

ADMINISTRATIVE EXPENSES UNDER OASDI

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Administering the Old-Age, Survivors, and Disability Insurance (OASDI) system is a massive and complex undertaking. In calendar year 1979, 4.2 million monthly benefits were awarded, 3.9 million monthly benefits were terminated, and an estimated 114 million workers had earnings covered by the system. Total OASDI disbursements in 1979 were \$107.3 billion. More than 35.1 million persons were receiving monthly benefits at year-end.

The OASDI system is administered by the Social Security Administration, which is also involved in the administration of other programs, including Medicare, Black Lung, Supplemental Security Income, Aid to Families with Dependent Children, and Child Support. About 60 percent of the work performed by the 85,000 employees of the Social Security Administration is associated with OASDI operations.

This Actuarial Note presents data on the administrative expenses related to the OASDI system. The largest portion of these expenses is directly charged by the Social Security Administration to the OASDI trust funds and includes salaries, rent for property and equipment, building operating expenses, and charges for supplies purchased. The cost incurred by the Treasury Department in collecting contributions, issuing benefit checks, and managing fund assets is another significant charge to the trust funds. The OASDI trust funds are charged by the Department of Health and Human Services (formerly included in HEW) for expenses related to the overall administration and planning for the system. The costs incurred by the states in making disability determinations are also charged to the trust funds.

All costs paid in a year, including the costs of constructing buildings and purchasing such major items as computers and vehicles, are charged to the trust funds as administrative expenses in that year and never handled as capital expenditures to be depreciated over time. This procedure ensures that capital items are not included among the trust fund assets since they are not available to pay benefits. Although the use of this accounting procedure could lead to the conclusion that administrative expenses in a particular year have been overstated or understated, in most years, the costs of capital items are small enough relative to the total administrative expenses that the degree of possible difference is small.

Certain expenses associated with the OASDI system are not charged to the trust funds. These include both the costs to the General Services Administration for some government-owned building space which is provided rent-free and the costs to the general fund of the Treasury for employee fringe benefit charges in excess of the contributions of employees and their agencies.

Table 1 displays the administrative expenses for the OASDI system and for the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs separately on both a cash and incurred basis for calendar years 1957 through 1979. The cash expenses each year consist of charges actually made in the year plus any retroactive adjustments to reflect final allocation of the expenses of previous years. Since 1967 these adjustments have been relatively small because expenses have been allocated among the funds (including the two Medicare trust funds and the general fund of the Treasury) on an estimated basis throughout each year. However, before any meaningful analysis is attempted, the cash expenses should be adjusted to an incurred basis.

Administrative expenses, in dollar amounts, have been increasing fairly steadily since the inception of the OASDI system because of program growth and inflation. These trends have been partially offset by the increasing efficiency of program operations, evidenced in decreasing unit costs for many procedures. To compare the expenses from one year to another, in this note the expenses are related to three bases: contribution income, benefit payments, and taxable payroll. In addition, a composite expense index is presented which allows further comparison.

Some analysts believe that the best basis for assessing the propriety of the level of administrative expenses is obtained by relating them to contribution income. The use of this indicator, however, has the disadvantage that contribution income is directly related to the tax rates, while administrative expenses are not. Therefore, the ratio of administrative expenses to contribution income is subject to discontinuities caused by changes in the tax rates. Changes in the maximum taxable earnings base have similar but less significant effects.

Since a large proportion of the expenses incurred in the OASDI system is related to the payment of benefits, some analysts consider the ratio of administrative expenses to benefit payments to be a good indicator of the relative level of expenses. Such a ratio permits direct comparison with the expense ratios of other programs for which expenses are often stated as a percentage of benefits in both the public and private sectors. However, general benefit increases raise benefits immediately while administrative expenses are only slightly affected. Therefore, the ratio of administrative expenses to benefit payments decreases. In addition, during years when the number of new awards is high relative to the number of beneficiaries on the rolls, this ratio is also high because of the greater cost involved in processing new applications relative to the cost of paying benefits and keeping records for current beneficiaries. As the programs mature, the ratio of administrative expenses to benefit payments should stabilize.

