

SOCIAL SECURITY AMENDMENTS IN 1966-67

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IN THE two-year period following the enactment of Medicare in 1965, significant legislative developments have occurred in connection with what might be broadly termed the Social Security program of the United States—Old-Age, Survivors, and Disability Insurance; Health Insurance; Unemployment Insurance; and Public Assistance. The major legislative changes are contained in the Social Security Amendments of 1967, which were actually enacted into the law by President Johnson's signature on January 2, 1968. It is interesting to note that significant amendments to the OASDI system were enacted in each of the election years from 1950 through 1960 but that thereafter the pattern has changed and the major enactments have occurred in years in which elections did not occur, namely, 1961, 1965, and 1967.

This paper summarizes the legislative history in 1966 and 1967 of the amendments that were enacted and of the significant Unemployment Insurance legislation that was almost enacted.¹ It is of value to consider not only the final provisions of any legislation that is enacted but also recommendations made by the Administration and provisions adopted by one chamber of Congress but not contained in the final legislation, because such features often appear in subsequent legislative developments.

RECENT EXPERIENCE

As a background for considering the legislative action in 1966-67, it is desirable that we first give a broad summary of the recent operating experience of the various Social Security programs.

Old-Age, Survivors, and Disability Insurance

The vast impact of the OASDI system on the social and economic life of the country can be seen from the fact that, at the end of 1967, monthly benefits were being paid to 23.7 million persons (or to more than 1 out of every 9 persons in the total population) at an annual rate of \$20.5 billion, which would have been \$23.6 billion if the higher benefits provided under

¹ See the Legislative Bibliography for the most important documents in regard to the changes in the OASDI and Medicare programs made by the 1967 Amendments. Two summaries of these programs—one for the present provisions and the other for the historical development as a result of the various amendments—are available upon request from the author.

the 1967 Amendments had been effective then. The total number of persons who had covered employment during the year was about 86.7 million, and their taxable earnings were about \$329 billion (which figure would have been \$353 billion under the \$7,800 earnings base of the 1967 Amendments).

The net increase in the benefit roll during 1967 was about 700,000 persons. Of the 23.7 million beneficiaries at the end of 1967, 12.0 million were retired workers aged 62 and over, and 1.2 million were disabled-worker beneficiaries. The remainder of the beneficiaries were distributed into a number of categories, of which the following are the most important: wives of retired workers, 2.6 million; children of retired workers, 0.5 million; widows aged 60 and over, 2.8 million; survivor children, 2.4 million; widowed mothers with children, 0.5 million; wives and children of disabled workers, 0.9 million; and transitional noninsured persons aged 72 and over, 0.7 million.

For February, 1968, the first month when the 1967 Amendments applied, the average monthly benefit being paid to retired workers was \$98 (without considering additional benefits for dependents), while for disabled workers it was \$111. The average benefit for a retired couple—a retired worker with a wife aged 62 or over—was \$165, while that for a widow aged 60 or over was \$86 and that for a young widow with two children was \$253. During 1967, lump-sum death payments, averaging \$222 per worker, were made with respect to about 1.1 million deceased workers.

The total benefit payments made during 1967 amounted to \$21.4 billion, as against total contribution receipts of \$25.5 billion. Interest receipts amounted to \$896 million (representing a rate of 3.7 per cent on total assets), while payments to the Railroad Retirement System, under the financial interchange provisions, were \$539 million and administrative expenses were \$515 million (or 2 per cent of contribution receipts). The combined OASI and DI Trust Funds at the end of 1967 totaled \$26.3 billion, of which the DI Trust Fund was \$2.0 billion. During the year, the OASI Trust Fund increased by \$3.7 billion, while the DI Trust Fund increased by about \$290 million.

Medicare

The first year of operation of the benefit provisions of the Medicare program—Hospital Insurance (HI) and Supplementary Medical Insurance (SMI)—was marked by a number of significant facts. Under HI, an average of approximately 19 million persons were afforded protection in the period July, 1966—June, 1967, while under SMI the corresponding

figure was about 17.5 million persons, or 92 per cent of those eligible to enroll in this program.

Under HI there were 5.0 million admissions to hospitals during the first year of operation, accounting for about 66 million hospital days for which benefits were payable. The total amount of benefits paid during the year was \$2.5 billion, as against contribution income of \$2.7 billion. The balance in the trust fund on June 30, 1967, was \$1.3 billion (resulting in large part from the fact that contributions were collected for six months before the program began operations). Administrative expenses were \$89 million in the year ended June 30, 1967, or about 3.5 per cent of benefit payments.

It is not yet possible to give meaningful figures on the number of services furnished under the SMI program in the first year of operation because of the very considerable lag in filing and in adjudicating claims. The total premiums collected from enrollees during the year amounted to \$647 million, and the matching government contributions were \$623 million (the small difference will be made up in the next year). The benefit payments were \$664 million (a relatively low amount, because of the lag involved), or only 52 per cent of the premium and contribution income. The administrative expenses of \$134 million were relatively high compared to benefit payments because of the start-up costs and the lag in benefit payments; in recent months, these administrative expenses have been about 9 per cent of the benefit payments (which, for the last month of the first year of operation—June, 1967—amounted to \$100 million). The balance in the SMI Trust Fund at the end of the first year of operations was \$486 million, but in subsequent months this balance decreased, and it was \$412 million on December 31, 1967. This downward trend was one indication of the need for the increase in the premium rate that was promulgated in December, 1967, to be effective in April, 1968—June, 1969 (to be discussed in more detail later).

Unemployment Insurance

The number of workers covered by unemployment insurance is only about two-thirds of the number covered by OASDI—because of limitations by type of employment and size of firm. During 1966, 4.1 million persons received at least one weekly UI benefit. The average duration was 11.2 weeks, and 18 per cent of the beneficiaries exhausted their benefit rights. The average weekly benefit was about \$40, and this represented about 35 per cent of average wage (without regard to the maximum taxable-wage base).

During 1966 total UI contributions amounted to \$3.0 billion (at an average employer contribution rate of 1.9 per cent, after allowing for experience rating), while benefit payments were \$1.8 billion. The UI Trust Fund at the end of 1966 amounted to \$9.8 billion.

Public Assistance

During 1967, the number of persons receiving cash public assistance under the programs that involve federal financial participation did not change greatly. The Old-Age Assistance roll ceased the slow decline that had prevailed over recent years, and during 1967 it leveled off at about 2.07 million recipients. At the end of 1967, there were 83,000 recipients of

TABLE 1
PAYMENTS TO RECIPIENTS UNDER PUBLIC ASSISTANCE
PROGRAMS INVOLVING FEDERAL COST-SHARING, 1966
(Amounts in Millions)

| PROGRAM | TOTAL EXPENDITURES | FEDERAL EXPENDITURES | | VENDOR MEDICAL PAYMENTS | |
|---------------------------------|--------------------|----------------------|-------------|-------------------------|-------------|
| | | Total | Pro-portion | Total | Pro-portion |
| Old-Age Assistance..... | \$1,908 | \$1,288 | 68% | \$ 267 | 14% |
| Aid to Blind..... | 90 | 51 | 57 | 6 | 6 |
| Aid to Disabled..... | 566 | 330 | 58 | 78 | 14 |
| Aid to Families with Children . | 1,924 | 1,084 | 56 | 72 | 4 |
| Medical Assistance*..... | 1,489 | 745 | 50 | 1,489 | 100 |
| Total..... | 5,977 | 3,498 | 59 | 1,912 | 32 |

* Including Medical Assistance for the Aged.

Aid to the Blind, 645,000 recipients of Aid to the Permanently and Totally Disabled, and 3.9 million children receiving Aid to Families with Dependent Children (with assistance also being furnished to 1.3 million adults in such families). The number of children receiving AFDC increased by about 400,000 in the year. In addition, under general assistance programs completely financed by state and local governments, there were 750,000 recipients in 350,000 families.

The average monthly cash assistance payment per recipient at the end of 1967 was \$69 for the aged, \$89 for the blind, \$79 for the disabled, and \$39 for families with dependent children.

Data on the financing of the payments to recipients under public assistance programs involving federal participation are shown in Table 1

for the calendar year 1966. Total expenditures were \$6.0 billion, of which the federal government supplied about 60 per cent. Over \$1.9 billion of the total payments represented vendor payments to third parties for medical care furnished to recipients. The federal matching share of the payments for the Medical Assistance program was lower than the average for all programs combined—and was only 50 per cent—because most of the expenditures under this program were made by the larger and wealthier states, for whom the federal matching ratio was 50 per cent, and because in a few states payments are made for persons not eligible for federal matching (e.g., in New York, the proportion was only 35 per cent). If only those payments to persons eligible for federal matching were considered, the federal proportion is 53.2 per cent for MA (such an adjustment would have no significant effect for the other PA programs).

Interrelationship between OASDI and OAA

Since the OAA roll has been decreasing slowly in recent years, while at the same time the number of persons aged 65 and over receiving OASDI has been increasing, the ratio of the latter to the former has been increasing; it was 7.8 to 1 at the end of 1967. OAA recipients represented 10.6 per cent of the total population aged 65 and over, while the corresponding figure for OASDI beneficiaries aged 65 and over was 82.6 per cent.

A growing number of individuals aged 65 and over receive both OAA payments and OASDI benefits. At the beginning of 1966, there were 1,014,000 such concurrent recipients, representing 49 per cent of all OAA recipients and 7.1 per cent of all OASDI beneficiaries aged 65 and over. Since over the long range OASDI is the major program for providing basic old age security, it is to be anticipated that the proportion of OAA recipients who will be receiving OASDI benefits will continue to increase, ultimately approaching 100 per cent. On the other hand, recent experience indicates that the proportion of OASDI beneficiaries aged 65 and over who are receiving OAA has stabilized at about 6-7 per cent.

UNEMPLOYMENT INSURANCE LEGISLATIVE ACTIVITY

In 1966, the Administration recommended significant changes in the UI program. The House passed a bill containing some of these changes, and the Senate passed a somewhat different bill. Since the two bodies were unable to agree on a compromise bill, the legislation died in conference and no action on it was taken in 1967 by the new Congress that convened then.

The Administration proposal would extend coverage to employers of one or more workers (instead of four or more) and to farm workers (of

large farms) and employees of nonprofit organizations (with experience rating for each such organization on its own "cost" experience being possible). The House bill would, in general, do the same, except for coverage of farm workers. The Senate bill deleted the extension of coverage to small employers.

The Administration proposal would raise the wage base from \$3,000 to \$5,600 in 1967-70 and to \$6,600 thereafter. The House bill had a base of \$3,900 in 1969-71 and of \$4,200 thereafter. The Senate bill had a base of \$3,900 in 1968-71 and of \$4,800 thereafter. The Administration proposal would increase the federal tax rate by 0.15 per cent and would provide for an equal matching amount from general revenues. Both House bill and Senate bill had a tax increase of 0.2 per cent but no general-revenues matching.

State plans would be required, under the Administration proposal, to have certain benefit standards—eligibility conditions, benefit amounts, and durations of benefits—in order for employers to receive full credit for their state UI tax against 2.7 per cent of the federal tax. The House bill deleted these provisions. The Senate bill restored these standards but on somewhat lower levels.

The Administration proposal would provide extended benefits for unemployment beyond twenty-six weeks for persons with a substantial work history, with the cost to be met from the increased financing discussed previously. The House bill had such a provision, but it would only be applicable in periods of high unemployment and half the cost would have to be met by the state program. The Senate bill was the same as the House bill, except that the entire cost of these benefits would be met from federal funds.

Federal grants (from funds derived from the additional financing discussed previously) to state UI programs with relatively high benefit costs would be provided under the Administration proposal. Under the proposal, contribution rates could optionally be reduced by methods other than experience rating. Neither the House nor the Senate bill contained such provisions.

PUBLIC ASSISTANCE CHANGES

The Social Security Amendments of 1967 made significant—and controversial—changes in the Public Assistance program, particularly with regard to Aid to Families with Dependent Children (AFDC). Unlike the situation in most of the previous years of legislative action in the PA field, there was no notable effort to change the financing basis of the program by increasing the federal matching share.

The 1965 legislation that resulted in the Medicare program also contained provisions that broadened and extended the medical-care provisions applicable to PA recipients by combining payments for this purpose into one program and by extending it to many additional medically indigent persons—the so-called Medicaid program (Title XIX). The operation of the Medicaid program in New York State—as it appeared to be developing under provisions that made an estimated 30–45 per cent of the total population of the state potentially eligible—concerned many people, and there was much demand for a tightening-up on this program for fear that a large number of states would adopt extensive, costly plans. The House Ways and Means Committee reported out legislation along these lines at the end of 1966, but it was too late in the year for extensive legislative consideration of the subject.

