

SOCIAL SECURITY

- A. What are the developments and outlook concerning the President's recommendations to Congress for the United States OASI system?
- B. What are the current developments in Canada?

MR. R. J. MYERS reviewed the developments which led up to the current administration proposals. In the middle of 1953, an eminent group of consultants to the Secretary of Health, Education, and Welfare recommended that virtually all types of employment not now covered by the OASI system could feasibly be brought into coverage. They made no recommendations as to the coverage of railroad or federal employees (including the military), for these matters were being studied by other committees. They proposed that some of the extension be on a compulsory basis, and some on a voluntary basis. The consultants also recommended that the average wage as computed from 1951 on should not include the earnings in the three lowest years. Legislation embodying these recommendations was introduced in 1953 (H.R. 6812), but no action was taken on it by Congress.

Meanwhile, the Department of Health, Education, and Welfare completed extensive studies of all aspects of the OASI system. The current bill (H.R. 7199) incorporates the recommendations made by President Eisenhower on the basis of such studies. Mr. Myers highlighted the following as the principal points of interest in the proposal:

1. The extension of coverage (as in H.R. 6812).
2. The "drop-out" of the wages of the four lowest years.
3. The revision of the retirement test or work clause, including a change to an annual basis.
4. The increase in annual covered earnings to \$4,200.
5. The liberalization of the basic formula to 55% of the first \$110 of average monthly wage plus 20% of the next \$240, together with other conforming changes, including increases in the maximum benefits and increases in benefits to those already on the rolls.
6. The establishment of a disability "freeze" or waiver provision which preserves benefit rights and prevents benefit reduction from any period of extended total disability, with the determination of disability to be made by State Agencies, subject to review by the Secretary of Health, Education, and Welfare.
7. The change in the ultimate combined employer-employee tax rate in 1970 and after from $6\frac{1}{2}\%$ to 7% .

Mr. Myers then described some of the attitudes expressed in recent hearings before the House Ways and Means Committee: (1) On the whole, extension of coverage is opposed only by certain professional groups, such as doctors, and by certain state and local government employees. Several farm groups favored extension to farmers, although one major group opposed it. (2) The proposed changes in the retirement test had general approval. (3) The increases in benefit amounts and the disability "freeze" provisions were generally supported by labor groups, who, however, believed these provisions do not go far enough; on the other hand, there was opposition from business groups who generally believed that the wage base should currently remain at \$3,600 and benefit increases, if any, should not be as large as in the bill. (4) Several witnesses spoke on behalf of "blanketing in" at a flat amount all the present retired aged who have not met the insured status requirement.

MR. LEIGH CRUESS referred to the work of several important groups, especially the L.I.A.A.-A.L.C. Joint Committee on Social Security headed by Mr. Call, which had developed the first official insurance industry statement of policy on Social Security (other than testimony on specific bills). This policy statement is covered in a Joint General Bulletin dated December 14, 1953. On behalf of the L.I.A.A.-A.L.C., Mr. Call testified on H.R. 7199 before the Ways and Means Committee on April 14, 1954. Mr. Cruess outlined the position taken on the bill by the insurance industry as follows:

1. They supported (a) the extension of coverage, (b) the four-year "drop-out" (and the corresponding \$5 increase in monthly benefits), and (c) the change in the retirement test.
2. They opposed the increase in covered earnings and the liberalization of the basic benefit formula, on the grounds that (a) provision of a basic floor of protection did not require these changes, and (b) these changes would favor the higher paid.
3. They expressed opposition to all lump sum death benefits in principle, and in particular opposed any increase in the amount of such payments.
4. They opposed the disability "freeze" provision because of the problems of adjudication, and suggested the "drop-out" provision be used to cover the over-all problem of involuntary absence from covered work.
5. They recommended the adoption of an automatic tax rate formula devised to maintain the trust fund over the years at about its present level.

MR. M. ALBERT LINTON, who had personally appeared before the House Ways and Means Committee two weeks before, commented briefly on the operation of the work clause. While the proposed provision was a great improvement, he thought it should be developed further, to the point that no one can lose benefits that exceed the amount earned.

