

SOCIAL SECURITY

- A. As a consequence of the legislative enactments in 1950, what changes have occurred in the current beneficiary population and benefit levels under the OASI program and under the OAA program? Are any special problems being encountered in the extension of OASI contributions to newly covered groups?
- B. In bringing life insurance agents under OASI coverage, what difficulties have arisen in determining the covered classes and the taxable earnings applicable thereto?
- C. As a consequence of the recent changes in OASI coverage and benefits, what modifications have occurred in (1) agents' pension plans and (2) various types of pension plans in general?
- D. What new cash disability benefits programs and other social security measures are in prospect in the immediate future?
- E. What is the prospective impact of the proposed Canadian Old Age Pension program upon employer retirement plans and upon life insurance and other savings media?
- F. What problems have arisen under the British Columbia hospitalization program, and what implications may this situation have in connection with health insurance measures generally?

MR. R. J. MYERS said that the number of monthly beneficiaries under the OASI (Old-Age and Survivors Insurance) program increased from 3.0 million in August 1950 (just prior to the effective date of the amendments) to 4.1 million in July 1951. The number of retired workers included in these figures increased from 1.4 million to 2.1 million, largely as a result of the "new start" insured status provision. The average monthly payment for a retired worker, not counting any supplements for dependents, rose from \$26 to \$42. For those who were on the rolls when the amendments were enacted, the average rose by 77% to \$46; for those who came onto the rolls following the amendments and who would have been insured under the previous provisions the average is about \$50; for the group of about 500,000 who came onto the rolls as a result of the liberalized insured status, the average is about \$25. Total benefit expenditures under OASI are currently running at an annual rate of \$1.9 billion compared with about \$800 million just prior to the amendments. The trust fund now stands at \$14.7 billion, an increase of \$1.7 billion in the last 12 months.

Under OAA (Old-Age Assistance), the number of recipients in July 1951 was 2.72 million, a decrease of about 90,000 from the preamendment level. This decrease of about 3% occurred at the same time that the total aged population of the country rose by about 3%. In July 1951 the

number of aged recipients under the OASI scheme was some 14% greater than under OAA, having become greater for the first time in February 1951. The number who receive payments under both schemes remained at about the same level (300,000), the 50,000 cases closed as a result of the increased OASI benefits being counterbalanced by about the same number on the OAA rolls who had not previously received OASI benefits but became eligible under the liberalized provisions. The average monthly payment under OAA has remained at about \$44 over the past year. Mr. Myers concluded that the OASI changes have had the effect of leveling off and even decreasing somewhat the burden of OAA benefits in the face of a growing aged population. Moreover, costs under the Aid to Dependent Children program have decreased somewhat, since 32,000 families receiving benefits under this and the OASI program have received an average increase under the latter amounting to \$30 monthly, resulting in a corresponding decrease under the ADC program.

Mr. Myers then referred to the public assistance program for the permanently and totally disabled which was introduced by the amendments. In July 1951, 31 states reported plans in operation with about 110,000 recipients and an average monthly payment of \$45. Most of these were transferred from previously existing general assistance schemes in which there was no Federal participation.

As regards the coverage of new groups under OASI, Mr. Myers said that there have been some problems but no major ones that were not anticipated. No experience is yet available concerning the nonfarm self-employed, since contributions will first be collected with the income tax returns in March 1952. There has been good experience with the coverage of household workers and an initial problem of incompleteness in filing is rapidly being reduced. The number of farm workers registered was low in the first quarter of 1951, perhaps as a result of the seasonal nature of the employment. About 10% of the nonprofit organizations have elected coverage but this represents some 700,000 employees or about 90% of the total employees of such organizations. As to state and local government employees, he reported that coverage agreements have been signed or are about to be signed in 33 states. State and local governmental units having retirement schemes cannot elect coverage under the present law, but considerable interest has been expressed and a few have abolished existing retirement schemes so as to become eligible for OASI coverage. There are now some 500,000 civilian employees of the Federal government covered by OASI. Federal employment has expanded greatly due to the emergency and nearly all of these new employees are under OASI coverage.

Mr. Myers said that coverage in Puerto Rico and the Virgin Islands is

going ahead with no more difficulties than might be expected in an area where the program is new and where there are differences in language.

