

**TRANSACTIONS OF SOCIETY OF ACTUARIES  
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**1954 AMENDMENTS TO THE SOCIAL  
SECURITY ACT**

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**F**OR the third successive Congress, important amendments to the Social Security Act were enacted in 1954. Just as in the 1950 and 1952 Amendments, the major changes made were in connection with the Old-Age and Survivors Insurance system, although the public assistance program was also slightly modified. Each of the three amendments included increases in OASI benefits.

The 1950 Amendments affected the OASI system principally by a very considerably extension of coverage to types of employment previously not included, by roughly doubling the benefit level, by liberalizing the retirement test, and by making more definite the financing basis. The 1952 Amendments were of relatively less significance, the principal changes being a small increase in the benefit level, a further liberalization of the retirement test, and provision of "free" wage credits for military service after World War II. The 1954 Amendments followed several important studies in 1953 by the newly created Department of Health, Education, and Welfare and by a subcommittee of the House Ways and Means Committee. The major changes included further extension of coverage, another increase in the benefit level and in the maximum wage subject to contributions, further liberalization of the retirement test, introduction of a "disability freeze" provision, and revisions in the financing basis.

**EXPERIENCE UNDER 1950 AND 1952 AMENDMENTS**

*Old-Age and Survivors Insurance*

Increased benefit payments were effective in September of 1950, 1952, and 1954, with immediate results as shown by Table 1. Average monthly benefits increased substantially each time (for retired workers, by \$20 or 77% in 1950, by \$6.50 or 15% in 1952, and by almost \$7 or 13% in 1954). It will be observed that the average benefit fell by somewhat more than \$4 between September 1950 and August 1952; this occurred because the 1950 Amendments made eligible for the first time a very considerable number of individuals who generally qualified only for the minimum benefit of \$20 and so the average payment for the entire roll dropped as these individuals came onto the roll. The number of beneficiaries rose significantly over the 4-year period (from 3 million to 6 $\frac{3}{4}$  million), in part be-

cause of the maturing of the system, and in part because of the shorter qualifying requirements provided under the 1950 Amendments. As a result, the annual rate of monthly benefit payments rose five-fold, from \$740 million in August 1950 to almost \$4 billion in September 1954. The contribution income increased from about \$1.7 billion in 1949 and \$2.7

TABLE 1  
SELECTED DATA ON MONTHLY BENEFITS UNDER OASI SYSTEM

MONTH	BENEFICIARIES (MILLIONS)		ANNUAL RATE OF BENEFITS (MILLIONS)	AVERAGE MONTHLY BENEFIT FOR RETIRED WORKERS
	Retired Workers	Total*		
August 1950 . . . . .	1.41	2.97	\$ 740	\$26.36
September 1950 . . . . .	1.44	3.03	1,368	46.62
August 1952 . . . . .	2.43	4.68	1,992	42.36
September 1952 . . . . .	2.50	4.79	2,325	48.79
August 1954 . . . . .	3.60	6.59	3,419	51.95
September 1954 . . . . .	3.64	6.66	3,911	58.75

\* These figures are somewhat overstated by reason of counting twice those receiving both old-age benefits (as a retired worker) and wife's, widow's, or parent's benefits; as of December 1953 this overstatement amounted to about 55,000. On the other hand, some understatement exists by reason of retroactive payments, made some months later in respect to specific past months.

billion in 1950 to \$5.2 billion in 1954 (because of several factors—higher contribution rates, higher maximum wage subject to contributions, extension of coverage to more types of employment, and rise in wage levels).

The actual and estimated operations of the OASI Trust Fund for 1953, the only full calendar year of operations under the 1952 Act, are shown in Table 2. The estimated contributions were 8% lower than the actual experience, principally because of higher earnings and more full employment than used in the cost estimates. Estimated benefit payments were 18% too low, because insufficient account had been taken of the liberalized qualifying conditions in the 1950 Act (estimates subsequently used in the consideration of the 1954 Amendments were revised appropriately). The estimated administrative expenses, interest earnings, and balance in the fund were all reasonably close to the actual experience.

#### *Public Assistance*

Beginning in 1950, the number of OAA recipients has decreased slowly and steadily even though the number of aged persons in the country was increasing at about 3% per year. The roll declined from 2.81 million in August 1950 to 2.58 million four years later (including 46,000 in Puerto

Rico and the Virgin Islands, not in the program before the 1950 Act); the decrease in the last year, however, was only about 20,000. As a result of a rise in the average payment (from about \$44 a month to \$51.50), the annual rate of payments increased from \$1.47 billion per year to \$1.60 billion currently.

The number of child recipients under aid to dependent children fluctuated during the 4-year period from about 1.5 to 1.6 million. Total assistance expenditures under this program rose from a rate of about \$550 million a year to \$600 million. Recipients of aid to the blind were level during the 4-year period at about 100,000, with the annual rate of payments currently being almost \$70 million. The number of recipients of aid to the permanently and totally disabled (established in 1950) rose gradually and in August 1954 amounted to almost 220,000, with payments at an annual rate of about \$140 million.

