Dependents' Allowances in Social Insurance

By Arthur J. Altmeyer*

Five States are now paying additional allowances for dependents of workers who lose their jobs and become entitled to unemployment benefits. In this article the Commissioner for Social Security discusses the role of dependents' benefits in a social insurance system in helping to assure family well-being and solidarity when the earnings of the breadwinner are interrupted or cut short by disability, unemployment, old age, or death.

NOTHING SHOWS THE PURPOSES of social insurance more clearly than the provision commonly made under social insurance programs for allowances to the dependents of insured workers. Recognition of the additional responsibilities of workers with dependents is made in two general ways—through survivor benefits payable to dependents of insured workers who die and through allowances, in addition to the amount payable to the insured person himself, for dependents of living workers who meet with the risk covered by the social insurance program. Congress made both types of provision in the Federal old-age and survivors insurance system in the 1939 amendments to the Social Security Act, which established benefits to certain dependents of retired workers and to survivors of insured workers who die. Various types of provision for dependents have also been made in the United States under veterans' legislation, workmen's compensation laws, the railroad retirement system, and a few State unemployment insurance laws, while both survivor benefits and allowances for dependents of living workers are usually found in the social insurance programs of other countries.

Reasons for Dependents' Allowances

The particular purposes that dependents' allowances serve under a social insurance program may perhaps be seen most clearly by contrasting this type of insurance with that which workers may buy individually for themselves.

Protection When and Where It Is Needed

Under private insurance, the amount of protection that a man can assure for his family if he dies or becomes incapacitated depends, of course, on the amount of the individual premium he can pay. The greater his family's need for insurance, the less adequate, ordinarily, is the insurance he can afford. A man who is in poor health or is in an especially hazardous occupation may not be able to buy individual insurance at all or may have to pay an increased rate or accept a policy that has various restrictions. Commercial insurance is a business, and a company necessarily must limit the individual risk it can underwrite at a given individual rate. Since people who buy commercial insurance are often those who know or fear they may have reason to need it, premium rates must be higher than they are when very large groups or the whole population is covered and the risk is widely pooled.

Likewise the worker who has heavy family obligations—many dependents or young children who would need an alternative source of support for many years if he should die or become incapacitated—is likely to be the one who has the least margin over the family's day-to-day requirements for food, shelter, and clothing to use for other purposes. Typically a family's need for insurance against loss of the breadwinner's earnings is greatest in the early years, when the worker's earning capacity is likely to be less than it is later, when the wife is responsible for the care of young children, and when there has been little time to pay for a home or make other individual savings. Thus the time when adequate protection is most important from his standpoint and society's is likely to be the time when he himself can do little to assure it.

Social insurance has found a way to cut through these difficulties by making allowance for a worker's dependents, in addition to the benefit to which he himself is entitled, when a family loses part or all of its customary livelihood because of the disability, unemployment, old age, or death of the breadwinner. Such allowances are designed to assure a basic minimum which workers will supplement, insofar as they can, with individual savings or commercial insurance. It may be expected that nearly all gainful workers will carry financial responsibility at some time during the course of their working lifetime for members of their immediate family or other relatives who, in the absence of adequate social insurance protection, might require their aid. The costs of dependents' allowances therefore may justly be spread over the whole group, and the worker with a big family contributes at the same rate as the person who at that time has no dependents. Social insurance covers very large groups of people, including the good risks as well as the bad. It is financed not only by employees' contributions but also by employers' contributions and in some cases by Government contributions as well. Therefore, reasonably adequate protection for everyone can be made at a cost that can be borne equitably by those who stand to benefit from the system—covered workers, their employers, and the general public.

Benefits paid to insured individual workers under social insurance programs commonly replace a part of the amount they would have earned except for the unemployment, sickness, or other cause of their loss of earnings. For a person without dependents, such a reduction in income, even if temporary, is likely to require some change in living habits and use of savings and other personal resources. For a family, the adjustment is likely to be much more difficult because, at any given level of earnings, a family must use a larger proportion of income than an individual for food and other daily essen-

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tials that cannot be stopped or postponed. A given dollar amount of benefit obviously has a very different connotation for the worker with dependents than for the person who has only himself to fend for. Dependents' allowances help to carry, during periods of adversity, some of the responsibilities assumed by the individuals who are rearing the Nation's future workers and citizens, spreading the costs over the whole group and over periods of time.

