# *Old-Age, Survivors, and Disability Insurance Provisions: Summary of Legislation, 1935-58*

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THE Social Security Act of 1935 established the first Federal social security system in the United States—a system that has been substantially revised by successive amendments since that year. The major features of the largest program, now old-age, survivors, and disability insurance, and the changes in coverage, benefit, and financing provisions resulting from the amendments[1] to the Act are summarized in the following pages. The detailed provisions are given in the accompanying tables.

The program established by the Social Security Act of 1935 was a relatively simple one, designed to pay (1) old-age benefits to the worker when he retired at or after age 65 and (2) cash refunds to survivors when the wage earner died and to living workers aged 65 who had not been in covered employment long enough to qualify for monthly benefits. The benefit formula was weighted in favor of the worker with short service or low wages; yet at the same time significant consideration was given to those who would contribute for many years.

The program was financed completely by contributions from employer and employee, each of whom paid 1 percent of the worker's salary up to $3,000 a year; the tax rate was scheduled to rise gradually in the future. The covered group consisted essentially of all workers under age 65 in industry and commerce. Contributions were first collected in 1937, and the first monthly benefit payments were to be made in 1942.

## *1939 Amendments*

The program was substantially changed in 1939. Monthly benefits were made payable in 1940, not only to the retired worker—the only beneficiaries under the 1935 Act—but also to the dependents of retired workers and the survivors of deceased workers (whether or not the worker had retired). Except for widowed mothers and children under age 18, both dependents and survivors had to have attained age 65 to be eligible for benefits.

The method of computing the benefit amount was drastically revised so that there was less emphasis on length of contributions; the formula was still weighted in favor of workers with lower earnings. The "money-back guarantee" provision was eliminated, and only a small lump-sum death payment was provided when no monthly benefits were immediately payable. Coverage provisions were not materially changed, except that the provision excluding workers aged 65 and over was removed.

The proposed increase in the tax rate that was to have become effective in 1940 was eliminated by the 1939 amendments. The actual financing basis of the program was left unclear; under the 1935 Act it had been clear that the program was to be self-supporting from the employer-employee contributions. Many individuals believed that the 1939 amendments had changed the financing basis of the program from "full-reserve" to "pay-as-you-go," but this feeling is not substantiated by the legislative history and provisions; the original Act was not really on a full-reserve basis.

Table 1.—*Summary of effective contribution rates and maximum earnings bases under old-age, survivors, and disability insurance*

| Calendar year | Contribution rate (percent) | | | Maximum earnings base |
|---|---|---|---|---|
| | Employer | Employee | Self-employed | |
| 1937–49 | 1 | 1 | -------- | $3,000 |
| 1950 | 1½ | 1½ | -------- | 3,000 |
| 1951–53 | 1½ | 1½ | 2¼ | 3,600 |
| 1954 | 2 | 2 | 3 | 3,600 |
| 1955–56 | 2 | 2 | 3 | 4,200 |
| 1957–58 | 2¼ | 2¼ | 3⅜ | 4,200 |
| 1959 | 2½ | 2½ | 3¾ | 4,800 |
| 1960–62 | 3 | 3 | 4½ | 4,800 |
| 1963–65 | 3½ | 3½ | 5¼ | 4,800 |
| 1966–68 | 4 | 4 | 6 | 4,800 |
| 1969 and after | 4½ | 4½ | 6¾ | 4,800 |

## *Legislation, 1940–49*

During the 1940's the legislative enactments were relatively minor and related primarily to financing. Several times during the 10 years, amendments postponed the scheduled increase in the contribution rates. In other words, the tax rate was "frozen" at the initial level of 1 percent each from employer and employee until 1950, when it went up to 1½ percent each.

