Railroad Retirement Act Amendments of 1951: Financial and Actuarial Aspects

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The benefit provisions and legislative history of the 1951 amendments to the Railroad Retirement Act were summarized in the February Bulletin. In this issue the Chief Actuary of the Social Security Administration discusses the financial and actuarial implications of the amended law, with special emphasis on the provisions coordinating in some measure the railroad program with old-age and survivors insurance.

THE 1951 amendments to the Railroad Retirement Act include provisions for transferring the wage records of short-term railroad workers to old-age and survivors insurance. Congress also provided for a financial interchange between that program and the railroad retirement program designed to place the old-age and survivors insurance trust fund in the same position it would have held if all railroad employment had always been covered by old-age and survivors insurance. The provisions for financial interchange are of special interest both to the persons administering the programs and to the general public, since they establish the first coordination of this type between public retirement programs.

The amendments (Public Law 234) were adopted in October 1951. They had been preceded by hearings in both Houses of Congress and went through a number of changes in the course of their legislative history.[1] One version of the bill would have made the financial interchange the subject of a joint study by the Social Security Administration and the Railroad Retirement Board to be submitted to Congress by 1956, but the law as enacted made it immediately effective. This timing had been strongly urged by both the Federal Security Agency and the Bureau of the Budget in their testimony before the congressional committees, and it was also agreed to by the employee group sponsoring the bill.[2]

Financial Interchange Provisions

According to the statement of the Railroad Retirement Board on H.R. 3669, the purpose of the financial interchange provisions in that bill is as follows:

> It is an over-all adjustment to compensate the railroad-retirement system for the savings it affords to the social-security system from the separate existence of the former. The recoupment of these savings contributes to making it possible to increase benefits as provided in the bill without affecting the financial soundness of the railroad-retirement system. The bill, in substance, declares it to be the Congressional policy that the social-security system shall neither profit nor lose from the existence of the separate railroad-retirement system. Because the railroad-retirement system covers an older group and a group which is in other respects a higher-cost segment of the national working population, it has achieved savings to the social-security system by removing that higher cost segment from the coverage of that system. The bill utilizes these savings for increasing benefits under the railroad-retirement system without increasing the tax rates for the maintenance thereof.[3]

In the testimony of the Social Security Administration before the Senate subcommittee it was argued, on the other hand, that the separate existence of the railroad retirement system would not result in a saving to the old-age and survivors insurance program. On the question of whether the group covered by the railroad system is a higher-than-average-cost group, the Administration said:

> While it is true that for this group there are certain elements making for higher costs, on the one hand, other factors are present which act in the opposite direction. "Higher cost" factors include an older age distribution and perhaps a lower average retirement age (because of the availability of larger benefits). On the other hand, "lower cost" factors include a higher wage level and a higher proportion of men (since women have superior mortality, lower average retirement age, and less regular employment, all of which increase costs and more than offset their lower cost due to having relatively less in supplementary and survivor benefits).[4]

The financial interchange provisions finally adopted are designed to provide for such continuing adjustments that, whatever the true situation proves to be, the general objective of placing and maintaining the old-age and survivors insurance trust fund in the same position it would have been if railroad service had always been covered by old-age and survivors insurance will be achieved.

Cost Effects of Coordination Provisions

According to the testimony of the Railroad Retirement Board on S.1347, as introduced, the provisions of that bill would have resulted in an "initial debt" of $700 million "owed" by the railroad retirement account to the old-age and survivors insurance trust fund. This amount would be more

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[1] See Robert J. Myers and Wilbur J. Cohen, "Railroad Retirement Act Amendments of 1951: Benefit Provisions and Legislative History," *Social Security Bulletin*, February 1951.

[2] See *Report of the Senate Committee on Labor and Public Welfare on S.1347* (S. Rept. 890, 82d Cong., 1st sess.), Oct. 4, 1951, p. 14. As stated there, the wording in the section was drafted jointly by the Bureau of the Budget, the Federal Security Agency, and the Railway Labor Executives' Association.

[3] *Report of the Committee on Interstate and Foreign Commerce on H.R. 3669* (H. Rept. 976, 82d Cong., 1st sess.), September 19, 1951, p. 63.