#### *OASI versus OAA*

OASI beneficiaries aged 65 and over (including wives and widows) exceeded OAA recipients for the first time in the early part of 1951. In August 1954, there were twice as many such OASI beneficiaries as OAA recipients, namely, 5.1 million versus 2.6 million.

A very considerable, and growing, number of individuals aged 65 and over receive both OASI and OAA benefits. Since OASI over the long range is intended to be the major program for providing basic old-age security, it is important to consider the trend in the number of concurrent recipients of OASI and OAA as shown for recent years in the following table:

DATE	NUMBER OF CONCURRENT RECIPIENTS (THOU- SANDS)	CONCURRENT RECIPIENTS AS PERCENTAGE OF	
		OASI Bene- ficiaries Aged 65 and over	OAA Re- cipients
June 1948.....	146	10.0%	6.1%
September 1950.....	276	12.6	9.8
August 1951.....	376	11.9	13.8
February 1952.....	406	12.0	15.1
February 1953.....	426	10.7	16.3
February 1954.....	463	9.7	18.0

In the 7 years considered, about 10-12% of all OASI beneficiaries aged 65 and over have received supplementary OAA. Over the same period, as a result of more and more persons becoming eligible for OASI, the pro-

portion of OAA recipients receiving OASI tripled until currently about 1 out of every 5 OAA recipients is also on the OASI roll. Although some individuals have been removed from the OAA roll because of eligibility for OASI benefits or because of increased OASI benefits, the concurrent recipients showed an increase because of two factors—those on the OAA roll who became eligible for low OASI benefits and still needed supplementary OAA, and the growth of the OASI roll, with more persons thus “exposed” to the need of supplementary OAA.

TABLE 2  
COMPARISON OF ACTUAL\* AND ESTIMATED OPERATIONS  
OF OASI TRUST FUND IN 1953

Item	Actual* (Millions)	Estimated† (Millions)	Ratio, Estimated to Actual
Contributions . . . . .	\$ 4,105	\$ 3,785	92%
Benefit Payments . . . . .	3,236	2,663	82
Administrative Expenses . . . . .	92	92	100
Interest on Fund . . . . .	424	402	95
Balance in Fund . . . . .	19,102	18,793	98

\* Including effect of railroad coverage under financial interchange provisions.

† As shown in Table 9 of “The 1952 Amendments to the Social Security Act” by Robert J. Myers, *TSA V*, 43.

One of the most significant comparisons in the analysis of the social security program is the proportionate relationship between aged OASI beneficiaries, OAA recipients, and total aged population. The following table summarizes these relationships as of June of each year from 1950 through 1954, and for the end of 1954:

DATE	PERCENT OF AGED POPULATION RECEIVING		
	OASI	OAA	OASI or OAA (or both)
June 1950 . . . . .	16.8%	22.5%	37.3%
June 1951 . . . . .	23.4	21.5	42.0
June 1952 . . . . .	26.0	20.3	43.1
June 1953 . . . . .	31.5	19.4	47.6
June 1954 . . . . .	36.0	18.6	51.2
December 1954 . . . . .	38.1	18.3	52.8

The percentages in the last column are less than the sum of the percentages in the two preceding columns because of the previously mentioned overlap between the two programs.

Since 1950, the relative proportion of the aged population receiving OASI benefits has increased by about 125%, while the proportion receiving OAA has decreased by about 20%. At the same time, the proportion receiving either or both has increased by about 40%, and since the early part of 1954 more than half of the aged population has been getting payments under one program or the other. In addition, about another 15% of the aged population are eligible for, but not receiving, OASI benefits (because of the continued employment of the insured individual).

#### HISTORY OF LEGISLATION

##### *Old-Age and Survivors Insurance*

In the first half of 1953, a group of consultants to Secretary Hobby of the Department of Health, Education, and Welfare studied various alternatives for extending the OASI program to additional groups of current workers (see items 1 and 3 of the appended bibliography). Later in the year, a Subcommittee of the House Ways and Means Committee (the so-called "Curtis Committee") held hearings on various aspects of the social security program (see item 2 of bibliography).

In April 1954, the House Ways and Means Committee held public hearings on a bill (H.R. 7199) representing the recommendations of the Administration (see item 4 of bibliography). This bill would have made the following major changes in the OASI program:

1. Coverage extended to include all gainful employment except Federal civilian service covered by a retirement system, military service, and policemen and firemen covered by a retirement system.

2. Maximum creditable and taxable wage increased to \$4,200 a year.

3. Average monthly wage determined by dropping out lowest 4 years.

4. Benefit amounts increased, the formula being 55% of the first \$110 of average monthly wage, plus 20% thereafter, with a minimum of \$30 and with a maximum family benefit of \$190.

5. Retirement test placed on an annual basis (rather than monthly), with first \$1,000 of earnings being exempt and with one month's benefits withheld for each additional \$80 (all earnings, rather than only covered earnings, to be counted).

6. Benefit rights of persons with an extended total disability preserved.

7. Ultimate contribution rates increased (same schedule up through 1969, but an ultimate combined employer-employee rate of 7%, as compared with 6½% in the then-existing law).

