mements that permit, in the computation of the average monthly wage, the dropping of as many as 5 years of lowest covered earnings and, in addition, any period of total disability.

Payments to retired workers without dependents also receiving benefits averaged $77.30 for men and $68.30 for women. Among families consisting of a retired worker and his aged wife, the average was $120.60. The average benefit for aged-widow families was $56.20, and for families consisting of a widowed mother and two children, it was $166.50.

The average benefits being paid to disabled workers who had no dependents also receiving benefits were $91.40 for men and $75.80 for women. For families composed of a disabled worker, a young wife, and one or more children, the average benefit was $188.00.

Families with benefits computed on the basis of earnings after 1950 had considerably higher average benefits than those whose benefits were based on earnings after 1936 (table 2). Among retired-worker families whose benefits were based on post-1950 earnings, the averages being paid were $88.00 for a man with no dependents, $65.50 for a woman with no dependents, and $131.00 for a retired worker and his aged wife. At the end of June 1959, about 65 percent of all retired-worker families were receiving benefits based on earnings after 1950. This proportion is expected to increase since earnings after 1950 were used for about 88 percent of the old-age benefits awarded in the year ended June 30, 1959.

For survivor families, the average benefits based on earnings after 1950 were $67.80 for aged-widow families and $197.00 for families consisting of a widowed mother and two children. Only 34 percent of the aged-widow families received benefits based on earnings after 1950. This low proportion reflects the large percentage of awards to (1) widows aged 62 or over whose husbands had died before April 1952 and (2) widows whose husbands had retired before April 1952 and have since died with no employment after March 1952; benefits cannot be based on earnings after 1950 in either case.

Among disabled-worker families, the average benefits based on post-1950 earnings were $88.00 for a man with no dependents, $65.50 for a woman with no dependents, and $208.00 for a disabled worker, his young wife, and one or more children.

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**Old-Age, Survivors, and Disability Insurance: Administrative Expenses**

From the beginning of the old-age, survivors, and disability insurance program, administrative costs have represented a remarkably small proportion of contribution income—from 2 percent to 3 percent in most years. These costs have represented a similar proportion of disbursements for benefit payments in recent years, as benefit outgo has been rapidly maturing, and only about

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1/10 of 1 percent of the total taxable payroll on which contributions are based. An analysis of administrative costs is presented in the following pages, with details on the types of expense involved and the allocation between the old-age and survivors insurance and the disability insurance trust funds.

The two funds, though similar, are operated separately. The disability insurance trust fund was set up by the Social Security Amendments of 1956 and began operations in January 1957. Into it are paid the proceeds from the additional contributions imposed by the 1956 amendments to meet the cost of the monthly disability benefits established by the same legislation. The combined employer-employee contribution (on earnings up to $4,800 a year for 1959 and thereafter) for this purpose is 1/2 of 1 percent of earnings; the self-employed contribute at a rate of 3/8 of 1 percent.

Contributions for the old-age and survivors insurance aspects of the program, representing the excess of the total tax income over the portion assigned to the disability insurance trust fund, are paid into the old-age and survivors insurance trust fund. The total combined employer-employee rate is currently 6 percent of earnings up to $4,800 a year, and for the self-employed the rate is 4 1/2 percent. These rates are scheduled to rise to 7 percent and 5 1/4 percent, respectively, in 1963, and to 8 percent and 6 percent in 1966; they will be 9 percent and 6 3/4 percent from 1969 on.

Monthly benefits to disabled workers aged 50-64 and their eligible dependents (including disabled children aged 18 or over whose disability began before they reached age 18) are paid from the disability insurance trust fund. All other benefits—including (a) child's benefits to disabled persons aged 18 or over who are the children of retired or deceased insured workers and (b) any additional old-age and survivors insurance benefit amounts payable as a result of the disability freeze—are paid from the old-age and survivors insurance trust fund.

The administrative costs are also met from the trust funds. They are clearly allocable in some instances to only one trust fund, but usually an estimated allocation between the two funds is made. The allocations for Treasury Department expenses are made currently, month by month, but appropriate adjustment between the two trust funds for other expenses is not made until after the end of the fiscal year, when a full analysis can be made. The program expenses incurred by the Department of Health, Education, and Welfare—primarily those of the Bureau of Old-Age and Survivors Insurance—are not pro-rated monthly but are paid, as they arise, out of the old-age and survivors insurance trust fund. Full adjustment is made for each fiscal year after the end of the year, and at the same time the old-age and survivors insurance trust fund is compensated for its loss of interest.

