

TRANSACTIONS

MARCH, 1951

THE 1950 AMENDMENTS TO THE SOCIAL SECURITY ACT

ROBERT J. MYERS

ONE of the most interesting and important social phenomena in the United States in recent years has been the development of various types of what might be termed "social security programs." The Social Security Act enacted fifteen years ago was probably primarily responsible for the great interest taken in this general subject by various individuals and groups throughout the country. This act established a Federal old-age insurance system, a Federal-State public assistance system for needy aged, blind, and children, a Federal-State unemployment insurance system, and Federal grants to States for maternal and child welfare. Only old-age and survivors insurance and public assistance will be considered in this paper, with major emphasis being placed on the former.

During the 1940's there was extensive expansion in many types of pension plans, on both individual and group bases. However, the old-age and survivors insurance system, which had been broadened in 1939 to include monthly survivor benefits, remained essentially unchanged during this decade despite these pressures and despite the lack of adjustment to widely changed economic conditions in the country. On the other hand, the public assistance provisions were changed several times to reflect the increased cost of living.

After a number of studies and long consideration, the Congress enacted new legislation (Public Law 734, 81st Congress) which considerably alters the old-age and survivors insurance program, although not changing its basic character, and which also makes some significant changes in the public assistance program. This paper first presents a brief history of the old-age and survivors insurance system and the public assistance program. Then the provisions of the amended act are compared with those of the previous one; necessarily many minor technical details and complexities are passed over (an explanation of such matters may be obtained from Congressional reports; see legislative bibliography appended).

Finally, actuarial cost estimates underlying the new insurance program are given along with the implications as to the financing basis of the program.

BACKGROUND AND HISTORY OF LEGISLATION

a) The Insurance System

The Social Security Act of 1935 provided a system of old-age insurance for persons working in industry and commerce. Monthly benefits were to begin in January 1942 for the insured worker aged 65 or over upon retirement from regular employment. The only death benefits were in the nature of return of contributions. A tax on wages up to \$3,000 per year was imposed on employees and employers at a rate of 1% each for 1937-39, 1½% for 1940-42, 2% for 1943-45, 2½% for 1946-48, and 3% thereafter. An Old-Age Reserve Account was created, to which Congress was to appropriate funds annually in amounts "determined on a reserve basis in accordance with accepted actuarial principles"; in actual practice, such appropriations closely approximated the tax receipts less administrative costs (which were, on the surface, met from the general treasury).

In 1939, following study by an Advisory Council, extensive amendments were enacted. Supplementary monthly benefits were provided for the aged wife and for the children of a retired worker and for the surviving widow and children of a deceased worker (in certain instances, also for surviving aged dependent parents). In cases of death where no immediate monthly survivor benefits were payable, a small lump-sum payment was available, but with no "guarantee" of return of contributions in every instance. Eligibility conditions were made less stringent, and the payment of monthly benefits was advanced to January 1940. Benefits payable in the early years were increased, while for unmarried workers with high earnings who would retire after many years of coverage, the benefits were reduced somewhat.

The tax rate on employees and employers was held at 1% each through 1942 and was then to follow the original schedule. As to financing, the basis was changed so that in effect all tax collections went directly into the renamed Old-Age and Survivors Insurance Trust Fund, and administrative expenses as well as benefit disbursements were paid directly out of the trust fund. Accordingly, the requirement as to actuarially determined annual appropriations was eliminated.

In 1943 and in subsequent years, legislation was passed to "freeze" the contribution rate at 1% rather than let it rise as previously scheduled. An amendment in 1943 authorized appropriations from general revenues to the trust fund of "such additional sums as may be required to finance

the benefits and payments under the insurance program" (no appropriations were made under this provision).

Amendments in 1946 provided temporary survivor protection for World War II veterans dying within three years after discharge (with the additional cost being met from the general treasury) and made a number of technical changes which slightly liberalized benefits. Then in 1947 the contribution schedule was completely revised by having the 1% rate remain in effect through 1949, with an increase to 1½% for 1950-51 and 2% thereafter.

In 1945-46, the House Ways and Means Committee appointed a special staff to make a thorough study. In their report the staff presented the various issues but made no specific recommendations. In 1947 the Senate Finance Committee appointed an Advisory Council, which in 1948 made an extensive report and recommendations, including the following main points:

1. Extension of coverage to all employment except Federal civil service and railroad (with study to be given as to how to cover them in the long run)
2. Liberalization of eligibility requirements
3. Increase of benefit amounts (but with elimination of the "increment," the 1% increase in basic benefit for each year of coverage), the formula being 50% of the first \$75 of average monthly wage (average over entire potential working lifetime after a certain date, similar to 1939 Act basis but with "new start") plus 15% of the remainder
4. Retirement age 60 for women
5. More liberal benefits for survivors, particularly in respect to women workers
6. Lump-sum death payment to be made for all insured deaths (rather than only where no immediate monthly survivor benefits)
7. Benefits paid after age 70 regardless of "retirement"
8. Permanent and total disability benefits (with very restrictive eligibility requirements and no supplementary benefits for dependents)
9. Maximum creditable and taxable wage of \$4,200 per year
10. Provision for eventual Government participation in financing system

In 1949, the House Ways and Means Committee conducted public hearings on a bill representing the views of the Social Security Administration (H.R. 2893). This bill had the following major differences from the recommendations of the Advisory Council:

1. Somewhat more restrictive eligibility requirements
2. Retention of the 1% increment, the benefit percentages being the same as Advisory Council, but with average wage being figured over the 5 highest consecutive years of coverage and with so-called continuation factor to reduce benefit for periods of noncoverage

4 THE 1950 AMENDMENTS TO THE SOCIAL SECURITY ACT

3. Retirement age 65 for women
4. Old-age benefits paid after age 65 only upon "retirement" and not automatically upon attainment of any particular age
5. Permanent and total disability benefits with less restrictive eligibility requirements and with supplementary benefits for dependents
6. Inclusion of temporary disability benefits
7. Wage base of \$4,800 per year
8. No definite long-range financing basis prescribed

The Ways and Means Committee held extensive executive sessions and reported a different bill, H.R. 6000, which was passed by the House on October 5, 1949. This bill differed from the Administration recommendations in the following important respects:

1. Coverage extended less broadly, by excluding agricultural workers, farmers, members of the armed forces, intermittent domestic servants, and other smaller categories
2. Increment reduced to $\frac{1}{2}\%$, with benefit formula being 50% of the first \$100 of average monthly wage (average only over years of coverage) plus 10% of the remainder, and with continuation factor to reduce benefits for periods of noncoverage
3. Benefits paid after age 75 regardless of retirement
4. Permanent and total disability benefits, but with no supplementary benefits for dependents
5. Elimination of temporary disability benefits
6. Wage base of \$3,600 per year
7. No provision for eventual Government participation in financing system, but rather long-range graded tax schedule to make system "self-supporting"

In 1950, the Senate Finance Committee held public hearings on the bill and later devoted considerable time in executive session to modifying it. The revised bill was then reported out to the Senate, and on June 20 was passed with certain amendments. The Senate bill differed from that passed by the House, as follows:

1. Coverage extended to regularly employed farm workers
2. Eligibility requirements greatly liberalized (following Advisory Council recommendation)
3. Increment eliminated, but immediate benefits increased somewhat by benefit formula being 50% of the first \$100 of average monthly wage (defined according to Advisory Council recommendation, similar to 1939 Act) plus 15% of the remainder
4. Lump-sum death payment to be on same basis as in 1939 Act and not for all insured deaths
5. Permanent and total disability benefits eliminated

Then, in joint conference between the House and Senate the final bill was agreed upon and after acceptance by both bodies was signed by the

President on August 28, 1950. The Senate changes were agreed to except as to the lump-sum death payment and for certain minor changes.

b) The Assistance Program

The 1935 Act also set up a Federal-State public assistance program so as to help alleviate immediate needs that were not "insurable" because "the risk had already materialized." The public assistance program was divided into three separate categories, namely, the needy aged, the needy blind, and dependent children. Under this program, the Federal Government set up certain minimum standards which the States would be required to meet in order to receive Federal funds to help finance the program both as to payments to recipients and as to administrative expenses. In general, a State plan must include provisions regarding the administration and financing of the program on a State-wide basis; also limits are set as to both residence and citizenship requirements. For each of the three categories a maximum was prescribed on the monthly payment to an individual on which Federal matching would be allowed.

