

SOCIAL SECURITY

- A. What basic principles underlie recent and prospective developments in the widespread systems of social security on this continent?
- B. Is continuing expansion of social security causing inconsistency and overlapping as between programs designed for different purposes?
- C. What are the relative merits for different purposes of (1) benefits governed by means or needs tests, (2) flat rate benefits, (3) benefits graded in relation to prior income?
- D. What criteria should be used in the determination of benefit levels? How is such determination affected by the presence of a specialized contribution system?
- E. In which compulsory programs is it feasible to make use of private carriers and self-administered plans?
- F. Compare the lines of demarcation between (1) public compulsory programs and voluntary private plans, (2) group coverages and self-administered plans, and (3) mass coverages and individual contracts. Are these contrasted approaches mutually complementary and, if so, is it possible to define the proper sphere of each?
- G. What essential differences are there in programs relating to the provision and financing of health services as compared with security programs aimed at income maintenance?

MR. W. R. WILLIAMSON, limiting his remarks to old-age and children's benefits in the United States under OASI and Public Assistance, deplored the defeatist principles which have appeared to underlie the original Social Security Act and its several amendments. These principles, he said, included an appeal to selfishness, an attempt to conceal costs and diffuse the cost burden, a creation of inconsistencies and relative inadequacies so as to give excuses for continual amendments, a tendency toward reckless inflation, and the invasion by the Federal government of areas barred to it by the founding fathers.

The principles which should have more consideration, he said, include the recognition that America has developed extensive nongovernmental facilities for facing up to personal catastrophes plus a high degree of personal accountability.

MR. M. A. LINTON, also referring to benefits in the United States under OASI and Public Assistance, commented first on the high level of OASI benefit rates which are resulting under the 1954 social security amendments. He pointed out that in the case of a retired employee who had been earning \$289 a month or less, the combined retirement benefit

and wife's benefit (all of which would be tax-free) would exceed 50% of preretirement earnings. He remarked further that more than half the covered workers would be in this category since the median annual wage covered by OASI is about \$3,300. The consequence of this is that a very large part of the old-age security problem is being taken over by the Federal government, thus creating a potential threat to freedom in the future.

Mr. Linton also called attention to the continuing high cost of Old Age Assistance which has not decreased with the expansion of the OASI benefit rolls. In fact, the total dollar amount of Old Age Assistance payments has gone up 8 percent since 1950 despite a decrease of the same percentage in the number receiving Old Age Assistance. About 500,000 of the OASI beneficiaries are also Old Age Assistance recipients. In Louisiana 45 percent of the OASI beneficiaries also receive OAA. The Federal government cannot control the OAA situation, since the determination of need is left to the states. For each OAA recipient getting \$25 a month the Federal government pays \$20, as the state is required to put up only one-fifth of the cost where the benefit does not exceed \$25 a month. This supplementation of OASI by OAA could be a serious threat for the future.

MR. R. J. MYERS spoke solely on the level of benefits under OASI. He pointed out that while most interested parties agree that social security benefits should constitute a "floor of protection," there was wide variation of opinion as to just what this meant. It is generally agreed that benefit amounts should rise if wages and prices rise, but when wages rise faster than prices the question presents itself whether benefits should take the steeper rise with wages or should merely keep pace with prices.

The effect of the various OASI amendments prior to the 1954 amendments was to make the benefits rise approximately in the same degree as wages, but under the 1954 amendments the benefit level rose faster than wages, as may be seen from the table on page 144, which shows the ratio of benefit to median wage to have gone up to 33.6% after having been about 30% under each previous formula.

MR. J. H. MILLER felt that the "floor of protection" philosophy definitely called for social security benefits rising only to the extent prices rise, and noted that the benefit increases under the 1954 amendments were greater than either price or wage increases and so in violation of that philosophy. He felt, too, that the widely graded benefit levels of OASI are contrary to the "floor of protection" philosophy, and questioned whether they could be justified by regional variations in income levels. He also noted that, because of the structure of the benefit formula, the raising of the wage base results in a greater increase in taxes than in benefits. This leads to pressure for the financing of benefit enlargements by an increase

in the wage base with a consequent further departure from the "floor of protection" theory.

