDI Changes

The Administration proposal, presented in February and incorporated in H.R. 4571, would have made the following major changes in the OASDI program:

1. Minimum retirement age for men would be reduced from 65 to 62, with benefits and insured status computed the same as for women under existing law.
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 for 3" as under then-existing law.
3. Benefits for widows and dependent parents would be 85% of primary benefit, instead of 75% (except that when two parents are on the roll, the rate would continue at 75%).
4. Minimum primary benefit (and also minimum family benefit, payable when only 1 survivor is present) would be $43, instead of $33.
5. Definition of "disability" would be a presumptive basis after 6 months of total disability, instead of "total and expected long-continued and indefinite duration."
6. Combined employer-employee contribution rates would be increased by ½% for all future years beginning in 1963.

One noteworthy point about this proposal was that the benefit liberalizations would have been effective in April 1961, but the supporting tax increases would not have gone into effect until almost 2 years later. The thinking behind this scheduling was related to the prevailing economic conditions, namely to have the changes provide a net additional flow of purchasing power as an economic stimulus before the deflationary effects of the tax increases occurred.

During March, the House Ways and Means Committee held executive sessions and considered a number of alternative packages of benefit changes that would have a lower total cost, requiring an increase in the combined employer-employee contribution rate of $\frac{1}{4}\%$ instead of $\frac{1}{2}\%$. As an alternative to increasing the contribution schedule, the Committee considered an increase in the maximum annual taxable earnings base from \$4,800 to \$5,400. Such a change would have a net cost effect about equivalent to increasing the combined employer-employee tax rate by $\frac{1}{4}\%$ (after taking into account the long-range excess of the additional contribution income over the additional outgo for benefits based on the larger amount of earnings creditable). The Committee also considered a number of other proposed benefit changes, including liberalization of the "retirement test" and "blanketing-in" for the minimum benefit all persons aged 72 and over who do not meet the insured-status requirements and who are not receiving any other governmental pension.

The Ways and Means Committee reported a bill (H.R. 6027) that would make the following major changes in the OASDI program:

1. Minimum retirement age for men would be reduced to 62, but with benefits and insured status computed as of age 65 (rather than age 62, as for women).
2. Fully-insured status would be provided on the "1 for 4" basis of the Administration proposal.
3. Benefits for widows and dependent parents would be $82\frac{1}{2}\%$ of the primary benefit, except when two parents are on the roll.
4. Minimum primary benefit (and minimum family benefit) would be \$40.
5. Combined employer-employee contribution rates would be increased by $\frac{1}{4}\%$ for all future years beginning in 1962.

Under this action, the benefit liberalizations would generally be effective for the first month that begins at least 30 days after enactment, while the supporting tax increases would be effective for the next calendar year. Thus, the Administration recommendation of a considerable lag in the financing provisions was not accepted. The cost of the Administration recommendations was cut in half by elimination of the liberalized definition of disability, by reducing the amount of some of the proposed increases, and by changing the early-retirement provisions for men to a "no cost" basis (discussed later).

This bill was passed by the House of Representatives, under a rule not permitting amendments, by an overwhelming vote on April 20. The Senate Committee on Finance, after public hearings in May, reported out the bill with no significant OASDI changes.

The Senate, by a unanimous record vote, passed the bill on June 26 with one significant OASDI amendment, arrived at by the following sequence of events. An amendment to raise the annual exempt amount in the retirement test from $1,200 to $1,800 was actively considered, despite the sizable cost involved. A substitute amendment was offered that would increase the "band" above the $1,200 annual exempt amount, within which band benefits are reduced by $1 for every $2 of earnings, from the then-existing $300 to $500. This substitute was adopted, with the relatively small required additional financing achieved by advancing by one year the date on which the ultimate tax rate goes into effect (from 1969 to 1968).[3]

The change made by the Senate was accepted by the Conference Committee between the House and Senate. The bill, signed by the President on June 30, is Public Law 87-64, with the benefit liberalizations effective for August, except that the new basis for the retirement test is generally applicable for calendar year 1961.

Public Assistance Changes

The Administration proposal to extend the Aid to Dependent Children program to make Federal funds available to finance assistance to needy children deprived of support because of unemployment of a parent[4] was accepted without significant change by Congress. Public Law 87-31 contains this provision, effective for the 14-month period beginning May 1961. It may be noted, however, that in the past a number of PA amendments that originally were temporary were later made permanent. This law also contains a liberalization of the matching formula for medical care expenditures in respect to OAA recipients (not in the Administration proposal, but added by Congress). Under this change, special Federal sharing in such medical care costs can be made within an average monthly expenditure of $15 per recipient, rather than $12.

When the OASDI amendments were being considered by the Senate Finance Committee, a further change in the Federal matching formula for all PA programs other than ADC was added. The upper band of the average monthly payment on which Federal matching is made would have been extended from $35 to $37.50 (for 1 year, beginning July 1961). Additional Federal funds would thus have been available only to those states with average payments above the matchable maximum of $65 in existing

[3] This change means that the OASI Trust Fund will receive estimated additional contributions of $2¼ billion with respect to 1968 earnings, which will provide additional interest earnings of about $70 million a year—sufficient to finance this liberalization of the retirement test.

[4] Previously available only for assistance to children deprived of support because of death, continued absence, or incapacity of a parent.

law. The Conference Committee did not accept this change but instead provided, at about the same cost to the Federal Government, that the lower band of the average monthly payment on which Federal matching applies would be increased from $30 to $31 (so that all states get additional Federal funds), thus raising the over-all maximum from $65 to $66. This change, effective only for the 9-month period beginning October 1961, is contained in the final law.

As a result of these changes, for October 1961 through June 1962, the Federal matching proportion for the PA programs other than ADC is 4/5 of the first $31 of average monthly payment, plus a variable grant depending upon the per capita income of the state, ranging between 50% and 65%, on the next $35, plus, in the case of OAA, an additional amount on up to $15 of average vendor medical payments (determined as described in the previous paper). The foregoing 1961 PA amendments increased annual Federal expenditures by about $225 million, of which $200 million is for children of unemployed parents, $10 million is for the increased maximums for medical care for OAA recipients, and $15 million is for additional Federal participation for the PA programs other than ADC.

Unemployment Insurance Changes

The Administration, as an antirecession measure, recommended a temporary program of extended unemployment benefits to persons who exhaust their rights under the state systems. Under this proposal, each unemployed worker would receive benefits for an additional number of weeks equal to 50% of those provided by the state program under which he had received benefits, but subject to a 39-week maximum on the "regular" and extended benefits combined. These extended unemployment benefits (including those paid beyond 26 weeks under the permanent "regular" benefit provisions) would be paid through the state system, but would be financed entirely from Federal funds obtained by raising the maximum taxable wage base from $3,000 to $4,800 per year.

The Congress accepted this recommendation for extended unemployment benefits for persons who exhaust their regular benefits in the 21-month period beginning July 1960, but provided that the financing should instead be derived from an increase of 0.4% in the tax rate on employers for 1962–63. The estimated cost is about $925 million, exclusive of some $60 million for benefits for Federal employees and veterans, paid out of general Federal revenues. The Federal unemployment tax rate is thus increased from 3.1% to 3.5% for 1962–63. The net amount retained by the Federal Government will be 0.8%, instead of 0.4%, with the state tax credit of 2.7% continuing.