[4] *Senate Hearings*, pp. 547 and 548.

than offset by annual transfers in the future, based on the developing experience, from the trust fund to the railroad retirement account. It was estimated that the transfers would range generally from about $10 million to $60 million and average about $34 million a year.[5]

On the basis of these estimates, the representative of the Railway Labor Executives' Association testified that, since the net effect was a flow of funds to the railroad retirement system, there would be no need to transfer the "initial debt."[6] Instead, equitable treatment would be accorded both systems if the railroad retirement program merely paid interest on this amount, with the interest payments being more than offset by the annual transfers for future developing experience. This is the procedure established in the final legislation.

The result of handling the financial interchange in this manner would, on the basis of Railroad Retirement Board estimates, be future annual transfers from old-age and survivors insurance to railroad retirement averaging about $13 million for the bill as introduced.[7] Accordingly, under these estimates the old-age and survivors insurance system would not only have to transfer such amounts but would also under this bill have had the cost of granting wage credits for railroad service for employees having less than 10 years of such service.

Leaving the $700 million "initial debt" in the railroad retirement account would result in the latter receiving 3-percent interest[8] on this amount but having to pay to the old-age and survivors insurance trust fund only about 2¼-percent interest, since that is the average interest rate of the trust fund currently. The railroad system would thus have a "net profit" (at the expense of the General Treasury) of $5¼ million per year.

Estimates for S.1347, as introduced, were also presented in the testimony of the Social Security Administration. They agreed with the Railroad Retirement Board estimate in the amount of the "initial debt" but indicated that the flow of funds would at all times be from the railroad retirement account to the trust fund and would average about $35 million a year on a net basis, assuming the "initial debt" would not be transferred.[9]

The provisions of the final legislation (notably the retention of the previous law's work clause applicable to retirement benefits) have an important effect on the financial interrelationships between the two systems. The Railroad Retirement Board estimate for the introduced bill (a net annual transfer from the old-age and survivors insurance trust fund averaging $13 million, or 0.25 percent of railroad payroll) is reduced considerably and in fact reversed for the law as enacted (a net annual transfer to the trust fund averaging about $1.5 million, or 0.03 percent of payroll).[10] Correspondingly, an estimate prepared on the assumptions used in the Social Security Administration testimony would show a much larger average transfer to the trust fund, probably somewhere in the neighborhood of $45–50 million per year.

The two sets of estimates agree on the cost to old-age and survivors insurance of including the short-service railroad employees under that program rather than under the railroad program. Where the difference arises is in the estimates of whether the separate existence of the railroad retirement system does or does not result in a saving to the old-age and survivors insurance system. According to the Railroad Retirement Board estimate, this saving amounts to 0.82 percent of railroad payroll. According to the Social Security Administration figures (which use the Railroad Retirement Board estimate of the cost for short-service employees), the separate existence of the railroad retirement system increases costs for the old-age and survivors insurance system by 0.12 percent of railroad payroll or about 0.005 percent of the covered payroll under old-age and survivors insurance.[11]

The figures given earlier reflect the combined effect of the financial interchange provisions and transferring the short-service railroad employees to the old-age and survivors insurance system. It would have been possible for Congress to have enacted only one of these two provisions. The independent effect on the old-age and survivors insurance system of the financial interchange provisions as they related to the introduced version of S.1347, modified for a $300 monthly wage base, is indicated in the following tabulation:

Item	Percent of railroad payroll	
	Railroad Retirement Board estimate	Social Security Administration estimate
Transfer from old-age and survivors insurance trust fund to railroad retirement account	.25	−.69
Cost to old-age and survivors insurance for short-service employees [1]	.57	.57
Savings to old-age and survivors insurance because of separate existence of railroad system	.82	−.12

[1] Cost of paying additional benefits on basis of wage credits given for railroad service.
Source: *Senate Committee Report*, table III, item III, and table IV, footnote 4, pp. 16 and 17.

As was indicated above, since the legislation provides for continuing transfers between the two systems, future experience will definitely indicate whether the "savings to the old-

[5] *Senate Hearings*, p. 238. The average figure is based on the level-cost calculations, which show a gross reimbursement to railroad retirement for future experience of 0.65 percent of a $5.2 billion annual payroll (*Senate Committee Report*, table III, items D and III, p. 16).

