

SOCIAL SECURITY

- A. What is the probable effect on the life insurance business of the recent changes in the Social Security Law:
- (1) Lowering of retirement age for women to 62?
 - (2) Provision for disability benefits?
 - (3) Inclusion of other groups under the plan?
- B. Have any companies made any changes in their home office retirement plans or disability benefit plans because of these amendments?
- C. Have any changes been made in group or self-administered retirement plans as a result of these amendments?
- D. Will the requirement that disabled persons attempt rehabilitation effectively control malingering and questionable claims?

MR. H. E. BLAGDEN, in reference to section B, remarked that the Prudential's retirement plans provide that disability benefits payable before age 65 may be reduced by all or part of the social security disability benefits, so that a change in the plan is not urgently required. It is possible the company may not take full advantage of this provision and studies are now under way to establish policy.

The reason for not making a full deduction is the desirability of providing incentive to the disabled employee to apply for social security benefits and to make a real effort to qualify for them. This includes acceptance of rehabilitation services. Loss of social security benefits because of refusal to accept rehabilitation services should not avoid the deduction.

In reference to section D, attempts at rehabilitation might have an "effect upon" rather than "effectively control" malingering and questionable claims. Malingering may be divided into two classes; namely, pathological malingerers and plain shirkers. As to the latter, it is necessary to have the cooperation of the doctors.

MR. R. J. MYERS, speaking on section A, stated that because of the complex structure of social security benefits it is difficult to forecast the effect of any one element on life insurance. In arriving at a conclusion in regard to the effect of a certain element the question as to future changes invariably arises, especially those that will almost inevitably occur because of the initial change.

He believes there will be a greater demand for policies maturing at age 62 and that the current changes in the Act will have considerable effect on pension plans. Private insurers could provide insurance to cover the gap,

now smaller, between the time when the last child attains age 18 and the widow's minimum eligibility age (reduced from 65 to 62).

The recent changes will affect disability underwriting, especially in determining the total maximum benefit to which an applicant is entitled. Claims administration will be more complicated for the companies in cases which they are not prepared to approve but which the Social Security Administration has already approved even though the rules of the latter are generally stricter.

The extension of coverage to more professional people should increase the demand for family protection type policies and riders. Social Security is a stimulus to private sales unless the floors of Social Security are raised to too high a level. This extension might also increase the possibility of legislation permitting the self-employed certain tax exemption in regard to retirement provisions (Reed-Keogh bill).

MR. R. G. STAGG reported that a study had been made of an Indiana area with a population of 200,000 to determine the extent of the rehabilitation services now being provided by one means or another in that area.

It was concluded that the services provided are extensive enough but that there is a distinct lack both of coordination of these services and of cooperation between the agencies providing them. These findings suggest that the superimposition of a Federal rehabilitation service on other types of such services would do little to bring down the cost of Federal disability benefits.

MR. D. C. BRONSON's remarks were confined to section C. He believes that widened coverage will bring no problems to private retirement plans since the new coverage is almost entirely confined to military personnel and the self-employed.

It is too early to see any effects of the lower retirement age of 62 for women. He doubts if it will have any great effect in changing the normal retirement age in pension plans, after many years of lengthening the career duration for women.

The lower optional age should provide no problems for plans whose benefit formula is of the additive type, that is, payable independently of the Social Security. The reduction factor for both Social Security and private plans is approximately 80% for retirement at age 62. However, some plans provide what might be called a "make-up" benefit such that at early retirement an amount approximating the expected Social Security Primary Insurance Amount is payable to age 65. Indications are that some employers will change their plans to provide until age 62 for women a "make-up" benefit equal to the reduced P.I.A. at age 62. Other em-

ployers will continue the present plans in an attempt to induce female employees not to reduce their P.I.A. below the age 65 level.

Other plans contain the offset type of formula where the benefit is reduced by social security payments. Some of these plans have estimated the age 65 P.I.A. and applied an early retirement reduction factor to the net pension due at 65; others have applied the factor to the gross age 65 amount, the offset becoming effective only after age 65. Under the amendments to the Act, the solutions to the problem should be consistent with present practice.

