THE REVISED BENEFIT SCHEDULE UNDER FEDERAL OLD-AGE INSURANCE

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The revision of the benefit provisions of the Federal old-age insurance system and the introduction of survivors insurance are major achievements of the 1939 amendments to the Social Security Act, which became law on August 10, after many months of deliberation in Congress. These changes advance to January 1, 1940, the date at which monthly benefits first become payable, increase the average amounts payable in the early years of the system and the number of older workers who can qualify in this period, and institute monthly benefits for certain dependents and survivors of workers who have contributed to the system. In effect, at least a minimum old-age income is provided for retired insured workers and their families, and protection is afforded to certain survivors of insured workers.

The revision of the benefit formula reflects the change in the emphasis of the program. The original provisions offered primarily a plan for systematic savings for old age. The amendments, on the other hand, are designed to provide a minimum subsistence income for the retired worker and his dependents or for certain of his survivors, relating the amount of the benefit to his family responsibilities and, roughly, to the level of his former earnings as well as to the extent of his participation in the system. The primary monthly benefit, payable to a qualified worker at 65 or after, is based on his average monthly wage (as defined subsequently) according to the following formula: (1) a basic amount of 40 percent of the first $50 of the average monthly wage, plus 10 percent of the amount by which that average exceeds $50 and does not exceed $250 and (2) 1 percent of the amount calculated under (1) multiplied by the number of years in which the worker has received $200 or more in wages from covered employment. The minimum primary benefit is set at $10.

A supplementary benefit of one-half the primary benefit is provided, under specified circumstances, for aged wives and dependent children of beneficiaries; the other benefits outlined in table 1, which are provided for certain survivors of covered workers who die either before or after they have retired, will be discussed in a subsequent article. With respect to the wages of any one worker, the maximum total monthly amount payable to him and his dependents or to his survivors is not more than twice the primary benefit, 80 percent of the average monthly wage, or $85, whichever is the least. These requirements, however, may not be used to reduce such a combined amount to less than $20.

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Objectives of Old-Age Insurance

The report of the President's Committee on Economic Security in 1935 recognized the need for covering a wide range of risks, including those arising from old-age, invalidity, and death, and recommended provisions for both compulsory and voluntary insurance. The plan proposed by the Committee related benefits to average wages, in an attempt to provide retirement benefits bearing some relation to customary wages in covered employment. These recommendations of the Committee were not, however, enacted into the 1935 Social Security Act. The pressure for a self-sustaining system induced Congress to discard the idea of insurance against a wide range of social risks in favor of a banking or money-back system of retirement annuities. The net result of the change was to hold down benefit payments during the early years and to provide for the accumulation of a large reserve fund.

Title II of the 1935 act provided for the payment of benefits to workers who reached the age of 65 and who met certain other qualifying requirements based on the extent of their covered employment and the amount of wages they had received in such employment. Since workers were to contribute on the basis of their wages in covered employment and their employers were taxed a like percentage of pay rolls, benefits were related by imputation to contributions or taxes, although the right to benefits was not dependent on the actual amount of payments made. This system was in large part a contributory-savings plan, in that payments were to be made during

Table 1.—*Old-age insurance provisions enacted in 1935 and in the 1939 amendments to the Social Security Act*