MR. W. R. WILLIAMSON pointed out that although there has been a marked increase in the number of aged beneficiaries under the OASI program, the increase in the number of young beneficiaries has not been so great. He said that the charts published in the *Social Security Bulletin* do not show this clearly since these two groups are not shown separately. This, he thought, minimizes the fact that the amendments did not give much attention to orphans and their mothers. He mentioned also that the number of guardians under the program of Aid to Dependent Children is shown in tabular form, but not in the curves on the chart. Comparisons of assistance payments state by state are made difficult by showing "vendor payments" for medical care separately from the basic Assistance benefits.

He said that although both numbers and amounts have grown under all public assistance programs taken together, there has been a shrinkage in local relief due to the transfer of recipients to schemes involving the use of Federal funds.

He thought that the group yet to come into benefit under OASI, those with one and one-half years of employment or two years of self-employment since January 1951, will have larger benefits than existing beneficiaries and that already Social Security Administration proponents are getting ready to increase existing benefits in all categories to bring them into line.

Mr. Williamson believes that the manner in which the OASI scheme has been presented to nonprofit institutions has developed a personal sense of guilt at taking the benefits. Some justify the receipt of benefits on the grounds that they help to counterbalance inflation and discriminatory taxes but a few go further and refuse the benefits altogether. He thought that many people regard the benefits as a wry joke and he has found a falling off in respect for the institutions.

As regards the Permanent and Total Disability Assistance program, he noted that costs are piling up rapidly and that history has shown that OASI benefits follow Assistance benefits. He said that the Social Security Administration is working to add this benefit to OASI and that competition will then follow between Assistance and Insurance. He thought that the Administration was continuing to assume that the citizen was unable to provide for anything himself or even to try.

MR. MEYER MELNIKOFF, in discussing section B, said that the main problems concerning the coverage of life insurance agents under OASI relate to the treatment of renewal commissions. In essence, the term "wages" in the new law includes remuneration paid after 1950 only if such

remuneration is paid for services performed while covered by the Social Security Act. Although full-time life insurance agents are now covered by the Act, before 1951 only common-law employees were covered and, generally, life insurance agents, other than debit agents, are not considered to be common-law employees. Thus renewal commissions paid after 1950 on business sold before 1951 by a full-time life insurance salesman (other than a common-law employee) would not be considered as wages unless regarded as being paid for services performed after 1950. The Treasury Department in specific cases has ruled that such renewal commissions are usually not taxable wages, for, in general, the Department regards all renewal commissions as attributable to service performed in selling the policy. However, where the agent's contract makes the payment of renewal commissions contingent upon his fulfilling certain obligations (such as the production of a minimum amount of insurance in each year), such contingent renewal commissions may be taxable wages, since in this case the Treasury considers the renewal commissions as attributable to service performed in the year in which the contractual obligations are fulfilled. Mr. Melnikoff remarked that under this rule it would be necessary to separate the renewal commissions which are taxable wages from those which are not. This would be troublesome especially under agency contracts which provide that renewal commissions for some, but not all, policy years are contingent. Also, he said, this approach might work a hardship on an agent about to retire since a substantial part of his current earnings might not be considered as wages. Unless the earnings so excluded from wages were considered as self-employment income, the agent's benefits might be quite low. Strange as it may seem, the Treasury has thus far been unwilling to admit that such renewal commissions must be either wages or self-employment income. Thus the benefits of such agents are still in doubt. Further, under this rule, renewal commissions paid after 1950 on business written after 1950 by a full-time life insurance salesman, if payable without regard to the agent's fulfillment of subsequent contractual obligations, might be taxable wages even though paid after the agent's death, retirement, or termination of service. Mr. Melnikoff thought that the administrative problems arising from a strict interpretation of the rule would be quite onerous.

Mr. Melnikoff then referred to the difficulties that arise in attempting to ascertain when an agent between the ages of 65 and 75 would be disqualified for Social Security benefits by reason of receiving earnings in excess of \$50 a month. He noted that the definition of "remuneration" in the law excludes any payment made on account of retirement and that some believe that postretirement renewal commissions would fall under this

head. This would probably depend on the wording of the agent's contract. Also, if the retired agent does not render any service in the month, he may be able to receive any amount of renewal commissions without losing his Social Security benefits. However, if he merely passes 65 and retains the same agency contract or obtains a new part-time contract, it may be difficult to determine (a) whether he is a full-time life insurance salesman or not and (b) which earnings are considered for disqualification of current Social Security benefits. Some believe that administrative simplification is possible under the present law but others feel that legislative action may be required. Also, the Treasury and the Social Security Administration do not necessarily have to follow the same interpretations.

