Social Security Payments to Noninsured Persons

by WILBUR J. COHEN, ROBERT M. BALL and ROBERT J. MYERS*

PUBLIC LAW 89–368, signed on March 15, 1966, is cited as the Tax Adjustment Act of 1966 and was enacted for the major purpose of modifying various tax provisions to produce certain desired anti-inflationary economic effects, but it also included amendments affecting the social security program. One change provides for advance declaration and periodic payment of social security contributions with respect to self-employment income (instead of a lump-sum payment—generally as of April 15 of the following year—as under previous law). The legislation also provides for benefit payments to certain noninsured persons aged 72 or over. This article discusses various aspects of the benefits for the noninsured individuals.

BACKGROUND AND LEGISLATIVE HISTORY

Activity in Early Years

Almost from the inception of the old-age, survivors, disability, and health insurance system (OASDHI) some 30 years ago, there have been suggestions that noninsured persons who meet certain age and citizenship or residence requirements should be granted benefits at a level close to the minimum benefit.1 With universal or near-universal coverage of employed persons under the program, eventually almost the entire population aged 65 or over will be eligible for benefits on the basis of an earnings record. It has been argued, therefore, that the existing group of noninsured persons aged 65 or over should not be without benefits merely because they retired too early (or, in the case of women, because their husbands died too early) to acquire the necessary numbers of quarters of coverage.

Moreover, it has been pointed out that those who receive retirement benefits after only a few years (or even decades) of coverage receive benefits with an actuarial value far in excess of the contributions that they themselves have paid (or even that they and their employers combined have paid). The argument goes on to state that any “blanketing-in” payment for the existing noninsured population aged 65 or over, since it will involve only a near-minimum amount, will therefore give less of an “actuarial windfall,” in general, than that for the initial group of insured persons, on the average.

In connection with blanketing-in proposals, the source of financing for the payments has always been an important problem. The earliest proposals had always provided for financing directly from the trust fund, which would result in financing through the payroll taxes. This approach was argued for by parallelism with private pension plans, under which the cost for past service, and particularly the cost for those who retired before contributions were payable, is considered part of the general financing of the plan. Strong opposition to this approach was centered around the argument that it would hinder public understanding of the “contributory nature” of the program, because the contributions would not be used entirely to finance the benefits of those who had made them, or on whose behalf they were made.

Opposition was also expressed on the grounds that the cost controls inherent in a contributory system would be weakened because those receiving “free” blanketing-in benefits would demand larger benefits to be financed out of general revenues (with no contribution increases being required). A further opposing argument was that many persons in low-paid employment categories such as agricultural and domestic work might prefer
not to have contributory coverage but rather to receive the blanketing-in payments "free." Similarly, the employers of such persons might favor such reduction in the coverage of the system—to save the contributions involved and to have less administrative work to perform.

The advocates of these opposing views therefore believed that, if blanketing-in were to be done, it should be financed completely from general revenues. (But even then some believed that this might be undesirable since it would weaken incentives to comply with the provisions for regular contributory coverage.)

The foregoing line of argument for complete financing from general revenues led some advocates of blanketing-in to suggest an intermediate financing approach—that is, to have payments from general revenues equaling, in each individual case, the employer-employee contributions on the maximum amount of earnings that would yield the minimum benefit payment, plus accumulated interest. The remainder of the cost of the blanketing-in payments—by far a larger amount in the early years of operation—would be met from the trust fund.

Legislative Activity in 1965

Although there was much discussion of blanketing-in proposals and alternatives over the years and many bills on this subject were introduced, no such proposals were acted on favorably by either the House of Representatives or the Senate (or by the committees responsible for legislation in this area) until this year. In connection with the significant 1965 legislation that not only established the two coordinated health insurance programs for persons aged 65 and over but also made important changes in the cash benefits program, Senator Winston L. Prouty, of Vermont, offered an amendment to blanket in all persons aged 70 and over who are residents of the United States and are either citizens or aliens lawfully admitted for permanent residence who had resided in the United States continuously during the 5 years immediately before application. These residence and citizenship requirements are the same as those applicable to the blanketing-in provisions under HI. The Senate amendment provided that such benefits would be available on an "open end" basis—that is, for all future years—rather than on a transitional, phasing-out basis as is the case under HI for noninsured persons.