**ADMINISTRATIVE WORKLOAD**

The magnitude of the record-keeping operations connected with the administration of the program can be indicated by a few examples. About 257 million separate earnings items were reported for approximately 73 million different persons in the calendar year 1959. The Bureau issued about 3.5 million new account numbers in 1959. It also issued about 3 million duplicate account-number cards because the original had been lost or worn out or because of a change in name, usually for women who had recently married. In the same year, about 2 million revisions and corrections in the records of account numbers were made involving date-of-birth changes, name changes, and cross-referrals.

The development and adjudication of claims for monthly benefits and lump-sum death payments represents the most costly phase of the administrative workload, and the continuing payment of monthly benefits also involves a considerable amount of administrative work. During 1957, about 2,502,000 individuals were awarded monthly benefits, and about 855,000 lump-sum death payments, based on the earnings records of 822,000 deceased workers, were made. At the end of 1959, monthly benefits were going to 13,704,000 persons, including about 334,000 disabled-worker beneficiaries and 126,000 of their dependents; during the year the benefits of about 1,165,000 persons were terminated.

**RECEIPTS AND EXPENDITURES**

Expenditures for both benefit payments and administrative costs have been paid out of the trust funds since January 1, 1940. Before then,
administrative costs were paid from the General Treasury, which was, however, effectively reimbursed since the appropriations made to 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 funds include 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. Other apportioned administrative expenses incurred by the Department of Health, Education, and Welfare in operating the old-age, survivors, and disability insurance program are also paid from the trust funds.

The expenses that various State agencies incur in connection with the determination of disability are likewise paid from the trust funds. The general principle is that costs with respect to the disability insurance benefits should be paid from the disability insurance trust fund, and the costs with respect to the disability freeze and child’s benefits payable to disabled children aged 18 and over of retired or deceased workers should be paid from the old-age and survivors insurance trust fund. In actual practice, these State agency costs are allocated between the two trust funds on the same basis as the overall operating costs of the Bureau of Old-Age and Survivors Insurance. Thus, about 60 percent of the costs related to the disability insurance benefits and about 20 percent of the disability freeze costs are charged to the disability insurance trust fund and the remainder to the old-age and survivors insurance trust fund.

The trust funds are credited with receipts from the sale of miscellaneous services and supplies for which the initial outlays have been made from the trust funds—for example, preparation of tabulations for other Government agencies. A few indirect expenses that may be properly chargeable to the program are not paid out of the trust funds. The principal expenses of this type are the costs of benefits under certain employee programs for those employees whose salaries are paid out of the trust funds and who are covered by the programs. Specifically, these are the Government’s balancing cost for the civil-service retirement program and the costs of the unemployment compensation program for Federal workers and the Federal employees’ compensation program (workmen’s compensation).

The costs of certain other employee benefits are met directly from the trust funds: (1) the employer contributions for the Federal employee group life insurance program; (2) the employer contributions for the Federal employee health benefits program (effective July 1960); (3) the employer contributions for the old-age, survivors, and disability insurance program for employees not under the civil-service retirement program; and (4) the matching employer cost (6 1/2 per-
The data must first be broken down to allocate the costs as "actually incurred." Otherwise, the figures would be misleading, as in the figures on a "cash" basis for 1957–59 shown below:

The figures are particularly deceptive for 1959, when two cost allocations were paid from the disability insurance trust fund to the old-age and survivors insurance trust fund. Conversely, no such allocation was paid in 1957.

### MEASURING COSTS

Administrative costs should be related to an appropriate base. There are three possible bases—contribution income, benefit disbursements, and taxable payroll—each with certain advantages and certain disadvantages.

Relating administrative costs to contribution income has the disadvantage that, as the tax rate is changed, the ratio fluctuates widely and therefore has limited significance. Changes in the maximum earnings base that is subject to taxes also affect the ratio significantly but generally less than changes in the tax rates. The ratio based on benefit disbursements can also be misleading, particularly during the early years of operation, when such disbursements were relatively low and when most of the administrative expenses were incurred in handling the wage records that would produce future benefits. The ratio of administrative costs to taxable payroll seems most meaningful, since it indicates the percentage of the taxable payroll needed to pay for the operation of the system. This concept is perhaps the most difficult of the three to understand.