The Ways and Means Committee reported a revised bill (H.R. 9366), which was passed without change by the House on June 1. This bill differed from the Administration's recommendations in the following major respects:

1. Extension of coverage to self-employed physicians deleted.
2. Special insured status provision introduced for those continuously covered from 1955 on.
3. Drop-out of the lowest years in determination of average monthly wage increased to 5 years for those with 20 quarters of coverage.
4. Certain changes in benefit amounts made (maximum family benefit increased to \$200 a month, a minimum *family* benefit of \$30 a month provided, and a maximum of \$255 placed on lump-sum death payments—same as in then-existing law).
5. Benefits for dependents and survivors not to be payable when residing outside the United States, under certain circumstances.
6. Ultimate contribution rates increased (to a combined employer-employee rate of 7% for 1970-74 and 8% thereafter).

Then the Senate Finance Committee held public hearings and reported out a revised bill, which on August 13 was passed by the Senate with only minor amendments. The Senate bill differed from that passed by the House as follows:

1. Extension of coverage to self-employed professional groups and to farmers eliminated, as was also the coverage of certain Federal civilian employees not under a retirement system.
2. Maximum of \$255 for lump-sum death payment eliminated.
3. Retirement test provisions liberalized by raising annual exempt amount to \$1,200, by reducing from 75 to 72 the age after which the test would not apply, and by making the test applicable only to covered earnings.
4. Provisions relating to suspension of benefits for dependent and survivor beneficiaries residing abroad eliminated.

In the 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 September 1. The Senate changes were agreed to with the following important exceptions:

1. Coverage extended as in the House bill, except that self-employed lawyers and all types of self-employed medical practitioners excluded.
2. Retirement test made applicable to earnings from all types of employment.
3. Maximum of \$255 for lump-sum death payment provided.

#### *Public Assistance*

The Curtis Committee studied the public assistance program as well as the OASI system. The House Ways and Means Committee also con-

sidered the Administration's recommendations for changes in the public assistance program (H.R. 7200). This bill would have made extensive changes in the Federal matching basis by taking into account each state's per capita income and proportion of OASI aged beneficiaries to total aged population. The Ways and Means Committee, however, did not act on these recommendations but rather included in H.R. 9366 a provision for extending for one year (from September 30, 1954) the temporary matching basis in then-existing law. Under this formula for OAA, the Federal share is 80% of the first \$25 of average monthly payment, plus 50% of the remainder, excluding in each individual case any amount in excess of \$55. The Senate Finance Committee extended this period another year, and this change was accepted by the Senate and then by the Conference Committee.

COVERAGE PROVISIONS OF OASI SYSTEM

Before the new legislation, the OASI program covered about 47 million employees and self-employed persons during the course of an average week, with about 60 million different persons being employed in covered jobs over the course of a year. As of 1955, coverage is extended to about 10 million persons who during a year work in newly covered jobs, as follows:

Farm operators . . . . .	3,600,000
Professional self-employed . . . . .	100,000
Ministers* . . . . .	250,000
Employees of state and local governments* . . . . .	3,500,000
Employees of Federal government . . . . .	150,000
Agricultural workers . . . . .	2,100,000
Domestic workers . . . . .	200,000
Employees outside the United States* . . . . .	100,000
Fishermen . . . . .	50,000

\* On an elective basis.

*Nonfarm Self-Employed*

In addition to those covered under this category by the 1950 Act, all professional self-employed persons other than lawyers and various types of medical practitioners are included on the same basis, namely by reporting their earnings on income tax returns, with no coverage when such earnings are less than \$400 a year.

*Farm Operators*

Farmers are covered by the 1954 Amendments on the same general basis as all other self-employed persons except that a special basis of simplified reporting may be used by farmers with gross incomes of not more than \$1,800 a year who report their income on a cash basis. Rather than

itemizing income and expenses, such a farmer may use 50% of his gross income as his earnings for OASI purposes. In part to provide a consistent, smooth junction, farmers with higher gross incomes than \$1,800 but with net incomes of less than \$900 may nevertheless report earnings of \$900 for OASI purposes.

#### *Ministers*

Ministers and members of religious orders may by individual voluntary election be covered, with their earnings being considered as self-employment income even though they are employees. Such elections must, in general, be made within 2 years after coverage is first available to the individual as a result of his having at least \$400 of self-employment income. This unique basis was provided because of the problem of separation of Church and State.

#### *Employees of State and Local Governments*

Under previous law, employees of state and local governments could be covered at the option of the state and employing unit but, in general, only if they were not covered by an existing retirement system. The 1954 Amendments permit coverage of those under an existing retirement system (other than firemen and policemen) if, in addition to the state and employing unit desiring coverage, the employees involved so vote (by a majority of those eligible).

#### *Employees of Federal Government*

The previous law covered a large number of Federal employees who were not under an existing retirement system. The amendments cover virtually all remaining Federal employees not under a retirement system, the new groups primarily being temporary census takers and temporary postal employees. The Committee on Retirement Policy for Federal Personnel (the so-called Kaplan Committee) recommended OASI coverage for Federal employees under a retirement system (see item 5 of bibliography), but no action was taken on this matter.

