

allocation formulas. In Nevada, for example, which ranked second highest in terms of per capita income, grants amounted to \$46.51 per capita compared with \$18.38 for the continental United States; 50 percent of the total grants to the State went for highway construction. Similarly, in the middle-income group, Wyoming received \$34.87 per capita in grants, and 48 percent of all grants was for highways. New Mexico, among the low-income States, received \$37.14 per capita in grants. Twenty-eight percent of this total went for highways and 36 percent for public assistance. A similar situation exists in other Western States.

Total grants per capita are also significantly high in those States that spend relatively large amounts from State and local funds for their public assistance programs, because of the Federal matching requirement in the Social Security Act. Oklahoma, for example, received 66 percent of its total grants for public assistance; per capita, the total grants amounted to \$33.55. Of total grants to Louisiana, 70 percent was for public assistance; total grants per capita were \$32.33.

For the Territories and possessions, total grants per capita were higher in 1953-54 (\$14.65) than in the preceding year (\$12.39). They continued, however, to be less than the total grants per capita for the continental United States (\$15.27), largely because of the significantly low per capita grants to Puerto Rico—the most populous of the Territories and possessions. These low per capita grants, in turn, are occasioned by the fact that the maximums on individual public assistance payments in which the Federal Government will share and the Federal share of the payments are lower for Puerto Rico and the Virgin Islands than for the States. The per capita rise in health service grants to Puerto Rico so far overcompensated for per capita decreases in grants to the other Territories and possessions that the per capita grant rate for the whole group rose slightly during the same fiscal year in which the rate for the continental United States dropped 20 percent.

Total grants to State and local governments as a percent of income payments received and of total State general revenues tend to be higher, on the average, in States with low per capita income (table 3). These percentages are also high in the sparsely populated public land States and the States that make relatively heavy expenditures for public assistance. Federal grants represented 1.1 percent of income payments for the continental United States and 19 percent of State general revenues. While grants to State and local governments have been presented here as percentages of total State general revenues, it would be more meaningful to relate these grants to combined State and local general revenues. Unfortunately, no complete and consistent series on total local government revenues, by State, is available for recent years.

Grants administered by the Social Security Administration amounted to \$1,467 million in 1953-54 and represented exactly half of all Federal grants. They equaled, on the average, 0.5 percent of income payments for the continental United States and 10 percent of total State general revenues. Here, too, the percentages tended to be larger in States where per capita income was low. The variation was slight among the three income groups of States in the percentage that Social Security Administration grants were of total grants, although State-by-State variation was considerable. For the Territories and possessions, Social Security Administration grants constituted only 24 percent of all grants and amounted to \$3.58 per capita. For the continental United States the corresponding figures were 50 percent and \$9.20 per capita.

### Old-Age and Survivors Insurance Administrative Expenses\*

The cost of administering the old-age and survivors insurance program, including the expenses incurred by

\*Prepared by Robert J. Myers, Chief Actuary, Social Security Administration.

the Treasury Department in collecting contributions, represented 1.8 percent of contributions, 2.5 percent of benefit payments, and 0.07 percent of taxable payrolls in 1954. Because of the widespread interest in the remarkably low cost of administering this program, it is worthwhile to analyze in some detail both the components of the administrative workload and the trends in the administrative expenses since the beginning of the system.

A few figures indicate the magnitude of the record-keeping operations. In recent years about 225 million separate wage items, reported for approximately 60 million different persons, have been handled annually. Beginning in 1955 the number will be even higher as a result of the extension in coverage effected by the 1954 amendments. Each year about 3 million new account numbers are issued. Each year, also, about 3 million duplicate account-number cards are issued because the original has been lost or worn out, and about 2.5 million changes and corrections in the records of account numbers are made, primarily because of name changes resulting from marriages.

A considerable amount of administrative work is also involved in paying monthly benefits and lump-sum death payments. At the end of

### Administrative expenses of the old-age and survivors insurance program in relation to contribution income, benefit payments, and taxable payroll, 1940-54

Calendar year	Administrative expenses			
	Total amount <sup>1</sup> (in millions)	As percent of—		
		Contributions <sup>1</sup>	Benefit payments <sup>1</sup>	Taxable payroll
1940.....	\$26	4.1	74.3	0.08
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	.04
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

<sup>1</sup> Based on trust fund transactions as reported in the *Daily Statement of the U. S. Treasury*.

1954, 6.9 million monthly benefits were in current-payment status. During the year about 1.9 million individuals were added to the rolls to receive monthly benefits, and the benefits of 1.1 million persons were terminated. In addition, about 400,000 lump-sum death payments were made during 1954.

The Social Security Act provides that expenditures for both benefit payments and administrative costs under the old-age and survivors insurance program are to be paid out of the trust fund. This provision has been in effect since January 1, 1940. Before that date the administrative costs were paid from the General Treasury, which was effectively reimbursed since the appropriations from the old-age reserve account (predecessor of the old-age and survivors insurance trust fund) closely approximated the tax receipts less these administrative costs.

