Social Security—Forty Years Later

Forty years ago, on August 14, 1935, President Franklin D. Roosevelt signed into law the Social Security Act. That law established two social insurance programs—one, a Federal old-age insurance system—now officially termed the old-age, survivors, disability, and health insurance (OASDHI) program—and the other, a Federal-State unemployment insurance system. The law also created a Federal-State public assistance program for needy persons and provided Federal grants to States for child welfare, vocational rehabilitation, and public health services. Through numerous amendments, these programs have been expanded and new ones provided, the latest being the Federal supplemental security income program for adults with inadequate income, which became effective January 1, 1974.

The original OASDHI program covered only employees in industry and commerce representing less than 60 percent of the labor force. During the 1950's, the program was expanded to cover, with certain exceptions, the self-employed, agricultural and domestic workers, members of the Armed Forces, employees of nonprofit organizations, and State and local government employees. Today, the system approaches universal coverage, as 9 out of 10 persons who work in paid employment are covered.

Matching the growth in coverage has been the growth in the kinds of benefits payable and the risks protected against. The original Act limited the payment of monthly cash benefits to retired workers. In 1939, the program was expanded to provide protection for the insured worker's dependents and survivors. In 1956, disability benefits were added, first for workers aged 50–64, then in 1958 for their dependents, and finally, in 1960, for younger workers. Early retirement benefits (with an actuarial reduction) were provided in 1956 for women and in 1961 for men, by lowering the age requirement for benefits from 65 to 62. A health insurance program for the aged—generally known as Medicare—was introduced in 1965, and in 1972 this program was expanded to cover certain disabled beneficiaries, as well as persons with chronic renal disease.

Monthly cash benefits were first payable in January 1940, and total benefit outlays during that first year were a modest $32 million. In the following decades, aggregate outlays for benefits increased tremendously, both in dollar amounts and as a percent of the Nation's personal income. By 1955, just before disability benefits were introduced, cash benefit outlays reached the $5 billion mark or 1.6 percent of national income. Twenty years later, in 1975, cash outlays are more than 13 times as great and equal 5.6 percent of total personal income; together with Medicare, total benefit expenditures come to an estimated $82.7 billion or 6.9 percent (chart 1).

Almost 32 million persons are currently receiving OASDHI cash benefits, the majority of them retired workers Together with their spouses, these beneficiaries number 19.3 million or 60 percent of the total. This percentage was of course slightly higher in the years before disability benefits began. Of the remaining beneficiaries, about 5.6 million are receiving benefits as widowed mothers and children, 3 9 million as aged widows, widowers, and parents, and 2.9 million as disabled workers and spouses.

As the result of the maturing and expansion of the program, the proportion of those aged 65 and over receiving OASDHI cash benefits has grown significantly—from 21 percent in 1950 to 89 percent in 1975. That proportion becomes 93 percent if account is taken of those aged persons now eligible to receive but not drawing benefits who may, together with their dependents, come on the rolls at any time, once the decision to retire is made. Indeed, OASDHI has become the Nation's basic system for providing a cash income when earnings are cut off in old age.

Average monthly benefits for individual beneficiaries have increased over the years for a variety of reasons—rising wage levels, cost-of-living increases, and other statutory attempts to improve the adequacy of benefits. For retired workers with benefits in current-payment status, the average benefit was $23 in December 1940, $84 in December 1965: it is estimated that it will be $207 at the end of 1975. In terms of purchasing power, the increase is much smaller, as chart 2 shows. Nevertheless, even when benefits are adjusted for price changes, retired workers on the rolls in 1975 are receiving benefits with purchasing power about 40 percent greater than their counterparts in 1965.

These figures do not, of course, indicate the extent to which wage-replacement ratios—the ratio of benefits payable to preretirement income—have been affected by rising wage levels and benefits. For example, a man who during his lifetime earned the maximum earnings creditable and taxable toward benefits would receive upon retirement at age 65 at the beginning of 1976 a benefit equal to 31 percent of his previous year's earnings The wage-replacement ratio for comparable workers retiring during the period 1961–66 ranged from 30 to 33 percent—not much different.