ANALYSIS OF OASDI CHANGES

Fully Insured Status

The 1961 Amendments make it easier for an individual to be fully insured by changing the requirement from a "1 for 3" to a "1 for 4" basis.[5]

For a man attaining age 65 or a woman attaining age 62 in 1961, the previous law required 13 quarters of coverage to be fully insured ($\frac{1}{3}$ of the 40 quarters in 1951–60). Now, this individual needs only 10 quarters of coverage. In the long run, persons retiring will need the same maximum of 40 quarters of coverage as previously applicable, so that this change is largely temporary in nature. The argument advanced for this revision was that persons currently retiring would then have to have the same proportion of their working lifetime after 1950 in covered employment as those retiring under eventual conditions, when 10 years are required out of a possible working lifetime of 40 to 45 years. It may be noted that the requirement for fully insured status is now properly, and more simply, described as a "1 for 1" basis—one quarter of coverage for each year elapsed after 1950.

Retirement Test

Both the monthly portion of this test (benefits being payable in full for any month with $100 or less of wages and with no substantial self-employment) and its elimination at age 72 remain unchanged, but the annual test, inaugurated in its present form by the 1960 Amendments, is modified. Under the 1961 Amendments, when annual earnings exceed $1,200, $1 of benefits is withheld for each $2 of the first $500 of additional earnings, an increase from the previous $300 "band"; beyond that point $1 of benefits is withheld for each $1 of earnings. The $300 band provided by the 1960 Amendments, effective for taxable years beginning after 1960, operated only in a few individual cases since the new $500 "band" applies for taxable years ending in and after July 1961 (*i.e.*, generally for calendar year 1961).

Increase in Benefit Rates

The combined effect of the increase in the benefit rate for widows and parents and of the increase in the minimum benefit is shown in Table 1, which gives illustrative benefits for various beneficiary categories. It may be noted that the simplified benefit-rate structure in the 1960 Amendments of providing the same rate for all survivor beneficiaries is no longer in effect, since children and their mothers (other than those who qualify

[5] It will be recalled that the 1960 Amendments liberalized this provision from a "1 for 2" to a "1 for 3" basis.

TABLE 1

ILLUSTRATIVE MONTHLY BENEFITS UNDER OASDI SYSTEM

(Rounded to Nearest Dollar)

Average Monthly Wage	Worker Alone	Worker with Spouse Claiming Benefit at Age 62	Worker with Spouse Claiming Benefit at Age 65	Worker, Wife and 1 Child*
	Disabled Worker or Retired Worker Aged 65 at Time of Retirement			
$ 50	$ 40	$ 55	$ 60	$ 60
100	59	81	89	89
150	73	100	110	120
200	84	116	126	162
250	95	131	143	190
300	105	144	158	210
350	116	160	174	232
400†	127	175	191	254
	Retired Worker Aged 62 at Time of Retirement			
$ 50	$ 32	$ 47	$ 52	$ 52
100	47	69	77	77
150	58	86	95	105
200	67	99	109	145
250	76	112	124	171
300	84	123	137	189
350	93	136	151	209
400†	102	149	165	229
	Survivor Benefits			
	Widow Aged 62‡	1 Child	1 Child and Mother§	Maximum Family Benefit#
$ 50	$ 40	$ 40	$ 60	$ 60
100	49	44	89	89
150	60	55	110	120
200	69	63	126	162
250	78	71	143	202
300	87	79	158	240
350	96	87	174	254
400†	105	95	191	254

* Also applies to worker and 2 children, and to worker, dependent husband aged 65, and 1 child.

† Individuals aged 31 or over in 1960 who do not have a "disability freeze" before 1959 cannot have an average wage of $400 unless they have maximum covered earnings in any 3 years in the period beginning with year of attainment of age 65 for men or age 62 for women, since they must count some years before 1959, when the maximum earnings base was less than $4,800 a year.

‡ Also applies to widower and to parent.

§ Also applies to 2 children and to 2 parents.

Payable to 3 or more children and mother, to 4 or more children, and to disabled worker, wife, and 2 or more children. Also applies to 2 children and mother, and to 3 children, except for $300 monthly wage (then, benefit is $236, instead of $240).

as aged widows) and parents in 2-parent families receive 75% of the primary benefit, while aged widows, widowers, and most parents get 82½%.

While no change was made in the maximum-benefit provisions, the increase in the minimum benefit to $40 permits a simplified statement of the maximum. The maximum family benefit is the smaller of $254 (twice the maximum primary benefit) or 80% of average monthly wage, but not less than 1½ times the primary benefit.[6]

Reduction in Minimum Retirement Age for Men

The minimum retirement age for men is reduced from 65 to 62, with primary and husband's benefits permanently reduced, as was done for women in the 1956 Amendments. The reduction factors have been determined to be approximately on an actuarially-equivalent basis, but for administrative simplicity are the same as those for women (a 20% reduction at age 62 for primary benefits and a 25% reduction for the infrequent category of husband's benefits). No reduction is applied for widower's benefits payable at and after age 62, just as none is applied for widow's benefits.

There is, however, one important difference in the early-retirement provisions for men and women. The "computation-point age" for measuring fully-insured status and for computing average wage for benefit purposes was lowered to age 62 for women by the 1956 Amendments but was left unchanged at age 65 for men in the 1961 Amendments. In respect to men and women born in the same year, for retirement benefits when there has been no previous period of disability, the men will need more quarters of coverage than the women to be eligible for benefits (except in the long run, when both will need the maximum of 40 quarters), and the men must average their earnings over a period that is 3 years longer than women in computing their benefits. For example, for persons attaining age 62 in 1962 who have not had a prior period of disability, men will need 14 quarters of coverage to be fully insured as against 11 quarters for women, and these men will have their average wage after 1950 computed over the 9 highest years as against 6 years for women.

Moving the computation-point age for men to age 62, as provided in the original Administration bill underlying the 1961 Amendments (H.R. 4571), would involve a significant cost effect. Most of this cost results from the additional 3-year drop-out in the average-wage computation—not merely for those who retire at ages 62–64, but also for the vast majority who wait until at least age 65. Such cost is estimated at 0.10% of payroll on a level-premium basis.

[6] The former restriction that 1½ times the primary benefit should not be less than the primary benefit plus $20 is now meaningless.