Table 1

OASDI Administrative Expenses,  
Calendar Years 1957-79  
(in millions)

Calendar Year	Cash Basis			Incurred Basis		
	OASI	DI	OASDI	OASI	DI	OASDI
1957	\$ 162	\$ 3	\$ 165	\$ 144	\$ 21	\$ 165
1958	194	12	207	181	26	207
1959	184	50	234	200	34	234
1960	203	36	240	191	48	240
1961	239	64	303	236	67	303
1962	256	66	322	255	67	322
1963	281	68	348	275	73	348
1964	296	79	375	291	84	375
1965	328	90	418	308	88	418
1966	256	137	393	337	92	429
1967	408	109	517	393	109	501
1968	476	127	603	457	135	592
1969	474	138	612	467	141	608
1970	471	164	635	468	162	630
1971	514	205	719	523	208	732
1972	674	233	907	674	206	880
1973	647	190	837	650	219	869
1974	865	217	1,082	858	206	1,064
1975	896	256	1,152	903	272	1,175
1976	959	285	1,244	967	296	1,262
1977	981	399	1,379	985	346	1,331
1978	1,115	325	1,440	1,089	359	1,448
1979*	1,113	371	1,483	1,132	377	1,509

\*preliminary data

Another useful indicator is the ratio of administrative expenses to taxable payroll. One advantage is that, although the taxable payroll is affected by changes in the wage base, increases in the base (either through Congressional action or through the automatic adjustment mechanism in the Social Security Act) have tended to keep pace with increases in total wages. In addition, since contribution income and benefit payments are often expressed as a percentage of taxable payroll and many analysts are familiar with such data, this indicator permits easy comparison of contributions and benefits with administrative expenses. The use of this indicator does present at least one disadvantage, however, because taxable payroll does not change when the OASDI system increases in size or complexity, while administrative expenses may increase substantially. Thus, the ratio of administrative expenses to taxable payroll will increase under those circumstances.

#### Old-Age and Survivors Insurance Program

The incurred administrative expenses of the OASI trust fund for calendar years 1940, the first year of benefit payments, through 1979 are displayed in Table 2 in dollar amounts and as a percentage of the three bases described above.

Table 2

OASI Administrative Expenses,  
Calendar Years 1940-79

Calendar Year	Incurred Expenses (millions)	As a percentage of ...		
		Contribution Income	Benefit Payments	Taxable Payroll
1940	\$ 26	8.0%	74.3%	.08%
1941	26	3.3	29.5	.06
1942	28	2.8	21.4	.05
1943	29	2.3	17.5	.05
1944	29	2.2	13.9	.05
1945	30	2.3	10.9	.05
1946	40	3.1	10.6	.06
1947	46	3.0	9.9	.06
1948	51	3.0	9.2	.06
1949	54	3.2	8.1	.07
1950	61	2.3	6.3	.07
1951	81	2.4	4.3	.07
1952	88	2.3	4.0	.07
1953	88	2.2	2.9	.06
1954	92	1.8	2.5	.07
1955	119	2.1	2.4	.08
1956	132	2.1	2.3	.08
1957	144	2.1	2.0	.08
1958	181	2.4	2.2	.10
1959	200	2.5	2.0	.10
1960	191	1.8	1.8	.10
1961	236	2.1	2.0	.12
1962	255	2.1	1.9	.12
1963	275	1.9	1.9	.13
1964	291	1.9	2.0	.13
1965	308	1.9	1.8	.13
1966	337	1.6	1.8	.11
1967	393	1.7	2.0	.12
1968	457	1.9	2.0	.12
1969	467	1.7	1.9	.12
1970	468	1.5	1.6	.12
1971	523	1.6	1.6	.13
1972	674	1.8	1.8	.14
1973	650	1.4	1.4	.12
1974	858	1.6	1.7	.14
1975	903	1.6	1.5	.14
1976	967	1.5	1.5	.13
1977	985	1.4	1.3	.12
1978	1,089	1.4	1.4	.12
1979*	1,132	1.3	1.3	.11

\*preliminary data

The OASI administrative expenses have increased nearly every year in dollar amount. Many factors have contributed to this increase, including legislative changes which increased both the numbers of workers eligible for benefits and the complexity of the entitlement procedures, program maturation which caused growth in the numbers of beneficiaries, pay increases for federal employees, and inflation in general. Increases in productivity resulting primarily from the widespread use of electronic data-processing equipment have reduced the rate of increase in administrative costs, particularly in the late 1970's, but the absolute dollar amount of expenses has continued to rise.

As a percentage of either contribution income or benefit payments, administrative expenses have generally decreased since the start of the OASI program for several reasons. Legislated increases in the tax rate, the maximum taxable earnings base, and the level of benefits have increased the OASI contribution income and benefit outgo at a faster rate than administrative expenses, which are more closely related to numbers of beneficiaries than to the dollar amounts of either income or benefits. The combined effects of productivity increases and the fact that contributions and benefits have increased faster than general inflation since the early years of the program have also contributed to the declining trend in administrative expenses relative to contribution income and benefit payments. The Social Security Amendments of 1977 mandate future increases in both the tax rates and the maximum wage base, which will lead to further increases in both contributions and benefits. At the same time, changes in the law have permitted the simplification of many administrative procedures and the reduction of record-keeping requirements. Therefore, administrative expenses as a percentage of contributions and benefits should continue to decrease in the future in the absence of other factors.