In presenting an omnibus Social Security bill at the beginning of 1967, the Administration included a number of public welfare provisions, including some proposals to tighten up the Medicaid program. The major proposals made were the following:

1. The Medicaid program would be tightened by eliminating federal participation with respect to individuals and families whose incomes exceed 150 per cent of the highest income standards used by the state in determining eligibility for cash assistance and by encouraging states to “buy in” under the Supplementary Medical Insurance program (SMI) for cash assistance recipients and medically indigent persons (by providing that, if such coverage is not obtained, there would be no federal matching on medical costs that would have been covered by SMI). In regard to the latter matter, federal matching would be applicable with regard to the SMI premiums that the state would pay for cash assistance recipients but would not occur in the case of medically indigent persons (although with respect to the latter, there would still be the 50-50 matching arising from the general government contribution to the SMI system).
2. The earnings exemptions for aged and disabled public assistance recipients, formerly permissive, would be made mandatory on the states, as would also a proposed earnings exemption for AFDC.
3. States would be required to make cash assistance payments that would meet the full need of eligible individuals, as determined under the state’s standards. Further, such standards would have to be kept up to date with changes in the cost of living.
4. Federal financing would be made available to encourage the establishment of community work and training programs, so that AFDC recipients aged 16 and over would be trained for employment to remove them from the PA rolls.
5. A number of changes would be made in the child-welfare and child-health provisions, so as to expand these programs.

The legislation actually enacted included most of the Administration recommendations, except for that involving the requirement for states meeting the full need of eligible individuals. However, the tightening-up of the Medicaid program was made more extensive, and a number of important changes were made in the required assignment of AFDC recipients to work and training programs. These requirements were considerably loosened by amendments adopted on the floor of the Senate—as a result of strong complaints and criticisms by social welfare groups and other organizations—but the provisions that were finally agreed upon were very close to those contained in the House bill.

The major PA changes in the 1967 Amendments can be summarized as follows:

1. Medicaid and SMI are co-ordinated in the manner indicated previously.
2. Federal matching for Medicaid after June, 1968, will not be made with respect to the medically indigent in those cases where the income exceeds 133½ per cent of the actual level of AFDC payments made by the state. For a transitional period, this limit is higher for states with approved plans on July 25, 1967 (150 per cent for the last half of 1968, and 140 per cent for 1969).
3. A work-incentive program is established for AFDC families (exclusive of children under age 16 or in school, persons who are incapacitated, and persons who must stay at home to take care of an incapacitated member of the household). Recipients must undergo training and accept suitable employment.
4. A limit on federal financial participation in AFDC is established such that the proportion of the child population under age 18 that is aided because of the absence of a parent cannot be higher than it was at the beginning of 1968. In other words, the federal government will not participate in the financing of payments to children in excess of this limit. This limit was introduced because of concern about the continually growing number of AFDC recipients during the past few years, which have been times of relative economic prosperity.
5. The earnings exemption was expanded so that a state will exclude all earnings of child recipients who are full-time students or who are part-time students not working full time. In all other cases, as much as the first \$30 per month of earned income of the family will be exempted, plus one-third of the remainder of such income. These provisions become mandatory on states in July, 1969.

HISTORY OF OASDI CHANGES

In 1966 legislation was enacted that provided special monthly benefits for certain persons aged 72 and over and that changed the payment of contributions for the nonfarm self-employed from an annual-payment basis (after the close of the year) to a current-quarterly-payment basis. The former change resulted from a Senate floor amendment to a minor tax bill; this amendment was considerably reduced in scope by the Conference Committee between the House and the Senate.

The special transitional noninsured benefits are available to all persons aged 72 or over in 1966 or who attain this age before 1968. They were then made eligible for \$35 a month (\$52.50 for husband and wife if both are eligible) if they meet certain citizenship and residence requirements. These requirements are residence in the fifty states or the District of Columbia and either being a citizen or having resided continuously in the United States for five years after having been admitted for permanent residence. Persons reaching 72 after 1967 are able to qualify only if they have some earnings credits.

The special benefit is reduced by the amount of any other governmental pension (including state and local governments) that the individual or his spouse is receiving or is eligible to receive. As a result, almost all OASDI, Railroad Retirement, and Civil Service Retirement beneficiaries are not affected, since they (and their spouses) already receive larger amounts. Persons receiving state and local government pensions usually do not receive these benefits unless their pensions are very small. Those receiving OAA are excluded from receiving this benefit for any month in which they are on the assistance roll. These benefits are paid from the OASI Trust Fund but are financed from general revenues (except for persons with three or more quarters of coverage) by reimbursement to the trust fund.

In October, 1966, President Johnson made a speech in which he announced that early in 1967 he would propose legislation to increase Social Security benefits, effective in January, 1968, and to include disabled beneficiaries under both parts of the Medicare program. It was indicated that the benefit increase would be financed partly by raising the maximum taxable earnings base and partly from the existing favorable actuarial balance of the OASDI program, which had been shown to be present in a recent re-evaluation of the program. The Hospital Insurance (HI) benefits for disabled workers would be financed without changing the contribution rates of this part of the program, as a result of the additional funds made available from raising the earnings base. The Supplementary Medical Insurance (SMI) benefits would be provided on the same basis as that for enrollees aged 65 and over, namely, the same premium rate from the disabled enrollees and a matching government contribution.

The favorable actuarial balance of the OASDI system—about 0.75 per cent of taxable payroll—arose as a result of a number of changed cost assumptions, based to some extent on recent experience. The revised cost assumptions that produced lower costs included (1) less assumed improvement in future mortality than that assumed in the previous cost estimate; (2) higher assumed fertility than that assumed previously, but nonetheless decreasing fertility; (3) higher earnings rates for covered

workers—assumed to be constant in the future at the 1966 level, as against the 1963 level used previously; (4) assumed greater participation of women in the labor force (thus resulting in increased contribution income and in relatively more benefits to women in their own right, which would largely be offset by reductions in dependent and survivor benefits); and (5) a higher interest rate. Partially offsetting the effect of these changes in assumptions was a revision in the assumptions for the disability benefits, which provided for higher disability prevalence rates. More details on these revised assumptions and the resulting cost estimates are contained in *Actuarial Study No. 63* of the Social Security Administration.²

Immediately following the statement of President Johnson, several prominent Republican members of Congress urged that, if adequate financing means were available, benefit increases should be made much earlier than 1968, so as to recognize the increase in the cost of living that had occurred since the latest benefit adjustment, in 1965. In fact, it was pointed out that, without changing the financing provisions as to the earnings base and future tax rates, the favorable actuarial balance shown by the new estimates would be sufficient to provide an 8 per cent benefit increase, which amount would very closely approximate the change in the cost of living. The House Ways and Means Committee took a very active interest in this matter, and some of its Democratic members were in favor of a somewhat larger benefit increase. Most Committee members, however, were agreed that immediate action should be taken and that the benefit increase should be made effective earlier than January, 1968, the date that President Johnson had proposed. Several prominent senators expressed little enthusiasm for such rapid action, and, since the congressional session was rapidly drawing to a close, complete legislative action appeared impossible and the matter was dropped.

Administration Bill, 1967

In February, 1967, a bill (H.R. 5710) was introduced to present the Administration's recommendations in the field of Social Security (including also the PA recommendations mentioned previously). This bill contained the following important OASDI provisions (the Medicare provisions will be discussed in the next section):

1. Monthly benefits for all types of insured beneficiaries would be increased by 15 per cent, with a minimum primary insurance amount of \$70. This would be effective for benefits for June, 1967, a date chosen partly for administrative reasons and partly for fiscal effects.

² Robert J. Myers and Francisco Bayo, "Long-Range Cost Estimates for Old-Age, Survivors, and Disability Insurance System, 1966."

2. A special minimum of \$100 would be provided as the primary insurance amount for an insured worker who had at least twenty-five years of coverage (with proportionate amounts for those with lesser coverage, merging with the proposed regular minimum of \$70 for those with less than eighteen years of coverage). The basic philosophy underlying this provision was to provide an "answer" to critics of the OASDI program—especially to those interested in the poverty program—who asserted that benefits are too low to meet basic needs. In other words, with this provision included in the law, the defense could be made that it is only the in-and-out worker who receives the relatively low benefits arising from the general minimum (or slightly above it) and that the regularly employed worker always receives substantial benefits in recognition of his continuous participation in the program.

3. The basic benefit for transitionally insured and noninsured persons (aged 72 and over) would be increased from \$35 to \$50 per month.

4. A maximum of \$90 per month would be applicable to wife's benefits. The purpose of this provision, which would have only a small cost-reduction effect, was to make the benefits somewhat more earnings-related by having less differential between married beneficiaries with an eligible wife and other beneficiaries. At the same time, it would assure that in most cases a working woman would have a larger benefit from her own earnings than a nonworking woman would have as a wife's benefit—which was the subject of serious criticism made by some influential members of Congress. The latter principle could have been effectuated completely if the maximum wife's benefit had been made \$70, the same as the general minimum primary insurance amount, but to do so would have meant that a few existing wife beneficiaries would not have received the full 15 per cent general benefit increase proposed.

5. Monthly benefits would be provided for disabled widows under age 62 at the full benefit rate of 82½ per cent of the primary insurance amount of the deceased husband that is applicable to nondisabled widows at age 62 and over. The disability would have to occur no later than seven years after the husband's death or, if later, seven years after she ceases to be entitled to mother's benefits as a result of no longer having an eligible survivor child in her care.

6. Monthly benefits would be provided for dependent parents of disabled and retired workers (instead of only in survivor cases).

7. The earnings (or retirement) test would be liberalized so that the annual exempt amount would be increased from \$1,500 to \$1,680 (with a corresponding increase in the monthly test). The "band" for which there is a \$1 reduction in benefits for each \$2 in earnings (after earnings have exceeded the annual exempt amount) would be continued at \$1,200.

8. Coverage would be extended to more agricultural workers by reducing the earnings requirements and the work-time requirements. Coverage would also be extended to some federal civilian employees by provisions for a transfer of wage credits to OASDHI when such an individual separates from service and has no immediate or deferred vested benefits in the Civil Service Retirement System.

9. The maximum taxable and creditable earnings base would be increased

from \$6,600 per year to \$7,800 for 1968-70, \$9,000 for 1971-73, and \$10,800 for 1974 and after. The contribution schedule would be revised in the manner shown in Table 2 for OASDI and in Table 3 for OASDI and HI combined.

10. The allocation to the DI Trust Fund would be increased from 0.70 per cent of taxable payroll (with respect to the combined employer-employee rate) to 0.95 per cent. There are two reasons why this increase would be required. About half of it was the result of the higher cost assumptions used for the DI benefits in the new cost estimates (as mentioned previously), and the remainder was necessary because of the higher general benefit level that was being proposed.

TABLE 2
CONTRIBUTION SCHEDULE FOR OASDI UNDER VARIOUS
VERSIONS OF 1967 AMENDMENTS

| Calendar Year | Previous Law | Administration Proposal | House Bill | Senate Bill* | 1967 Act |
|---------------------------------|--------------|-------------------------|------------|--------------|----------|
| Combined Employer-Employee Rate | | | | | |
| 1968 | 7.8% | 7.8% | 7.8% | 7.6% | 7.6% |
| 1969-70 | 8.8 | 9.0 | 8.4 | 8.4 | 8.4 |
| 1971-72 | 8.8 | 9.0 | 9.2 | 9.2 | 9.2 |
| 1973-75 | 9.7 | 10.0 | 10.0 | 10.0 | 10.0 |
| 1976 and after | 9.7 | 10.0 | 10.0 | 10.1 | 10.0 |
| Self-employed Rate | | | | | |
| 1968 | 5.9% | 5.9% | 5.9% | 5.8% | 5.8% |
| 1969-70 | 6.6 | 6.8 | 6.3 | 6.3 | 6.3 |
| 1971-72 | 6.6 | 6.8 | 6.9 | 6.9 | 6.9 |
| 1973-75 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 |
| 1976 and after | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 |

* The Senate Finance Committee bill was the same as this.

NOTE.—Actual 1967 rates were 7.8 per cent for employer-employee rate and 5.9 per cent for self-employed rate.

Changes Made by House of Representatives Bill, 1967

The House Ways and Means Committee held extensive public hearings and executive sessions on the foregoing proposal. In the customary, new "clean" bill that resulted from the committee's deliberations (H.R. 12080), the following major provisions were included:

1. Monthly benefits for all types of insured beneficiaries would be increased by 12½ per cent, with a minimum primary insurance amount of \$50. The first increased benefits would be payable for the second month after the month of enactment.

2. The basic benefit for transitionally insured and noninsured persons (aged 72 and over) would be increased from \$35 to \$40 per month.

