

Old-Age and Survivors Insurance: Retirement Test Under the 1954 Amendments

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On September 1, President Eisenhower signed the Social Security Amendments of 1954 (Public Law No. 761). The new law makes major changes in the retirement test, which in various forms has been a condition for receipt of benefits ever since Congress passed the Social Security Act in 1935. The philosophy underlying the provisions and the changes made by the 1954 amendments are reported in the following pages.

THE old-age and survivors insurance program provides benefits that are essentially of two separate types—retirement benefits for workers aged 65 and over and survivor benefits paid in the event of an insured worker's death at any age. In line with the philosophy on which the social security program is based, a retirement test is imposed for the receipt of benefits; in general, benefits are not paid when the individual—whether a retirant or a survivor beneficiary—is engaged in substantial employment. (The term "retirement test" is to some extent, of course, a misnomer when the reference is to a young beneficiary.) The major emphasis in the article that follows is on the application of the test to aged beneficiaries.

History and Philosophy

The retirement test has been present in one form or another in the old-age and survivors insurance program ever since the original law was passed in 1935.¹ The major reason for the test is that the program was designed to provide social insurance against presumed loss of earnings due to retirement from employment rather than, like private insurance, to provide annuities at a prescribed, fixed age.

If benefits were payable automatically on the individual's attainment

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¹ For a detailed history of the retirement test provisions in the various laws, see Robert J. Myers, "Basis and Background of the Retirement Test," *Social Security Bulletin*, March 1954.

of age 65 rather than only on retirement at age 65 or later, the increased cost would be more than 1 percent of taxable payroll now and somewhat higher later. Accordingly, if there were no retirement test, one of two alternatives would be necessary. Either the contribution income would have to be raised, or the general benefit level would have to be lowered. Neither alternative seems desirable.

In addition, there is no social necessity for paying benefits to individuals who are in full-time employment, although there may be reasons for paying partial or full benefits to those in part-time or intermittent employment. It is here that the real problem exists.

Test Under 1952 Law

Under the 1952 amendments to the Social Security Act, retirement benefits were payable between the ages of 65 and 75 to a person with insured status if he was substantially retired. After attainment of age 75, benefits were paid regardless of retirement. The latter provision was, of course, an exception to the general rule that benefits were paid only upon retirement. Relatively few persons, of course, work beyond age 75, and it was apparently the philosophy of Congress that the few who are so employed should receive some assurance of benefits. In addition, payment of benefits to those aged persons who continued to work did not involve a high cost.

The test of substantial retirement under the 1952 law was applied differently for wage earners and the self-employed, but for both it related

only to earnings in covered employment. If a worker between the ages of 65 and 75 earned covered wages of more than \$75 in a month, his benefits and those of his dependents were suspended for that month. A month-by-month suspension of benefits is not feasible for self-employed persons, who are generally able to determine their net earnings only on a taxable-year basis. Self-employed persons under age 75 were considered to be retired if, throughout the year, their covered self-employment earnings were not more than \$900. For each unit of \$75 or fraction thereof in excess of \$900, the beneficiary could lose 1 month's benefit for himself and his dependents. When an individual eligible for benefits for all 12 months of a year had self-employment earnings of \$901-\$975, for example, 1 month's benefit could be withheld; when such earnings were \$976-\$1,050, 2 months' benefits could be withheld; and so on until, when earnings were \$1,651-\$1,725, 11 months' benefits could be withheld. The number of monthly benefit deductions could not, however, exceed the number of months during which the person was substantially self-employed.

Withholding of benefits for wages and withholding for self-employment earnings did not take place concurrently. A person with self-employment earnings of \$950 in a year and wages of more than \$75 in one particular month would have 2 months' benefits withheld unless he had engaged in substantial self-employment only in the month in which he earned the wages.