He then discussed the proposals for "blanketing in" the present aged. He mentioned the unsatisfactory aspects of the old age assistance program, which lead to jockeying among the states for a formula that is beneficial to them and that throws a heavier financial burden on the federal government. He pointed out the thin dividing line that sometimes separates the covered and noncovered under OASI. In some cases, employee taxes of as little as \$81 can provide the basis for over \$16,000 of benefits without any means test, but an individual without the minimum required coverage can receive benefits only subject to a means test, which varies from state to state. Mr. Linton advocated some federal minimum of perhaps \$35 a month to all without wage credits, and the discontinuance of the federal part of old age assistance. He cited the successive increases in Social Security benefits for those already retired, and the coverage under railroad retirement of those already retired when the system was set up, as precedents for gratuitous benefits, such as those involved in "blanketing in."

Mr. Linton estimated that (1) to bring in all the presently noncovered aged on a minimum basis without a means test would increase the current OASI outgo by about \$2 billion a year and (2) the discontinuance of the federal part of old age assistance would result in a credit in the general budget of \$900 million a year. The added load on OASI would probably soon require an increase in payroll taxes. Because of the heavy extra load, the suggestion has been made to take a first step by blanketing in only those 75 or over, 75 being chosen because it is the age at which the "work clause" is discontinued. Mr. Linton expressed his belief that if there had been in the United States more familiarity with social insurance when the original Act was developed, the federal program would not have been split into the "insurance" and "assistance" portions.

MR. LEIGH CRUESS commented that "blanketing in," which had been advocated by the U.S. Chamber of Commerce, had been discussed by the L.I.A.A.-A.L.C. group, but was found to be a topic on which irreconcilable views of different members prevented the establishment of an industry position.

MR. W. R. WILLIAMSON deplored what he considered to be a widespread lack of understanding of Social Security philosophy and basic principles. He expressed concern as to the confusion caused by the use of labels and terminology. He referred to the hearings of the Congressional Subcommittee headed by Carl T. Curtis as a sounding board for ancient propaganda, which was, however, accompanied by a persistent digging for some orthodoxy. In his opinion, the current bill was a bad bill.

MR. B. R. POWER discussed the Canadian Old Age Security Act which became effective on January 1, 1952. A universal payment of \$40 a month is provided to all Canadians over 70. The federal government also shares 50-50 with the provinces in the cost of providing benefits of not more than \$40 monthly to persons between the ages of 65 and 70 who demonstrate need. Several provinces supplement the incomes of those recipients of old age security or assistance who qualify under a means and residence test, in amounts from \$2.50 to \$15 a month.

He pointed out that the Old Age Security benefits were to be financed on a pay-as-you-go basis by a 2% sales tax, a 2% corporate income tax, plus a 2% tax on individual incomes (with a maximum annual tax of \$30 per person), all of which are earmarked for an Old Age Security Fund. He summarized the transactions for the Fund to March 31, 1954, as follows:

	Benefit Payments*	Tax Receipts*	Deficit*
January 1, 1952—March 31, 1952	\$ 76.1	\$ 26.4	\$49.7
April 1, 1952—March 31, 1953	323.1	223.6	99.5
April 1, 1953—March 31, 1954	338.8	294.0	44.8

* In millions of dollars.

He explained that the deficits in the first two fiscal periods should be considered in the light of the fact that the 2% personal and corporate income taxes did not become payable until July 1952; also, that deficits do not take into account the taxes recovered on old age security benefits from those recipients in taxable brackets.

In a Budget Speech of April 6, 1954, the Canadian Minister of Finance reported that the first three months' deficit had been extinguished by a Parliamentary appropriation from general revenue and proposed, with consent of Parliament, to write off the second year's deficit of \$99.5 million in the same way. The deficit for the third year has been met by a temporary loan from the Minister of Finance and is carried as an active asset in Canada's balance sheet. The Minister of Finance has estimated a deficit of \$50 million for the coming year. While pointing out that a case could be made for increasing the scale of contributions, the Minister has expressed the opinion that this is not a time to be increasing taxes in Canada, if that can possibly be avoided. Accordingly, the same scale is being continued for at least another year.

MR. W. M. ANDERSON described several supplementary Canadian

plans on the provincial level providing benefits to the blind and to the totally and permanently disabled. He mentioned that federal participation in the latter program on a 50-50 basis is expected to be developed at the current session of Parliament. He believed that the criteria for disability would be quite severe, and that the costs would be kept to a minimum.

After pointing to the Canadian dividing line at age 70 between a universal pension and a means test pension, Mr. Anderson expressed the thought that "blanketing in" is generally feasible only above the age when the work clause ceases to operate. His reason was that "blanketing in" is based on the universal pension approach, and with that approach it is awkward to exclude people merely because of their current earnings.