Old-Age and Survivors Insurance: Operation of the Annual Retirement Test

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RETIREMENT benefits for workers aged 65 and over are payable under the old-age and survivors insurance program. A test of retirement is provided by the Social Security Act to ensure that only those older persons who have substantially retired from their jobs will receive old-age and survivors insurance benefits.

The Social Security Amendments of 1954 made major changes in the retirement test. The new provisions were intended to encourage retired aged persons to engage in part-time employment and to bring about more nearly equal treatment for wage earners and the self-employed than had been possible under the old test.

Before the 1954 amendments, the test for wage earners was more restrictive than that for the self-employed. A beneficiary with wages lost his old-age insurance benefit for any month in which his wages were even slightly in excess of $75. In contrast, a beneficiary who was self-employed averaged his earnings over the full year and did not lose any benefits if his annual earnings did not exceed $900 (12 times $75). For net annual earnings from self-employment in excess of $900, one monthly benefit was withheld for each $75 unit (or fraction thereof) by which annual earnings exceeded $900. Benefit deductions did not apply to months in which a beneficiary did not render substantial services in self-employment.[1]

The 1954 amendments eliminated the more restrictive treatment of wage earners by extending the annual retirement test to all beneficiaries. The amount of earnings permitted without loss of benefits was also increased from $900 to $1,200, and the deduction unit was raised from $75 to $80. The amendments provided further that benefit deductions were not to be imposed for any month in which a beneficiary did not earn wages of more than $80 or did not render substantial services as a self-employed individual.[2]

Other changes made in the retirement test by the 1954 amendments (1) lowered from 75 to 72 the age at which all beneficiaries cease to be subject to the test, (2) extended the test to earnings from noncovered as well as covered employment, and (3) applied a special test of retirement to persons working outside the United States in noncovered activities. Generally, the changes became effective January 1, 1955.

The annual retirement test has many advantages. At the same time, however, it accentuates some problems that were much less important under the monthly test. How these problems are solved affects both the operational efficiency of the old-age and survivors insurance program and the economic welfare of its beneficiaries.

Operating Procedures

The specific nature of these problems can perhaps best be shown by summarizing the operation of the monthly retirement test for wage earners as it existed before 1955, the operative changes resulting when the test was put on an annual basis, and the impact of these changes on the beneficiaries.

Under the monthly test a wage-earner beneficiary was supposed to file a report of employment when he began to work for wages of more than $75 a month. His monthly benefits were then withheld until he reported that he had stopped work or did not expect to earn more than $75 a month. When beneficiaries who were working did not report on time or did not report at all, they temporarily received benefits for months when the payments should have been withheld. By using wage reports filed by employers for tax purposes, the Bureau of Old-Age and Survivors Insurance was able to uncover reporting violations and to separate for action the cases where overpayments had occurred. The excess benefit payments were then recovered by withholding future benefit payments or by obtaining refunds from beneficiaries. The time lag between the month of employment and the month of actual benefit deduction was limited by the fact that employer reports were filed quarterly. In general, the shorter this time lag, the shorter the duration of any subsequent period in which beneficiaries receive neither earnings nor benefits (in other words, "dry spells") and the less the possibility of hardship to beneficiaries.

Under the annual test, the number of benefit deductions depends on annual earnings as well as on monthly earnings and the months in which services are performed. Beneficiaries are therefore required to file with the Bureau of Old-Age and Survivors Insurance an annual report of earnings and related employment information by March 15 of each year if their earnings in the preceding year have exceeded the exempt amount ($1,200). In addition beneficiaries who expect their earnings to exceed $1,200 are encouraged to make a current or "during the year" report when they begin to work for wages of more than $80 a month or render substantial services in self-employment. In this way benefits can be withheld concurrently with employment, and any subsequent "dry spells" minimized. Monthly benefits are then withheld temporarily on the basis of these current reports until beneficiaries re-

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[1] The philosophy of the retirement test, its historical development before the 1954 amendments, and the reason for the dual retirement test under the old law are more fully examined in Robert J. Myers, "Basis and Background of the Retirement Test," *Social Security Bulletin*, March 1954.

[2] See Robert J. Myers, "Old-Age and Survivors Insurance: Retirement Test Under the 1954 Amendments," *Social Security Bulletin*, December 1954.

quest that their benefits be reinstated either because they have stopped working or because the proper number of benefits have already been withheld.

After the receipt of the annual report, the number of monthly benefits already withheld temporarily on the basis of current reports is compared with the number required on the basis of earnings and other information shown on the annual report in order to determine if any "year-end adjustments" are necessary. If, for example, the actual number of benefits temporarily withheld is greater than the required number, beneficiaries receive an additional payment covering the amount of the excess current deductions. If the number ultimately required is greater because insufficient current deductions have been imposed during the course of the year, the Bureau undertakes recovery of the amount of the excess payments.