[6] Ibid, p. 241.

[7] The average figure is based on the level-cost calculations, which show a net reimbursement to railroad retirement for future experience amounting to 0.25 percent of a $5.2 billion annual payroll (*Senate Committee Report*, table III, item III, p. 16).

[8] The statutory minimum interest rate provided by the Railroad Retirement Act for investments of the railroad retirement account.

[9] *Senate Hearings*, pp. 541–563 (especially pp. 551–553). Also see *Senate Committee Report*, p. 16, which indicates how the average figure was derived (net reimbursement to old-age and survivors insurance for future experience of 0.69 percent of a $5.2 billion annual payroll).

[10] *Senate Committee Report*, table I, item F minus item E of column 1, p. 11.

[11] The *Senate Committee Report* (p. 16) states that the Social Security Administration testimony "denies the existence of any savings to the social security system from the separate existence of the railroad retirement system" but that "this denial is not supported" by the figures. As indicated here, however, the Social Security Administration estimate shows the existence of a small "loss" to the old-age and survivors insurance system.

age and survivors insurance system because of the separate existence of the railroad retirement system" are positive or negative.

Operation of Interchange Provisions

Although the over-all objective of the financial interchange provisions is simple, the provisions themselves are somewhat complicated. They are summarized in the box on page 18.

A specific numerical example will help to clarify the manner in which the adjustment might work out under the provisions of section 5(k) (2). It is emphasized that the figures used are purely hypothetical and are not estimates of what the situation may be. Thus, many of the assumptions are made merely to show how different situations would be handled rather than to indicate how events will develop. First, assume that the interest rate, as calculated under subparagraph (D),[12] is 2¼ percent for the fiscal year ended June 30, 1953 (determined as of May 31), and 2⅜ percent, 2½ percent, and 2⅝ percent, respectively, for each of the three succeeding fiscal years. Assume further that all events take place at the latest time permitted. The following events, listed in their chronological order, would then occur.

Event 1.—On January 1, 1954, in accordance with subparagraph (A), it is determined that as of June 30, 1952, the amount in the old-age and survivors insurance trust fund would have been $17,100 million if railroad service had always been covered, as against an actual trust fund of $16,400 million, so that the "initial debt" is $700 million.

Determining the size that the trust fund would have been if railroad service had always been covered under old-age and survivors insurance is a relatively simple matter and may be done quite precisely, since the determination depends on past experience and does not involve prediction or projection into the future. The additional taxes from railroad employment for each year back through 1937 are readily calculable, since the railroad payrolls are known and the pertinent old-age and survivors insurance tax rates can be applied against them (after proper allowance for the $3,000 maximum annual taxable wage during 1937–50 and $3,600 thereafter). The amount of additional benefit payments that would have been made each year can also be readily calculated from proper samples, although this procedure is somewhat more complicated. Then the additional administrative expenses can be approximated from the actual administrative expenses of both agencies.

Finally, these additional tax receipts, benefit payments, and administrative expenses can be added to the actual figures, plus interest at the actual rate earned on the trust fund each year in the past so as to yield the resulting hypothetical accumulated trust fund.

Event 2.—On January 1, 1954, in accordance with subparagraph (B), the interest is determined for the fiscal year 1953 (at a rate of 2¼ percent) on the amount of the "initial debt" determined in Event 1. This amount ($15¾ million) is immediately transferred to the trust fund from the railroad retirement account. Since the interest was due June 30, 1953, payment was 6 months late and the trust fund has lost about $150,000, but the loss will be made up by the yearly determination of "the position of the Trust Fund." Moreover, in future years, the interest on the "initial debt" is to be paid promptly when due according to the provisions of the law.

Event 3.—On June 15, 1954, in accordance with subparagraph (C), it is determined that as of June 30, 1953, the holdings of the trust fund would have been $19,625 million if railroad service had always been covered, as against an "actual" trust fund of $19,600 million, made up of $18,900 million of assets in the fund (including the interest received January 1, 1954, under Event 2) and the $700 million "initial debt" under Event 1. Accordingly, there is a "current deficit" in the trust fund amounting to $25 million.

