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**THE 1952 AMENDMENTS TO THE SOCIAL SECURITY ACT**

**ROBERT J. MYERS**

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**REINHARD A. HOHAUS:**

Mr. Myers' paper on the 1952 Amendments is in effect a supplement to his previous paper on the 1950 Amendments, which not only dealt with that legislation but also gave background material. In keeping with the factual and historical nature of those papers, this discussion will confine itself to certain important developments that have followed enactment of the legislation Mr. Myers was reporting on. Whatever may be the legislative outcome, all indications point to major Congressional consideration of social security in 1954, and some knowledge of preceding developments will be essential to a proper understanding of the issues which will then confront the Congress.

In the 1952 presidential campaign both candidates came out strongly for social security and proposed its expansion to cover more people under the system. While the Democratic Party platform adopted at the July 1952 National Convention contained a proposal that the retirement test (or work clause) be eliminated, the Social Security Administration under the Democratic administrations had consistently and firmly supported the retirement test concept. To the best of my knowledge, the platform's proposal to eliminate the retirement test was not publicly emphasized in the campaign itself.

Shortly after the 1952 presidential election the U.S. Chamber of Commerce made public a four-point "package" proposal, subsequently adopted by a great majority of its constituent members. This "package" would (1) extent OASI coverage to all gainful employment for which it is administratively possible; (2) blanket-in all the current retired aged for the minimum OASI payment; (3) adjust the OASI contribution rates so that the system would be on a pay-as-you-go basis; and (4) eliminate Federal financing in the OAA program.

This proposal of the Chamber has stirred up a great deal of discussion, with proponents and opponents vigorously expressing their views. Proponents tend to stress the essential "unity" of the problem of old age retirement, as contrasted with the unfortunate and dangerous "dualism" that has arisen in this area, which the proposal is designed to rectify. Opponents on the other hand tend to regard blanketing-in as implying a

raid on the trust fund, which by inference belongs to those who have contributed to it. To some it even seems that the proposal is motivated by a desire to destroy the present social security system and substitute a universal means test program. All indications are that continuing discussion of the Chamber's proposal will have an important part in the forthcoming Congressional consideration of social security.

The next major development was the recommendation by President Eisenhower in his State of the Union message on February 2, that "the provisions of the old-age and survivors insurance law should be promptly extended to cover millions of citizens who have been left out of the social security system." Acting on this proposal Mrs. Oveta Culp Hobby, now Secretary of the Department of Health, Education, and Welfare, set up a group of 12 consultants on social security, of whom I had the honor to be chairman, to consider this subject. The group consisted of individuals with a wide variety of backgrounds, including persons from farm and labor organizations, and social security and pension experts from banks, industrial concerns, and universities. Meetings were held over a two-and-a-half-month period beginning in April, and a great volume of data and analyses was studied and discussed. The outcome was a document entitled *A Report to the Secretary of Health, Education, and Welfare on Extension of Old-Age and Survivors Insurance to Additional Groups of Current Workers*. This was transmitted to the Secretary under date of June 24, 1953.

As indicated by its title, the consultants' report dealt almost entirely with extension of coverage. However, one related matter was considered, namely a method to meet the problem of newly covered groups, who otherwise would have substantially lower benefits than persons already covered, without at the same time putting them on an equal footing with those who had already made substantial contributions to the system. Such "new" persons might not have wage credits in 1951-53, and under present law the usual method of computing average wage is based on the entire period after 1950. Accordingly, it was recommended that the three years of lowest or nonexistent earnings should be dropped out in the calculation of the average wage on which the benefit is based. This would also help presently covered persons who may have a few years with low earnings due to illness, unemployment, early retirement, etc.

In brief, the consultants' report considered each of the various groups not now covered except for Federal Government employees (including those in the armed forces) and railroad employees. No recommendations with respect to these groups were included in the report, since special studies had been initiated by the Congress in regard to

the relationship of the OASI program to the Railroad Retirement Act and to Federal employee retirement systems.

Under the consultants' terms of reference the basic criterion was that coverage should be extended if technically feasible and if in the public interest. The consultants were unanimous in recommending extension to all the major groups considered. These include farmers, self-employed professional persons, state and local government employees under retirement systems (on a voluntary group basis), ministers (also on a voluntary group basis), and certain smaller categories. In addition it was recommended that for farm workers and domestic workers, who are now covered if "regularly employed," the definition of "regular employment" be broadened so far as administratively feasible to include as much of their cash wages as possible. The report discussed the problems of covering each category and indicated how they might be handled, although not without difficulty in some cases.

Finally, as a temporary measure, the consultants proposed that the "free" wage credit provision for members of the armed forces, scheduled to expire at the end of this year, be extended for a limited period. Legislation enacted in August carried out this proposal—for a further 1½-year period.

As to the cost aspects of the consultants' proposals, the extensions of coverage recommended would tend to lower costs relative to payroll. This occurs because of the inclusion of all the individual's earnings in computing benefits under the weighted formula and because of the wider applicability of the retirement test. However, it is estimated that such cost savings are in large part, although not completely, offset by the more liberal method of computing average wage. On balance, therefore, the proposals will have no significant effect on the percentage of payroll required to meet the costs of the program.

