Overlap of Benefits Under OASDI and Other Programs

by IDA C. MERRIAM*

ANALYSES of the overlap between social security benefits and those under other programs could begin with a question: What is the social security system or program with which other measures overlap? Or it could first examine the existing and potential supplementation and then turn to look at the basic system in the light of this knowledge.

Whichever way one approaches the problem one arrives at two completely different pictures of what the relationship might become. The choice between these alternatives is real and cannot be pushed aside much longer.

The overall phenomenon involved here is that of wage earnings replacement for a worker when he retires because of age or disability or for his survivors when he dies. The term "overlap" as used here implies that, besides the wage replacement through social security benefits, there is for some individuals an additional overlapping wage replacement. It is, of course, clear that overlap is in no way synonymous with excessive or even with adequate wage replacement. This analysis is not concerned with the overlap of private savings or support from children. Perhaps it should, however, be concerned with the overlap of public assistance.

On one point there is little disagreement. The so-called nonproductive members of society—who together make up more than 50 percent of the population—obviously have to be supported from current production. What share of total output they should get is a debatable issue. There are reasons beyond the welfare of the individual who is directly involved that may dictate a substantial allocation to education or to health. But for the day-to-day expenditures for food or clothing or movies or TV repairs, the issue becomes the distribution of money income. Not only the amount of the income but its continuity and the terms on which it is received are relevant to the definition of social security.

The level of living enjoyed by children—the largest of the currently nonearning groups—cannot be determined independently of the income of their families, except when a child is taken away from the family. Our society is still groping for an acceptable set of principles as to when and how the earnings of adults should be supplemented. Presumably, more rapid economic growth, higher minimum wages, and increased acceptance of family planning will reduce the size of the problem. Even though public educational and health care services are expanded and ways of providing decent housing in our cities are found, the question of cash income support for families with adult members who are or could be earning will remain for future debate.

But for the retired aged, the long-term disabled, fatherless children and their mothers, and the unemployed, the basic issue of whether or how they should receive a continuing money income is no longer debatable. Social insurance is as integral a part of a modern economy as the wage system itself or as consumer credit and the investment market. Like other institutions it can operate effectively or haltingly, it can respond quickly to changing conditions or can lag seriously behind, and it could come to perform its essential function—the distribution of income to designated groups in the population—so inadequately that it would be replaced.

One can well regard the function of social insurance in a modern economy as being the distribution rather than the redistribution of income. When land, labor, and simple tools were the factors of production, it made sense to talk about redistribution from the producer to his family, his clan, and those for whom charity dictated help. In a complex science-oriented and technological society, the factors of production are not so readily isolated, and the flow of incomes to all major population groups becomes itself a determinant of the level of economic activity. The withholding technique for social security and in-

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come taxes can be regarded as an administrative adaptation to this underlying situation.

EXISTING SYSTEMS

The existing distributional mechanisms that constitute social security and overlap should be defined at this point. First, more than 90 percent of all persons currently reaching age 65 are eligible for benefits under old-age, survivors, and disability insurance, and nearly 85 percent of all those now aged 65 and over are either drawing benefits or would get them if they retired. The generation of older persons who had no opportunity to acquire insured status under OASDI is rapidly dwindling in number. There remain a few tag ends of uncovered employment, but it is not unlikely that groups still outside the system—primarily self-employed doctors and Federal civilian employees—may soon be treated like the rest of the population for purposes of social security coverage.

There exists, then, a basic system for the distribution of cash income—with the amounts related in a general way to the level of the individual's earnings when he was employed—which in principle and almost in practice extends to all retired aged persons. The same system extends to 9 out of 10 orphaned children and to about 1 out of every 3 permanently and totally disabled adults under age 65. Unemployment insurance has not yet achieved the same proportion of its potential coverage. And temporary disability insurance for nonoccupational disabilities is still more limited.