Persons whose benefits based on OASDI insured status amount to less than $44 a month would be available to all persons aged 70 or over who are residents of the United States and are either citizens or aliens lawfully admitted for permanent residence who had resided in the United States continuously during the 5 years immediately before application. These residence and citizenship requirements are the same as those applicable to the blanketing-in provisions under HI. The Senate amendment provided that such benefits would be available on an "open end" basis—that is, for all future years—rather than on a transitional, phasing-out basis as is the case under HI for noninsured persons.

Senate Action in 1966

On March 2, 1966, Senator Prouty introduced an amendment to H.R. 12752 (the Tax Adjustment Act of 1966) that he intended to propose. On March 8, during the Senate debate on this bill, the amendment was offered. It was adopted by a vote of 45 for and 40 against. A subsequent vote on a motion by Senator Prouty to table a motion to reconsider this amendment was adopted by a vote of 44 to 43.
of H.R. 12752. On March 14, the conferees filed their report.

The blanketing-in provisions of the bill as reported by the conferees departed from the Senate version in the following significant respects:

1. The minimum age was increased from 70 to 72.
2. The basic benefit amount was reduced from $44 a month to $35 a month, the same amount as under existing law for the transitional insured status provisions (which were left unchanged).
3. The blanketing-in provisions were incorporated on a transitional, phasing-out basis (somewhat similar to the blanketing-in provisions for the hospital insurance benefits), instead of being on a permanent basis.
4. The blanketing-in payments were restricted to persons who are not currently receiving public assistance payments.
5. The blanketing-in payments were to be reduced by the amount of any governmental pension that the individual or his spouse are receiving or are eligible to receive.

On March 15, the House agreed to the conference report by a vote of 288 to 102. Later that day, the Senate agreed to the report by a vote of 72 to 5, and the bill was cleared for the President’s signature. Still later that same day, H.R. 12752 was signed by President Johnson, and became Public Law 89-368.

SUMMARY OF MAJOR PROVISIONS

The new law provides, in brief, that all persons aged 72 or over, or who attain this age before 1968, are eligible for a monthly benefit of $35.00 ($52.50 for a husband and wife, both of whom are eligible) if they meet certain citizenship and residence requirements, effective for the month of October 1966. Persons who attain age 72 after 1967 can also qualify for these new benefits, but they must have certain numbers of quarters of coverage. Such requirement increases with the year of attainment of age 72, until after a few years it merges with the requirement for fully insured status for regular benefits (table 1).

The “transitional noninsured benefit” is reduced by the amount of any governmental pension that the individual or his spouse are receiving or are eligible to receive. In addition, the transitional noninsured benefit is not payable to those receiving public assistance cash payments, unless they leave the assistance rolls. If this provision were not present, many old-age assistance recipients would receive the new benefit (with the signifi-
cantly higher costs resulting to be met by general revenues). It is likely, however, that their assistance payments would be correspondingly reduced, and the recipients would thus get no advantage from the benefit. At the same time, the States would not only have lower assistance costs but—without a change in the present formula for Federal matching, which provides relatively more Federal dollars for small assistance payments—would gain disproportionately.

The new benefits are to be paid from the OASI trust fund but are to be financed from general revenues, except for persons with 3 or more quarters of coverage under OASDI (for whom the cost is to be borne by the contributory financing of the program, like the cost of the transitional insured benefits).

Citizenship and Residence Requirements

The citizenship and residence requirements for these transitional noninsured cash benefits are similar to those under the HI transitional noninsured provisions, with this difference: An individual who receives the cash benefit must be a resident of one of the 50 States or the District of Columbia, rather than merely a resident of the United States (including American Samoa, Guam, Puerto Rico, and the Virgin Islands). Specifically, the requirements for the transitional noninsured cash benefits are that the individual must be a resident of one of the 50 States or the District of Columbia and that he must be either a citizen or an alien lawfully admitted for permanent residence who has resided in the United States continuously during the 5 years immediately preceding his application for benefits.