3. A maximum of \$105 per month would be made applicable to wife's benefits (having effect generally only in the distant future). The purpose of this provision was the same as that of the \$90 minimum in the Administration bill, but there was the overriding requirement that the full benefit for the married man should be 50 per cent of average wage for the maximum-earnings case

TABLE 3
CONTRIBUTION SCHEDULE FOR OASDI AND HI COMBINED UNDER
VARIOUS VERSIONS OF 1967 AMENDMENTS

| Calendar Year | Previous Law | Administration Proposal | House Bill | Senate Bill* | 1967 Act |
|---------------------------------|--------------|-------------------------|------------|--------------|----------|
| Combined Employer-Employee Rate | | | | | |
| 1968 | 8.8 % | 8.8 % | 8.8 % | 8.8 % | 8.8 % |
| 1969-70 | 9.8 | 10.0 | 9.6 | 9.6 | 9.6 |
| 1971-72 | 9.8 | 10.0 | 10.4 | 10.4 | 10.4 |
| 1973-75 | 10.8 | 11.1 | 11.3 | 11.3 | 11.3 |
| 1976-79 | 10.9 | 11.2 | 11.4 | 11.4 | 11.4 |
| 1980-86 | 11.1 | 11.4 | 11.6 | 11.6 | 11.6 |
| 1987 and after | 11.3 | 11.6 | 11.8 | 11.6 | 11.8 |
| Self-employed Rate | | | | | |
| 1968 | 6.4 % | 6.4 % | 6.4 % | 6.4 % | 6.4 % |
| 1969-70 | 7.1 | 7.3 | 6.9 | 6.9 | 6.9 |
| 1971-72 | 7.1 | 7.3 | 7.5 | 7.5 | 7.5 |
| 1973-75 | 7.55 | 7.55 | 7.65 | 7.65 | 7.65 |
| 1976-79 | 7.6 | 7.6 | 7.7 | 7.65 | 7.7 |
| 1980-86 | 7.7 | 7.7 | 7.8 | 7.75 | 7.8 |
| 1987 and after | 7.8 | 7.8 | 7.9 | 7.75 | 7.9 |

* The Senate Finance Committee bill was the same as this.

NOTE.—Actual 1967 rates were 8.8 per cent for the employer-employee rate and 6.4 per cent for the self-employed rate.

(i.e., 50 per cent of the maximum monthly creditable wage of \$633 minus the maximum primary insurance amount of \$212 yields \$105).

4. Liberalized benefit protection would be available for dependents and survivors of women workers (only the same insured-status requirements as those for men would be applicable instead of the stricter ones of previous law).

5. Monthly benefits would be provided for disabled widows and dependent widowers of insured workers when such survivors are aged 50-59 (aged 50-61 for widowers). The benefit amount would be reduced from the full 82½ per cent of the primary insurance amount payable to widows and widowers at age 62 and the reduced amount of 71½ per cent for widows at age 60, being scaled down from the

latter amount, according to age at award, to 50 per cent for age 50. It may be noted that, although the reduction for early retirement for workers and widows is on an "actuarial" (or "no cost") basis, the reduction for disabled widows and widowers is not intended to be on such a basis.

6. Insured status for disability benefits for young workers (under age 31) would be liberalized, so as essentially to require coverage for half the time since age 21 (or for those disabled before age 24, with coverage for half of the last three years).

7. The definition of disability would be made more detailed, so as to bring out better the concepts contained in previous law.

8. The earnings (or retirement) test would be liberalized so that the annual exempt amount would be increased from \$1,500 to \$1,680 (with a corresponding increase in the monthly test). The "band" for which there is a \$1 reduction in benefits for each \$2 in earnings (after earnings have exceeded the annual exempt amount) would be continued at \$1,200.

9. Coverage would be extended to certain small categories of state and local government employees. The coverage basis of ministers would be revised so as to be compulsory unless the minister opts out on grounds of conscience.

10. The maximum taxable and creditable earnings base would be increased from \$6,600 per year to \$7,600 for 1968 and after.

11. The contribution schedule would be revised in the manner shown in Table 2 for OASDI and in Table 3 for OASDI and HI combined.

12. The allocation to the DI Trust Fund would be increased from 0.70 per cent of taxable payroll (with respect to the combined employer-employee rate) to 0.95 per cent.

13. Certain additional limitations on payment of benefits to aliens outside the United States would be introduced (primarily with respect to citizens of countries that do not provide reciprocity in regard to Social Security benefits for United States citizens and with respect to payments in countries in which the Treasury Department has suspended payments).

14. The pay of persons in military service would be deemed to be \$100 per month higher than the amount of basic pay on which they contribute. The cost of the additional benefits arising therefrom would be paid from the general fund of the Treasury (when the benefits are paid).

This bill was passed by the House on August 17, under the customary rule permitting no amendments, by an overwhelming majority—415 to 3.

Changes Made by Senate Finance Committee Bill, 1967

The Senate Committee on Finance conducted extensive public hearings and executive sessions on the House bill. Most of the original Administration recommendations with regard to OASDI were substituted for the provisions of the House bill, as will be seen by the following listing of the most important changes made:

1. The maximum annual earnings base would be increased to \$8,000 in 1968, \$8,800 in 1969-71, and \$10,800 in 1972 and after, rather than the one-step approach in the House bill.

2. Monthly benefits for all types of insured beneficiaries would be increased by 15 per cent, with a minimum primary insurance amount of \$70. The basic benefit for transitionally insured and noninsured persons would be increased from \$35 to \$50 per month. The first increased benefits would be payable for March, 1968 (i.e., to be paid at the beginning of April, at the same time as the increase in the SMI premium rate would go into effect).

3. The earnings test would be further liberalized after 1968 by increasing the annual exempt amount to \$2,000 (with a corresponding change in the monthly test); the \$1,200 band for which \$1 of benefits is withheld for each \$2 of earnings would be retained at the \$1,200 figure in the House bill.

4. The monthly benefits for disabled widows and dependent widowers would be available at all ages under 62 and in the full amount of $82\frac{1}{2}$ per cent of the primary insurance amount.

5. Disability benefits would be available for blind persons (under an "industrially blind" definition) at any age, with six quarters of coverage being required, but only while not engaged in substantial employment.

6. Marriage would not be a terminating event for child's benefits if the beneficiary is in full-time school attendance (in the case of a girl, the husband, too, must be in school).

7. Children disabled at ages 18-21 would be eligible for child's benefits if they continue to be disabled.

8. The contribution schedule for employers and employees for the combined OASDI and HI system would be changed so that there would be the same rates as in the House bill through 1986 and lower rates thereafter (see Table 3). The contribution schedule for OASDI was slightly reduced for 1968 (by the same amount as the contribution rate for HI was increased) and was slightly increased for 1976 and after (see Table 2). Thus the major portion of the increased cost of the liberalizations of the OASDI system added by the Senate Finance Committee is met by the increased earnings base, and only a small part is met by increased contribution rates.

Changes Made by Senate Bill, 1967

The bill was debated on the Senate floor in November, and the following important changes from the Senate Finance Committee bill were made in the OASDI system:

1. Persons meeting the so-called occupational blindness conditions would be eligible for monthly disability benefits even though they engage in substantial gainful employment.
2. The detailed definition of disability was eliminated (as was also the special definition of disability for widow's benefits), thus reverting to the definition in previous law.

3. The earnings test would be further liberalized (effective in 1968) by increasing the annual exempt amount to \$2,400 (with a corresponding change in the monthly test and with no change in the \$1,200 band).
4. Mother's benefits and full wife's benefits for women under age 65 would be continued even though no eligible child under age 18 (or disabled) is present if there is a child under age 22 who is in high school (or a lower school).

The Senate passed the bill on November 22 by a record vote of 78 to 6.

Action of Conference Committee, 1967

The Conference Committee between the House and the Senate, on December 7, resolved the differences between the two versions of the bill by following the House bill, except for the following items:

1. The general benefit increase is 13 per cent, with a minimum primary insurance amount of \$55 (instead of $12\frac{1}{2}$ per cent and \$50, respectively). The first increased benefits are payable for February, 1968.
2. The maximum earnings base is \$7,800 for 1968 and after (instead of \$7,600).
3. The contribution schedule for OASDI and HI combined is the same as that in the House bill, but the allocation between the two programs is different for 1968 (see Tables 2 and 6).

Both the House and the Senate approved the action of the Conference Committee, and President Johnson signed the bill into law on January 2, 1968.

Illustrative Benefits

The computation of the average monthly wage, which is used in the determination of benefit amounts, was not changed by the 1967 Amendments, except for a technical change in the procedure when wages before 1951 are used. In such instances, certain simplifying assumptions as to the distribution of 1937-50 wages by calendar years are now made, to facilitate EDP procedures. Relatively few benefits are now being adjudicated under this pre-1951 basis, since larger amounts are obtained under the "new start" basis. The technical change will generally result in only small increases in benefits.

Tables 4 and 5 present illustrative monthly benefits for various beneficiary categories, taking into account the minimum and maximum benefit provisions and the reductions for workers and spouses claiming benefits before age 65 and for widows (and disabled widowers) claiming benefits before age 62. It should be noted that in certain instances of beneficiaries on the roll on the effective date of the 1967 Amendments, when the maximum family benefit is payable, somewhat larger amounts are payable than those shown in these tables (so as to permit all such

TABLE 4
ILLUSTRATIVE MONTHLY BENEFITS UNDER OASDI SYSTEM
FOR RETIRED AND DISABLED WORKERS

| AVERAGE MONTHLY WAGE* | WORKER ALONE | WORKER WITH SPOUSE CLAIMING BENEFITS AT: | | WORKER, WIFE, AND ONE CHILD† |
|--|-----------------|---|----------|------------------------------------|
| | | Age 62 | Age 65 | |
| Disabled Worker or Retired Worker Aged 65 at Time of Retirement | | | | |
| Under \$75. . . . | \$ 55.00 | \$ 75.70 | \$ 82.50 | \$ 82.60 |
| \$100. | 71.50 | 98.40 | 107.30 | 107.30 |
| 150. | 88.40 | 121.60 | 132.60 | 132.60 |
| 200. | 101.60 | 139.70 | 152.40 | 161.60 |
| 250. | 115.00 | 158.20 | 172.50 | 202.40 |
| 300. | 127.10 | 174.80 | 190.70 | 240.10 |
| 350. | 140.40 | 193.10 | 210.60 | 280.80 |
| 400. | 153.60 | 211.20 | 230.40 | 307.20 |
| 450. | 165.00 | 226.90 | 247.50 | 330.00 |
| 500. | 177.50 | 244.10 | 266.30 | 355.10 |
| 550. | 189.90 | 261.20 | 284.90 | 379.90 |
| 600. | 204.00 | 280.50 | 306.00 | 408.00 |
| 650. | 218.00 | 296.80 | 323.00 | 432.00 |
| Retired Worker Aged 62 at Time of Retirement | | | | |
| Under \$75. . . . | \$ 44.00 | \$ 64.70 | \$ 71.50 | \$ 71.60 |
| \$100. | 57.20 | 84.10 | 93.00 | 93.00 |
| 150. | 70.80 | 104.00 | 115.00 | 115.00 |
| 200. | 81.30 | 119.40 | 132.10 | 141.30 |
| 250. | 92.00 | 135.20 | 149.50 | 179.40 |
| 300. | 101.70 | 149.40 | 165.30 | 214.70 |
| 350. | 112.40 | 165.10 | 182.60 | 252.80 |
| 400. | 122.90 | 180.50 | 199.70 | 276.50 |
| 450. | 132.00 | 193.90 | 214.50 | 297.00 |
| 500. | 142.00 | 208.60 | 230.80 | 319.60 |
| 550. | 152.00 | 223.30 | 247.00 | 342.00 |
| 600. | 163.20 | 239.70 | 265.20 | 367.20 |
| 650. | 174.40 | 253.20 | 279.40 | 388.40 |

* Based on earnings after 1950.

† Upper section also applies to worker and two children (except for \$650 case, when the benefit is \$434.40) and to worker, dependent husband aged 65 or over, and one child.

beneficiaries to receive the full 13 per cent increase). The amount of the lump-sum death payment varies only between \$165 (3 times the minimum primary insurance amount) and \$255 (the statutory maximum, which has not been changed since it was established in 1954).

Under the 1965 Act, the formula for computing the primary insurance amount (PIA) from the average monthly wage (AMW) was as follows: (a) 62.97 per cent of the first \$110 of AMW, plus (b) 22.90 per cent of the next \$290 of AMW, plus (c) 21.40 per cent of the next \$150 of AMW.