To check on violations of the reporting requirements under the annual test by beneficiaries who do not file annual reports or who file inaccurately, the Bureau continues to use employer wage reports, but only on an annual basis. For self-employed persons, the report of self-employment earnings subject to social security tax, which is required from all those with net annual earnings of $400 or more, is used. The proper number of benefit deductions is then determined on the basis of the earnings shown in the employer wage reports or the self-employed tax report or both, and any necessary benefit adjustments are made.

Nature of the Problems

Efficient and equitable administration of any retirement test has three objectives: First, to ensure that benefit payments that would otherwise result in "dry spells" at a later time are withheld while a beneficiary is getting earnings from employment; second, to ensure that beneficiaries receive payments to which they are entitled on a current basis; and third, to ensure that the legally required number of benefits are ultimately withheld.

The annual test complicates the task of withholding benefits concurrently with earnings. It is more difficult under that test than under the monthly test for beneficiaries to know when they should ask to have their benefits temporarily withheld and when they should ask to have them reinstated. While, under the monthly test, receipt of a benefit payment for a particular month depended solely on earnings in that month, receipt of a benefit under the annual test depends on annual earnings as well. Thus a beneficiary, before requesting that benefits be withheld or reinstated, must estimate his earnings for the entire year accurately if during the course of the year he wishes to avoid either too many or too few current deductions.

Persons accustomed to the monthly retirement test may at first find it difficult to understand and use correctly this new concept. Moreover, even though a beneficiary understands the dependence of benefit receipt on annual as well as monthly earnings, he may still not be able to avoid too many deductions or too few deductions during the course of the year because of the difficulties involved in making accurate estimates of annual earnings. A wage earner may know what he earns month by month and may therefore be able to make relatively accurate estimates of earnings, but the effect of unforeseeable events—such as death, disabling illness, strikes, temporary layoffs, overtime pay, and wage increases—on the accuracy of estimates of annual earnings is readily apparent. It is probably even more difficult for self-employed persons to estimate their earnings. In many cases, therefore, differences between the number of benefits currently withheld during the year and the number ultimately required are practically inevitable under the annual retirement test.

Because of these reporting difficulties the likelihood that too many or too few benefit deductions will be imposed during the course of the year —concurrently with employment— is greater under the annual test than under the monthly test. Furthermore, since employer wage reports are used to check reporting violations by beneficiaries on an annual basis, the lag between the month of employment and the time of actual deduction increases. Thus, beneficiaries are more likely to have "dry spells," which, in turn, are likely to cover longer periods of time, under the annual test than under the monthly test.

The more numerous cases of insufficient current deductions that are likely under the annual test may also intensify the administrative problem of recovering the incorrect benefit payments either through deduction from future benefits or through direct refunds by beneficiaries. As the amount of incorrect benefit payments increases, the number of cases in which complete recovery is not possible may also rise.

There is another problem area, which results from the so-called "substantial services" test and which differs substantively from the problems discussed above. To begin with, the test applies only to self-employed beneficiaries. It has been associated only with the annual retirement test because self-employed persons have been subject to an annual test from the time of their coverage by the 1950 amendments to the Social Security Act. Determination of substantial services would create a problem, however, even if the retirement test for the self-employed could be formulated on other than an annual basis.

The 1950 amendments provided that benefits are not to be withheld because of earnings from self-employment for any month in which a beneficiary does not render substantial services in self-employment. Under the law, it is presumed that a beneficiary with earnings of more than the exempt amount from self-employment has rendered substantial services in self-employment in every month unless he can give adequate proof to the contrary for certain months. The specific method for deciding whether an individual has rendered substantial services is left to administrative determination. In making these determinations, the Bureau takes into account the factors contained in the report of the Senate Committee on Finance on the 1950 amendments.[3]

Income from a trade or business often takes the form of investment

[3] Senate Report 1669, *Social Security Act Amendments of 1950* (81st Cong., 2d sess.), pages 75–76.

income and may continue even during periods when an individual is not actively participating in his trade or business. For the self-employed, therefore, substantial services cannot be defined by means of an earnings limit similar to that used for wage earners. Furthermore, because of the great variety of trades or businesses in which self-employed persons may be engaged, there is no single rule under which it can be determined if a beneficiary has rendered substantial services in self-employment. As a result, the retirement test for the self-employed creates additional administrative problems.