As regards agents' pension plans, Mr. Melnikoff said that many of them had developed along unusual lines from the standpoint of pension planning in general. He thought that this might be due in part to the requirements of section 213 of the New York Insurance Law and in part to the desire to accomplish other objectives, such as improvement in persistency of business. He reported the results of a survey of 20 leading companies on the question of the current status of pension plans for agents covered by Social Security this year for the first time. Eleven companies reported that no changes had been made. Some of these were still considering the matter and others were deterred by the confused state of the Social Security aspect, by problems relating to Treasury approval of agents' pension plans or by their feeling that benefits were previously too low. Five companies had made advance provision for Social Security adjustments but two of these did not carry the adjustments through. The remaining four companies in the survey have made Social Security adjustments to their plans—in three cases, as part of thorough revision of their plans. Where Social Security adjustments were made, the nature of the adjustment varied. Three companies reduced the current company contributions by the amount of the current OASI taxes, one reduced company contributions by 3% of covered earnings (approximately the ultimate OASI taxes in present law), two companies provided a lower rate of benefit on covered earnings than on uncovered earnings, and one provided for the reduction of benefits at retirement by 1¼% of Social Security benefits for each year of service after 1951 up to a maximum of 50%. One company which did not make a change reported that its plan had been designed with the thought that a retired agent could obtain a broker's license and supplement his retirement income without losing any Social Security benefits; now that independent contractors are covered, this cannot be done and the retirement plan benefits might have to be increased.

MR. H. B. WICKES said that in the Security Mutual the full-time

agents have been operating on an employer-employee relationship since January 1, 1947. This, however, requires the withholding of income tax. For this and other reasons the contracts are being changed to eliminate the employer-employee relationship. He does not think that any company should put itself in the position of having to withhold income taxes in respect of its full-time agents.

He pointed out that if an agent is an employee, the company is bound to report Social Security taxes and Federal unemployment taxes and must withhold income taxes. If an agent is not an employee he must, nevertheless, contribute under the Federal Insurance Contributions Act if he is a full-time life insurance salesman. Mr. Wickes thought that the Bureau of Internal Revenue would take the following points into consideration if there were doubt concerning the status of any agent:

1. Full-time agents should make sales for one company primarily.
2. Sales activity is the primary job of a full-time agent.
3. Full-time agents are usually given office space by the company or general agent and provided with stenographic and telephone service.
4. Salesmen engaged in fire insurance, burglary insurance or other general lines as well as life insurance would be considered as part-time agents unless their contracts definitely provide that the selling of life insurance is their primary duty.

Mr. Wickes then outlined briefly the system followed in the Security Mutual to keep a record of the earnings of each agent covered by Social Security and also a record of the taxes deducted. They operate on the general agency plan and rely on the reports of the general agent concerning first year commissions and the amount of Social Security tax deducted from them. Renewal commissions are sent out directly from the home office and the Social Security tax is deducted from these until a total of \$3,600 of income from the company and the general agent has been taken into account.

MR. J. K. DYER, JR., said with regard to section C that most industrial pension plans adopted or revised in the United States during 1949 and 1950 anticipated in one way or another the liberalizations in Social Security that became effective in the latter part of 1950. In most cases an attempt was made to provide for automatic adjustments to changed Social Security benefits, especially in plans that emerged from union negotiations. Plans following the pattern adopted by the steel, automobile and other heavy industries provided that the benefit according to the plan formula would be reduced by the amount of Social Security benefit; other plans having a specific rate of benefit in respect of the first \$3,000 of in-

come and a higher rate for income in excess of \$3,000 were revised to eliminate specific reference to \$3,000 and to substitute a general reference to the earnings level upon which Social Security benefits and taxes were based.