One of the amendments made during the decade carried a provision permitting a Government contribution to the system, but the authority was never put to use, and in 1950 the provision was removed from the law. Legislation passed in 1946 provided monthly benefits for survivors of certain World War II veterans. Another law adopted in 1946 provided for a degree of coordination of the newly es-

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1 For fuller detail on the 1939 amendments and those that followed, see the following *Social Security Bulletin* articles: (1) "Federal Old-Age and Survivors Insurance: A Summary of the 1939 Amendments," December 1939; (2) Angela J. Murray, "Social Security Act Amendments of 1946," September 1946; (3) Wilbur J. Cohen and Robert J. Myers, "Social Security Act Amendments of 1950: A Summary and Legislative History," October 1950; (4) Wilbur J. Cohen, "Social Security Act Amendments of 1952," September 1952; (5) Wilbur J. Cohen, Robert M. Ball, and Robert J. Myers, "Social Security Act Amendments of 1954: A Summary and Legislative History," September 1954; (6) Charles I. Schottland, Security Act Amendments of 1954: A Summary and Legislative History," September 1956; and Robert J. Myers, "Old-Age and Survivors Insurance: Financing Basis and Policy Under 1956 Amendments," September 1956; and (7) Charles I. Schottland, "Social Security Amendments of 1958: A Summary and Legislative History," October 1958; and Robert J. Myers, "Old-Age, Survivors, and Disability Insurance: Financing Basis and Policy Under the 1958 Amendments," October 1958.

Table 2.—*Summary of old-age, survivors, and disability insurance provisions*

| Item | 1935 Act | 1939 Act | Legislation in the 1940's | 1950 Act |
| --- | --- | --- | --- | --- |
| | | A. Coverage | | |
| 1. Compulsory | All workers in commerce and industry (except railroads) under age 65 in continental U.S., Alaska, and Hawaii and on American vessels. | Age restriction removed | Railroad workers, in effect, covered for survivor benefits.[2] | Regularly employed farm and domestic workers, nonfarm self-employed (except professional groups), Federal civilian employees not under retirement system, Americans employed outside U.S. by American employer, and Puerto Rico and Virgin Islands. |
| 2. Elective: (a) By employer only | No provision | | | State and local government employees not under retirement system. |
| (b) By both employer and employee. | No provision | | | Employees of nonprofit institutions (other than ministers).[3] |
| (c) By individual only | No provision | | | |
| 3. Gratuitous, for members of Armed Forces. | No provision | | Insured status and average monthly wage of $160 credited for World War II veterans dying within 3 years after discharge. | Military service wage credits of $160 for each month of service during World War II. |
| | | B. Type of benefit | | |
| 1. Monthly benefits:[6] (a) Retired worker (old-age) | Aged 65 and over | | | |
| (b) Disabled worker | No provision | | | |
| (c) Dependents of retired worker. | No provision | Wife aged 65 or over and child under 18. | Child aged 16 or 17 no longer required to be attending school. | Wife under 65 with eligible child present and dependent husband aged 65 or over. |
| (d) Survivors of deceased worker. | No provision | Widow aged 65 or over, dependent parent aged 65 or over,[8] child under 18, and widowed mother under 65 with eligible child present. | Same as above | Dependent widower aged 65 or over, and dependent former wife divorced (with eligible child present). |
| (e) Dependents of disabled worker. | No provision | | | |
| 2. Lump-sum payments: (a) Deceased worker (including retired worker). | For all deaths | For deaths when no one is eligible for monthly survivor benefits for month of death. | | For all deaths |
| (b) Living worker | At age 65, when not qualified for monthly benefits. | Provision eliminated | | |
| | | C. Insured-status requirements[9] | | |
| 1. Fully insured | Cumulative wage credits of $2,000, and some employment in each of 5 years. | Quarters of coverage[10] equal to at least half the quarters after 1936 (or after age 21) and up to retirement age (or death if earlier); minimum of 6 quarters required and maximum of 40 quarters. | | Starting date advanced from 1936 to 1950 (but quarters of coverage credited at any time meet requirement). |
| 2. Currently insured | No provision | 6 quarters of coverage in 12 quarters preceding quarter of death. | 6 quarters of coverage in 13 last quarters, including quarter of death. | 6 quarters of coverage in 13 last quarters, including quarter of death or retirement. |
| 3. Insured for disability determination. | No provision | | | |
| | | D. Computation of primary insurance amount[11] | | |
| 1. Average monthly wage | Concept not used | In general, computed for period after 1936 or from age 22 up to retirement or death. | | Alternatively, can be computed for period after 1950. |
| 2. Formula | ½% of first $3,000 of cumulative wage credits +1/12% of next $42,000 +1/24% of next $84,000. | 40% of first $50 of average wage +10% of next $200, all increased by 1% for each year with $200 or more of wage credits. | | 50% of first $100 of average wage +15% of next $200.[12] |
| 3. Minimum | $10 | | | $20 |
| 4. Maximum | $85 | $60 (based on 50 years of coverage). | | $80 |