1954 Study

How well do self-employed beneficiaries comply with the reporting requirements of the annual retirement test? How often are insufficient benefit deductions imposed concurrently with earnings? How often is it necessary to waive recovery of benefits that have been paid erroneously? Are recoveries prompt? How many beneficiaries do not receive monthly benefits on a current basis? How is the substantial services test for the self-employed operating? What are the characteristics of the beneficiaries who will be helped by the 1954 changes in the retirement test? Who will be put at a disadvantage because of these changes?

To answer these and similar questions, the Bureau of Old-Age and Survivors Insurance in March–April 1954 conducted a survey of self-employed old-age insurance beneficiaries. Beginning in 1951, self-employed persons had been subject to an annual retirement test that, except for the substantial services test, was similar to the test later provided for wage earners by the 1954 amendments. Thus their experience could be used not only to evaluate the operation of the annual retirement test for the self-employed but also to give some indication of how the annual test might work out for wage earners.

The survey was based on a 2-percent sample of all old-age insurance beneficiaries who had attained ages 65–75 in 1952, who were on the benefit rolls at any time during 1952, and who had some earnings from self-employment during the year. Data for 1952 were used because they were the most recent available. Information on age, sex, and earnings of beneficiaries was obtained from the Bureau's wage records. From individual claims records in the area offices, detailed information was obtained on benefit deductions for individual months in 1952,[4] the number and kinds of reports furnished by beneficiaries, the type of business, and allegations with respect to substantial services. For comparative analysis, similar data were also gathered for old-age insurance beneficiaries who were wage earners.[5]

The self-employed persons in the sample were grouped according to whether they also had covered wages and whether they were subject to the operation of the retirement test in all 12 months of the year. The latter grouping depended on date of entitlement to benefits, date of death, and age in 1952. Thus, the subgroup of beneficiaries not subject to the earnings restrictions of the retirement test for the entire year was composed of persons who had either attained age 75 or died in 1952 or who were not entitled to benefits in January 1952. The analysis was primarily concerned with the self-employed beneficiaries who had no covered wages in 1952 and who were subject to the retirement test in all 12 months of 1952.

Beneficiary Reporting

Table 1 shows how self-employed beneficiaries complied with the reporting provisions of the annual retirement test. Eighty percent of those in the sample who earned more than $900 in 1952 and were subject to the retirement test throughout the year filed annual reports for 1952.[6] More than 90 percent of the persons filing annual reports also filed current reports some time in 1952. For these persons, benefits could be withheld concurrently with employment; thus the necessity for imposing additional deductions at the end of the year was limited, and later "dry spells" were avoided.

Table 1.—*Percentage distribution of beneficiaries aged 65–74 with self-employment but no covered wages in 1952, by amount of earnings and type of report filed*[1]

[2-percent sample]

Type of report filed	Total	Beneficiaries with annual earnings of—	
		$900 or less	More than $900
Total number of beneficiaries	660	213	447
Total percent	100	100	100
Annual report filed	75	64	80
Current report	59	29	73
No current report	16	35	7
No annual report filed	25	36	20
Current report	12	4	16
No current report	13	32	4

[1] Includes only beneficiaries subject to the retirement test for the entire year. Earnings as shown on report of self-employment earnings subject to social ecurity tax or annual report, whichever was higher.

Current reporting is even more essential for those beneficiaries who do not file annual reports. The legally required number of benefit deductions can, of course, be determined from the reports of taxable earnings filed with the Internal Revenue Service by beneficiaries who file neither current nor annual reports. The lag between the time of employment and

[4] Information on benefit deductions related to the months in the year with respect to which the deduction applied, regardless of when it actually was made.

[5] Information for beneficiaries with wages was obtained from a 0.2-percent sample of all beneficiaries aged 65–75 with benefits in force as of September 1953 and with some earnings from covered wage employment during the 12-month period October 1952–September 1953. This period was used because it reflects the changes made in the retirement test for wage earners by the 1952 amendments. Because of lags in receiving and processing wage data, complete information was not available for the months in 1953 after September.

[6] These figures may overstate the proportion of beneficiaries who filed annual reports because selection of the sample depended on the presence in Bureau files of either an annual report or a report of self-employment earnings subject to social security tax. This report of taxable earnings is filed with the Internal Revenue Service and subsequently forwarded to the Bureau of Old-Age and Survivors Insurance. As a result of the time lag between the filing of the taxable earnings report and its receipt by the Bureau, some self-employed beneficiaries who did not file an annual report would not be included in the sample. Additional overstatement arises with respect to self-employed beneficiaries who filed neither an annual report nor a report of taxable earnings.

the time of actual benefit deduction is increased, however, because the tax reports are usually received later than the annual reports made to the Bureau of Old-Age and Survivors Insurance. As a result the number of additional monthly deductions that must be imposed increases, along with the likelihood of more frequent and more extensive "dry spells." According to table 1, 80 percent of the beneficiaries earning more than $900 and not filing an annual report had previously filed a current report in 1952. What is even more important, additional evidence from the survey indicates that three-fourths of the self-employed beneficiaries who earned more than $900 and did not file an annual report already had 12 deductions during the year. Since they earned more than the amount requiring 12 deductions under the retirement test ($1,725 in 1952), the filing of an annual report was at most a technical requirement for them.