Tax Schedule

The contribution schedule in the 1961 Amendments is higher than that under previous law by $\frac{1}{4}\%$ for the combined employer-employee rate in all future years. In addition, the ultimate rate is reached in 1968 instead of 1969. While the principle that the tax rate for the self-employed should be 75% of the combined employer-employee rate is continued, the resulting rate (which would be in 1/16's) is rounded to the nearest 0.1% to make tax computation easier. The previous and present schedules are as follows:

Calendar Year	Employee Rate (Same for Employer)		Self-employed Rate	
	Previous Law	1961 Act	Previous Law	1961 Act
1962	3 %	$3\frac{1}{8}\%$	$4\frac{1}{2}\%$	4.7%
1963–65	$3\frac{1}{2}$	$3\frac{5}{8}$	$5\frac{1}{4}$	5.4
1966–67	4	$4\frac{1}{8}$	6	6.2
1968	4	$4\frac{5}{8}$	6	6.9
1969 and after	$4\frac{1}{2}$	$4\frac{5}{8}$	$6\frac{3}{4}$	6.9

ACTUARIAL COST ANALYSIS OF OASDI CHANGES[7]

Table 2 presents the estimated level cost (in percentage of taxable payroll) of OASDI benefits by type, according to the intermediate-cost estimate, with comparable data for administrative expenses[8] and for interest on the existing trust fund. Table 3 shows the estimated cost of OASI benefits as a percentage of taxable payroll for selected future years, as well as the level cost under the low-cost, high-cost, and intermediate-cost estimates.[9]

Table 4 gives the estimated future progress of the OASI Trust Fund.

[7] For more complete details on these estimates see Item 8 of the Legislative Bibliography.

[8] Virtually all administrative expenses for collecting contributions, maintaining earnings records, and paying benefits are charged against the Trust Funds (see "OASDI: Administrative Expenses," by Robert J. Myers, *Social Security Bulletin*, May–June 1960).

[9] The cost estimates for disability benefits, including the progress of the DI Trust Fund, are not given in this and subsequent tables because they are shown in the previous paper. No revision was made because the 1961 Amendments have a negligible cost effect on this portion of the program. The increase in the minimum benefit and liberalization of fully-insured status result in slight increases, offset by slight savings from the possibility of men claiming reduced primary benefits at ages 62–64 and being ineligible for subsequent disability benefits.

TABLE 2

ESTIMATED LEVEL COST OF OASDI BENEFIT PAYMENTS, ADMINISTRATIVE EXPENSES, AND INTEREST EARNINGS ON EXISTING TRUST FUND AS PERCENTAGE OF TAXABLE PAYROLL* BY TYPE OF BENEFIT, INTERMEDIATE-COST ESTIMATE AT 3.02% INTEREST

Item	Old-Age and Survivors Insurance	Disability Insurance
Primary benefits	6.13%	0.44%
Wife's benefits	.60	.05
Widow's benefits	1.43	†
Parent's benefits	.02	†
Child's benefits	.46	.07
Mother's benefits	.11	†
Lump-sum death payments	.12	†
Total benefits	8.87%	.56%
Administrative expenses	.10	.02
Interest on existing trust fund‡	− .18	− .02
Net total level cost	8.79%	.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 is not payable under this program.

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

TABLE 3

ESTIMATED COST OF OASI BENEFITS AS PERCENTAGE OF PAYROLL*

Calendar Year	Low-Cost Estimate	High-Cost Estimate	Intermediate-Cost Estimate†
1970	7.03%	7.37%	7.20%
1980	7.78	8.78	8.27
1990	7.96	10.02	8.94
2000	7.15	10.12	8.51
2025	8.04	13.30	10.22
2050	10.19	15.18	12.13
Level cost‡	7.71%	10.08%	8.79%

* 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 contribution rate, at 3.02% interest rate, for benefits after 1961, taking into account interest on the December 31, 1961, trust fund, future administrative expenses, and the lower contribution rates payable by the self-employed.

NOTE: The above figures do not include the cost of the disability benefits.

TABLE 4

Estimated Progress of OASI Trust Fund
(In Millions)

Calendar Year	Contributions*	Benefit Payments	Administrative Expenses	Railroad Retirement Financial Interchange†	Interest on Fund‡	Balance in Fund
	Short-Range Estimate					
1961.....	$11,713	$11,968	$268	−$310	$ 509	$20,001
1962.....	12,376	13,194	259	− 305	509	19,128
1963.....	14,638	13,857	258	− 325	523	19,849
1964.....	15,482	14,420	271	− 320	568	20,888
1965.....	15,864	14,887	282	− 305	625	21,903
	Long-Range Intermediate-Cost Estimate					
1970.....	$20,583	$16,945	$245	−$160	$1,253	$40,064
1975.....	22,298	19,708	260	− 91	1,785	61,243
1980.....	24,000	22,688	270	1	2,311	79,346
2000.....	32,386	31,525	356	86	4,030	137,779
2020.....	39,396	43,196	456	86	7,739	261,918
	Long-Range Low-Cost Estimate					
1970.....	$20,640	$16,588	$230	−$100	$1,384	$44,311
1975.....	22,504	19,164	240	− 41	2,030	69,911
1980.....	24,509	21,790	250	41	2,774	95,876
2000.....	35,050	28,644	332	126	7,460	257,577
	Long-Range High-Cost Estimate					
1970.....	$20,527	$17,306	$260	−$220	$1,123	$35,812
1975.....	22,094	20,255	280	− 141	1,539	52,556
1980.....	23,492	23,591	290	− 39	1,847	62,779
2000.....	29,721	34,408	379	46	604	18,089§

* Contributions include reimbursement for additional cost of noncontributory credit for military service.

† A positive figure indicates payment to the trust fund from the railroad retirement account, and a negative figure indicates the reverse. Interest payment adjustments between the two systems are included in the "interest" column.

‡ An interest rate of 3.02% is used in determining the level-premium costs, but in developing the progress of the trust fund a varying rate in the early years has been used, which is equivalent to such fixed rate.

§ Fund exhausted in 2004.

According to the intermediate-cost estimate, the Trust Fund rises steadily over the period shown, reaches a maximum of about $275 billion in the year 2025 and then decreases slowly. According to the low-cost estimate, the Trust Fund grows rapidly and in the year 2000 will be $255 billion. On the other hand, under the high-cost estimate, it builds up to a maximum of about $65 billion in 25 years, and then decreases until it is exhausted shortly after the year 2000. As indicated in the previous paper, it is unlikely that either of the latter two extreme situations could develop because the Congress would take appropriate action to prevent it.

Congress has consistently enunciated the principle in connection with the 1950 Act and subsequent amendments, that the program should be self-supporting from contributions of covered workers and their employers, according to the intermediate-cost estimates. Of course, it would only be by coincidence that an exact balance would result. Generally, there has been a small deficiency of the level cost of the benefits over the level equivalent of the contributions, under the intermediate-cost estimate, as indicated in the following table (in percentage of taxable payroll):

Level Equivalent*	1960 Act		1961 Act	
	OASI	DI	OASI	DI
Benefit costs†	8.52	.56	8.79	.56
Contributions	8.28	.50	8.55	.50
Actuarial balance‡	− .24	−.06	− .24	−.06

* Valuation as of the beginning of 1962, based on taxable payroll adjusted to reflect the lower contribution rate for the self-employed as compared with combined employer-employee rate.

† Including adjustments to reflect interest earnings on the existing trust fund and for administrative expenses.

‡ A negative figure indicates the extent of lack of actuarial balance.