Mr. Dyer said that there had as yet been little tendency to revise plans adopted immediately prior to the Social Security amendments where there was no provision for automatic adjustment. He thought that employers recognize the desirability of integrating their plans with Social Security, but that they are deterred from immediate action by (a) a reluctance to reopen the question with the unions, (b) a reluctance to reduce employee benefits in the face of wage stabilization and (c) uncertainty concerning the attitude of the Bureau of Internal Revenue toward integration of private pension plans with the new Social Security benefits (the new rules were not published until May 1951). Further, he believed that many plans that were becoming increasingly inadequate due to inflation have been restored to full effectiveness by the addition of the new Social Security benefits and this makes it difficult to justify any reduction in benefits. Insurance companies and others involved in the design and administration of pension plans have not encouraged revisions, partly for the above reasons and partly because it would be impossible to handle the volume of work that would result if any substantial number of plans had to be changed within a short period.

Mr. Dyer said that a few plans have been changed, notwithstanding the above considerations. One reason frequently heard was a belief that the 1950 Social Security amendments were only one of an infinite series and the principle of revising private pension plans in accordance with changing Social Security benefits should be clearly established at the outset. He thought that eventually all plans that had been designed to fit with the former Social Security benefits will be changed to conform to the new pattern. He suggested that employers should avoid reducing benefits until other plan changes are made, particularly if they can offset the reduction by liberalization in other features of the plan.

MR. C. A. SIEGFRIED said that he knew of no insured retirement plans (other than those where Social Security benefits enter into the benefit formula) under which any downward revision of benefits had been made or was contemplated as a result of the new Social Security benefits. This is in contrast to the many revisions made after the 1939 amendments. He thought that the difference might be due partly to labor relations and wage stabilization, but principally to the fact that the benefits under many plans have, because of inflation, become less and less effective in meeting the objectives of the plan. Even with the increased Social Se-

curity benefits, some plans are still not adequate and changes are being made that increase the benefits rather than reduce them.

Pending the increase in Social Security benefits some employers were supplementing benefits paid from their retirement plans, the supplement being usually on a year-to-year basis and with no advance funding. These supplements were usually regarded as temporary, to be discontinued when the increased Social Security benefits became effective, but some employers have continued to pay them. In most cases where plans provide a minimum involving the former Social Security benefits, changes have been made to conform to the new benefits.

MR. J. H. MILLER, in discussing section D, said that there are a number of bills dealing with Social Security matters now before Congress and a variety of proposals under discussion but, with a possible exception relating to retirement benefits for railroad workers, it appears that 1951 may close without any important Social Security legislation. Proposals to increase benefits under the Railroad Retirement Act had made little progress, he said, because of a dispute within railroad labor circles as to whether the emphasis should be on the old age benefits or on the survivors benefits. Recently this dispute has been resolved in favor of increased benefits to the retired higher-paid workers and it is now expected that a new bill will soon be reported out of committee. It is possible that this bill may be enacted in 1951. This would be of importance to the economy as a whole because changes in the Railroad Retirement Act have an influence on the Social Security program.

With regard to the various proposals under discussion and the bills pending before Congress, Mr. Miller mentioned particularly a Senate resolution providing for a study of the OASI system by a special staff to be appointed by the Senate Finance Committee, a House bill (H.R. 3021) that would add total and permanent disability benefits to the OASI system similar to those that were rejected by the Senate in its consideration of H.R. 6000, and two Senate riders to a technical revenue bill introduced in the House (H.R. 2416) to provide increases in Assistance benefits and parallel increases in OASI benefits. In general no action has been taken on these matters. The rider dealing with increases in OASI benefits was voted down in the Senate, only to be followed by the introduction of a Senate bill (S. 1893) providing for an increase of \$5 in primary insurance benefits with proportionate increases in dependents and survivors benefits.

Several measures have been introduced to provide for additional or increased coverage under OASI, but no hearings have been scheduled by the Ways and Means Committee except in connection with the Unemploy-

ment Compensation. A bill (H.R. 3392) has been introduced which, among other things, would extend coverage to insurance salesmen. This bill would also give the Federal government increased control over the unemployment compensation system in the individual state.

Mr. Miller mentioned as of particular interest a recent proposal of the Federal Security Administrator to provide up to 60 days of hospital benefit a year to those currently entitled to old age and survivors benefits, including those temporarily disqualified by the \$50 work clause. Mr. Miller thought that such a measure would increase the inequities already existing between those now covered by the OASI system and those who are outside the system. He said that there are many who feel that coverage should be extended and the basic structure of the scheme modified before benefits are increased or new benefits added.