The overlap system is diverse and less easily described. Charting the extent of overlap in terms of the number and kinds of individuals affected provides a good starting point. The question of the amount of basic benefits and of the overlapping payments may then be considered.

The most extensive overlap is that of private pension plans. In 1963 about 20 percent of the 10.3 million retired-worker beneficiaries under OASDI and about 13 percent of all aged beneficiaries were also drawing private pensions. The National Bureau of Economic Research has developed projections of the future growth of private pension plans that are designed to be on the high side of reasonable assumptions. Their figures suggest that even by 1980 no more than 35 percent of all retired-worker beneficiaries under OASDI will be getting supplementary private pensions.

This overlap group includes a high proportion of former executives and those in the professions, persons with near maximum benefits under OASDI, and persons who have not changed their jobs frequently. Conversely, the 85 percent of the total aged population today and the projected 70 percent in 1980 without private pensions are disproportionately weighted by unskilled workers, low-income self-employed persons, and those who have changed jobs often or have been in plants that shut down or occupations that became obsolete before the worker reached retirement age.

The situation is more complicated with respect to the overlap of OASDI and other public retirement systems. Although private pensions generally are intended to supplement the social insurance benefits and the real issue relates to the relative size of the two payments (an issue discussed below), the other public retirement systems are partly supplementary and, historically at least, partly a substitute for OASDI.

A considerable proportion of the aged persons currently receiving pensions under Federal, State and local government employee retirement systems have no other retirement benefits. This situation, however, is changing. Military employment has been covered by OASDI since 1956. Almost two-thirds of all State and local government employment is now covered by OASDI. Increasingly, whatever benefits are paid by these special systems will clearly be in addition to OASDI benefits. The overlap group will be made up in large part of persons who stayed with a particular State or local government agency or with one school or other system for many years, and former military personnel.

Federal civilian employees present a different picture. The advantage that many of them can now gain by qualifying for OASDI benefits on the basis of a very few quarters of coverage will gradually diminish. The disadvantages of being excluded from the only system that covers all types of employment will then loom larger. It seems reasonable to think that in time the civil-service retirement system will also become coordinated with or supplementary to OASDI.

At present about 5 percent of the aged OASDI beneficiaries are also getting benefits under another public retirement program. About 9 percent are getting veterans' compensation or pensions. One part of the veterans' program is clearly a supplementary system—the pensions are paid on the basis of an income test. Most veterans now receiving compensation for severe service-connected disabilities probably do not qualify for any other benefit, although with the extension of OASDI coverage to military service the possibility of overlap in permanent total disability cases does exist. Compensation for service-connected partial disabilities is most likely to supplement earnings. In both circumstances the general intent of the veterans' program is to provide special compensation for disabilities incurred in military service, and the overlap takes on a somewhat special character.

The area of overlap that has been attracting the most interest recently is actually the smallest in extent—that is, the concurrent payment of workmen's compensation cash payments and of disability benefits under OASDI. Probably fewer than 3 percent of those getting disability benefits under OASDI also receive workmen's compensation payments.

When disability benefits under the Social Security Act were initiated in 1957, an offset provision was included. Under this offset, workmen's compensation payments (including lump-sum settlements) and any other disability payments made under a Federal program (including veterans' programs) were to be subtracted from the disability benefits due under OASDI.

But even before the disability benefits for workers became payable, Congress repealed the offset for veterans receiving compensation for service-connected disabilities.

The offset provision for workmen's compensation payments led to a number of unsatisfactory results. Offsets were applied even when two different types of disability were involved or even when the workmen's compensation benefits replaced a very small fraction of previous earnings. In addition, the offset provision resulted in considerable delay in OASDI payments because of the difficulty involved in ascertaining whether the worker had been awarded workmen's compensation benefits and the amount of such benefits.

In a number of jurisdictions there is no central point from which to obtain information on workmen's compensation claims. In some States the pertinent records are located in local offices throughout the State; in others the carrier maintains the records. If the workmen's compensation case was contested, the delay in paying OASDI benefits was still greater.