The test in the 1952 law had a "double-exemption" feature; that is, it applied separately to wages and to self-employment earnings for persons who had both. No benefits were withheld, for example, for an individual who had self-employment earnings of \$900 in a year and who also had

Table 1.—Average initial retirement ages of old-age beneficiaries, by year of entitlement¹ and by sex

Year	Average retirement age	
	Men	Women
1940.....	68.2	67.6
1941.....	69.2	68.2
1942.....	69.1	68.2
1943.....	69.2	68.1
1944.....	69.4	68.2
1945.....	69.4	68.5
1946.....	69.4	68.7
1947.....	68.9	68.4
1948.....	68.7	68.3
1949.....	68.5	68.2
1950.....	69.0	68.2
1951.....	68.1	67.3
1952.....	68.4	68.0

¹ Average for entitlements of given year, represented in all awards before 1953.

wages of as much as \$75 in several or even all months.

Experience Under Retirement Test

Monthly benefits have been payable under the old-age and survivors insurance system since January 1940. Accordingly, data are available for 14 years of operation.²

The average initial retirement ages of insured workers who were awarded old-age benefits during 1940-52 are shown in table 1. The ages are those in the year of entitlement or, in other words, the year with respect to which the individual was first actually paid benefits. This average takes into account two important factors: the frequent delay after age 65 in filing a claim³ and the time necessary for administrative action in making the award.

The average initial retirement age for men was between 69 and 69½ during World War II, but it then declined to about 68½. The slight increase to age 69 in 1950 was the result of two changes made by the 1950 amendments—the liberalized eligibility requirement under which a large number of persons past age 65,

² For a detailed analysis of the experience through 1952, see Robert J. Myers, "Old-Age and Survivors Insurance: Retirement Test Experience," *Social Security Bulletin*, November 1953.

³ Before the 1946 amendments, benefits were not payable before the month of filing. The 1946 legislation permitted retroactive payments for 3 months, while the 1950 and 1954 amendments extended this period to 6 months and 1 year, respectively.

who had already ceased working, first became eligible; and the elimination of the retirement test for beneficiaries aged 75 or over, so that some persons who were still working filed for and received benefits. For women the same general trend prevailed, with a wartime peak of about 68½ and a slight decline thereafter to the present level of about 68.

The average retirement age for men with wives aged 65 or over, and therefore also immediately eligible for benefits, is between 1½ and 2 years higher than the average for all male beneficiaries. This difference is to be expected since normally husbands are several years older than their wives. Thus, men just above age 65 rarely have wives aged 65 and over. On the other hand, married men whose wives are under age 65 have an average retirement age somewhat lower than that for all men combined.

Another indication of retirement experience is the proportion of the retirements that occur among persons attaining age 65 in a particular calendar year. Of the men who became entitled during the 1940's, about 20-30 percent of each year's entitlements were of individuals aged exactly 65. This figure dropped to about 18 percent in the war years. The corresponding range during 1940-50 was slightly higher for women. In 1951 the proportion rose to a peak of 40 percent for men and 49 percent for women. Preliminary and partial data for 1952 and 1953 indicate a current level of about 35 percent and 40 percent, respectively.

Still another way of viewing the retirement operations is to consider the proportion of those who are eligible to retire by reason of being age 65 or over and fully insured and whose benefits are actually in current-payment status. This figure rose from a level of about 30 percent during World War II to 60 percent by 1950 and to 70 percent at the end of 1953 (table 2). At that time, 3.2 million retired workers were drawing benefits out of a total of 4.6 million eligibles.

Many individuals awarded benefits subsequently return to covered employment, and their benefits are then suspended. The data in the preceding analysis thus underestimate the true effective average retirement age. A

measurement of average retirement age that has more validity is based on the average initial retirement age, adjusted to allow for the fact that those individuals who return to work after having been awarded benefits have, in effect, a later retirement age.

Table 2 also shows, as a percent of all old-age beneficiaries, those who have filed a claim but whose benefits are suspended because of covered employment. The number of persons with benefits suspended is affected not only by changes in employment conditions, however, but also to some extent by changes in administrative procedures and policies. During 1940-42, benefits suspended because of employment represented about 12 percent of all benefits in force. The proportion rose to about 18 percent during most of World War II and then decreased; in the past 4 years it has been 7-9 percent of the total. At the end of 1953 about 230,000 individuals who had been awarded old-age benefits had returned to work (with substantial covered earnings) and had their benefits suspended.