From the standpoint of the Nation as a whole, provision for dependents is especially important as a means of safeguarding a country's greatest social asset, its children, and of helping to prevent family demoralization and dependency. Payment of dependents' allowances meets the objective of social insurance by proportioning to its presumptive needs the total amount payable to a household. At the same time, the cost of the system is much less than it would have to be if benefits for all individuals were scaled at amounts that would be adequate for a family. For the insured worker, provision for dependents means the security of knowing that members of his family have a basic protection against loss of his capacity to earn their living.

Insuring a Nation's Future

It is logical that social insurance, which has been developed to meet the needs of workers in an industrialized society and a money economy, should be reinforced by special protection for dependents and, in particular, for children. In the older agricultural life, children ordinarily were an economic asset to a family. They helped produce much of what the family ate and wore. When the father was sick or died, the wife and children often could take on much of his work and continue to earn their living.

As cities have grown up, however, and much of the work done on family farms also has become industrialized, and as our more complicated civilization has made it necessary for children to have more years of formal schooling to fit them for self-support, a family's livelihood has come to depend increasingly on the money wages of a single breadwinner. When such a worker loses his wages, even temporarily, family income stops. If the mother and children must get paid work, ordinarily they must leave home, and the children must leave school, to do so.

Assurance of a basic minimum for the family when the chief breadwinner's earning capacity is interrupted or ended is the more important because so many of the children of the United States are in homes where family income is too small to permit adequate individual savings for major catastrophes. In relation to the requirements of their members, families with children tend to have smaller incomes than childless families. Moreover, income tends to be less adequate in large families than in those with only a child or two, and the large families, though relatively few in number, include a disproportionately large number of all children in the United States.

A growing number of countries—among them Great Britain, Canada, and New Zealand—have considered it so important to assure a basic minimum for all children at all times that they have adopted systematic provision for children's allowances, financed from general or special revenues. These allowances may be paid for all children in a family or for all but the first, regardless of the family income. Since they are commonly taxable as ordinary income, the amounts received by well-to-do families are largely returned as tax payments, while low-income families have added means of supporting their children. In countries that had dependents' allowances under social insurance, the children's allowances have been geared in with existing benefits or have replaced them. In Great Britain, for example, children's allowances, payable to all families for all but the first child, continue when the parent is on benefit and replace, for all but the first child, the supplementary benefits formerly payable under the existing systems of workmen's compensation, unemployment insurance, and contributory pensions.

Some Questions To Be Decided in Establishing Dependents' Allowances

The particular provisions governing dependents' allowances depend, of course, on the particular purpose of the program under which they are paid, the funds available, and many other factors. Somewhat different questions arise under long-term insurance programs, such as old-age and survivors insurance and insurance against permanent disability, and under the current-benefit programs—unemployment insurance and temporary disability insurance. The following paragraphs deal only with a few general factors that relate to various provisions for dependents' allowances.

General Criteria

The general criteria to be met in establishing dependents' allowances are those that underlie all sound social insurance. Because millions of persons are concerned and because social insurance must operate with the greatest possible economy, administrative arrangements must be as simple as possible and must be understandable to the claimant. Both in the interest of simplicity and economy of operation and because people prefer arrangements that do not require detailed investigation of their personal affairs, there should be a minimum need for "case investigations" of individual claims. The classes of dependents to be covered should be easily identifiable. The benefits should afford a reasonable minimum for the great majority of the families to which they are paid and must be within the limits of reasonable cost to contributors. In the United States we have accepted the general principle that social insurance contributions and benefits should be proportioned to the past earnings of the worker and hence to his presumptive needs. For successful operation of the system, its objectives and general provisions must be acceptable to the public—that is, they must accord with prevailing standards of what is fair and reasonable.