The administrative expenses paid out of the trust fund include, of course, such direct expenses of the Bureau of Old-Age and Survivors Insurance as salaries, rentals of machinery and property, and purchase of supplies, as well as similar expenses of the Treasury Department in connection with collecting contributions and issuing benefit checks. Also properly paid from the trust fund are other apportioned administrative expenses of the Department of Health, Education, and Welfare incurred in the operation of the old-age and survivors insurance program. The trust fund is credited with receipts derived from the sale of miscellaneous services and supplies for which the initial outlays have been made from the trust fund—for example, preparation of tabulations for other Government agencies.

In a few cases, certain indirect expenses that probably are properly chargeable to the system are not paid out of the trust fund. The principal expenses of this type are the Government's share of the cost of the civil-service retirement program and of the Federal employees' compensation program (workmen's compensation) for employees who are covered by these programs and whose salaries are paid out of the trust fund. The

cost of certain other employee benefits are, however, met directly from the trust fund—the employer contributions for the group life insurance program and the old-age and survivors insurance program for those employees who are not covered under the civil-service retirement program.

In old-age and survivors insurance as in private pension plans and group insurance programs, some of the indirect cost of administration is met by employers. The chief item of this kind arises in connection with the employers' maintenance of individual wage records for the quarterly reports, from which individuals' earnings histories are developed.

The administrative expenses of the program have risen from a level of \$26 million in 1940 to \$92 million a year in 1954—an increase of about 250 percent. (In 1954 about \$25 million out of the \$92 million was reimbursed to the Treasury Department.) There are several factors involved in the large rise in administrative costs. One was the increase of roughly 100 percent in the number of earnings items processed—the result partly of the rise in the general levels of employment and partly of the expanded coverage under the program. Other factors raising costs were the increase in the number of claims presented, the growth in the beneficiary rolls, and the rise in general wage and price levels, which affected the costs of such items in the operation of the system.

The best way to measure administrative costs is, of course, to relate them to an appropriate base. The question arises, however, as to what is the most appropriate base. Several possibilities exist—contribution income, benefit disbursements, and taxable payroll. The use of each of these three bases has certain advantages and certain disadvantages. The taxable payroll seems most meaningful, although perhaps a more difficult concept to understand, since it indicates in effect what part of the tax on payroll must be used to pay for the operation of the system. When administrative costs are related to contribution income, the disadvantage is that, as the tax rate is

changed, the ratio will fluctuate widely and therefore have limited significance. The ratio based on benefit disbursements can be misleading, particularly for the early years of operation when benefit disbursements were relatively low and when most of the administrative expenses were in connection with handling the wage records that would produce benefits in the future. In any event, it is worthwhile examining the administrative expense ratio on all three bases.

When the comparison is between contribution income and administrative expenses, the ratio over the 15-year period 1940-54 has generally fluctuated between 2 percent and 3 percent. As indicated previously, this ratio is not entirely satisfactory because of the considerable change that occurs in years when the contribution rate increases, as in 1950 and again in 1954 (when the ratio reached an all-time low of 1.8 percent).

The ratio of administrative expenses to benefit payments was almost 75 percent in 1940, the first year that monthly benefits were paid. This ratio dropped sharply to 30 percent in 1941 and then continuously to 2.5 percent in 1954. Use of this ratio as a measure may be somewhat misleading—first, because of the gradual maturing of the system, and second, because of the effect of any sharp rise in benefit disbursements resulting from changes in the benefit provisions (as in 1950 and again after the 1952 and 1954 amendments). Legislative changes increasing benefit disbursements have only a partial effect in the year of enactment; the full effect is first felt in the succeeding year.

The ratio of administrative expenses to taxable payroll, unlike the others, has been remarkably stable—about 0.07 percent of payroll over the 15 years considered. This figure indicates clearly the relatively low cost of administering the old-age and survivors insurance program.

Still one other comparison may be of interest. Over the 15 years 1940-54, total administrative expenses have amounted to \$770 million. The total interest earnings of

the trust fund over the same period have amounted to \$3,164 million or more than four times as much. In 1954 the administrative expenses of \$92 million represented only 20 percent of the interest receipts of the trust fund.

Any comparisons of the relative administrative expenses of the old-age and survivors insurance program with the corresponding cost of programs such as private pension plans or life insurance must be made with care because of their different natures. One difference that should be noted is that, for old-age and survivors insurance, some of the publicity essential to keeping people informed about the program is provided as a public service by radio and television stations and by newspapers and magazines.

Whatever base is used, it is clear that the administrative expenses paid out of the trust fund, and thus out of the contributions of workers and their employers, are relatively low, with the result that the bulk of such contributions is available for benefit payments.