#### *Agricultural Workers*

Coverage of this group under the 1950 Act was rather complicated, based on regularity of employment. The new law simplifies the situation; such employment is covered if cash wages in a year from a particular employer amount to at least \$100.

#### *Domestic Workers*

This group had coverage under previous law under provisions requiring regularity of employment as well as a minimum amount of \$50

of cash wages in a quarter from the particular employer. The amendments eliminate the time requirement, leaving only the \$50 provision.

#### *Miscellaneous Groups*

United States citizens working for American employers abroad were covered by the 1950 Act; the amendments extend this type of coverage by applying it, on a voluntary basis at the employer's election, to United States citizens working for foreign subsidiaries of American companies. Coverage is extended to employee fishermen who either work on shore or work on very small vessels. The amendments also extend coverage, as employees, to certain groups of workers who manufacture or process articles at home; this group formerly could have been covered as self-employed if their earnings were sufficiently large.

#### *Military Service Wage Credits*

The provision granting "gratuitous" wage credits of \$160 a month for military service after September 15, 1940 was extended in 1953 to cover service up through June 1955. The 1954 Amendments did not affect this provision, nor was action taken on the Kaplan Committee's recommendation that those in military service should be covered on the same general contributory basis as other employees.

#### OASI INSURED STATUS CONDITIONS

Two kinds of insured status exist, "fully" and "currently." The former yields entitlement to all types of benefits (with certain minor exceptions where both kinds must exist), while the latter gives entitlement to certain survivor benefits. Insured status is defined in terms of quarters of coverage, either \$50 of wages paid in a calendar quarter or \$100 of self-employment income credited to that quarter (except as noted hereafter). With certain minor exceptions, covered self-employed individuals are always credited with 4 quarters of coverage each year, as is also the case for persons with wages of \$4,200 or more a year. Special rules similar to those for self-employed individuals apply to agricultural workers whose coverage depends on an annual rather than a quarterly earnings amount.

Under previous law, fully insured status was achieved if the individual's quarters of coverage numbered at least half of the quarters elapsing 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 and a maximum requirement of 40 quarters of coverage. Currently insured status is achieved by having 6 quarters of coverage in the 13-quarter period ending with the quarter of death or retirement. These provisions were unchanged

by the 1954 Amendments, but a new alternative for fully insured status was introduced (primarily for those in the newly covered groups who have attained age 65 or will attain age 65 or die within the next few years). Under this provision, an individual is fully insured if he has a quarter of coverage in each of the first 6 quarters after 1954 and, if not then 65 years old, in every quarter thereafter up to the quarter in which he attains age 65 or dies. This alternative will be operative only for persons reaching age 65 after June 1954 and before October 1958, or dying after March 1956 and before October 1958; those who attained 65 before July 1954, by obtaining 6 quarters of coverage at any time, meet the "regular" requirements.

#### OASI BENEFICIARY CATEGORIES

An individual is eligible for an old-age insurance benefit if he is aged 65 or over and is fully insured. The amount of this benefit is 100% of the primary insurance amount, defined later. Payments are made after an individual files a claim (and for as much as 12 months retroactively, if then eligible—only 6 months' retroactivity under previous law) and is in effect substantially retired (retirement test provisions described hereafter). If the retired individual has a wife aged 65 or over (or, regardless of her age, if she has a child under age 18 in her care), an additional benefit of 50% is payable, with a similar addition for each eligible child. Husband's benefits are payable in respect to a retired female worker if he has been chiefly dependent on her and if she was currently insured at time of retirement.

Widow's benefits are payable at age 65 if the deceased husband was fully insured (including deaths after retirement). Parallel benefits are also payable with respect to dependent widowers. The amount of the benefit is 75% of the primary insurance amount. When a fully insured worker dies leaving no spouse or child under age 18, parent's benefits are payable upon attainment of age 65 to parents who have been dependent upon such individual; the amount of such benefits is 75% of the primary insurance amount for each parent.

When a fully or currently insured individual dies leaving children under age 18, benefits are payable to such children and to their widowed mother while a child under 18 is present. These child survivor benefits are also payable in respect to the death of an insured female worker where dependency of the child is provable and, in any event, in all cases where such woman was currently insured. The benefits, in effect, are 75% of the primary insurance amount for the widowed mother and for the first child and an additional 50% for each other child.

Certain limitations apply to the above benefit amounts. No individual can receive the full amount of more than one type of benefit. For instance, if a woman has an old-age benefit in her own right and a wife's or widow's benefit from her husband's earnings, then in effect only the larger of the two benefits may be received. In addition, there are certain minimum and maximum benefit provisions, described subsequently.

In all cases of death of a fully or currently insured individual, a lump-sum death payment of 3 times the primary insurance amount is payable. This payment, however, may not exceed \$255, the maximum amount available under the previous law; if it were not for this specific dollar limitation, the maximum lump-sum payment would have been larger as a result of the general benefit increases in the 1954 Amendments. The lump-sum is payable in full to a surviving spouse but in other cases may not exceed the actual burial costs. This benefit must be claimed within 2 years of death.

#### OASI BENEFIT AMOUNTS

The primary insurance amount, based on the average wage of the insured individual, determines all monthly and lump-sum benefits.