Dependents To Be Included

Old-age and survivors insurance provides benefits for the aged wife of a retired worker and for his unmarried children under the age of 18. When an insured worker dies, benefits are payable to an aged widow, to unmarried children under age 18, and to a widow, regardless of her age, who has such children in her care.

If no widow or children survive who could at some time be entitled to benefits, benefits are payable to the aged parent or parents of the insured worker if they have been chiefly dependent on him. Relatively few parents have qualified for survivor benefits under the rather restrictive provisions relating to their age and past dependency on the worker and to the absence of a surviving widow or child. As old-age and survivors insurance matures, it may be expected that an increasing proportion of the aged population will be entitled to old-age benefits in their own right and that, accordingly, primary dependency of aged parents on their sons and daughters will be less common than it has been or is now.

Children are recognized as dependents under the unemployment insurance laws of all five of the States that have established allowances for dependents under this program—Connecticut, the District of Columbia, Massachusetts,[1] Michigan, and Nevada. Massachusetts and Michigan make such allowances only for children. Other States variously include, under specified conditions, the wife and other dependents, such as a disabled husband who has been supported by a woman worker. The District of Columbia includes the claimant's mother, father, stepmother, stepfather, brother, and sister if, because of age or physical condition, they are unable to work and are wholly or mainly supported by him. Children or the wife and children are the dependents for whom additional allowances are made under the workmen's compensation laws of the 12 States[2] that provide dependents' benefits when a worker is temporarily totally disabled by a condition compensable under the law. Most of these States also provide dependents' allowances if the worker is permanently disabled.

All the workmen's compensation systems except that of Oklahoma provide for death benefits to survivors of workers. The classes of survivors recognized as dependents and eligible for death benefits vary considerably from State to State. In general, the widow and minor children are presumed to have been totally dependent on the worker, while the dependency of other survivors—sometimes limited to such classes as invalid widowers, parents, brothers, and sisters—is determined according to the facts. Usually the workmen's compensation laws specify preferred classes of survivors or provide that partial dependents are to be excluded from death benefits if a worker leaves total dependents.

Clearly, provision for children and for a wife dependent on her husband's earnings, especially when she has children in her care, meets the greatest part of the need for dependents' allowances. For urban families, for example, census data indicate that in 1940 wives and children represented 84 percent of all family members not in the labor force.

While many workers carry financial responsibilities for relatives other than wives and children, it must be recognized that a social insurance system must be designed in terms of the prevailing needs of the covered group. Except at undue cost and with great complexity, social insurance could not provide for all individual circumstances; that is why, in this country and elsewhere, it is recognized that an adequate program of public assistance is a necessary supplement to social insurance. Dependency of minor children and of a wife who is not herself gainfully occupied is so nearly universal that it can be presumed, and benefits can be paid on evidence of the dependent's relationship to the claimant. Inclusion of other classes of relatives ordinarily requires specific evidence of their dependency.

The classes of dependents to be covered may differ for different social insurance programs, particularly as between programs that cover a short-term risk, such as unemployment or temporary disability, and those that envisage payment of benefits over a long period of time. During unemployment, for example, it may be considered unreasonable to expect a wife who ordinarily depends on her husband's earnings to try to find a means of self-support, and for this reason as well as for simplicity in operation, it is often argued that when the husband is receiving unemployment benefits an allowance should be made for a wife, whether or not she has children in her care, if she is not gainfully occupied or is not herself drawing a benefit. In old-age and survivors insurance, on the other hand, no benefit except a relatively small lump-sum payment is paid immediately to a widow unless she has reached retirement age or has children in her care; it is presumed that, faced with a long or permanent change in their situation, younger widows who are not responsible for the care of children will find other means of support. Under the new National Insurance Act in Great Britain, on the other hand, widows' benefits are payable at considerably younger ages.