See footnotes at end of table.

*in the Social Security Act and its amendments, 1935–58*

| 1952 Act | 1954 Act | 1956 Act [1] | 1958 Act [1] |
|---|---|---|---|
| | **A. Coverage** | | |
| | Additional regularly employed farm and domestic workers, farm self-employed, and professional self-employed except lawyers and doctors, dentists, and other medical groups. | Members of uniformed services and remainder of professional self-employed except doctors of medicine. | Minor coverage extensions. |
| | Americans employed outside U.S. by foreign subsidiary of American employer. | | |
| | State and local government employees under retirement system.[4] | | Minor coverage extensions, mainly for State and local government employees. |
| | Ministers | | |
| Military service wage credits provided for specified period after World War II.[5] | | | |
| | **B. Type of benefit** | | |
| | | Age for women lowered to 62, but with permanently reduced benefits for retirement before 65. | |
| | | Aged 50–64, after 6-month waiting period.[7] | |
| | | Wife aged 62–64 but benefit permanently reduced. Child's benefits paid to disabled child after age 18 if disabled before 18. | |
| | | Minimum age for widow without child present and for female dependent parent reduced from 65 to 62. Child's benefit paid to disabled child after age 18 if disabled before 18. | |
| | | | Same as for dependents of retired worker. |
| | | | |
| | | | |
| | **C. Insured-status requirements [9]** | | |
| | Alternatively, if every quarter after 1954 is quarter of coverage (minimum of 6 required). | Alternatively, if all but 4 of the quarters after 1954 are quarters of coverage (minimum of 6 required). | |
| | 6 quarters of coverage in last 13 quarters, including quarter of death, retirement, or disability. | | |
| | 20 quarters of coverage in last 40 quarters, including quarter of disability. | | |
| | **D. Computation of primary insurance amount [11]** | | |
| | Lowest 4 years omitted in computing average (lowest 5 years if 20 or more quarters of coverage). Under "disability freeze," periods of extended total disability also omitted. | Lowest 5 years omitted in computing average in all cases. | |
| 55% of first \$100 of average wage +15% of next \$200.[12] | 55% of first \$110 of average wage +20% of next \$240.[12] | | 58.85% of first \$110 of average wage +21.4% of next \$290.[12] |
| \$25 | \$30 | | \$33 |
| \$85 | \$108.50 | | \$127 |