Provision	1935 act	1939 amendments
Monthly benefits first payable	January 1942	January 1940.
Age limits for persons qualifying for monthly benefits.	Must have attained age 65 at some time after Jan. 1, 1941.	Age 65 or over for all old-age benefits (primary annuitant, wife, widow, or dependent parents). Under 16, or 18 if still in school, for dependent children. No age limits for widows with dependent children.
Contribution rates of workers and of employers (percentage of pay rolls).	1 percent, 1937-39 1½ percent, 1940-42 2 percent, 1943-45 2½ percent, 1946-48 3 percent, 1949 and thereafter	1 percent, 1939-42; 2 percent, 1943-45; 2½ percent, 1946-48; 3 percent, 1949 and thereafter.
Excepted employment	Employment after age 65; employment in agriculture, private domestic service, government, certain nonprofit organizations; maritime employment, etc.	Nearly the same except that employment after age 65, employment in national banks, and some maritime employment are covered.
Total monthly benefits payable with respect to 1 person's wages:		
Minimum	$10	$10 for primary annuitant; $15 for primary annuitant and 1 dependent (aged wife or dependent child); $20 for annuitant and 2 or more dependents. $10 for widow aged 65 or over without dependent child. $12.50 for widow and 1 dependent child; $17.50 for widow and 2 dependent children; $20 for widow and 3 or more dependent children. If no widow survives, $10 for 1 or 2 dependent children; $15 for 3, $20 for 4 or more. $10 for 1 or both wholly dependent aged parents.
Maximum	$85	$85, or twice primary benefit, or 80 percent of legally defined average monthly wage, whichever is least. (These maximums may not reduce total of benefits below $20.)
Formula for computing primary monthly benefit.	½ of 1 percent of first $3,000 total wages,[1] plus 1/12 of 1 percent of next $42,000, plus 1/24 of 1 percent of next $84,000.	*a.* 40 percent of first $50 of legally defined average monthly wage plus 10 percent of average monthly wage in excess of $50 but not over $250, plus *b.* 1 percent of amount computed under (a) for each year in which wages [2] of $200 were received.
Supplementary benefits:		
Wife aged 65	None	50 percent of primary benefit.
Dependent child	None	50 percent of primary benefit.
Survivors and lump-sum death payments:		
1. Lump-sum death payments	Amount equal to 3½ percent of total wages less monthly benefits received.	Amount equal to 6 times the primary benefit, provided that the deceased worker was fully or currently insured and left no widow, child, or parent who would, on filing application in the month of his death, be entitled to a monthly survivors benefit for such month.
2. Monthly benefits to survivors of a fully insured individual:	None.	
(*a*) Widow aged 65 or over		75 percent of primary benefit.
(*b*) Widow having dependent child		75 percent of primary benefit.
(*c*) Each dependent child		50 percent of primary benefit.
(*d*) Each wholly dependent aged parent (if no widow or unmarried child under 18 survives).		50 percent of primary benefit.
3. Monthly benefits to survivors of currently insured individuals:	None.	
(*a*) Widow having dependent child (in addition to child's benefits).		75 percent of primary benefit.
(*b*) Each dependent child		50 percent of primary benefit.
Payment to workers failing to qualify for monthly benefits.	Lump-sum payment amounting to 3½ percent of total credited wages payable at age 65.	None.
Eligibility requirements:		
(*a*) Fully insured	$2,000 cumulative wages received; 1 day of covered employment in each of 5 years after 1936 and before age 65.	Wages of at least $50 paid in each of 40 quarters or in ½ as many quarters as the number elapsing after 1936 or after attainment of age 21, whichever is later, and before attainment of age 65 or death, whichever is earlier. Minimum, 6 quarters.
(*b*) Currently insured	None	Wages of at least $50 paid for each of at least 6 out of the 12 quarters immediately preceding the quarter in which death occurred.
Monthly benefit not payable	For months when in "regular employment" for which wages have been paid.	For months in which: (*a*) Services are rendered for wages of $15 or more; (*b*) Widow under age 65 has no dependent child in her care; (*c*) Children between 16 and 18 are not regularly attending school.

[1] "Wages" is used in this column as referred to in sec. 202 (a) (1) and defined in sec. 210 of the Social Security Act of 1935.

[2] "Wages" is used throughout this column as defined in title II, sec. 209 (a) of the Social Security Act as amended in 1939.

the working life of employees to provide a means of support during later years when they became unable to earn a livelihood through regular employment.

Within the relatively small part of the population which is able to make systematic and adequate savings, any person can embark individually on a plan of saving for his own old age. The old-age risk matures roughly at the same time for all persons and thus is fairly predictable. However, no one individual can anticipate how long he will live after reaching old age, and, consequently, not even these fortunate few can predict how large a fund an individual will need for support after he no longer can earn, even though he knows how much he will need each month. This phase of the problem can be solved when a large group of individuals cooperate in providing for old age. The group can predict quite satisfactorily, on the basis of mortality experience, the amount of funds required to meet specified payments throughout life to all who live to be old. In private insurance practice the need of protection against this type of risk has long been recognized. An annuity distributes funds or reserves among persons over a specified age. Periodic payments on annuity contracts are usually made in proportion to the total amount of savings or reserves previously accumulated to each policyholder's credit. The insurance element in annuities results in the redistribution of the saving from those who die early for the benefit of those who live beyond the average life expectancy. The 1935 provisions of the Social Security Act established machinery for such cooperative pooling of the old-age risk by American workers. This pooling and sharing of risk is the essence of insurance, and thus the system, from its beginning, has contained an important insurance feature as well as a savings plan.

The old-age benefits plan enacted in 1935 failed, however, to give direct protection to the wives and other dependents of insured workers. Moreover, it was so designed that it was slow in getting under way. Since benefits were based on accumulated wages, reasonably large benefits were not possible for most workers until the system had been in operation many years. Despite the formula, which weighted more heavily the first $3,000 of total taxable wages, the amounts payable to many workers during the early years would have been an inadequate substitute for the loss of income upon retirement. In many States the average monthly benefits payable during the first few years would have been below the average current payments for old-age assistance.

The relatively low levels of early benefits led to various proposals for an upward adjustment. At the same time the possibility of enhancing benefits by paying supplementary amounts for dependent wives and children and by relating benefits to average wages led to a wider view of the scope of social security. To afford reasonably adequate protection to more of the people, social insurance must take into account not only the need for protection in old age but also other widespread risks of long-continued loss of income, earlier recognized by the Committee on Economic Security but not reflected in the 1935 law.