##### *Average Monthly Wage*

The concept of average monthly wage used in the OASI program is, in essence, that computed over the entire potential period of coverage but with certain periods of low earnings being disregarded. In general, the averages are computed in most cases from the beginning of 1951 (or age 22, if later) to the date of death, attainment of age 65, or retirement (at or after 65), whichever is applicable and produces the more favorable result. In computing this average, however, four calendar years may be dropped from both numerator and denominator (whichever years' omission will produce the highest average wage) and for those with at least 20 quarters of coverage, 5 years may be so omitted. In addition, periods of extended total disability may be eliminated; such disability must be of at least 6 months' duration, and the disabled worker must both have been currently insured and have 20 quarters of coverage in the last 40 quarters. Also the average wage may be computed back to the beginning of 1937 on this same basis if a larger benefit will result.

The 4 or 5 year "drop-out" provision was added by the 1954 Amendments to eliminate the handicap of years of "zero" earnings that would otherwise exist for groups newly covered, and at the same time to give some advantage to those already covered. The "disability freeze" provisions were also introduced by the 1954 Amendments, although such provisions, on an inoperative basis, had been included in the 1952 Act.

*Increase of Existing Benefits*

Benefits for those on the roll in September 1954 were increased in the same manner as in the previous two amendments, namely by a conversion table, a summary of which is as follows:

BENEFIT COMPUTED UNDER METHOD OF 1939 Act	PRIMARY INSURANCE AMOUNT	
	Under 1952 Act	Under 1954 Act
\$10 . . . . .	\$25.00	\$30.00
15 . . . . .	35.00	40.00
20 . . . . .	42.00	47.00
25 . . . . .	52.40	57.40
30 . . . . .	60.80	66.30
35 . . . . .	66.60	73.90
40 . . . . .	72.00	81.10
45 . . . . .	77.10	88.50
* . . . . .	80.10	91.90
* . . . . .	85.00	98.50

\* Maximum possible is \$45.60 (which produces same primary insurance amount as \$45.00).

This table is also used for those whose average wage is computed back to 1937, with the benefit therefrom being determined essentially under the provisions of the 1939 Act. The table is also used in certain cases where the new benefit formula combined with the drop-out provision does not provide a \$5 increase over the benefit that would have been payable under the 1952 Act. In most cases of future benefit determinations, the new benefit formula will be more advantageous.

*New Benefit Formula*

The new benefit formula is provided for all individuals having 6 quarters of coverage after June 1953, and in certain other instances. This formula is 55% of the first \$110 of average monthly wage, plus 20% of the next \$240 thereof (reflecting the new \$4,200 wage base, as compared with the previous \$3,600 one). The formula in the 1952 Act was 55% of the first \$100, plus 15% of the next \$200 (as contrasted with the 1950 formula of 50% of the first \$100, plus 15% of the next \$200). The maximum primary insurance amount is thus \$108.50 now, compared with \$85 for the 1952 Act and \$80 for the 1950 Act. The minimum primary insurance amount is \$30 a month, as contrasted with \$25 in the 1952 Act and \$20 in the 1950 Act. The maximum wage base for both benefit and tax purposes is increased to \$4,200 a year (as contrasted with \$3,600 during 1951-54, and \$3,000 previously).

*Minimum and Maximum Family Benefits*

Under the previous law no minimum family benefit provisions applied other than those resulting from the appropriate percentages of the minimum primary insurance amount (*i.e.*, a single survivor beneficiary would get a minimum of 75% of the minimum primary insurance amount). The 1954 Amendments provide that the minimum family benefit for survivors (applicable only when there is one such survivor) is \$30, the same as the minimum primary insurance amount. The maximum family benefit is the smaller of \$200 (\$168.75 under previous law) or 80% of average monthly wage. The 80% maximum, however, may not reduce benefits below \$50 or 150% of the primary insurance amount, whichever is larger; the latter provision is new and has the effect of full benefits being paid in all cases where there are only two beneficiaries.

Table 3 shows illustrative monthly benefits for various categories,

TABLE 3  
ILLUSTRATIVE MONTHLY OASI BENEFITS FOR VARIOUS FAMILY  
CATEGORIES UNDER 1954 ACT BASED ON  
"NEW START" FORMULA  
(All figures rounded to nearest dollar)

Average Monthly Wage after Drop-Out	Retired Worker Alone	Retired Worker and Aged Wife*	Retired Worker, Aged Wife, and 1 Child†	Aged Widow‡	Aged Dependent Parent
\$ 50.....	\$ 30	\$ 45	\$ 50	\$30	\$30
100.....	55	83	83	41	41
150.....	69	103	120	51	51
200.....	79	118	157	59	59
250.....	89	133	177	66	66
300.....	99	148	197	74	74
350.....	109	163	200	81	81
	Widow and 1 Child§	Widow and 2 Children	Widow and 3 or More Children	1 Child Alone	2 Children Alone
\$ 50.....	\$ 45	\$ 50	\$ 50	\$30	\$ 38
100.....	83	83	83	41	69
150.....	103	120	120	51	86
200.....	118	157	160	59	98
250.....	133	177	200	66	111
300.....	148	197	200	74	123
350.....	163	200	200	81	136

\* Also applies to worker and aged dependent husband, and to worker and 1 child.