Event 4.—On June 25, 1954, in accordance with subparagraph (C), the $25 million of "current deficit" as of the end of the fiscal year 1953, determined under Event 3, is transferred from the railroad retirement account to the trust fund. With this amount is transferred about $550,000 in interest thereon (at the rate of 2¼ percent, applicable to the fiscal year 1953) for the 11 months and 25 days following the end of the fiscal year 1953.

Event 5.—On June 30, 1954, in accordance with subparagraph (B), interest (at the rate of 2⅜ percent) is determined for the fiscal year 1954 on the "initial debt" of $700 million, determined in Event 1. This interest amounts to $16.6 million and is immediately transferred from the railroad retirement account to the trust fund.

Event 6.—On June 15, 1955, in accordance with subparagraph (C), it is determined that as of June 30, 1954, the trust fund would have been $22,750 million if railroad service had always been covered as against an "actual" trust fund of $22,800 million, made up of $22,100 million of assets in the trust fund (including receipts under Events 2, 4, and 5) and $700 million of "initial debt." Accordingly, there is a "current surplus" of $50 million in the trust fund. This amount due the railroad retirement account can be handled in either of two ways—by paying it to the railroad retirement account within 10 days along with accumulated interest (the reverse of Event 4), or by offsetting it against the "initial debt" determined in Event 1. If the latter procedure is followed, as presumably it will be, the $50 million is offset as of July 1, 1954, against the "initial debt."

Event 7.—On June 30, 1955, in accordance with subparagraph (B), interest (at the rate of 2½ percent) is determined for the fiscal year 1955 on the "initial debt" of $700 million, determined in Event 1, minus the $50 million offset under Event 6. This interest amounts to $16¼ million and is immediately transferred from the railroad retirement account to the

[12] The computation is similar to that used in determining the interest rate for new investments for the old-age and survivors insurance trust fund.

trust fund. It will be noted that the procedure in Event 6—making the offset effective at the beginning of the fiscal year 1955—yields the proper result for interest determination. The $50 million "current surplus" is determined as of June 30, 1954, and, accordingly, is offset against the "initial debt" at that time. Interest for the fiscal year 1955, accordingly, is only on the difference between these two items.

Event 8.—On June 15, 1956, in accordance with subparagraph (C), it is determined that as of June 30, 1955, the trust fund would have been $27,290 million if railroad service had always been covered. The "actual" trust fund is, however, $27,250 million, made up of $26,600 million of assets (including receipts under Events 2, 4, 5, and 7) and $650 million that represents the difference between the "initial debt," determined in Event 1, and the offset made in Event 6. Accordingly, there is a "current deficit" of $40 million in the trust fund.

Event 9.—On June 25, 1956, in accordance with subparagraph (C), the $40 million of "current deficit" as of the end of the fiscal year 1955, determined under Event 8, is transferred from the railroad retirement account to the trust fund. To this amount is added almost $1 million in interest (at the rate of 2½ percent, applicable to the fiscal year 1955) for the 11 months and 25 days following the end of the fiscal year 1955.

Event 10.—On June 30, 1956, in accordance with subparagraph (B), interest (at the rate of 2⅝ percent) is determined for the fiscal year 1956 on the "initial debt" of $700 million, determined in Event 1, minus the $50 million offset under Event 6. This interest amounts to about $17.1 million and is immediately transferred from the railroad retirement account to the trust fund.

Actuarial Cost Estimates

The actuarial staff of the Railroad Retirement Board presented a number of cost estimates for the various bills introduced and the changes made as legislative action developed. Most of these cost estimates were on the basis of a single figure representing the net level premium required to support the benefits in perpetuity, taking into account interest at the rate of 3 percent.[13]

The resulting level premium costs can be compared with what is, in effect, the level contribution rate for the system—that is, 12½ percent of payroll, which is the combined employer-employee rate effective for all years after 1951 (the 1951 rate was 12 percent).

The estimated level premium costs under the old law, the various bills considered, and the final legislation are shown below.