After a year's experience, Congress decided to remove the offset for all types of payments under public programs, declaring that disability benefits under the national social security system should be looked upon as providing the basic protection against loss of income resulting from permanent and total disability. It was assumed that other programs would adjust their benefits in whatever way seemed most appropriate.

The question of the relationship between OASDI and workmen's compensation remains controversial, in part because many State workmen's compensation agencies and the insurance companies that underwrite the business have not been willing to accept a supplementary role. The issues are made more difficult because of the recognition that, if the disability benefits a man receives are almost as high as or are higher than his previous earnings, he may lose an important incentive to rehabilitation—even though his living expenses may also be higher than when he was able to work. The same problem does not arise in the case of retirement at age 65 or after. That has now become socially acceptable.

There is now available far more information on overlapping benefits in old age—thanks to the Social Security Administration's 1963 survey of the aged—than there is concerning disability beneficiaries. Limited information from a 1960 disability survey made by the Administration suggests that combined workmen's compensation and disability benefits under OASDI are most likely to equal or exceed previous earnings when the worker has several dependents and when previous earnings were relatively low either because of the nature of the worker's occupation or because the disability had occurred some time in the past when wage levels generally were lower. Clearly, however, it would be desirable to have more information on how many and what kinds of individuals and families are affected by this particular overlap. The Social Security Administration has plans for several types of study bearing on the question.

Another overlap problem of a somewhat different kind involves the concurrent payment of retirement and unemployment benefits. This is not a situation involving a basic benefit system and a supplementary system. Rather, it is a problem of overlapping definitions of risk. If a worker first leaves his regular job of his own volition, it seems clear that he is not unemployed. If, however, he is retired involuntarily, the situation is not so clear. Furthermore, if he works part time while drawing OASDI benefits and then loses the part-time job, he may well regard himself as unemployed. The State unemployment insurance programs differ in their treatment of such situations.

AMOUNT OF WAGE REPLACEMENT

How much wage replacement are the social security program and the overlap, separately and together, actually producing? It is appropriate to start with the 80 percent of the retired workers who are getting OASDI benefits but not private pensions. Wage replacement, or earnings replacement, is itself a somewhat ambiguous concept. It adumbrates a general relationship between the level of living a person can afford when he is retired and his level of living when he was working. But it makes a considerable difference whether the earnings used in calculating benefits are a worker's most recent earnings, those in the highest 5 or 10 years he has ever had, or an average of all earnings over most of his working lifetime. In a dynamic economy a man's lifetime average will be pulled down by the lower general earnings levels of earlier years. Individuals vary greatly, however, in their lifetime earnings patterns, and any formula has different effects when applied to different individuals. It also makes a considerable difference whether all the individual's earnings or only earnings below a specified amount are taken into account. The current low level of the taxable earnings limit in OASDI introduces special problems.

The formula under OASDI in effect at the present time averages credited earnings in the 9 highest years out of the last 14. Later it will become 10 out of 15 years, 11 out of 16, etc.

For a worker whose average earnings so computed are about at the level of the average earnings of male workers today, the benefit now replaces less than one-third of his preretirement earnings. A couple in these circumstances has about 45 percent of the earnings loss replaced.

For very low-paid workers the benefit represents a larger proportion of earnings—as much as 75 percent, 80 percent, or—at the minimum benefit level—even more than 100 percent. For workers with above-average earnings the replacement is, of course, less than 30 percent. More than half of all full-time male workers today earn more than the $4,800 taxable earnings base, which is now very close to the average earnings level for men.

There are other ways of evaluating the adequacy of the benefits paid under OASDI. For example, in 1962 about two-thirds of the beneficiary couples and four-fifths of the other aged beneficiaries had a continuing retirement income[1] too small to support a modest but adequate level of living as defined by the Bureau of Labor Statistics ($2,500 for a couple, $1,800 for a single person). About 42 percent of the couples, 57 percent of the nonmarried men, and 71 percent of the nonmarried women had retirement money incomes below a poverty level of $1,800 for a couple and $1,300 for a single person.