At the time the legislation was passed, many States did not have such programs, but there was a very rapid development. As experience accumulated and as a result of increases in the cost of living, the Congress made a number of changes in the maximum individual amount matchable and in the Federal matching proportion for payment to recipients (particularly advantageous to States making low assistance payments which for the most part are low income States) which were as shown in Table 1 (exclusive of the 1950 amendments, described later).

Administrative costs have been matched on a 50-50 basis for all programs since the 1946 Act. Prior thereto, the old-age assistance program had a different basis—5% of the Federal grants in respect to individual payments, which amount could be used either for payments to recipients or administrative expenses. This same 5% basis was applicable in the aid to the blind program prior to the 1939 Act, but thereafter the basis was 50-50. For the aid to dependent children program, the Federal share was one-third of the administrative expenses prior to the 1939 Act, and on a 50-50 basis thereafter.

The 1947-48 Advisory Council recommended the following major changes:

1. Increased grants for aid to dependent children, both by including for matching purposes the adult members of the family and by increasing the matchable maximums for individual payments
2. A fourth category, namely, general assistance, with Federal financial help, but on a more restrictive matching basis (namely, only $\frac{1}{3}$ Federal funds) and with lower individual maximums for which Federal matching would be available

3. Medical care for recipients matched by the Federal Government even though such payments were in excess of the regular individual matchable maximums

Just as in the case of old-age and survivors insurance, the House Ways and Means Committee conducted public hearings in 1949 on a bill representing the views of the Social Security Administration (H.R. 2892). This bill had the following major differences from the recommendations of the Advisory Council:

1. States permitted to extend assistance to all needy persons without necessity for having separate categories, so that in effect a general assistance program could be provided

TABLE 1
MAXIMUM MATCHABLE AMOUNTS AND FEDERAL MATCHING PROPORTIONS
FOR PUBLIC ASSISTANCE UNDER VARIOUS LAWS

Item	1935 Act	1939 Act	1946 Act	1948 Act
Old-Age Assistance and Aid to the Blind				
Maximum Matchable Individual Monthly Payment	\$30	\$40	\$45	\$50
Federal Matching Percentage	50%	50%	66⅓% of first \$15* and 50% of remainder	75% of first \$20* and 50% of remainder
Aid to Dependent Children				
Maximum Matchable Individual Monthly Payment				
(a) First child	\$18	\$18	\$24	\$27
(b) Other children	\$12	\$12	\$15	\$18
Federal Matching Percentage	33⅓%	50%	66⅓% of first \$9* and 50% of remainder	75% of first \$12* and 50% of remainder

* Of average matchable payment.

2. Federal matching basis on a so-called "variable grants" basis whereby the Federal matching proportion would range from 40% to 75%, depending upon the relationship between a State's per capita income and the national per capita income

The bill passed by the House of Representatives (namely, H.R. 6000, which combined the insurance and assistance amendments) made the following important changes:

1. A fourth category provided for needy permanently and totally disabled persons, with the same matching basis and individual maximums as for old-age assistance and aid to the blind
2. For aid to dependent children families, one adult included as a recipient for Federal matching purposes
3. Federal matching proportions changed (for old-age assistance and aid to the blind, 80% of first \$25 plus 50% of next \$10 plus 33 $\frac{1}{3}$ % of remainder; for aid to dependent children 80% of first \$15 plus 50% of next \$6 plus 33 $\frac{1}{3}$ % of remainder)
4. Provision made for Federal Government to share in the cost of medical payments made directly to doctors and others, but only when such payments were within the individual matchable maximums
5. Special provisions allowing certain earned income for the needy blind to be ignored in determining need

In the bill passed by the Senate, the increases in the Federal matching proportions were eliminated, as was also the provision for the setting up of the fourth category for aid to the disabled; however, in conference the latter was restored to the bill.

THE INSURANCE SYSTEM VERSUS THE ASSISTANCE PROGRAM IN ACTUAL PAST OPERATION

The number of recipients of old-age assistance increased steadily from 1.1 million at the end of 1936 to 2.2 million in 1942, and then during the war years decreased slightly to a low of about 2.0 million in 1945. Thereafter, there was a steady increase until by the middle of 1950 the number was about 2.8 million. Thus, during the 14-year period the number of old-age assistance recipients more than doubled, partly because of the 50% increase in the aged population. The average monthly payment to recipients increased slowly from about \$19 in 1936 to \$21 at the end of 1941. Thereafter there was a much more rapid increase as prices rose during the war and especially after the war, so that by the end of 1945 the average was \$31 and in the middle of 1950 about \$44 (there was a considerable range in the average payment as between States, with the lowest States around \$20 and the highest States around \$70).

Under the insurance program, the number of monthly beneficiaries grew slowly at first from the beginning of the roll in 1940 and then somewhat more rapidly after the end of the war until, in the middle of 1950, there were about 2.1 million aged persons on the roll (of whom about 250,000 were receiving supplementary assistance). The average payment in 1950 to these individuals was about \$23 per month (based on averaging a somewhat higher average for retired workers, namely about \$26, with the lower payments for wives and widows), or only half of the average assistance payment. In 1940 the average payment was only slightly less,

about \$20 per month, or virtually the same as the average assistance payment. The average benefit changed so little in the decade because the program had remained virtually unchanged; the weighted nature of the benefit formula, as well as the average wage concept, did not result in a significant recognition of changes in wage and price levels.

The number of children under the aid to dependent children program increased from about 400,000 at the end of 1936 to a peak of almost 1.0 million in 1942, and then declined to about 600,000 during 1944-45. Thereafter, there was a steady increase until in the middle of 1950 the number stood at 1.7 million. The average monthly payment per child was about \$12 in the early years, but increased steadily thereafter, especially in the postwar years, until in the middle of 1950 it was about \$28 per month. Part of the growth in the number of needy children aided was due to the 17% increase in the child population of the country over the 14-year period, but a more important factor was a gradual change in the conceptual basis of the program; in the early years the major portion of the load arose from paternal deaths, whereas now more important factors are incapacity of the father and absence of the father from the home.

The number of orphans receiving benefits under the insurance program has risen steadily and in the middle of 1950 was about 630,000, with the average monthly payment per child being about \$20 (arbitrarily including a proportionate part of the benefit payable to the widowed mother), and this amount was roughly in effect over the entire previous decade. Thus, although the average insurance payment was well in excess of the average assistance payment in the early years, in the middle of 1950 it was only about 70% as large.

Despite the presence of the insurance system, Federal expenditures for public assistance payments have increased rapidly since the program began, ranging from \$100 million in 1936 to \$1.0 billion in 1949. This increase was due not only to the rise in the number of recipients and in the average payments, but also to the increased Federal matching. There has been considerable concern in various quarters about the steady growth of the public assistance program, which it had been hoped would be secondary to the insurance program. The latter has not become fully effective for two important reasons. First, it does not cover all gainful employment in the country. Second, it does nothing for the current aged and near-aged who had not been in the labor market sufficiently to obtain the necessary insured status. The 1950 insurance amendments tended to remedy this situation somewhat by extending coverage, providing for less strict eligibility conditions, and raising the size of the insurance benefits so that there would be much less need for supplementary assistance.