Plan	*Cost as percent of payroll*
Old law	12.60
H.R. 3669 (and S.1347) as introduced	13.90
H.R. 3755 (and S.1353) as introduced	[1] 15.70
H.R. 3755 (and S. 1353) as revised	14.40
H.R. 4641	13.49
H.R. 3669 as reported to House	14.71
H.R. 3669 as passed by House	[1] 16.40
H.R. 3669 (and S.1347) as passed by Senate	14.06
New law	14.43

[1]Estimates developed for this article on basis of official figures of the Railroad Retirement Board, modified for consistent payroll base and approximate benefit provisions.

The cost figures are all on a comparable basis as to the total equivalent level annual payroll assumed—$4.9 billion when the maximum taxable and creditable wage is $300 a month, $5.3 billion for a $350 wage base, and $5.5 billion for a $400 wage base.

According to these figures, the old law was almost exactly in financial balance, since its cost was virtually the same as the future contribution rate. H.R. 3669, as introduced, had a cost estimated to be about 1½ percent of payroll in excess of the contribution rate. The substantial benefit increases provided were partly offset by savings resulting from the higher wage base of $400, the applicability of the old-age and survivors insurance work clause, the financial interchange provisions with old-age and survivors insurance, and the elimination of benefits for short-service railroad employees.

H.R. 3755, as introduced, had a cost estimated at more than 3 percent of payroll higher than the contribution rate because the substantial benefit increases were not offset by any savings. For similar reasons, the revision of this bill would still have cost almost 2 percent in excess of the contribution rate.

H.R. 4641 was estimated to cost only about 1 percent of payroll in excess of the contribution rate, in part because of the smaller benefit increases provided for retired workers and in part because of the savings due to the introduction of the old-age and survivors insurance work clause.

H.R. 3669, as reported to the House, had an estimated cost fairly close to that of the revised H.R. 3755, which it closely paralleled except for providing an increase in survivor benefits. As passed by the House, however, H.R. 3669 had the highest cost of any of the bills—almost 4 percent of payroll in excess of the contribution rate. This substantial difference resulted from the introduction of spouse's annuities and the incorporation of the "old-age and survivors insurance minimum guarantee" benefit provision.[14]

S. 1347, as passed by the Senate, had an estimated cost of about 1½ percent of payroll in excess of the contribution rate, or roughly the same as the original version of the bill, since the changes raising the cost (lowering the wage base, eliminating the old-age and survivors insurance work clause, and increasing slightly the retirement annuities) offset those de-

[13] The use of a single cost figure here and in the succeeding discussion does not mean that the actuarial estimates can be made so precisely. The Railroad Retirement Board has always recognized this fact in its presentation of a single cost figure—for instance, in its Fourth Actuarial Valuation, which states: "It should, however, be realized that it is virtually impossible with respect to a system of this size in which there is great variability in basic factors to develop a precise cost figure. At best, the level rate . . . can be looked upon as the most probable point in a range within which the true costs of the system lie." (*Annual Report of the Railroad Retirement Board for Fiscal Year 1949*, p. 175.) This same general conclusion was stated in the Second Actuarial Valuation: "No precise figure can be set down as to the exact cost of the benefits provided under the Railroad Retirement Act." (*Annual Report of the Railroad Retirement Board for Fiscal Year 1943*, p. 119.)

[14] See the *Bulletin*, February 1952, pp. 7–11.

Financial Interchange With Old-Age and Survivors Insurance

PROVISIONS OF RAILROAD RETIREMENT ACT FOR FINANCIAL INTERCHANGE WITH OLD-AGE AND SURVIVORS INSURANCE SYSTEM:

Section 5. (k) (2) (A) The Board and the Federal Security Administrator shall determine, no later than January 1, 1954, the amount which would place the Federal Old-Age and Survivors Insurance Trust Fund (hereafter termed "Trust Fund") in the same position in which it would have been at the close of the fiscal year ending June 30, 1952, if service as an employee after December 31, 1936, had been included in the term "employment" as defined in the Social Security Act and in the Federal Insurance Contributions Act.

(B) On January 1, 1954, for the fiscal year ending June 30, 1953, and at the close of each fiscal year beginning with the fiscal year ending June 30, 1954 . . . the Board shall certify . . . for transfer . . . to the Trust Fund, interest for such fiscal year at the rate specified in subparagraph (D) on the amount determined under subparagraph (A) less the sum of all offsets made under subparagraph (C).