† Also applies to worker, aged dependent husband, and 1 child, and to worker and 2 children.

‡ Also applies to aged dependent widower.

§ Also applies to 2 aged dependent parents.

giving consideration to the applicable benefit proportions and the minimum and maximum benefit provisions.

#### OASI RETIREMENT TEST

Benefits both for retired workers and their dependents and for survivors are, in general, not paid when the beneficiary is engaged in substantial employment, nor to dependents of a worker engaged in substantial employment. This provision is termed the "retirement test," although to some extent this is a misnomer when referring to young beneficiaries.<sup>1</sup> Benefits are payable for all months in a year if the annual earnings from all types of employment are \$1,200 or less. If earnings exceed \$1,200, one month's benefit may be withheld for each \$80 excess unit (counting a remainder of less than \$80 as a full unit), but in no event are benefits withheld for months in which the individual has wages of \$80 or less and does not render substantial self-employment services. Moreover, the retirement test is not applicable at all after the individual reaches age 72. Previous law was on a considerably different basis, namely, (1) monthly rather than annually for wage earners, (2) a lower exempt amount (\$75 a month for wages and \$900 a year for self-employment income), (3) applicable only to covered employment rather than to all employment, and (4) the age above which the retirement test did not apply was 75.

#### OASI FINANCING PROVISIONS

The tax or contribution schedule was increased in the ultimate years by the 1954 Amendments. The 4% combined employer-employee rate for 1954 was left unchanged through 1959, as were also the previously scheduled rates of 5% for 1960-64 and 6% for 1965-69. In the 1950 and 1952 Acts, the ultimate rate was 6½% for 1970 and thereafter, but this was changed to 7% in 1970-74 and 8% thereafter. In each instance, self-employed individuals pay 75% of the combined employer-employee rate. For wage earners, each employer must pay on the first \$4,200 of wages paid in a year to a given individual. If an employee has contributed on more than \$4,200 of wages in a year, a refund of such excess is obtainable on his income tax return. For self-employed persons, the tax is payable on a maximum of \$4,200 per year of self-employment income and wages combined.

From an actuarial standpoint, the revision of the tax schedule is of considerable interest. Two important factors are involved—the effect of re-

<sup>1</sup> For more complete details as to the history, philosophy, and basis of the retirement test see "Old-Age and Survivors Insurance: Retirement Test under the 1954 Amendments," Robert J. Myers, *Social Security Bulletin*, December 1954.

vised cost estimates for the 1952 Act and the effect of the various changes made by the 1954 Amendments.

Following the enactment of the 1952 Act, new cost estimates were developed in line with the policy of continuous study and revision of these estimates (*Actuarial Study No. 36* of the Social Security Administration). The level-premium cost of the benefit and administrative expense disbursements of the 1952 Act, according to the intermediate-cost estimate, was shown to be about .6% of payroll higher than the level-premium equivalent of the scheduled taxes, after taking into account interest on the existing trust fund.

The changes made by the original bill underlying the 1954 Amendments involved some items which increased cost (principally, dropping out certain periods in computing average wage, raising the benefit level, and liberalizing the retirement test) and other partially offsetting ones decreasing costs (principally, extension of coverage and raising the earnings base). The net effect of the changes proposed in the original bill was an increase in cost of about .55% of payroll on a level-premium basis. This rise would, of course, not quite be met by the proposed  $\frac{1}{2}$ % increase in the ultimate tax rate, equivalent, on a level basis, to about .4% of payroll (see *Actuarial Study No. 38* of the Social Security Administration). In turn, no margin was left toward meeting the "insufficiency" in the 1952 Act indicated by the new cost estimates.

The bill, as reported out by the House Ways and Means Committee, had essentially the same relative benefit cost as the original bill, but the ultimate contribution rate was increased by  $1\frac{1}{2}$ % of payroll over that in then-existing law and by 1% over that in the original Administration bill. This higher schedule took care of not only the increased benefit cost but also a very substantial part of the "insufficiency." The Senate Finance Committee, however, increased the benefit cost in a number of ways (such as liberalizing the retirement test and providing for less extension of coverage) so that for the Senate version of the bill the higher ultimate contribution rate did little toward meeting the "insufficiency." The final legislation was a compromise, costwise, between the House and Senate bills, so that the increase in the ultimate contribution rate could be said to meet all the additional cost of the benefit changes made and a substantial part of the "insufficiency" which the latest estimates indicated in regard to the financing of the 1952 Act. As of the beginning of 1955, this "insufficiency" amounted to about .4% of payroll on a level-premium basis (according to the high-employment intermediate-cost estimates at 2.4% interest). Using revised cost assumptions that reflect both the higher current earnings levels