Coverage Requirements

Persons reaching age 72 before 1968 can qualify for the transitional noninsured cash benefits even though they have no quarters of coverage. Persons attaining age 72 after 1967 must have at least 3 quarters of coverage (acquired at any time) for each calendar year elapsing after 1966 and before the year of attainment of age 72. For example, individuals who reach age 72 in 1968 must have at least 3 quarters of coverage, while those becoming age 72 in 1969 must have at least 6 quarters of coverage. The requirements for persons with various years of attainment of age 72 and the points at which these transitional requirements merge with the regular requirements for fully

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* The requirement for this transitional provision for this year-of-attainment category is equal to or greater than the fully insured requirement, and so the transitional provision "washes out" for this case and is not applicable.

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insured status for monthly benefits are shown in 
table 1 for these transitional noninsured cash 
benefits, as well as for the transitional insured 
cash benefits and the transitional noninsured HI 
benefits.

It should be noted that a person qualifies for 
transitional noninsured cash benefits only on the 
basis of his own earnings credits and not on those 
of a spouse (unlike the transitional insured bene-
fits, under which some wives and widows can qual-
ify on the basis of their husband's record). 
Accordingly, there can be instances of persons who 
qualify for the transitional insured benefits who 
do not qualify for the transitional noninsured 
benefits. This category consists of wives (of work-
ers entitled to transitional insured benefits) and 
widows (of workers who died or attained age 65 
before 1957 and had 5 quarters of coverage or of 
workers who had been eligible for transitional 
insured benefits) who attain age 72 in 1968 and 
who have less than 3 quarters of coverage in their 
own earnings record. Most individuals who qual-
ify for the transitional insured benefits, however, 
can meet the qualifying requirements for the tran-
sitional noninsured benefits. However, they would 
have no advantage in claiming the latter instead, 
because the benefit amounts are the same and the 
benefit receipt conditions are more restrictive (the 
prohibition against also receiving public assistance 
payments, for example, and the offset of other 
governmental pensions). Accordingly, when per-
sons are eligible for both types of benefits, 
they are always awarded the transitional insured 
ones.

Effect of Receipt of Governmental Pensions

The transitional noninsured cash benefit is to 
be reduced on a month-by-month basis for any 
governmental pensions that the individual or his 
spouse are receiving or are eligible to receive. 
Such "governmental pensions" include OASDI 
benefits based on insured status, civil service re-
irement benefits, military pensions and retired 
pay, veterans' non-service-connected disability and 
survivor pensions, and pensions under State and 
local government retirement systems for their em-
ployees. Not included as governmental pensions 
are workmen's compensation benefits and veterans' 
pensions for service-connected disability or death. 
Not only the individual's pension is taken into 
account but that of his spouse as well (regardless 
of whether the spouse is eligible for the transit-
ional noninsured benefits) and the pension for 
which a person is eligible even though he may not 
actually be receiving it (perhaps because of con-
tinued employment).

Specifically, the provision for offset of govern-
mental pensions operates in two steps. First, the 
full amount of the transitional noninsured benefit 
for the individual is reduced by his own govern-
mental pensions. Then, there is taken into account, 
in essence, the spouse's governmental pensions, not 
counting any part used as an offset against such 
spouse's transitional noninsured benefit (if one 
was available) but taking into account the fact 
that the benefit for a married couple who are both 
eligible is $52.50.

The general principles for a married couple 
(even if only one of them is eligible for the transit-
ional noninsured benefits) are as follows: (1) 
no transitional noninsured benefit is payable if the 
total amount of their government pension (or pen-
sions) is at least $52.50; (2) the total benefits 
payable to them for a month under the transitional 
noninsured provision cannot exceed the excess of 
$52.50 over the other government pensions when 
the latter are less than $52.50; and (3) the transi-
tional noninsured benefit cannot exceed $35.00 if 
only one spouse is eligible.