What is the significance of the fact that about 7 percent of the benefits are currently suspended because of employment? For a stationary life-table population, if 93 percent of a group aged 68 and over are receiving benefits, the result is the same as

Table 2.—Distribution of old-age beneficiaries¹ with benefits in current-payment status and in suspension because of employment

End of year	Old-age beneficiaries with benefits—	
	In current-payment status, as percent of fully insured ²	Suspended because of employment, as percent of all ³ old-age beneficiaries
1940.....	20.4	11.8
1941.....	29.4	13.0
1942.....	31.3	12.0
1943.....	30.1	19.0
1944.....	30.4	17.5
1945.....	35.3	17.6
1946.....	42.9	14.4
1947.....	48.3	15.1
1948.....	52.7	14.8
1949.....	59.4	13.1
1950.....	58.5	9.0
1951.....	66.2	9.1
1952.....	64.9	8.0
1953.....	69.9	6.7

¹ Fully insured individuals aged 65 and over who have filed a claim and have been awarded benefits.

² Fully insured on January 1 of following year.

³ Excludes relatively small number (about 10,000 in 1952) with benefits suspended for reasons other than employment (payee not determined, etc.).

⁴ Based on estimate.

though only all those aged 69 and over are receiving benefits. In other words, if 7 percent of the claimants have returned to work, and if the average age at time of initial entitlement is 68, then the true effective retirement age is 69. Accordingly, it may be said that the real average retirement age under the old-age and survivors insurance program is about 69 for women and almost 69½ for men.

Some indication of the effect of the retirement test for other types of beneficiaries may be obtained by considering benefits withheld because of the beneficiary's employment (table 3). Less than 1 percent of the benefits in force for wives, widows, and parents but about 16 percent of the mother's insurance benefits were suspended because of the beneficiary's own employment. It should be noted that over the 13 years 1940-52 about 16 percent of the widows of insured men leaving orphaned children under age 18 did not file claim for mother's benefits initially—that is, at the time the claim was filed for the children.⁴ Accordingly, otherwise eligible mothers who never claimed benefits because of employment represent 10-15 percent of the number of mother's benefits in force, and thus about 25-30 percent of the mother's benefits in force or potentially in force were not being paid because of the individual's employment.

Necessity for Change in Basis

Under the old law, a number of situations occurred—particularly for wage earners—that aroused considerable criticism. A retired wage earner who made more than \$75 a month, but not as much as \$75 plus his benefit amount, had a particular problem. If, for example, a man's primary insurance amount was \$60, and he had a wife aged 65 or over, the benefit for the couple was \$90. In the month that this beneficiary had earnings of \$75, he would have available a total income of \$165. If he

⁴Some of these widowed mothers may have filed subsequently, but at most 30 percent have so filed, if all subsequent entitlements are considered as being in this category. Actually, many subsequent entitlements to mother's insurance benefits are with respect to posthumous children.

Table 3.—Monthly benefits in force and withheld because of employment, by type of benefit,¹ December 31, 1953

Type of benefit	Total number in force (in thousands)	Withheld because of employment of beneficiary	
		Number	Percent
Old-age.....	3,464	231,583	6.7
Wife's or husband's.....	948	3,478	.4
Widow's or widower's.....	546	4,354	.8
Parent's.....	24	46	.2
Mother's.....	308	49,332	16.0

¹Data for child's benefits withheld are not available.

earned \$80, he lost his own benefit and his wife's benefit and had only the \$80 from his work. The problem became less acute for him, of course, as his earnings approached the amount of his benefits plus \$75. In actuality, most beneficiaries who worked and were affected by the retirement test earned substantially more than their withheld benefits plus the \$75 exempt amount.