TABLE 5
ILLUSTRATIVE MONTHLY SURVIVOR BENEFITS UNDER OASDI SYSTEM

| AVERAGE MONTHLY WAGE* | DISABLED WIDOW CLAIMING BENEFITS AT AGE 50† | WIDOW CLAIMING BENEFITS AT: | | ONE CHILD | ONE CHILD AND MOTHER‡ | TWO CHILDREN AND MOTHER‡ | MAXIMUM FAMILY BENEFIT‡ |
|-----------------------------|---|--------------------------------|----------|--------------|--------------------------------|-----------------------------------|-------------------------------|
| | | Age 60† | Age 62‡ | | | | |
| Under \$75 | \$ 33.40 | \$ 47.70 | \$ 55.00 | \$ 55.00 | \$ 82.60 | \$ 82.50 | \$ 82.50 |
| \$100..... | 35.90 | 51.20 | 59.00 | 55.00 | 107.40 | 107.40 | 107.30 |
| 150..... | 44.30 | 63.30 | 73.00 | 66.30 | 132.60 | 132.60 | 132.60 |
| 200..... | 51.00 | 72.80 | 83.90 | 76.20 | 152.40 | 161.70 | 161.60 |
| 250..... | 57.60 | 82.30 | 94.90 | 86.30 | 172.60 | 202.50 | 202.40 |
| 300..... | 63.70 | 91.00 | 104.90 | 95.40 | 190.80 | 240.00 | 240.00 |
| 350..... | 70.30 | 100.50 | 115.90 | 105.30 | 210.60 | 280.80 | 280.80 |
| 400..... | 76.90 | 109.90 | 126.80 | 115.20 | 230.40 | 322.50 | 322.40 |
| 450..... | 82.70 | 118.10 | 136.20 | 123.80 | 247.60 | 354.60 | 354.40 |
| 500..... | 88.90 | 127.00 | 146.50 | 133.20 | 266.40 | 375.00 | 374.80 |
| 550..... | 95.10 | 135.90 | 156.70 | 142.50 | 285.00 | 395.70 | 395.60 |
| 600..... | 102.10 | 145.90 | 168.30 | 153.00 | 306.00 | 415.20 | 415.20 |
| 650..... | 109.20 | 156.00 | 179.90 | 163.50 | 327.00 | 434.40 | 434.40 |

* Based on earnings after 1950.

† Also applies to disabled widower.

‡ Also applies to widower and to one parent.

§ Also applies to two children and to two parents.

¶ Also applies to three children.

This amount can be exceeded slightly in certain family groups, as a result of rounding.

The result was subject to a minimum of \$44 (for AMW's of \$67 or less). Further, for AMW's of \$68-\$84, the PIA amounts shown in the benefit table in the law were slightly higher than what the benefit formula produced (because of certain adjustments that were necessary in previous amendments). In all other instances, the result of using the benefit formula closely approximated the amounts in the benefit table.

Under the 1967 Amendments, the underlying intent is to move away from the three-part formula toward a two-part formula. Thus the intent is that, for the maximum AMW, the second percentage factor should apply to the excess of this AMW over the \$110 breaking point, where the second factor first applies. It is not possible, however, to achieve this

result merely by eliminating the third step (or part of it), because, by doing so, the uniform general benefit increase provided would, in fact, not produce the same relative benefit increase for all AMW's; rather, the increase would be larger for AMW's in the third step (\$400-\$550). As a result, the use of four percentage factors is required.

The benefit formula under the 1967 Amendments is as follows: (a) 71.16 per cent of the first \$110 of AMW, plus (b) 25.88 per cent of the next \$290 of AMW, plus (c) 24.18 per cent of the next \$150 of AMW, plus (d) 28.43 per cent of the next \$100 of AMW.

The result is subject to a minimum of \$55 (for AMW's of \$74 or less). The first three percentage factors are merely 113 per cent of the factors in the 1965 Act formula (rounded to the nearest 0.01 per cent). The fourth factor has been determined so that, for the case of the maximum AMW, the result of applying the third and fourth factors to the excess over \$400 is the same as applying the second factor to such \$250 of AMW. Specifically, 24.18 per cent of \$150 plus 28.43 per cent of \$100 equals 25.88 per cent of \$250.

The maximum family benefit (MFB) under the 1967 Amendments, as under the 1965 Act, is determined as follows: (a) For AMW's equal to or less than two-thirds of the maximum AMW, 80 per cent of AMW; (b) for AMW's in excess of two-thirds of the maximum AMW, 80 per cent of the first two-thirds of the maximum AMW plus 40 per cent of the remainder of the AMW over such two-thirds.

In any event, the MFB is not to be less than $1\frac{1}{2}$ times the particular PIA. (The reference to AMW means not the actual AMW of the individual but the AMW at the top of the range of AMW's which produces the individual's PIA.) It may be noted that the result of this is to produce an MFB for the maximum-AMW case equal to two-thirds of AMW (subject to a rounding variation). Specifically, the 80 per cent factor applies to AMW's up to and including \$436 (which is the upper limit of the range of AMW's within which exactly two-thirds of the maximum AMW of \$650 falls). The maximum MFB (\$434.40) is 66.8 per cent of the maximum AMW.

The AMW is generally computed over the period after 1950 (or year of attainment of age 21, if later) and before the year of attainment of age 65 for men (age 62 for women), the year of death, or the year of disability (whichever occurs first), but with a dropout of the lowest five years. Accordingly, many persons will have their AMW's computed over years when the earnings base was less than the \$7,800 base in the 1967 Amendments. For example, a man retiring at age 65 at the beginning of 1980 who has had maximum covered earnings in all years after 1950 would have an

AMW of \$531 (as compared with the \$650 maximum). Not until the year 2006 could such a man have an AMW of \$650.

In retirement cases it is possible, however, for a person to have the \$650 maximum AMW as early as 1973, because of the provision that years of high earnings after age 65 for men (age 62 for women) can be used to substitute for low prior years. A man who is aged 77 or over at the beginning of 1973 (or a woman then aged 74 or over) and who has had covered earnings at the maximum during 1968-72 has then an AMW of \$650. In disability cases involving young workers, the \$650 maximum AMW is possible in 1970 (after two years of coverage at the \$7,800 maximum). This is so in the case of disability of a worker born after 1940. However, since in death cases the earnings in the year of death may be included in calculating the AMW, the maximum can be attained in 1969 for a worker born after 1939.

The principle is continued that the minimum survivor benefit when only one survivor is eligible, before any reduction for early retirement, shall be equal to the minimum PIA—now \$55.

The 1967 Amendments introduce, for the first time, a special maximum on the wife's benefits—\$105 per month. This has effect only for PIA's of \$211 or more (up to the maximum PIA of \$218), which are based on AMW's of \$624 or more. The full combined husband and wife benefit for the maximum AMW of \$650 is \$323, or 49.7 per cent of the AMW, which satisfies the 50 per cent criterion mentioned previously.

In only rare instances will AMW's of this magnitude occur for retirement cases in the near future. However, it will be readily possible for the maximum wife's benefit provision to operate in disability cases in 1970. For example, if a man now aged 23 has covered earnings of \$7,800 in both 1968 and 1969 and becomes disabled then, his AMW for benefits in 1970 will be \$650. If he has a wife and one child, the family benefit will be \$432 per month—\$218 as his primary benefit, \$109 as the child's benefit, and \$105 as the wife's benefit (reduced from \$109 by the maximum benefit provision).

Rationale Underlying Increases in Benefit Amounts and in Earnings Base

The across-the-board benefit increase of 13 per cent (with a minimum primary insurance amount of \$55) is first payable for February, 1968. This 13 per cent increase may be compared with the 9.1 per cent increase in the Consumer Price Index between January, 1965 (the month for which the previous general increase was made), and February, 1968 (the month for which the benefit increases of the 1967 Amendments are first effective).

This shows that the increase in benefits was somewhat more than the rise in prices, so that the benefit level had a "real" increase. It should be noted, however, that persons going on the benefit roll between these two dates tended to have larger benefits than those on the roll at the beginning of the period, because of their higher earnings during the period before entry on the roll.

The actual benefit increase in terms of dollars for those without any reduction for early retirement varied from \$11 per month for those receiving the former minimum of \$44, down to a minimum increase of \$6.40 for those formerly receiving a benefit of \$49, and then, with steadily larger increases, up to a maximum of \$19.40 for those receiving for January, 1968, what was generally the maximum possible primary insurance amount, \$149 (based on an average monthly wage of \$460, resulting from cases when this average was computed on the basis of three years at \$4,800 and two years at \$6,600). Quite obviously, in all cases the increase in the cash benefit was far more than the \$1 increase in the SMI premium rate, effective April 1, 1968.

The \$1,200 increase in the maximum taxable and creditable earnings base from \$6,600 in 1967 to \$7,800 in 1968 was second only to the \$1,800 increase effectuated by the 1965 Act. The current change was the first time that such action had been taken in less than a four-year period. The increases prior to the 1965 Act were \$600 in each case, and they occurred at four year intervals in the 1950's (in 1951, 1955, and 1959). The relative magnitude of the increase made in the 1967 Amendments can be analyzed by considering the proportion of total earnings in covered employment that was covered by each of the earnings bases in the first year that they were effective, as shown in the following tabulation:

| Year | Base | Proportion |
|-----------|---------|------------|
| 1951..... | \$3,600 | 81.1% |
| 1955..... | 4,200 | 80.3 |
| 1959..... | 4,800 | 79.3 |
| 1966..... | 6,600 | 80.2 |
| 1968..... | 7,800 | 83.0 |

The new \$7,800 earnings base more than restored the relationship between taxable earnings and total earnings in covered employment that had prevailed in previous years when changes were made. Nonetheless, it is still well below the 92½ per cent proportion that prevailed in the late 1930's, just after the program was established—a level that some students of Social Security believe is the proper one (which would require an earnings base of about \$11,600 in 1968).

HISTORY OF MEDICARE CHANGES

Only relatively minor legislation was enacted in 1966 in the Medicare field. One amendment advanced the closing date of the initial SMI general enrollment period from March 31 to May 31. Another amendment provided for more liberal reimbursement under HI for proprietary extended-care facilities and hospitals.

Consideration of Medicare Benefits for the Disabled in 1967

As mentioned previously, the 1967 Administration bill provided for Medicare benefits for disability beneficiaries—disabled workers (but not their dependents who receive cash benefits), disabled child beneficiaries aged 18 or over (with respect to retired, disabled, and deceased insured workers), and the new proposed category of disabled widows.

The bill written by the House Ways and Means Committee did not contain any provisions for extending Medicare (either HI or SMI) to disabled beneficiaries, although it provided for the establishment of an advisory council to be named by the Secretary of Health, Education, and Welfare to study this subject (as did also the final legislation). Subsequent to the introduction of the Administration bill, data were obtained from a survey of disability beneficiaries that indicated hospital and medical costs for them about 3 times as high as those for beneficiaries aged 65 or over. This situation created problems that prevented the inclusion of Medicare benefits for disability beneficiaries in the subsequent legislation.

The testimony before the Ways and Means Committee and the developing experience during 1967 indicated that hospital costs had risen much more rapidly since the enactment of Medicare than had originally been estimated. Accordingly, higher cost assumptions for HI in this respect seemed advisable. The additional financing which came from the increase in the earnings base to \$7,600 in the Ways and Means Committee bill was not sufficient, and an increase in the contribution rates was necessary to meet the cost for only the original benefits for persons aged 65 and over. The Ways and Means Committee did not believe a further increase of about 0.3 per cent in the combined employer-employee rate to provide HI benefits for disability beneficiaries was desirable.

The situation as to SMI benefits for disabled beneficiaries was different. Several solutions were possible, but none seemed acceptable. The same premium rate could be charged to all enrollees (aged and disabled alike), but it would have to be about 20 per cent higher than that for the aged alone; this could be considered unfair to the aged. Another approach would be to charge a different, higher rate for the disabled, shared equally by the enrollee and the government (as for the aged); this rate would be relatively high and would be a heavy financial burden for some persons;

as a result there might be significant antiselection against the system because of the considerable heterogeneity of the disabled as to their health needs and costs. Still another approach would be to charge the disabled the same premium rate as the aged but to have the government pay considerably more than half the cost for the disabled; this would have meant considerably increased federal cost and would have destroyed the original 50-50 financing basis.

The Administration testified before the Senate Finance Committee in favor of including HI benefits for disabled beneficiaries and adding the necessary financing provisions. Part of the financing would be provided by the higher taxable earnings base recommended for both OASDI and HI. The remainder would be provided by an increase of 0.2 per cent in all future years in the combined employer-employee contribution rate (and 0.1 per cent for the self-employed).

Other HI Legislative Action in 1967

The 1967 Administration bill contained certain minor changes in the HI program. In this bill, as in all subsequent ones during the legislative process, the earnings base was changed in the same manner as that for OASDI (as discussed in the previous section). This bill contained the following important HI provisions:

1. The outpatient diagnostic benefits would be transferred to SMI. The complicated—but logical—provisions in this respect, which also co-ordinated the benefit with SMI, had proved extremely difficult to administer.
2. Payment would be made to federal hospitals to reimburse them for any covered expenses that beneficiaries had.
3. The portion of reimbursements to providers of services that is a depreciation allowance would have to be funded and used only for proper capital expenditures.
4. The professional component of pathology and radiology services furnished to inpatients in hospitals would be transferred from SMI (and would not be subject to cost-sharing, other than the over-all HI initial \$40 deductible).

The House bill took the following action with regard to HI:

1. The outpatient diagnostic benefits would be moved to SMI.
2. The maximum duration of hospital benefits in a spell of illness would be increased from 90 days to 120 days, with the additional 30 days being subject to cost-sharing of \$20 per day (initially).
3. The contribution rate would be increased for all years after 1968 by 0.1 per cent for each party (employers, employees, and self-employed) (see Table 6).

