

# *Extension of Old-Age and Survivors Insurance: A Summary of the Consultants' Report\**

*There is urgent need for greater effectiveness in our programs, both public and private, offering safeguards against the privations that too often come with unemployment, old age, illness, and accident. The provisions of the old-age and survivors insurance law should promptly be extended to cover millions of citizens who have been left out of the social-security system.*

—DWIGHT D. EISENHOWER, the State of the Union message, February 2, 1953.

**A**S A first step in carrying out President Eisenhower's recommendation, quoted above, Oveta Culp Hobby, the Secretary of Health, Education, and Welfare, asked a group of consultants to study various alternatives for extending old-age and survivors insurance to additional groups of current workers and to make recommendations.

Reinhard A. Hohaus, vice president and chief actuary of the Metropolitan Life Insurance Company, was named chairman of the group. The other members were Thomas H. Beacom, vice president in charge of trusts of the First National Bank of Chicago; Dr. Eveline M. Burns, economist and professor of social work at the New York School of Social Work, Columbia University; Robert P. Burroughs, president and treasurer of R. P. Burroughs Company (consultants on pension and profit-sharing plans); Leonard J. Calhoun, attorney-at-law; Nelson H. Cruikshank, director of social insurance activities of the American Federation of Labor; Wallis B. Dunckel, vice president of the Bankers Trust Company; Miss Loula Dunn, director of the American Public Welfare Association; Mrs. Katherine Ellickson, secretary of the social security committee, Congress of Industrial Organizations; Hugh F. Hall, of the American Farm Bureau Federation; Dr. Lloyd C. Halvorson, of the National Grange; and A. D. Marshall,

\* Consultants on Social Security, *A Report of the Secretary of Health, Education, and Welfare on Extension of Old-Age and Survivors Insurance to Additional Groups of Current Workers*, 1953. The summary was prepared by Bulletin staff.

manager of employee benefits for the General Electric Company.

In the letter of June 24 transmitting the group's recommendations to the Secretary, the chairman pointed out that all the consultants "served as individuals and the proposals . . . do not necessarily reflect the views of any organization with which any consultant may be connected."

The following pages carry a summary of the report.

## *Introduction*

We have considered various alternatives for extending old-age and survivors insurance to additional groups, both employed and self-employed. The technical feasibility of including each group was considered first, in consultation with the Bureau of Internal Revenue and the Bureau of Old-Age and Survivors Insurance.

In actual practice, the coverage, benefit, and financing provisions of old-age and survivors insurance are not separable. In complying, however, with the request that we make recommendations for extending coverage, it has not been possible to study certain other features of the program, the existence of which means that the present plan falls short in some respects of providing all the advantages that a contributory old-age and survivors insurance system can have for the country. The objectives of the program as we understand it are (1) inclusion of all workers, employed and self-employed; (2) payment of benefits related to prior earnings and as a matter of right without a needs test; and (3) financing on a contributory basis.

We have operated on the premise that participation in the program will benefit most groups of workers and that broader participation will be in the public interest. We have therefore tried to take into account questions of fairness, justice, and consistent treatment for each group, no matter how small the group or what initial administrative difficulties would have to be overcome. Further, we have operated on the principle that the solutions should be directed toward (1) maintaining the long-established standards of honesty and objectivity in regard to individual reports and benefit rights; (2) minimizing the possibility of abuses that might undermine public confidence in the program; and (3) extending coverage on a basis that will not adversely affect the protection of those now covered.

Although there has been at least one cogent reason why each group of excluded workers has been left out in the past, we believe that it is feasible at this time to extend coverage to most of the jobs now excluded. Coverage of several of the groups—State and local government employees under retirement systems, self-employed professional persons, fishermen, and home-workers—is largely a matter of policy rather than administrative or technical feasibility. For self-employed farm operators, hired farm workers, and domestic workers, coverage presents certain difficulties, but we believe they can be overcome.

We have excluded from consideration the blanketing-in of persons already aged 65 or over who, because they have not become eligible through prior work in covered employment, are not receiving benefits. Their inclusion would involve substantial modifications of the present program that would require careful and long study.

Special studies were initiated last year by Congress on the relationship of old-age and survivors insurance to the railroad retirement system and to Federal employee retirement systems. For this reason, no proposals are made

concerning railroad workers and none for Federal employees other than that the provision for "free" wage credits for members of the Armed Forces be extended for a temporary period.<sup>1</sup> Finally, to complete the report as speedily as possible, we have not considered a few special employment categories—students and student nurses, persons engaged in family employment, employees of foreign governments and of international organizations, newsboys under age 18, and alien residents of the United States working for American employers in foreign countries.