Turning to the new social security disability benefit, there seem to be more troublesome problems of meshing the benefit into pension plans

SOURCE	PRESENT DISABILITY BENEFIT	FUTURE DISABILITY BENEFITS	
		Basis I	Basis II
(1) Employer's Plan.....	Gross Plan Benefit minus W.C.	Gross Plan Benefit minus Full DIB minus W.C.	Gross Plan Benefit minus Net DIB minus W.C.
(2) Net Social Security.....	Nil	Full DIB minus W.C. minus V.A.	Full DIB minus W.C. minus V.A.
(3) State W.C. Benefit.....	W.C.	W.C.	W.C.
(4) Federal V.A. Benefit....	V.A.	V.A.	V.A.
(5) Total (Sum of Above)...	Gross Plan Benefit plus V.A.	Gross Plan Benefit minus W.C.	Gross Plan Benefit plus V.A.

having a disability feature of their own. If the plan is of the additive type there will be no problem except that the total of disability benefits might be too high. For example, under a formula providing 1% per year of service, a person earning \$4,200 with 25 years of service who becomes disabled at 55 would receive social security benefits of \$1,302 and \$1,050 from the plan, a total of 56% of salary in tax-free income.

Under the offset type some problems arise from the fact that the Act provides that disability benefits are to be reduced by Workmen's Compensation and disability payments made by any other federal agency, or where the payee refuses the rehabilitation services. It would be necessary to exercise care that double reduction is not made when the federal government applies these various offsets itself.

To exemplify the complications of the Federal Social Security Disability (DIB) when used as an offset, Mr. Bronson first assumed that the

employer's plan is amended so as to call for the *full* DIB as an offset. If this is called Basis I and the items are added up, the result is as shown in the tabulation on page 563. Alternatively, he assumed that the employer's plan calls for an offset of the *net* DIB, and called this Basis II; this also is shown.

Mr. Bronson indicated that Basis II is the fairest since it perpetuates the Veteran's Disability as an independent benefit consonant with most pension plans; whereas Basis I not only cuts the employee out of his Veteran's pension but also, in effect, leaves him with no Workmen's Compensation.

The disability benefit will not commence until July 1, 1957 and some time is, therefore, available to study these problems. Ancillary regulations to the law may furnish some pertinent details. The disability provisions of the Act are strict and the benefit may be controllable if the provisions are adhered to; but liberalizing amendments and administrative laxity are not unheard of.

MR. W. R. WILLIAMSON referred to three things: the doctors' disability testimony in 1956 Senate Finance Hearings; the high 60-64 disability payments of the German Weimar Republic, in spite of rehabilitation facilities; the psychological effect of very early age and disability retirements of both military and civilian Federal employees.

It was MR. W. M. ANDERSON's thought that, since the rate of disability increases with age and the effective rate of rehabilitation probably decreases rapidly with advance in age, the problem of rehabilitation may not be so acute as it seems at first. This is especially true so long as the high qualifying age of 50 is maintained, but the problem will become increasingly important if the age is lowered. It might be possible to select an age after which it is assumed that rehabilitation is not useful.

MR. C. H. WAIN, speaking on section A, pointed out that a challenge to the life insurance business has been created by the entry of the federal government into the field of long-term disability. The small benefits for all except the lowest income groups and the limiting age of 50 for the payment of benefits may stimulate public demand for further coverage. It has been estimated by Mr. Myers that an additional cost of from fifty to sixty percent would result if the limiting age were lowered. Few people would resist the opportunity to secure disability coverage to age 50 of \$108 a month for about \$5 a year. If this should occur there might follow a demand for not only increased disability benefits but also increased pension benefits.

An opportunity is provided the life insurance business to increase its

services to the public by furnishing long-term disability benefits on a sound basis recognizing the lessons learned from previous disastrous experience. The problem, of course, is to compete vigorously and still recognize that claim experience requires a considerable period to mature and even then is subject to fluctuations with the business cycle, and accordingly restraint should be exercised in translating early favorable experience into rate reductions. With such restraint and the stabilizing forces that have been built into the U.S. economy, the extended service could be satisfactory to both the public and the companies. The stabilizing forces include restriction of security manipulation by the S.E.C., unemployment insurance to maintain purchasing power, and Social Security itself.