**TABLE 4**  
**ACTUAL AND ESTIMATED NUMBERS OF OASI BENEFICIARIES**  
(In thousands)

CALENDAR YEAR	MONTHLY BENEFICIARIES*								LUMP-SUM DEATH PAYMENTS
	Retirement†			Survivor				Total§	
	Old-Age	Wife‡	Child	Widow‡	Parent‡	Mother	Child		
ACTUAL DATA									
1950 . . . . .	1,385	419	35	290	14	157	630	2,930	200
1951 . . . . .	2,091	596	61	350	17	192	726	4,034	414
1952 . . . . .	2,372	668	69	422	21	214	828	4,594	437
1953 . . . . .	2,977	827	83	499	22	245	920	5,573	512
1954 . . . . .	3,519	959#	99	586**	24	268	1,013	6,468	516
LOW-COST ESTIMATE									
1960 . . . . .	4,934	1,204	99	1,338	27	420	1,339	9,361	791
1980 . . . . .	10,598	1,743	175	3,072	35	507	1,575	17,705	1,309
2000 . . . . .	14,772	1,923	195	3,533	43	572	1,805	22,843	1,718
2025 . . . . .	20,708	2,821	290	4,217	43	694	2,173	30,946	2,253
HIGH-COST ESTIMATE									
1960 . . . . .	5,785	1,362	117	1,362	31	510	1,383	10,550	819
1980 . . . . .	12,736	1,892	180	3,109	47	570	1,457	19,991	1,342
2000 . . . . .	18,978	2,051	187	3,303	63	543	1,361	26,486	1,770
2025 . . . . .	26,837	3,216	274	3,832	63	546	1,340	36,108	2,284

\* In current payment status at middle of year.

† Represents benefits paid to retired workers (i.e., old-age benefits) and their dependents.

‡ For future estimates, does not include those also eligible for old-age benefits; for actual data, includes those receiving old-age benefits smaller than the full wife's, widow's, or parent's benefit as case may be (as of December 1953, about 24,000, 30,000, and 1,000 respectively). For wife's and widow's benefits, includes husband's and widower's benefits respectively.

§ For actual data, total is overstated by number of dual beneficiaries (see footnote ‡)—by about 55,000 as of December 1953.

|| Number of insured deaths for which payments are made during the year.

# Includes about 7,300 husbands and about 46,200 wives under age 65 with child beneficiaries in their care.

\*\* Includes about 900 widowers.

than prevailed in 1951-52 and the 2.3% interest rate now being earned would reduce this "insufficiency" to about .2% of payroll.

ACTUARIAL COST ESTIMATES FOR OASI SYSTEM

The cost estimates made at the time of enactment of the 1954 Amendments (see item 11 of bibliography) were developed in a limited time, making necessary certain approximations and short cuts. Subsequently, detailed cost estimates were made (see *Actuarial Study No. 39* of the Social Security Administration for details as to assumptions and methodology) which naturally differ only slightly from the original ones. The following discussion, in general, is summarized from these latest estimates.

Table 4 gives the number of beneficiaries for the past 5 years and estimates for the future. Table 5 indicates the average benefit payments

TABLE 5  
ACTUAL AND ESTIMATED AVERAGE OASI MONTHLY BENEFITS  
IN CURRENT PAYMENT STATUS AND LUMP-SUM DEATH PAYMENTS

CATEGORY	UNDER 1952 ACT, AUGUST 1954*	UNDER 1954 ACT		
		September 1954*	1960	2000
Old-age (retired worker) . . .	\$ 52	\$ 59	\$ 70	\$ 70
Male . . . . .	55	63	76	83
Female . . . . .	41	47	56	54
Wife . . . . .	28	32	38†	44†
Child (of retired worker) . . .	16	18	25	26
Widow (over 65) . . . . .	41	46	54†	64†
Parent (over 65) . . . . .	42	47	62‡	60‡
Mother (with orphan children) . . . . .	38	44	52	55
Child (survivor) . . . . .	33	37	43	45
Lump-sum death§ . . . . .	176	190	196	193

\* Rounded to nearest dollar. Partially estimated for some categories.  
 † Does not include those eligible for old-age benefits. Includes husband's and widower's benefits.  
 ‡ Does not include those eligible for old-age, widow's or widower's benefits.  
 § Average amount per death for claims certified in given period.  
 || Applicable only to deaths after August 1954. Estimated.

just before and after the 1954 Amendments, and estimates for the long-range future.

Table 6 presents costs in future years as a percentage of payroll for the different types of benefits. The ultimate cost is roughly 8% of payroll

according to the low-cost estimate and 12% according to the high-cost estimate.

Table 7 shows the actual and estimated operation of the trust fund. According to the low-cost estimate, the trust fund will rise continuously from its current level of about \$21 billion to almost \$150 billion by the year 2000. Under the high-cost estimate, the trust fund will grow only slowly, reaching a peak of about \$30 billion in 1980 and then decreasing until exhausted in 1995. Under the intermediate-cost estimate, a mere average of the low-cost and high-cost estimates, the trust fund grows