One respect in which the original Social Security Act failed to meet the security needs of the worker adequately was its treatment of the hazard of premature death. Protection of dependents against death of the wage earner was afforded only incidentally under the provisions for old age in title II as written in 1935, and consequently the insurance it provided against loss of income at death was inadequate. If a worker died before reaching age 65, his heirs or estate received 3½ percent of his aggregate wages in covered employment. Under the 1935 legislation lump-sum death payments were also to be made in and after 1942 to survivors of beneficiaries who had received some monthly benefits but, in all, less than 3½ percent of the amount of their aggregate taxable wages. In these cases the payment was to have been the difference between these two sums.

Since these amounts were based on accumulated wages, lump-sum death payments in the early years ordinarily could amount to very little, and even after the plan had been in operation for many years the average wage earner would have built up a death payment of not more than $1,000 or $1,500. A lump-sum payment may be dissipated quickly, and even the larger amounts would ordinarily have been inadequate to replace the income needed by the family of a deceased worker who left young children or aged dependents. Furthermore, the size of the death payment in the original title II was, in many cases, in inverse ratio to presumptive need; that is, it amounted to very little for the young worker who had little time to

build up a large amount in credited wages but would be likely to have a wife and young children dependent on him and, on the other hand, was larger for the worker who had been in the system for a long time but whose children would probably have become self-supporting.

This rather illogical treatment of the risk of premature death resulted from the emphasis on the savings feature contained in the 1935 act in that the lump-sum payments were regarded more as a method of ensuring that each person or his estate should receive somewhat more than he had paid into the system than as a method of protecting survivors. A more logical and systematic plan is provided in the amended act by resorting in full measure to the principles of social insurance. Just as a group of individuals can pool the risk of old age and balance the longevity of some individuals against the shorter lifetimes of others, so protection of dependents against loss of income by reason of the breadwinner's death can be attained by pooling the risk among a large group of individuals. By means of past mortality experience it can be predicted quite closely what percentage of the group will die in each year. Therefore, the cost of providing benefits for dependent survivors of workers dying prematurely can be forecast within satisfactory limits for practical purposes.

In private insurance practice such protection is provided by term insurance policies, under which those who live contribute through their premium payments to the dependents of those who die. The great majority of policyholders are "lucky" in that they and their families do not get any return on their money other than the protection and a sense of security from being insured, while the survivors of those who are unfortunate and die receive amounts unrelated to the length of time the individual policy was carried or to the total amount of premiums paid. In this respect, term insurance payments differ from payments on annuity contracts, since the latter are closely related to the total amount of savings accumulated in each policyholder's account. By means of the Social Security Act amendments, some of the principles of term insurance are used to pool the risk of death which deprives a worker's dependents of their customary means of support.

Under the amended plan the protection given the worker combines term insurance before age 65 with an annuity after age 65. In all but exceptional cases the individual, by means of the dual protection, gets either in protection or in benefits at least the value of his own contributions. However, when an insured individual dies before receiving in benefits as much as he contributed and leaves no survivors entitled to benefits, his estate will not get his money back. In most cases the benefits paid with respect to an individual's wages will at least equal the amount of his contributions, while persons who retire in the early years will receive much more than the amount of their contributions. For at least the next 40 years every insured worker will have more over-all protection than he could purchase from a private insurance company with the amount of his contributions.[1] Such protection does not express a quixotic generosity on the part of the Government but recognizes the social objective of the system and the compulsory nature of this as of most social insurance by assuring the public of a "good buy" in return for their contributions.

In recommending earlier payments, larger payments in the early years, and larger payments to beneficiaries with dependents or to the survivors of covered workers, the Social Security Advisory Council and the Social Security Board placed more emphasis on the insurance features of the act and correspondingly less on the savings or "money-back" approach. As a result of the shift, the present emphasis is to establish a system of social security which will partially compensate qualified workers or their families for the continuing loss of income occasioned by death or retirement. As far as possible the attempt has been made to measure this loss by the level of wages for some time before the loss took place. The change in emphasis from savings to insurance has resulted in a shift from *total* wages to *average* wages as a measure of benefits.