In 1972, Congress adopted automatic escalator provisions to provide more speedy adjustment of benefit levels for cost-of-living changes and in the maximum earnings base for wage changes. Provisions were also enacted to provide for automatic changes in the amount of exempt earnings without a reduction in benefits permitted OASDHI beneficiaries under the retirement test.

Despite the great forward strides in OASDHI, many areas of concern and of unfinished business remain. The Report of the 1974 Advisory Council on Social Security has drawn attention to some of these. (For a summary of the Advisory Council recommendations, see page 31).

Lower-than-expected contributions induced by the recession and increased benefit outlays in response to continuing price rises have produced short-term depletions in the trust funds. Various short-term measures to raise revenue are under consideration. For the long run, a potential financing problem arises out of changing demographic patterns, most notably the increasing proportion of older persons in the population.

A related area of concern involves the operation of the automatic benefit-increase formula. At present the benefits of those retiring in the future are adjusted by a formula that yields wage-replacement ratios that are not only unpredictable and fluctuating but may also eventually result in financial difficulties, depending upon the interaction of wage and price increases over time.

An unfinished item of business concerns the status

of certain employee groups, such as Federal civilian employees, whose lack of coverage under the basic OASDHI program creates gaps and overlaps in benefit entitlement Making the system universal by covering all the gainfully employed under OASDHI is the best assurance that the American worker and the American family have continuous protection during all phases of the working career.

Another unfinished item involves the disability benefits program Under present law, a worker is considered disabled if he is unable after a 5-month waiting period (generally) to engage in any substantial gainful activity. There have been calls for earlier entitlement and a less strict definition of disability that would permit older workers to qualify for benefits when they are no longer able to engage in work requiring skills and abilities comparable with those required in a past occupation

The OASDHI system continues to be an evolving program, as new problems are identified and new solutions sought An area now receiving further study is the treatment of women and family groups Various inequities have emerged with the growing participation of married women in the labor force Other areas under study are the effects of the program on different racial and ethnic groups, the impact of the retirement test, and procedures for simplifying the program and its administration.

CHART 1.—Total benefits paid under the OASDHI program as percent of personal income, 1940–75