As a percentage of taxable payroll, administrative expenses under OASI increased steadily from 1942 through 1975. During this period, the legislative changes and other factors mentioned earlier caused the expenses of the program to increase faster than the taxable payroll, even though the maximum wage base was increased many times. In the late 1970's, however, productivity increases led to a decline in administrative costs relative to payroll. The large wage base increases which are included in the 1977 Amendments and which will become fully effective in 1981 are expected to cause further reductions in the ratio of administrative expenses to taxable payroll.

#### Disability Insurance Program

The incurred administrative expenses of the DI program for calendar years 1957, the first year of benefit payments, through 1979 are displayed in Table 3.

Table 3

DI Administrative Expenses,  
Calendar Years 1957-79

Calendar Year	Incurred Expenses (millions)	As a percentage of ...		
		Contribution Income	Benefit Payments	Taxable <sup>-</sup> Payroll
1957	\$ 21	3.0%	36.5%	.012%
1958	26	2.7	10.6	.015
1959	34	3.8	7.4	.017
1960	48	4.8	8.5	.024
1961	67	6.4	7.5	.033
1962	67	6.4	6.1	.032
1963	73	6.6	6.0	.033
1964	84	7.3	6.5	.037
1965	88	7.4	5.6	.036
1966	92	4.6	5.1	.030
1967	109	4.7	5.6	.034
1968	135	4.1	5.9	.037
1969	141	3.9	5.6	.036
1970	162	3.6	5.3	.040
1971	208	4.5	5.5	.050
1972	206	4.0	4.6	.044
1973	219	3.7	3.8	.040
1974	206	3.0	3.0	.033
1975	272	3.7	3.2	.042
1976	296	3.6	3.0	.041
1977	346	3.8	3.0	.044
1978	359	2.7	2.9	.040
1979*	377	2.5	2.7	.036

\*preliminary data

The administrative expenses charged to the DI trust fund have increased in dollar amount fairly steadily since the inception of the program in 1957, except for the period 1971-74. Most of the forces that operated on the OASI program also operated on the DI administrative expenses during this period. The more rapid growth in the DI benefit rolls, however, produced a larger percentage increase in expenses, except for the period 1971-74 when procedures conducive to administrative savings were implemented. During the same period, numbers of applications, awards and beneficiaries increased quite rapidly. During the period 1975-77, many administrative review procedures and other safeguards were reinstated, causing large increases in administrative expenses. The marked decline in awards since 1977 has been accompanied by very small increases in DI administrative costs.

Following the early years of operation of the DI program, administrative expenses have generally declined as a percentage of contribution income. Large increases in the tax rate and the wage base have caused contribution income to grow faster than expenses. In addition, as the program matured, the ratio of new awards to total beneficiaries declined. These two conditions are expected to continue under present law, so that the ratio of administrative expenses to contributions should continue to decline in the future.

Administrative expenses have also decreased as a percentage of benefit payments. Large benefit increases have contributed to this reduction in the ratio of expenses to benefits; however, the decreases in this ratio during 1971-74 are too large and abrupt to have resulted from benefit increases alone. During this period administrative expenses remained almost level, while practically every other measure of the size of the DI program was increasing rapidly. Furthermore, a similar decline did not occur during this period in the ratio of administrative expenses to benefit payments for the OASI program, to which the same benefit increases applied. In our opinion, the sharp decline in the ratio for the DI program was due to ill-advised budgetary decisions which kept administrative costs and personnel levels down but which resulted in a concomitant explosion in the number of benefits awarded during the period.

The ratio of administrative expenses to benefits may not continue to decrease in the near future. A revised benefit formula which became effective in 1979 is expected to cause future benefits to grow more slowly compared to those under previous law. In addition, the Disability Amendments of 1980 decrease the number of drop-out years available in the calculation of benefits for young disabled workers, reduce the maximum family benefit, and mandate many administrative changes which will reduce the number of future beneficiaries as well as future DI benefit payments. These legislative changes should cause administrative expenses to increase both in absolute dollar amount and possibly as a percentage of benefit payments.

As a percentage of taxable payroll, the administrative expenses of the DI program have tended to increase slightly; the cost has remained in the range of .03 percent and .05 percent since 1961. The large wage base increase in 1979 caused the ratio to decline to .036 percent, and further reduction is expected if the annual number of awards remains low.

OASI and DI Programs Combined

The incurred administrative expenses of the combined OASDI system for calendar years 1957 through 1979 are displayed in Table 4.