Also noted was the action of the Senate Finance Committee in voting to permit taxpayers aged 65 and over to deduct from taxable income all medical expenses up to \$1,250 per person or \$2,500 for a married couple. At present only medical expenses in excess of 5% of the taxpayer's adjusted gross income may be deducted.

He mentioned as being of collateral interest a bill reported by the Armed Forces Committee providing survivorship benefits for individuals in military service. The bill calls for contributions by the members insured, which under peace-time conditions would entirely support the plan.

Mr. Miller thought that actuaries, whether or not their work involves social insurance, are better qualified than most of the nation's voters to judge these various proposals. He thought that the actuary's specialized knowledge and training carry with them an obligation to offer his counsel and advice where social insurance problems are involved.

MR. ALBERT PIKE, JR., remarked that all pending proposals concerning Social Security legislation are in the direction of expansion and liberalization. He thought that this bears out the view held by many people that Social Security is still expanding in the United States with inflation the only contrary movement.

He did not think that the political appeal of compulsory health insurance as proposed by the Administration would be at all reduced by allowing premiums on health insurance policies to be deducted from taxable income. The tax allowance would only affect persons in the higher income brackets where medical bills are not usually a serious problem while the compulsory insurance program appeals mostly to the lower income groups who have no interest in tax concessions for premiums paid to private insurers.

Mr. Pike stated that there are no new state disability benefits laws in

prospect for the immediate future except for one or two industrial states on the Atlantic seaboard. He thought that this was due largely to the Korean war but also to the influence of the referendum in the State of Washington where a proposed scheme of cash benefits was voted down by a majority of three to one. Also, labor unions seem to be less sure of the advantages of state schemes as compared with seeking the benefits through collective bargaining.

He thought that the results of the Washington vote, when analyzed in the light of other facts and impressions, indicated rather clearly that the electorate of almost any state would turn down any proposed cash sickness law to be financed out of payroll taxes. This does not mean, however, that the electorate would turn out of office any legislator who helped pass such a law. Most people, he thought, vote against new taxes but in favor of office seekers who promise them new benefits.

MR. B. R. POWER, speaking on section E, outlined briefly the present scheme of old age benefits in Canada and the new scheme to become effective in January 1952. He said that for some years old age benefits have been paid to persons age 70 and over subject to a means test and that these benefits are administered by the provinces with the Federal government bearing 75% of the cost. The maximum benefit under the scheme is \$40 a month but some provinces are paying a supplementary benefit of as much as \$10 a month. Benefits are reduced by the amount of personal income in excess of \$10 a month and Mr. Power pointed out that this tends to discourage personal saving among persons in the lower income groups.

One part of the new program will provide \$40 a month for life beginning at age 70 regardless of means but subject to a residence qualification. This part will be administered and financed by the Federal government. The other part, to be administered by the provinces, will provide a maximum of \$40 a month on a means-test basis to persons from ages 65 to 69, one-half the cost being borne by the Federal government.

Mr. Power thought that the new legislation would encourage personal saving for old age. Since everyone can look forward to a basic annuity of \$40 a month at age 70 there will be an incentive to supplement that amount by personal savings and to provide for the years from 65 to 70 with a temporary annuity. He said that one of the reasons for adopting this type of scheme was to encourage individuals to make some personal provision for their old age. He thought that many employers would now be able to undertake modest pension plans to supplement the old age benefit where they could not afford a comprehensive scheme. Probably a few employers who now have schemes will wish to reduce the benefits but it is still too early to tell just what will happen in this regard.

Mr. Power felt that life insurance companies and other savings institutions should, in keeping with the Government's philosophy of old age security, encourage Canadian families to achieve adequate old age security through voluntary effort. He thought that life insurance companies would try to devise special plans and special settlement options to fit in with the new scheme.

MR. HENRY DEVITT thought that the proposed Old Age Pension program in Canada would prove to be beneficial to employer retirement plans. He referred to the fact that the Parliamentary Committee that had recommended the scheme took the view that any program adopted should not interfere with employer pension plans, with the purchase of annuities or with private savings but, rather, should place a floor under these private or collective provisions for retirement.