On August 1 President Eisenhower sent a message to the House of Representatives (House Document No. 225) commending strongly the plan developed by the consultants. A supporting statement by Secretary Hobby was attached. On August 3, Chairman Reed of the Ways and Means Committee introduced by request H.R. 6812, which embodied these proposals. No action was taken on this bill, which will be pending before the coming session. A minor piece of legislation extending coverage was enacted to permit state and local government employees under the Wisconsin retirement system to be covered by OASI.

Earlier, in his message on the Federal Budget on May 20 (House Document No. 146), the President made one other important recommendation in regard to OASI. This was that the OASI employer-employee

tax rate should not be increased, as scheduled, from the present 3% to 4% effective January 1, 1954, but rather that this increase should be postponed for one year. As justification and explanation of this recommendation, the President stated that in the future the system "should be handled more nearly on a pay-as-you-go basis." As yet the Congress has taken no action on this proposal.

Since midsummer a Social Security Subcommittee of the House Ways and Means Committee under the direction of Congressman Carl T. Curtis has been actively engaged, with the help of a professional staff, in studying and collecting data on social security. Its report is not due until the end of this year, so that nothing can be said at this time as to how its work will affect the future course of events.

A. M. NIESSEN:

We are all aware of the considerable attention which in recent years has been given to the problems of Federal social security and related programs. The developments which have already taken place are of tremendous importance and more far-reaching changes can be expected in the near future. The vast and widely scattered literature dealing with social security makes it almost impossible to keep abreast of the fast-moving train of events unless one has the benefit of comprehensive summaries prepared by authorities in the field. In this respect, Mr. Myers has been of great help to all of us. His papers on social security have been informative, concise, and authoritative. The paper presently up for discussion falls in this category and constitutes, in my opinion, an outstanding example of how a broad and difficult topic can be discussed in a concise and yet very clear manner.

Mr. Myers calls our attention to the 1950 and 1952 Amendments to the Social Security Act, explaining their purpose and scope as well as the cost implications. He also mentions the 1951 Amendments to the Railroad Retirement Act which, among other changes, introduced a financial coordination between OASI and railroad retirement, while retaining the independence of each system. I presume that the author will see fit to supplement his paper by telling us about the revised cost estimates for OASI which he has recently prepared. Perhaps other topics still in the study stage will also be brought to our attention. I have no doubt that all of us appreciate the importance of knowing what is going on in the field of social security, and it is really very fortunate that the meetings of this Society offer such a splendid opportunity for acquiring authoritative up-to-date information on the subject.

While on the subject of informative literature, I would like to call the

attention of those who may not already have seen it to an address given by Mr. Linton at the University of Michigan last June. This speech has been published recently in the *Michigan Business Review* and is certainly one of the finest discussions of basic problems in social security that I have ever seen. This can be said regardless of whether one agrees with all the opinions expressed by Mr. Linton. I hope that this address will have a very wide circulation. It should be particularly helpful to those studying for the last actuarial examination.

Coming back to Mr. Myers' paper, I was particularly interested in his reference to the 1951 Amendments to the Railroad Retirement Act. Mr. Myers makes only casual mention of those amendments and for a more detailed discussion he refers the reader to his own articles in the *Social Security Bulletin* and to Mr. Musher's paper in an earlier issue of the *Transactions*. While these amendments to the Railroad Retirement Act are of perhaps minor financial consequence to the OASI system, they should be of great general interest, since they constitute the first attempt to coordinate two independent Federal programs by means of a peculiar reinsurance scheme. The general idea is to have OASI underwrite the additional benefits which it would have paid on the basis of railroad employment in consideration of the additional taxes which it would have collected on railroad payrolls. The financial interchange transactions are between the two systems, and do not directly concern the beneficiaries. This "reinsurance" scheme is effective retroactively to January 1, 1937, and the two agencies, that is, the Social Security Administration and the Railroad Retirement Board, are now engaged in a study aiming at building up experience figures for past years. It is interesting to note that Mr. Myers considers the scheme as one which, in effect, brings railroad employment within the scope of the Social Security Act, something which brought the OASI system closer to the goal of universal coverage.

W. RULON WILLIAMSON:

While I have never presented a paper on Social Budgeting to this Society, I have presented several to other organizations and copies have found their way to members of this Society—the last one, really addressed to a friend in another country, going out last month.

Mr. A. D. Watson, commenting on another Social Security paper, once remarked that the author had failed to prove his point, or had perhaps proved the wrong point. Mr. Myers has achieved a remarkable condensation, but has left out certain points and dealt with others but lightly.