There was also a problem for the beneficiary who worked only occasional months at wages that, while moderate, were more than \$75 and who thus lost benefits for such months. He was, in fact, substantially retired, certainly to the same extent as a \$75-a-month, 12-month worker, who perhaps had been able to adjust his wages downward so that he could receive benefits in all months.

Self-employed beneficiaries did not have the same problem because the retirement test operated differently for them. They had an undue advantage, moreover, when they had wages as well as self-employment income, since then the "double-exemption" feature applied.

Another inequity existed under the old law because the retirement test applied only to covered employment. Thus, individuals engaged full time in noncovered employment, and by no means retired, could at the same time receive full benefits. One illustration is the case of a civil engineer who worked for a number of years as an employee of a construction company but who became a partner in a consulting engineering firm a few years before reaching age 65; he was thus paid old-age benefits when he reached that age since he was not

engaged in covered employment.⁵ Still another example is a Canadian who commuted to work in the automobile factories in Detroit but who, upon reaching age 65, terminated that employment and began working in a garage in Canada. Since this foreign employment was not "covered," he received his full benefit even though he was not retired.

Before the 1954 amendments, non-covered employment (for which earnings reports are not available through the collection of contributions) was not counted in the operation of the retirement test, principally because of the administrative problems involved under the limited coverage of the system. With the virtually universal coverage achieved by the 1954 amendments, these problems are now much smaller.

Legislative History of the 1954 Amendments

On January 14, 1954, Chairman Reed of the Committee on Ways and Means of the House of Representatives introduced H.R. 7199. This bill embodied the recommendations of the Administration as set forth in President Eisenhower's social security message of January 14.

The bill included certain important provisions dealing with the modification and liberalization of the retirement test. In particular, the test would be placed on an annual basis, with wages and self-employment income considered together. Moreover, the test would be applicable to all earnings and not merely to covered earnings, with special provisions for beneficiaries residing in foreign countries. At the same time the amount of earnings permitted before the retirement test applies would be increased, so that no benefits would be lost if annual earnings were \$1,000 or less, and 1 month's benefits could be withheld for each additional \$80 of earnings (or fraction thereof). Benefits would not, however, be withheld for any month during which the person neither was substantially self-

⁵Because the 1954 amendments bring self-employment as a civil engineer under the coverage of the program (effective in 1955), this situation would be remedied even if no change were made in the retirement test.

employed nor had \$80 or less of wages. Thus, the retirement test in this bill was patterned closely after the test in the old law for self-employed persons, except that (1) it related to all earnings rather than merely to covered earnings, and (2) the exemption amounts were higher.

After extensive public hearings and executive sessions, the Ways and Means Committee on May 28 reported out H.R. 9366—a somewhat modified version of H.R. 7199, which was subsequently passed by the House on June 1. No changes were made in the retirement-test provisions.

Substantial changes in these provisions were, however, made in the bill as reported out by the Committee on Finance of the Senate on July 27 and as passed by the Senate on August 20. While the same general basis was maintained as in the House-approved bill, the test was made applicable only to covered employment, as in the earlier law; the exempt amount of earnings was increased from \$1,000 a year to \$1,200, although the provision for \$80 units thereafter was left unchanged; and the age beyond which the retirement test would not apply was lowered from 75 to 72.

In the conference between the House and Senate, the points of difference were settled by adopting (1) the Senate provisions setting \$1,200 as the exempt amount and age 72 as the point beyond which the retirement test should not apply and (2) the House provision making the retirement test applicable to earnings from noncovered as well as covered employment.

Largely for administrative reasons the changes in the retirement test made by the 1954 amendments are not effective for most individuals until January 1955,⁶ because the retirement test is on an annual basis corresponding with the individual's taxable year.

