

Old-Age, Survivors, and Disability Insurance After Twenty-five Years

by VICTOR CHRISTGAU*

THE ADVISORY COUNCIL on Social Security Financing, in its report of January 1959 on the financial soundness of the old-age, survivors, and disability insurance program, recognized the importance of this social insurance system to the American people. The Council said, in part:

[The program] involves in varying degree the personal security of practically all Americans—not only those who have retired or are nearing retirement age but those just starting to work, those who are children today, and the generations of the future. For millions of Americans the social security benefit will spell the difference between deprivation, on the one hand, and an assured income provided on a basis consistent with self-respect and dignity, on the other . . . We believe that the almost universal acceptance of this program of social insurance is well-deserved and that it is a permanent institution in American life.

THE PROGRAM IN 1960

Today, 25 years after the enactment of the original Social Security Act, the old-age, survivors, and disability insurance program is firmly established as the basic method in the United States of assuring income to individuals and families who suffer a loss of earnings when the worker retires, becomes disabled, or dies. The program has in fact achieved such widespread public acceptance and support from both political parties that it is hard for us to remember that just a quarter of a century ago there were a great many people who doubted whether such a program was economically feasible or socially desirable and whether it could be efficiently administered.

Under old-age, survivors, and disability insurance, employees and the self-employed pay contributions from their earnings while they are working (with the employees' contributions being matched by their employers), and when earnings are cut off because of the worker's death, retirement in old age, or disability (for those workers aged 50-64), benefits related to his former earn-

ings are paid to him and to his family. This, then, is a program under which the people, through their Government, help provide security for themselves, and therefore it is in keeping with our American traditions of independence, self-help, and thrift.

By January 1960, the number of old-age, survivors, and disability insurance beneficiaries was approaching 14 million—almost double the number who were getting benefits when I wrote about the program in 1955, on the occasion of the twentieth anniversary of the Social Security Act—and beneficiaries were receiving checks totaling over \$870 million a month, compared with about \$340 million in January 1955. More than 10 million of the beneficiaries were aged 65 or over, and some 2 million were children and young widowed mothers. In addition, there were about 1½ million beneficiaries who were on the rolls as a direct result of amendments that were enacted since 1955.

The program today approaches almost universal coverage. About 90 percent of all employed workers in this country are in jobs covered or eligible for coverage under the program now, compared with about 60 percent when the program began. During 1959, about 73 million persons had earnings credited under old-age, survivors, and disability insurance.

More than 72 percent of all Americans aged 65 or over either are drawing old-age and survivors insurance benefits or will be eligible to draw them when the worker retires, compared with only 8 percent in 1940. Compared with 23 million in 1940, about 81 million individuals have worked long enough in covered employment today to be insured for survivor insurance benefits; more than 9 out of 10 mothers and young children in the Nation can count on monthly benefits in the event of the death of the family earner. About 42 million persons are permanently insured for old-age and survivors insurance benefits—that is, whether or not they continue to work in covered jobs, they will be eligible for benefits when they

*Director, Bureau of Old-Age and Survivors Insurance.

reach age 65 (62 for women) and retire, and their survivors will be eligible for benefits in case of their death. At the beginning of this year, 43 million workers were insured for disability insurance benefits—protection not available at all until enactment of the 1956 amendments to the Social Security Act.

RELATION TO PUBLIC ASSISTANCE

From the beginning, Congress has intended that the insurance program should be the first line of defense in maintaining income for those who no longer have income from work. One objective in improving old-age, survivors, and disability insurance protection has been to reduce, so far as possible, the number of persons who have to get help from assistance programs.

Over the years the program has greatly reduced the number of orphans receiving aid to dependent children. Moreover, the program has markedly reduced the proportion of the aged receiving old-age assistance. In 1940, while old-age and survivors insurance was paying benefits to 7 out of every 1,000 people aged 65 or older, old-age assistance was making payments to 218 per 1,000. From 1950 to 1951 the insurance rate and the assistance rate coincided at about 225 per 1,000, and since then the proportion of the aged receiving old-age assistance payments has steadily declined while the proportion receiving old-age and survivors insurance benefits has kept going up.

Today, there are about 4½ times as many aged persons receiving old-age, survivors, and disability insurance benefits as there are receiving old-age assistance payments. At the end of 1959, old-age, survivors, and disability insurance was paying benefits to 626 out of every 1,000 persons aged 65 and over, while the old-age assistance rate was 156 per 1,000, and 43 out of every 1,000 were receiving payments under both programs. It is estimated that by 1970 old-age, survivors, and disability insurance will be paying benefits to 744 out of every 1,000 aged persons, while the old-age assistance rate will be 113 per 1,000.