Table 2.—*Summary of old-age, survivors, and disability insurance provisions*

| Item | 1935 Act | 1939 Act | Legislation in the 1940's | 1950 Act |
|---|---|---|---|---|
| | | E. Benefit amounts | | |
| 1. Old-age (retired worker) | 100% of primary insurance amount. | | | |
| 2. Disability | No provision | | | |
| 3. Wife's (or husband's) | No provision | 50% of primary insurance amount. | | |
| 4. Child's (child of retired worker). | No provision | 50% of primary insurance amount. | | |
| 5. Child's (child of deceased worker). | No provision | 50% of primary insurance amount. | | In effect, 75% of primary insurance amount for first child and 50% for all others. |
| 6. Widow's (or widower's) and widowed mother's. | No provision | 75% of primary insurance amount. | | |
| 7. Parent's | No provision | 50% of primary insurance amount. | | 75% of primary insurance amount. |
| 8. Lump-sum death | Amount equal to 3½% of cumulative wage credits, less any monthly benefits received. | 6 times primary insurance amount. | | 3 times primary insurance amount. |
| 9. Lump-sum refund (to living worker). | Same as above | Eliminated | | |
| 10. Minimum family benefit | Not applicable | $10 | | $15 |
| 11. Maximum family benefit | Not applicable | Smaller of $85, 80% of average wage, or 2 times primary insurance amount. | | Smaller of $150 or 80% of average wage (but not less than $40). |
| | | F. Retirement test [14] | | |
| 1. Type of earnings to which applicable. | Covered earnings | | | |
| 2. Amount of earnings permitted. | None from regular employment. | $14.99 in a month | | $50 in a month [15] |
| 3. Age at which no longer applicable. | No provision | | | 75 |
| | | G. Financing provisions | | |
| 1. Maximum earnings taxable and creditable.[17] | $3,000 | | | $3,600 |
| 2. Contribution rates: [17] (a) Combined employer-employee. | 1937-39—2%; 1940-42—3%; 1943-45—4%; 1946-48—5%; 1949 on—6%. | Same, except 2% rate extended through 1942. | 2% rate extended through 1949; 1950-51—3%; 1952 on—4%. | 1950-53—3%; 1954-59—4%; 1960-64—5%; 1965-69—6%; 1970 on —6½%. |
| (b) Self-employed | No provision | | | Self-employed pay ¾ of combined employer-employee rate. |
| 3. Appropriations from general revenues. | No provision | | Authorized (but not made) | Authorization repealed |

[1] Includes other legislation affecting the program that was enacted in this year and in the preceding year.
[2] Railroad and other earnings are combined in determining eligibility for and amount of survivor benefit; provision extended in 1951 to place workers with less than 10 years of railroad service under old-age, survivors, and disability insurance for all benefits.
[3] Employees who vote against coverage are not covered; all new employees are covered.
[4] Firemen and policemen not covered; 1956 Act permitted their coverage in certain States.
[5] Provision first effective from July 25, 1947, to Dec. 31, 1953. Legislation in 1953 extended effective date to June 30, 1955; in 1955 to Mar. 31, 1956; and in 1956 to Dec. 31, 1956.
[6] In effect, an individual can receive only one type of monthly benefit—the largest for which he is eligible.
[7] Benefits were reduced by amount of any other Federal disability benefit or any workmen's compensation benefit under 1956 Act, but this provision was eliminated by 1958 Act.
[8] Benefit payable only if worker is not survived by a widow or an eligible child under 1939 Act, but this provision was eliminated by 1958 Act.
[9] See table 3 for insured-status requirements for various types of benefits. Under the "disability freeze" provision (1954 Act), periods of extended total disability are not counted in determining insured status.
[10] In general, $50 or more of wages paid in a quarter; based on annual earnings

tablished survivor benefits under the railroad retirement system with those under old-age and survivors insurance.

## *Legislation, 1950–52*

The 1950 Act made many important changes. Coverage was considerably extended by the bringing in of such groups as the nonfarm self-employed (except members of specified professions), regularly employed farm and domestic workers, employees of nonprofit institutions (on a group elective basis), and State and local government employees not covered by a retirement system (at the option of the employer). The benefit amounts were roughly doubled—a reflection of the appreciable changes in wage levels and the cost of living since the 1939 amendments. The retirement test (the amount of earnings permitted beneficiaries if they are to receive benefits) was notably liberalized. Important changes were made in the financing basis. A revised long-range contribution schedule was placed in the law, the principle of self-support was clearly established,