(C) At the close of the fiscal year ending June 30, 1953, and each fiscal year thereafter, the Board and the Federal Security Administrator shall determine the amount, if any, which if added to or subtracted from the Trust Fund would place such Trust Fund in the same position in which it would have been if service as an employee after December 31, 1936, had been included in the term "employment" as defined in the Social Security Act and in the Federal Insurance Contributions Act. . . .

(D) For the purposes of subparagraphs (B) and (C), for any fiscal year, the rate of interest to be used shall be equal to the average rate of interest, computed as of May 31 preceding the close of such fiscal year, borne by all interest-bearing obligations of the United States then forming a part of the public debt; except that where such average rate is not a multiple of one-eighth of 1 per centum, the rate of interest shall be the multiple of one-eighth of 1 per centum next lower than such average rate.

creasing the cost (reducing, on the whole, the amounts of the survivor and dependent's benefits).

The cost of the legislation finally enacted is estimated at almost 2 percent of payroll in excess of the contribution rate. The cost was increased somewhat over that of the bill passed by the Senate because the former wage base of $300 a month was retained as contrasted with the $350 base provided in the Senate version.

The lack of balance between the cost and the contribution rates indicated above undoubtedly was one of the important reasons for the adoption of Senate Concurrent Resolution 51, which calls for a congressional study of the railroad retirement system, including its relationship with old-age and survivors insurance. During the hearings, many witnesses testified that a margin of 1 percent of payroll between cost and contribution rate was reasonable and could readily be acceptable; their argument was based on the consistent overstatement of costs in the past. This overstatement had occurred primarily because of the steadily rising wage level during the past decade. As wages rise, the cost of the system, like the cost of old-age and survivors insurance, is decreased when measured as a percentage of payroll because of the weighted benefit formula, under which workers with low wages receive benefits that are proportionately higher than those with higher wages. Raising the maximum wage base reduces the cost of the system for this same reason.

The distribution of the estimated level premium cost of 14.43 percent of payroll under the final legislation, by the various categories of benefits and other cost items, is indicated below.

Item	Cost as percent of payroll
Net level premium cost	14.43
Retirement benefits	12.00
Age annuities and pensions [1]	7.74
Disability annuities payable before age 65	1.71
Disability annuities payable after age 65	1.52
Spouse's annuities	1.03
Survivor benefits	3.28
Aged widow's annuities [2]	2.16
Widowed mother's annuities	.15
Child's annuities	.24
Lump-sum death payments	.19
Residual death payments	.54
Other costs and credits:	
Allowance for minimum and maximum provisions	.28
Administrative expenses	.14
Net financial interchange with old-age and survivors insurance [3]	.03
Funds on hand	[4] −1.30

[1] Pensions are those taken over from former railroad pension plans in 1937.
[2] Includes the relatively small amount of widower's and parent's annuities.
[3] Represents net balance of credits to old-age and survivors insurance trust fund of taxes (both past and future) at old-age and survivors insurance rates based on all railroad employment (level cost of 6.00 percent) over credit from trust fund on account of additional benefits that would have been payable under old-age and survivors insurance with respect to employees with at least 10 years of railroad service (level cost of 5.97 percent).
[4] Credit item to help meet the benefit and administrative costs; relates interest at a rate of 3 percent on the present account to the $4.9 billion annual payroll.

Source: *Senate Committee Report*, table I, p. 11.

By far the greatest part of the cost is for retirement benefits for persons aged 65 and over—that is, for age annuities (most of which are payable to those over age 65) and for disability annuities payable after age 65. As a result of the financial interchange provisions, there is a small cost to the railroad retirement system for net transfers to the old-age and survivors insurance trust fund, amounting to 0.03 percent of railroad payroll.

On the whole, these provisions, along with that transferring short-service employees to the old-age and survivors insurance system, have financial advantages for the railroad retirement program. Although the estimate indicates a small transfer of funds from the railroad retirement system, it does not indicate specifically the savings due to the removal of the short-service employees, which is taken into account in the estimated cost of the various benefits. According to this estimate the railroad retirement system might have a relatively small amount to transfer to the old-age and survivors insurance system, but the amount is far more than offset by the employer and employee contributions with respect to the short-service employees that the railroad retirement system, in effect, collects and retains. No benefits other than the residual death payment, which in virtually all cases will either not be due or not be claimed because of the survivor's lack of knowledge, can be payable by the railroad retirement system with respect to the wage records on which these contributions are based.