Table 1 also reveals some overcompliance on the part of beneficiaries who earned $900 or less in 1952. Since the retirement test in effect in 1952 exempted the first $900 of earnings, these beneficiaries did not have to file an annual report. That almost two-thirds did file is probably due to the fact that annual report forms for 1952 were sent to all beneficiaries who had previously reported earnings from self-employment in either 1951 or 1952, regardless of the amount of their earnings. Most of this overcompliance will disappear, because annual report forms are now sent only to beneficiaries who file some report during the year, indicating that they are working and that they expect their earnings for the year to exceed $1,200.

The data demonstrate rather conclusively that, on the whole, self-employed beneficiaries were aware of the need to report their earnings from employment, both currently and annually. Only 4 percent of the self-employed beneficiaries earning more than $900 failed to file either an annual report or a current report.

Year-End Benefit Adjustments

Data from the survey indicate that in 1952 insufficient current deductions were imposed for about 12 percent of the self-employed beneficiaries subject to the retirement test for the entire year. Although almost half these beneficiaries received payments to which they were not legally entitled for 3 months or less, the average number of monthly benefits involved was 5.5 and the average amount—including payments to dependents—was $323. About half the persons with insufficient current deductions had filed current reports but not soon enough to enable the Bureau to withhold the requisite number of benefits during the year. In the remaining cases there was complete failure to file a current report.

Surprisingly enough, in 1952 the proportion of self-employed beneficiaries with too many current deductions was about two-and-a-half times greater than the proportion with too few. About 30 percent of the self-employed persons in the sample had more benefits withheld temporarily than were ultimately required. On the average the number of excess current deductions was equivalent to 6.1 monthly benefits. Three out of 10 cases covered only 1 or 2 months, while 2 out of 10 involved excess deductions for 11 or 12 months. In the overwhelming majority of cases, too many current deductions were imposed because beneficiaries either overestimated their earnings or did not understand how the number of deductions was determined and failed to request reinstatement of their benefits at the proper time. Only 16 percent of the cases were specifically accounted for by allegations of "no substantial services" made after the imposition of temporary deductions.

Many of the cases where too many temporary deductions had been imposed were probably due to the retroactive liberalization of the self-employment retirement test by the 1952 amendments—from a $600 annual exemption with a $50 reduction unit to a $900 annual exemption with a $75 reduction unit. Since the change in the test became effective in September 1952, benefits were being withheld temporarily for most of the year on the basis of the $600-$50 retirement test. The number of deductions ultimately required for 1952, however, was determined solely on the basis of the $900-$75 retirement test. As a result, among persons reporting correctly for temporary deductions under the $600 test there were cases where more temporary deductions were imposed than were ultimately required.

While the proportion of self-employed beneficiaries with too many current deductions probably would have been smaller, the number with insufficient current deductions would have been greater than shown in the survey if the retirement test had not been liberalized at that time. Before the 1952 amendments, for example, a self-employed beneficiary earning $900 should have filed a current report covering 6 months so that the number of current deductions imposed during the year would be equal to the number ultimately required. If the beneficiary did not file a current report, however, the survey would not have shown that insufficient temporary deductions had been imposed because of the change in the retirement test and its retroactive application.

By comparing the actual number of current deductions during 1952 with the number of deductions that would have been legally required under the annual test with a $600 exempt amount, it was possible from the sample data to estimate both the proportion of persons who would have had excess current deductions and the proportion who would have had insufficient current deductions if there had been no liberalization of the retirement test in 1952. On this basis, it is estimated that only about 15 percent of the old-age insurance beneficiaries subject to the retirement test during the entire year would have had too many current deductions, while the proportion with too few current deductions would have been about 20 percent. These are the significant figures for the analysis.

Comparable data are also available for old-age insurance beneficiaries who had wages and were subject to the monthly retirement test throughout the 12 months October 1952–September 1953. Significantly, under the monthly test, insufficient current deductions had been imposed for only 7 percent of the beneficiaries with wages. The average number of monthly benefits involved was 2.4; the average excess payment was $145.

The proportion of wage-earner beneficiaries with insufficient current deductions under the monthly test was thus about one-third that for self-employed persons under the annual test.