Provisions of Present Test

The law as amended provides for the payment of benefits to a person

⁶For the relatively few individuals whose taxable year is on a fiscal-year rather than a calendar-year basis, the changes become effective somewhat later—that is, for and after the taxable year beginning in 1955.

who has insured status and who is aged 65–71, inclusive, only if he is substantially retired, and it provides for payments to his eligible dependents if they do not have substantial employment. After the worker reaches age 72, he receives his benefits regardless of his retirement; the dependent's benefits are suspended, however, if the dependent is under age 72 and is substantially employed. Survivor beneficiaries must also meet the retirement test, but here the test applies to each individual separately. Thus, if a widow entitled to mother's benefits engages in substantial employment, benefits are continued to the eligible children.⁷

The retirement test logically applies to earnings in all types of employment in the United States (including Alaska, Hawaii, Puerto Rico, and the Virgin Islands), as well as in covered employment outside the United States.⁸ Logically, also, a single test that combines earnings of all types is applied rather than separate tests for wages and self-employment income. In addition, under a special provision that applies only to noncovered earnings outside the United States, benefits are suspended for every month during which the individual engages in noncovered remunerative activity on seven or more calendar days. This type of provision—on a monthly basis and without a monetary amount—was necessary for administrative reasons and because of the differences in wage scales between this country and other countries. An amount of earnings that might indicate effective retirement in the United States would be full-time

⁷If the family includes a large number of children (4 or more), employment of the widowed mother will not reduce total family benefits. In such instances the family maximum benefit provisions are applicable, and so the same total is paid whether only the children's benefits are in current-payment status or whether benefits for the widow and children are all in current-payment status.

⁸"Covered earnings" outside the United States include earnings received for services on an American ship or airplane (in certain circumstances) or those received by an American citizen from an American employer (or, in certain circumstances, from a foreign subsidiary of an American employer), and also in certain circumstances the self-employment income of American citizens.

earnings in various other countries.

The annual exempt amount of earnings is set at \$1,200. When earnings are in excess of this amount, 1 month's benefit can be withheld for each excess of \$80 or fraction thereof. No benefits, however, are suspended for any month in which the individual does not have wages of more than \$80 or in which he has not rendered substantial service as a self-employed individual.

Perhaps the best way to consider the operation of the retirement test is in two steps. First, the total earnings for the year must be considered and the maximum number of deductions determined. If, for example, such earnings total \$1,400, the deductions will be for a maximum of 3 months, since the excess of \$200 represents three "\$80 units of excess earnings."

The second step is to consider the number of months in the calendar year for which deductions can be made because the individual earned more than \$80 in wages or rendered substantial self-employment service. If the number of these "potentially deductible" months equals or is greater than the number for which deductions would be made under step 1, then the maximum determined under the first step is applied. If the number of "potentially deductible" months is smaller, then deductions for only that number of months are made. If, in the illustration above, the individual had three or more "potentially deductible" months, he would lose 3 months' benefits. If, on the other hand, he had only two "potentially deductible" months (if, for example, his earnings of \$1,400 were concentrated more or less equally in 2 months), then he would lose only 2 months' benefits.

It is important to note that the first step consists of considering the total earnings for the year and ignores the way in which these earnings are distributed throughout the calendar months of the year. It should be noted further that benefits are not necessarily paid for months during the year before the individual has earned the \$1,200 exempt amount because subsequent earnings might affect those earlier months. If, for example, an individual earns wages

of \$200 a month for each of the 12 months of the year, he will not receive benefits for the first 6 months—although his total earnings during that period did not exceed \$1,200—since his annual earnings amount to \$2,400 (resulting in 12 “\$80 units of excess earnings”) and since he had earnings of more than \$80 in every month (that is, 12 “potentially deductible” months).

The maximum amount of earnings that an individual entitled to benefits throughout a year can have in that year and be certain of getting at least 1 month’s benefits is \$2,080, since any larger amount would mean 12 “\$80 units of excess earnings.” Actually, however, an individual who earns \$2,080 may get anywhere from 1 to 11 months’ benefits, depending on how many “potentially deductible” months he had. Conversely, an individual can earn more than \$2,080 and still get benefits for some months—that is, those in which he had \$80 or less in wages and no substantial self-employment services. Thus an individual with \$1,200 of wages in January and exactly \$80 in each of the other 11 months would have wages of \$2,080 and 11 “\$80 units of excess earnings.” Only his January benefit would be withheld, since that is the only “potentially deductible” month. The result would be the same even though he had wages of far more than \$1,200 in January, or if the situation was reversed and he had \$80 of wages in each of the first 11 months of the year and \$1,200 in December (or, for that matter, any amount more than \$320 in December). In the latter case the deduction would, of course, be for December.