Year-by-year projections of the estimated operation of the railroad retirement program were presented during the hearings only for the old law and for H.R. 3669 as introduced.[15] Under the old law the benefit disbursements for the calendar year 1952 were estimated at $357 million, which represents 55 percent of the estimated contribution income of $649 million. Under H.R. 3669, as introduced, the estimated benefit disbursements for 1952 were $460 million, or 62 percent of the estimated contribution income of $739 million (an increase from the contribution income under the previous law because of the higher maximum taxable wage base). For the legislation enacted, a comparable estimate of the benefit disbursements for 1952 is $462 million,[16] or 71 percent of the estimated contribution income of $649 million (same as the contribution income under the old law because of no change in the tax-rate schedule and wage base). Benefit disbursements under the new law in 1952 will be about $105 million higher than under the earlier provisions, an increase of almost one-third, and will represent about 9 percent of covered payrolls.

[15] *Senate Hearings*, pp. 217 and 238.

Administrative Workloads

The Bureau of Old-Age and Survivors Insurance of the Social Security Administration will have a large amount of additional administrative work as a result of the new railroad retirement legislation, primarily because of the transfer of the short-service cases and the provisions restricting duplication of benefits under the two programs.

New claims arising from the transfer of wage credits for workers who die or retire with less than 10 years of railroad service will average about 16,000 a year in the immediate future. In order that the Railroad Retirement Board may adjust its retirement benefits for those who are also receiving old-age and survivors insurance benefits, the Bureau must process immediately a backlog of about 32,000 cases, while the future workload will vary between 10,000 and 15,000 cases each year.

[16] Estimate made by the Railroad Retirement Board. Later estimates of the payments in 1952 are slightly lower—$340 million under the old law and $440 million under the present law.

Further, old-age and survivors insurance benefits will have to be recalculated for individuals currently on the rolls who have had some railroad earnings since 1936. Any increases will, on the whole, be relatively small, so that this work has been budgeted for 1953, when the recalculations will be made and adjusted payments made retroactively to November 1, 1951. It is estimated that 60,000 old-age insurance beneficiaries will be affected. Dependent's benefits will also be involved in about one-third of the cases.

The additional administrative work for the Social Security Administration described above will, in the long run, be reimbursed by the railroad retirement system through the operation of the financial interchange provisions. Any such extra expenses will, as is the case for all administrative costs, be paid out of the old-age and survivors insurance trust fund, which will be decreased thereby. Accordingly, the difference between the "actual" fund and the fund that would have been accumulated if railroad service had always been covered under old-age and survivors insurance will be increased, and the transfer from the railroad retirement account will be that much larger.

Notes and Brief Reports

Proposed Budget for Social Security and Related Programs, 1952–53

The Budget submitted by President Truman for the fiscal year 1952–53 includes budgetary expenditures estimated at $85.4 billion and budget receipts, under present tax laws, estimated at $71.0 billion. The expenditures are the largest proposed for any year since World War II. In referring to the size of the Budget, President Truman expressed his hope that budget expenditures can be reduced after the fiscal year 1953–54 when "we should have completed most of our currently planned military expansion."

More than 75 percent of the total expenditures included in the Budget are for major national security programs and related programs, such as economic stabilization. Expenditures for all other Government programs will be nearly $1 billion less than the total anticipated for the current fiscal year. For some programs the amounts would be reduced, but for others the present level would be held or raised.

The Budget message cites the gains made in social insurance as a result of the 1950 amendments to the Social Security Act and goes on to recommend an additional increase in old-age and survivors insurance benefits. Because of the rising wage level, it is pointed out, the receipts of the old-age and survivors insurance system are greater than needed to meet the costs of the present scale of benefits. The average old-age benefit could be raised by about $5 a month, which would bring the average amount paid to a retired worker to $47, without necessitating any increase in the present schedule of contribution rates. The presentation of the old-age and survivors insurance trust fund operations includes an estimate of an additional $225 million expenditure for this purpose in 1952–53. The President also recommended that coverage be further extended to include "mem-