This is not to say that old-age assistance will no longer have a role to play. While it is true that the need for supplementary protection under the assistance programs to meet basic living costs

will decrease, assistance programs will probably always have to provide supplementary grants for special needs. As old-age, survivors, and disability insurance expands, though, it can be expected that assistance will have a somewhat smaller volume of cash needs to meet and will therefore be able to expand its facilities to offer more services to the needy.

COVERAGE UNDER THE PROGRAM

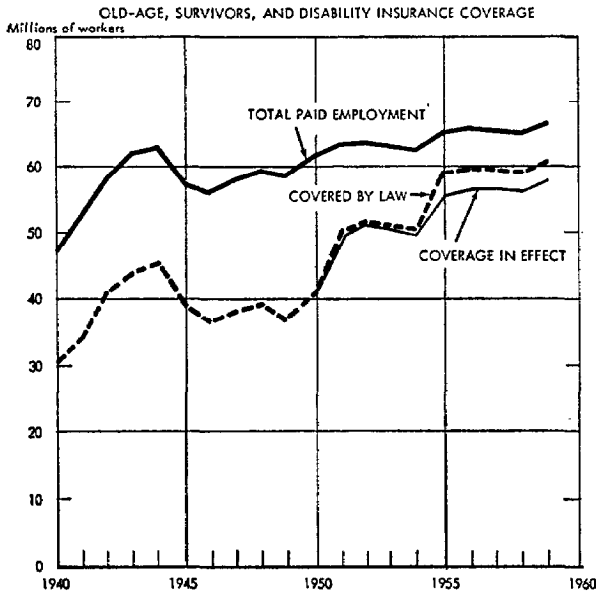
Perhaps the most important characteristic of coverage under the old-age, survivors, and disability insurance program is that the program embraces all kinds of workers in one comprehensive social insurance system. The unified coverage of our program is in part a reflection of the greater mobility of the American labor force and a recognition that the part-time student or unskilled worker of today may be the skilled technician or self-employed businessman of tomorrow. With practically all kinds of work under the same social security program, the American worker has assurance of continuous coverage during all phases of his working career.

Expansion of Coverage

The original Social Security Act, which covered only employees working in industry and commerce, brought into the program about 60 percent of the working force. In the past quarter of a century, coverage has been extended to workers in nearly all kinds of employment and self-employment—including work on farms, in private households, in government, and in private nonprofit organizations.

The 1950 amendments, which provided the first major extension of coverage to the previously excluded groups, brought into the program most of the nonfarm self-employed and covered some hired farm laborers and domestic workers and most employees of nonprofit organizations and employees of the Federal, State, and local governments without staff retirement protection. The 1954 and 1956 amendments extended coverage to most self-employed farm operators and professional groups, to more farm and domestic workers, and to State and local government em-

CHART 1.—Old-age, survivors, and disability insurance coverage and total paid employment, mid December 1940–60



ployees under retirement systems. As a result of the 1951 amendments to the Railroad Retirement Act, railroad workers were, in effect, jointly covered under old-age, survivors, and disability insurance and the railroad retirement system.

Legislation passed in 1956 brought the members of the uniformed services into the program on a contributory basis. Legislation enacted in 1946 had previously provided social security protection for survivors of certain deceased veterans, and the 1950 amendments and subsequent legislation had provided that members of the uniformed services were to be given wage credits—without having made contributions—for service after September 15, 1940. Provision was made under the 1956 legislation for reimbursement of the old-age and survivors insurance and disability insurance trust funds from general revenues for the benefit payments made under these earlier amendments.

Elective Coverage Provisions

Although most workers under the program are covered on a compulsory basis, coverage is available to some groups on a basis that is, at least in part, elective. Problems concerning the constitutional barriers on taxation of State and local governments, the traditionally tax-exempt status

of nonprofit organizations, and the separation of church and state were overcome by providing for elective coverage.

Generally speaking, coverage is available to most employees of State and local governments and nonprofit organizations on a group-elective basis. In some cases when coverage is arranged for a group, all employees in that group must be covered. In others, only employees desiring coverage are covered; however, once the group is covered, all newly hired employees in this group are covered on a compulsory basis. Coverage in each group will thus eventually be complete. Ministers are eligible for coverage on an individual voluntary basis; however, election of coverage must be made within a specifically limited period after entry into the ministry and, once made, is irrevocable.

These elective coverage provisions have generally afforded adequate safeguards against the disadvantages that could result from coverage on an unrestricted voluntary basis and have, at the same time, been successful in bringing into the program most of the workers potentially affected by them. Coverage has been arranged for nearly all regular employees of nonprofit organizations, most of the ministers, and about 60 percent of the employees of State and local governments. Additional arrangements for coverage under the elective provisions can be expected to continue.