MR. G. L. HOLMES also spoke on old-age security, largely with reference to Canadian old-age benefits. He said needs tests were appropriate only in the case of benefits distributed by private charitable organizations, and when government entered the needs-test field the effect was to discourage people from making provision for their own security, because people who did so would be no better off than those who did not. He also traced the history of the Canadian Government Annuities Act, pointing

OASI PRIMARY BENEFITS UNDER DIFFERENT FORMULAS FOR MEDIAN WAGE* OF FOUR-QUARTER WORKERS IN YEAR FORMULA WAS ENACTED

YEAR	MEDIAN WAGE*		MONTHLY PRIMARY BENEFIT	BENEFIT AS PERCENTAGE OF WAGE
	Annual	Monthly		
1939, Basis A†	\$1,113	\$ 93	\$25.03	26.9%
1939, Basis B†	1,113	93	34.02	36.6
1939, Basis C†	1,113	93	27.70	29.8
1950	2,566	214	69.40	30.3
1952	2,950	246	79.00	30.4
1954	3,300	275	95.10	33.6

* Based on actual recorded wages of covered employees plus estimated wages in excess of taxable limit. Data for 1952 are preliminary, and data for 1954 are estimated from preliminary 1953 data (assuming a 3% increase for 1954 over 1953).

† The 1939 formula was based not only on average wage but also on length of coverage. Basis A assumes near-minimum coverage of 3 years, Basis B assumes near-maximum coverage of 40 years, and Basis C assumes 14 years of coverage (maximum for person retiring in 1950).

out that because its rates for voluntary annuities at times have been highly subsidized there has been a struggle to prevent too much of private business being handled by the Government instead of by the companies. Certain proposed amendments to the Act have offered a threat to the insurance as well as the annuity business.

Speaking of the Canadian old-age security plan, Mr. Holmes explained why the flat benefit level was set at \$40 a month. It had to be at least that much since the needs-test pensions which it replaced were up to \$40 a month. On the other hand, it had to be well below \$68 a month, since the latter figure was the average consumer expenditure for all Canadians in 1949. The plan has now been three years in operation, and is financed by three taxes: a 2 percent tax on taxable personal income with a maximum of \$60, a 2 percent tax on taxable corporation income, and a 2 percent national sales tax which covers about one-half of all purchases. The benefits are themselves taxable as income. Since the plan already operates at a

deficit and since the benefits cannot be raised without consideration being given to raising the tax rates, this operates as a control on the benefit levels.

MR. RICHARD HUMPHRYS described the Canadian Disabled Persons Act, passed in 1954. Under this Act, the Dominion Government will reimburse the province up to 50% of the disability allowance paid, with a maximum reimbursement of \$20 a month. Reimbursement is conditional on a means test and a disability definition. Under the means test the income of the disabled person, if he is single, or of the disabled person and his wife, if he is married, inclusive of the disability allowance paid, cannot exceed \$720 a year in the one case, or \$1,200 a year in the other. Under the disability definition a person is deemed to be so disabled "only when

- a) such person is suffering from a major physiological, anatomical or psychological impairment, verified by objective medical findings, and
- b) such impairment is likely to continue without substantial improvement during the lifetime of the individual and is one to which the concept of cure cannot be applied; and
- c) as a result of such impairment, such person is severely limited in activities pertaining to self-care and normal living such as being
 - (i) bedridden or chairfast
 - (ii) unable to leave home without being accompanied by another person
 - (iii) normally in need of care and supervision for one or more of such self-care activities as dressing, body hygiene or eating
 - (iv) unable to perform such routine activities as climbing a short stairway or walking a limited distance on a level surface, or
 - (v) certified by a qualified physician to be under medical instructions to forbear from activities such as are mentioned in (iv) above."

Notwithstanding the foregoing a person is deemed not to be disabled "where, in respect of such person a favourable rehabilitation prognosis is obtained, or approved therapeutic measures are recommended, by the provincial authority, and the requisite rehabilitation services or therapeutic measures are available."

This extension of Canadian social security is consistent with the pattern established for allowances to the blind and for old-age assistance to indigent persons between 65 and 70.

All of the Dominion social security legislation provides that there shall be no duplication of benefits, and while there may be some overlapping between Dominion and provincial programs, it is relatively infrequent.

MR. R. M. PETERSON spoke of a multiple employer pension trust fund idea being promoted today by some trust companies and consultants which involves (a) voluntary participation by the employer and frequent-

ly active solicitation by the promoting agency, and (b) a pooling of the mortality risk. He felt that an activity possessing these characteristics should be subject to the same kind of supervision and regulation that applies to a life insurance company and that the agency, such as a trust company, promoting the idea should be supervised and not the participating employers. He distinguished this common fund from one created through collective bargaining by a union and a group of employers.