## Applicants for Account Numbers, 1954

The 2.7 million employee accounts established in 1954 brought the aggregate number of accounts established by the end of that year to 113 million (tables 1 and 2). The 1954 total represented a drop of 21 percent from 1953, the same percentage decline that had occurred from 1952 to 1953. The factors causing the decreases during these two periods,

Table 2.—Number of applicants for account numbers and the cumulative number at the end of each period, by sex and by year, 1945-54

[In thousands]

Period	Total		Male		Female	
	Total during year	Cumulative total at end of year	Total during year	Cumulative total at end of year	Total during year	Cumulative total at end of year
1945.....	3,321	83,825	1,504	50,828	1,817	32,997
1946.....	3,022	86,847	1,432	52,260	1,590	34,587
1947.....	2,728	89,575	1,299	53,559	1,429	36,016
1948.....	2,720	92,295	1,305	54,864	1,415	37,431
1949.....	2,340	94,635	1,113	55,977	1,226	38,657
1950.....	2,891	97,526	1,405	57,382	1,485	40,142
1951.....	4,927	102,463	2,420	59,802	2,507	42,649
1952.....	4,363	106,816	2,292	62,094	2,071	44,720
1953.....	3,464	110,280	1,664	63,758	1,800	46,520
1954.....	2,743	113,023	1,299	65,057	1,444	47,964

however, were quite different. The 1953 experience reflected the sharp drop in the number of applications received from the nonfarm self-employed, who were first covered under the program in 1951. The decrease in 1954, on the other hand, appears to have resulted mainly from the contraction in job opportunities for new entrants in the labor market.

For the year as a whole, the number of accounts established in 1954 declined at about the same rate for men and women—22 percent and 20 percent, respectively. While in each of the first 3 quarters of 1954 the decrease from the corresponding quarter of 1953 was larger for men than for women, in the fourth quarter the situation was reversed. The 269,000 accounts established for men in October-December 1954 represented a 6-percent drop from the number in the fourth quarter of 1953, while the account numbers issued to women were 12 percent fewer than they had been a year earlier. It is estimated that during October-December 1954 approximately 50,000

new account-number applications were received from persons in employments newly covered by the 1954 amendments to the Social Security Act.<sup>1</sup> Many of these applicants probably were farm operators and professional self-employed persons, the majority of whom are men.

Account numbers issued to persons under 20 years of age dropped to 1.8 million or 20 percent less than in 1953, compared with a decline of 3.2 percent from 1952 to 1953 (table 4). While a decrease was registered in every quarter of 1954, it was sharpest during the first 2 quarters, when the shortage of job opportunities was relatively severe. The number of applicants under 20 years of age was 26 percent less during the first half of 1954 than in the corresponding period of the previous year. The drop, which was shared about equally by

<sup>1</sup> For a discussion of the coverage provisions of the 1954 amendments, see James E. Marquis, "Old-Age and Survivors Insurance: Coverage Under the 1954 Amendments," *Social Security Bulletin*, January 1955.

Table 1.—Applicants for account numbers, by race, age group, and sex, by year, 1945-54

Year	Total			Negro			Under age 20			Aged 20 and over <sup>1</sup>		
	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female
1945.....	3,321,384	1,505,839	1,815,545	504,321	195,313	309,008	1,851,854	922,562	929,292	1,469,530	583,277	886,253
1946.....	3,022,057	1,431,760	1,590,297	388,489	185,709	202,780	1,600,260	746,796	853,464	1,421,797	684,964	736,833
1947.....	2,727,810	1,299,092	1,428,718	314,788	154,975	159,813	1,620,237	801,092	819,145	1,107,573	498,000	609,573
1948.....	2,719,642	1,304,625	1,415,017	309,790	150,628	159,162	1,770,613	912,189	858,424	949,029	392,436	556,593
1949.....	2,339,502	1,113,006	1,226,496	259,620	125,342	134,278	1,518,152	773,289	744,863	821,350	339,717	481,633
1950.....	2,890,570	1,405,349	1,485,221	319,272	157,739	161,533	1,885,658	1,001,757	883,901	1,004,912	403,592	601,320
1951.....	4,927,120	2,420,488	2,506,632	708,533	282,037	426,496	2,537,114	1,373,921	1,163,193	2,390,006	1,046,567	1,343,439
1952.....	4,363,351	2,292,309	2,071,042	428,887	199,114	229,773	2,297,742	1,208,883	1,088,859	2,065,609	1,083,426	982,183
1953.....	3,464,229	1,664,153	1,800,076	408,144	189,571	218,573	2,223,602	1,165,490	1,058,112	1,240,627	498,663	741,964
1954.....	2,743,072	1,298,877	1,444,195	321,049	144,451	176,598	1,787,400	917,132	870,268	955,672	381,745	573,927

<sup>1</sup> Includes a small number of applicants whose ages were not reported.