Exclusions From Coverage

About 10 percent of the labor force, during an average week, is still excluded by law from coverage. Somewhat more than one-half of them are self-employed persons and farm and domestic employees who do not meet certain minimum requirements as to the amount of their earnings or the length of time worked. These requirements for coverage are generally minimal so that comparatively few regularly working people will be excluded over their working lives. Many of those excluded by the requirements are persons who do not ordinarily work for a living—for example, housewives or students with temporary jobs.

The others not covered under the program are mostly employees of the Federal Government under the civil-service or other staff retirement systems; a relatively small number are self-em-

ployed doctors of medicine and policemen and firemen under State or local retirement systems in certain States. Their exclusion from the program has been due primarily to the opposition of the workers themselves, or of their spokesmen, to coverage. There are strong indications that there is a desire for coverage on the part of many workers in these groups, and it is likely that in the future—perhaps in the next 10 years—the protection of the program will be extended to some or all of these workers. When this is accomplished, coverage will be available to nearly all who support themselves by their own earnings—that is, substantially universal coverage will have been achieved.

BENEFIT AMOUNTS AND THE CHANGING ECONOMY

Over the years, a series of amendments have been enacted to keep benefits payable under the program approximately in line with changing economic conditions.

During the 1940's—the first decade in which monthly benefits were paid—the Nation's attention was concentrated on the war effort and post-war adjustment, and benefits were not adjusted to keep pace with rising price and earnings levels. By 1950, the average annual earnings of all workers covered under the program had increased 126 percent from 1940 levels and the cost of living had advanced 72 percent, while over the same period the benefits of individuals on the rolls were not increased.

Benefits Increased

The 1950 amendments provided the first general increase, raising benefits, on the average, by about 81 percent. From 1950 through 1954, the consumer price index rose about 12 percent and the average earnings of workers in covered employment rose about 22 percent. Benefits of those on the rolls were increased, on the average, by about 15 percent under the Social Security Amendments of 1952 and by 13 percent under the 1954 amendments. As a result, the percentage increase in benefits for those on the rolls was somewhat larger for the period 1950–54 than the percentage increase in price or earnings levels.

At the time of the 1958 amendments, the benefits of people who had been on the rolls since the 1954 amendments had fallen behind increases in wage levels by 12 percent and behind increases in price levels by 8 percent. The 1958 amendments provided, on the average, a 7-percent increase in benefits to both current and future beneficiaries, beginning January 1959. Over the entire period 1950–58, the consumer price index rose about 20 percent and average earnings of workers in covered employment went up nearly 38 percent, while the average old-age insurance benefit that was payable in December 1950 (\$43.86) was raised about 32 percent as a result of the benefit increases of 1952, 1954, and 1958.

Wage Base Raised

Since 1940, when monthly benefits first became payable, benefits have been based on a worker's average monthly earnings in covered work. The average monthly wage a person can have, and thus the amount of his benefits, is restricted by the upper limit on the annual amount of earnings taxed and credited for benefit purposes. The original maximum of \$3,000 has been increased several times in recognition of general increases in earnings levels: to \$3,600 a year beginning in 1951, to \$4,200 beginning in 1955, and to \$4,800 beginning in 1959.

Computation of Benefits for Newly Covered

In 1950, in consideration of the fact that most of the individuals in the 9 million jobs that would first be brought under the program in 1951 had not had an opportunity to work in covered employment before 1951, the law was amended to provide, generally, that a person's benefit might be figured solely on the basis of the average of his monthly earnings in covered work after 1950 if that would give a higher benefit than his earnings averaged over the entire time since the program began. When coverage was extended to several million additional jobs beginning with 1955, a provision was included to ensure that lack of coverage before 1955 would not reduce the benefits of the newly covered. Under this provision, as many as 5 years during which a person's earnings were low or during

which he had no earnings can be dropped from the benefit computation.

age 62 because Congress felt that they had the greatest need and because full-rate benefits could be paid to them without an increase in the contribution rates.