COVERAGE PROVISIONS OF THE INSURANCE SYSTEM

Prior to the new legislation, the old-age and survivors insurance program covered about 35 million workers in industry and commerce in the continental United States, Alaska, and Hawaii during the course of an average week; over the period of a year some 50 million different persons were employed in these 35 million jobs. As of January 1, 1951, coverage is extended to about 45 million jobs, which will possibly be filled by 60 million different individuals over a year's time.

The additional employment groups who are covered include self-employed persons other than farmers and certain named professions

TABLE 2
ESTIMATED INCREASES IN COVERAGE* UNDER 1950
AMENDMENTS BY CATEGORY

Category	Coverage*
Nonfarm self-employed.....	4,650,000
Employees of nonprofit organizations (Voluntary coverage).....	600,000
Employees of State and local governments (Voluntary coverage)†	1,450,000
Agricultural workers.....	850,000
Domestic workers.....	1,000,000
Federal civilian employees not under a retirement system.....	250,000
Employees outside the United States.....	150,000
Employment in Puerto Rico and the Virgin Islands.....	400,000
New definition of "employee".....	400,000
Total under compulsory coverage.....	7,700,000
Total under voluntary coverage.....	2,050,000
Grand total.....	9,750,000

* Figures shown indicate employment in an average week.

† Except for a relatively small number of transit workers who are compulsorily covered.

(principally, medical, legal, accounting, and engineering), employees of nonprofit organizations, employees of State and local governments (not already covered under an existing retirement system), regularly employed farm workers, regularly employed domestic servants, and certain other smaller groups. The amount of the increased coverage in each of the various categories is shown in Table 2. As indicated hereafter in discussing each of the specific categories, coverage is on a voluntary basis for certain of the new categories.

a) *Nonfarm Self-employed*

Those included under this category will have their covered wages determined from income tax returns, on which they will also pay the appropriate social security taxes. In order to exclude those who have incon-

sequential amounts of self-employment income, individuals with net earnings from self-employment of less than \$400 a year will not be covered therefor.

b) Employees of Nonprofit Organizations

This category may be covered through voluntary agreements with the particular religious, charitable, or educational organization if such employer is willing to waive its tax exemption and at least $\frac{2}{3}$ of the employees concur in such coverage. Then the concurring employees and all new employees are covered. This procedure although administratively complex because there are about 300,000 such organizations, including 250,000 churches, was adopted because of the desirability of maintaining complete separation and independence between Church and State.

c) Employees of State and Local Governments

This type of employment may be covered through voluntary agreements with respect to certain defined coverage groups. Such a group would, in general, comprise all of the employees of the State or of one of its political subdivisions, or employees thereof engaged in a particular proprietary function. However, compulsory coverage is provided in some cases for a small category, employees of transportation systems taken over by governmental units from private hands since 1936. Under no circumstances may an agreement cover employment which is under an existing retirement system (this provision resulted from strong pressure exerted by these groups for mandatory exclusion, primarily because of fear that any form of optional coverage would result in their existing rights and benefits being eliminated or substantially reduced). The voluntary provisions in regard to State and local employment are necessary for constitutional reasons.

d) Farm Workers

Coverage is extended to this group on an experimental basis by including only those who are regularly employed (defined as employment of 60 full days or more, and cash wages of \$50 or more, by a particular employer during a calendar quarter and continuous regular employment by such employer in a preceding 3-month period). Borderline agricultural services are covered compulsorily without a regularity test; these include such activities as production of maple syrup, poultry hatching, mushroom growing, certain postharvesting services, and certain irrigation system services.

e) Domestic Servants

This group is covered only to the extent that such workers are regularly employed. The test of regularity of employment is less stringent than for

farm workers, requiring only 24 days (whether partial or full) of employment, and \$50 of cash wages, for a particular employer during a calendar quarter.

f) Miscellaneous Groups

The definition of employment is extended geographically to include Puerto Rico and the Virgin Islands in the same manner and to the same extent as similar employment is covered in the continental United States. American citizens employed outside of the United States by an American employer are covered. Certain Federal civilian employees not under an existing retirement system (but exclusive of various short-term and policymaking employees) are brought under the program. Finally, the definition of "employee" has been modified from the strict common-law rule in the previous law to include as "employees" for old-age and survivors insurance purposes four specific categories: full-time life insurance salesmen; agent-drivers who distribute bakery, fruits, vegetable or meat products, beverages (other than milk), or laundry or dry cleaning services; full-time wholesale salesmen; and certain industrial homeworkers.

g) Wage Credits for Veterans

In addition to the limited temporary survivor benefits for World War II veterans under the previous law, the amendments provide for granting wage credits of \$160 for each month of military service performed during World War II. These wage credits are given regardless of whether death occurred in service or whether veterans' benefits are payable. However, they are not granted where retirement or survivor insurance credit is given for the same period of military service under another Federal Government retirement system. The cost of these additional benefits, because of the "new start" provisions and elimination of the increment in the benefit formula (described subsequently), will not be large. The cost of both the old and new veterans' benefits is to be met from the trust fund, rather than from the general treasury as under the previous law.

ELIGIBILITY CONDITIONS OF THE INSURANCE SYSTEM

Two types of eligibility requirements are provided, namely, fully insured status and currently insured status. As the names imply, fully insured status entitles the covered individual and his dependents or survivors to all types of benefits, while currently insured status gives entitlement to certain survivor benefits (described hereafter in discussing beneficiary categories) when fully insured status is not present. Insured status is defined in terms of quarters of coverage, which are obtained on the basis of either \$50 of wages in a calendar quarter or \$100 of self-employment income credited to that quarter (the covered self-employed

individual would always receive credit for 4 quarters of coverage per year).

In order to be fully insured, the quarters of coverage must equal in number at least $\frac{1}{2}$ of the quarters elapsed since 1950 (or age 21, if later) and before attainment of age 65 or prior death, with a minimum requirement of 6 quarters of coverage. In any event, once an individual has 40 quarters of coverage, he is permanently fully insured. It is important to note that quarters of coverage may be counted toward meeting the requirement even though they are not in the measuring period; in other words, quarters of coverage obtained before 1951 or age 21, or after age 65, are counted. This requirement is similar to the previous law, with the important exception that the first year of measurement is now 1951, whereas previously it was 1937, so that a "new start" has been provided (but only for individuals who did not die before the effective date of the legislation, September 1, 1950).

This "new start" permits many individuals who had covered employment prior to the effective date to be fully insured, since any person age 62 or over at that time is permanently fully insured if he has at least 6 quarters of coverage acquired at any time. Under the previous law a person age 65 on the effective date would have been required to have 27 quarters of coverage, whereas now with 6 quarters of coverage he immediately becomes eligible for benefits. A "new start" provision of this type is necessary in order that the newly covered groups may be able to qualify for benefits within a reasonable length of time; in effect, it gives them the same advantages that those originally covered had when the system was started. However, this "new start" in the eligibility conditions goes even further by relaxing eligibility conditions for all individuals, with the result that those who have contributed to a moderate extent in the past, but not sufficient to meet the requirements of the previous law, now become eligible for benefits. Likewise, for all deaths prior to July 1954, fully insured status will be present if the individual had at least 6 quarters of coverage acquired at any time after 1936.

The requirement for currently insured status is 6 quarters of coverage out of the 13-quarter period ending with the quarter of death or the quarter of retirement. This provision is essentially the same as in previous law.