The Average Wage

Almost any mechanism devised for calculating benefits under a contributory system represents a balance between two conflicting ideals—to give full weight to the length of service and total contributions and to provide adequate protection

[1] Even in the extreme case of a person without qualified dependents who earns $250 monthly in covered employment for the next 45 years, an annuity purchased privately with the amount of his contributions would be only 30 cents per month more than the $58 per month he would receive under the 1939 amendments. Cf. U. S. Senate, Committee on Finance, *Social Security Act Amendments of 1939*, Report No. 734, pp. 15-16.

regardless of term of service. The average-wage formula in the amendments relates benefits not only to presumptive need, as indicated by the level of customary earnings, but also to the relative amount of time spent in covered employment. The average monthly wage is computed by dividing total wages received in covered employment before the quarter in which the wage earner died or became entitled to receive a primary benefit, by 3 times the number of quarters (i. e., the number of months) elapsing after 1936, up to but not including the quarter in which the individual becomes entitled to receive primary insurance benefits or dies, excluding any quarter prior to the quarter in which he attained the age of 22 during which he received less than $50 of wages and any quarter, after the quarter in which he attained age 65, occurring prior to 1939.[2]

As a result of dividing total wages in covered employment by the entire length of time (with the exceptions noted above) in which such wages could have been received, the average wage of individuals who stay in the system for only a part of the time in which they could have participated is less than it would be if they were in covered employment during the whole potential span. In effect, a weighted average wage is provided which automatically eliminates the emphasis given to the earnings of very short-time employees without lessening the importance of the earnings of low-paid employees who have been covered for long periods. Moreover, under this formula the same primary benefit will be paid to any two individuals who become eligible for benefits in the same quarter, have earned and contributed the same amount over the same total number of quarters, and have the same number of years of coverage, whether early or late in the history of the system.

By basing benefits on an average measured over the quarters since 1936, it is possible to start benefit payments in 1940 with reasonably adequate benefits even in the early years. As the system matures, however, the period will be measured from the time at which it is assumed that most individuals would have entered employment, i. e., age 22 except for those whose wage records evidence earlier quarters with wages of $50 or more in covered employment. The quarters before age 22 in which the worker receives less than $50 were not included, since for many of these younger workers employment is likely to be either incidental or little more than apprenticeship. Inclusion of these low quarters would tend to lower the average wage calculated for the entire period of employment. To mitigate this effect, age 22 was set as the lower limit in calculating length of service but not total wages.

In contrast to the provisions of the 1935 act, wages received after age 65 are credited toward benefits by the amendments, beginning with the calendar year 1939, and the average wage for individuals who work after they attain the age of 65 is calculated with the additional earnings and the additional quarters of coverage (as defined below) included. This provision has the advantage of enabling older workers to qualify or to increase the amount of their benefits even though they may have passed the former age limit of 65. For an individual who is entitled to benefits at age 65 but continues to work after that age, the new provision may work some disadvantage, since his average wage may decrease if his wage level falls off in old age and he does not make application for a benefit. This may be offset, however, by the increment for the added years of coverage.

It should be emphasized that for the worker without qualified dependents who has been covered throughout life no attempt is made to provide as generous a benefit as that provided under the original act. After the system has been in operation for some years, benefits for such annuitants will be lower than those they would have received under the 1935 provisions. Higher benefits are provided for persons who would not have had an opportunity to accumulate wages which would have entitled them, under the 1935 total-wage formula, to benefits adequate for them or their dependents.

As the system matures and the span of time lengthens through which an individual could have participated in it, a worker's average wage and consequently the amount of his benefit under the new formula will be increasingly a reflection of the length of continuity of his covered employment. For example, if a worker reaches age 65 in January 1943, after receiving $100 a month in covered employment during the 6 previous years, his average

[2] Wages received in covered employment in quarters before age 22 are included in the numerator of the fraction, but the number of quarters in the denominator excludes those in which the individual was paid less than $50. Remuneration for quarters after age 65, occurring in years prior to 1939, is excluded from the numerator because it is not "remuneration for employment," since employment is defined as "any service . . . except service by an individual after he attained the age of 65 if performed prior to Jan. 1, 1939." These same quarters are excluded from the denominator by express provision.

monthly wage is $\frac{\$7,200}{24 \times 3}$ or \$100. A man who dies later, let us say in January 1977, after 40 years of continuous covered employment since age 21 at the same rate of earnings, would have the same average of \$100. On the other hand, if a worker reaches age 65 in January 1977, after 40 years of potential coverage, and has had in those years only 20 years of covered employment and \$24,000 in wages, the formula for the average wage would take into account the 160 elapsed quarters and thus would be $\frac{\$24,000}{160 \times 3}$ or \$50, and the monthly benefit would, therefore, be lower than in the previous cases. From these illustrations it should be obvious that the adequacy of benefits in the future depends largely upon the question of coverage. As long as coverage does not extend to all gainful occupations, workers who are excluded from the system can receive no benefits and those who have only incidental covered employment will either fail to qualify or will receive relatively low monthly benefits.

The use of an average-earnings formula leads to the question whether a man who retires in the first few years of the system should receive the same benefit as the man with the same average wage who retires much later. For the former, the average wage is calculated only over the last few years of his working life; for the latter, over a full working lifetime. The former may have contributed for only a year and a half; the latter for 40 years. If the formula for calculating benefits were simply a percentage of average earnings, the man who, by 1980, had paid contributions over 40 years would receive a benefit no larger than that granted to the man retiring in 1940 with the same average wages.

