

# Maximum Taxable Earnings Under OASDHI, 1938-66

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FROM ITS BEGINNINGS the social security program in the United States has embodied the principle of universal coverage—now generally accepted throughout the world. Limiting the size of the benefits paid and the extent of the replacement of the worker's earnings appeared necessary in a compulsory system of social insurance, however. An upper limit was therefore placed on the amount of annual earnings to be credited toward social security benefits and to be taxed. The limit on the taxable amount was designed to assure that no one contributed directly more than the value of the protection received.

Under the original limit on taxable and creditable earnings (\$3,000), about 97 percent of all covered workers earned less than the maximum and thus had all their earnings credited toward future benefits. Approximately 93 percent of aggregate earnings in covered employments were taxable in these first 2 years.

After the passage of years, any fixed dollar amount comes to have a different significance in a dynamic economy where productivity is increasing and earnings levels are rising. As the purchas-

ing power of benefits declined and the effect of the taxable limit on the proportion of earnings credited for benefits became more stringent, Congress has acted five times (1950, 1954, 1958, 1965, 1967) to raise the contribution and benefit base.

Review of the effect of the taxable limit on earnings, in terms of the proportion of the total amount of earnings that are taxable and the proportion of workers who have all their earnings credited toward benefits, provides a useful measure for the continuing assessment of the adequacy and scope, as well as the financing, of social security benefits. This article, continuing the series begun 2 years ago, presents data on the limits in effect through 1966.<sup>1</sup>

As noted in the earlier study, the taxable limit on earnings had been "losing ground" steadily since the early years of the social security program with respect to these percentages of total earnings taxed and workers with all earnings counted for benefits. The data indicate not only that the percentages declined during the base's

<sup>1</sup> For a description of the sources of data and related information in the first article in this series, see Michael Resnick "Annual Earnings and the Taxable Maximum for OASDHI," *Social Security Bulletin*, November 1966.

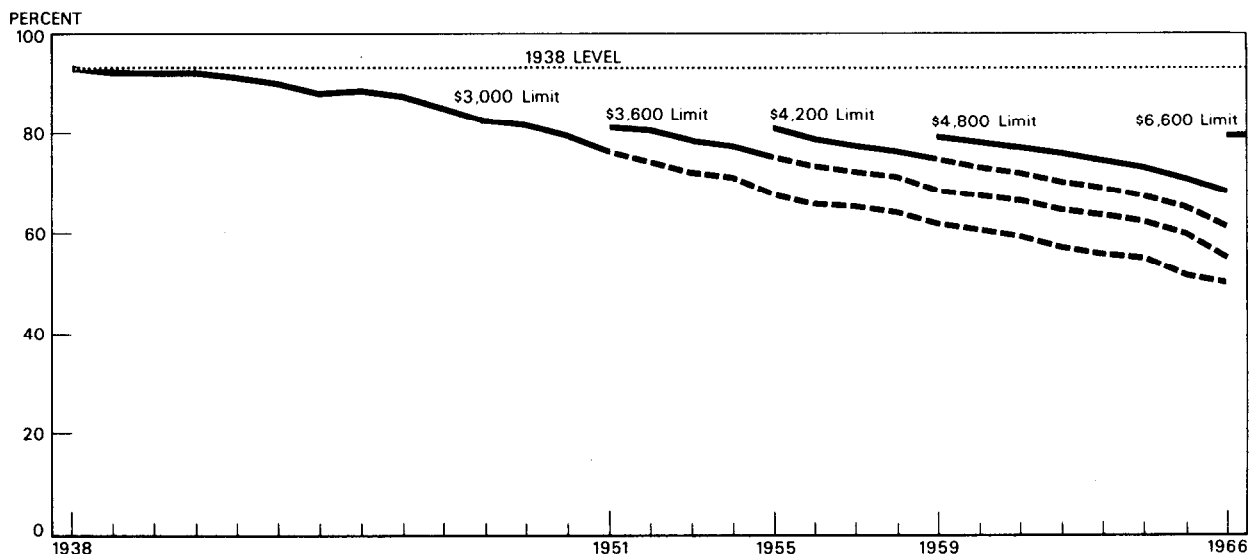
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TABLE 1.—Estimated aggregate total earnings of all workers covered under OASDHI and percent taxable under specified annual limits