Table 4

OASDI Administrative Expenses

Calendar Year	Incurred Expenses (millions)	As a percentage of ...		
		Contribution Income	Benefit Payments	Taxable Payroll
1957	\$ 165	2.2%	2.2%	.09%
1958	207	2.4	2.4	.12
1959	234	2.6	2.3	.12
1960	240	2.0	2.1	.12
1961	303	2.5	2.4	.15
1962	322	2.5	2.2	.15
1963	348	2.2	2.3	.16
1964	375	2.2	2.3	.16
1965	418	2.4	2.3	.17
1966	429	1.9	2.1	.14
1967	501	2.0	2.3	.16
1968	592	2.2	2.4	.16
1969	608	1.9	2.3	.16
1970	630	1.8	2.0	.16
1971	732	1.9	2.0	.18
1972	880	2.1	2.1	.19
1973	869	1.7	1.7	.16
1974	1064	1.8	1.8	.17
1975	1175	1.8	1.8	.18
1976	1262	1.8	1.7	.18
1977	1331	1.7	1.6	.17
1978	1448	1.6	1.6	.16
1979*	1509	1.5	1.4	.15

\*preliminary data

As a percentage of both contribution income and benefits payments, the administrative expenses of the OASDI system have been at about the same level and followed the same trends as the analogous ratios for the OASI program, which has represented no less than 71 percent of the total OASDI expenses in any year.

The ratio of OASDI administrative expenses to taxable payroll is equal to the sum of the ratios for the OASI and DI programs separately since the same payroll is used to calculate all three ratios. As a percentage of taxable payroll, the OASDI administrative expenses increased from .09 percent in 1957 to a peak of .19 percent in 1972. Since then the ratio has declined to .15 percent in 1979, largely as a result of productivity increases and legislated increases in the taxable wage base.

#### Administrative Expense Index

To obtain a more definitive analysis of OASDI expenses, an administrative expense index is presented. The index, intended to reflect most of the changes in the dollar cost per unit of work performed in a year, is founded on two fundamental assumptions. The first is that virtually all expenses can be related to awarding benefits and maintaining benefits in current payment status. The second is that the cost of awarding a benefit relative to the cost of maintaining a benefit in current payment has remained practically constant over the relevant time period, which is 1960 through 1979 in this analysis. Neither of these assumptions is believed to be entirely correct, but in combination they yield an index which should capture most of the effects of changes in workloads.

After investigating the cost of awarding a benefit relative to the cost of maintaining a benefit in current payment, a ratio of three to one was chosen for the calculation of the OASI expense index, and a ratio of five to one was chosen for the DI index. Awarding a DI benefit is relatively more expensive because it usually requires a determination of disability, which is more expensive than a determination of age or survivorship. In addition, maintaining a DI beneficiary on the rolls is approximately 1.5 times as expensive as maintaining an OASI beneficiary, primarily because of the costs of periodic disability investigations and vocational rehabilitation programs. These ratios were combined with yearly expense data to construct the administrative expense index. For either program, the index is defined as the incurred expenses divided by the number of work units in a year. Work units are obtained by assuming that each OASI benefit in current payment generates one unit, each DI benefit in current payment generates 1.5 units, each OASI benefit awarded generates three units, and each DI benefit awarded generates 7.5 units.

Table 5 presents the OASI administrative expense index for the years 1960 through 1979, as well as the annual compound rates of growth in this index from each year to any subsequent year in the period. For example, the 6.2 percent shown in the 1963 column and 1978 line indicates that during the 15-year period 1963-78, the OASI administrative expense index increased at an average compounded annual rate of 6.2 percent. Tables 6 and 7 present analogous data for the DI program and for the combined OASDI system, respectively.

Table 5

OASI Administrative Expense Index and Compound Annual Growth Rates,  
Calendar Years 1960-79