From an actuarial cost standpoint, the major changes made by the Senate Finance Committee bill as compared with the House bill were as follows:

1. In lieu of increasing the maximum duration of hospital benefits from 90 days to 120 days (with \$20 per day cost-sharing), a "lifetime reserve" of 60 days, with \$10 per day cost-sharing (initially), would be provided.
2. The contribution rate would be 0.1 per cent higher for each party in 1968 than that in the House bill, the same in 1969-75, and lower in 1976 and after (such decrease being 0.15 per cent in 1987 and after) (see Table 6). Such a decrease would be possible because of the higher earnings bases than that in the House bill.

TABLE 6
CONTRIBUTION SCHEDULE FOR HI UNDER VARIOUS
VERSIONS OF 1967 AMENDMENTS

| Calendar Year | Previous Law | Administration Proposal | House Bill | Senate Bill* | 1967 Act |
|---------------------------------|--------------|-------------------------|------------|--------------|----------|
| Combined Employer-Employee Rate | | | | | |
| 1968 | 1.0 % | 1.0 % | 1.0 % | 1.2 % | 1.2 % |
| 1969-72 | 1.0 | 1.0 | 1.2 | 1.2 | 1.2 |
| 1973-75 | 1.1 | 1.1 | 1.3 | 1.3 | 1.3 |
| 1976-79 | 1.2 | 1.2 | 1.4 | 1.3 | 1.4 |
| 1980-86 | 1.4 | 1.4 | 1.6 | 1.5 | 1.6 |
| 1987 and after | 1.6 | 1.6 | 1.8 | 1.5 | 1.8 |
| Self-employed Rate | | | | | |
| 1968 | 0.5 % | 0.5 % | 0.5 % | 0.6 % | 0.6 % |
| 1969-72 | .5 | .5 | .6 | .6 | .6 |
| 1973-75 | .55 | .55 | .65 | .65 | .65 |
| 1976-79 | .6 | .6 | .7 | .65 | .7 |
| 1980-86 | .7 | .7 | .8 | .75 | .8 |
| 1987 and after | 0.8 | 0.8 | 0.9 | 0.75 | 0.9 |

* The Senate Finance Committee bill was the same as this.

NOTE.—Actual 1967 rates were 1.0 per cent for employer-employee rate and 0.5 per cent for self-employed rate.

The Senate bill made the following important change, from a cost standpoint, in the Senate Finance Committee bill:

The reimbursement basis for hospitals and extended-care facilities would be increased so as to be, optionally, on the basis of the average daily cost for patients of all ages (instead of being based on such cost for Medicare patients only), to be effective July 1, 1968.

During the course of the Senate debate, Senator Montoya offered an amendment to include a drug benefit in SMI. This proposal applied to drugs which are available with a physician's prescription and had a \$25 annual deductible applied to charges. Individuals would be reimbursed

directly on charges in excess of the deductible, with the reimbursement amount being based on the wholesale cost of the least expensive generic equivalent plus a pharmacist's professional fee (and not on actual charges, unless lower). The latter provision would thus have the effect of producing some cost-sharing. The sponsor of the proposal estimated that its cost would be \$1 per month (divided equally between the enrollee and the government), while the Social Security Administration estimated the cost at \$3.20. The amendment was defeated by a relatively close vote.

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

1. The additional hospital days in the "lifetime reserve" are subject to \$20 per day cost-sharing (initially; subject to adjustment after 1968 on the basis of hospital-cost trends).
2. The contribution rate is increased for all years after 1967 by 0.1 per cent for each party (see Table 6).

Other SMI Legislative Action in 1967

The 1967 Administration bill contained certain minor changes in the benefit provisions of the SMI program:

1. The HI outpatient diagnostic benefits would be transferred to SMI (except for the professional component thereof, which has always been included in SMI).
2. The professional component of pathology and radiology services furnished to inpatients in hospitals would be transferred to HI.
3. Certain nonroutine podiatrist services would be covered.

The only significant benefit changes in SMI that were made in the House bill follow:

1. The transfer of the outpatient diagnostic benefits from HI.
2. Making the deductible and coinsurance provisions inapplicable to the professional component of pathology and radiology services furnished to inpatients in hospitals.
3. The inclusion of certain nonroutine podiatrist services.

The Senate Finance Committee bill added the following benefit provisions:

1. Covering the services of chiropractors and certain nonroutine services of optometrists.
2. Extending the coverage of physical therapy benefits furnished outside of hospitals.

The Senate bill added one provision:

Covering the services of clinical psychologists (even though without referral of a physician and not billed through a physician, the latter services being covered under previous law).

The final bill followed the provisions of the House bill, except that the change relating to physical therapy benefits was included, as was also a revision of the enrollment and premium-rate procedures that was added by the Senate Finance Committee. It also included an extension for two years (until the end of 1969) of the authorization of repayable loans from the general treasury in the event that the SMI Trust Fund needs such funds, a provision added by the House bill.

General enrollment periods will now be held annually, January through March (instead of biennially, October through December of odd-numbered years), but with benefit coverage to begin in July (as before). Enrollees will now be allowed to withdraw more frequently—as of the end of the calendar quarter following the request instead of only at the end of each biennial general enrollment period.

Under the initial legislation, the premium rate was established at \$3 per month for the period July, 1966—December, 1967. The standard premium rate (for persons enrolling in the earliest possible enrollment period) for the succeeding two-year period was to be promulgated by the Secretary of Health, Education, and Welfare before October 1, 1967. However, since the 1967 legislation was still pending at that time and there was no possibility of its final enactment then, and since it contained significant changes in the program, a short bill was quickly passed to defer the promulgation for three months and to make it applicable for April, 1968, and thereafter (continuing the \$3 rate until then).

Under the 1967 Amendments, the standard premium rate is to be determined annually; initially it will be for April, 1968—June, 1969, but then it will be for twelve-month periods beginning with July, 1969. Thus the premium periods will not correspond with the benefit periods, which are on a calendar-year basis. This will make the actuarial analysis underlying the promulgation of the premium rates more difficult. It will probably be necessary first to compute the estimated premium rates on calendar-year bases and then to prorate them for the applicable premium period. For example, under this procedure, the premium rate to be determined for the period July, 1969—June, 1970, would be the average of the premium rates estimated to be suitable for calendar years 1969 and 1970 (if the premium period had been on that calendar-year basis).

ACTUARIAL COST ANALYSIS OF OASDI CHANGES³

Table 7 presents the estimated level-cost computed over the next seventy-five years (in percentage of taxable payroll) of OASDI benefits

³ For more complete details on these estimates see reference 8 of the Legislative Bibliography. The cost estimates presented here are those which were developed at the time the 1967 Amendments were enacted. Somewhat revised short-range estimates were

by type, according to the intermediate-cost estimate, with comparable data for administrative expenses and for interest on the existing trust fund. Table 8 shows the estimated cost of OASDI 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.

Table 9 gives the estimated future progress of the OASI Trust Fund. According to the intermediate-cost estimate, the trust fund rises steadily,

TABLE 7

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 3.75 PER CENT INTEREST

| Item | OASI | DI |
|---|-------------|-------------|
| Primary benefits | 6.03 | 0.75 |
| Wife's and husband's benefits | 0.50 | 0.05 |
| Widow's and widower's benefits | 1.27 | † |
| Parent's benefits | 0.01 | † |
| Child's benefits | 0.73 | 0.14 |
| Mother's benefits | 0.13 | † |
| Lump-sum death payments | 0.09 | † |
| Total | 8.76 | 0.94 |
| Administrative expenses | 0.12 | 0.03 |
| Railroad Retirement financial interchange | 0.04 | .00 |
| Interest on existing trust fund † | -0.15 | -.02 |
| Net total level-cost | 8.77 | 0.95 |

* Including adjustment to reflect the lower contribution rate on self-employment income and on tips, as compared with the combined employer-employee rate.

† This type of benefit is not payable under this program.

‡ This item includes reimbursement for additional cost of noncontributory credit for military service and is taken as an offset to the benefit and administrative expense costs.

reaching about \$300 billion in the year 2025. According to the low-cost estimate, the trust fund grows rapidly, and in the year 2000 will be \$259 billion. On the other hand, under the high-cost estimate, it builds up to a maximum of about \$78 billion in twenty-five years and then decreases until it is exhausted in about the year 2020. It is unlikely that either of the last two extreme situations could develop because the Congress would take appropriate action to prevent it.

Table 10 shows the estimated future progress of the DI Trust Fund.

prepared for the 1968 *Trustees Reports* (90th Cong.; House Docs. 288 [OASDI] and 290 [HI]), but the same long-range estimates were used.

This fund is shown to grow slowly but steadily, reaching \$22 billion by the year 2000. Under the low-cost estimate, the estimated growth is more rapid, and the balance is \$45 billion in 2000. The high-cost estimate shows a very slow growth for the first twenty years after 1967, with the trust fund balance never reaching \$6½ billion and with an eventual decline until it is exhausted some years after 2000.

TABLE 8
ESTIMATED COST OF OLD-AGE, SURVIVORS, AND
DISABILITY INSURANCE BENEFITS AS
PERCENTAGE OF PAYROLL*

| Calendar Year | Low-Cost Estimate | High-Cost Estimate | Intermediate-Cost Estimate† |
|-------------------|-------------------|--------------------|-----------------------------|
| OASI | | | |
| 1975 | 7.48 | 7.82 | 7.65 |
| 1980 | 7.88 | 8.34 | 8.11 |
| 1985 | 8.40 | 8.95 | 8.67 |
| 1990 | 8.75 | 9.45 | 9.09 |
| 1995 | 8.69 | 9.55 | 9.11 |
| 2000 | 8.27 | 9.33 | 8.78 |
| 2010 | 8.05 | 9.48 | 8.73 |
| 2025 | 9.72 | 12.50 | 10.99 |
| 2040 | 9.54 | 13.13 | 11.09 |
| Level-cost‡ | 8.26 | 9.40 | 8.77 |
| DI | | | |
| 1975 | 0.80 | 0.90 | 0.85 |
| 1980 | .82 | 0.95 | 0.89 |
| 1985 | .83 | 0.98 | 0.90 |
| 1990 | .82 | 0.98 | 0.90 |
| 1995 | .81 | 0.99 | 0.90 |
| 2000 | .84 | 1.05 | 0.94 |
| 2010 | .95 | 1.24 | 1.08 |
| 2025 | .91 | 1.23 | 1.05 |
| 2040 | .94 | 1.27 | 1.08 |
| Level-cost‡ | 0.85 | 1.06 | 0.95 |

* Taking into account the lower contribution rate for self-employment income and tips, as compared with the combined employer-employee rate.

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

‡ Level contribution rate, at an interest rate of 3.25 per cent for high-cost, 3.75 per cent for intermediate-cost, and 4.25 per cent for low-cost, for benefits after 1966, taking into account interest on the trust fund on December 31, 1966, future administrative expenses, the Railroad Retirement financial interchange provisions, and the reimbursement of military-wage-credits cost.

TABLE 9
PROGRESS OF OASI TRUST FUND
(In Millions)

| Calendar Year | Contributions* | Benefit Payments | Administrative Expenses | Railroad Retirement Financial Interchange† | Interest on Fund | Balance in Fund at End of Year |
|---|----------------|------------------|-------------------------|--|------------------|--------------------------------|
| Short-Range Estimates‡ | | | | | | |
| 1968..... | \$23,794 | \$22,664 | \$488 | \$459 | \$ 904 | \$25,277 |
| 1969..... | 27,454 | 24,166 | 435 | 530 | 986 | 28,586 |
| 1970..... | 28,811 | 25,126 | 448 | 619 | 1,136 | 32,340 |
| 1971..... | 32,478 | 26,145 | 463 | 601 | 1,386 | 38,995 |
| 1972..... | 33,905 | 27,161 | 478 | 582 | 1,735 | 46,414 |
| Long-Range Low-Cost Estimates‡ | | | | | | |
| 1975..... | \$33,879 | \$28,040 | \$417 | \$425 | \$ 1,884 | \$ 52,061 |
| 1980..... | 36,879 | 32,177 | 457 | 260 | 3,369 | 87,867 |
| 1985..... | 39,363 | 36,592 | 494 | 155 | 4,842 | 123,502 |
| 1990..... | 42,091 | 40,754 | 532 | 70 | 6,279 | 158,470 |
| 1995..... | 45,637 | 43,917 | 564 | 10 | 7,933 | 199,565 |
| 2000..... | 49,695 | 45,539 | 587 | — 40 | 10,302 | 259,054 |
| Long-Range High-Cost Estimates‡ | | | | | | |
| 1975..... | \$33,360 | \$28,854 | \$476 | \$475 | \$ 1,199 | \$ 41,636 |
| 1980..... | 36,138 | 33,355 | 523 | 340 | 1,836 | 62,498 |
| 1985..... | 38,376 | 38,016 | 565 | 245 | 2,266 | 75,575 |
| 1990..... | 40,650 | 42,540 | 620 | 170 | 2,377 | 78,435 |
| 1995..... | 43,568 | 46,079 | 646 | 110 | 2,263 | 74,862 |
| 2000..... | 46,798 | 48,336 | 674 | 60 | 2,165 | 72,475 |
| Long-Range Intermediate-Cost Estimates‡ | | | | | | |
| 1975..... | \$33,619 | \$28,447 | \$446 | \$450 | \$ 1,517 | \$ 46,781 |
| 1980..... | 36,508 | 32,766 | 490 | 300 | 2,536 | 74,876 |
| 1985..... | 38,870 | 37,304 | 530 | 200 | 3,418 | 98,701 |
| 1990..... | 41,370 | 41,647 | 576 | 120 | 4,082 | 116,620 |
| 1995..... | 44,602 | 44,998 | 605 | 60 | 4,688 | 133,683 |
| 2000..... | 48,247 | 46,938 | 631 | 10 | 5,583 | 159,499 |
| 2010..... | 54,664 | 52,885 | 704 | — 45 | 8,711 | 246,839 |
| 2025..... | 62,585 | 76,292 | 930 | — 90 | 10,933 | 302,846 |

* Contributions include reimbursement for additional cost of noncontributory credit for military service before 1957. For the short-range estimates, they also include reimbursement for the special benefits payable to certain persons aged 72 or over and for the additional benefits payable on the basis of non-contributory credits for military service after 1967. The long-range cost estimates do not take into account the benefit cost (or the reimbursement thereof) of the special benefit to persons aged 72 and over or of the noncontributory credits for military service after 1967.