[Figures in italics represent coverage during the period of prevailing taxable limits]

| Year      | Taxable limit in effect | Total earnings (in millions) | Percent of total earnings taxable under specified alternative limits |         |         |         |         |         |          |          |
|-----------|-------------------------|------------------------------|--|---------|---------|---------|---------|---------|----------|----------|
|           |                         |                              | \$3,000  | \$3,600 | \$4,200 | \$4,800 | \$6,600 | \$9,000 | \$12,000 | \$15,000 |
| 1938..... | \$3,000                 | 228,500                      | 95.0   | 94.7    | 95.4    | 95.9    | 96.6    | 97.0    | 97.3     | 97.5     |
| 1950..... |                         | 109,804                      | 79.7   | 85.6    | 88.7    | 90.4    | 93.2    | 95.3    | 95.6     | 96.3     |
| 1951..... | \$3,600                 | 148,900                      | 75.9   | 81.1    | 86.1    | 88.8    | 92.8    | 95.0    | 96.4     | 97.4     |
| 1952..... |                         | 159,900                      | 74.1   | 80.5    | 85.2    | 88.1    | 92.5    | 94.9    | 96.3     | 97.3     |
| 1953..... |                         | 173,600                      | 71.9   | 78.6    | 83.7    | 87.2    | 92.2    | 94.8    | 96.2     | 97.2     |
| 1954..... |                         | 171,900                      | 71.2   | 77.7    | 83.0    | 86.4    | 91.5    | 94.2    | 95.8     | 96.8     |
| 1955..... | \$4,200                 | 196,100                      | 68.4   | 75.2    | 80.3    | 84.5    | 90.4    | 93.2    | 95.4     | 96.5     |
| 1956..... |                         | 216,800                      | 66.2   | 73.2    | 78.8    | 82.9    | 89.7    | 93.2    | 95.3     | 96.4     |
| 1957..... |                         | 233,900                      | 65.1   | 72.0    | 77.6    | 81.8    | 89.1    | 92.6    | 95.0     | 96.2     |
| 1958..... |                         | 235,600                      | 64.1   | 71.0    | 76.3    | 81.0    | 88.6    | 92.8    | 94.9     | 96.1     |
| 1959..... | \$4,800                 | 255,000                      | 61.9   | 68.8    | 74.6    | 79.3    | 87.7    | 92.3    | 94.7     | 95.9     |
| 1960..... |                         | 265,200                      | 60.5   | 67.5    | 73.3    | 78.0    | 87.1    | 92.0    | 94.6     | 95.8     |
| 1961..... |                         | 270,900                      | 59.7   | 66.6    | 72.4    | 77.4    | 86.7    | 92.0    | 94.5     | 95.7     |
| 1962..... |                         | 289,700                      | 57.7   | 64.5    | 70.4    | 75.7    | 85.2    | 91.0    | 94.2     | 95.6     |
| 1963..... |                         | 302,400                      | 56.7   | 63.5    | 69.4    | 74.6    | 84.6    | 90.7    | 94.0     | 95.5     |
| 1964..... |                         | 325,800                      | 54.2   | 61.2    | 67.3    | 72.6    | 83.5    | 90.1    | 93.6     | 95.4     |
| 1965..... |                         | 355,100                      | 52.2   | 59.1    | 65.2    | 71.0    | 81.6    | 89.2    | 93.0     | 94.5     |
| 1966..... | \$6,600                 | 389,500                      | 50.6   | 57.4    | 63.4    | 68.9    | 80.2    | 88.3    | 92.1     | 93.8     |

CHART 1.—Proportion of total annual earnings taxable under alternative limits<sup>1</sup>



<sup>1</sup> Broken lines relate to years after effective period of taxable limit.

effective years but also that with each \$600 increase in the taxable limit they continued at a much lower level in the initial year of the new base than the level at the time the program began.