Benefit Amounts

In old-age and survivors insurance, benefits to dependents are a fraction of the primary benefit based on the worker's wage record, subject to certain limitations on the total amount payable to a family. Under the five State unemployment insurance laws now providing for benefits to dependents, the allowance is a flat amount that is the same for each eligible dependent. In Connecticut, Massachusetts, and Michigan, the amount is $2 a week and in the District of Columbia, $1; Nevada provides nothing for only one dependent, $3 for the first two, and $6 for three or more. The District and Connecticut also do not recognize dependents in excess of three; Michigan allows for as many as four and in certain circumstances pays a fractional allowance for a fifth; Massachusetts has no specific limit on the number of dependents for whom allowances may be paid. Since the benefit formulas relate the worker's benefit amount to his prior earnings, even when the dependents' allowances are flat amounts rather than a proportion of the primary benefit, the total amount payable to a family varies somewhat according to the insured worker's past earnings, within the various types of limitations on the maximum.

In the District of Columbia the maximum weekly benefit is the same for all claimants, whether or not they

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[1] The Massachusetts program began operations April 1, 1947.

[2] Alabama, Arizona, Idaho, Illinois, Massachusetts, Montana, Nevada, North Dakota, Oregon, Utah, Washington, and Wyoming.

have dependents. A beneficiary whose own wage record qualifies him for the maximum will therefore not receive any additional allowance for dependents. The Connecticut law specifies that dependents' allowances may not exceed half the benefit otherwise payable for a week of total unemployment. In Massachusetts the weekly benefit plus allowances may not exceed the average weekly wage; this limitation also applies in Michigan, but total benefits may not exceed $28.

The benefits payable under State workmen's compensation laws to dependents of disabled workers are in some cases a percentage of the amount due the worker himself and in some, additional flat amounts. Most of the compensation laws base death benefits on the average weekly wages of the deceased worker, but a few pay a flat pension. In some States the death compensation varies with conjugal status and number of children.

It is commonly believed that insurance benefits should not equal or exceed the insured worker's customary earnings, so as not to weaken incentives to resume earning. Such a limitation of the total including dependents' allowances appears reasonable, especially in the programs in which benefits are payable over long periods of time. There is no fixed proportion, however, that ideally defines the percentage of earnings that benefits may not exceed. Dependents' allowances under existing programs and any that are likely to be adopted go largely to families with children. Most families with children are at the lower end of the income scale and under pressure to meet the developing needs of their growing youngsters. A small differential between benefits and earnings is sufficient in such circumstances. The dollar maximums of the unemployment benefits specified in most State unemployment insurance laws are so low in relation to the earnings of many workers that the addition of dependents' allowances similar to those already in effect in a few States would leave the family total for most beneficiary families still very much below their customary level of income.

A Family Program

Under the original Social Security Act, old-age and survivors insurance was in large measure a program of individual equity. Except for the weighting of the benefit formula in favor of the low-paid worker, the individual's return reflected largely the contributions made by him or on his behalf. The establishment in 1939 of benefits for the dependents of aged retired workers and for survivors of insured workers greatly increased the value of that program for both the individual and the Nation. We have been slow, however, in applying the same principle to the other chief existing social insurance program in this country, that is, to the unemployment insurance systems under State laws.

Throughout all modern countries, the long-range decline in the birth rate, as well as the special circumstances revealed by the war years, has emphasized the importance of the Nation's children. At the same time, the adequate upbringing of a child and assurance of an education adequate to equip him to meet his and his country's needs have become an increasing burden on family resources. Dependents' allowances are one of the modern inventions that help to assure family well-being and solidarity when the earnings of the breadwinner are interrupted or cut short. They are a means of helping to ensure that children and others in the household will not lack basic essentials or be forced to take blind-alley jobs. They may also help to assure that a child need not give up school in order to earn or, because his mother must earn, lack needed care.

Provision for dependents is, in my opinion, an essential part of any adequate social insurance program. Experience in the States that have already incorporated dependents' allowances in their laws has revealed no insuperable administrative difficulties. There seems no reason why such allowances should exist in only 5 of the 51 State unemployment insurance laws or why they should be paid during disability under only about one-fourth of the workmen's compensation laws. As more comprehensive programs are developed for insurance against temporary and permanent disability and as programs are established for insurance against the costs of medical care, adequate provision for dependents should be made at the start.