Even among the more fortunate retired OASDI beneficiaries who received a private pension, 17 percent of the couples and 29 percent of the nonmarried aged had total money income less than the modest but adequate budget level. As a general indication of the amount of supplementation provided by private pensions, the median income of beneficiary couples not receiving public assistance was $2,600 for those without private pensions and $3,400 for those with pensions. Obviously, for high-paid executives and some others the private pension was very much larger than the OASDI benefit.

Although the same type of detailed income information for OASDI beneficiaries who also had a benefit under a government employee program or the railroad retirement program is not presently available, it is known that the average supplementation was more than that from private plans. This situation arises because often their principal employment was in government or the

[1] Defined to include 12 times the monthly OASDI benefit, other public retirement benefits, private group pensions and individual annuities, veterans' benefits, and interest, dividend, and rents.

railroad industry and they earned only minimal coverage under OASDI. Receipt of veterans' benefits also added significantly to the retirement income of the OASDI beneficiaries who received veterans' compensation or pensions.

TWO VIEWS OF THE FUTURE

Against this background, it is interesting to view and project two potential and archetypal pictures of the future of social security and overlap. Both are implied in some of the phrases conventionally being used in this country to describe social security.

One view focuses on social insurance as the basic social mechanism for the distribution of income to retired, disabled, and unemployed workers and to survivors of deceased workers. It presumes a social insurance system with universal coverage and a reasonable replacement of earnings loss. At this point it is perhaps not necessary to say whether reasonable means 40-percent or 50-percent replacement for the average worker —60-percent or 75-percent replacement for the average couple. Much depends on what assumptions are made concerning the financing of medical costs and the tax treatment of social security benefits. In general terms it may be said that "reasonable" means a replacement not too much less than the amount the higher-income group expects to get on the average from social security plus private pensions. The social revolution already affecting higher-paid and professional groups would be extended to the great majority of middle-income earners. As a result, organized income-maintenance programs would together yield roughly the same degree of income inequality for retired as for employed persons, except at very low income levels. There, replacement would be greater since any substantial drop below what the individual had been earning would mean a degree of hardship that society would not be prepared to accept as part of its income-maintenance goal. Differences in individual savings and in private pension-plan provisions and coverage would, of course, still affect the total incomes of individual aged persons.

For the majority of older persons, OASDI benefits plus whatever individual savings they had accumulated would provide their retirement income. A small group at the lower end of the income scale would presumably still need public assistance. A considerable number of higher-paid workers and most long-service employees—possibly as many as a third of all retired workers—would have supplementary retirement income from private plans and the special public programs. Members of the Armed Forces and veterans might still receive special treatment.

Under this approach, OASDI would also be the major source of wage replacement for permanent or long-term total disabilities. Private plans would supplement the benefits of the higher-paid group and, like the railroad and government employee programs, might use an occupational test of disability in some circumstances. The workmen's compensation programs might also provide some supplementation; they would remain the only source of compensation for partial disabilities and for work-connected temporary disabilities. Hopefully, they would give greater emphasis to medical care and other rehabilitative services.

The other view of the future of social security and overlap focuses not on earnings replacement but on a floor of minimum protection. Above that floor, built by social insurance, it looks to private plans to provide some supplementary income to as many of the aged as possible, as well as to some disabled persons and survivors of deceased workers. And when it becomes clear that private plans in their present form cannot protect the worker who changes jobs several times in the course of his working life, it may be proposed that vesting be required in all plans.