The percentage of earnings that have been taxable has dropped from 93 percent under the \$3,000 base in 1938 to a level of about 80 percent in the initial year of each new base. At the same time the proportions of all workers and of regularly employed men earning less than the taxable limit have declined from more than 90 percent

in the early years to levels of about 75 percent and 50 percent, respectively.

The \$6,600 base applicable beginning in 1966 represented the largest increase in the base to that point, but it did not lift the extent of taxation and coverage beyond the initial-year plateaus of 80 percent, 75 percent, and 50 percent established by the earlier \$600 rises in the taxable limit. The \$6,600 base did, however, manage to reverse slightly the declining trend in the percentages for the initial years of each higher base. In addition, under this base the percentages that existed in

TABLE 2.—Number of workers covered under OASDHI and proportion with annual earnings below specified amounts

[Figures in italics represent coverage during the period of prevailing taxable limits]

| Year | Taxable limit in effect | Number of workers (in thousands) | Percent of workers with annual earnings below specified amounts |             |             |             |             |             |             |             |
|------|-------------------------|----------------------------------|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|      |                         |                                  | \$3,000   | \$3,600     | \$4,200     | \$4,800     | \$6,600     | \$9,000     | \$12,000    | \$15,000    |
| 1938 | \$3,000                 | 31,822                           | <i>97.1</i>   | <i>98.4</i> | <i>99.0</i> | <i>99.4</i> | <i>99.8</i> | <i>99.9</i> | <i>99.9</i> | <i>99.9</i> |
| 1950 |                         | 48,283                           | <i>71.1</i>   | <i>81.3</i> | <i>89.4</i> | <i>93.6</i> | <i>97.8</i> | <i>99.0</i> | <i>99.4</i> | <i>99.5</i> |
| 1951 | \$3,600                 | 58,120                           | <i>66.1</i>   | <i>75.5</i> | <i>83.4</i> | <i>89.5</i> | <i>96.2</i> | <i>98.3</i> | <i>99.1</i> | <i>99.3</i> |
| 1952 |                         | 59,576                           | <i>62.8</i>   | <i>72.2</i> | <i>80.9</i> | <i>87.8</i> | <i>95.6</i> | <i>98.1</i> | <i>99.0</i> | <i>99.3</i> |
| 1953 |                         | 60,839                           | <i>59.6</i>   | <i>68.8</i> | <i>77.4</i> | <i>84.7</i> | <i>94.7</i> | <i>97.8</i> | <i>98.9</i> | <i>99.3</i> |
| 1954 |                         | 59,610                           | <i>59.3</i>   | <i>68.4</i> | <i>77.0</i> | <i>84.7</i> | <i>94.6</i> | <i>97.7</i> | <i>98.8</i> | <i>99.2</i> |
| 1955 | \$4,200                 | 65,203                           | <i>58.4</i>   | <i>66.7</i> | <i>74.3</i> | <i>81.3</i> | <i>93.8</i> | <i>97.7</i> | <i>98.7</i> | <i>99.1</i> |
| 1956 |                         | 67,612                           | <i>55.8</i>   | <i>63.8</i> | <i>71.5</i> | <i>78.5</i> | <i>92.0</i> | <i>96.7</i> | <i>98.4</i> | <i>99.0</i> |
| 1957 |                         | 70,590                           | <i>55.0</i>   | <i>62.8</i> | <i>70.3</i> | <i>77.1</i> | <i>91.0</i> | <i>96.4</i> | <i>98.3</i> | <i>98.9</i> |
| 1958 |                         | 69,774                           | <i>54.5</i>   | <i>62.2</i> | <i>69.6</i> | <i>76.2</i> | <i>90.0</i> | <i>95.9</i> | <i>98.1</i> | <i>98.8</i> |
| 1959 | \$4,800                 | 71,695                           | <i>52.2</i>   | <i>59.7</i> | <i>66.7</i> | <i>73.3</i> | <i>88.2</i> | <i>95.4</i> | <i>97.8</i> | <i>98.7</i> |
| 1960 |                         | 72,530                           | <i>51.4</i>   | <i>58.8</i> | <i>65.5</i> | <i>71.0</i> | <i>86.8</i> | <i>94.0</i> | <i>97.6</i> | <i>98.6</i> |
| 1961 |                         | 72,819                           | <i>50.8</i>   | <i>58.0</i> | <i>64.6</i> | <i>7.08</i> | <i>85.9</i> | <i>94.4</i> | <i>97.4</i> | <i>98.5</i> |
| 1962 |                         | 74,285                           | <i>49.3</i>   | <i>56.3</i> | <i>62.8</i> | <i>68.7</i> | <i>84.1</i> | <i>93.6</i> | <i>97.1</i> | <i>98.4</i> |
| 1963 |                         | 75,537                           | <i>48.6</i>   | <i>55.5</i> | <i>62.0</i> | <i>67.6</i> | <i>82.9</i> | <i>93.0</i> | <i>96.9</i> | <i>98.3</i> |
| 1964 |                         | 77,500                           | <i>46.5</i>   | <i>53.4</i> | <i>59.7</i> | <i>65.5</i> | <i>80.8</i> | <i>91.9</i> | <i>96.4</i> | <i>98.0</i> |
| 1965 |                         | 80,800                           | <i>45.4</i>   | <i>52.0</i> | <i>58.2</i> | <i>63.9</i> | <i>79.5</i> | <i>91.2</i> | <i>96.2</i> | <i>97.6</i> |
| 1966 | \$6,600                 | 84,600                           | 44.2  | 50.3        | 56.2        | 61.8        | 76.1        | 89.5        | 96.0        | 97.9        |