The level cost of the benefit changes provided by the 1961 Amendments was .27% of payroll (increased widow's benefit, .17%; increased minimum benefit, .06%; liberalized fully-insured status, .02%; retirement-test change, .02%; and minimum retirement age of 62 for men, no effect). This was exactly counterbalanced by the increase of .27% in the level equivalent of the contributions (.25% from the increase in the rates and .02% from advancing the effective date of the ultimate rate).

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 considered to be actuarially sound if it is in reasonably close actuarial balance (provided the year-by-year projections indicate that the balance in each Trust Fund will never become negative or, in other words, that there will always be money available to pay the benefits). Congress, or 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 has an actuarial insufficiency not 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 1961 Amendments is the same as it was after the 1960 Amendments, or just within these limits.

CONSIDERATION OF HEALTH BENEFITS UNDER OASDI

President Kennedy, in his Message of February 9, recommended a limited program of health benefits for OASDI eligibles (*i.e.*, persons with fully-insured status) aged 65 and over.[10] This proposal is similar to the Anderson-Kennedy amendment on this subject that entered into the Senate debate in connection with the 1960 Amendments (see previous paper), except that the latter had an age-68 limit and except as noted hereafter.

Description of Proposals

The 1961 proposal is contained in identical bills introduced by Congressman King (H.R. 4222) and Senator Anderson (S. 909). The following health benefits would be provided:

a) 90 days of semiprivate hospital care within a "benefit period," with a deductible of $10 per day for the first 9 days (minimum deductible of $20), as against 120 days and a flat $75 deductible under the 1960 proposal (the two deductible provisions are approximately equivalent from a cost standpoint).
b) 180 days of skilled-nursing-home services within a "benefit period," when such services are furnished following transfer from a hospital and are necessary for continued treatment of a condition for which the individual was hospitalized, as against 240 days under the 1960 proposal.
c) 240 home-health-service visits during a calendar year, as against 365 visits under the 1960 proposal.
d) Outpatient-hospital-diagnostic services in excess of a $20 deductible for each diagnostic study,[11] as against no deductible under the 1960 proposal.

[10] The benefits would be available regardless of a test of retirement or earnings. Over the years, considerable effort has been devoted, without success, to the possibility of developing such a test for health benefits that would apply reasonably and equitably. The retirement test now applicable to cash benefits is not suitable because of the flexibility desirable to achieve its purpose.

[11] The $20 minimum hospitalization deductible was designed to be consistent with this deductible.

There is an over-all limit on hospitalization and nursing-home benefits in that during any "benefit period" only 150 "units of service" can be used, where such a "unit" consists of 1 day of hospitalization benefits or 2 days of nursing-home benefits; the 1960 proposal differed in that the number of units was 180 and that 3 home-health visits would also have counted as a unit. The term "benefit period" means the period beginning with the first day that an individual receives hospitalization benefits and ending with the last day of the first 90-day period thereafter during which he has not been a patient in a hospital or a skilled-nursing home; in the 1960 proposal, the benefit period was a 1-year period beginning with the first day that benefits were utilized. The health benefits would first be available in October 1962, except for nursing-home benefits, which would first be available in July 1963.

These benefits (and the accompanying administrative expenses) would be financed, on a long-range basis, by an increase in the combined employer-employee contribution rate of $\frac{1}{2}\%$ (effective in 1963), with a corresponding increase of $\frac{3}{8}\%$ in the rate for the self-employed, and by the "gain" to the OASDI system resulting from increasing the maximum earnings base from $4,800 to $5,000[12] (effective in 1962); the 1960 proposal would have been financed only by the $\frac{1}{2}\%$ tax increase. The gain from increasing the earnings base arises from the fact that, because of the weighted nature of the benefit formula, benefit outgo does not increase as much as contribution income. The net additional income is estimated to be equivalent to the effect of a rise in the combined employer-employee contribution rate of .1% of payroll. This income would be credited to the Health Insurance Account of the Federal Social Insurance Trust Fund, which would also include separate accounts for the existing OASI and DI Trust Funds, with all the investments pooled instead of separate, as under existing law.

The House Ways and Means Committee held public hearings on the Administration proposal in July–August 1961, but took no action on the bill during the 1961 session. The Administration supported the bill as introduced, except that it recommended raising the maximum earnings base from $4,800 to $5,200,[13] rather than to $5,000 as in the introduced bill.

[12] This would mean extending the benefit formula so that it would apply to average monthly wages through $416. The maximum primary benefit would then be $130, and the maximum family benefit would be $260.

[13] This would mean extending the benefit formula so that it would apply to average monthly wages through $433. The maximum primary benefit would then be $134, and the maximum family benefit would be $268.

This change was recommended in order to provide adequate financing for the proposed benefits, as discussed hereafter.

Cost Estimates[14]

The 1960 proposal (the Anderson-Kennedy amendment) had a level cost, estimated at the time of its consideration, amounting to .50% of taxable payroll (see Table 5 for a subdivision of this cost by type of benefit and for data on subsequent estimates). The benefits provided were designed so as to produce this cost and thus to be financed by the scheduled combined employer-employee contribution rate of ½%.

TABLE 5

ESTIMATED LEVEL COST OF HEALTH INSURANCE BENEFITS* AS PERCENTAGE OF TAXABLE PAYROLL,† BY TYPE OF BENEFIT FOR 1960 AND 1961 PROPOSALS‡ INTERMEDIATE-COST ESTIMATE AT 3.02% INTEREST

Type of Benefit	1960 Proposal‡		1961 Proposal‡	
	1960 Estimate	1961 Estimate	Original Estimate	Revised Estimate
Hospitalization	.43%	.51%	.56%	.52%§
Skilled-Nursing-Home	.01	.01	.01	.08
Home-Health	.01	.01	.01	.05
Outpatient-Hospital-Diagnostic	.05	.05	.02	.01
Total*	.50%	.58%	.60%	.66%

* Including administrative expenses.

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

‡ The term "1960 Proposal" denotes the Anderson-Kennedy amendment considered by the Senate in connection with the debate on the Social Security Amendments of 1960. The term "1961 Proposal" denotes the 1961 Administration recommendation.

§ After offset for reduced cost because of availability and use of skilled-nursing-home and home-health benefits.

However, reconsideration was given to the cost estimates for the hospitalization benefits, comprising the major portion of the cost, because it was believed that sufficient allowance had not been made for past and near-future trends of hospitalization costs as compared with the general wage level. Revised estimates indicated a level cost that was 15% higher (namely, .58% of payroll).

When the Administration proposal of 1961 was developed, this increased cost was taken into consideration. As indicated previously, the

[14] For more details as to the assumptions and results of these cost estimates, see "Actuarial Cost Estimates for Health Insurance Benefits Bill," by Robert J. Myers, *Actuarial Study No. 52*, Social Security Administration, July 1961.

1961 proposal involves higher costs than the 1960 proposal in one respect (the lower minimum eligibility age), but lower costs in other respects (such as the shorter maximum durations of hospital and nursing-home care and the deductible for diagnostic services). The net effect was an estimated level cost of .60% of payroll, fully financed by the additional combined employer-employee tax rate of ½% and the net additional income to the system from raising the earnings base to $5,000.