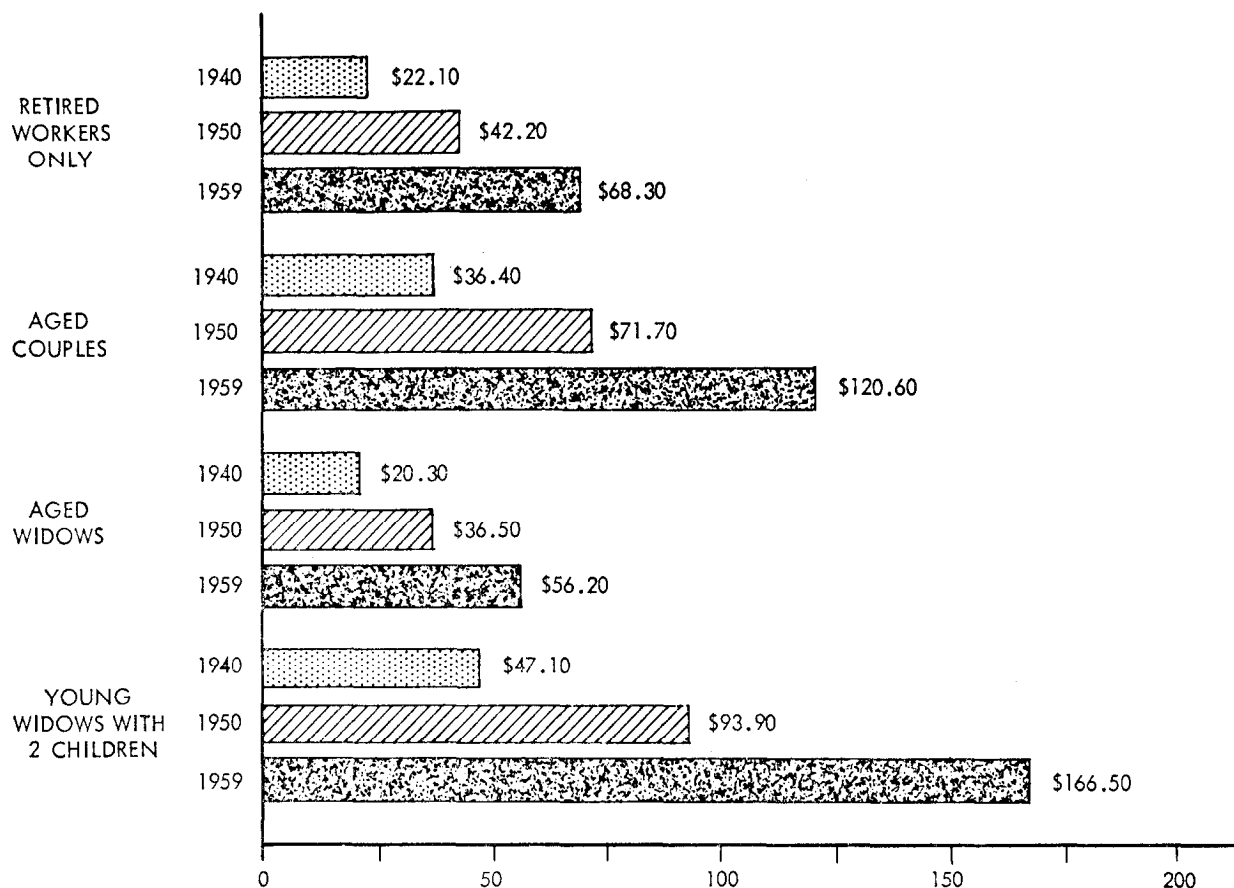
Special Provisions for Women

Actuarially reduced benefits were made available to women in 1956. This came about because Congress wished to reduce the age of eligibility for women from 65 to 62 without increasing the cost of the program to an extent that would require an increase in contribution rates. To accomplish this purpose, benefits payable to a woman who elects to retire on her own record or to get wife's benefits before age 65 are reduced to an amount that, paid over a longer period, will on the average result in the same total benefits that would have been paid if benefits had begun at age 65. Widows and dependent mothers of insured workers were provided full-rate benefits at

IMPROVEMENTS IN RETIREMENT TEST

Since one of the basic purposes of the program is to provide protection against loss of earnings due to retirement, the Social Security Act has contained, from the time monthly benefits were first payable, a test to be used in determining when an individual is substantially retired from employment. There have been proposals over the years to pay benefits as an annuity at age 65 without regard to earnings, but these proposals have been repeatedly rejected as not representing the best use of the funds available to the program. The removal of the retirement test would

CHART 2.—Average old-age, survivors, and disability insurance benefits paid to specified family groups at end of December 1940, December 1950, and June 1959¹



¹ Estimated for June 1959.

increase the level-premium cost of the program by 1 percent of taxable earnings, but it would not help the large majority of beneficiaries, who cannot work or cannot find jobs and who must depend almost entirely upon their benefits for their living.

Amount of Excepted Earnings

The test of retirement has, however, been liberalized from time to time to take into account changes in earnings levels and to pay benefits in more situations involving part-time work. From 1940 through 1950, the retirement test was designed so that benefits would be paid only to beneficiaries who were almost wholly retired from covered employment. The beneficiary got a benefit for any month in which he earned less than \$15 in covered employment. In 1950 the amount was raised so that the beneficiary could receive a benefit for months in which he earned \$50 or less in covered work. In 1952, the amount was raised to \$75.