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

‡ The short-range estimates are based on rising-earnings assumptions, while the long-range estimates are based on level-earnings assumptions.

TABLE 10
PROGRESS OF DI TRUST FUND
(In Millions)

| Calendar Year | Contributions* | Benefit Payments | Administrative Expenses | Railroad Retirement Financial Interchange† | Interest on Fund | Balance in Fund at End of Year |
|--|----------------|------------------|-------------------------|--|------------------|--------------------------------|
| Short-Range Estimates‡ | | | | | | |
| 1968..... | \$3,236 | \$2,390 | \$129 | \$44 | \$ 95 | \$ 2,798 |
| 1969..... | 3,517 | 2,608 | 121 | 22 | 131 | 3,695 |
| 1970..... | 3,629 | 2,740 | 123 | 22 | 171 | 4,610 |
| 1971..... | 3,759 | 2,867 | 127 | 25 | 212 | 5,562 |
| 1972..... | 3,880 | 2,985 | 133 | 29 | 253 | 6,548 |
| Long-Range Low-Cost Estimates‡ | | | | | | |
| 1975..... | \$3,582 | \$2,997 | \$126 | -\$14 | \$ 311 | \$ 8,264 |
| 1980..... | 3,899 | 3,351 | 118 | - 21 | 493 | 12,654 |
| 1985..... | 4,161 | 3,618 | 117 | - 23 | 710 | 18,001 |
| 1990..... | 4,448 | 3,809 | 115 | - 25 | 988 | 24,900 |
| 1995..... | 4,822 | 4,096 | 116 | - 25 | 1,352 | 33,899 |
| 2000..... | 5,250 | 4,624 | 129 | - 25 | 1,797 | 44,803 |
| Long-Range High-Cost Estimates‡ | | | | | | |
| 1975..... | \$3,528 | \$3,317 | \$136 | -\$ 6 | \$ 167 | \$ 5,529 |
| 1980..... | 3,821 | 3,812 | 147 | - 11 | 187 | 6,217 |
| 1985..... | 4,057 | 4,164 | 155 | - 13 | 184 | 6,148 |
| 1990..... | 4,296 | 4,416 | 161 | - 15 | 171 | 5,735 |
| 1995..... | 4,604 | 4,794 | 172 | - 15 | 146 | 4,949 |
| 2000..... | 4,945 | 5,450 | 195 | - 15 | 81 | 2,760 |
| Long-Range Intermediate-Cost Estimates‡ | | | | | | |
| 1975..... | \$3,555 | \$3,157 | \$131 | -\$10 | \$ 232 | \$ 6,877 |
| 1980..... | 3,860 | 3,582 | 133 | - 16 | 323 | 9,351 |
| 1985..... | 4,109 | 3,891 | 135 | - 18 | 413 | 11,856 |
| 1990..... | 4,372 | 4,113 | 138 | - 20 | 519 | 14,854 |
| 1995..... | 4,713 | 4,445 | 143 | - 20 | 652 | 18,556 |
| 2000..... | 5,097 | 5,037 | 162 | - 20 | 788 | 22,276 |
| 2010..... | 5,774 | 6,562 | 210 | - 20 | 906 | 25,222 |
| 2025..... | 6,598 | 7,326 | 233 | - 20 | 763 | 21,384 |

* Contributions include reimbursement for additional cost of noncontributory credit for military service before 1957. For the short-range estimates, they also include reimbursement for additional cost of noncontributory credit for military service after 1967. The long-range estimates do not take into account the benefit cost (or the reimbursement thereof) of the noncontributory credits for military service after 1967.

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

‡ The short-range estimates are based on rising-earnings assumptions, while the long-range estimates are based on level-earnings assumptions.

The level-cost of the benefit changes provided by the 1967 Amendments is 1.23 per cent of taxable payroll (1.05 per cent for the 13 per cent benefit increase, 0.06 per cent for the liberalization of the earnings test, 0.07 per cent for the liberalized benefits with respect to women workers, 0.03 per cent for the disabled widow's benefits, and 0.02 per cent for the special disability insured status for young workers). This was largely met by the previously existing positive actuarial balance of 0.74 per cent of taxable payroll, with the remainder coming from the increase of 0.50 per cent in the level-equivalent of the contribution income (0.23 per cent from the increase in the rates and 0.27 per cent from the net effect of the increase in the earnings base).

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 accompanying tabulation, which is on the seventy-five-year basis (in percentage of taxable payroll).

| LEVEL EQUIVALENT* | 1965 Act | | 1967 Act | |
|-------------------------------------|----------|-------|----------|-------|
| | OASI | DI | OASI | DI |
| Benefit payments..... | 7.91% | 0.83% | 8.76% | 0.94% |
| Administrative expenses..... | 0.13 | .03 | 0.12 | .03 |
| Railroad interchange..... | 0.03 | .00 | 0.04 | .00 |
| Interest on initial trust fund †... | -0.16 | -.01 | -0.15 | -.02 |
| Net cost ‡..... | 7.91 | .85 | 8.77 | .95 |
| Contributions §..... | 8.80 | .70 | 8.78 | .95 |
| Actuarial balance ¶..... | 0.89 | -0.15 | 0.01 | 0.00 |

* Including adjustment to reflect the lower contribution rate on the self-employed, on tips, and on multiple employer excess wages.

† Interest on trust fund existing at end of 1966 as earned in future years. Includes reimbursement for additional cost of noncontributory credits for military service before 1957.

‡ Level-equivalent of benefit payments, plus administrative expenses, less interest on existing fund at end of 1966, and including effect of the Railroad Retirement interchange and reimbursement from the general treasury of the additional cost for noncontributory wage credits for military service before 1957.

§ Level contribution rate for employer and employee combined equivalent to the graded rates in the law.

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

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 actuarial insufficiency on the basis of the seventy-five-year cost estimates is not in excess of 0.10 per cent of taxable payroll. The actuarial balance of the program as it is affected by the 1967 Amendments is well within this limit.

ACTUARIAL COST ANALYSIS OF HI AND SMI SYSTEMS⁴

Table 11 presents the estimated future progress of the HI Trust Fund. On an intermediate-cost basis, the trust fund increases steadily, reaching a size of about one year's benefit outgo after about ten years.

As described previously, in order to be conservative, this cost estimate is based on dynamic assumptions as to earnings levels and hospital costs but on static assumptions as to the maximum taxable earnings-base provision. The steadily increasing contribution rates over the twenty-five-year period were developed in recognition of the assumption that the earnings base will not change in the future, even though it is assumed that wages of covered workers will rise. If Congress continues to increase the earnings base periodically to reflect current wage levels, the increases in the contribution schedule for the combined employer-employee rate beyond 1.2 per cent may not be needed. It will be recalled that the deductible and the per diem coinsurance provisions are on a dynamic basis, adjusted automatically to the average daily cost of hospitalization under the program.

The estimated level-cost of the benefit payments and administrative expenses over the next twenty-five years is 1.38 per cent of taxable payroll. The estimated level-equivalent of the graded contribution schedule is 1.41 per cent of taxable payroll, so that the system is in close actuarial balance.

Revised assumptions were made in the HI cost estimates for the 1967 Amendments—to assume higher hospital costs in the future (as well as recognizing the higher costs that had occurred in the recent past) and to allow for the higher cost of extended-care facility benefits than had been originally estimated. The result of these new assumptions was to show the actuarial balance of the program as it was under the initial law to be -0.31 per cent of taxable payroll—as compared with a situation of exact balance under the original estimates. The increase in the earnings base in the 1967 Amendments produced level-equivalent income of 0.15 per cent of taxable payroll, and the revised contribution schedule had a level-

⁴ *Op. cit.*

TABLE 11
PROGRESS OF HI TRUST FUND
(In Millions)

| Calendar Year | Contributions* | Benefit Payments | Administrative Expenses | Interest on Fund | Balance in Fund at End of Year |
|----------------------------|----------------|------------------|-------------------------|------------------|--------------------------------|
| Low-Cost Estimate | | | | | |
| 1968..... | \$ 3,972 | \$ 2,981 | \$104 | \$ 70 | \$ 2,289 |
| 1969..... | 4,223 | 3,336 | 117 | 109 | 3,168 |
| 1970..... | 4,391 | 3,649 | 128 | 142 | 3,924 |
| 1971..... | 4,564 | 3,932 | 138 | 169 | 4,587 |
| 1972..... | 4,732 | 4,215 | 148 | 191 | 5,147 |
| 1973..... | 5,274 | 4,499 | 157 | 215 | 5,980 |
| 1974..... | 5,503 | 4,777 | 167 | 242 | 6,781 |
| 1975..... | 5,695 | 5,055 | 177 | 266 | 7,510 |
| High-Cost Estimate | | | | | |
| 1968..... | \$ 3,972 | \$ 3,190 | \$112 | \$ 64 | \$ 2,066 |
| 1969..... | 4,223 | 3,795 | 133 | 86 | 2,447 |
| 1970..... | 4,391 | 4,501 | 157 | 85 | 2,265 |
| 1971..... | 4,564 | 5,292 | 185 | 57 | 1,409 |
| 1972..... | 4,732 | 5,960 | 209 | 3 | † |
| 1973..... | 5,274 | 6,364 | 223 | † | † |
| 1974..... | 5,503 | 6,762 | 237 | † | † |
| 1975..... | 5,695 | 7,161 | 251 | † | † |
| Intermediate-Cost Estimate | | | | | |
| 1968..... | \$ 3,972 | \$ 3,190 | \$112 | \$ 64 | \$ 2,066 |
| 1969..... | 4,223 | 3,636 | 127 | 90 | 2,616 |
| 1970..... | 4,391 | 3,982 | 139 | 108 | 2,994 |
| 1971..... | 4,564 | 4,292 | 150 | 117 | 3,233 |
| 1972..... | 4,732 | 4,602 | 161 | 121 | 3,323 |
| 1973..... | 5,274 | 4,912 | 172 | 125 | 3,638 |
| 1974..... | 5,503 | 5,216 | 183 | 132 | 3,874 |
| 1975..... | 5,695 | 5,522 | 193 | 135 | 3,989 |
| 1980..... | 8,087 | 6,940 | 243 | 203 | 6,454 |
| 1985..... | 9,241 | 8,690 | 304 | 373 | 10,731 |
| 1990..... | 11,627 | 10,843 | 380 | 553 | 15,711 |

* Contributions include reimbursement for additional cost of noncontributory credit for military service and payments of contributions of railroad workers through the financial interchange provisions (benefits for such workers are included in benefit payments).

† Fund exhausted in 1972.

NOTE.—The transactions relating to noninsured persons, the costs for whom are borne out of the general funds of the Treasury, are not included in this table. Such costs amount to about \$450 million per year in the near future.

equivalent effect of 0.18 per cent of taxable payroll. The benefit changes made by the 1967 Amendments were relatively minor, the net effect being a reduction in cost of 0.01 per cent of taxable payroll due to the transfer of the outpatient diagnostic benefits to SMI (the additional days of hospital benefits in the lifetime reserve of sixty days were estimated to have a relatively small cost).