Subsequently, the cost estimates for the three "subsidiary" benefits were reconsidered. In brief, the nursing-home and home-health benefits were estimated to have a higher cost because of likely greater utilization in the long-range future since more facilities providing these services may become available to meet the demand created by the existence of the benefits. Such increased utilization of nursing-home and home-health services would logically indicate a slightly reduced cost for hospitalization benefits. Re-examination of the estimates for the diagnostic benefits indicated a lower cost than previously estimated because of the significant effect of the deductible provision. The net result of these revised estimates is a level cost of .66% of payroll. It is estimated that the additional financing needed beyond the combined employer-employee contribution rate of ½% can be provided by the net additional income from a $5,200 earnings base.

According to the revised intermediate-cost estimate, even with the insufficient level-cost financing of the 1961 proposal (as originally introduced with a $5,000 earnings base), there would be sufficient funds to finance the program for more than 50 years. The Account would build up slowly to a maximum of about $4 billion in 25 years, but would subsequently decline until it was exhausted some 55 years from now. On the other hand, under the proposed $5,200 earnings base, which according to these estimates would provide sufficient financing, the Account would build up steadily and by the year 2000 would be almost $20 billion.

LEGISLATIVE BIBLIOGRAPHY UNDERLYING OASDI LEGISLATION IN 1961

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2. "Message from the President of the United States Transmitting Recommendations Relating to a Health Program," House Document No. 85, 87th Congress, February 9.
3. "Executive Hearings before House Ways and Means Committee on H.R. 4571," March 9–27.

4. "Report of House Ways and Means Committee on H.R. 6027," House Document No. 216, 87th Congress, April 7.
5. "Hearings before Senate Finance Committee on H.R. 6027," May 25–26.
6. "Report of Senate Finance Committee on H.R. 6027," Senate Report No. 425, 87th Congress, June 20.
7. "Conference Report on H.R. 6027," House Report No. 611, 87th Congress, June 28.
8. "Actuarial Cost Estimates and Summary of Provisions of OASDI System as Modified by Social Security Amendments of 1961," House Ways and Means Committee, July 10.
9. "Hearings before House Ways and Means Committee on H.R. 4222," July 24 to August 4.

DISCUSSION OF PRECEDING PAPER

W. RULON WILLIAMSON:

This paper of Mr. Myers is consistent with his long series of papers on the growth of centralized statist control of the individual.

The 1961 Amendments, however, break the biennial election-year precedent by shifting to annual quickening of the growth process and by the prompt second proposals in the off-year analysis of the King-Anderson Bill, H.R. 4222. Moreover the availability of those 1961 changes in the second half of 1961 added another speed-up factor. New awards in July brought the new payments in August. August awards were the fourth largest in the OASDI history. So the September OASI payments of $1.024 billion were $50 million in excess of the July payments. Without the passage of the amendments, the traditional billion dollar boost in outgo was expected for calendar year 1961 and the amendments will make this boost even larger (to perhaps $1 .3 billion). For the period 1956–1961 the OASI Trust Fund will show a six-year decline in dollars, and a marked reduction in percentage in comparing that Trust Fund with both the current year's outlay and the potential payments to those in receipt of benefits.

Three other men with insurance interest have been writing on this subject—Peterson, Dickinson, Griffin. Peterson's "The Coming Din of Inequity" stresses the relative iniquity of tremendous obligations allotted to the next generation as compared with the gesture of personal tax impact upon the current age beneficiaries. Dickinson's theory of "compulsory public philanthropy" in the OASI tax-benefit structure is challenging. Griffin's suggestion that we may need "more man-eating tigers" to right the balance of nature if men refuse to limit their procreative powers adds to the high-up recognition of how easy it is to buy things when you're spending the other fellow's money.

These three men, perhaps, represent the outward and visible sign of an inward and spiritual awakening to the social strains consequent upon the monolithic central power-state. The ground-swell of the awakening is showing up in the colleges, in the local communities, in the churches, among workmen and professional men—even in the insurance business.

Copying a mannerism of the esteemed Cicero, I will not talk about the long-time evasions, subterfuge, pretence and ignorance of the overcentralized establishment. Nor will I dwell upon the loss to cost-appreciation that comes from the shifting measuring-rods—the dollar, the index of living-costs, the contents of the market-basket, the rising expectations of largess on all hands. Nor will I discuss the deep differences between old-age benefits in formula-determined dollars, and more old-age benefits in the two fields of medical care and housing, as demanded in the rash of bills from Forand on to H.R. 4222. Nor will I more than mention the relatively modest uptrend of medical care costs by age, when compared with the q_x column, so wisely handled in level premium life insurance for a couple of centuries.

The twenty-five year trend that Hayek called "The Road to Serfdom" has long since passed the danger point. Robert Louis Stevenson once announced the priority of his responsibility to his own family. OASI meeting personal responsibilities by national pooling does seem to be "making mountains out of molehills." I sense in the attitudes of individuals in this conference the applicability of Stevenson's simple wisdom to the American scene.

E. L. BARTLESON:

Mr. Myers' paper shows the HEW (Department of Health, Education, and Welfare) revised estimate of the level cost of the health insurance benefits of the King-Anderson Bill as .66% of taxable payroll, to be financed in full by an increase of $\frac{1}{2}$% in the combined employer-employee tax (not contribution) rate ($\frac{3}{8}$% for the self-employed) and by raising the maximum taxable payroll to $5,200.

Using the same procedures in converting estimated annual outlay into level cost, the Actuarial and Statistical Committee of the H.I.A.A. has estimated a cost $2\frac{1}{2}$ times as great.

Type of Benefit	HEW Revised Estimate	A.L.C.-L.I.A.A.-H.I.A.A. Estimate
Hospitalization	.52%	1.24%
Skilled-nursing-home	.08	.41
Home-care	.05	.05
Out-patient	.01	.03
Total	.66%	1.73%

There was very little information on which to base the home-care estimate, and the two estimates were the same. Although the H.I.A.A.-estimated cost for out-patient care is three times that of HEW, it still represents a very small part of the total cost; accordingly, I shall confine myself to consideration of the estimates for hospitalization and skilled-nursing-home.

Skilled-nursing-home

While the HEW revised estimate is eight times the previous estimate, it still contemplates extremely limited use. *Actuarial Study No. 52* apparently estimates 2,500,000 days of care in the first full year of operation at $10 per day for 14,350,000 eligibles, or .17 days per eligible. Interview surveys conducted among OASI beneficiaries have indicated three days per eligible. The Colorado program, without requirement of prior hospitalization and without the 180 day limit, in 1959 averaged 14.1 days per eligible. The H.I.A.A. estimate assumes about 2.5 days in 1964 at a daily cost of $9.30, or about $24 per eligible, doubling in 10 years.

Hospitalization

Examination of *Actuarial Study No. 52* shows that the very large difference in the estimated cost of this basic benefit is due to the compounding of several factors.