| 1952 Act | 1954 Act | 1956 Act[1] | 1958 Act[1] |
|---|---|---|---|
| | | **E. Benefit amounts** | |
| | | For women retiring before 65, permanent reduction of 6⅔% for each year under 65. | |
| | | 100% of primary insurance amount.[13] | |
| | | For wife claiming benefit before 65 (with no eligible child), permanent reduction of 8⅓% for each year under 65. | |
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| | Maximum of $255 introduced | | |
| | | | |
| $18.80 | $30 | | $33 |
| Smaller of $168.75 or 80% of average wage (but not less than $45). | Smaller of $200 or 80% of average wage (but not less than the larger of $50 or 1½ times primary insurance amount). | | Smaller of $254 or 80% of average wage (but not less than the larger of 1½ times primary insurance amount or $20 plus primary insurance amount). |
| | | **F. Retirement test[14]** | |
| | All earnings | | |
| $75 in a month[15] | $1,200 in a year. For each $80 (or fraction thereof) in excess of $1,200, 1 month's benefit is withheld.[16] | | |
| | 72 | | |
| | | | |
| | | **G. Financing provisions** | |
| | $4,200 | | $4,800 |
| | 1954–59—4%; 1960–64—5%; 1965–69—6%; 1970–74—7%; 1975 on—8%. | 1957–59—4½%; 1960–64—5½%; 1965–69—6½%; 1970–74—7½%; 1975 on—8½% (increase of ½% is for disability benefits). | 1959—5%; 1960–62—6%; 1963–65—7%; 1966–68—8%; 1969 on—9% (in all years, ½% is for disability benefits). |
| | | | |
| | | | |

for farm workers and self-employed persons.

[11] The term "primary insurance amount," introduced in the 1950 Act, denotes the amount payable to a retired worker and on which the benefits of his dependents and survivors are based (also used as basis for benefits payable to survivors of worker who dies before retirement, computed as if deceased worker had attained retirement age on date of death).

[12] Applies to average computed from 1951 on, as indicated above; for average computed from 1937 on, the 1939 formula (somewhat modified) is used in conjunction with a conversion table. Under the 1954 and 1956 Acts, an alternative computation based on the 1952 formula, plus $5, was possible.

[13] This benefit (and benefit for disabled child aged 18 or over) was reduced by amount of any other Federal disability benefit or any workmen's compensation benefit under 1956 Act, but this provision was eliminated by 1958 Act.

[14] Employment permitted without suspension of benefits. Applies to all types of benefit except disability. If retired worker's benefit is suspended, so are benefits of dependents.

[15] Provision applies only to wages; comparable provisions (but on an annual basis) for self-employment income.

[16] Benefits not withheld for any month with wages of $80 or less (changed to $100 or less by 1958 Act), and with no substantial services in self-employment rendered. Special provisions apply to earnings from noncovered employment outside the United States.

[17] See table 1 for actual and scheduled contribution rates and maximum earnings base.

and the maximum earnings base was increased to $3,600 a year.

In 1951 the railroad retirement system was amended to provide further coordination with the old-age and survivors insurance program— affecting not only survivor and retirement benefits but also the program's financing.

The 1952 Act raised the benefit level by about 15 percent and further liberalized the retirement test. No change in the financing provisions was necessary because the rise in earnings levels in the preceding few years was sufficient to pay for the benefit liberalizations. As covered earnings rise, contribution income rises proportionately; benefit disbursements also increase, but more slowly—because of the weighted benefit formula.

## *1954 Amendments*

The 1954 amendments extended coverage further to include virtually all types of employment. Brought in at this time were self-employed farmers, more domestic and farm workers, State and local government employees under retirement systems (at the option of the employer and the election of the group concerned), ministers, and many self-employed professional groups. Benefits were again raised by about 15 percent, and the retirement test was considerably liberalized and made more flexible.

The 1954 amendments also introduced the concept of disability into the program through the "disability freeze" provision, which is essentially a "waiver of premium" clause designed to maintain both the insured status of permanently and totally disabled workers and their benefit amount. The financial provisions were also altered. The maximum earnings base was raised to $4,200, and tax rates scheduled for 1970 and thereafter were increased in order to finance the additional benefit costs.