No year-by-year cost estimates were made for the SMI program at the time the legislation was under consideration because a decision had not yet been made about the magnitude of the increase in the premium rate that would be required for the existing program (although it was recognized that some increase would be necessary).⁵ Instead, the cost estimates merely indicated the relative cost of various changes that were proposed. The three significant benefit changes made by the 1967 Amendments had an estimated relative increase in cost of about 6 per cent—subdivided into 2 per cent for the transfer of the nonprofessional component of outpatient diagnostic services from HI to SMI, 3 per cent for the elimination of the cost-sharing provisions for inpatient pathology and radiology, and 1 per cent for extending the coverage of physical therapy services benefits.

In accordance with law, the Secretary of Health, Education, and Welfare promulgated a new standard premium rate at the end of 1967, taking into account the pending legislation (which was actually signed into law a few days later). This rate is \$4 per month, with a matching amount from general revenues. It is applicable for the fifteen-month period, April, 1968—June, 1969. It should be noted that the law provides that the premium rate is to be determined on an accrual basis and is to include a contingency margin.

The explanation of the \$1 increase in the monthly premium rate for the new premium period can be summarized in the following manner:⁶

1. The cost under the program as in effect in 1966-67 is estimated to have exceeded the income from premiums and government matching contribution by about 7 per cent—+20 cents.
2. The cost in 1966-67 was abnormally low because, in the six months of operation in 1966, the full \$50 deductible was applicable, and it had a much stronger effect in reducing costs than will be so in later years; in other words, with all other things being the same, the cost is higher for future years, in

⁵ The 1968 *Trustees Report* (90th Cong.; House Doc. 291) contains a short-range estimate for the SMI program.

⁶ For a more complete discussion of this, see the *Federal Register* for January 30, 1968 (p. 1215). Such a statement of the actuarial assumptions and bases involved is a new requirement, introduced by the 1967 Amendments. This is reproduced in slightly modified form in Appendix I of the 1968 *Trustees Report* for the SMI program (*op. cit.*).

- which the \$50 deductible is usually applicable for twelve-month periods, than for the initial period—+3 cents.
3. The \$50 deductible represents a smaller proportion of the total covered medical charges when these increase as a result of either higher physicians' fees or higher utilization—+11 cents.
 4. The utilization of medical services is assumed to be higher in the new premium period than in 1966-67—+11 cents.
 5. The level of physicians' fees is assumed to be higher in the new premium period than in 1966-67—+27 cents.
 6. The 1967 Amendments increased the benefit protection—+23 cents.
 7. The promulgated rate includes an amount to provide a margin for contingencies—+5 cents.

LEGISLATIVE BIBLIOGRAPHY UNDERLYING SOCIAL SECURITY AMENDMENTS OF 1967

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2. *Hearings before the House Ways and Means Committee on H.R. 5710: President's Proposal for Revision in the Social Security System, March 1-April 11, 1967.*
3. *Report of House Ways and Means Committee on H.R. 12080, August 7, 1967* (90th Cong.; House Report 544).
4. *Hearings before the Senate Finance Committee on H.R. 12080: Social Security Amendments of 1967, August 22-September 26, 1967.*
5. *Report of the Senate Finance Committee on H.R. 12080, November 14, 1967* (90th Cong.; Senate Report 744).
6. Robert J. Myers, "Actuarial Cost Estimates for OASDHI System as Modified by H.R. 12080 as Passed by the House, as Reported to the Senate, and as Passed by the Senate," House Ways and Means Committee, November 27, 1967.
7. *Report of Conference Committee on H.R. 12080, December 11, 1967* (90th Cong.; House Report 1030).
8. Robert J. Myers, "Actuarial Cost Estimates for OASDHI System as Modified by the Social Security Amendments of 1967," House Ways and Means Committee, December 11, 1967.

DISCUSSION OF PRECEDING PAPER

ABRAHAM M. NIESSEN:

The paper by Bob Myers is a remarkable example of excellent writing on a very complex subject. The quality of this paper is in the tradition of the high standards that we have become accustomed to expect of him over the years.

There is nothing I could add to the paper by way of supplementary information or comment on the social security system proper. The whole area of social security in its broadest sense (including programs not commonly referred to as social security) is covered in the paper in a thorough, but at the same time remarkably concise, manner. However, I might implement the story on the 1967 social security amendments by a brief discussion of how these amendments have affected the railroad retirement system.

In order to appreciate fully the direct effects of the latest social security amendments on the railroad retirement program, it is necessary to have some familiarity with the extent of the co-ordination that now exists between these two systems. However, for purposes of this discussion, it will be sufficient to say that the automatic effects were the following:

1. The monthly limit on taxable and creditable earnings under the railroad retirement program went up from \$550 to \$650, effective January 1, 1968. Similarly, the railroad retirement tax rates were changed by the same fractions of a percentage point as the OASDHI rates of contributions were.

2. Benefits payable under the so-called special guaranty (minimum of 110 per cent of what social security would have paid to the family on the basis of the railroad service involved) were automatically increased. Similarly, the maximum on wives' annuities went up from \$92.40 to \$104.50 in February, 1968, and will go to \$112.20 in 1969 and to \$115.50 in 1970 and thereafter.

3. The income from a reinsurance arrangement with OASDI known as the financial interchange is expected to increase substantially.

It can therefore be seen that the social security amendments have created for the railroad retirement program substantial additions to the potential assets (from higher payroll taxes and the financial interchange) and to the accrued and potential liabilities (increases in certain major categories of benefits and larger annuities due to the increase in the earnings base). It was estimated that, on balance, the additional income would exceed the additional outgo by some \$47 million a year on a level basis. This would have been sufficient to change the actuarial balance of

the system from a \$43 million per year deficiency to a \$4 million per year surplus. However, the social security amendments had also created a most difficult problem for the railroad retirement system, and the elimination of this problem involved additional costs well in excess of the "actuarial gain" previously referred to.

The problem which arose related to the fact that the 1967 social security amendments resulted in benefit increases for about one-third of the railroad retirement beneficiaries (those to whom the automatic effects described in item 2 applied) but did nothing for the remaining two-thirds. It was obvious that to give a 13 per cent increase in railroad retirement benefits across the board would be extremely costly. (This is mainly due to the fact that employee annuities under the Railroad Retirement Act are very much higher than old-age benefits under the Social Security Act, and in the future the disparity will grow wider.) Therefore, another solution was adopted. In essence, the solution was to give every railroad retirement beneficiary an increase approximating 110 per cent of the dollar increase he could have received from social security had railroad service been covered under that system all along. As a practical matter, this special increase went only to those beneficiaries whose benefits were not automatically increased as a result of the 1967 social security amendments. The implementation of the principle on which the new benefit increases are based required certain partial offsets for the receipt of social security benefits, and such offsets were made a part of the 1968 amendments to the Railroad Retirement Act (Public Law 90-257, Title I).

It is estimated that the 1968 amendments to the Railroad Retirement Act will cost about \$62 million a year on a level basis. This means that the system now has an actuarial deficiency of about \$58 million a year (\$62 million cost less the \$4 million "surplus" previously referred to). In terms of taxable payroll, the deficiency is equivalent to 1.16 per cent. The Board considers the present actuarial deficiency as a matter of potential concern, but at the same time it recognizes that the existence of this deficiency does not pose a threat to the operating solvency of the railroad retirement system for many years to come. Judging by past experience, appropriate adjustments (if needed) will be made in the financing of the system well before the financial situation gets out of hand.

Since Mr. Myers describes also the major legislative developments in the state unemployment compensation program, I should perhaps say a few words about the most recent (1968) changes in the railroad unemployment and sickness insurance program. These changes were made by the same law (Public Law 90-257) which contained the railroad retirement amendments. The major ones among them follow:

1. The maximum daily rate of benefit was increased from \$10.20 to \$12.70. Since benefits are paid for five days in every full week, the new maximum rate is equivalent to \$63.50. It should be noted that the vast majority of beneficiaries are paid benefits based on the maximum rate.
2. The maximum duration of sickness benefits was increased for long-service employees from twenty-six weeks in a benefit year to thirty-nine weeks for employees with ten but less than fifteen years of railroad service and to fifty-two weeks for employees with fifteen or more years of service.
3. The special and automatic maternity benefits were eliminated, but benefits at regular rates will be paid on account of sickness due to maternity.
4. Certain benefit restrictions were imposed on individuals receiving a separation allowance from their railroad employer.
5. The minimum amount of qualifying wages for purposes of both unemployment and sickness benefits was increased from \$750 to \$1,000 per year.

No additional financing was considered necessary since, even with the improvements, the contributions at the old rates are expected to exceed the benefit outgo by substantial margins. However, because of the added costs, the rate of repaying the indebtedness to the railroad retirement account¹ will be considerably slowed down. It is expected that the indebtedness will be liquidated in another five or six years, and a recurrence of conditions which would necessitate a resumption of borrowing is not anticipated.

GEORGE E. IMMERWAHR:

The Society is indebted to Mr. Myers for his full and very informative description of recent social security legislation.

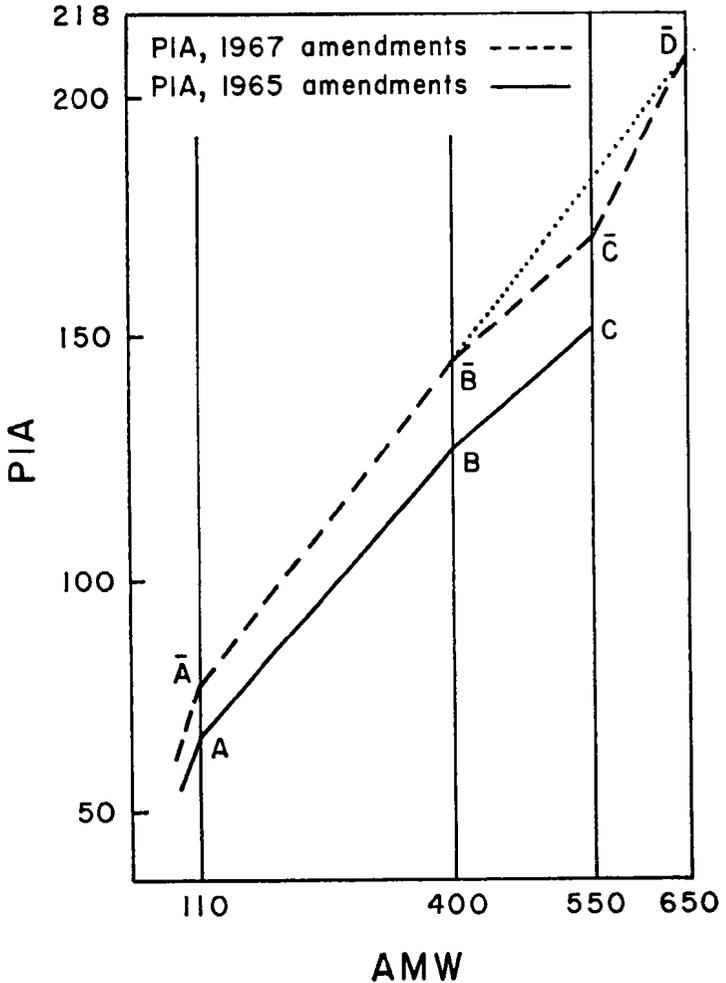
For the benefit of any readers who, like myself, found difficulty with the paragraphs dealing with a shift from a three-part to a two-part formula, I would like to introduce a graph which may be helpful (see Graph I). In Graph I the solid line represents the primary insurance amount (PIA) of the 1965 amendments, the broken line that of the 1967 amendments. A close examination of the solid line will show that there is a downward inflection at *B*; correspondingly, the broken line has a downward inflection at \bar{B} since all points on $\bar{A}\bar{B}\bar{C}$ are exactly 13 per cent higher than corresponding points on *ABC*. However, the broken line has an upward inflection at \bar{C} in order to reach \bar{D} , the point which a straight-line extension of $\bar{A}\bar{B}$ (indicated by the dotted line) would have reached. (In Graph I these inflections have been purposely exaggerated to make

¹ Under the law, the railroad unemployment and sickness insurance fund is authorized to borrow money from the railroad retirement account whenever it cannot meet benefit payments from its own resources. The indebtedness is now about one-half of what it was at its peak several years ago.

the graph more readable.) My own preference would have been for another downward inflection at \bar{C} , as will follow from the following discussion of benefit levels.

Two decades ago, many actuaries, and some other students of social security, felt that the then relatively new OASI program had far-reaching defects that could be corrected only by one or the other of two actions: (1) abandoning it in favor of a system of flat benefits not based on wage records but available without a needs test to *all* individuals in the pre-

GRAPH I



sumed dependency categories (i.e., persons over age 65, orphans under 18, widows with orphans in their care) or (2) introducing a double-decker system consisting of system 1 just described plus a supplement based on wage records.