First, HEW assumes a utilization rate, based on past use remembered and related by those in a population sample interviewed, which is a lower rate than that indicated by other data. In HEW's Public Health Service Publication No. 584-D4, May 1961, there was published a study performed by the Survey Research Center, Institute for Social Research, The University of Michigan. This study analyzes and measures the substantial underreporting of hospitalization in the health interview survey. For example, Table 40 in that study shows underreporting of 39% or more for persons 65 and over with respect to hospitalization 41–53 weeks prior to interview. On the other hand, the H.I.A.A. estimate is based on the New York Insurance Department 1957 Study, *Voluntary Health Insurance and the Senior Citizen*, which contains rates derived from a very substantial volume of insurance and service plan experience. The New York study shows that the rates contained therein, applied to the estimated 1956 New York population classified by sex and age, very closely reproduced the actual number of patient days in New York hospitals during 1956. Murray Latimer, in a paper presented last May before the Casualty Actuarial Society, showed that the New York study is in line with other available data.

Second, as shown on page 16 of *Actuarial Study No. 52*, HEW reduced its level cost estimate from .56% to .52% in the expectation that the availability and use of skilled-nursing-home and home-health benefits would reduce the use of hospitalization, although it would seem more conservative to assume that this would only arrest the upward trend in utilization.

Third, while it is not clear just what per diem cost was assumed by HEW for the near future, page 10 of the study indicates that $29.60 was taken as the long-term average in relation to current wage levels, although the cost is already higher than this. This is apparently rationalized, mathematically, on page 11 where it is noted that the per diem cost has been going up in arithmetic progression and wage rates geometrically, from which it is deduced that the relative level will go down as the geometric series overtakes the arithmetic. It seems more reasonable to assume that the relative cost will continue to rise for some time both because of more expensive treatment and because of continued "catching up" of the low wages paid to hospital employees, followed by a leveling off rather than a subsidence. This latter was the rationale of the H.I.A.A. estimate which assumed $37 per day in 1963, rising to $45 by 1977 and thereafter remaining constant. In this connection, it is interesting to note that HEW's "Indicators" for September 1961 shows a per diem cost in non-federal short-term general and special hospitals of $32.23 for 1960, with low series projections of $38.57 in 1965 and $46.23 in 1970 and high series projections of $43.46 in 1965 and $56.73 in 1970.

It seemed desirable to me to examine more closely the estimates of hospitalization costs in the near future as revealed in *Actuarial Study No. 52*. Using, as stated on page 11, the average of the high-cost and low-cost estimates of Table 1 on page 5, increased 9%, as stated on page 8, for 90 days maximum, we have 2.98 days per eligible. Multiplying this by 14,350,000, which I understand is the estimated number of eligibles in 1963, gives 42,800,000 days of hospitalization. Using the continuance table on page 9, with the 9% adjustment for 90 days, gives an average confinement of 15.5 days and $69 as the average value of the deductible. Using for the first full year of operation the per diem cost of $32, estimated on page 10 for 1962, gives $496 as the average claim before deductible, and $427 as the average claim after deductible. Dividing 2.98 days per eligible by 15.5 days gives a claim rate of .192 and dividing the total days by 15.5 days gives 2,760,000 claims. This number multiplied by $427 gives a benefit total of $1,179 million. But the estimated cost on page 16 for the first full year of operation is $1,015 million, which when reduced by the 5% included for administrative expense gives only $967 million, which is only 82% of the benefit cost computed, as indicated above, using all the factors set forth in *Actuarial Study No. 52.*

Comparing this estimate based on the data in the Actuarial Study with the H.I.A.A. estimate and the 1959 results of the Colorado plan and the 1960 results of the Saskatchewan plan, gives the following:

	1963 Estimate Based on *Actuarial Study No. 52*	A.L.C.-L.I.A.A.-H.I.A.A. Estimate	Colorado Plan 1959	Saskatchewan Plan 1960
Per diem cost........	$ 32	$ 37	....	....
Average cost per claim before deductible ..	$ 496	$ 689	....	....
Average deductible...	$ 69	$ 75	....	....
Average cost per claim after deductible....	$ 427	$ 614	....	....
Claim rate..........	.192	.180	.379	.416
Average covered stay.	15.5 days	18.9 days	11.8 days	17.5 days
Days per eligible person............	2.98	3.4	4.5	7.3
Estimated benefits (in millions).......	$1,179	$1,679*	....	....

* Increased by $117 million from original estimate to allow for 100,000 additional eligibles because of 1961 Social Security amendments.

Thus, even if the HEW cost estimate for 1963 were based on the rates indicated in the Actuarial Study, it would be only 70% of that estimated by H.I.A.A., while we may suspect that the experience may actually be more like the even higher ones in Colorado and Saskatchewan.

A. M. NIESSEN:

In connection with Mr. Myers' highly valuable and informative paper on the 1961 social security amendments, it may be appropriate to present a brief description of the effect of this legislation on the railroad retirement program. This discussion will outline the legal mechanics and indicate the general areas in which the social insurance system for railroad workers was or could be affected by the legislative activity described in Mr. Myers' paper.

The legal mechanics by which the 1961 social security amendments affected railroad retirement law fall into three main categories.

1. *Automatic changes.*—Any amendments to the benefit and taxing provisions for OASDI automatically affect the transactions under the financial coordination (known as the financial interchange) between the railroad retirement account and the OASDI trust funds. This is because the financial interchange operates according to social security rather than railroad retirement law.

   Increases or decreases in OASDI tax rates also become automatically a part of the railroad retirement tax schedule for years after 1964. This is because the statutory combined railroad retirement tax rate for 1965 and subsequent years will equal 14½ percent plus the excess of the then actual OASDI combined rate over 5½ percentage points. Thus, the

1961 OASDI tax amendments had the effect of increasing the combined railroad retirement tax rates by $\frac{1}{4}$ percentage point beginning with 1965.

Still another area of automatic change in railroad retirement law is the maximum spouse's annuity, which immediately responds to changes in the maximum primary insurance benefit under OASDI. This spouse's benefit has not been affected by the 1961 social security amendments because they did not change the maximum primary benefit.

2. *Change in reference to the Social Security Act.*—The Railroad Retirement Act contains a so-called social security minimum guarantee provision which specifies that benefits to a family unit shall not be less than 110 percent of the additional benefits which would have been payable under OASDI on the basis of the railroad service involved. The formulas used in the computation of social security minimum amounts depend upon the reference to the Social Security Act which is contained in section 1(q) of the Railroad Retirement Act. The 1961 social security amendments changed the reference from ". . . as amended in 1960" to ". . . as amended in 1961," thereby giving effect to the 1961 benefit increases for purposes of railroad retirement benefits computed under the social security minimum guarantee. The most pronounced effect was for aged widows' benefits. Those computed under the OASDI formula went up by 10 percent.

   The reference change also liberalized the earnings test for recipients of survivor benefits under the Railroad Retirement Act. Except for an absolute restriction on railroad employment, these benefits are subject to the OASDI earnings test.
3. *Amendatory legislation.*—The extension of the age 62 retirement for men to railroad workers required special legislation (Public Law 87-285). The legislation was needed only for men with 10–29 years of railroad service, since male employees with 30 years of service have been eligible for reduced age annuities at age 60 since the inception of the railroad retirement program.