MR. MANUEL GELLES discussed what the line of demarcation should be between private and public endeavors in the health field. He felt that private insurance should handle the risk where a reasonable estimate of the risk can be made, where the risk for the individual is small compared to the loss which would be sustained if the contingency insured against should occur, and where the insured is able to pay the premium. This leaves two broad areas for the concern of government. One is provision of health facilities for people who cannot afford to provide for themselves by insurance or otherwise, either because they are too old or too poor or because they are uninsurable. The second area is the establishment and support of such facilities as hospitals, medical and nursing schools, and research centers, the administration of these facilities to be at state and local levels, with the Federal government sharing in the costs.

MR. PHILIP FREEDMAN stated that insurance principles could not be applied as effectively to plans providing health services as they had been to plans providing income maintenance in its various forms. Whenever it has been attempted to apply insurance principles to health services, there have been two unfortunate consequences: first, the exclusion of the uninsurables, whose need is obviously great, and second, the use of cost controls in the form of deductibles and coinsurance instead of necessary medical controls.

He claimed that major medical expense insurance is seriously inflationary in nature, that coinsurance does not control costs effectively, and that the use of deductibles works against preventive medical care. He felt that major medical is the wrong approach and that the labor unions will resist it, believing that it will work to inhibit the development of plans providing more comprehensive care through more economical and efficient organization of medical services.

MR. J. H. SMITH described how difficult it is to determine or stabilize lines of demarcation between the various areas of protection in the social insurance field, pointing out that events of the last 25 years have produced rapid and continuous changes in our thinking in this field. Much of the coverage now under discussion was not anticipated or would have been considered completely uninsurable only a short time ago. More-

over, even in those coverages which have existed for some time there have been many changes in concepts, such as the many liberalizations in the definition of insurable groups in group insurance. Each new line of demarcation is soon blurred. One of the principal factors in all this change is competition, which is an essential force in our economy and prevents fixity of rules and views. Even the struggle of government compulsion versus volition results largely from the competitive urge.

In discussing medical care insurance, Mr. Smith told of the rapid changes in medical practices and costs and pointed out that medical care insurance is uniquely dependent upon the habits and interests of medical personnel, who largely control the amount of insurance claims. This and other factors make rate determination in this field not only complex but hazardous. At the same time, he felt that compulsory coverage, or even completely comprehensive general coverage, could not work except by subjugation of the medical profession, an event neither desirable nor likely. The field of accident and health is an urgent and difficult one, and he pleaded for wide effort and support in it.

Mr. Smith took an understanding view of the criticisms expressed by Mr. Freedman, but hoped and believed that private insurance, if all will cooperate, can find a way to control costs and still provide adequate protection.

MR. H. R. LAWSON commented on the remarks made earlier in the meeting by Mr. Bernard Benjamin (who had served on the pension research group of the Institute of Actuaries and Faculty of Actuaries, and was a guest of the Society) relating to the effect on the economy caused by the accumulation of pension reserves. Mr. Lawson said that life insurance company assets are now nearly \$100 billion, that private pension funds are probably approaching one-half this amount, and that these two types of funds constitute about 25 percent of total savings in the United States. Because of the semicompulsory nature of this form of savings, it will continue to grow regardless of the demand for money, and may therefore have the effect of forcing the production of capital goods out of balance with the production of consumer goods.

Mr. Lawson spoke of the sociological problem resulting from an arbitrary retirement age such as 65, and expressed the hope that actuaries could, as citizens, do something about this problem.

MR. R. A. HOHAUS pointed out that social security draws on many disciplines and calls for adaptation to a nation's social, economic and political structure. Thus in the U. S. it seemed appropriate to continue handling different types of risk through separate programs, agencies and levels of government. He stressed that old-age benefits, coverage and fi-

nancing constitute a "trinity," no member of which should be dealt with independently of the others, and that, as repeatedly recognized, the nation's productive capacity is a controlling factor in setting the level of benefits.

In conclusion, Mr. Hohaus noted that Canadian and American actuaries had played an important part in social security developments and were confronted with still greater opportunities for service. He praised the British Institute and Scottish Faculty for initiating a study of pensions in the public interest, and hoped that the resulting report, and that of a later statutory committee, would inspire actuaries on this side to encourage, or even initiate, a similar study.