The over-all effect of the changes in insured status requirements may be seen by considering the situation as of January 1, 1951, estimated to be as shown in Table 3. The 19 million increase in the number fully insured includes about 700,000 persons age 65 and over, resulting in about 3.0 million persons age 65 and over being fully insured.

INSURANCE BENEFICIARY CATEGORIES

A fully insured worker age 65 or over is said to be eligible for an old-age insurance benefit, the amount of which (termed the "primary insurance amount") will be discussed later. The term "eligible" means that at his own volition and by his own actions he may receive these benefits. In order to do so, he must file a claim and must, in effect, retire substantially from any type of covered employment. However, the so-called work clause does permit the individual to have wages or self-employment income up to \$50 per month without forfeiting the benefits (only \$15 of such exempt earnings was permitted under the previous law). After the individual is age 75 the work clause no longer applies, so that he may have

TABLE 3
INSURED STATUS FOR PERSONS WITH WAGE CREDITS
AS OF JANUARY 1, 1951

CATEGORY	NUMBER (IN MILLIONS)	
	1939 Act Basis	1950 Act Basis
Fully insured (regardless of whether currently insured)	41	60
Currently insured only	5	22
Not insured but with some covered wages	36	22
Total with some coverage	82	82

any amount of earnings and still draw benefits (under the previous law the work clause applied at all ages). Before age 75 any excess of wages over \$50, even though only a slight amount, results in total loss of benefits for that month. For self-employment income a reduction-type procedure applies, with \$600 of annual income being exempt and then one month's benefit being lost for each additional \$50 (or fraction thereof) of such income. The work clause also applies for all other types of beneficiaries as to their own earnings; for dependents of retired workers benefits are withheld if also withheld from such worker because of his covered employment.

A wife's insurance benefit is payable with respect to the wife of an old-age beneficiary if she is age 65 or over, or if she has a child under 18 in her care, provided certain relatively minor requirements as to length of marriage are met; under the previous law such benefits were payable only to aged wives. In a move to give equal rights as between the sexes, the

amendments add a new category, husband's insurance benefit, payable under more restrictive conditions than the wife's insurance benefit (namely, the husband must have been chiefly dependent on the wife at the time she retired, and she must have been currently insured at that time as well as fully insured). The amount of the wife's or husband's insurance benefit is 50% of the spouse's primary insurance amount. However, a very important restriction is that, in effect, if the dependent spouse has an old-age benefit in her (or his) own right, then only the larger of the two benefits may be obtained. This same restriction applies to all other types of benefits, since duplication as between various types of benefits is prohibited. Also, for all types of dependents and survivors benefits, the amounts resulting from taking the specified proportion of the worker's primary amount may be reduced because of the maximum family benefit provisions, described subsequently.

A widow's insurance benefit is payable to the widow age 65 or over of a fully insured worker regardless of whether he dies before or after retirement age (again with certain minor requirements as to duration of marriage). If such a widow is under age 65 at the death of her husband, she becomes eligible for these benefits when she attains age 65. Remarriage of the widow terminates all rights to these benefits. The amendments add parallel benefits for dependent widowers, but again with more stringent requirements than for widow's benefits (namely, both fully and currently insured status of the wife and proof of dependency). The amount of the widow's or widower's insurance benefit is 75% of the deceased worker's primary insurance amount (for death of the worker before retirement such amount is computed as though the individual had been eligible to retire, and had retired, at the date of death).

A parent's insurance benefit may be paid upon the death of a fully insured worker who leaves no eligible spouse or child under age 18. These benefits are payable to the parent upon attainment of age 65 if chiefly dependent on the worker at the time of his death. The parent's insurance benefit is 75% of the worker's primary insurance amount, as against 50% in the previous law.

A child's insurance benefit is payable to the child of a retired worker or to the child of a deceased worker who was either fully or currently insured at the time of his death. The child must be under age 18 and must satisfy certain simple requirements as to dependency upon the insured worker. In the latter respect, the amendments considerably liberalize the conditions under which a child is considered dependent on a married female worker. In fact, in all cases where such a woman is currently insured, dependency is automatically presumed (even though the husband may be

present in the household and working), just as dependency on the father who is present in the home has always been presumed. The child's benefit is 50% of the primary insurance amount for each child, but for cases involving survivors an additional 25% of the primary insurance amount is divided up among all eligible children (a new provision added by the amendments).

A mother's insurance benefit is payable to the surviving widow regardless of age, so long as she has a child in her care who is eligible for child's insurance benefits; in this case her deceased husband could have been either fully or currently insured. The amendments extend this benefit to the former wife divorced who was chiefly dependent on the deceased worker if she has a child of such worker in her care (such child received benefits under the previous law). The mother's benefit is 75% of the primary insurance amount of the deceased worker.

All benefits described above are payable monthly for as long as eligibility thereto continues. In addition, a small lump-sum death payment (3 times the primary insurance amount) is payable on the death (either before or after retirement) of a worker who is either currently or fully insured. Under the previous law, the lump-sum payment was made only in respect to an individual who left no survivor eligible for monthly benefits immediately following his death, and was 6 times the primary insurance amount. The amendments reduced the relative amount to offset the general doubling of the monthly benefit level, the lump sum on the whole thus remaining at about the same dollar amount. This lump sum is payable to a surviving spouse; in other cases it is payable to those meeting the burial expenses (but in such cases the payment may not exceed such expenses).

Monthly benefits may be paid retroactively for as much as 6 months for those filing late claims, as compared with 3 months under the previous law. The lump-sum death payment must be claimed within 2 years after the insured individual dies.

INSURANCE BENEFIT AMOUNTS

All types of benefits are based on the primary insurance amount, which in turn is derived from the average wage of the retired or deceased worker.

a) Average Monthly Wage

In various retirement systems there are different concepts of average monthly wage. The basis used here is, in general, the average spread over the entire potential period of coverage, namely, from the inception of the system (or, for younger workers, from the attainment of age 22) to death

or age 65 (or subsequent retirement, if more favorable). Thus periods of noncoverage will count against the individual by lowering his average, and it is in this way that the system differentiates between steady contributors and others. In part to eliminate the handicap for groups newly covered by the amendments and in part to take into account the vast economic changes during the past decade, two separate average monthly wages are determined: one, as in the previous law, from the inception of the original system (1937), and the other since the amendments, namely after 1950. These two average wages are used in the calculations in a completely different fashion (as indicated later), and the one giving the higher benefit is used. The "new start" average wage may be used only if the individual has at least 6 quarters of coverage after 1950; thus this basis will not come into use in actual practice until about the middle of 1952.

b) Increase of Existing Benefits

Since the "new start" method will not be used for some time, the benefits of existing beneficiaries and those who retire shortly after the amendments are effective (September 1, 1950) will be determined in the same way. The benefit payable under the previous law is first determined—namely, by taking 40% of the first \$50 of average monthly wage, plus 10% of the next \$200 thereof, and adding to this sum 1% for each year prior to 1951 in which the individual had covered wages of at least \$200, with a minimum benefit of \$10. (This 1% increase, termed "increment," is eliminated for years after 1950 in line with the procedure under the other benefit calculation method, described hereafter.) The amount thus determined is then increased by a conversion table to obtain the primary insurance amount actually payable. A summary of this table follows:

Benefit Computed under Previous Law	Primary Insur- ance Amount Payable
\$10.	\$20.00
15.	30.00
20.	37.00
25.	46.50
30.	54.00
35.	59.20
40.	64.00
45.	68.50

This method will also be available for those retiring in the future, even though they meet the requirements for the new benefit formula, but it appears likely that after a few years the conversion table will be used in relatively few such cases, since the "new start" method will be more advantageous.

c) New Benefit Formula

Under the amendments a new benefit formula is available for any individual qualifying for a "new start" average wage and will be used when the primary insurance amount thereunder is higher than that under the conversion table procedure. The new formula is 50% of the first \$100 of average monthly wage, plus 15% of the next \$200 thereof. The minimum primary insurance amount is \$25 a month except where the average wage is less than \$35, in which case the minimum is graded down to \$20 for average monthly wages of \$30 or less. The increment has been eliminated in order that current benefits may be more adequate—and in fact as adequate as those provided for the future—without raising the over-all cost of the program. In the actual computations of the benefits, considerable rounding of both the average wage and the benefit amounts is provided for in order to promote administrative simplicity (e.g., monthly benefits are rounded to next higher 10¢), but it is beyond the scope of this paper to go completely into such details.