The cost effects of the 1961 social security and railroad retirement amendments on the railroad retirement system are very minor. The two sets of amendments combined are estimated to increase the net level cost of the railroad retirement program by 0.02 percent of taxable payroll. This cost figure allows for changes in benefit amounts and eligibility requirements as well as for the changes in credits and debits under the financial interchange with the OASDI trust funds.

The temporary extended unemployment benefits which are discussed in Mr. Myers' paper have also been made available to railroad workers. This was accomplished by a separate act of Congress (Public Law 87-7) which provided for extended benefits and for the means of financing them.

The proposed health benefits program under OASDI, which is one of the items discussed in the paper, was supposed to apply also to railroad retirement beneficiaries. This part of the program would have been administered by the Railroad Retirement Board in close cooperation with the Social Security Administration. Provisions to this effect were included in Title III of H.R. 4222 and S. 909.

JOHN H. MILLER:

Other than to congratulate the author on another of his series of papers, my comments will be limited to a few brief observations.

The "actuarial balance" computation is a device for making a comparative evaluation of a scale of tax rates with a fixed schedule of benefits. There is some danger, in my opinion, that unwarranted conclusions may be reached in the interpretation of these results. For example, this computation does not measure the economic effect, if any, which the automatic increase in tax rates without an accompanying increase in benefits may create, nor does it measure the fiscal and budgetary problems which may arise when an increase in the employers' tax automatically—unless otherwise compensated—reduces government revenues from the corporate income tax.

To appraise the operation of OASDI as a part of the entire complex of social and welfare benefits and public finance would be an undertaking of huge magnitude, but to appraise it as an isolated segment of the whole can produce only qualified answers.

E. PAUL BARNHART:

This discussion has to do with the section on *Cost Estimates* for health benefits under OASDI.

In the second paragraph, Mr. Myers says that "reconsideration was given to the cost estimates . . . because it was believed that sufficient allowance had not been made for past and near-future trends of hospitalization costs as compared with the general wage level."

As a result of this reconsideration, the 1961 estimate of the cost of the 1960 proposal increases a spanking 15%, and this on the basis of only "past and near-future" trends. If we look ahead and consider the probable trends of the cost over the next 10 years or so, after OASDI beneficiaries begin to fully exploit the new benefits to which they would have become entitled, we can foresee a good many additional 15% upward revisions, if these costly benefits are enacted into law. It should be kept in mind that these estimates deal with a much more elusive quantity than fixed pension benefits, where the only criterion is that the beneficiary be alive, or even the disability benefits, where the benefit (until liberalized by Congress) is fixed, once qualifying disability is established.

There is also serious question as to whether either the 15% revision or the total estimate is at all reliable even for the present passing moment. Mr. Bartleson has already called attention to the considerable discrepancy between the HEW estimates and those prepared by H.I.A.A. experts. As to the validity of the 15% increase as even a *relative* measure of the effect of the trends previously overlooked by HEW, it should be noted that Mr. Myers says these trends were weighed in comparison with the *general wage level*. We are not concerned here with the general wage level at all, but rather with the *average level of wages taxable under OASDI*. There is, in other words, a $4,800 ceiling involved which makes the general wage level itself an invalid basis of comparison. Therefore, if a 15% increase results when weighing trends in hospital costs against the general wage level, it would seem that something considerably in excess of 15% will result when such trends are compared against the more proper measure of *taxable* wages.

One final point. Mr. Myers says that "the nursing-home and home-health benefits were estimated to have a higher cost because of *likely* greater utilization in the long-range future since more facilities providing these services *may* become available to meet the demand created by the existence of the benefits" (italics mine). I think "greater utilization" would prove to be the understatement of the century if these benefits were to become law. Once the entire population of persons eligible for Social Security health benefits became eligible for 180 days of nursing-home services every benefit period, all paid by the Government, I would be most surprised if both the mushrooming of the facilities and the attendant increase in utilization of such facilities did not prove to be utterly enormous. It is a well-known principle that when some service comes to be generously subsidized or entirely paid for by government, people come to feel that it is either foolish or immoral not to utilize it to the fullest extent. Under the King-Anderson bill, erection of nursing homes could well produce the biggest boom the building industry has seen in a long time—all paid for, ultimately, by the working man and his employer. In short, I think the HEW cost estimates for the nursing-home benefit are even more seriously underestimated than are the rest of the costs.

(AUTHOR'S REVIEW OF DISCUSSION)

ROBERT J. MYERS:

I wish to thank the several discussants for their contributions dealing with several aspects of the paper and related subjects.

Mr. Niessen has brought forth some valuable supplementary information as to how the Railroad Retirement system fared in the 1961 legislative session—in part directly from the Social Security legislation.

Mr. Miller has quite correctly pointed out that it is important not only to consider the financial balance of the OASDI system, but also to analyze the broader economic effects of its provisions. This is difficult to do because it is impossible to measure precisely the impact of the taxes. Can it be said that when the tax rate rises, the employer pays part of the increased cost out of his own pocket and the remainder of the employer tax results in a reduction in general Government revenues from the corporate income tax? Might it not as well be argued that prices will be increased to such an extent that the real cost is passed on to the consumer, who in essence is the worker covered by OASDI? Or again, might it not be viewed that, with increasing OASDI tax rates in prospect, pay raises based on increased productivity might be accordingly smaller?

Mr. Williamson's discussion presents his continuing concern with rising OASDI costs and with what he considers to be the "growth of centralized statist control of the individual." As to the former, I can only say that the experience has been reasonably in line with the estimates and that the responsible committees of Congress have always carefully considered long-range costs in making amendments to the OASDI system. In regard to his latter concern, time alone will tell the story of the relative success or failure of our American political system. Very few people would say, on the one hand, that there should be full control of the individual by the State. Conversely, very few would say that there should be no control. Between these two extremes there are many shades of opinion, and it may be hoped that from all these different views the "best" results will eventuate.

Mr. Bartleson has raised a number of factual points in regard to the cost estimates for the health benefits proposed in the King-Anderson Bill. Admittedly, estimates for such a program are subject to a considerable range of error and especially, as to the long-range future, considerable differences in judgment regarding the future trends of both medical-care costs and usage. For the record, it should be pointed out that the assumptions as to future trends of hospital utilization and hospital charges have been developed basically by medical economists of the Social Security

Administration (see, for example, the report "Hospitalization Insurance for OASDI Beneficiaries," April 3, 1959, prepared by the Department of Health, Education, and Welfare for the House Ways and Means Committee). However, I have reviewed these assumptions in the light of various experiences available and believe that they are reasonable.

As to the fact that the HEW (Department of Health, Education, and Welfare) estimate for the skilled-nursing-home-care benefits is only 1/5 as large as that of the insurance associations and is based on cost factors that are far below the experience in the OASI Beneficiary Survey and in Colorado, it is important to note that the proposal provides such care only following hospitalization and for further medical-treatment purposes. The experiences cited show very high usage because they include extensive care provided for general domicilary purposes rather than for primarily recuperative purposes.