The difference between the proportion of wage earners with too many current deductions and the proportion of self-employed persons with too many current deductions is even greater. Under the monthly test, almost no beneficiaries had too many current deductions. In contrast, excess current deductions were the reason that about 1 out of every 7 self-employed beneficiaries failed to receive benefits when they were due.[7]

The foregoing data point to a difficulty that appears to be more or less characteristic of the annual retirement test. Almost 90 percent of the self-employed beneficiaries earning more than $900 in 1952 filed current reports so that benefits could be withheld concurrently with employment, and only 4 percent of them failed to file either an annual report or a current report. Despite this high degree of compliance with the reporting requirements of the annual test, it is estimated that, if there had been no liberalization of the retirement test in 1952, year-end benefit adjustments would have been necessary for 35 percent of the self-employed beneficiaries sampled. Fifteen percent of the cases would have resulted from too many current deductions and 20 percent from insufficient current deductions. It is therefore apparent that, while self-employed beneficiaries were aware of their responsibility to report earnings from employment currently, they found it extremely difficult to translate their awareness into effective action that would prevent too many or too few current deductions for the reasons already discussed.

What, then, can be expected in the future on the basis of these data? How important will the problem of year-end adjustments be for self-employed beneficiaries? Will the proportions of wage-earner beneficiaries with too many or too few current deductions increase materially? For self-employed beneficiaries, it is highly probable that the year-end adjustment rate has already fallen below the estimated rate in 1952 and will continue to fall as their experience under the annual test leads to better understanding. Furthermore, since 1952 several important changes in administrative procedures, designed to improve the effectiveness of beneficiary reporting, have been adopted.

One of these changes, which has been in effect since 1953, enables beneficiaries to indicate, on the annual report filed after the end of each year, if they expect their earnings for the following year to exceed the exempt amount. The annual report for one year, therefore, serves as a current report for the next year, and current deductions, if necessary, can be imposed beginning early in the year on the basis of the estimates furnished. Thus the problems that arise because beneficiaries find it difficult to time their reports of employment so that sufficient current deductions can be imposed are minimized. Information pertaining to estimated earnings for 1952 was not requested on the 1951 annual report form. Instead, the annual report for 1951 was used only to make any necessary year-end benefit adjustments. After the adjustments were completed, a person resumed the same benefit payment status he had held at the time the annual report was received. Changes have also been made in the form on which beneficiaries can request reinstatement of benefits during the year. The reason for most of the cases of too many current deductions was that beneficiaries failed to request reinstatement of their benefits at the proper time. To ease this reporting difficulty, beneficiaries who believe that their total annual earnings will be less than the amount required for 12 benefit deductions can report this fact to the Bureau and furnish an estimate of what their maximum earnings will be for the year. On this basis, benefit payments are reinstated during the year once a sufficient number of temporary deductions have been imposed.[8] Together, these administrative changes should result in a lower net incidence rate of year-end benefit adjustments for the self-employed.

Much of the above discussion also applies, at least in the long run, to beneficiaries with wages under the annual test. In the short run, the proportion of wage-earner beneficiaries with either too many current deductions or too few current deductions will undoubtedly be substantially greater than it was under the monthly retirement test for two reasons: The annual test is more difficult to understand, and wage earners are accustomed to a monthly test. Administrative improvements and the fact that it may be easier for wage earners to estimate their earnings accurately will, however, be mitigating factors.

Recoveries

In general, incorrect benefit payments that result from insufficient current deductions are recovered in either of two ways: (1) by withholding benefits due to an individual for subsequent months or (2) by direct refund from a beneficiary of the amount involved. The latter method results in complete recovery as soon as a refund is made. When the first method is used, there is no way of knowing when recovery will be completed. An individual may have received benefit payments in excess of the amount to which he was entitled in 1952 as a result of insufficient current deductions. If this beneficiary continued to engage in his trade or business in 1953, deductions to recover the incorrect benefit payments for 1952

7 The 1952 amendments also increased the exempt amount for wage employment from $50 to $75 a month. The proportions of wage-earner beneficiaries with too many current deductions or too few current deductions are not affected by these changes since the data on the monthly test covered a period after the effective date of the amendments.

8 In some cases, this procedure could produce new instances of too few current deductions that would not otherwise arise. Consider, for example, a beneficiary who finds that his estimate of maximum earnings is too low. Unless the beneficiary reports this fact before his benefit payments are reinstated, too few current deductions are almost inevitable. To counteract this possibility, the Bureau reinstates benefits on the basis of estimates of maximum earnings only if it is possible, taking into account the estimated earnings and any incomplete benefit adjustments for previous years, to pay benefits within 3 months after receipt of the estimate. Otherwise, the beneficiary must later furnish a new estimate.