To	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
1960	\$ 9.74																		
1961	11.47	17.8																	
1962	10.78	5.2	-6.0																
1963	11.46	5.6	-0.0	6.3															
1964	11.96	5.3	1.4	5.3	4.4														
1965	11.69	3.7	0.5	2.7	1.0	-2.3													
1966	10.46	1.2	-1.8	-0.8	-3.0	-6.5	-10.5												
1967	13.12	4.4	2.3	4.0	3.4	3.1	5.9	25.4											
1968	14.93	5.5	3.8	5.6	5.4	5.7	8.5	19.5	13.8										
1969	14.89	4.8	3.3	4.7	4.5	4.5	6.2	12.5	6.5	-0.3									
1970	14.56	4.1	2.7	3.8	3.5	3.3	4.5	8.6	3.5	-1.3	-2.2								
1971	15.77	4.5	3.2	4.3	4.1	4.0	5.1	8.6	4.7	1.8	2.9	8.3							
1972	19.58	6.0	5.0	6.2	6.1	6.4	7.7	11.0	8.3	7.0	9.6	16.0	24.2						
1973	18.40	5.0	4.0	5.0	4.8	4.9	5.8	8.4	5.8	4.3	5.4	8.1	8.0	-6.0					
1974	24.11	6.7	5.9	6.9	7.0	7.3	8.4	11.0	9.1	8.3	10.1	13.4	15.2	11.0	31.0				
1975	24.50	6.3	5.6	6.5	6.5	6.7	7.7	9.9	8.1	7.3	8.7	11.0	11.6	7.8	15.4	1.6			
1976	25.79	6.3	5.6	6.4	6.4	6.6	7.5	9.4	7.8	7.1	8.2	10.0	10.3	7.1	11.9	3.4	5.3		
1977	25.31	5.8	5.1	5.9	5.8	5.9	6.6	8.4	6.8	6.0	6.9	8.2	8.2	5.3	8.3	1.6	1.6	-1.9	
1978	28.24	6.1	5.4	6.2	6.2	6.3	7.0	8.6	7.2	6.6	7.4	8.6	8.7	6.3	9.0	4.0	4.6	4.6	11.6
1979	28.42	5.8	5.2	5.9	5.8	5.9	6.6	8.0	6.7	6.0	6.7	7.7	7.6	5.5	7.5	3.3	3.3	3.8	6.0

Table 6

DI Administrative Expense Index and Compound Annual Growth Rates,  
Calendar Years 1960-79

To	DI Index	Growth Rates (%)																				
		From	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	
1960	\$13.30																					
1961	12.44	-6.5																				
1962	13.05	-0.9	4.9																			
1963	14.20	2.2	6.8	8.8																		
1964	13.63	0.6	3.1	2.2	-4.0																	
1965	12.15	-1.8	-0.6	-2.4	-7.5	-10.9																
1966	11.77	-2.0	-1.1	-2.6	-6.1	-7.1	-3.1															
1967	12.94	-0.4	0.7	-0.2	-2.3	-1.7	3.2	9.9														
1968	14.99	1.5	2.7	2.3	1.1	2.4	7.3	12.9	15.8													
1969	15.09	1.4	2.4	2.1	1.0	2.1	5.6	8.6	8.0	0.7												
1970	15.25	1.4	2.3	2.0	1.0	1.9	4.6	6.7	5.6	0.9	1.1											
1971	17.88	2.7	3.7	3.6	2.9	3.9	6.7	8.7	8.4	6.0	8.8	17.3										
1972	17.02	2.1	2.9	2.7	2.0	2.8	4.9	6.3	5.6	3.2	4.1	5.6	-4.8									
1973	17.01	1.9	2.6	2.4	1.8	2.5	4.3	5.4	4.7	2.6	3.0	3.7	-2.5	-0.1								
1974	14.78	0.8	1.3	1.0	0.4	0.8	2.2	2.9	1.9	-0.2	-0.4	-0.8	-6.2	-6.8	-13.1							
1975	17.42	1.8	2.4	2.2	1.7	2.3	3.7	4.5	3.8	2.2	2.4	2.7	-0.7	0.8	1.2	17.9						
1976	18.72	2.2	2.8	2.6	2.2	2.7	4.0	4.8	4.2	2.8	3.1	3.5	0.9	2.4	3.2	12.5	7.5					
1977	21.09	2.8	3.4	3.2	2.9	3.4	4.7	5.4	5.0	3.9	4.3	4.7	2.8	4.4	5.5	12.6	10.0	12.7				
1978	23.72	3.3	3.9	3.8	3.5	4.0	5.3	6.0	5.7	4.7	5.2	5.7	4.1	5.7	6.9	12.6	10.8	12.6	12.6	12.5		
1979	26.65	3.7	4.3	4.3	4.0	4.6	5.8	6.5	6.2	5.4	5.8	6.4	5.1	6.6	7.8	12.5	11.2	12.5	12.5	12.4	12.3	

Table 7

OASDI Administrative Expense Index and Compound Annual Growth Rates,  
Calendar Years 1960-79