The benefit formula provides for average monthly wages up to \$300 since the wage base used for both tax and benefit purposes is increased by the amendments from \$3,000 under previous law to \$3,600. This change was made as partial recognition of the rise in wage levels since the system was inaugurated.

This new benefit formula gives substantially higher amounts than the previous one, in large part to take into account the drastic rise in wage levels and cost of living during the past decade. The formula is a weighted one, so that those with lower wages receive relatively larger benefits, thereby conforming with the social insurance principle of adequacy of benefits, rather than merely having individual equity. Illustrative primary amounts under this new formula are shown in Table 4 for continuously employed workers and for intermittent workers, so as to show the effect of the average wage method. Also shown for purposes of comparison are benefits under the previous law for different periods of coverage, indicating the effect of its increment provision.

d) Maximum Family Benefits

The method of determining the amounts of benefits for eligible dependents and survivors of insured workers has been described previously. For the family as a whole certain maximums apply and, therefore, proportionate reductions may occur in each individual's benefit (other than the worker's). The maximum total family monthly benefit is the smaller of \$150 or 80% of average monthly wage (but this may not reduce maximum benefits below \$40). Under previous law, the maximum was the smallest of \$85, 80% of average wage, or twice the primary amount.

For benefits determined from the conversion table, the average monthly wage to be used for maximum benefits is that which would produce, on the basis of the new benefit formula, the new primary amount actually payable. For instance, where the new primary amount payable is \$35, the average monthly wage for maximum benefit purposes is taken as \$70. The actual average wage as computed from 1937 on would generally be considerably lower than that determined from the conversion table.

No minimum family benefit provisions are specifically stated in the law, although they follow from the minimum provisions for the worker's pri-

TABLE 4
ILLUSTRATIVE MONTHLY OLD-AGE INSURANCE BENEFITS
FOR RETIRED WORKERS
(All Figures Rounded to Nearest Dollar)

MONTHLY WAGE WHILE WORKING	COVERED ALL POSSIBLE YEARS			COVERED HALF POSSIBLE YEARS		
	1950 Amend- ments	Previous Law, Possible Years of Coverage		1950 Amend- ments	Previous Law, Possible Years of Coverage	
		5	40		5	40
\$ 50.....	\$25	\$21	\$28	\$20	\$10	\$12
100.....	50	26	35	25	21	24
150.....	58	32	42	38	23	27
200.....	65	37	49	50	26	30
250.....	72	42	56	54	28	33
300.....	80	*	*	58	*	*

* Previous law included wages only up to \$250 per month as creditable and taxable.

mary amount. Thus, where such minimum is \$20, the minimum family benefit would be \$15.

Table 5 gives illustrative monthly benefits for various family categories, taking into account the several benefit proportions and maximum benefit provisions previously described.

FINANCING PROVISIONS OF INSURANCE SYSTEM

The tax rate (sometimes referred to as contribution rate) under the previous law was 1% on employers and 1% on employees for 1937-49, 1½% each in 1950-51 and 2% thereafter. The maximum taxable wage is \$3,600 per year under the amendments, as against \$3,000 under the previous law. The tax schedule contained in the amendments is as shown in Table 6.

This schedule was determined on the basis of actuarial cost estimates, described hereafter. The objective was to obtain a reasonable tax schedule which would make the system self-supporting on an intermediate-cost estimate basis. The Congress in setting up a specific schedule fully recognized that exact balance between contributions and benefits could not possibly be obtained, but under the procedure adopted the intention was

TABLE 5
ILLUSTRATIVE MONTHLY BENEFITS FOR VARIOUS FAMILY
CATEGORIES UNDER 1950 AMENDMENTS
(All Figures Rounded to Nearest Dollar)

Average Monthly Wage	Retired Worker Alone	Retired Worker and Wife	Retired Worker, Wife, and 1 Child	Aged Widow	Aged Parent
\$ 50.....	\$ 25	\$ 38	\$ 40	\$19	\$ 19
100.....	50	75	80	38	38
150.....	58	86	115	43	43
200.....	65	98	130	49	49
250.....	72	109	145	54	54
300.....	80	120	150	60	60

Average Monthly Wage	Widow and 1 Child	Widow and 2 Children	Widow and 3 or More Children	1 Child Alone	2 Children Alone
\$ 50.....	\$ 38	\$ 40	\$ 40	\$19	\$ 31
100.....	75	80	80	38	62
150.....	86	115	120	43	72
200.....	98	130	150	49	81
250.....	109	145	150	54	91
300.....	120	150	150	60	100

TABLE 6
CONTRIBUTION RATES UNDER 1950 AMENDMENTS

Calendar Year	Employee	Employer	Self-employed
1951-53.....	1½%	1½%	2½%
1954-59.....	2	2	3
1960-64.....	2½	2½	3½
1965-69.....	3	3	4½
1970 and after.....	3½	3½	4½

made specific that the system should be self-supporting even though in actual practice, in following this policy, future changes in the tax schedule might be necessary. In accordance with the intention to make the system self-supporting, the provision introduced in 1943 as to authorization of appropriations to the trust fund from general revenues was eliminated by the amendments.

ACTUARIAL COST ESTIMATES FOR INSURANCE SYSTEM

It almost goes without saying that estimates of the future costs of the old-age and survivors insurance program are affected by many factors that are impossible of precise determination. Accordingly, assumptions used in such estimates may, and should, differ widely and yet be reasonable.

Detailed cost estimates were developed for the various legislative proposals preceding the final legislation, and references to them may be found in the appended bibliography. The following estimates for the 1950 Amendments are summarized from the more complete official estimates (see reference No. 10), which should be consulted, not only for more details, but also as to the underlying assumptions and bases.

The estimates were prepared first on a range basis so as to indicate plausible variations in future costs depending upon the cost factors assumed. Following those, there are given intermediate-cost estimates for the progress of the trust fund which are developed directly from the low-cost and high-cost estimates (by averaging them) so as to indicate the basis for the financing provisions of the amendments. These intermediate-cost estimates do not represent the "most probable estimates" since it is impossible to develop any such figures—rather they have been set down as guides in the development of a tax schedule which aims at making the system self-supporting.

The cost is generally referred to as a percentage of covered payroll. This, it is believed, is the best measure of the financial cost of the program. Dollar figures by themselves are misleading because extension of coverage increases not only the outgo but also the income of the system. Extension of coverage *per se* tends to reduce percentage costs—the reason being that such extension operates to increase average covered wages, and therefore benefits, but only through the smaller percentage of the benefit formula; whereas contribution rates apply uniformly over the increased covered wages.