In 1951, when the first self-employed people were brought under the program, the test of retirement for the self-employed was put, for the most part, on an annual basis, because it is practically impossible in most cases for a self-employed person to compute his earnings on a monthly basis. A person with self-employment earnings of \$600 or less for the year (raised to \$900 in 1952) could get benefits for all months in the year no matter what his earnings were in any single month. To place the self-employed beneficiary on a par with the retired wage earner, who could receive a benefit for any month in which he did not work or in which he worked very little, the law provided that a self-employed beneficiary, no matter how high his annual earnings were, could get a benefit for any month in which he did not render substantial services in his business.

Under the 1954 amendments, earnings from self-employment and wage employment were combined for retirement test purposes and a test with an annual exempt amount (\$1,200) for both the self-employed beneficiary and the wage-earner beneficiary was provided. The 1954 amendments also provided that the wage earner could get a benefit for any month in which he earned no more than \$80 (changed to \$100

beginning with 1959) regardless of the amount of his earnings for the year. In addition, the 1954 law provided that earnings from noncovered as well as covered work would be counted under the retirement test. The retirement test now permits beneficiaries to supplement their benefits with a significant amount of earnings from part-time work on a regular basis or to have relatively high earnings for part of the year and still be considered retired.

In recognition of the fact that some people continue to work to an advanced age, the 1950 amendments authorized payments to beneficiaries aged 75 or over regardless of the amount of their earnings from work, and in 1954 the age was lowered to 72. Without this provision some workers who had paid contributions longer than most beneficiaries might never get any benefits.

Reports on the Retirement Test

There continues to be a great deal of interest in the retirement test. In its report on the 1958 amendments, the Committee on Ways and Means of the House of Representatives expressed concern over what it considered problem areas and asked the Department of Health, Education, and Welfare to study certain aspects of the test. The Committee showed special interest in the provision of the law under which a person can have high earnings in a single month and yet get benefits for the remaining months of the year. The situation grows out of the provision under which a beneficiary can get benefits for any month in which he neither earns wages of more than \$100 nor renders substantial services in self-employment regardless of the amount of his annual earnings.

In March 1960, the Secretary submitted the Department's report to the Committee recommending that the monthly measure of retirement not be removed, since to remove it would prevent the program from attaining the objective of making the benefits available to people immediately upon retirement and during other periods when they do not have income from work.

The Department submitted a supplemental report to the Committee on Ways and Means later in March presenting an analysis of various proposals for improving the test by strengthening

incentives for beneficiaries to work. The report did not recommend the adoption of any of the alternatives.

DISABILITY PROTECTION

Nearly two decades elapsed after the passage of the original Social Security Act before any protection against the risk of disability was provided under the social insurance program. A measure of protection was first provided in 1954 with the enactment of the so-called "disability freeze" provision. Under this provision a disabled worker has his status under old-age, survivors, and disability insurance frozen so that the period during which he is disabled is not counted against him in computing benefits paid on his wage record or in determining his insured status. Since then, legislation has been enacted to provide cash benefits for a disabled worker aged 50-64 and certain of his dependents. A child over age 18 who has been continuously disabled since childhood may also receive benefits upon the death or retirement of his insured parent.

At the end of 1959 there were about 43 million persons (30 million men and 13 million women) who met the work requirements for protection against disability. If they should become "disabled," as that term is defined in the law, they would be eligible at age 50 for disability benefits and before that age for the disability freeze.

About three-quarters of a million individuals are already benefiting from the disability program. More than a half million are receiving cash benefits on account of disability—about 334,000 disabled workers, 126,000 dependents of disabled workers, and 80,000 beneficiaries with childhood disabilities. About 100,000 disabled workers under age 50 have had their status protected under the disability freeze, and another 100,000 are drawing benefits—chiefly old-age benefits—that are somewhat higher because the worker's status had been protected during a period of disability.

Development of Disability Insurance

In providing a disability program under the social insurance system, Congress took a careful, step-by-step approach. The first step, the enact-

ment in 1954 of the disability freeze, was analogous to providing a "waiver of premium," common in private life insurance. Under the 1954 amendments, to qualify for the freeze a person was required to have had both substantial and recent work in employment covered by the program—that is, 5 years of work out of the last 10 before becoming disabled, with at least 1½ of these years within the 3-year period just before he became disabled. A person is considered disabled for purposes of the disability freeze if he is unable to engage in any substantial gainful activity because of a medically determinable physical or mental impairment that can be expected to result in death or to be of long-continued and indefinite duration. A worker who meets a statutory definition of blindness may qualify for the freeze without regard to his ability to engage in substantial gainful activity.

The second step in developing the disability program was the 1956 legislation that provided cash disability insurance benefits for disabled workers who are aged 50-64. The existing definition of disability for the disability freeze was retained for the new monthly benefits except that there is no presumed disability for the blind. Under the 1956 amendments, to be insured for disability insurance benefits a worker was required to be fully insured as well as to meet the work tests required for the freeze. The amount of the benefit payable to a disabled worker is calculated as though the worker were of retirement age. The 1956 legislation also removed the "age 18" limitation on eligibility for child's insurance benefits for persons who have been continuously disabled since before age 18.