1951, the first year of the \$3,600 limit, were restored. On the basis of projected estimates for employment and earnings in 1968, an additional slight gain in these percentages is anticipated under the \$7,800 base established by the 1967 amendments.

### EFFECT ON FINANCING AND BENEFIT AMOUNTS

Under the \$3,000 taxable limit on earnings in effect when the program began, the total wages of all but the most highly paid workers could be taxed and counted for benefit purposes. The percentage of covered workers' payrolls that would have been subject to taxation was well above 90 percent in 1935, the year the Social Security Act was passed. In 1937, the year the program started, 92 percent of the total wages of covered workers were taxed and credited for benefit purposes. Data in table 1 and chart 1 show the percentages of taxable earnings under alternative taxable limits for all workers covered in specified years through 1966. The data indicate also what base would have maintained the higher percentages of taxable earnings. The table shows, for example, that to have restored the percentage of taxable earnings in 1938 under the \$3,000 base, the base should have been about \$6,600 in 1951, close to \$9,000 in

1955, about \$10,000 in 1959, and higher than \$13,000 in 1966.

The gap between the prevailing bases and those needed to restore the higher percentage of taxable earnings remains substantial, yet each time the taxable limit was raised, concomitantly, the financial base of the program has been strengthened. A higher base generally means a lower overall cost to the program, in terms of the total amount of benefits expressed as a percentage of taxable earnings, because the increase in taxable earnings for those earning at the new maximum is always greater than the increase in the maximum benefit payable. Thus, the 1965 amendments increased the maximum for annual taxable earnings from \$4,800 to \$6,600—a rise of 37.5 percent—but the maximum monthly benefit payable to a worker was changed from \$135.90 to \$168.00, a rise of only 23.6 percent.

In fact, for the average worker the full increase in the benefit amount cannot apply for many years, since his earnings will have to average, for all years used in the benefit computation, the new maximum amount of taxable earnings. There are situations, however, involving retired, disabled, or deceased workers in which the new maximum benefit would be payable as early as the year after the one in which the new limit was effect.