Table 7 shows the estimated number of monthly beneficiaries in current, or actual, payment status for various future years. Just prior to the amendments, there were about 2.9 million monthly beneficiaries, of whom

2.1 million were over age 65. Because of the "new start" provision for determining insured status, the estimated number of beneficiaries under the amendments shows a material rise immediately—as of the middle of 1951, an estimated total of 4.0 to 4.5 million monthly beneficiaries, of whom 3.0 to 3.4 million are age 65 and over. Fifty years hence the esti-

TABLE 7
ESTIMATED NUMBERS OF BENEFICIARIES UNDER 1950 AMENDMENTS
(In Thousands)

CALENDAR YEAR	MONTHLY BENEFICIARIES*								LUMP-SUM DEATH PAYMENTS§
	Old-Age and Supplementary Beneficiaries†			Survivor Beneficiaries				Total	
	Old-Age	Wife's‡	Child's	Widow's‡	Par-ent's‡	Moth-er's	Child's		
Actual Data for Previous Law									
1950....	1,385	419	35	290	14	157	630	2,930	216
Low-Cost Estimate									
1951....	2,033	636	57	348	19	215	740	4,048	501
1955....	2,203	705	60	640	28	267	976	4,879	585
1960....	2,727	836	65	1,101	37	304	1,135	6,205	687
1970....	4,089	1,122	88	2,031	42	349	1,317	9,038	890
1980....	5,685	1,320	115	2,709	42	385	1,446	11,702	1,090
1990....	7,750	1,344	130	3,029	39	417	1,576	14,285	1,290
2000....	8,910	1,270	129	3,008	34	454	1,714	15,519	1,472
High-Cost Estimate									
1951....	2,340	715	75	363	31	257	728	4,509	498
1955....	3,000	891	83	669	48	308	891	5,890	556
1960....	4,404	1,257	101	1,133	69	320	901	8,185	627
1970....	6,943	1,740	119	2,074	90	302	808	12,076	811
1980....	10,332	2,240	130	2,788	97	280	718	16,585	999
1990....	14,539	2,552	121	3,141	94	265	653	21,365	1,246
2000....	17,456	2,652	86	3,083	90	255	602	24,224	1,468

* In current payment status as of middle of year.

† I.e., for benefits paid in respect to retired workers.

‡ Does not include beneficiaries who are also eligible for old-age benefits. For wife's and widow's benefits, includes husband's and widower's benefits, respectively.

§ Number of insured deaths during year for which payments are made. Actual figure for 1950 based on experience during first 6 months.

mated number of monthly beneficiaries will range from 15½ to 24 million, of whom 13 to 23 million will be age 65 and over. The number of lump-sum death payments was about 215,000 per year under previous law and is estimated at about 500,000 per year in the near future (because of payment for all deaths, "new start" insured status provisions, and increased coverage) and about 1.5 million per year ultimately.

Table 8 shows the estimated average benefits under the amendments

TABLE 8
ESTIMATED AVERAGE MONTHLY BENEFIT PAYMENTS AND AVERAGE LUMP-SUM DEATH PAYMENTS UNDER 1950 AMENDMENTS

CATEGORY	ACTUAL UNDER PREVIOUS LAW JUNE 1950	1950 AMENDMENTS		
		1951	1960	2000
Old-age	\$ 26	\$ 45-\$ 46	\$ 50-\$ 50	\$ 49-\$ 50
Male	27	47- 47	53- 53	57- 58
Female	21	37- 37	38- 38	36- 38
Wife's*	14	24- 25	27- 27	29- 30
Widow's*	21	35- 36	39- 39	44- 45
Parent's†	14	35- 36	38- 38	42- 43
Child's‡	13	33- 34	35- 36	36- 37
Mother's	21	40- 40	43- 44	45- 46
Lump-sum death§ ..	168	143- 146	156- 159	149- 156

* Does not include those eligible for old-age benefits. Includes husband's and widow's benefits.

† Does not include those eligible for old-age, widow's or widower's benefits.

‡ Includes child's benefits for both children of old-age beneficiaries and child survivor beneficiaries.

§ Average amount per death.

but only for calendar years 1951, 1960, and 2000 since, in general, there is a smooth trend in the intervening periods. For old-age beneficiaries, separate figures are given for men and women, since the averages differ greatly by sex and thus any combination would obscure the trend. For men, the average benefit increases only slightly after 1960; a rather considerable rise from 1951 to 1960 results from the effect of the "new start" average wage and in addition, to some extent, because the conversion table in general produces somewhat lower results than the new formula. On the other hand, for women the average benefit shows a decrease in the future because there will ultimately be a large number of women receiving such benefits who did not engage in covered employment for their entire adult lifetime after 1950.

Table 9 presents costs in various future years as a percentage of payroll for each of the various types of benefits. As used here, "level-premium cost" may be defined as the contribution rate from 1951 on, which to-

gether with interest would meet all benefit payments after 1950 (including the benefit payments to those on the roll prior to 1951). There are not considered here either the accumulated funds at the end of 1950 (which produce future interest income) or the future administrative expenses—roughly counterbalancing items. This level-premium rate, if collected,

TABLE 9
ESTIMATED RELATIVE COSTS IN PERCENTAGE OF PAYROLL
FOR 1950 AMENDMENTS, BY TYPE OF BENEFIT
(Percent)

Calendar Year	Old-Age	Wife's*	Widow's*	Parent's	Mother's	Child's†	Lump-Sum Death	Total
Low-Cost Estimate								
1951.....	1.02	0.17	0.14	0.01	0.10	0.30	0.07	1.80
1955.....	1.15	.19	0.25	.01	.12	.39	.08	2.21
1960.....	1.44	.24	0.45	.02	.14	.46	.10	2.83
1970.....	2.08	.31	0.83	.02	.15	.50	.12	4.00
1980.....	2.67	.35	1.09	.02	.16	.52	.13	4.93
1990.....	3.31	.35	1.19	.02	.16	.53	.14	5.70
2000.....	3.49	0.31	1.14	0.01	0.16	0.54	0.15	5.80
Level Premium‡.	2.75	0.30	.94	0.01	0.15	0.50	0.13	4.79
High-Cost Estimate								
1951.....	1.20	0.20	0.15	0.01	0.12	0.30	0.07	2.04
1955.....	1.57	.25	0.27	.02	.14	.36	.08	2.69
1960.....	2.29	.36	0.47	.03	.14	.37	.09	3.74
1970.....	3.41	.48	0.85	.04	.13	.32	.10	5.34
1980.....	4.82	.61	1.16	.04	.12	.28	.12	7.14
1990.....	6.48	.70	1.33	.04	.11	.25	.14	9.04
2000.....	7.58	0.74	1.36	0.04	0.10	0.22	0.16	10.20
Level Premium‡.	5.34	0.59	1.05	0.03	0.12	0.27	0.13	7.53

* Included are excesses of wife's and widow's benefits over old-age benefits for female old-age beneficiaries also eligible for wife's or widow's benefits. Also includes husband's and widower's benefits, respectively.

† Includes child's benefits for both children of old-age beneficiaries and child-survivor beneficiaries.

‡ Level-premium contribution rate (based on 2 percent interest) for benefit payments after 1950 and into perpetuity, not taking into account the accumulated funds at the end of 1950 or administrative expenses.

would produce a very considerable amount of excess income in the early years which, invested at interest, would aid appreciably in meeting the higher ultimate benefit outgo.

The cost of the total benefits is about 2% of payroll in 1951 and increases ultimately to almost 6% for the low-cost estimate and over 10%

for the high-cost estimate. Throughout the entire period the old-age benefits (for retired workers) amount to about $\frac{2}{3}$ of the total. Costwise the widow's benefits are next most important, followed thereafter by wife's benefits. On the other hand, survivor benefits for orphans and their widowed mothers—although fairly sizable at the present time—tend to level off much sooner since the factors involved in the aging of the population and thus the increasing of old-age benefits costs have an offsetting effect in regard to these survivors. In fact, under the high-cost estimate the cost for these survivor benefits is lower than under the low-cost estimate; although apparently anomalous, this is reasonable since the high-cost estimate assumes both lower mortality rates and lower birth rates.