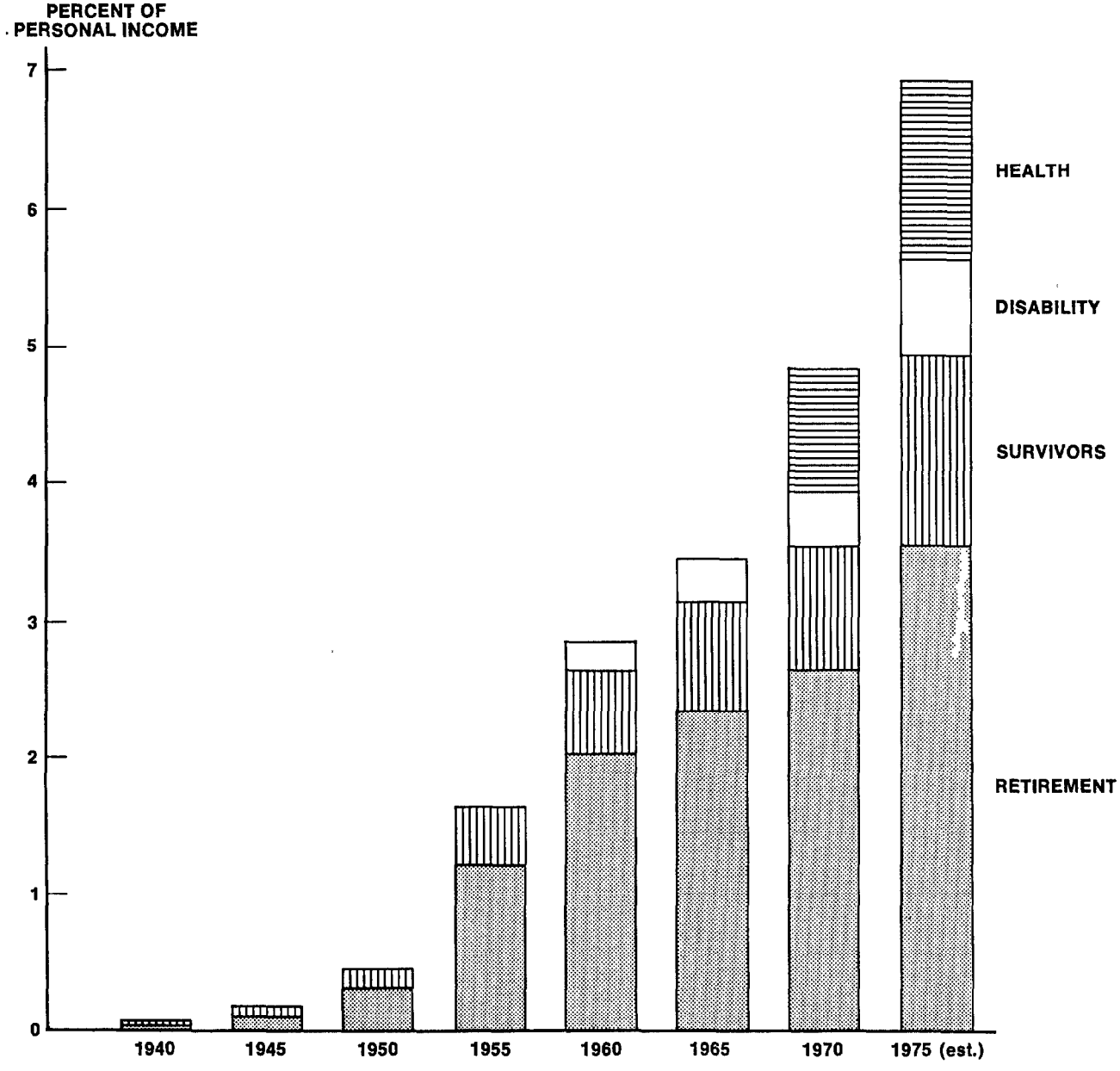
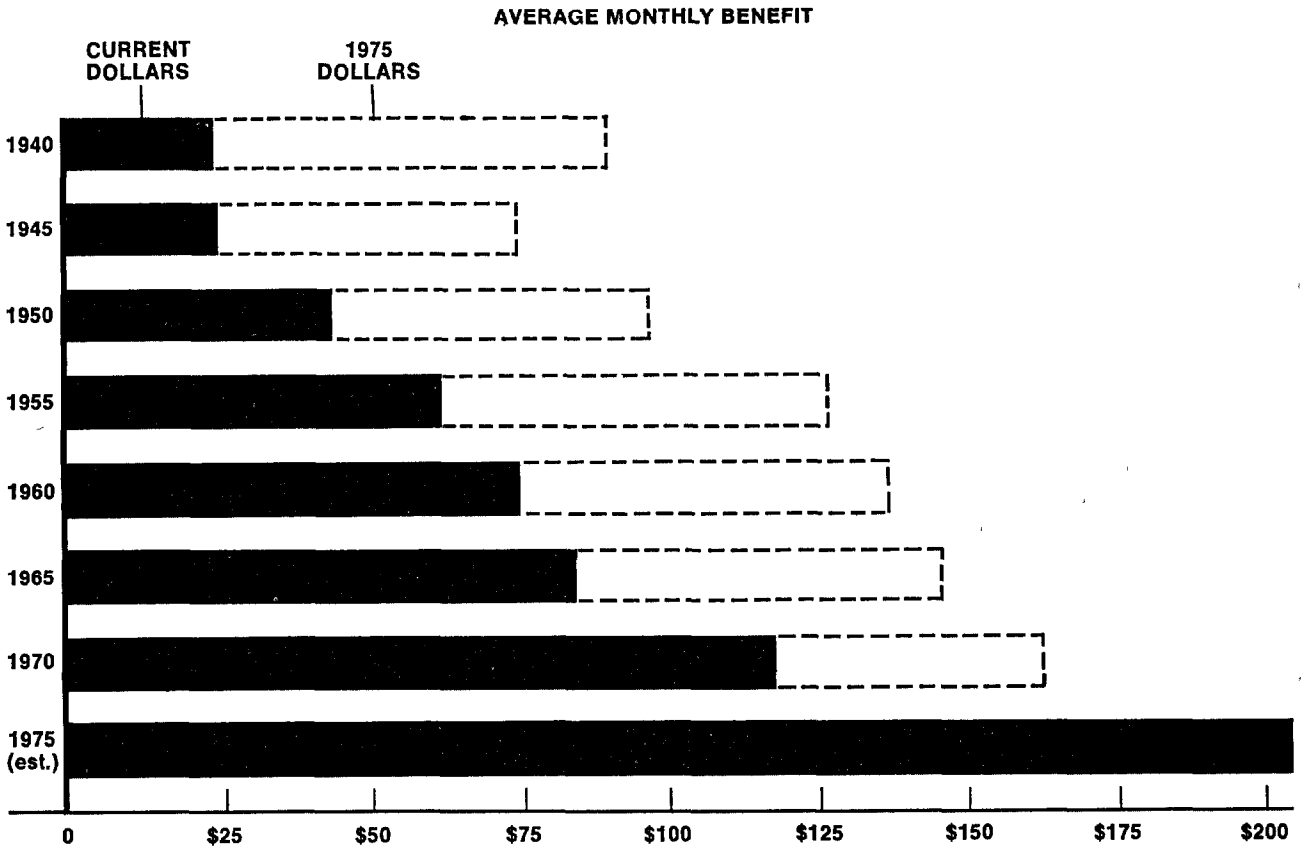