TABLE 6  
ESTIMATED RELATIVE COSTS OF OASI IN PERCENTAGE OF PAYROLL  
BY TYPE OF BENEFIT

Calendar Year	Old-Age	Wife*	Widow*	Parent	Mother	Child†	Disability Freeze	Lump-Sum Death	Total
LOW-COST ESTIMATE									
1960.....	2.47	.33	.52	.01	.16	.42	.04	.09	4.04
1970.....	3.47	.38	.93	.01	.17	.44	.05	.11	5.57
1980.....	4.41	.42	1.17	.01	.16	.43	.07	.12	6.79
1990.....	5.08	.41	1.27	.01	.15	.42	.07	.13	7.55
2000.....	4.91	.39	1.17	.01	.15	.40	.07	.13	7.24
2025.....	5.65	.46	1.15	.01	.15	.40	.08	.14	8.05
Level Premium‡									
2½% interest...	4.53	.40	1.05	.01	.15	.41	.07	.13	6.73
2½% interest...	4.43	.40	1.03	.01	.15	.41	.06	.12	6.62
HIGH-COST ESTIMATE									
1960.....	2.92	.37	.55	.01	.19	.44	.05	.10	4.63
1970.....	4.11	.45	1.00	.01	.20	.45	.06	.11	6.39
1980.....	5.34	.47	1.27	.02	.18	.41	.08	.13	7.90
1990.....	6.48	.48	1.40	.02	.17	.38	.09	.14	9.15
2000.....	6.75	.48	1.33	.02	.16	.34	.09	.15	9.31
2025.....	9.25	.71	1.51	.02	.15	.34	.12	.18	12.28
Level Premium‡									
2½% interest...	6.16	.52	1.22	.02	.17	.38	.08	.14	8.68
2½% interest...	5.97	.51	1.19	.02	.17	.38	.08	.14	8.44

\* 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 for benefit payments after 1954 and into perpetuity, not taking into account the accumulated funds at the end of 1954 or administrative expenses and assuming that after 2050 both benefit payments and taxable payroll are level.

**TABLE 7**  
**ACTUAL AND ESTIMATED PROGRESS OF OASI TRUST FUND**  
(In millions)

Calendar Year	Contributions*	Benefit Payments	Administrative Expenses	Interest on Fund†	Fund at End of Year
<b>ACTUAL DATA‡</b>					
1949.....	\$ 1,670	\$ 667	\$ 54	\$ 146	\$ 11,816
1950.....	2,671	961	61	257	13,721
1951.....	3,367	1,885	81	417	15,540
1952.....	3,819	2,194	88	365	17,442
1953.....	3,945	3,006	88	414	18,707
1954.....	5,163	3,670	92	468	20,576
<b>LOW-COST ESTIMATE</b>					
1960.....	\$ 7,807	\$ 6,822	\$117	\$ 672	\$ 29,126
1970.....	12,526	10,654	145	1,061	46,115
1980.....	16,245	14,335	173	1,870	80,649
1990.....	17,734	17,398	199	2,607	111,309
2000.....	19,740	18,559	217	3,413	146,087
2025.....	24,175	25,272	280	6,801	289,476
<b>HIGH-COST ESTIMATE</b>					
1960.....	\$ 7,736	\$ 7,736	\$153	\$568	\$24,139
1970.....	12,393	12,097	193	564	24,112
1980.....	15,819	16,235	232	722	30,497
1990.....	16,615	19,752	268	380	14,510
2000.....	17,753	21,470	289	\$	\$
2025.....	18,496	29,513	361	\$	\$
<b>INTERMEDIATE-COST ESTIMATE  </b>					
1955.....	\$ 5,922	\$ 4,740	\$114	\$ 516	\$22,520
1960.....	7,772	7,279	135	620	26,632
1970.....	12,460	11,377	169	812	35,114
1980.....	16,032	15,285	202	1,296	55,573
1990.....	17,174	18,574	234	1,494	62,910
2000.....	18,747	20,014	253	1,436	60,494
2025.....	21,336	27,391	320	294	9,354

\* Combined employer, employee, and self-employed contributions, less refunds of employee taxes paid in 1951-54 on wages in excess of \$3,600 in a year, and after 1954 in excess of \$4,200. For 1949-51 includes transfers from general funds to meet cost of certain veterans' survivor benefits. Combined employer-employee rate is 2% for 1937-49, 3% for 1950-53, 4% for 1954-59, 5% for 1960-64, 6% for 1965-69, 7% for 1970-74, and 8% thereafter. Self-employed pay  $\frac{1}{4}$  of these rates (for 1951 and after).

† For estimates, 2.4% on average balance in fund during year.

‡ Excluding effect of railroad coverage under financial interchange provisions (which is included in future estimates); including this factor would increase the trust fund at the end of 1954 by about \$360 million.

§ Fund exhausted in 1995.

|| Based on an average of the low-cost and high-cost dollar figures.

steadily for about the next 30 years reaching a peak of about \$60 billion, remaining at this level for about 30 years, and then declining.

The results as to the progress of the trust fund for the low-cost and high-cost estimates are to be expected, since on an intermediate-cost basis the system is not far from being self-supporting. Thus a low-cost estimate should show that the system is more than self-supporting, and a high-cost estimate that a deficiency would arise. According to the philosophy underlying the Act, as set forth in various Congressional reports and statements, neither of these conditions would ever develop, because the tax schedule would be adjusted well in advance. In other words, if the experience followed the low-cost estimate, contributions would be kept lower, and vice versa.

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