Perhaps several illustrative explanations will 
clarify this provision for the offset of govern-
mental pensions. First, consider an unmarried 
individual. If his governmental pension is $35.00 
or more, then no transitional benefit is payable. If, 
however, such governmental pension is less 
than $35.00 the transitional noninsured benefit 
will be in an amount that provides a total monthly 
payment of $35.00.

Second, consider the case of a husband and 
wife, only one of whom is entitled to transitional 
insured benefits—one aged 72 or over and the 
other under age 72, for example. If the spouse 
who is not eligible for the transitional noninsured 
benefits has a governmental pension (or could 
obtain one by retiring) and the spouse who is 
eligible for transitional noninsured benefits has 
no pension of this type, then the excess of the first 
spouse's governmental pension above $17.50 is 
deducted from the other spouse's full transitional 
noninsured benefit. Specifically, if the husband
is aged 70 and has a governmental pension of $25.00, then the transitional noninsured benefit of the wife aged 72 is reduced from $35.00 to $27.50. If the husband’s governmental pension is $52.50 or more, then the wife’s transitional noninsured benefit is eliminated.

Third, if both husband and wife are entitled to transitional noninsured benefits, then the $35.00 benefit of the husband and the $17.50 benefit of the wife are first reduced by their own governmental pensions. Subsequently, any “excess governmental pension” of the other spouse not applied against his transitional noninsured benefit would be applied against the remaining transitional noninsured benefit of the other spouse. Specifically, as the most complicated possible case, let us assume that the husband has a governmental pension of $40.00 and that the wife has one amounting to $10.00. Under these circumstances, the husband does not receive any transitional noninsured benefit because his governmental pension is $5.00 larger than the full transitional noninsured benefit of $35.00 for which he would otherwise be eligible. The wife’s full transitional noninsured benefit would first be reduced from $17.50 to $7.50 to take into account her own governmental pension; it would then be further reduced to $2.50 to take into account the $5.00 “excess governmental pension” of her husband.

Under certain rare circumstances, a person receiving OASDI monthly benefits on the basis of an employment record of some other person could also receive a payment under the transitional noninsured provisions. This situation could, for example, result in the case of a widow who is receiving a widow’s benefit of, say, $33 per month on the basis of an earnings record that produces a primary insurance amount at the minimum of $44, with another widow⁴ (not necessarily also eligible for transitional noninsured benefits) also receiving monthly benefits of $33. Under these circumstances, the first widow would receive a reduced transitional noninsured benefit of $2 per month, to give her a total benefit of $35.

In another example, if a worker and his wife are both aged 72 or over and have two dependent children in their care (being disabled persons over age 18), and if his old-age benefit under OASDI is the $44 minimum primary insurance amount, then, as a result of the family maximum benefit provision, the wife’s benefit is reduced from $22.00 to $7.40. Under the transitional noninsured provisions, she would receive an additional $1.10 a month (the full wife’s benefit rate thereafter of $17.50 reduced first by her regular wife’s benefit of $7.40 and then by the $9.00 excess of her husband’s old-age benefit over the full transitional noninsured benefit of $35.00 he could have received if he had not had a benefit based on his earnings record).

The law provides that if the transitional noninsured benefit after reduction for a governmental pension is less than $1 (considered on a family basis when both husband and wife are eligible), then nothing is payable.

In addition, any transitional noninsured benefit reduced because of a governmental pension will be increased to the next higher 10 cents if it is not already a multiple of 10 cents. For example, if a single individual’s transitional noninsured benefit is reduced to $24.13 because of a governmental pension of $10.87, then the amount actually payable shall be $24.20. Finally, when the transitional noninsured benefit so reduced (considered on a family basis when both husband and wife are eligible) is less than $5.00 a month, it may be accumulated and not paid until it equals or exceeds $5.00.

Retroactivity of Benefits

The transitional noninsured cash benefits are not payable retroactively for any months before the month in which claim for them is filed or, if later, the first month for which the claimant is eligible (having attained age 72 and having met all the other requirements) but in no event for months before October 1966. This is unlike the situation for monthly benefits based on insured status arising from an earnings record, for which a maximum of 1 year’s retroactivity is possible.