CHART 2.—Average monthly OASDHI benefits in current-payment status for retired workers, in current and 1975 dollars, end of year, 1940–75



Social Security and Women

The social security system was originally designed to protect workers, most of whom were men. In 1939, just before benefit payments under the program were to begin, protection was extended to dependents and survivors of workers, most of whom were women Thus, wives of retired workers, aged widows, younger widows with dependent children, and aged parents of workers became potential beneficiaries. In 1958, these benefits were extended to the dependents of disabled workers Divorced wives and widows (if they had been married 20 years) were subsequently accorded this protection In 1967, benefits were instituted for widows as young as age 50 if they themselves become disabled.

In recent years, the rights of women's dependents to benefits have been recognized. Protection was provided in 1950 for the children, husbands and widowers of disabled, retired, and deceased women workers. In 1975, about one-eighth of all child beneficiaries were receiving benefits on their mothers' records, up from less than 2 percent in 1950, and 5 percent in 1960

Increased protection of women workers has been brought about by the 1950 extension of coverage to domestic workers and by the liberalizing of the quarters-of-coverage requirement—especially advantageous to women because of their usually shorter careers. Retirement at age 62, now available for all workers, was originally limited to women workers.

In early 1975, women were more than 60 percent of the 26 million adults receiving social security benefits—about 7¾ million as retired or disabled workers and the rest as dependents. Of the former group, about 1½ million also receive a supplementary dependent's benefit, because the benefit on their own work record is not as large as that to which they are entitled as dependents.

Important areas for progress remain, particularly the proper treatment of the two-earner couple, now comprising more than one-half of all couples with at least one worker. Since the wife in such couples is entitled to a dependent's benefit but cannot receive both it and her own retired worker's benefit, such families build up wage credits that produce benefits not commensurate with their contributions Various solutions in such difficult areas are under study to provide a fairer program for women, who more and more are combining the two roles of homemaker and worker during their adult lives.