The improved overall cost factor results each

TABLE 3.—Number of male 4-quarter civilian wage and salary workers covered under OASDHI and proportion with annual wages below specified amounts

[Figures in italics represent coverage during the period of prevailing taxable limits]

| Year      | Taxable limit in effect | Number of male 4-quarter civilian wage & salary workers (in thousands) | Percent of workers with annual wages below specified amounts |             |             |             |         |             |          |          |
|-----------|-------------------------|--|--|-------------|-------------|-------------|---------|-------------|----------|----------|
|           |                         |  | \$3,000  | \$3,600     | \$4,200     | \$4,800     | \$6,600 | \$9,000     | \$12,000 | \$15,000 |
| 1938..... | \$3,000                 | 14,864   | <i>93.9</i>  | 96.7        | 97.9        | 98.7        | 99.5    | 99.8        | 99.9     | 99.9     |
| 1950..... |                         | 23,051   | <i>43.2</i>  | 62.4        | 78.4        | 87.0        | 95.4    | 97.9        | 98.8     | 99.2     |
| 1951..... | \$3,600                 | 25,880   | 36.8   | <i>52.6</i> | 68.0        | 80.4        | 93.8    | 97.5        | 98.7     | 99.1     |
| 1952..... |                         | 26,615   | 32.3   | <i>48.5</i> | 62.7        | 77.1        | 92.6    | 97.0        | 98.5     | 99.0     |
| 1953..... |                         | 27,255   | 27.7   | <i>40.5</i> | 55.9        | 70.5        | 90.8    | 96.5        | 98.3     | 98.9     |
| 1954..... |                         | 26,633   | 27.8   | <i>40.2</i> | 55.5        | 70.5        | 90.5    | 96.2        | 98.0     | 98.7     |
| 1955..... | \$4,200                 | 28,314   | 27.2   | 37.7        | <i>50.1</i> | 63.0        | 88.0    | 95.7        | 97.9     | 98.6     |
| 1956..... |                         | 29,950   | 25.6   | 35.2        | <i>46.7</i> | 59.0        | 85.8    | 94.8        | 97.6     | 98.5     |
| 1957..... |                         | 31,255   | 25.9   | 34.5        | <i>44.8</i> | 56.5        | 83.5    | 93.9        | 97.2     | 98.4     |
| 1958..... |                         | 30,859   | 25.9   | 34.3        | <i>44.1</i> | 55.1        | 81.6    | 93.0        | 96.9     | 98.3     |
| 1959..... | \$4,800                 | 31,294   | 23.1   | 30.8        | 39.7        | <i>49.7</i> | 77.8    | 92.2        | 96.6     | 98.1     |
| 1960..... |                         | 31,578   | 22.3   | 29.5        | 37.8        | <i>47.1</i> | 74.6    | 90.9        | 96.1     | 97.8     |
| 1961..... |                         | 31,522   | 22.2   | 29.3        | 37.0        | <i>45.3</i> | 73.2    | 90.1        | 95.8     | 97.7     |
| 1962..... |                         | 32,320   | 21.1   | 27.3        | 34.3        | <i>41.9</i> | 69.0    | 88.2        | 95.0     | 97.3     |
| 1963..... |                         | 33,390   | 20.1   | 26.5        | 33.4        | <i>40.9</i> | 66.8    | 87.0        | 94.5     | 97.1     |
| 1964..... |                         | 34,340   | 18.3   | 24.5        | 31.2        | <i>38.4</i> | 63.3    | 84.9        | 93.6     | 96.7     |
| 1965..... |                         | 35,000   | 15.5   | 21.0        | 27.1        | <i>33.7</i> | 59.4    | 82.9        | 92.7     | 96.2     |
| 1966..... |                         | \$6,600  | 35,900   | 15.1        | 19.5        | 25.1        | 31.3    | <i>52.5</i> | 78.6     | 92.2     |

time the earnings base is increased because the method of computing a worker's benefit includes the principle of a scaled-down rate of income replacement for workers with higher earnings.