As to the hospitalization cost estimates, Mr. Bartleson makes the criticism that the HEW utilization rate is too low because it is based on interview data (although it should be kept in mind that it has been adjusted upward). He cites a Public Health Service study that shows an extensive underreporting among aged persons with respect to hospitalization 41–53 weeks before interview. This same study, however, shows relatively little underreporting (about 7%) for this age group when the hospitalization occurs within 40 weeks of the interview. Probably as a result of this study, the Public Health Service is now using hospital utilization data for periods no more than 6 months before the interview and adjusting them to an annual basis. It was such data as these for July 1958 to June 1960 that were compared with our utilization rates and found to be at about the same general level (see second paragraph, page 6, *Actuarial Study No. 52*).

Mr. Bartleson points out that the estimate of the insurance associations is based on the New York Insurance Department 1957 Study and that this study contains rates derived from a very substantial volume of experience. First and most important, it should be noted that the difference between the two over-all utilization rates is not large since there is only about a 13% difference relatively (2.98 days per eligible person for the intermediate HEW estimate versus 3.37 days for the insurance association estimate). Some of this difference might be explained by higher hospital utilization in New York than the average for the entire country and also conceivably there might have been some safety margin built into the New York derived rates. Also, I raise some question as to whether the New York rates are really based on a substantial volume of experience at ages 65 and over, although I agree that the derived rates were developed by a highly competent group. I can find no information in the New York report presenting this study as to the exposure at ages 65 and over, and only fragmentary information as to the exposure at all ages.

Next, Mr. Bartleson raises some questions about what is admittedly a difficult matter to predict—namely, the average daily cost of hospitalization. Our long-range OASDI cost estimates for cash benefits are based on the assumption of a given earnings level continuing indefinitely into the future. This seems consistent with the basic hypothesis that the cost estimates are made for the system as it is at the time of the valuation, without allowance for any possible future legislative liberalizations. To assume rising earnings levels and static benefit provisions would produce lower costs (relative to payroll), which would be unrealistic and misleading because the earnings trend would almost certainly result in benefit changes (including raising the maximum earnings base).

For purposes of the OASDI estimates for cash benefits, we are currently using 1959 as the base, and so consistently 1959 hospitalization costs are used, but with appropriate adjustments to reflect the lower average daily cost for aged persons (because of their longer average period of hospitalization) and to take into account that in the future hospitalization costs will rise more rapidly than the general earnings level. Our adjustment for this latter factor was 14%, which the insurance organizations believe is too low. I think that our basis is not unreasonable. For instance, Mr. Richard L. Johnson, Secretary of the Council of Research and Education of the American Hospital Association, is stated as predicting that hospital costs will rise at a rate of 7% per year through 1964 and will then increase at a rate of $3\frac{1}{2}$% (page 55, *Medical Economics*, June 19, 1961). Since earnings have been increasing at a rate of about 3%, Mr. Johnson is assuming that following 1960 there will be a net relative rise of hospital costs as against wages of 4% for 4 years, and that thereafter these two elements will move upward at about the same rate.

Mr. Bartleson also points out that an HEW projection shows a per diem hospital cost figure (for all ages combined) of \$32.23 for 1960 with a projected figure for 1970 ranging from \$46.23 to \$56.73. According to the assumptions in the cost estimate, the corresponding figure for 1970, based on the 1960 figure of \$32.23, would be \$49.38 (a 3% annual compound increase for 10 years, further increased by the 14% mentioned previously).

Finally, Mr. Bartleson examines the HEW estimate for 1963 and attempts to duplicate it from the information given in *Actuarial Study No. 52*. His result, as to the cost for the hospitalization benefits, is some 22% higher than the published figure (after deducting 5% for administrative expenses). One difficulty arising in connection with the HEW cost estimates is that they blend the early-year costs (which attempt to take into account what the actual experience and actual dollar prices will be) with the long-range cost estimates (which are adjusted for increased utilization and are based on the 1959 earnings level). Then too, perhaps *Actuarial Study No. 52* did not clearly enough bring out the procedures adopted.

In Mr. Bartleson's attempt to duplicate the HEW cost estimate for 1963, some of the figures that he used were not in accordance with our procedure. These may be summarized as follows:

a) The 1963 utilization rate used in the HEW estimate was not the intermediate one of 2.98 days per eligible (as was used in the long-range cost estimates), but rather 2.68 days which is the low-cost assumption, slightly above the Beneficiary Survey experience and therefore appropriate for the near future (see first paragraph, page 6, *Actuarial Study No. 52*).

b) The estimated eligibles were not 14,350,000, which includes Railroad Retirement beneficiaries. The cost estimates were for OASDI eligibles only, and 13,850,000 was used, allowing for the 100,000 additional eligibles resulting from the 1961 Amendments (see page 121 of the Hearings before the House Ways and Means Committee on this legislation). Similarly, no account was taken in these estimates of the additional contributions in respect to railroad workers.

c) The average length of hospitalization in the HEW estimates is not 15.5 days but rather 15.1 days (13.86 days for a 60-day maximum, from Table 2 of *Actuarial Study No. 52*, increased by 9% to allow for a 90-day maximum).

d) The average daily hospital cost of $32 included the 5% for administrative expenses (although this was not brought out in *Actuarial Study No. 52*).

Taking into account the above items and running through the calculations in the form that Mr. Bartleson has set them up results in a figure of $1,018 million dollars for the estimated cost for benefits and administrative expenses for the first full year of operation—virtually identical with the published figure of $1,015 million.

Mr. Barnhart, too, questions the cost estimates for the proposed health benefits. I believe that much of my reply to Mr. Bartleson is applicable here. As to measuring the trend of hospitalization costs against general wage levels or against taxable wage levels, I have indicated previously why the result will be the same. In brief, the cost estimates assume that if earnings rise, then the maximum taxable earnings limit will be increased so that the proportion of the total payroll of covered persons that is taxable will remain unchanged.

Finally, I think it is worth while for the record to insert a table showing the estimated progress of the Health Insurance Account under the King-Anderson Bill assuming that the earnings base is increased to $5,200 (as the Administration has proposed) in comparison with the figure of $5,000 in the introduced bill. The figure for the year 2000 was cited in my paper, but the full table has not been in print elsewhere; it corresponds with Table 3 of *Actuarial Study No. 52*, except that the latter is on the $5,000 earnings base.

PROGRESS OF HEALTH INSURANCE ACCOUNT UNDER H.R. 4222
ASSUMING MAXIMUM ANNUAL EARNINGS BASE
CHANGED TO $5,200

INTERMEDIATE-COST ESTIMATE
(In Millions)

Calendar Year	Contributions Allocated	Benefit Payments and Administrative Expenses	Interest on Account*	Account at End of Year
1962........	$ 306	$ 152	$ 2	$ 156
1963........	1,320	1,062	9	423
1964........	1,542	1,098	20	887
1965........	1,575	1,134	36	1,364
1970........	1,744	1,361	117	3,820
1975........	1,889	1,557	182	6,366
1980........	2,033	1,803	256	8,854
1990........	2,361	2,308	394	13,480
2000........	2,744	2,642	549	18,766

* Based on varying interest rate estimated to be earned by OASDI Trust Funds, ultimately leveling off at 3.02% on total assets (3.10% on invested assets).