The 1958 amendments provided for the payment of benefits to the dependents of workers receiving disability insurance benefits, thus bringing the disability provisions more closely in line with the provisions applicable to old-age insurance benefits. The 1958 legislation modified the test of substantial, recent work by eliminating the requirement that a person must have been in covered employment for 1½ years during the 3-year period immediately preceding the onset of disability to qualify for the disability freeze or for disability benefits. Experience had shown that this provision was unduly restrictive and had been especially disadvantageous to people whose disability was of a progressive nature.

The addition of a new requirement that a worker be fully insured in order to qualify for the disability freeze made the work requirements the same for the disability freeze as for disability benefits.

Future Role of Disability Insurance

In 1959 the Subcommittee on the Administration of the Social Security Laws, established by the House Committee on Ways and Means, held public hearings on the administration of the disability insurance program. The subcommittee heard considerable evidence on the desirability of removing the "age 50" requirement for receipt of disability benefits. It reported that there appeared to be "no administrative or other justification for continuation of this purely arbitrary distinction" and that the age limitation could be removed without an increase in the social security tax.

The disability insurance program is maturing rapidly, and in the coming years it will have an increasingly significant role in meeting the needs of the Nation's disabled. The number of workers who meet the work requirements for protection against loss of earnings through disability is increasing by approximately 2 million a year. By the end of 1964, the number benefiting from the program will have grown to about 1½ million—twice as many as at the end of 1959—and the number will continue to rise sharply in the ensuing years so that before long the great majority of workers who suffer from long-term, severe impairments will benefit from the protection of the program.

FINANCING THE PROGRAM

Congress has designed a schedule of contributions that will finance the old-age, survivors, and disability insurance program without any subsidy from the general funds of the Treasury. Rather than imposing the full rate all at once, Congress scheduled increases in the contribution rate at intervals that would allow the economy adequate time to adjust to the full tax burden and avoid the building up of excessively large reserves.

In considering provisions for financing old-

age, survivors, and disability insurance benefits, Congress over the years has repeatedly made its intention clear that the program should remain self-supporting on the basis of the contributions of employees, their employers, and the self-employed. Whenever the conditions that affect program costs have changed so that the estimates of program costs have also changed, Congress has revised the schedule of contribution rates to keep the program self-supporting.

Early 1958 estimates indicated that there was a deficit in the long-range financing of the old-age and survivors insurance provisions and that for the next 7 or 8 years expenditures from the old-age and survivors insurance trust fund would be more than the income. Congress, when enacting the liberalization in benefit provisions in 1958, accordingly revised the tax schedule not only to take into account the costs of increased benefits but also to improve generally the short-range and long-range actuarial status of the program.

The following tabulation shows the contribution rates effective from 1937 through 1959 and the scheduled rates for 1960 on.

Year	Effective contribution rates			
	Employees	Employers	Self-employed	On taxable earnings of—
1937-49.....	1	1		\$3,000
1950.....	1½	1½		3,000
1951-53.....	1½	1½	2½	3,600
1954.....	2	2	3	3,600
1955-56.....	2	2	3	4,200
1957-58.....	2½	2½	3¾	4,200
1959.....	2½	2½	3¾	4,800
	Scheduled contribution rates			
1960-62.....	3	3	4½	\$4,800
1963-65.....	3½	3½	5½	4,800
1966-68.....	4	4	6	4,800
1969 and thereafter.....	4½	4½	6½	4,800

Beginning in 1957 the scheduled contributions included ¼ of 1 percent of payroll from employers and employees and ⅜ of 1 percent of earnings from the self-employed to finance the disability insurance benefits.

The contributions of employers, employees, and the self-employed are deposited in two trust funds, which are held by a Board of Trustees consisting of the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. Old-age and survivors insurance benefits and the costs of administering

the old-age and survivors insurance provisions are paid out of the Federal old-age and survivors insurance trust fund. In 1956, when the law pertaining to disability insurance benefits was enacted, the Federal disability insurance trust fund was set up. Disability insurance benefits and the costs of administering the disability provisions are paid out of this fund. The assets of the trust funds not needed for current benefit payments and administrative expenses are invested in United States securities or securities guaranteed as to principal and interest by the United States.

The 1956 amendments provided for the establishment of periodic advisory councils to review the status of the trust funds in relation to the long-term commitments of the program. The first Advisory Council on Social Security Financing, whose membership included experts in the fields of economics, business, and labor, issued its report in January 1959. The report, which covered a yearlong study of long-term program commitments, stated: "The Council is pleased to report that according to the best cost estimates available the contribution schedule now in the law makes adequate provision for meeting the cost of the benefits provided. We have found that the method of financing is sound and that no fundamental changes are required or desirable."