### Old-Age and Survivors Insurance

The cost of administering old-age and survivors insurance rose from $26 million in 1940 to about $90 million a year in 1952, 1953, and 1954 and to $200 million by 1959, as coverage was expanded and the beneficiary rolls grew (table 1). About
$36.5 million of the 1959 total was reimbursed to the Treasury Department.

The large rise in administrative costs results from several factors, which can best be examined by considering separately the two periods 1940-50 and 1951-59. In the earlier period the growth in costs was primarily related to advances in the general level of employment, growth in the number of claims as more persons attained insured status, and a rise in the number of beneficiaries. The 1951-59 rise in costs resulted not only from these factors but also, and perhaps primarily, from program changes. In both periods the more or less steady rise in general wage and price levels affected the program's operating costs.

The sharp rise from 1954 to 1959—more than 100 percent—resulted in large part from (1) the extension of coverage to certain groups—self-employed farmers, for example—and the maturing of the coverage of others, such as domestic workers and farm laborers (relatively larger administrative costs are incurred both in handling the earnings reports and in adjudicating the claims for these groups than in dealing with other groups); (2) the introduction of the disability freeze (maintaining benefit rights of permanently and totally disabled insured workers); (3) the liberalization of the retirement test, which, although far more equitable than the former test, is more complex to administer; (4) the relatively large number of claims processed after the minimum retirement age for women had been lowered from 65 to 62 and after some of the newly covered groups first became eligible for benefits; (5) the complexities inherent in the 1954, 1956, and 1958 amendments covering new groups and providing new types of benefit protection; (6) the legislation providing for general pay raises for Federal employees and for charging a portion of the employee-benefit cost for the civil-service retirement system and the Federal employee group life insurance system directly to the employing agency; and (7) the one-time construction costs of the new central office building in Baltimore.

Although for these reasons administrative costs expressed in terms of dollars have risen over the years, unit costs—for example, the cost of establishing and maintaining an earnings record account or adjudicating a claim—have been reduced in terms of dollars of constant purchasing power. This lowered cost has resulted from improved administrative operating techniques, including the greater use of electronic data-processing equipment.

When administrative expenses are related to contribution income, it is found that the ratio during 1940-59 has—with few exceptions—fluctuated between 2 percent and 3 percent. The ratio of administrative expenses to benefit payments was almost 75 percent in 1940, the first year that monthly benefits were paid. The ratio dropped sharply, to 30 percent, in 1941, and since then it has declined continuously—falling to about 2 percent in 1955-59.

The ratio of administrative expenses to taxable payroll, unlike the other ratios, has been remarkably stable; it was 0.07 percent of payroll in all but 1 of the first 15 years, although it was somewhat higher in the most recent 5 years. This figure indicates clearly the relatively low cost of administering the old-age and survivors insurance program.

A comparison of administrative expenses for old-age and survivors insurance and interest earned by the trust fund is also noteworthy. Administrative expenses during 1940-59 amounted to $1,545 million and the interest earnings of the trust fund to $5,832 million, or almost four times as much. In 1959, the $200 million spent for administration represented only 38 percent of the interest earned by the trust fund.

### Table 2.—Administrative expenses of the disability insurance program in relation to contribution income, benefit payments, and taxable payroll, 1957-60

| Calendar year | Total amount | As percent of | | |
|---------------|--------------|---------------|---|---|---|---|
|               | (in millions)| Contributions | Benefit payments | Taxable payroll |
| 1957          | $20.5        | 3.0           | 36.7              | 0.011          |
| 1958          | 26.3         | 2.7           | 10.6              | 0.015          |
| 1959          | 35.5         | 3.7           | 7.4               | 0.017          |

1 See footnote 1, table 1.

### Disability Insurance

For any social insurance program, administrative expenses in the first few years of operation are not typical of the long-run situation. Although the disability insurance trust fund began operations in 1957, contributions were received in only the last 11 months of the year, and benefit...
disbursements were made only during the last 5 months. Accordingly, the administrative expenses represented a relatively high proportion of benefit payments (37 percent) but a low proportion of contributions (3 percent) (table 2). When related to total taxable payroll, administrative expenses for the disability insurance program amounted to only 0.01 percent. In 1959 administrative costs represented as little as 7 percent of benefit payments, 4 percent of contributions, or 0.02 percent of payroll. These expenses (in dollars) will probably continue to grow as the number of persons becoming insured for benefits rises and the number on the rolls increases. Part of the growth in the number on the rolls will come as workers who had been disabled at an earlier age attain age 50.

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

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(Continued on page 30)