The level-premium cost is roughly $4\frac{3}{4}\%$ to $7\frac{1}{2}\%$ of payroll, as compared with 5% to 7% in both the original estimates for the 1935 Act and the original estimates for the 1939 Act. However, the current estimates are not completely comparable, being relatively higher because of two factors not specified in the plans themselves; first, a lower interest rate is used here (namely, 2% as against 3%) and, second, the program is now nearer maturity since the benefit roll is quite sizable (in other words, some of the period of low cost has been passed through). Of course, the level-premium cost for the amendments, because of the general increase in benefit level, is much higher than for the 1939 Act, which showed a range of about $3\frac{1}{4}\%$ to $5\frac{1}{2}\%$ of payroll according to the latest estimates, which were made on the same general assumptions.

Table 10 presents the estimated operations of the trust fund under the amendments—not only for the low-cost and high-cost estimates but also for the intermediate-cost estimate. The trust fund at the end of 1950 in these estimates is \$13,500 million, whereas the actual figure was \$13,721 million. It may be noted that the estimated contribution receipts for 1951 are not greatly in excess of those for 1950 because for the vast majority of self-employment covered by the amendments the tax returns will be filed on an annual basis and thus in the following calendar year (*i.e.*, before March 15, 1952). For 1951, the estimated benefit disbursements under the amendments range from \$1.9 to \$2.2 billion, which is roughly $1\frac{1}{2}$ billion higher than for the previous law. As would be anticipated, benefit disbursements rise slowly and steadily over the next 50 years, reaching an ultimate range of about \$9 to $13\frac{1}{2}$ billion.

Under the low-cost estimate the trust fund builds up very rapidly and some 50 years hence is growing at a rate of about \$4 billion a year and at that time is about \$175 billion in magnitude; benefit disbursements never exceed contribution income and even ultimately are about 10% smaller. On the other hand, under the high-cost estimate the trust fund builds up to a maximum of about \$50 billion shortly before 1980 but decreases

TABLE 10
ESTIMATED PROGRESS OF TRUST FUND UNDER 1950 AMENDMENTS
(In Millions)

Calendar Year	Contributions*	Benefit Payments	Administrative Expenses	Interest on Fund†	Fund at End of Year
Actual Data for Previous Law					
1949.....	\$1,670	\$ 667	\$ 54	\$ 146	\$ 11,816
1950†.....	2,671	961	61	257	13,721
Low-Cost Estimate					
1950‡.....	\$2,498	\$ 1,013	\$ 61	\$ 259	\$ 13,500
1955.....	4,309	2,452	71	404	21,514
1960.....	5,398	3,247	84	608	32,046
1970.....	7,848	5,031	115	1,228	63,955
1980.....	8,473	6,609	142	1,997	102,720
1990.....	9,005	8,115	168	2,703	138,205
2000.....	9,621	8,826	182	3,421	174,800
High-Cost Estimate					
1950‡.....	\$2,498	\$ 1,013	\$ 61	\$ 259	\$ 13,500
1955.....	4,289	2,967	99	366	19,280
1960.....	5,420	4,306	126	481	25,006
1970.....	7,861	6,717	175	781	40,333
1980.....	8,275	9,338	226	948	47,684
1990.....	8,433	12,058	278	599	28,614
2000.....	8,479	13,679	309	§	§
Intermediate-Cost Estimate					
1950‡.....	\$2,498	\$ 1,013	\$ 61	\$ 259	\$ 13,500
1951.....	2,846	2,064	66	277	14,493
1952.....	3,156	2,220	71	299	15,657
1953.....	3,179	2,382	75	320	16,699
1954.....	4,098	2,544	80	349	18,522
1955.....	4,299	2,708	85	386	20,414
1960.....	5,409	3,779	105	545	28,543
1970.....	7,854	5,873	145	1,005	52,167
1980.....	8,374	7,972	184	1,473	75,236
1990.....	8,719	10,087	223	1,652	83,451
2000.....	9,050	11,255	246	1,551	77,863

* Combined employer, employee, and self-employed contributions. The combined employer-employee rate is 3 percent for 1950-53, 4 percent for 1954-59, 5 percent for 1960-64, 6 percent for 1965-69, and 6½ percent for 1970 and after. The self-employed pay ½ of these rates. Contributions for 1949 and 1950 include \$3.6 million and \$3.7 million, respectively, appropriated from General Treasury for costs of veterans' survivor benefits.

† Interest is figured at 2 percent on average balance in fund during year.

‡ Based on operation of benefit provisions of new law for last 3 months. Actual data not available at time estimates were made.

§ Fund exhausted in 1997.

thereafter until exhausted (shortly after 1995); benefit disbursements exceed contributions after 1975.

The above results for the low-cost and high-cost estimates are consistent and reasonable, since the system on an intermediate-cost estimate basis is intended to be approximately self-supporting, as indicated hereafter. Accordingly, a low-cost estimate should show that the system is more than self-supporting, whereas a high-cost estimate should show that a deficiency would arise later on. In actual practice under the philosophy in the amendments, set forth in the Congressional reports, the tax schedule would be adjusted in future years so that neither of these developments would eventuate. Thus, if experience followed the low-cost estimate, the contribution rates would probably be adjusted downward or perhaps would not be increased in future years according to schedule. On the other hand, if experience followed the high-cost estimate, the contribution rates would have to be raised. At any rate, the high-cost estimate does indicate that under the tax schedule adopted there would be ample funds for several decades even under relatively unfavorable experience.

Under the intermediate-cost estimate the trust fund grows steadily, reaching a maximum of about \$83 billion in 1990, and then slowly decreases; benefit disbursements do not exceed contribution income for about the first 35 years (although approaching rather closely in the years just prior to the increases in the tax rate). This indicates that for this estimate the proposed tax schedule does not make the system quite self-supporting although it is sufficiently close for all practical purposes, considering the uncertainties and fluctuations possible in such long-range estimates.

Moreover, by varying only the single factor of the interest rate from the 2% actually used to the plausible rate of 2½% (the actual rate now being earned by the trust fund is approximately 2.2%) the computed trust fund would rise steadily over the next 50 years to a level of about \$100 billion without any decline. The system, under the assumptions used, would then be on a completely self-supporting basis and, in fact, slightly overfinanced.

In regard to the ultimate 6½% employer-employee contribution rate the House Ways and Means Committee stated in its Report (page 35) as follows:

If a 7 percent ultimate employer-employee rate had been chosen, the cost estimates developed would have indicated that the system would be slightly overfinanced. Your committee believes that it is not necessary in such a long-range matter to attempt to be unduly conservative and provide an intentional overcharge—especially when it is considered that it will be many, many years

before any deficit or excess in the ultimate rate will be determined and even at that time it will probably be of only a small amount.

The Senate Committee on Finance concurred in this statement, and accordingly under the Congressional action that took place it may be said that this represents Congressional intent.

PUBLIC ASSISTANCE PROVISIONS

For each of the 48 States, the District of Columbia, Alaska, and Hawaii, Federal funds are available to help finance approved public assistance programs for each of the four categories—the needy aged (65 and over), the needy blind, dependent children (under 16, and 16-17 if in school), and needy permanently and totally disabled (age 18 and over), the latter category not having been in the previous law.