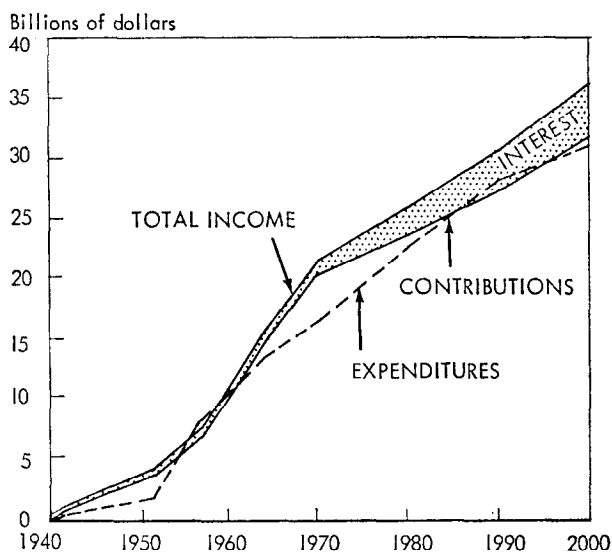
PROGRAM ADMINISTRATION

The Bureau of Old-Age and Survivors Insurance, with headquarters in Baltimore, Maryland, where the largest Federal building outside the Washington area was recently completed for its operations, is responsible for administering the program. The overall objectives of administration have been to ensure and safeguard the rights of the public under the program and to provide the best service possible for each administrative dollar.

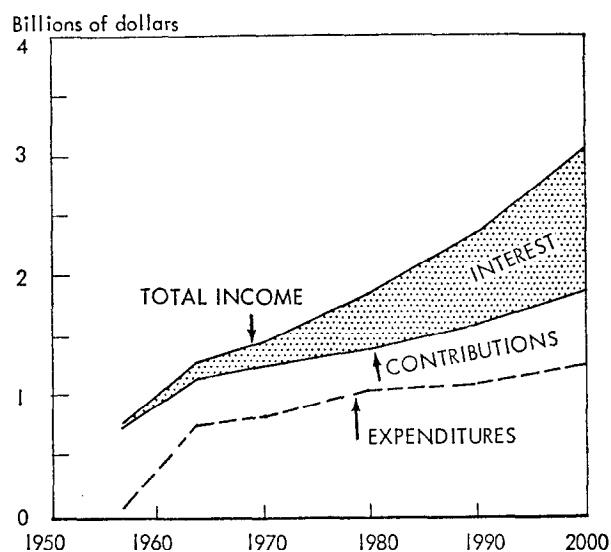
Service to the public is provided through a network of 11 regional and 584 district offices under the general direction of the Division of Field Operations. Earnings records are established and maintained centrally in Baltimore by the Division of Accounting Operations. Claims for monthly benefits are reviewed, allowed or disallowed, and certified for payment to the Treasury Department by seven geographically dispersed payment centers under the supervision of the Division of Claims Control. Determinations of disability are made by State agencies operating under contract with the Department of Health, Education, and Welfare and are reviewed by the Division of Disability Operations, which is also responsible for disability standards.

CHART 3.—Income and expenditures of the old-age, survivors, and disability insurance program, 1940-2000¹

OLD AGE AND SURVIVOR'S INSURANCE



DISABILITY INSURANCE



¹ Calendar years; estimated for years after 1957.

Maintenance of Earnings Records

Since the beginning of the program, the Bureau has kept individual earnings records for each of the millions of workers for whom earnings were reported. At first the job was done by punch-card equipment and individual ledger sheets. Later the information on the ledger sheets was microfilmed, and the records were maintained through the use of microfilm of annual listings and of up-to-date summary cards for each account-number holder. In the fiscal year 1955-56, electronic data-processing equipment was secured for such record-keeping operations as maintaining earnings records, reinstating incorrectly reported earnings items, and supplying earnings record data for claims.

By the end of 1959, a total of almost 131.7 million social security accounts had been established, compared with 37.2 million established by the end of 1937. It is estimated that almost 73 million persons had earnings credited during 1959.

Development of Claims

Claims taking and development have been a growing part of Bureau operations since 1937. Almost 3 million claims applications are expected during the fiscal year 1959-60, compared with 921,000 in 1949-50.

The Bureau has always had as a primary objective individualized service. As a rule, there is at least one personal contact with each claimant by a Bureau representative during the development of a claim for benefits. The Bureau has learned that such a contact usually means that the individual will begin to get his benefits sooner than he otherwise would.