To	OASDI Index	Growth Rates (%)																					
		From	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	
1960	\$10.29																						
1961	11.66	13.3																					
1962	11.18	4.2	-4.1																				
1963	11.94	5.1	1.2	6.8																			
1964	12.30	4.6	1.8	4.9	3.0																		
1965	11.79	2.8	0.3	1.8	-6	-4.2																	
1966	10.71	0.7	-1.7	-1.1	-3.7	-6.7	-9.2																
1967	13.08	3.5	1.9	3.2	2.3	2.1	5.3	22.1															
1968	14.94	4.8	3.6	4.9	4.6	5.0	8.2	18.1	14.2														
1969	14.94	4.2	3.2	4.2	3.8	4.0	6.1	11.7	6.9	0.0													
1970	14.73	3.7	2.6	3.5	3.1	3.1	4.6	8.3	4.0	-0.7	-1.4												
1971	16.32	4.3	3.4	4.3	4.0	4.1	5.6	8.8	5.7	3.0	4.5	10.8											
1972	18.92	5.2	4.5	5.4	5.3	5.5	7.0	9.9	7.7	6.1	8.2	13.3	15.9										
1973	18.03	4.4	3.7	4.4	4.2	4.3	5.5	7.7	5.5	3.8	4.8	7.0	5.1	-4.7									
1974	21.48	5.4	4.8	5.6	5.5	5.7	6.9	9.1	7.3	6.2	7.5	9.9	9.6	6.5	19.1								
1975	22.39	5.3	4.8	5.5	5.4	5.6	6.6	8.5	6.9	5.9	7.0	8.7	8.2	5.8	11.4	4.2							
1976	23.70	5.4	4.8	5.5	5.4	5.6	6.6	8.3	6.8	5.9	6.8	8.3	7.8	5.8	9.5	5.0	5.9						
1977	24.06	5.1	4.6	5.2	5.1	5.3	6.1	7.6	6.3	5.4	6.1	7.3	6.7	4.9	7.5	3.9	3.7	1.5					
1978	26.96	5.5	5.0	5.7	5.6	5.8	6.6	8.0	6.8	6.1	6.8	7.8	7.4	6.1	8.4	5.9	6.4	6.7	12.1				
1979	27.97	5.4	5.0	5.5	5.5	5.6	6.4	7.7	6.5	5.9	6.5	7.4	7.0	5.7	7.6	5.4	5.7	5.7	7.8	7.8	3.7		

Table 8

Consumer Price Index and Compound Annual Growth Rates,  
Calendar Years 1960-79

To	CPI (1967=100)	Growth Rates (%) From																		
		1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
1960	\$88.65																			
1961	89.60	1.1																		
1962	90.63	1.1	1.2																	
1963	91.75	1.2	1.2	1.2																
1964	92.95	1.2	1.2	1.3	1.3															
1965	94.50	1.3	1.3	1.4	1.5	1.7														
1966	97.25	1.6	1.6	1.8	2.0	2.3	2.9													
1967	100.00	1.7	1.8	2.0	2.2	2.5	2.9	2.8												
1968	104.20	2.0	2.2	2.4	2.6	2.9	3.3	3.5	4.2											
1969	109.80	2.4	2.6	2.8	3.0	3.4	3.8	4.1	4.8	5.4										
1970	116.30	2.8	2.9	3.2	3.4	3.8	4.2	4.6	5.2	5.6	5.9									
1971	121.30	2.9	3.1	3.3	3.6	3.9	4.2	4.5	5.0	5.2	5.1	4.3								
1972	125.30	2.9	3.1	3.3	3.5	3.8	4.1	4.3	4.6	4.7	4.5	3.8	3.3							
1973	133.10	3.2	3.4	3.6	3.8	4.1	4.4	4.6	4.9	5.0	4.9	4.6	4.8	6.2						
1974	147.70	3.7	3.9	4.2	4.4	4.7	5.1	5.4	5.7	6.0	6.1	6.2	6.8	8.6	11.0					
1975	161.20	4.1	4.3	4.5	4.8	5.1	5.5	5.8	6.2	6.4	6.6	6.8	7.4	8.8	10.0	9.1				
1976	170.50	4.2	4.4	4.6	4.9	5.2	5.5	5.8	6.1	6.4	6.5	6.6	7.0	8.0	8.6	7.4	5.8			
1977	181.50	4.3	4.5	4.7	5.0	5.3	5.6	5.8	6.1	6.4	6.5	6.6	7.0	7.7	8.1	7.1	6.1	6.4		
1978	195.30	4.5	4.7	4.9	5.2	5.4	5.7	6.0	6.3	6.5	6.6	6.7	7.0	7.7	8.0	7.2	6.6	7.0	7.6	
1979	217.70	4.8	5.1	5.3	5.6	5.8	6.1	6.4	6.7	6.9	7.1	7.2	7.6	8.2	8.6	8.1	7.8	8.5	9.5	11.5