The Federal matching share for old-age assistance, aid to the blind, and aid to the disabled is 75% of the first \$20 of a State's average monthly payment, plus 50% of the remainder, but in determining such average the excess of any individual payment over \$50 is excluded. It will be noted that the 75-50% matching does not apply to individual payments, but rather to the average matchable payment for the entire State.

For aid to dependent children, the Federal share is 75% of the first \$12 of average monthly payment per recipient plus 50% of the remainder, with the individual matchable maximum being \$27 for the first child and \$27 for the caretaker, and \$18 for each additional child in a family (under previous law there was no matching for the caretaker). For all categories, 50% of the administrative costs are paid by the Federal Government.

Puerto Rico and the Virgin Islands are included in the public assistance program by the amendments, but with the Federal share being determined on a more restrictive basis than for the remainder of the United States (matching on a 50-50 basis, lower individual matchable maximums, and no provision for caretaker in the aid to dependent children program).

In addition to sharing in the cost of payments made directly to recipients, the Federal Government participates in the cost of payments made directly to doctors and others for medical services if such amounts, when added to the individual payment, do not exceed the individual matchable maximums; under previous law for Federal matching purposes only payments made directly to recipients were counted.

The maximum residence requirement a State may have for old-age assistance, aid to the blind, and aid to the disabled is 5 out of 9 years immediately preceding application and one continuous year preceding application. For aid to dependent children, the maximum requirement is 1 year immediately preceding application (for infants, residence by the mother, or caretaker, for the year preceding the birth).

For all categories, the State must take into account income and resources of the individual, except that, after June 1952, earned income of the blind up to \$50 per month must be disregarded, while prior thereto States may do this; this special provision, which is to encourage rehabilitation of the blind, was not in the previous law.

There are various other administrative and substantive requirements which State plans must meet, such as administration under a merit system, provision for fair hearing, furnishing assistance promptly and on a State-wide basis, establishing standards for institutions in which recipients reside, having a "single" State agency responsible for the program, requiring State funds as well as local funds in the program, etc.

COST ESTIMATES FOR ASSISTANCE PROGRAM

No long-range cost estimates have been prepared for the public assistance program. However, in the immediate future, the present Federal cost of about \$1.0 billion per year will be increased by about \$175 million per year, which arises as follows:

Item	Additional Cost (in Millions)
Aid to Disabled	\$60-75
Caretaker in Aid to Dependent Children	75-95
Direct Medical Care Payments	15-20
Puerto Rico and Virgin Islands	4- 4
Other	3- 6
Total	\$157-200

The cost for the program for the needy disabled cannot be estimated accurately for future years. In the early years there is the uncertainty as to how rapidly the States will establish such programs, although it may be pointed out that general assistance programs, administered and financed entirely by State and local governments, have a considerable number of disabled individuals on the rolls who may be eligible to be transferred to the new State program.

There may be some immediate small decrease in over-all Federal grants for public assistance as a result of the insurance amendments, which, by providing increased benefit payments and more liberal eligibility requirements, will result in the removal of some individuals from the assistance rolls and in the reduction of assistance payments for others. However, it is possible that the amounts so saved by the States may be offset by more "adequate" assistance payments for those still on the rolls.

Over the long run, under the present law, it seems reasonable to believe that the cost of the assistance program will decrease from present and near-future amounts. The effect of the broader coverage and larger bene-

fits of the insurance program should bring this about despite factors tending in the other direction such as the aging of the population. Another important factor in the direction of shifting the load to the insurance program is the greatly liberalized eligibility conditions, not only for those now over 65 as discussed above for the short-range picture, but also for those reaching age 65 in the next two decades.

THE INSURANCE SYSTEM VERSUS THE ASSISTANCE PROGRAM
IN THE FUTURE

As a result of the 1950 amendments, it may be said that the insurance system and the assistance program are on a comparable basis as to the relative sizes of the average payments, namely, at about the same level. At first glance, this might seem to be anomalous, but the belief has always been that if the insurance program is as high as the assistance program it will be "sufficiently popular" since people very much prefer a benefit without a needs test to one related to need. Moreover, with the wider coverage and the less restrictive eligibility conditions for the insurance program, a greater proportion of the aged and those reaching age 65 in the near future will receive insurance benefits and thus have much less need for assistance.

However, all the problem is by no means solved, and there have been many interesting proposals made to establish definitely the insurance program as basic, with the public assistance program in a supplementary role, as contemplated in the original Social Security Act. In fact, suggestions have been made that the Federal Government should as rapidly as possible get out of the assistance field and leave this up to the States, which it is felt would be possible if there were an adequate and comprehensive insurance program. Those who believe that the public assistance program should be retained as a part of the national social security system point out that in its appropriate supplementary role it would provide greater assurance that essential needs of people without adequate resources could be met; some people will not qualify for insurance benefits, while for others the benefits will be insufficient to meet all essential needs as, for example, in cases of illness or disability.

In the Senate version of H.R. 6000, a provision was introduced which would have been a start toward lessened Federal participation in public assistance since it was provided that, in respect to persons becoming eligible for old-age insurance benefits under the new law, any supplementary assistance would be matchable only on a 50-50 basis, but this was eliminated in conference. A much more far-reaching proposal has been suggested, namely to make the minimum insurance benefit available for

every aged person in the country regardless of insured status (with possibly a higher minimum than \$20) and at the same time eliminate or greatly reduce Federal financial participation in old-age assistance. However, along with such a change it would seem essential in maintaining the contributory insurance principle to have, in so far as possible, complete coverage of all gainful employment in the country. Moreover, such a proposal would need to be analyzed carefully in relation to comparative costs. It will, of course, be recognized that unless such broad action is taken in regard to the insurance program, the assistance program will be of considerable magnitude for quite a long time; even though there were no further assistance recipients added to the roll (although there surely will be, but in greatly lessened numbers, as a result of the 1950 insurance amendments), it will take many years to eliminate the present roll through mortality alone.

LEGISLATIVE BIBLIOGRAPHY UNDERLYING SOCIAL SECURITY ACT AMENDMENTS OF 1950

1. "Issues in Social Security, A Report to the Committee on Ways and Means," January 17, 1946.
2. "Recommendations for Social Security Legislation, The Reports of the Advisory Council on Social Security to the Senate Committee on Finance," December 31, 1948, Senate Document No. 208, 80th Congress, 2d session.
3. "Hearings before the House Committee on Ways and Means on H.R. 2892 and H.R. 2893," February 28 to April 27, 1949.
4. "Report of House Committee on Ways and Means on H.R. 6000," August 22, 1949, House Report No. 1300, 81st Congress, 1st session.
5. "Actuarial Cost Estimates for Expanded Coverage and Liberalized Benefits Proposed for the Old-Age and Survivors Insurance System by H.R. 6000," October 3, 1949, House Committee on Ways and Means.
6. "Extension of Social Security to Puerto Rico and the Virgin Islands," February 6, 1950, House Committee on Ways and Means.
7. "Hearings before the Senate Committee on Finance on H.R. 6000," January 17 to March 23, 1950.
8. "Report of Senate Finance Committee on H.R. 6000," May 17, 1950, Senate Report No. 1669, 81st Congress, 2d session.
9. "Actuarial Cost Estimates for the Old-Age and Survivors Insurance System as Modified by H.R. 6000, As Passed by the House of Representatives and by the Senate," June 26, 1950, House Committee on Ways and Means.
10. "Actuarial Cost Estimates for the Old-Age and Survivors Insurance System as Modified by the Social Security Act Amendments of 1950," July 27, 1950, House Committee on Ways and Means.
11. "Conference Report on H.R. 6000," August 1, 1950, House Report No. 2771, 81st Congress, 2d session.