Table 2.—*Number of beneficiaries aged 65–74 with wages and with deductions, October 1952–September 1953, number and percent benefiting from annual retirement test, and average number of additional benefits, by number of quarters employed* [1]

[0.2-percent sample]

Number of quarters employed	Number of beneficiaries	Number of beneficiaries with deductions	Workers benefiting: Number	Workers benefiting: Percent of all beneficiaries	Workers benefiting: Percent of beneficiaries with deductions	Average number of additional benefits
	$900 exemption					
Total	1,254	809	363	29	45	3.0
1	234	93	92	39	99	2.0
2	212	145	109	51	75	3.1
3	237	159	76	32	48	3.6
4	571	412	86	15	21	3.3
	$1,200 exemption					
Total	1,254	809	465	37	58	3.6
1	234	93	93	40	100	2.1
2	212	145	127	60	88	3.5
3	237	159	105	44	66	4.3
4	571	412	140	25	34	4.0

[1] Includes only beneficiaries subject to the retirement test for the entire year.

could not be imposed until after the proper number of deductions had been assessed for his earnings in 1953. In some cases, therefore, a recovery action is completed long after the action is begun and then only because the beneficiary has stopped working or has died.

In 15 percent of the cases where recovery was necessary, no repayments had been made by the time of the study,[9] while in 56 percent of the cases recovery was being made by deduction from benefits payable for subsequent months. Recovery by refund occurred in 29 percent of the cases. There were no cases in which a waiver of recovery was necessary.

The likelihood of prompt recovery has probably been increased by a change in Bureau procedure. Since early in 1954, the Bureau has actively sought, through personal contact and, if necessary, court action, to obtain refunds of excess benefit payments from beneficiaries who continue to work and who do not make a refund within 30 days of receipt of an initial written request. Preliminary results of a special study indicate that this change in procedure has increased the proportion of cases of payments in which recovery is made by refund.

Substantial Services

The determination as to whether or not a self-employed individual has rendered substantial services is based on development of the facts in each case. Factors such as the amount of time devoted to a business, the nature of the services rendered, the type of business, the amount of investment, and the activity performed in the business before retirement are considered before a determination is made.

Allegations of "no substantial services" can often be allowed, of course, without any investigation because the number of benefits withheld is not affected, as in the case of a self-employed person who earns $1,200 or less after 1954. A self-employed beneficiary who earns $1,800 under present law and who can lose a maximum of eight monthly benefits may be taken as another example. If he claims that he has not rendered services in 2 months of the year, no administrative action is necessary because there are 10 months in which services were performed and against which the eight deductions can be imposed. If this beneficiary claims, however, that he has not rendered substantial services in 6 months of the year, leaving only 6 months available for possible benefit deductions, it is necessary for the Bureau to examine the facts before deciding whether to accept or reject the allegation. As earnings rise above $1,200, the relative number of allegations that can be accepted without administrative review falls, and all claims of no substantial services must be reviewed when earnings of more than $2,080 are reported. Thus, the substantial services provision operates chiefly for the benefit of self-employed beneficiaries with high annual earnings since those with low earnings receive benefits anyway.

Of the 660 beneficiaries in the sample who were subject to the retirement test throughout the year, only 81 (12 percent) claimed that they had not rendered substantial services in 1 or more months during 1952 and would have had the number of their benefits increased by allowance of the allegation. Sixty-eight of these 81 beneficiaries earned more than $1,725 in 1952, an amount that—in the absence of the substantial services test—would have made them liable to 12 benefit deductions.

The 81 beneficiaries alleged that they had not rendered services for an average of 5.3 months. Slightly more than half the allegations covered 4 months or less, while one-seventh covered all 12 months of the year. Only two of the claims of no substantial services were disallowed.

What explanations did self-employed beneficiaries give when reporting that they had not rendered substantial services at some time during the year? While there was a wide variety of reasons (including vacation, employment of a paid manager, self-employment as a silent partner, and simply not working), 52 of the 81 beneficiaries based their claims either on the operation of a seasonal business, illness, or the sale of their business. Operation of a seasonal business was by far the most common reason, given by 27 beneficiaries or one-third the total number in the sample. Illness and sale of business were the reasons given by 14 and 12 beneficiaries, respectively. Only one other reason — becoming self-employed some time after the start of the year—accounted for more than five cases.

[9] These cases concerned beneficiaries who had not filed annual reports for 1952 and whose tax reports were late in reaching the Bureau of Old-Age and Survivors Insurance.