As part of an over-all improvement in the program, we recommend a revision in the method for computing the average monthly wage to provide that the 3 years in which earnings credits were the lowest (or nonexistent) would ordinarily be disregarded. We have not recommended a new start, similar to that provided in the 1950 amendments, for newly covered groups. While such an arrangement would probably be practical if coverage were extended to substantially all workers, we believe that our proposal is superior to the alternative of a series of new starts.

No recommendations are made for the retirement test. We recognize that coverage extension will increase the number of anomalous situations that are created by the existing test and so intensify the need for a more satisfactory provision. The problem lies beyond the specific subjects we were asked to consider. Nor have we recommended changing the definition of "wages" to include remuneration (such as tips) other than that paid an employee directly by his employer. We recognize, however, that in certain employments the present definition omits a part of the remuneration of some workers. Legislation aimed at coverage with all remuneration included would need to take into account those types of payment not now considered "wages."

Appendix B of the report contains cost estimates prepared by Robert J. Myers, Chief Actuary of the Social Security Administration, for the pres-

ent program and for the program expanded to include virtually all gainful employment. On the basis of the intermediate cost estimates shown there, universal coverage without other changes in the system would reduce by about 0.4 the percent of payrolls required to meet the long-range cost of old-age and survivors insurance. Comparative figures for the extension of coverage that we propose show a reduction of 0.25 percent of payroll over the years.

The saving occurs, first, because under limited coverage those workers who move in and out of covered jobs have low average monthly wages in covered employment, and the formula is weighted in favor of those with low average wages. Under extended coverage their wages in covered employment would be greater, and there would be a corresponding increase in contribution income from those persons and their employers, with some but proportionately smaller increase in benefit outgo. Second, there would be fewer cases in which earnings from uncovered employment would be disregarded in applying the retirement test.

Our proposal for changing the method of computing the average monthly wage would, on the basis of the intermediate cost estimate, increase long-range costs about 0.1 percent of payroll. Thus, on balance, our proposals should have no significant effect on the percentage of payroll required to meet the costs of the program.

### **Recommendations**

In accordance with the President's policy to extend old-age and survivors insurance coverage, we present the recommendations shown below. The details of coverage for some of these groups should be worked out by the Department of Health, Education, and Welfare and the Treasury Department, in consultation with other Federal agencies as necessary.

*1. Allow coverage under Federal-State agreements of members of State and local government retirement systems under provisions requiring that all members of a coverage group be brought in if any are covered.*

We believe that the retirement systems of State and local governments

(covering about 3.3 million jobs<sup>2</sup>) perform for government as employer the same functions as nongovernmental plans perform for other employers; they attract and hold good employees and, on the other hand, make it feasible to retire individuals when appropriate.

About four-fifths of the persons covered under these systems lack adequate survivor protection. Moreover, the systems are designed primarily for those who continue in the service of a particular unit until retirement; those who leave before retirement age normally forfeit their right to retirement income and have only their own contributions refunded. Similarly, persons who enter State and local government employment from private industry may lose all or part of the protection they have acquired under old-age and survivors insurance.

When coverage is extended to public employees who are members of staff retirement systems, the systems can be adjusted—as many private plans have been—to supplement the basic old-age and survivors insurance benefits. Employees previously covered under retirement plans in industry and in nonprofit employment have often had considerably increased protection as a result of the Federal program's extension and the continuance of the private plans on an adjusted basis.

While constitutional barriers preclude the Federal Government from imposing a tax on State and local governments as employers, the Federal statute permits coverage, through Federal-State agreements, of certain employees who are not in positions covered by a retirement system. We believe those employees who are in jobs covered by a retirement system should also be permitted coverage under old-age and survivors insurance and that any provision for covering State and local employees should bring in all members of a coverage group if any are covered.

We recognize that policemen and fire fighters feel that the hazardous and special requirements of their work have been acknowledged in existing

<sup>1</sup> A bill signed by President Eisenhower on August 15, 1953, extends the provision through June 30, 1955.

<sup>2</sup> All coverage estimates made by the Bureau of Old-Age and Survivors Insurance.

retirement plans; therefore they hold that old-age and survivors insurance should not be extended to them. In any case a mandatory Federal exclusion limited to these groups would be preferable to the continued prohibition of coverage for all State and local employees covered under existing retirement plans.