The objections to the OASI program included not only the serious financial problems and inherent deceptions in a program of long-deferred benefits but also the unfairness of depriving millions of old people who had already left the labor market of any OASI benefit while others who had hung on long enough to be credited with a few quarters of coverage obtained a valuable life annuity for a few dollars of contribution. For those of us who opposed the OASI structure, the last day in court was

TABLE 1
PIA CORRESPONDING TO MAXIMUM AMW
AND TO ONE-HALF MAXIMUM

| YEAR OF AMENDMENTS | MAXIMUM AMW | BENEFIT CORRESPONDING TO: | | RATIO OF PIA FOR MAXIMUM AMW TO PIA FOR ONE-HALF MAXIMUM |
|--------------------|-------------|---------------------------|----------------------|--|
| | | Maximum AMW | One-Half Maximum AMW | |
| 1939..... | \$250 | \$ 40.00* | \$ 27.50* | 1.45% |
| 1950..... | 300 | 80.00 | 57.50 | 1.39 |
| 1952..... | 300 | 85.00 | 62.50 | 1.36 |
| 1954..... | 350 | 108.50 | 73.50 | 1.48 |
| 1958..... | 400 | 127.00 | 84.00 | 1.51 |
| 1965..... | 550 | 168.00 | 107.00 | 1.57 |
| 1967..... | 650 | 218.00 | 134.30 | 1.62 |

* Excluding the 1 per cent increments for years with \$200 in wages.

just before the 1950 amendments, but, once these amendments were passed, most of us were realistic enough to see that their enactment permanently ruled out system 1. A belated and token movement was made in the direction of system 2 in 1966, when the special transitional benefits described by Mr. Myers for persons 72 and over were introduced.

Aside from substantial increases in the minimum PIA in recent legislation, it is probably reasonable to say that successive amendments have increased the spread of PIA amounts ratio-wise as well as in dollar amounts. This is shown in Table 1, which compares the PIA corresponding to the maximum AMW with that for one-half the maximum AMW. The ratio dropped below 1.40 in the 1950 and 1952 amendments only to rise to over 1.60 in the most recent amendments. Table 2 analyzes this further and shows the rise in the ratio to be due to (1) the fact that the breaking-point AMW has not gone up proportionately with the maxi-

imum AMW but instead has stayed at \$110 since the 1954 amendments while the maximum has almost doubled; and (2) the fact that the ratio of the benefit percentage applying above the breaking point to the percentage applying below the breaking point increased from 0.25 in the 1939 amendments to 0.36 in the 1954 and subsequent amendments.

Fairness of Benefits within a Generation

In discussing a social security system, it may often be improper to relate comparative benefits of different groups of participants to the respective contributions these groups have paid into the system. In a system where, within the same generation, higher-paid participants receive substantially higher benefits than lower-paid, it may nevertheless

TABLE 2
BREAKING POINT IN THE PRIMARY BENEFIT FORMULA

| Year of Amendments | Maximum AMW | Breaking Point | Breaking Point as Per Cent of Maximum | Benefit Per Cent below Breaking Point | Benefit Per Cent above Breaking Point | Per Cent above+Per Cent below |
|--------------------|-------------|----------------|---------------------------------------|---------------------------------------|---------------------------------------|-------------------------------|
| 1939 | \$250 | \$ 50 | 20.0% | 40.0% | 10.0% | 0.25 |
| 1950 | 300 | 100 | 33.3 | 50.0 | 15.0 | .30 |
| 1952 | 300 | 100 | 33.3 | 55.0 | 15.0 | .27 |
| 1954 | 350 | 110 | 31.4 | 55.0 | 20.0 | .36 |
| 1958 | 400 | 110 | 27.5 | 58.8 | 21.4 | .36 |
| 1965 | 550 | 110 | 20.0 | 63.0 | 22.4* | .36 |
| 1967 | 650 | 110 | 16.9 | 71.2 | 25.9* | 0.36 |

* Composite percentage on maximum AMW in excess of \$110.

be pertinent to ask just how much of the income differentials which existed before retirement (or death) should be maintained after retirement (or death) through the medium of a public program. One reasonable answer to this question would be that the dollar differential in benefit values enjoyed by the higher-income participant should not substantially exceed the differential in contributions paid in. Over the short run this may of course be a very impractical test, but in a program over thirty years old it should be a reasonable one.

Yet, if we compare two individuals, A and B, both born early in 1902, who have been steadily engaged in covered employment since the beginning of 1937 and who will retire early in 1969 (since 67 is a typical retirement age), A having had earnings generally around one-half the maximum and B having had covered earnings always at the maximum, we find that the benefit differential in dollars in favor of B greatly ex-

ceeds the employee contribution differential. This comparison is shown in Table 3, which shows for each individual his past employee contributions accumulated at $3\frac{1}{2}$ per cent interest and the value of his future benefits using 1959-61 U.S. Life Tables (Total Persons) with $3\frac{1}{2}$ per cent interest. True, B has paid in 94 per cent more than A and will derive only 48 per cent more in benefits because of the break in the benefit formula, but dollar-wise his "profit" from the program is far greater. This is very true even if we include only his own retirement benefits, but even more the case if we allow for the value of wife's and widow's benefits, and still more if we bring in the value of past insurance protection. It would still

TABLE 3

ACCUMULATED EMPLOYEE CONTRIBUTIONS AND PRESENT VALUE OF BENEFITS FOR LOW-WAGE EMPLOYEE A AND HIGH-WAGE EMPLOYEE B, BORN JANUARY, 1902, AND RETIRING JANUARY, 1969

| | TAXABLE ANNUAL WAGES | | EXCESS OF B OVER A | |
|---|----------------------|----------|--------------------|----------|
| | A | B | Per Cent | Dollars |
| Years: | | | | |
| 1937-39 | \$ 800 | \$ 3,000 | | |
| 1940-44 | 1,200 | 3,000 | | |
| 1945-49 | 1,600 | 3,000 | | |
| 1950 | 2,000 | 3,000 | | |
| 1951-54 | 2,000 | 3,600 | | |
| 1955-58 | 2,400 | 4,200 | | |
| 1959 | 2,400 | 4,800 | | |
| 1960-64 | 2,800 | 4,800 | | |
| 1965 | 3,200 | 4,800 | | |
| 1966-67 | 3,200 | 6,600 | | |
| 1968 | 3,200 | 7,800 | | |
| Total taxable wages, 1937-68.. | 65,200 | 127,800 | | |
| Total OASDI employee contribution, 1937-68 | 1,535 | 2,914 | | |
| Contribution with $3\frac{1}{2}$ % interest to Jan., 1969 | 2,151 | 4,167 | 94% | \$ 2,016 |
| "Average monthly wage" | 239 | 445 | | |
| Monthly retirement benefit, Jan., 1969 | 111.40 | 163.90 | 47 | |
| Present values of future benefits: | | | | |
| Man 67 alone | 12,463 | 18,249 | | |
| Man 67 and wife 64 | 21,715 | 31,866 | | |
| Value of past insurance protection (excl. dis. ben.): | | | | |
| Lump-sum benefit only | 103 | 120 | | |
| Lump-sum and survivor's benefit | 3,370 | 4,696 | | |
| Total values, man alone | 12,066 | 18,369 | 46 | 5,803 |
| Total values, man and family .. | 25,085 | 36,562 | 46 | 11,477 |

be true even if employer contributions were to be taken into account, despite the doubtful propriety of doing so.

It can hardly be argued that this is still a short-range situation which will eventually change. It is sometimes pointed out that, if any one schedule of benefits and taxes were to remain in effect throughout a working lifetime, the taxes for a highly paid individual without dependents would exceed the value of his benefits. For example, an individual who reaches age 21 in 1973 or later and pays \$390 taxes a year on earnings of \$7,800 a year for forty-four years would have paid in employee contributions alone more than the value of his prospective benefits as a retired worker. But it is inconceivable that such a situation could ever materialize. The entire pattern of the past thirty years has been one of repeatedly raising benefits, so that each generation of regularly employed persons has benefits of much greater average value than their own contributions. It is extremely unlikely that the benefits of many such persons will ever be funded by their own contributions, since, before this can happen, political considerations will insure that benefits will be increased. In other words, the so-called short-range situation of individual benefits exceeding individual contributions will always be present. But it may at least be possible to limit the differential of benefits favoring the higher-paid so that this differential is more nearly in line with the differential in employee contributions.

Fairness of Benefits between Generations

Mr. Myers gives the rationale of the increase in earnings bases over the years and points out that even the latest increase has fallen short of bringing the earnings base to the position that it had in the late 1930's relative to total earnings, which he says would require a base of about \$11,600. In fact a base of \$15,000 has been mentioned by Social Security Commissioner Robert M. Ball on the grounds that average industrial earnings are now at least 5 times as great as they were in 1935 when the \$3,000 base was enacted. On the other hand, the base has kept up with cost-of-living increases, and it is questionable whether it should do more than that.

Whatever the basis for increasing the wage base, it would seem only fair that each time the base is increased all wages previously earned should be proportionately and automatically adjusted to reflect such increase for the purpose of calculating benefits, whether future benefits for persons still active or benefits currently paid to retired persons, dependents and survivors. Adjustments of this nature are accomplished in the Canada Pension Plan's indexing system. In the United States the

principal form of adjustment of benefits previously awarded has been to increase them by the same percentage as that by which the percentages in the benefit formula have been increased. For example, in the 1967 amendments the percentages in the formula were increased by 13 per cent of themselves, and, correspondingly, all benefits already on the rolls were increased by 13 per cent; but nothing was done to take account of the theory that \$6,600 before the increase has \$7,800 as its present equivalent or that \$3,300 has \$3,900 as its present equivalent. Persons who retired before 1951 and could have had a maximum AMW of only \$250 have had their primary benefits increased over the years from a maximum of \$45.60 to a maximum of \$115, but persons retiring today with a \$250 AMW also receive a PIA of \$115, despite the fact that the recent wages on which their AMW is partially based do not compare in value with earnings of \$250 a month years ago.

Had there been a full system of indexing, the results would have been much fairer between generations and the OASDI program would have come much closer to fulfilling the very desirable social purpose of achieving those very things which private pension systems are least able to do. Under such a system, assuming the benefit percentages had remained as in the 1939 amendments and the breaking point had also been indexed, the PIA formula would now be 40 per cent of the first \$130 of AMW and 10 per cent of the next \$520. The added costs of increasing past wage credits would have tended to make it more difficult to increase the benefit percentages. Or, alternatively, we might have had liberalizations increasing each percentage by, say, two-fifths of itself, that is, to 56 per cent of the first \$130 and 14 per cent of the next \$520. This would have produced a lower maximum benefit—\$146 instead of \$218—but the \$146 would be attainable immediately, the average benefit would probably be no less than that payable today, and the within-generation anomalies would be reduced. When we assume that the wage-base increases had had the same timing as actually occurred (though with full indexing the increases would have had different timing), the PIA of A and B of Table 3 would have been \$105 and \$146, respectively, a lesser dollar spread than \$111.40 and \$168.90.

Perhaps some of these ideas can be considered in future legislative planning.

(AUTHOR'S REVIEW OF DISCUSSION)

ROBERT J. MYERS:

I want to thank Messrs. Immerwahr and Niessen for their interesting and valuable discussions of my paper.

Mr. Niessen has presented significant information on how the social security amendments affected the railroad retirement system and on recent amendments to that program.

Mr. Immerwahr has given some interesting remarks about the benefit formula and the possibility of indexing the earnings records. His point about present beneficiaries who had high earnings receiving a larger excess (in dollars, although not relatively) of benefit value over contributions made than do those with lower earnings is correct, but it should be noted that this is also true for virtually all contributory private pension plans.

Mr. Immerwahr compares present values (at $3\frac{1}{2}$ per cent interest) of contributions and benefits under present law. He also points out that such a comparison may not be pertinent for persons retiring many years in the future because, with rising earnings levels, the benefit formula will probably be liberalized.

Due to the relatively small size of the OASI and DI Trust Funds, as compared with what they would be under a fully funded pension system, changes in the level of interest rates have only minor impact on the financial arrangements. However, the impact of such changes on comparisons of values of benefits and contributions for young new entrants is very large. When we consider the possibility that the current inflationary economic conditions may continue in the future (as they have since World War II), the corresponding increase in interest rates demanded by investors to offset such inflation—and also our balance-of-payment difficulties—an interest rate somewhat higher than the $3\frac{1}{2}$ per cent Mr. Immerwahr used may be necessary.

Mr. Immerwahr suggests one method of indexing the earnings records, namely, relative to the actual taxable earnings base, which he believes should be indexed in the future by the cost of living. Others would argue for indexing the earnings base by the general earnings level (and some would propose that first it should be raised to \$12,000-\$15,000 currently). From a technical administrative standpoint, any such indexing would be feasible, but difficult, for persons not yet on the benefit roll, but would be extremely difficult for existing beneficiaries.

We shall, no doubt, hear much more about indexing of earnings records and/or benefits in the future if wages continue the rapid rises that have occurred in recent years and if the average wage continues to be based on a career average after 1950 (and after dropping out the five lowest years). Then, too, there may be proposals to base the average wage on the highest n years (possibly consecutive or possibly whenever they occurred).