The eventual benefit paid may be increased if the individual is employed after he reaches age 65 and if such employment increases his average wage. In no case, however, will employment after age 65 reduce the benefit to less than it would have been if the individual had retired at the earliest possible time after reaching age 65. Contributions are payable on all covered employment after age 65, even though the individual is in receipt of benefits—when, for example, his annual earnings are \$1,200 or less or when he is aged 72 or over.

It may perhaps be helpful to con-

sider certain examples illustrating how the new retirement test provisions operate. Individual A has a part-time job paying \$120 a month. Before the 1954 amendments, he would not have been able to draw any monthly benefits while he was so employed. Under the amendments, however, since his total earnings aggregate \$1,440 in the year and since the \$240 in excess of the \$1,200 exempt amount represents three “\$80 units,” he loses only 3 months’ benefits and thus draws 9 months’ benefits.

Individual B is fully retired for most of the year, but during the Christmas season he is employed for 3 months in a department store at \$200 a month. Under previous law he would have lost benefits for those 3 months, but under the amendments he draws benefits for the entire year, since his aggregate earnings in the year do not exceed \$1,200.

Individual C also is retired during most of the months of the year. Since he was formerly a topflight scientist, he occasionally is employed for special jobs at a substantial salary. In 1 calendar year, for example, he earns \$1,200 in January, \$500 in March, \$400 in September, and \$75 in December. His total wages for the year amount to \$2,175. Based on the amount of his total annual earnings, benefits might be withheld for all 12 months of the year. Benefits can be withheld, however, for only 3 months—January, March, and September—since in all other months his earnings are \$80 or less. If individual C works only in January and thus earns only \$1,200, he would receive benefits for this month as well as all succeeding months. On the other hand, if he earns the \$1,200 in January and earns \$80 in 1 other month, then he loses 1 month’s benefit. Since the total amount earned indicates that 1 month’s benefit should be withheld, January—the only month with wages in excess of \$80—is the only month that it would be possible for such withholding to occur.

Next consider how these provisions would operate in the case of an engineer newly covered as a professional self-employed person by the 1954 amendments (effective in 1955). John Smith is senior partner of the engi-

neering firm of Smith, Brown, and Smith. He will reach age 65 at the end of 1959, and during the entire period until then he will have earnings of more than the maximum of \$4,200 a year that can be counted towards benefits. Mr. Smith intends to practice engineering on a full-time basis for several years after age 65 and then gradually to reduce the proportion of his time spent in employment. Under these circumstances, just how will the provisions apply to him, since he is not fully retired? The provision that benefits are paid for all months in which he does not render substantial services in self-employment is an important one in this case.

Let us suppose that in the first few years after Mr. Smith reaches age 65 he practices engineering full time except during July and August, when he takes a vacation and does not render any substantial service to the firm. If he applies for benefits, he will receive the maximum amount of \$108.50 (plus \$54.30 if he has a wife aged 65 and over) for each of these 2 months, even though he might receive, with respect to the 2 months, income representing the profits of the partnership. Now, let us further suppose that at age 69 Mr. Smith has a serious illness that makes impossible his active participation in the firm for a number of months. During this entire period of illness, he would draw benefits even though he might have sizable income from the profits of the firm. Following this illness, Mr. Smith decides to practice only part time, dealing only with those cases in which he has special experience.

Accordingly, on January 1 of a particular year, he once again begins practicing engineering, although only sporadically, so that during that calendar year he earns somewhat less than \$1,200 (including his share of the firm’s profits) even though he engaged in the practice of engineering at some time during 4 months of the year. Nevertheless, he receives full benefits for all 12 months of the year because his net earnings from self-employment do not exceed \$1,200. If such earnings were \$1,250, he would have received benefits for all but 1 month of the year since, even though

he had engaged in substantial self-employment for 4 months, he had gone over the \$1,200 limit by only one "\$80 unit."