Table 3.—*Percentage distribution and average number of benefit deductions for beneficiaries aged 65-74 with self-employment earnings but no covered wages, with both self-employment income and wages, and with wages only, by amount of annual earnings* [1]

Annual earnings	Self-employment only		Self-employment and wages		Wages only	
	Percentage distribution of beneficiaries	Average number of benefit deductions	Percentage distribution of beneficiaries	Average number of benefit deductions	Percentage distribution of beneficiaries	Average number of benefit deductions
Number in sample	660		107		1,254	
Total percent	100.0	6.3	100.0	5.5	100.0	4.5
Less than $900	32.3	(2)	18.6	0.2	53.4	1.0
900-999	2.4	1.0	1.9	1.0	4.6	2.9
1,000-1,199	5.2	3.1	9.3	0.5	4.9	5.6
1,200-1,499	6.1	6.4	5.6	3.0	5.7	6.3
1,500-1,699	6.2	8.9	4.7	7.4	4.0	7.4
1,700-2,399	14.7	10.9	23.4	7.6	10.2	9.2
2,400-3,599	13.6	11.1	17.8	8.1	12.2	10.9
3,600 and over	19.5	10.5	18.7	9.0	5.0	11.7

[1] Includes only beneficiaries subject to the retirement test for the entire year. Represents calendar year 1952 for both beneficiaries with earnings from self-employment but no wages and for beneficiaries with both self-employment income and wages. For beneficiaries with wages only represents the 12-month period October 1952-September 1953.

[2] Not applicable under the self-employment retirement test in 1952.

The relative importance of seasonality as a basis for allegations of no substantial services reflects in part the fact that more than 25 percent of the self-employed beneficiaries in the sample who were subject to the retirement test during all of 1952 were working in the building trades, where employment is commonly sensitive to seasonal influences. In fact, self-employed construction workers gave rise to more than 30 percent of all claims that substantial services had not been performed.

Most self-employed persons can control the amount of time they devote to their business, but the reasons given by these beneficiaries indicate that relatively few of the cases involved even part-time work by the beneficiary himself, although in some instances, the business may have continued normal operation. This circumstance helps to account for the fact that so few claims of no substantial services—2 out of 81—were disallowed.

In summary, the data from the survey seem to indicate that only a small proportion of the self-employed beneficiaries were benefited by the substantial services test.

Other Advantages and Disadvantages

The annual retirement test cannot be evaluated solely by exploring the magnitude of the problems that it creates for both administrators and beneficiaries. Perhaps a more important consideration is the fact that the extension of the annual test to beneficiaries who work for wages is a significant advantage to present and future beneficiaries. In addition, elimination of the dual retirement test has removed the unfair advantage previously given to persons with both wages and earnings from self-employment.

To illustrate the actual liberalization implicit in the annual retirement test for wage earners and to give some indication of the number and kinds of beneficiaries with wages who will profit, a special analysis was undertaken. This analysis was designed to show what would have happened if the annual test had been in effect for wage-earner beneficiaries during the period covered by the survey (October 1952-September 1953) on the assumption that there would have been no change in employment patterns or earnings. The number of deductions the persons in the sample subject to the retirement test for the entire year would have had was computed on two bases: (1) if an annual test with a $900 exemption had been in effect throughout the 12-month period, and (2) if an annual test with a $1,200 exemption had been in effect throughout the period. Wage earners are affected by the 1954 amendments to the retirement test not only because of the change to an annual retirement test but also because of the increase in the exempt amount. Computations using the $900 exemption were made to give some idea of the effect of the annual test had there been no change in the exempt amount, on the assumption that a $900 annual exemption is analogous to a $75 monthly exemption. The number of deductions under the $900 and the $1,200 exemptions were compared with the number of deductions beneficiaries with wages actually suffered under the $75 monthly retirement test. It was thus possible to distinguish the effects of the increase in the exempt amount and to describe some of the characteristics of the workers who gained by this liberalization.

Table 2 shows that 29 percent of all beneficiaries with wages, or 45 percent of those with one or more benefit deductions during the year, would have received more monthly benefit payments as a result of the introduction of the annual retirement test for wage earners without an increase in the exempt amount. They would have averaged 3.0 additional benefits. The data also indicate that the annual retirement test will be much more advantageous to seasonal or short-term workers than these overall percentages show and will very likely encourage more aged persons to accept such jobs. Almost all 1-quarter workers and 75 percent of the 2-quarter workers who lost some benefits under the monthly test would have profited, compared with only a fifth of the persons working in all 4 quarters of the year. That most of those who would have received additional benefits were short-term workers is further emphasized by the fact that workers with only 1 or 2 quarters of covered wage employment in the year represented about 6 out of every 10 persons who would have benefited.