A few persons have noted that, although vesting might be an adequate solution in a static world, in a dynamic economy it still leaves the person who moves at a considerable disadvantage, compared with the person who stays with one employer and has his pension computed in relation to his highest or most recent earnings. There is no practical way of revaluing the vested annuities. Under social insurance, by contrast, the benefit amounts of those on the rolls, as well as the value of past-service credits, can be adjusted to keep pace with rising earnings levels and without an increase in contribution rates if the taxable earnings base is also kept up to date.

The more the reliance placed on private plans to provide a major share of retirement income for most workers, the greater will be the need for regulation of private plans. On the other hand, if OASDI provided a reasonable replacement of earnings, private plans could retain much greater freedom and flexibility, although perhaps with some limitation on the relative tax advantage afforded to them.

Under this second view of social security there will also be greater need to fill in additional chinks by an expansion of other public programs. Veterans' pensions on an income-test basis, for example, could play a very large role when the aged population includes the 20 million veterans of World War II and the Korean conflict. The disparities between the fortunate individual who achieves coverage under two systems and the one who has only OASDI or OASDI and public assistance would, it may be safely assumed, be considerably greater under this second approach than under the alternative first described.

These are two different directions in which the social security system of this country might go. Both assume the continuation of multiple programs. There is no question of doing away with overlap. Overlap can serve special purposes more effectively than could any single program. Or it can try—and fail—to patch up a basic program that is inadequate to the universal needs of today's society and in the process lose much of its special virtue. Whichever approach is followed, there will be many details of the relationships among programs that deserve examination. But it is obvious that the quality of those relationships will be very different if the role of social security is minimal or if social insurance is used as the basic institution in this society for replacement of earnings at a level commensurate with the potentialities of an already productive and growing economy.

Recent Publications*

SOCIAL SECURITY ADMINISTRATION

DIVISION OF RESEARCH AND STATISTICS. *Social Security Farm Statistics, 1955–1961: Farmers and Farm Workers under Old-Age, Survivors, and Disability Insurance.* Washington: The Division, September 1964. 34 pp.

Includes selected preliminary estimates for 1962. Limited free distribution; apply to the Social Security Administration, Division of Research and Statistics, Baltimore, Md. 21235.

WELFARE ADMINISTRATION

KAHN, GERALD, and PERKINS, ELLEN J. "Families Receiving Aid for Dependent Children: What Do They Have To Live On?" *Welfare in Review*, vol. 2, Oct. 1964, pp. 7–15. 35 cents.

Compares income of families receiving aid to families with dependent children with that of other families and considers unmet need and the factors affecting the amount of help received from public assistance.

OFFICE OF AGING. *Creating Opportunities for Older Persons.* Washington: U.S. Govt. Print. Off., Oct. 1964. 44 pp. (OA No. 122.) 30 cents.

Selected papers from the Fourth Annual Conference of State Executives on Aging, held in April 1964.

Welfare in Review, Statistical Supplement. (1964 edition.) Washington: The Administration, 1964. 38 pp. 35 cents.

Data on the public assistance programs, child welfare services, maternal and child health services, and services for crippled children, and the Cuban refugee program.

GENERAL

BAHN, ANITA K., and BAHN, RALPH. "Considerations in Using Social Security Numbers on Birth Certificates for Research Purposes." *Public Health Reports*, vol. 79, Oct. 1964, pp. 937–938. 55 cents.

Recommends that social security account numbers be issued at birth and recorded on the Standard Certificate of Live Birth.

BORGEN, I. H. "Social Security and Workmen's Compensation Programs: Provisions Relating to Disability Evaluation." *Journal of the Kansas Medical Society*, vol. 65, Oct. 1964, pp. 481–487. 60 cents.

Contrasts basis of judgments and types of reports for ratings under OASDI and workmen's compensation programs.

CICOUREL, AARON V. *Method and Measurement in Sociology.* London: Free Press of Glencoe, 1964. 247 pp. $6.95.

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Information on New York City's poor—their income, age, and ethnic backgrounds; those unable to work; the unemployed; and educational factors.

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