2. *Cover self-employed professional persons on the same basis as other nonfarm self-employed now covered and cover internes by deleting the present exclusion of services of internes in the definition of employment.*

Present law specifically excludes from the definition of trade or business in connection with self-employment most accountants, architects, chiropractors, Christian Science practitioners, dentists, funeral directors, lawyers, naturopaths, optometrists, osteopaths, physicians, professional engineers, and veterinarians. Many if not all of these professional groups were excluded at their own request.

No new administrative or technical problems are involved in extending coverage to these self-employed persons, who number about 500,000 in the course of a year. We propose that they be covered on the same basis as other nonfarm self-employed persons who are now covered. In other words, anyone with annual net earnings of \$400 or more from professional self-employment would be included and report his earnings for social security purposes annually with his income-tax report.

We would also delete from the definition of employment the specific exclusion of services of internes.

3. *Cover farm operators on a basis consistent with that on which other self-employed are now covered.*

We propose coverage of farm self-employment by removing from the definition of "net earnings from self-employment" the present exclusion of income "derived from any trade or business in which, if the trade or business were carried on exclusively by employees, the major portion of the services would constitute agricultural labor." Under this proposal the more than 3 million farm operators with annual net earnings of \$400 or more from farming would be covered.

Other self-employed persons, in

computing net income from self-employment on which contributions and benefits are based, must compute their business expenses, following the same rules, regulations, and definitions used for income-tax purposes. Many farm operators, however, have no income-tax liability because, after deducting expenses and other items from gross income, their net income does not exceed their exemptions. Their exemptions, however, would have no application for social security purposes. A simplified procedure should therefore be developed for the small farm operator. He could, for example, be permitted to report his income from self-employment for social security purposes as some fixed percentage—say, 50 percent—of his gross receipts from farming; if in computing his net income he wished to report his actual expenses, he would be permitted to do so.

4. *Cover cash wages earned in hired farm work regardless of the number of days the individual works for a single employer, and remove the exclusion of workers employed in cotton ginning and the production of gum naval stores.*

Under present law, a farm worker to be covered must be "regularly employed" by one employer and receive from him cash wages of \$50 or more in a calendar quarter. In general, after a farm worker has worked for one employer continuously for a full calendar quarter, he is "regularly employed" in succeeding quarters if he works full time for that employer at least 60 days during the quarter. Records must be kept for some time before it is clear if the worker is covered. In our opinion the "regularly employed" test is an unnecessary complication; its elimination would result in the course of a year in covering farm wages for about 2.7 million workers not now covered and would mean that other farm workers, now covered, would have additional wages included.

To get the widest possible coverage under old-age and survivors insurance we believe, in principle, that the \$50 cash wage test—now applicable only for hired farm workers, domestic workers, and a few smaller categories—should be eliminated for all employees. The test when related to work for a single employer excludes some

workers who would benefit from coverage and prevents others, now covered, from getting credit for all their wages. To obtain coverage for all agricultural workers, both the cash wage test and the time test should be eliminated.

The major problems in eliminating the cash test relate to administration of the necessary benefit and tax-collection provisions, which will involve securing the correct names, account numbers, and wage amounts for agricultural workers hired for only brief periods and a consequent increase in the employer's reporting burden. The Treasury Department believes the reporting requirements could be substantially enforced even if both the cash and time tests were eliminated and that enforcement would be strengthened if the present wage-reporting system were simplified. It pointed out, however, that administrative costs would be lower if a wage test were retained and suggested a cash wage test based on a period shorter than a calendar quarter. A weekly or monthly test would reduce the period during which an employer had to keep records to determine if a worker is covered, although often an employer will know at the time of hire if a worker will be paid \$50 in a quarter.

Present law specifically excludes from coverage workers employed in cotton ginning and in the production of turpentine and other gum naval stores. No special administrative or technical problems would be involved in covering these two groups, and we believe the exclusions should be eliminated.

5. *Cover cash wages of domestic workers regardless of the number of days the individual works for a single employer.*

A household worker, to be covered under present law, must work for a single employer on each of 24 days during a calendar quarter and be paid at least \$50 in cash for such services. In general, under this provision the worker is covered if she works regularly for a single employer on at least 2 days in a week. In our opinion the day test is an unnecessary complication. Its elimination would bring under the program 100,000–200,000 persons in addition to those now cov-

ered and would mean additional coverage for the 50,000-100,000 persons who are now covered on some but not all of their jobs.