Estimates of the additional amount of taxable earnings and the relative increase in contribution income may also be derived from the data in table 1. The data show, for example, that taxable earnings and contributions under the \$6,600 base effective in 1966 were 16.4 percent greater than the taxable amounts would have been under the \$4,800 base.<sup>2</sup>

## WORKERS WITH ALL THEIR EARNINGS TAXABLE

The taxable limit sets a ceiling for both the amount of earnings that may be taxed and the amount credited each year to a worker's earnings record for the purpose of computing retirement, disability, or survivor benefit payments. This principle was established at the beginning of the social security program in order to limit the

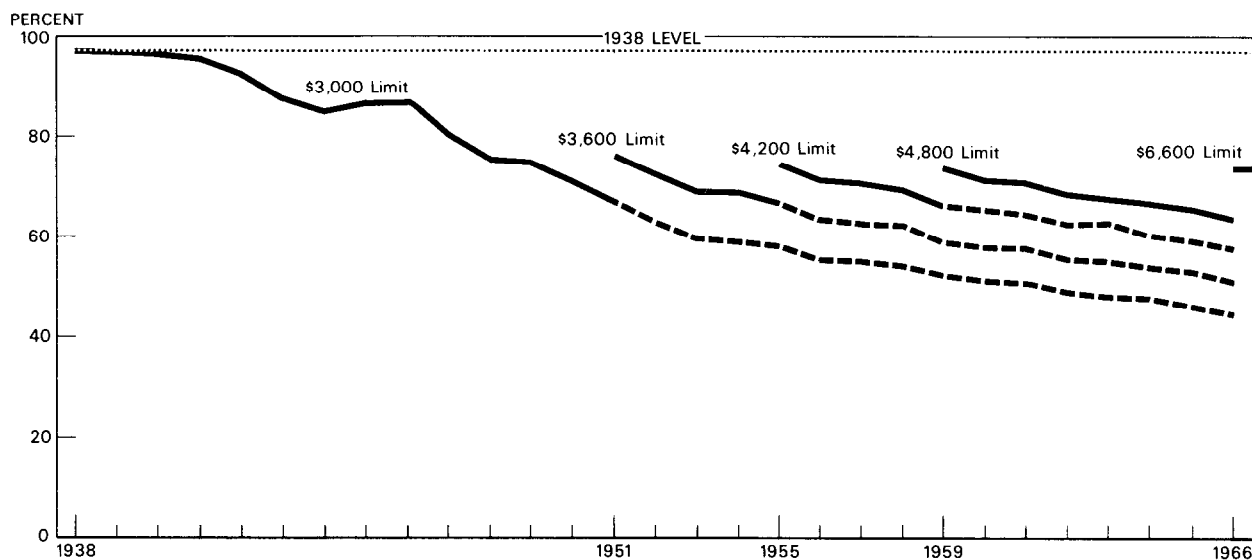
amount of benefits payable to the highest-paid workers. In the early days, the percentage of workers with earnings above the \$3,000 limit was relatively small. In 1938, for example, the percentage of all workers earning more than \$3,000 in covered employment was 3 percent. Of all regularly employed men in that year, only 6 percent earned more than \$3,000.

Tables 2 and 3 and the related charts provide data for all workers and for regularly employed men (4-quarter civilian wage and salary workers) on the percentages with total annual wages below the prevailing limits and below various alternative taxable limits. These percentages measure the relative size of the group of workers whose total annual earnings are used in the benefit computation. The rate of income replacement for the worker, represented by the ratio for the benefit amount to his average taxable earnings, declines as earnings rise and is lowest for workers with maximum average taxable earnings. Workers retiring with average earnings at the maximum receive benefits close to one-third of their average taxable earnings. When benefit payments are related to the total earnings of these workers, the rate of income replacement is much lower (averaging an estimated 20 percent for all workers with earnings above the maximum).