### *1956 Amendments*

Additional coverage was provided by the 1956 amendments. They brought in members of the uniformed services on a regularly contributory basis and all the professional self-employed except for doctors of medicine, and they made somewhat broader the coverage requirements for self-employed farmers and State and local government employees. Other important changes were the introduction of monthly disability benefits for insured workers aged 50–64 and the lowering of the minimum eligibility age from 65 to 62 for women workers, wives of retired workers, and widows and dependent mothers of deceased insured workers. (For women workers and wives, however, there is an actuarial reduction in the amount of the benefit.) In addition, the amendments provided that the child aged 18 or over of a retired or deceased worker may receive benefits if he became permanently and totally disabled before he reached age 18 and continues to be disabled. The financing provisions were significantly changed by an increase in the long-range contribution schedule of ½ of 1 percent for the combined employer-employee rate and of ⅜ of 1 percent for the self-employed rate. The purpose of this increase is to finance the monthly disability benefits for disabled workers.

### *1958 Amendments*

The 1958 amendments provided additional coverage for groups in certain limited areas — primarily for State and local government employees. Benefits both for those on the rolls currently and for future beneficiaries were raised by about 7 percent, with somewhat larger increases for those with the lowest benefits and in the maximum family benefits. Parent's benefits were made payable regardless of the existence of other survivors, and the retirement test was liberalized slightly. The maximum annual earnings base for both benefits and contributions was raised from $4,200 to $4,800.

Table 3.—*Current requirements for insured status under old-age, survivors, and disability insurance, by beneficiary category*

| Beneficiary category | Insured-status requirement for worker [1] |
|---|---|
| Retired worker (old-age) | Fully. |
| Disabled worker | Fully and for disability determination.[2] |
| Dependents of retired worker (for old-age and disability): | |
| Wife | Fully. |
| Husband | Fully and currently. |
| Child | Fully.[3] |
| Survivors of worker: | |
| Widow | Fully. |
| Widower | Fully and currently. |
| Widowed mother | Fully or currently. |
| Parent | Fully. |
| Child | Fully or currently.[3] |
| Lump-sum payment beneficiary | Fully or currently. |
| "Disability freeze" beneficiary | Fully and for disability determination.[4] |

[1] See table 2 for definitions of the different types of insured status.
[2] Currently insured status also was required under the 1956 Act, but this provision was eliminated by the 1958 Act.
[3] In certain instances (for most married women workers) currently insured status is required.
[4] Currently insured status rather than fully insured status was required under the 1954 Act, but this provision was changed by the 1958 Act.

Disability insurance benefits were liberalized in several ways, in addition to the general increase in the benefit level and in the maximum earnings base, described above. Benefits were provided for the dependents of disability beneficiaries, paralleling those for the dependents of old-age beneficiaries (retired workers). The provision for offsetting certain Federal disability benefits and State workmen's compensation benefits against the disability benefits under the Social Security Act was eliminated; an amendment in 1957 had eliminated the offset for service-connected benefits paid by the Veterans Administration. Finally, the insured-status provisions for the monthly benefits payable to disabled workers were liberalized by eliminating the requirement of currently insured status.

The financing provisions, too, were significantly altered. The amendments not only raised the maximum taxable earnings base from $4,200 to $4,800 but also revised the contribution schedule by (1) increasing by ½ of 1 percent the combined employer-employee rate and by ⅜ of 1 percent the rate for the self-employed in all future years and (2) accelerating future scheduled increases so that, beginning in 1960, they will occur at 3-year intervals instead of at 5-year intervals. The changes in the financing provisions were designed both to meet the cost of the liberalized benefit provisions and to place the system on a sounder actuarial basis. This purpose was achieved by substantially reducing the long-range actuarial deficit previously present to the point where it can be said to be within the range of variation inherent in the cost estimates. The financing of the system may therefore be said to be "actuarially sound."