The new benefits would, he thought, remove or reduce inadequacies in existing plans caused by inflation and by the granting of past-service benefits at a lower rate than current-service benefits. He thought that some employers would make adjustments to their plans to take account of the benefits under the national scheme. He pointed out that if these adjustments were confined to future-service benefits, persons already retired would suffer no reduction and persons near retirement would incur only minor adjustments. This would alleviate the effect of the inflationary trend and, since the national scheme is to be financed on a pay-as-you-go method, the adjustment of current-service benefits would maintain both employer and employee contributions for retirement benefits, including those under the national scheme, at about the same level as existed prior to the inauguration of the scheme. He mentioned that, unless the employer's scheme provided widows' benefits, any adjustment should take into account only the portion of contributions under the national scheme attributable to pensions for employees.

Mr. Devitt believed that if the inflationary trend continues, benefits under the national scheme would be raised, thus providing relief to those already retired and near retirement, and future service benefits under existing schemes could be adjusted again in the light of the new conditions.

MR. R. J. HASBROUCK noted that, although the proposed scheme of old age pensions in Canada will cost an estimated \$250,000,000 over and above the present expenditures for old age pensions, the method of financing the scheme is still unsettled. This makes it difficult to predict the immediate effect on the economy.

As regards the impact of the scheme on employer retirement plans, he thought that many plans would require adjustment, at least to take account of any difference between retirement ages under the pension plan

and retirement age under the Dominion program. He did not think that there would be any widespread cancellation of employer plans. The method of financing the scheme, when it is known, will naturally have an effect on an employer's attitude toward adjusting his plan and the employees' attitude toward their contributions.

He said that the new scheme would probably encourage small firms with limited resources to set up retirement plans. Judging by the experience in the United States, he thought that the long-term effect of the scheme would not be detrimental to the life insurance and annuity business.

MR. STEFAN HANSEN said concerning section F that there are widely different opinions as to what constitute the problems under the British Columbia hospitalization program and that most of the significant problems are bound up with political considerations. He thought it would be of little value to try to separate the actuarial aspects from the political; rather, we should accept the view that these schemes are not insurance. Mr. Hansen remarked that, surprisingly, a similar program in Saskatchewan gives rise to practically no discussion at all and he thought that the difference arose because the British Columbia program was introduced by a free-enterprise government out of fear of, and in an attempt to avoid, socialism, while the Saskatchewan program was introduced by a socialist government out of love of, and to implement, socialism.

He stated that in 1948 the British Columbia government and its municipalities were spending under two million dollars on per diem grants to hospitals. This expenditure was slowly but steadily rising. At the same time, prepaid hospitalization schemes operated by the Blue Cross and, to a much lesser extent, by insurance companies were proving profitable. To satisfy what was conceived to be a demand for social legislation, the government decided to absorb and integrate these prepaid plans. To overcome free-enterprise opposition it was argued that the proposal affected chiefly Blue Cross rather than private enterprise and that government expenditures on social welfare would be reduced. It was believed that the lower acquisition costs involved in a compulsory scheme and a lower loss ratio resulting from the broader exposure under universal coverage would ensure substantial profit and would make possible some liberalization in benefits as compared with Blue Cross schemes. Mr. Hansen pointed out, in support of this view, that the Act referred to a "Hospital Buildings Fund" to be built up out of the contributions, thus showing that some margin was expected. In actual fact, per diem grants have risen from under two million dollars to over three million dollars and, in addition, the

program has incurred a deficit for the year ending March 31, 1950, of \$4,600,000.

Mr. Hansen thought that the government would have to realize that the scheme cannot be made self-supporting since the compulsory premiums will simply not be paid if they are raised high enough to eliminate the present deficit. He pointed out that the costs of hospitalization in British Columbia have skyrocketed since the introduction of the scheme and they would do likewise elsewhere. This has resulted in the introduction of governmental control of hospital operating costs. He believed that governmental financial control leads to interference with operations thus resulting in inefficiency and so higher costs. The result will be, in his view, deterioration of service and delay in improvements and modernization. He thought that the requirement of a uniform premium in all areas would lead to a demand for uniform facilities and these cannot possibly be provided in outlying districts. If leveling up of services is not financially possible, he thought that leveling down was the only alternative—the historic result of socialism in any form. He thought that the only fundamental implication he could draw from the inconsistencies between the British Columbia scheme and the Saskatchewan scheme was that the introduction of Health Insurance first requires the acceptance of socialism.