The data in tables 2 and 3, in addition to showing clearly the decline in the proportion of workers whose total earnings were credited for

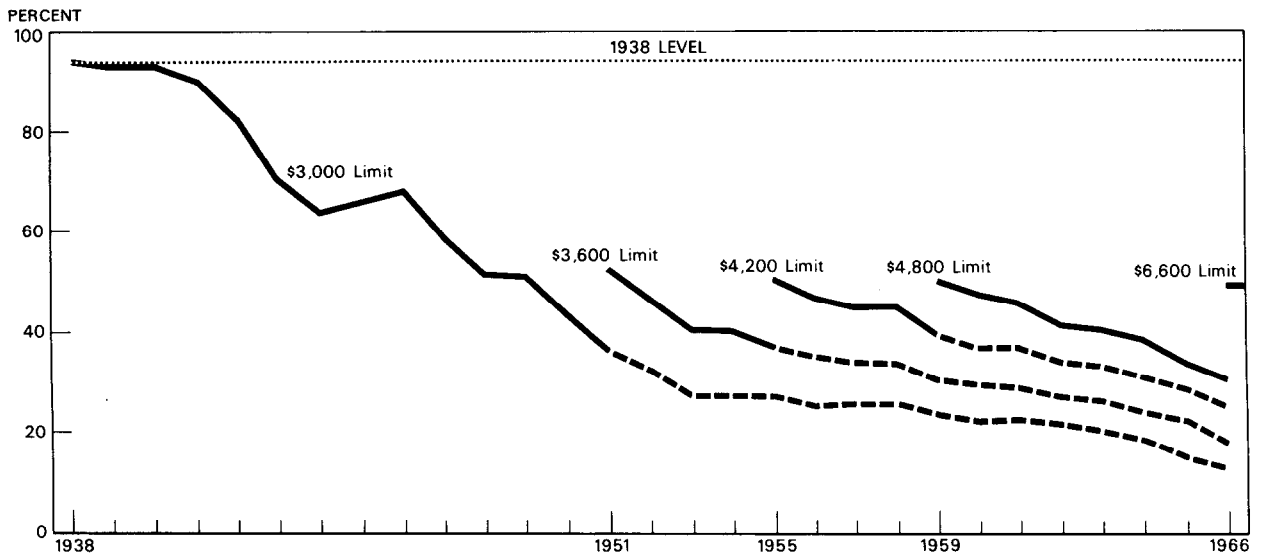
<sup>2</sup> The \$7,800 base in 1968 is expected to increase taxable earnings by more than 6 percent of the amount that would have been taxable under the \$6,600 base. The percentage of the total earnings taxed will not, however, be much more than the 80-percent level of the earlier changes. It is also estimated that to cut the gap between the current level and the earlier 90+ percentage even in half would have required a \$9,000 base in 1968.

CHART 2.—Proportion of all workers with annual earnings completely taxable under alternative limits<sup>1</sup>



<sup>1</sup> Broken lines relate to years after effective period of taxable limit.

CHART 3.—Proportion of male 4-quarter civilian wage and salary workers with annual earnings completely taxable under alternative limits<sup>1</sup>



<sup>1</sup> Broken lines relate to years after effective period of taxable limit.

benefit purposes, may also help in determining independently the earnings base required to maintain or restore a pre-determined benchmark percentage. Frequently, as when the \$3,000 base in 1938 is taken as the benchmark, the earnings bases suggested by these data as necessary for restoring an earlier relationship are similar to those estimated on the basis of the data on the percentage of taxable earnings in table 1. Thus the \$13,000 earnings base that would have been required in 1966 to result in the same percentage of payrolls as the proportion taxed in 1938 would also have assured taxing and crediting all the earnings in 1966 for about the same proportion of workers with all their earnings counted towards benefits in 1938.

Primarily, the data in these tables illustrate the substantial gaps that have developed for all workers and regularly employed men for each of

the taxable limits since the early years when as in 1938, for example, covering the total earnings of all but the most highly paid workers for contribution and benefit purposes meant covering the total earnings of 97 percent of all workers and 94 percent of regularly employed men in covered employment.

The consequence of allowing an earnings base to remain in effect for a number of years, or of not increasing the earnings base enough to reflect rising levels of earnings, is the accrual of maximum payable benefits for a rising proportion of beneficiaries. The tendency towards the clustering of benefits at a fixed amount and the narrowing of the range of accrued benefits raise questions in an earnings-related system in which the benefit amount is intended to represent a reasonable replacement of earnings at retirement for all but the most highly paid workers.