In the next calendar year, Mr. Smith recovers completely and becomes more active. Although he does not work in every month of the year, he is nevertheless able to earn through his own service a very substantial amount. During this period, Mr. Smith draws benefits for all months in which he does not do such work, even though during the calendar year he might well have earned more than \$5,000 as a direct result of his own practice and a similar amount as general profits of the firm. After Mr. Smith reaches age 72, no deduction for earnings will be made from his benefits; he will draw benefits for all months even though he may have, in some months, engaged in substantial self-employment from which he derived considerable income.

Cost Aspects of Retirement Test

As may be seen from the description of the changes in the retirement test made by the 1954 amendments, certain elements increase costs, while others decrease them. Items raising costs are (1) the higher exemption amounts, (2) the placing of the test on an annual basis for a wage earner, and (3) the reduction of the age beyond which the retirement test does not apply from 75 years to 72. Changes resulting in lowered costs are (1) the application of the retirement test to all earnings, whether covered or not, and (2) the combining of wages and self-employment income in the application of the retirement test for individuals having both forms of earnings. The changes resulting in lowered costs have a relatively small effect in comparison with those raising costs, so that the net effect is an increase in cost for

the retirement test considered as a whole that amounts to about 0.20 percent of payroll on a level-premium basis.

At the end of 1953, 4.6 million individuals aged 65 or over were eligible for old-age benefits, but there were only 3.2 million with benefits in current-payment status. Accordingly, it is likely that the great majority of the remaining 1.4 million persons were still at work in covered employment and, if it had not been for the retirement test, would have been drawing benefits. In other words, if all persons in covered employment retired at age 65, there would have been an additional 1.4 million individuals receiving old-age benefits. These individuals had about 400,000 dependents (principally wives aged 65 and over) who would also have received benefits if the retirement test were eliminated. If there were not a similar provision affecting survivor beneficiaries, an additional and substantial number of persons—primarily young widowed mothers who are employed—would have been receiving benefits.

If there were no retirement test (or if all insured individuals retired at age 65, and if younger survivor beneficiaries did not engage in employment), the total number of beneficiaries on the rolls as of the beginning of 1955 would increase by more than 2 million and the total annual benefit disbursements by about \$1.9 billion. The increased disbursements represent a relative rise in current costs of about 40 percent; the increase is about 1.15 percent of taxable payroll. From the viewpoint of long-range costs, the increase, if there were no retirement test, would average about 1.4 percent of payroll. This increase in cost, naturally, would have to be met either by increased contribution rates or lowered benefits.

General Conclusions

In establishing or developing any program paying old-age benefits, the legislators must face the issue of whether the benefits are to be annuities that begin on attainment of a chronological age or are to be paid only on retirement. Perhaps the most important factor in the decision is that of cost. If only a certain amount of money is to be available for the purposes of the program, it must be decided whether to pay low benefits beginning at a certain age (thus arbitrarily giving a higher income than they had before to persons working beyond that age) or to pay more substantial benefits only to those who have retired and who thus presumably have lower income than those in their age group still at work.

When Congress selected the second method it faced the problem of defining retirement. It seems desirable for aged persons in good health to engage at least in partial or intermittent employment. Any retirement test established should not discourage such employment. At the same time, experience indicates that a substantial number of persons continue in full-time employment after age 65, and the retirement test should be so framed that these individuals will not concurrently receive pay and "retirement" benefits. Any retirement test naturally involves some administrative problems, and this aspect, too, should be considered in developing a suitable test.

The 1954 amendments have provided a retirement test that, on the whole, should provide an adequate and equitable method of paying retirement benefits. Aged individuals can engage in partial or occasional employment without severe penalties from a benefit standpoint. The future operation of these provisions will be watched with great interest.