While it is socially desirable to liberalize qualifications for benefits in the early years, when older workers have had only a brief opportunity to participate in the system, there should also be some reward for continued contributions, and a safeguarding to that extent of the savings principle. The amended plan aims at this result by adding to the amount calculated from the average wage, an increment of 1 percent of the basic benefit for each year in which the individual received wages of \$200 or more in covered employment. The result is to provide for an increase in benefits for workers now young, by reason of their subsequent years of service. An automatic adjustment is provided for periods in which the individual is not in covered employment, since the monthly average wage is obtained by dividing the aggregate of wages from covered employment by a figure representing the number of months in the whole period (with the specified exceptions) in which he might have been in covered employment. The monthly average is thus lowered automatically by periods of noncoverage. By the additional credit for years of service the new formula tends toward a crude proportionality between benefits and contributions of those who retire immediately and those who retire in the future.

Since the benefit formula is based on the average monthly wage, it can be used also for the "term insurance" against the current risk of death. An average wage basis related to earnings preceding loss of income seems the logical foundation for survivors benefits, just as it is for old-age benefits, if adequate benefits are to be paid in the early years of a social insurance system. Moreover, it is essential at all times that survivors benefits be based on average rather than aggregate wages if protection is to be given to the dependents of younger workers who have had relatively little time to build up a cumulative amount, yet are likely to have young dependents.

Eligibility

The 1935 legislation specified that a worker was qualified for monthly benefits if he was aged 65 or more, had received an aggregate of \$2,000 or more in wages in covered employment after 1936 and before he was 65, including wages for at least 1 day in each of 5 calendar years, and was no longer in "regular employment" for which he received wages. Since the Board and Advisory Council had both recommended earlier payments, it obviously became necessary to liberalize the eligibility requirements. By the beginning of 1940, wage records will be available for only 3 years, and it is quite probable that many of the workers in covered employments will not have received total wages of \$2,000 by that date. The necessity of lowering the entrance requirements was complicated by the fact that benefits were being increased in relation to the amount of contributions paid and that such a large bonus, if continued in the future, would invite fraud and collusion. The problem was to devise a formula

which would not exclude workers who are approaching or have reached retirement age at the present time, yet would ensure that those who qualify for benefits in future years will have participated substantially in the system in terms of the length of their covered employment and the amount of their contributions. It was also necessary to put the eligibility requirements upon a quarterly basis in conformity with the formula for average wages. Both of these conditions were finally met by the requirement that the individual to be insured must have received at least a specified amount of wages in each of approximately one-half the possible number of quarters.

The question then arose as to what amount of wages should constitute a quarter of coverage. Here again it becomes obvious that the amount should be large enough to exclude purely incidental or part-time wages. No matter what limit is set, the decision is bound to be arbitrary and to exclude quarters for some bona fide full-time employees. The definition of a quarter of coverage as a calendar quarter in which $50 of wages, as defined by law, have been received was finally incorporated in the law as constituting a reasonable minimum.

In the 1935 act, a worker must have received wages for covered employment in a day or more in each of 5 calendar years. Under the amendments, a worker who qualifies for a retirement benefit must fulfill one of the two following requirements, either of which gives him the "fully insured" status which entitles him and any of his specified dependents or survivors to any of the benefits provided under the system: (1) he must have had at least 40 quarters of coverage, in which case he is not only fully but also permanently insured, regardless of further covered employment; or (2) he must have at least half as many quarters of coverage as there are calendar quarters after the year 1936 or after the quarter in which he reached the age of 21, whichever is the later, and before the quarter in which he reached age 65 or died, whichever occurred first, and he must have had at least 6 quarters of coverage. When the number of elapsed quarters is an odd number, it is reduced by one. Quarters before age 21 and, beginning with 1939, quarters in or after which age 65 is attained in which an individual received at least the requisite $50 in covered employment may be counted toward the number required for eligibility for benefits. When an individual has received $3,000 or more in wages in any calendar year, each quarter of such year following the first quarter of coverage shall be counted as a quarter of coverage, up to but excluding any quarter of the year in which he dies or becomes entitled to a primary benefit.