Table 9

Average Wage and Salary Earnings and Compound Annual Growth Rates,  
Calendar Years 1960-79

To	Average Wages	Growth Rates (%)																			
		From	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
1960	\$3,523																				
1961	3,573	1.4																			
1962	3,741	3.0	4.7																		
1963	3,849	3.0	3.8	2.9																	
1964	4,027	3.4	4.1	3.8	4.6																
1965	4,128	3.2	3.7	3.3	3.6	2.5															
1966	4,363	3.6	4.1	3.9	4.3	4.1	5.7														
1967	4,603	3.9	4.3	4.2	4.6	4.6	5.6	5.5													
1968	4,896	4.2	4.6	4.6	4.9	5.0	5.8	5.9	6.4												
1969	5,226	4.5	4.9	4.9	5.2	5.4	6.1	6.2	6.6	6.7											
1970	5,484	4.5	4.9	4.9	5.2	5.3	5.8	5.9	6.0	5.8	4.9										
1971	5,754	4.6	4.9	4.9	5.2	5.2	5.7	5.7	5.7	5.5	4.9	4.9									
1972	6,175	4.8	5.1	5.1	5.4	5.5	5.9	6.0	6.0	6.0	5.7	6.1	7.3								
1973	6,600	5.0	5.2	5.3	5.5	5.6	6.0	6.1	6.2	6.2	6.0	6.4	7.1	6.9							
1974	7,097	5.1	5.4	5.5	5.7	5.8	6.2	6.3	6.4	6.4	6.3	6.7	7.2	7.2	7.5						
1975	7,568	5.2	5.5	5.6	5.8	5.9	6.2	6.3	6.4	6.4	6.4	6.6	7.1	7.0	7.1	6.6					
1976	8,200	5.4	5.7	5.8	6.0	6.1	6.4	6.5	6.6	6.7	6.6	6.9	7.3	7.4	7.5	7.5	8.9				
1977	8,780	5.5	5.8	5.8	6.1	6.2	6.5	6.6	6.7	6.7	6.7	7.0	7.3	7.3	7.4	7.4	7.7	7.1			
1978	9,492	5.7	5.9	6.0	6.2	6.3	6.6	6.7	6.8	6.8	6.9	7.1	7.4	7.4	7.5	7.5	7.8	7.6	8.1		
1979	10,293	5.8	6.0	6.1	6.3	6.5	6.7	6.8	6.9	7.0	7.0	7.2	7.5	7.6	7.7	7.7	8.0	7.9	8.3	8.4	

Table 10

Consumer Price Index: Services Excluding Rent and Compound Annual Growth Rates,  
Calendar Years 1960-79

To	Index (1967=100)	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1978
				Growth Rates (%)				From													
1960	81.9																				
1961	83.9	2.4																			
1962	85.5	2.2	1.9																		
1963	87.3	2.2	2.0	2.1																	
1964	89.2	2.2	2.1	2.1	2.2																
1965	91.5	2.2	2.2	2.3	2.4	2.6															
1966	95.3	2.6	2.6	2.8	3.0	3.4	4.2														
1967	100.0	2.9	3.0	3.2	3.4	3.9	4.5	4.9													
1968	105.7	3.2	3.4	3.6	3.9	4.3	4.9	5.3	5.7												
1969	113.8	3.7	3.9	4.2	4.5	5.0	5.6	6.1	6.7	7.7											
1970	123.7	4.2	4.4	4.7	5.1	5.6	6.2	6.7	7.4	8.2	8.7										
1971	130.8	4.4	4.5	4.8	5.2	5.6	6.1	6.5	6.9	7.4	7.2	5.7									
1972	135.9	4.3	4.5	4.7	5.0	5.4	5.8	6.1	6.3	6.5	6.1	4.8	3.9								
1973	141.8	4.3	4.5	4.7	5.0	5.3	5.6	5.8	6.0	6.0	5.6	4.7	4.1	4.3							
1974	156.0	4.7	4.9	5.1	5.4	5.8	6.1	6.4	6.6	6.7	6.5	6.0	6.0	7.1	10.0						
1975	171.9	5.1	5.3	5.5	5.8	6.2	6.5	6.8	7.0	7.2	7.1	6.8	7.1	8.2	10.1	10.2					
1976	186.8	5.3	5.5	5.7	6.0	6.4	6.7	7.0	7.2	7.4	7.3	7.1	7.4	8.3	9.6	9.4	8.6				
1977	201.6	5.4	5.6	5.9	6.2	6.5	6.8	7.0	7.3	7.4	7.4	7.2	7.5	8.2	9.2	8.9	8.3	7.9			
1978	219.4	5.6	5.8	6.1	6.3	6.6	7.0	7.2	7.4	7.6	7.6	7.4	7.7	8.3	9.1	8.9	8.5	8.4	8.8		
1979	244.9	5.9	6.1	6.4	6.7	7.0	7.3	7.5	7.8	7.9	8.0	7.9	8.2	8.8	9.5	9.4	9.2	9.4	10.2	11.6	