Payment centers perform the claims review and certification functions. Although there have been changes and improvements in procedures over the years, the claims process, as such, has remained essentially the same, and as additional district offices have been opened to better serve the public, new payment centers have been set up to handle the growing beneficiary rolls. The latest payment center to be set up was opened in Baltimore in September 1958 in order to centralize and expedite the payment of disability insurance benefits. The claims work pertaining to all beneficiaries living abroad was also trans-

ferred from the other payment centers to the new Baltimore Payment Center at this time.

Although many studies of various segments of the claims process have been made over the years, at no time was the process studied in its entirety until the Central Planning Staff was organized in January 1959. This group immediately undertook an across-the-board review of the claims process—how claims are received and developed, how the benefit rolls are kept up to date, and how benefits are paid. The basic recommendation of the Central Planning Staff was that the Bureau proceed with all possible speed toward the fullest use of integrated and automated data-processing equipment and systems and make use of high-speed communication devices to tie together the district offices, the earnings record center, and the payment centers of the Bureau. An integrated data-processing system coupled with high-speed wire communications should result in greater speed at a lower cost, with no decline in the extent of personal services provided for claimants and beneficiaries.

Payment of Benefits

The end product of the old-age, survivors, and disability insurance claims process is the delivery of the benefit check into the hands of the beneficiary, on time and in the correct amount. To issue checks to almost 14 million beneficiaries who are counting on their arrival near the first of the month is a gigantic undertaking that is repeated month after month by the Bureau, the Treasury Department, and the Post Office Department.

One of the major tasks in the benefit payment operation has been the conversion of benefit rates to the scales provided in new legislation. After the 1958 amendments to the Social Security Act, electronic equipment was used for the first time to ensure timely and accurate completion of this vast benefit conversion job. A recent improvement has been the use of electronic equipment in the Baltimore Payment Center to prepare the monthly benefit certifications to the Treasury Department. This equipment has also been used to check the earnings records of those beneficiaries who had earnings in excess of the exempt amount but who may have failed to report this information. Within the next few years, it is expected

that electronic equipment will be used in all payment centers to certify, balance, and control all benefit payments and to process as many of the subsequent actions as appropriate.

Keeping up with the changes in the beneficiary rolls has become an increasingly complex job as the number of beneficiaries has grown from 222,500 in December 1940 to 3.5 million in 1950, to 8.0 million in 1955, and to 13.7 million at the end of 1959. During this fiscal year, terminations of benefits, benefit suspensions, recomputations, reinstatements, check cancellations, and changes of address will require an estimated 6.7 million changes to keep the benefit rolls up to date.

Disability Operations

Enactment of legislation in 1954 providing for the disability freeze gave the Bureau a new type of program with new administrative problems. A staff with competence in making disability determinations had to be developed, and the disability program had to be integrated into Bureau operations.

A new administrative feature was provided in the disability legislation. It provided for determinations of disability to be made by State agencies, using standards prepared by the Secretary of Health, Education, and Welfare. A unique governmental relationship was thus created, under which State agencies play a part in the administration of a Federal program. The Secretary has authority to modify State agency determinations to make them less favorable to the disabled person but not more favorable.

Hearings and Appeals

The Social Security Act through the years has provided dissatisfied claimants the right to a reconsideration of their claims by the Bureau and a hearing before a regional referee. The referee is an employee of the Office of Hearings and Appeals, which is directly responsible to the Commissioner of Social Security. The claimant may, within 60 days of the referee's decision, request a review by the Appeals Council. The claimant also has the right of appeal in a United States court.

After the inception of the disability program, the number of requests for hearings rose rapidly. More than eight times as many reconsideration cases and four times as many hearings cases were processed in 1958 as in 1955. More than 70 percent of all hearings cases are concerned with disability determinations.

Costs of Administration

Administrative costs have never exceeded 3.6 percent of income from contributions except in 1940 and in recent years have generally been between 2 and 3 percent of income. The low cost of administering the program has been accomplished through efficient management and the introduction of labor-saving machinery and equipment.

As we enter the second quarter century of old-age, survivors, and disability insurance, we look back at the record with a sense of accomplishment. From a program that first provided benefits only for elderly retired men and women who had worked in commerce and industry, the program has grown over the years to cover almost all those who work for a living and to provide payments not only to retired people but also to their families, to disabled people and their dependents, and to the families of insured workers who have died. Along with these improvements, the level of benefits provided by the program has been increased from time to time to reflect changing prices and levels of living. At the same time, the financing of the program has been kept on an actuarially sound basis.

While old-age, survivors, and disability insurance has succeeded in providing protection against many of the catastrophes that threaten the economic security of workers and their families, there is need for continuing reappraisal and revision of the program to make it still more effective in realizing its objectives. In fact, in a dynamic economy like ours, the program will need to be adjusted periodically to maintain its present effectiveness. Changing conditions will create new problems that are not anticipated today. The success we have had in meeting the challenges of the past 25 years gives us confidence that we will successfully meet the challenges of the future.