Table 2.—*Illustrative monthly old-age benefits payable under 1935 provisions of the Social Security Act and under the 1939 amendments*[1]

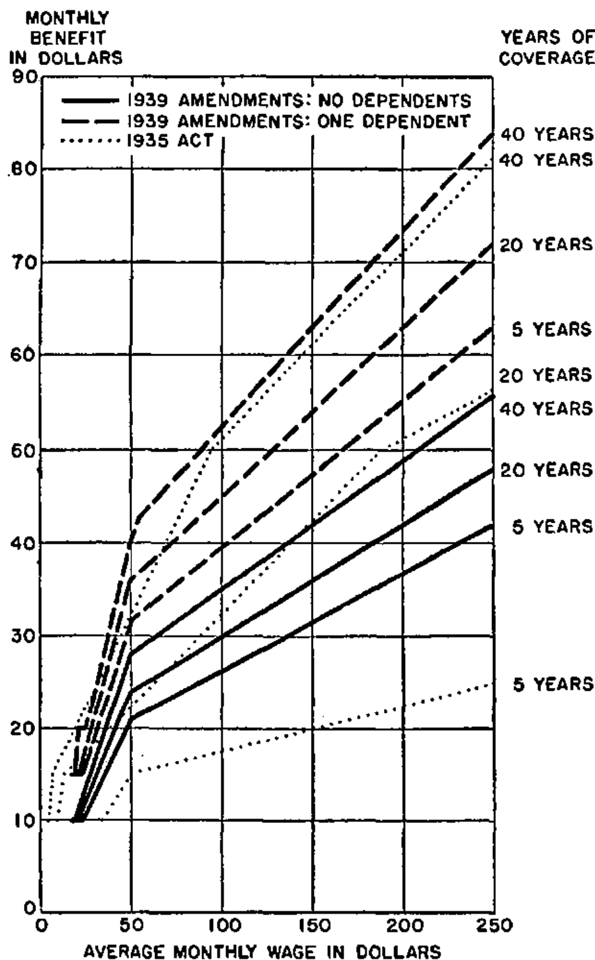
Years of coverage	1935 act	1939 amendments		1935 act	1939 amendments	
		Without dependents	With 1 dependent		Without dependents	With 1 dependent
	Average monthly wage of $50			Average monthly wage of $100		
3	(2)	$20.60	$30.90	(2)	$25.75	$38.62
5	$15.00	21.00	31.50	$17.50	26.25	39.37
10	17.50	22.00	33.00	22.50	27.50	41.25
20	22.50	24.00	36.00	32.50	30.00	45.00
30	27.50	26.00	39.00	42.50	32.50	48.75
40	32.50	28.00	40.00	51.25	35.00	52.50
	Average monthly wage of $150			Average monthly wage of $250		
3	(2)	$30.90	$46.35	(2)	$41.20	$61.80
5	$20.00	31.50	47.25	$25.00	42.00	63.00
10	27.50	33.00	49.50	37.50	44.00	66.00
20	42.50	36.00	54.00	56.25	48.00	72.00
30	53.75	39.00	58.50	68.75	52.00	78.00
40	61.25	42.00	63.00	81.25	56.00	84.00

[1] Based on a table presented by A. J. Altmeyer to the Committee on Ways and Means, Mar. 29, 1939. U. S. House of Representatives, Committee on Ways and Means, *Social Security: Hearings Relative to the Social Security Amendments of 1939*, Vol. 3, p. 2165. It is assumed, with respect to the amendments, that an individual earns at least $200 in each year in order to be eligible to receive the 1-percent increment. If this were not the case, the benefit would be somewhat lower.

[2] Monthly benefits not payable until after 5 years of coverage.

As a result of these requirements, the worker who has reached age 65 at any time prior to July 1, 1940, has fulfilled the eligibility requirements for a monthly benefit if there are 6 quarters in which he has received $50 or more in covered employment, whether before age 65 or, in and after 1939, subsequent to that age. For workers who attain age 65 in future years, the required number of quarters will rise progressively as the period lengthens over which they might have been engaged in covered employment, until they have attained the 40 quarters which entitle them to permanent coverage. It should be noted also that in both the early and later years of the system a worker who dies young, but after he has at least 6 quarters of coverage and at least half of the potential number as defined above, is fully insured.

Chart I.—*Monthly old-age benefits payable under the 1935 provisions of the Social Security Act and under the 1939 amendments*[1] *to workers with specified average monthly wages and years of coverage*



[1] It is assumed, with respect to the amendments, that an individual earns at least $200 in each year in order to be eligible to receive the 1-percent increment. If this were not the case, the benefit would be somewhat lower.

The amendments define as "currently insured" an individual who has been paid wages of not less than $50 for each of 6 of the 12 calendar quarters immediately preceding the quarter in which his death occurs. The widow of a currently insured worker who is caring for his dependent child or children and the dependent children of such a deceased worker are entitled, under specified circumstances, to monthly benefits.

Benefit Patterns

At first glance, the larger percentages applied in the revised formula might seem to indicate much larger benefits than those of the original act, but it must be remembered that the computation is based on an average wage rather than on an aggregate. In addition, the primary benefit is reckoned on only $250 of the average monthly wage. The primary benefit therefore cannot exceed $40 plus the 1-percent addition for each year of coverage. There will be some cases of persons who have received more than $3,000 in taxable wages in a year or years before 1940, by reason of work for more than one employer during the year, since the original legislation provided that as much as $3,000 a year in taxable wages from each employer might be counted. For some of these individuals, the average wage from covered employment may be more than $250, but in computing benefits only $250 can be counted.