I am limiting my comments here to five points out of the score I marked on the margin of the paper:

1. *Cross-purposes.* When H.R. 7800, "liberalizing" OASI benefits, was announced to the press Monday, May 12, "to help keep down the cost of the Federal-State Public Assistance programs which are supported in whole from general funds," another bill had come up for discussion on the floor of the Senate. It was an amendment to H.R. 7230, placed on the calendar the previous Friday as an amendment "to the Bill to amend the Internal Revenue Code, so as to make nontaxable certain stock transfers made by insurance companies to secure the performance of obligations." That Amendment was specifically aimed at increasing both the Federal grants to the States and the sum total of outlay in the States for Public Assistance.

2. *Quotes.* Mr. Myers omitted quotation marks in his second paragraph in "There was a 'general Congressional belief' that certain changes of 'a noncontroversial character' should be made."

3. *Lag.* The exclusion of protection during a waiting period of 6 or 8 quarters, and the consequent delay in moving from the spotty, relatively low-wage records before 1951, to the inflated wages of post-1950, had depressed the apparent costs of the 1950 Amendments, leaving the Congress and the Congressional Committees insufficiently informed as to the potential costs of both the 1950 Amendments and the 1952 Amendments.

4. *Underpayment.* With the advantage of hindsight, and recent *Actuarial Studies*, it appears that the employee tax payments have not even met the costs of the death benefits, with not a cent left over to contribute to the deferred age-benefits of some 88 million nonretired covered persons. On the average their personal asset-shares must be negative. Further it seems that the \$18 billion contingency reserve is less than the expected residual benefits to those on the rolls, leaving out of consideration those "eligible" but not receiving them, and wives and widows under 65.

5. *Guerrilla attacks.* Revising one act by revisions of another act—Social Security revised through Railroad Retirement revision—reminds me of the "apples and pears" mating of the Clarke Amendment presented to change the original Old Age Benefits provision—that provision presented to the Supreme Court as a noninsurance welfare plan.

*Conclusion:* A pensioner of the system who quit work in 1939 has cannily stated:

From the beginning, it seems to me the lawmakers have been guided almost exclusively by questions of political expediency rather than a real desire to establish a law that would be fundamentally sound, and would protect the needy, without undue interference with those who are able to provide for their own security. . . . All of these fundamental defects are inherent in its character

as a compulsory insurance plan and cannot be satisfactorily corrected until even the pretense of compulsory insurance is abandoned in favor of a straightforward tax-supported welfare plan.

The *Wall Street Journal* saw a bit behind the legislators, when it complimented them on rejecting the first 1952 Amendments:

We hope that Monday's action is a sign of a new Congressional trend to reclaim its power as a lawmaking body. For almost two decades it has left the unfortunate impression of a not too smart aggregation of gentlemen being hoodwinked into connivance at their own destruction.

(AUTHOR'S REVIEW OF DISCUSSION)

ROBERT J. MYERS:

The three discussors of my paper have given some very valuable supplementary information. Mr. Hohaus has set the stage for the coming year's legislative developments by pointing out what has recently occurred, on the basis of which action will develop. Mr. Niessen points out the interrelationship between the railroad retirement and OASI systems in somewhat more detail than the original paper, and Mr. Williamson adds a number of comments of a policy nature which might evolve from the intended factual basis of the original paper.

As Mr. Niessen has pointed out, the Social Security Administration has issued new long-range actuarial cost estimates for the OASI system. This is the seventh set of actuarial estimates since the law was enacted in 1935. Revised actuarial estimates are issued from time to time, usually about every three to five years. The estimates appear annually in the Reports of the Board of Trustees of the Old-Age and Survivors Insurance Trust Fund, and more detailed data are published in *Actuarial Studies*.

The 1953 estimates are made on four different bases which combine different elements as to low and high employment assumptions, and low and high costs (relating to mortality, birth rates, and similar population factors); in addition, several interest rates are used. No one of the estimates is used as the most probable for the long run. However, an "intermediate" estimate is given for each of the employment assumptions, and the one based on high employment assumptions is frequently used as the single estimate upon which to calculate contribution rates in the law and to analyze cost changes for proposed amendments to the present law. However, it is recognized that the actual costs may vary from the "intermediate" estimate, which must be used with caution and with the qualification that it is simply a mathematical development halfway between a low-cost and a high-cost estimate.

The "intermediate" cost estimate (using  $2\frac{1}{4}\%$  interest) expressed as a

level-premium percentage of taxable payrolls, based on the assumption that after the year 2000 benefit payments and taxable payroll are level, is 6.09% as compared with 5.93% for the previous estimate, or an increase of only 0.16% of payroll. Under an assumption that this leveling off does not occur until after the year 2050, the level-premium rate is 6.58%, an increase of 0.65% of payroll over the previous estimate which assumed that "maturity" would be reached in the year 2000.

If somewhat different assumptions were used (or are used in later estimates), there might be no increase in the level-premium cost on an intermediate basis. For instance, an increase in the interest rates used decreases the level-premium cost. (A rate of only  $2\frac{1}{4}\%$  was used in the estimates cited above. Present average rates are already slightly above this.) The present estimates are not "final" and do not represent a complete and precise picture which cannot be changed.