In comparison, introduction of the annual test with a $1,200 exemption would have increased the number of benefits received for 37 percent of the beneficiaries with wages and for 58 percent of the beneficiaries with deductions. The most striking difference, however, is the much larger proportion of beneficiaries with wages in 3 or 4 quarters who would have received additional monthly benefits because of the increase in the exempt amount. Further increases in the exempt amount would undoubtedly continue to be accompanied by even more rapid increases in the proportion of 4-quarter workers, including full-time workers, who would be able to draw benefits.

One of the inequities of the retirement test before the 1954 amendments was the dual exemption given to persons with both wages and earnings from self-employment. Such workers represented about 1 percent of all beneficiaries aged 65–74 with earnings from covered employment in 1952. Since the retirement test for wage employment differed from that for self-employment, each test was applied separately to the corresponding category of earnings. Such persons could therefore earn as much as $1,800—$900 in wages and $900 in net earnings from self-employment—during the year without losing any benefits. As a result, they enjoyed an advantage over other beneficiaries.

The data in the survey clearly show the existence of such an advantage (table 3). As a group, beneficiaries with both wages and net earnings from self-employment had higher earnings than other groups of beneficiaries. Yet the former averaged fewer benefit deductions than other beneficiaries at the same level of earnings, especially in the higher brackets. Additional data from the survey supplement the picture drawn in table 3. At earnings levels between $900 and $1,725, 26 percent of the beneficiaries with both wages and self-employment income had no benefit deductions, compared with 4 percent of the beneficiaries with net earnings from self-employment but no covered wages. Of course, at these earnings levels all beneficiaries with wages alone had some deductions.

Since the earnings of beneficiaries with both self-employment income and wages were on the whole higher than the earnings of other beneficiaries, the smaller number of benefit deductions that they generally suffered must reflect the double exemption given them under the dual test. This advantage has disappeared as a result of the 1954 amendments.

Conclusions

The annual retirement test has many advantages over the monthly test. It also has certain disadvantages, since it accentuates some of the problems that are associated with any retirement test. First, the task of withholding the proper number of benefits concurrently with earnings is complicated because the reporting requirements of the annual test are more difficult for beneficiaries to understand. As a result, the proportion of beneficiaries for whom too many or too few current deductions are imposed increases significantly under the annual test, and the problem of "dry spells" and the administrative problem of recovery of excess payments are also magnified. In fact, the proportion of self-employed beneficiaries for whom "dry spells" were possible as a result of too few current deductions under the annual test in 1952 was three times that for wage-earner beneficiaries under the monthly test.

By the time of the 1954 amendments, however, the difference between the proportion of self-employed beneficiaries with too few current deductions and the proportion of wage earners with too few current deductions was probably less marked. Both the increased familiarity of self-employed beneficiaries with the annual retirement test and administrative improvements instituted by the Bureau had probably served to narrow the gap.

The problems raised by the annual test should not, however, overshadow its many advantages in terms of its greater equity and its incentive to productive work on the part of retired aged persons. Estimates based on the employment and earnings experience of wage-earner beneficiaries during the 12 months October 1952–September 1953 showed that about 4 out of 10 of all beneficiaries with wages and almost 6 out of 10 of those with deductions would have received more benefits under the annual test provided in the 1954 amendments than they did under the monthly retirement test actually in effect. The estimates also indicate that the annual test will be especially advantageous for short-term workers and will therefore tend to encourage more aged persons who would not otherwise work to accept temporary and part-time jobs.

The disadvantages of the annual retirement test will become relatively less important as further administrative improvements are introduced, as beneficiaries become more familiar with it, and as the Bureau's program to inform beneficiaries of their rights and responsibilities continues to bear fruit.

Notes and Brief Reports

Assistance Expenditures Per Inhabitant, 1954–55

For the country as a whole, public assistance payments from Federal, State, and local funds in the fiscal year 1954–55 totaled $2,712 million. This amount represented expenditures of $16.52 per inhabitant—63 cents or 4 percent more than per capita expenditures in 1953–54. Though the percentage rise in the cost per inhabitant was small, it amounted to $140 million—most of it (almost 80 percent) from State and local funds. Total State and local expenditures were up $119 million (9.6 percent) from those in the preceding year, primarily because of a $66-million rise in payments for general assistance, a program in which there is no Federal financial participation. The total increase in Federal funds was $30 million, or 2.3 percent more than the Federal share in 1953–54.

Total expenditures from all sources combined were greater under each assistance program in 1954–55 than they had been a year earlier, and except in old-age assistance this increase was proportionately greater than the increase in population. The