The OASI, DI, and OASDI expense indices are intended to assist in evaluating the trends and growth rates of the administrative unit costs for the programs. They are not intended to correctly represent the absolute dollar costs of any particular set of procedures. Furthermore, the indices contain no adjustment for changes in quality. For example, the unit costs of awarding DI benefits was reduced significantly during the early 1970's but this resulted in decreased quality of the determinations and, consequently, increased numbers of awards and increased program costs.

Evaluation of the growth rates of these expense indices requires a comparison with the growth rates of other relevant indices. One immediate choice is the consumer price index (CPI), for which the values and growth rates are displayed in Table 8. Over the 19 year period from 1960 to 1979, the OASI administrative expenses per work unit grew at an annual rate of 5.8 percent or about one percentage point above that of the CPI, which grew at an annual rate of 4.8 percent; the comparable DI growth rate was 3.7 percent, or about one percentage point below that of the CPI; for the combined OASDI system the rate was 5.4 percent, or about half a percentage point above the CPI growth rate. The relevance of a comparison with the CPI is questionable, however, since the costs associated with operating a social insurance program are not closely linked with consumer prices, although the fact that unit costs for each of the programs increased at a rate within one percentage point of the CPI growth rate may be of interest.

Another time series with which the administrative expense indices may be compared is the national average annual wage and salary earnings, which are presented in Table 9. From 1960 to 1979, the OASI index increased at about the same 5.8 percent annual rate as average wages. The DI index increased at an annual rate two percentage points below that for average wages over the same period, and the OASDI index increased at a rate half a percentage point below the average wage growth. This comparison is somewhat more valuable than the previous one since a large portion of the administrative expenses for the OASDI system involves the salaries of employees, although changes in the proportion of salaries to total expenses could distort the comparison if other expenses grow at a significantly different rate than salaries.

From a public perspective, a comparison between the cost of services generally and the cost of administering the OASDI system, which is essentially a service in itself, may be a better choice. For the purpose of such a comparison, the values and growth rates for the services component of the consumer price index, excluding rent, are shown in Table 10. During the period 1960 to 1979, this portion of the CPI increased at an annual rate slightly higher than the growth rate of the OASDI administrative expense index, more than two percentage points per year above the growth rate of the DI index, and half a percentage point above the growth rate of the OASDI index. Therefore, the services provided to the public by the OASDI system have been getting cheaper relative to the costs of other services by about half a percentage point per year. During the period 1960-79 the relative cost decreased by about ten percent.

The five years from 1974 to 1979 present a somewhat different picture. During that period, the services component of the CPI, excluding rent, increased at about 9 percent per year; the OASI expense index increased at 3 percent per year; the DI expense index increased 12 percent per year; and the OASDI index increased 5 percent per year. These growth rates indicate lower unit costs for the OASI operations relative to service industries in general, and greater unit costs for DI operations. This difference may be explained by the large fluctuations in disability applications and allowances in recent years, along with continuing efforts to improve the quality of disability determinations. Such efforts tend to be expensive, although the savings in benefit payments may be several times larger than the increase in administrative costs. The OASI program has been much more stable in terms of awards and benefits in current payment status, thus allowing a more stable and more experienced workforce. In addition, OASI benefit adjudication and record maintenance requires information which is more objective than that required for the DI program and greater computerization is possible. This should result in greater improvements in efficiency for OASI than for DI.

## Conclusion

As the OASI and DI programs have grown in size and complexity over the years, the costs in absolute dollars of administering these programs have also grown. However, these expenses have increased more slowly than either contribution income or benefit payments. As a percentage of taxable payroll, administrative expenses have increased significantly since the early years of both programs, although the trend of the late 1970's has been downward. While the programs continue to mature, and administrative productivity continues to increase, these favorable trends are expected to continue into the future.

Expenses per unit of work, as indicated by the OASI and DI administrative expense indices, are expected to continue increasing as salaries and other administrative costs increase. Over the long run, the cost to operate the OASDI system per unit of work has increased more slowly than for service industries in general, and this trend should continue in the OASI program. In the DI program, administrative expenses have tended to rise with increased efforts to achieve high quality in the disability determination process. The implementation of the 1980 Disability Amendments will require many complex and expensive administrative changes which will raise unit costs. However, these higher expenses will be more than offset by future savings in DI benefit payments.