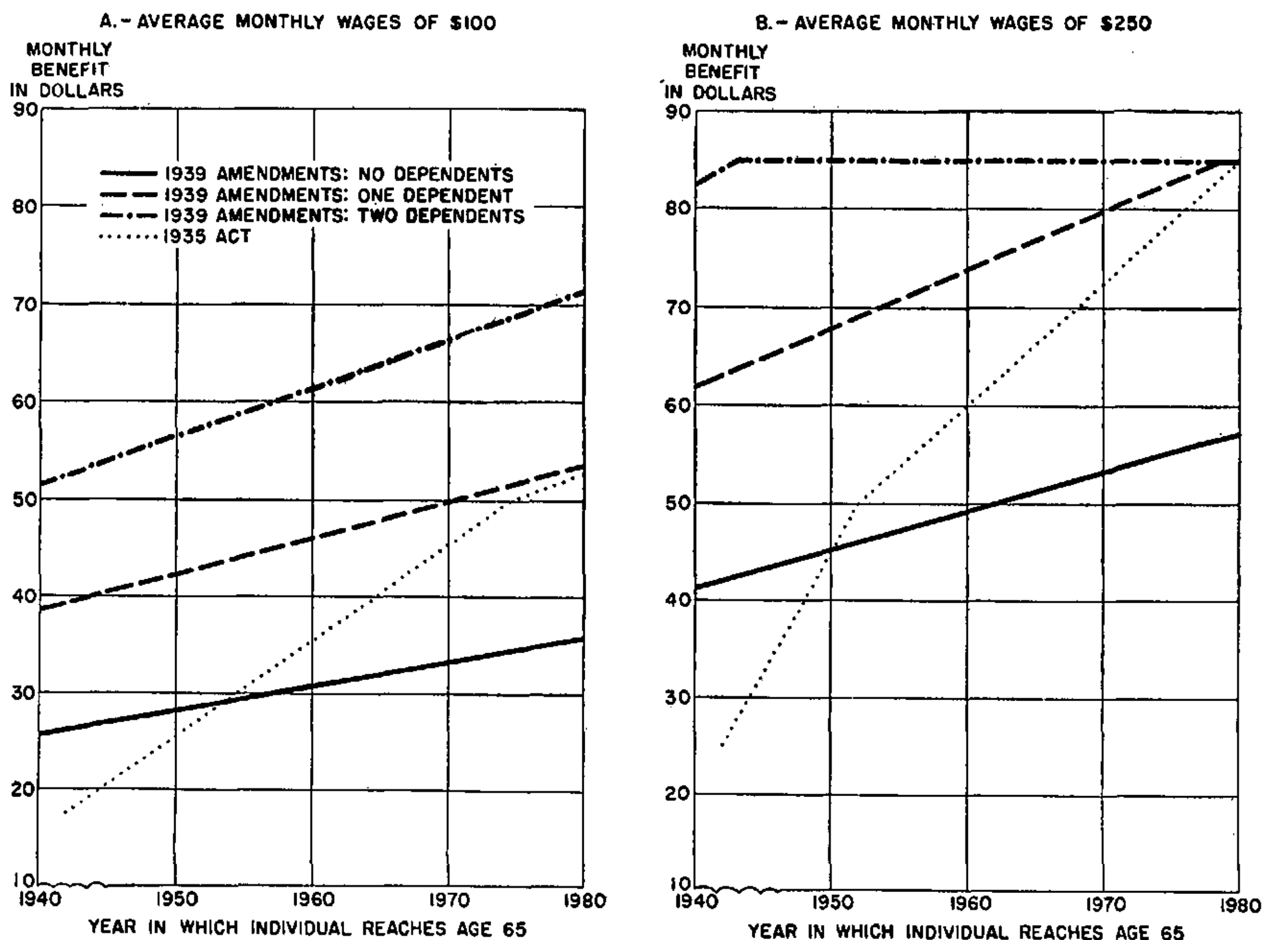
A supplementary benefit of one-half the primary benefit is provided for the wife of a primary annuitant if she is aged 65 or over and is not herself entitled to a primary benefit equal to or exceeding that amount. Any smaller primary benefit to which the wife may be entitled reduces the amount payable to her with respect to her husband's wages by an amount equal to her primary benefit. A similar supplement of one-half the primary benefit is also provided for a dependent child until age 18. The child's benefit may be withheld from children over 16 if they fail to attend school regularly and the Social Security Board finds it was feasible for them to attend. The maximum combined benefits with respect to an individual's wages may not be more than double the primary insurance benefit, 80 percent of the average wage, or $85, whichever is the least. However, these maximum provisions may not reduce the combined amount below $20. The minimum amount of total benefits payable with respect to an individual's wages is set at $10. Consequently, the minimum combined benefit for a worker with one dependent is $15, and with two dependents $20. The benefits payable to wives, widows, and children of insured workers, as well as the primary old-age insurance benefits, differ from public-assistance payments in that they are provided to all qualified persons irrespective of any other resources they may have.

