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

* Under Secretary of Health, Education, and Welfare; Commissioner of Social Security; Chief Actuary, Social Security Administration.

[1] Recently such a recommendation was made for persons aged 65 or over, on an "open end" basis (but with an accompanying recommendation for extension of coverage under the program to Government employees not now covered, the only large excluded group), by the Task Force on Economic Growth and Opportunity of the Chamber of Commerce of the United States in their Second Report, *Poverty: The Sick, Disabled and Aged*, 1965 (page 71). The recommendation did not state how the cost of the benefit payments would be met.

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,[2] Senator Winston L. Prouty, of Vermont, offered an amendment to blanket in all persons aged 70 and over at the minimum benefit rate. The proposal, which was to be financed from general revenues, was defeated by a vote of 55 to 36 under a motion to table it.

The 1965 legislation did, however, contain blanketing-in provisions for the hospital insurance program (HI). Such a provision was in the Administration's original proposal and in all the various versions of the legislation as it moved toward enactment. Under this provision, noninsured persons who attain age 65 before 1968 receive the same benefits under HI as do insured persons aged 65 and over. For those reaching age 65 after 1967, a graded-in basis (or "notch" provision) is introduced that requires a certain amount of coverage for eligibility for these benefits; a person may thus qualify for them even if he has insufficient coverage to qualify for monthly cash benefits. This requirement "washes out" for men attaining age 65 in 1974 and after and for women attaining age 65 in 1972 and after, since then the "regular" requirement for monthly benefits is as easy to meet as the transitional one. The cost of these hospital and related benefits for the noninsured is to be met from general revenues.

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.

Under the Senate amendment, except for certain wives, the minimum OASDI benefit of $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.

Persons whose benefits based on OASDI insured status amount to less than $44 a month (for example, some who retired before age 65 and some wife and widow beneficiaries) would, in effect, have their benefit amounts increased to $44

[2] For a detailed description of this legislation, see Wilbur J. Cohen and Robert M. Ball, "Social Security Amendments of 1965: Summary and Legislative History," *Social Security Bulletin*, September 1965.

a month on attaining age 70. Persons being paid other governmental retirement benefits—railroad retirement beneficiaries, civil-service retirement beneficiaries, military pensioners, and pensioners under State and local government employee retirement systems—would receive the full blanketing-in payment if they were not otherwise OASDI beneficiaries. A married woman aged 70 or over would receive a blanketing-in benefit of $22 a month if her husband also receives such a benefit (but she would get the full $44 if her husband's benefit is based on insured status and her wife's benefit derived therefrom is less than $44).

Persons qualifying for cash benefits under the Senate floor amendment would also qualify for HI benefits (if they were not already eligible under the blanketing-in provisions for these benefits, described earlier). The cost of such benefits would be met from general revenues.

Under the 1965 amendments, a special transitional insured status had been introduced to provide benefits for certain persons already aged 72 or over who did not meet the regular requirement for fully insured status. Persons reaching age 72 after 1968 could not qualify under these provisions and, of course, not all persons who reached age 72 before 1969 could so qualify, because varying amounts of coverage on the part of the individual earner (or, for widows, on the part of the deceased husbands) are required. The "transitional insured benefits" are not earnings-related but are, rather, flat amounts of $35 a month for a worker beneficiary and for a widow beneficiary and $17.50 a month for a wife beneficiary.

The Senate floor amendment would have eliminated this transitional insured-status provision prospectively, since it would pay larger benefits. In any case, the OASI trust fund would have borne the part of the cost of the blanketing-in payments for those who met the transitional insured-status requirements that it would under the 1965 provisions (if they were not repealed), with the remainder of the cost for this category (and the entire cost for all other blanketing-in categories) coming from general revenues.

Conference Committee Action and Enactment

The House and Senate conferees met to settle the various differences between the two versions 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 that 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 government 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 significantly 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

TABLE 1.—Comparison of coverage requirements for fully insured, transitional insured, and transitional noninsured benefits

Year of attainment of age 72	Number of quarters of coverage required							
	Men				Women			
	Fully insured benefits	Transitional insured cash benefits	Transitional noninsured cash benefits	Transitional noninsured hospital benefits	Fully insured benefits	Transitional insured cash benefits	Transitional noninsured cash benefits	Transitional noninsured hospital benefits
1961 or before	6	3	0	0	6	3	0	0
1962	6	4	0	0	6	3	0	0
1963	6	5	0	0	6	3	0	0
1964	6	*	0	0	6	3	0	0
1965	7	*	0	0	6	4	0	0
1966	8	*	0	0	6	5	0	0
1967	9	*	0	0	6	*	0	0
1968	10	*	3	0	7	*	3	0
1969	11	*	6	0	8	*	6	0
1970	12	*	9	0	9	*	*	0
1971	13	*	12	0	10	*	*	0
1972	14	*	*	0	11	*	*	0
1973	15	*	*	0	12	*	*	0
1974	16	*	*	0	13	*	*	0
1975	17	*	*	6	14	*	*	6
1976	18	*	*	9	15	*	*	9
1977	19	*	*	12	16	*	*	12
1978	20	*	*	15	17	*	*	15
1979	21	*	*	18	18	*	*	*
1980	22	*	*	21	19	*	*	*
1981 and after	23–40	*	*	*	20–40	*	*	*

* 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.

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 benefits, under which some wives and widows can qualify 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 workers 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 qualify for the transitional insured benefits, however, can meet the qualifying requirements for the transitional 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 persons 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 retirement 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 employees. 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 transitional noninsured benefits) and the pension for which a person is eligible even though he may not actually be receiving it (perhaps because of continued employment).

Specifically, the provision for offset of governmental pensions operates in two steps. First, the full amount of the transitional noninsured benefit for the individual is reduced by his own governmental 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 transitional noninsured benefits) are as follows: (1) no transitional noninsured benefit is payable if the total amount of their government pension (or pensions) 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 transitional noninsured benefit cannot exceed $35.00 if only one spouse is eligible.

Perhaps several illustrative explanations will clarify this provision for the offset of governmental 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 widow[3] (not necessarily also eligible for transitional noninsured benefits) also receiving monthly benefits of $33.[4] 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 thereunder 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.

[3] 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.

[4] 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,[5] 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.[6]

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.

---

[5] See Robert J. Myers, "Railroad Retirement Act Amendments of 1951: Financial and Actuarial Aspects," *Social Security Bulletin*, March 1952.

[6] 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.