For the widest possible coverage under old-age and survivors insurance the \$50 cash wage test in the present law should also be eliminated. The reasons for this recommendation and the Treasury Department's opinions are the same for this group as for the farm workers.

6. *Allow coverage for ministers and members of religious orders (other than those who take a vow of poverty) on a basis similar to that on which other employees of nonprofit organizations may now be covered.*

About 190,000 ministers—pastors of churches and ministers employed in other capacities (teaching and administration, for example) by religious organizations or in an assignment by a church—and 150,000 members of religious orders are excluded from coverage at any one time.

We recommend making coverage available to ministers on election by the proper administrative unit of the religious organization and by two-thirds of the ministerial employees. We believe that, even though a religious organization does not wish to cover its ministers, its lay employees should be allowed coverage; on the other hand, an organization should not be permitted to elect coverage for its ministers unless its lay employees are also covered. The Department of Health, Education, and Welfare and the Treasury Department should work out coverage details with the various denominations.

Coverage for members of religious orders who take vows of poverty and coverage for the self-employment income that clergymen earn in the performance of religious duties are not now recommended; both matters seem, rather, subjects for further exploration by the departments and the denominations.

7. *Cover employees engaged in fishing and similar activities who are now excluded.*

About 30,000 employees engaged in fishing and similar activities are excluded from coverage because they work on vessels of 10 tons or less or perform services, such as clam-digging, that do not require them to serve

on vessels. Most of them work on a share arrangement, as do most fishermen who are now covered. It appears that the evaluation, for social security purposes, of a fisherman's share of the catch should present no problems peculiar to the group working on the smaller vessels, and we know of no other technical or administrative reasons for their continued exclusion.

8. *Cover home workers in States without licensing laws on the same basis as those in States with licensing laws.*

Home workers who have the status of employees under the usual common-law rules applicable in determining employer-employee relationship are covered in all States. In the 15 States with licensing laws, home workers who do not have employee status under usual common-law rules are also considered employees for coverage purposes if the work is performed at home according to specifications of and on materials or goods furnished by the person for whom it is performed; if the worker is paid cash wages of \$50 or more in a calendar quarter for such services; and if the services are subject to State licensing requirements.

We propose that home workers in States without licensing laws be covered on the same basis as those in States with licensing laws, so that employee coverage will be extended to home workers who meet the other conditions for coverage now in the statute, regardless of the State of residence. If the quarterly cash wage test now imposed as a condition of coverage of domestic and farm workers is removed, we propose that it also be removed from the conditions for home workers. Home workers who would not have employee coverage would continue to be subject to the self-employment coverage provisions on the same basis as other self-employed persons.

9. *Cover American citizens employed on vessels of foreign registry by American employers on the same basis as other American citizens working outside the United States for American employers.*

The 1950 amendments covering American citizens working outside the United States for American employers did not extend coverage to American seamen working for American em-

ployers on vessels of foreign registry. While there are few people affected by this exclusion, it seems desirable to remove the exclusion and treat on a consistent basis all American citizens who are employed outside the United States.

10. *Extend for a limited period the present provision giving "free" wage credits of \$160 a month for service in the Armed Forces.*<sup>3</sup>

Members of the Armed Forces are now given "free" wage credits of \$160 a month for service after September 16, 1940, and before January 1, 1954. Since the question of old-age and survivors insurance for this group is now being studied by two committees, we believe that consideration of permanent contributory coverage should await the results of the studies, and we propose—as an interim measure—limited extension of the "free" wage credits.

11. *Revise the method for computing the average monthly wage to provide that the 3 years in which earnings credits were the lowest (or non-existent) would ordinarily be disregarded but in no case shall the period over which the average monthly wage is computed be less than the period of time required for the worker to obtain fully insured status.*

Our proposal is designed to meet the problem of the newly covered groups, who under existing legislation would in many instances have substantially lower benefits than those already covered because they do not have wage credits in 1951, 1952, and 1953. By making possible the payment of full-rate benefits when earnings were reduced or nonexistent in as many as 3 years, the proposal does away with the need for any special provision for the newly covered groups. For them the 3 years before 1954 would be omitted from the computation of the average monthly wage, since they would have no covered earnings in those years; any later years with little or no earnings would, however, count against them.

Our proposal solves this problem of the newly covered groups as part of an over-all improvement in the program.

<sup>3</sup> A bill signed by President Eisenhower on August 15, 1953, extends the provision through June 30, 1955.