Under the 1935 legislation deductions were to be made from the monthly benefits payable to a qualified worker if he received wages for any month in any part of which be rendered services in "regular employment." Under the amend-

ments a more explicit provision is made with respect to employment, in that deductions equal to the month's benefit (including dependent's allowances) are to be made from any payment to which an individual is entitled for any month in which he or she or the person upon whose wages a wife's or child's benefit is payable rendered services in covered employment for wages of $15 or more. A deduction equal to the child's benefit is made for any month in which a child over 16 years of age failed to attend school regularly if the Board finds that such attendance was feasible. When the Board is informed that more than one of these or other events specified in the amendments occurs in any month which would occasion deductions equal to a benefit for that month, only an amount equal to the benefit is to be deducted. Deductions will be made also from any benefit payable with respect to an individual's wages equaling the amount of any lump-sum payment made to that individual under provisions of the act in effect prior to the approval of the amendments. Deductions will be made in amounts and at times determined by the Board.

Comparison of the provisions of the revised plan with those of the 1935 act are best shown by specific examples, which reveal the more liberal benefits in the early years and the additional protection accorded to dependents. Such examples are given in table 2, which utilizes data presented by the Chairman of the Social Security Board at hearings before the Ways and Means Committee of the House of Representatives to illustrate benefit patterns under the original provisions and

Chart II.—*Monthly old-age benefits payable under the 1935 provisions of the Social Security Act and under the 1939 amendments [1] to workers with specified average monthly wages on attaining age 65, 1940–80*



[1] It is assumed, with respect to the amendments, that an individual earns at least $200 in each year in order to be eligible to receive the 1-percent increment. If this were not the case, the benefit would be somewhat lower.

the 1939 amendments for individuals and for persons with dependent wives or children.

Two facts are immediately apparent:

1. The new schedule provides much more liberal benefits to all persons who qualify for benefits in the early years. This, as has been pointed out, was an important reason for changing the benefit formula. The average-wage base of the revised benefit formula makes possible the immediate payment of significantly larger benefits, which are related to earnings levels and presumptive needs rather than to total earnings and years worked.

2. As the system matures, benefits for annuitants without qualified dependents will be smaller than the benefits such persons would have received under the 1935 act. This change results from the shift in emphasis in the program from the individual to the family. Because it is recognized that the principle of equity must be safeguarded, it may be noted here that, for many years to come, most annuitants, whether or not they have dependents who qualify for benefits, get much more protection than they could have purchased for the amount of their contributions from a private insurance company.

Chart I shows the relation of benefits for annuitants, with and without qualified dependents, at different wage levels under the revised plan as compared with benefits payable to all annuitants under the 1935 act. It is assumed that the employee works steadily in covered employment for the number of years shown. It is obvious that the new plan provides a schedule of benefit payments which is more sensitive to the presumptive needs of the beneficiary, and is more liberal with respect to employees retiring in the early years and to employees with low average earnings. Although the schedules for all the possible years of coverage are not plotted on this chart, it can be shown that benefits for an individual under the new plan are more liberal than under the old in the early years of the system, and less liberal thereafter. For an employee without qualified dependents whose average wage is $50 a month, the monthly benefit would be higher under the new plan than under the old if he retired at any time before 1961, i. e., before 25 years of coverage were completed; for such a worker whose average wage is $100 monthly, the new plan provides more generous benefits for the first 16 years. The period over which the new plan is the more advantageous is lowered as the average monthly wages are increased; this is a logical consequence of the dual emphasis on the early years of the system and on the first $50 of average monthly wages.

Chart II shows benefits under both the original and the amended provisions for annuitants with and without qualified dependents and with specified wage averages who reach age 65 in different years. In part A of chart II it is assumed that the employee receives $1,200 a year and is in covered employment every year after 1936; part B assumes $3,000 of wages each year and covered employment in each year subsequent to 1936. The differences in the formulas are at once apparent: (1) the more generous payments in the early years provided by the new plan, and (2) the "bend" in the formula on aggregate wages over $45,000 under the old plan.

The revised pattern of old-age benefits is an extension and liberalization of the Federal old-age insurance program. It has been designed to expand the system and to liberalize benefits paid to those who retire in the near future. More significant, its provisions for dependents and dependent survivors, with the emphasis on the family unit, is a progressive step toward a rounded program of social insurance within the structure of a contributory system.