Medicare

The Medicare program, enacted 10 years ago on July 30, 1965, was designed to close a major gap in the economic security of the elderly by providing protection against the high cost of hospital and medical care. The program began on July 1, 1966, and provided two separate coordinated insurance coverages—hospital insurance covering nearly all persons aged 65 and over and supplementary medical insurance covering those aged persons who enroll voluntarily and pay the premium. The 1972 amendments to the Social Security Act expanded the Medicare program, beginning July 1, 1973, to cover persons under age 65 who have been entitled for at least 24 months to monthly cash disability benefits under the social security or railroad retirement programs because they are disabled. The program also covers treatment of chronic kidney disease for people under age 65 who have acquired insured status under OASDHI (and for their spouses or dependent children).

Under the hospital insurance program, about 22.2 million aged persons and 2.0 million disabled persons are now protected against the costs of inpatient hospital services, posthospital home health services, posthospital skilled-nursing facilities services—with specified deductibles and coinsurance amounts. Hospital insurance benefit payments for both the aged and the disabled groups are estimated at $10.3 billion for fiscal year 1975.

The Medicare program requires that participating hospitals and related health facilities be made available to all patients equally, regardless of race. Some 6,700 hospitals, with more than 1.1 million beds and almost 4,000 skilled-nursing facilities with 294,000 nursing beds are certified for participation in the Medicare program. In addition, 2,200 home health agencies and 3,000 independent laboratories participate under the program.

The supplementary medical insurance program provides protection against the cost of physicians' services and certain other medical and health services. About 21.6 million aged persons and 1.8 million disabled persons have elected coverage under the program. Benefit payments under this part of Medicare are estimated at $3 8 billion for fiscal year 1975.

As the Medicare program has matured, it has faced the challenge of extension of coverage to new population groups amidst concern for rapidly rising costs and the need to improve the efficiency of the program. Solutions are being sought through various provisions of the 1972 amendments that address themselves to cost containment and expanded authority to engage in broad experimental activity, both in reimbursement methods and in coverage alternatives to existing delivery mechanisms—the establishment of Professional Standards Review Organizations, Health Maintenance Organization options under Medicare, and a new network of health systems agencies under the National Health Planning and Resources Development Act of 1974.

Supplemental Security Income

The beginning of the supplemental security income (SSI) program for the aged, blind, and disabled in January 1974 marked a major transition in the development of Federal programs that had their genesis in the Social Security Act of 1935. That Act established national social insurance programs and federally aided State programs to meet income needs on an individually determined basis, for persons in specific categories. Initially, these State-Federal programs were designed to provide money payments to the needy aged, the needy blind, and needy dependent children. In 1950, permanently and totally disabled adults with insufficient income were added to the categories of individuals aided by the assistance program. In 1960, a separate program was established to help the needy aged with their medical care costs; in 1965, a program to include all the medically indigent, regardless of age, was started—medical assistance (known as Medicaid).

With establishment of the SSI program, the pattern of Federal grants to States for income-conditioned assistance was altered for the aged, the blind, and the disabled The programs for aid to families with dependent children, medical assistance, and social services continue as State programs, supported through Federal grants-in-aid.

The SSI program, administered by the Social Security Administration, has nationally applicable levels against which countable income is measured. States may supplement the Federal payments at these basic national levels and, under certain circumstances, may elect Federal administration of such supplements. In mid-1975, federally administered SSI payments were being made to 4.2 million persons at a monthly rate of about $400 million in basic Federal payments and a little more than $100 million in federally administered State supplementation. The SSI program is still in the process of development, as Congress is still considering possible changes affecting eligibility conditions, payment levels, and the appropriate relationship between Federal and State responsibility for aid to needy persons.