It would give to those already covered some future protection against the lowering of the average monthly wage because of periods of unemployment, disability, or low earnings; the 3 years (past or future) in which they have little or no earnings would be disregarded.

We recognize, however, that over the long run it may be desirable to allow persons who have been under the program for some years to disregard more than 3 years. One important reason is that the groups

brought under coverage after 1953 will, in general, be unable to utilize the 3-year provision to offset future periods of low earnings or absence from the system.

Dropping out the lowest 3 years will ordinarily leave several years over which the average monthly wage could be computed. Under present law, however, some persons retiring in the near future may have their benefits based on a period as short as 1½ years. Some limitation on the dropping out of 3 years is therefore needed, and we

propose that the average monthly wage be computed over a period at least as long as that required for attainment of insured status. It would be desirable, however, to make certain technical modifications of this general proposal.

The Bureau of Old-Age and Survivors Insurance advises us that, though it would be impractical to recompute individually the benefits for the 5 million persons now on the rolls, our proposal is practical for future computations.

## *Notes and Brief Reports*

### **Family Benefits in Current-Payment Status, December 31, 1952**

The number of families receiving monthly benefits under old-age and survivors insurance increased by almost half a million in 1952. At the end of the year, monthly benefits were being paid to at least one member of 3.6 million families (table 27, page 41). Retired worker families made up 73 percent of the total; they numbered 2,644,000—about 365,000 more than a year earlier. The number of survivor families totaled 957,000, an increase of almost 116,000 for the year.

Average family benefits at the end of 1952 showed substantial increases from the corresponding averages a year earlier because of the higher benefit rates provided by the 1952 amendments and the large number of awards in the last half of the year of "new-start formula" benefits—based on earnings after 1950 and the new benefit formula. Payments to all retired workers with no dependents receiving benefits averaged \$50.70 for men and \$39.10 for women, increases of 17 percent and 18 percent, respectively. The average for a retired worker and his aged wife was \$81.60—16 percent more than a year earlier.

Families with benefits computed under the new-start formula had considerably higher average benefits than those whose benefits were computed by use of the conversion table. For beneficiary families that consist only of the retired worker and that are re-

ceiving benefits determined under the new-start formula, the average benefits were \$71.20 for men and \$50.70 for women; for families composed of a retired worker and his aged wife, both of whom were receiving benefits, the average was \$106.50. At the end of 1952, all retired-worker families receiving benefits computed under the new-start formula comprised about 9 percent of the total; the proportion will increase, however, since this formula is used for about two-thirds of the current old-age benefit awards.

For survivor families the average benefits ranged from \$41.00 for a family in which only one child was receiving benefits to \$106.00 for a family consisting of a widowed mother and two children. The average benefit for aged-widow families was \$40.70 and for one-parent families, \$41.50.

The average family payment at the end of 1952 to a widowed mother and two children was greater than the average paid to a widowed mother and three or more children because of the maximum provisions. Under these provisions the presence of more than two child beneficiaries results in a higher family benefit only when the benefit is based on primary insurance amounts within a limited range (\$64.00–84.40). The effect of the higher amounts payable to families of this size is more than offset by the heavier concentration of larger families in the group receiving benefits based on a low primary insurance amount.

A distribution of the number of

families by amount of the family benefit (table 31, page 43; table 34, page 46) shows the greatest concentration for retired-worker-only families at \$25 for both men and women; likewise, of the families composed of a retired worker and his wife, the largest number are receiving \$37.50. The percentage distributions for families receiving benefits computed under the new-start formula were marked by the heavy concentration at the higher benefit amounts. For families in which only the retired worker was receiving benefits, 28 percent of the men were receiving the maximum of \$85.00; for women, the greatest concentration was at \$55–60. Nearly 30 percent of the families consisting of a retired worker and wife aged 65 or over were being paid the maximum family benefit of \$127.50.

The maximum amount of \$168.75 was being paid to nearly 10,000 families, more than double the number receiving the former maximum of \$150 at the end of 1951. Under the 1952 amendments, the \$168.75 maximum can be paid to families consisting of a retired worker and two or more dependents, or of a widowed mother and two or more children, or of four or more children, if the primary insurance amount is \$71.60 or higher.

The distribution of all retired workers receiving benefits by amount of old-age benefit and by benefit computation method is shown in table 25, page 40. The proportion of old-age beneficiaries receiving the \$25 minimum was almost 20 percent, about the same as the proportion receiving the \$20 minimum a year earlier. For men, the proportion receiving the minimum