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⁴ Under the provisions of the 1965 amendments, it is possible for more than one widow of an insured worker to receive monthly benefits—where, for example the first wife was divorced after 20 or more years of marriage and the second wife had been married sufficiently long (at least 1 year) to qualify as a widow, and neither had remarried.

⁵ It would be possible for each of such widow’s benefits to be less than $33 if there were more than two eligible survivor beneficiaries, such as an eligible child beneficiary.
Financing Provisions

The cost of the transitional noninsured cash benefits is to be met entirely from the general fund of the Treasury, except with respect to persons who have at least three quarters of coverage (for whom the OASI trust fund will meet the cost). The number of cases of persons with transitional noninsured benefits who have at least three quarters of coverage is estimated to be relatively small, so that this additional financial burden on the OASI trust fund will be of negligible significance. From a long-range standpoint, the financing of the OASI program will be only slightly affected by the transitional noninsured provisions. There will, however, be some temporary short-range effects because the transitional noninsured benefits (and the accompanying administrative expenses) will be paid from the OASI trust fund beginning in November 1966, but reimbursement therefor from the general fund of the Treasury will be made with some delay. Expenditures made during the fiscal year ending June 30, 1967, will not be reimbursed until some time during the fiscal year ending June 30, 1969, and there will be similar 2-year lags for subsequent expenditures. There is, however, provision for payment of appropriate amounts that will represent the interest lost to the trust fund through the deferment of reimbursement.

Actuarial Cost Estimates

Amendment as adopted on Senate floor.—Under the provisions of the Senate floor amendment, the additional number of beneficiaries who would be affected immediately—either by receiving cash benefits for the first time or by receiving increased benefits—was estimated at 2.15 million persons. This figure is subdivided as follows: about 350,000 railroad retirement beneficiaries who are not also receiving OASDI benefits on the basis of an earnings record; about 300,000 persons currently receiving some type of governmental pension other than OASDI or railroad retirement benefits; about 300,000 persons currently receiving transitional insured benefits; about 1 million persons receiving old-age assistance; and about 200,000 other persons (with some degree of duplication among the foregoing categories).

The cost of the provisions contained in the Senate floor amendment must be considered from two viewpoints. First, the railroad retirement program would, because of the financial interchange provisions, have been required to meet the cost of the transitional noninsured cash benefits payable to those of its beneficiaries who are not also receiving OASDI benefits; meeting this cost (about $140 million a year) would have had a serious financial effect on the actuarial soundness of the railroad retirement program. Second, the cost to the general fund of the Treasury would be about $800 million a year initially and would decrease slowly to a level of about $600 million a year after 1970.

Amendment as enacted.—It is estimated that, under the enacted legislation, 370,000 persons will receive these benefits in the first full year of operation (October 1966 to September 1967). An estimated 35,000 of these persons will receive only partial benefits, as a result of having small governmental pensions. It is expected that about two-thirds of the total number will be women and that 80 percent of these female beneficiaries will be widows.

The estimated cost of these transitional noninsured cash benefits for the first 12 months of operation (excluding the additional administrative expenses involved) is $125 million. The cost is estimated at $95 million for the fiscal year ending June 30, 1967, $115 million for the fiscal year 1968, $105 million for fiscal year 1969, and $95 million for fiscal year 1970. The estimated cost for the fiscal year 1975 is somewhat less than $50 million. No additional cost for noninsured transitional HI benefits is involved because all persons eligible for the transitional noninsured cash benefits had already been eligible for these HI benefits under the 1965 amendments.

*After 1972, this cost would include the cost for HI benefits for most of those then attaining age 70, who would become eligible for such benefits by being eligible for the transitional noninsured cash benefits. Persons attaining age 65 in 1967 or before—that is, attaining age 70 in 1972 or before—are eligible for transitional noninsured HI benefits under the provisions of the 1965 amendments even if they have no coverage under OASDI. Those reaching age 65 after 1967 must have some coverage to become eligible.