

Old Age - National Conference on aging

background

statement;

SECTION III

INCOME

MAINTENANCE

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Table 1.--Estimated money Income of persons 65 years of age and over, 1948

Table 2.--Estimated number of persons, aged 65 and over, receiving money income from specified sources, December 1940, December 1945, December 1949

Chart 1.--Number of Aged Persons Receiving Benefits Under Old-Age and Survivors Insurance and Number Receiving Old-Age Assistance Per 1,000 Persons 65 Years and Over in Each State, December 1949

Income Maintenance in Old Age

This statement is intended to provide delegates to the Income Maintenance Section of the National Conference on Aging with a factual background for Conference discussion. It supplements the broad background material sent to all Conference delegates.

The Income Maintenance Section will be concerned with the amount and sources of income available to older persons in the population, with economic and social forces affecting income security in old age and policy questions arising therefrom, and with programs present and proposed for sustaining income in old age.

The choice of topics for discussion and of background materials was made in terms of the long-range aspects of problems relating to income maintenance for the aged population. There are of course short-term implications for such aspects as employment and retirement policy, inherent in the current military and economic mobilization.

I. Introduction--How the Aged Support Themselves

Here, briefly, is what we know about the amount of income received by older persons and about the principal sources from which the income is derived:

Size of income.--The Census Bureau, on the basis of a survey conducted in April 1949, estimates that about 7.5 million persons 65 years of age and over out of a total of 11 million had some money income in 1948 and that about 3.5 million had no money income (table 1). This estimate needs to be interpreted in the light of the following qualifications: (1) married women with no independent income of their own were classified as having no money income; (2) the income referred to is money income, but excludes money receipts from the following sources: sale of property, withdrawals from bank deposits, borrowing, tax refunds, gifts, lump-sum inheritances or insurance payments. Income in kind furnished by friends and relatives and the value of home-grown food is not included.

The 3.5 million persons with no income consisted of 600,000 men and 2.9 million women. About half the women with no money income were married and living with husbands, all or most of whom probably had some income. All or most of the other women with no money income, as defined, may have been part of the estimated 1.5 million widowed or single aged women living with relatives and presumably supported by them.

Of the 7.5 million with income, a little less than one-third had incomes of less than \$500, and 6 out of 10 had incomes of less than \$1,000. Incomes were lower for aged persons living on farms than for those residing in towns or cities. Among persons not living in families or with close relatives, almost 9 out of 10 aged individuals

on farms, for instance, had an income below \$1,000, as compared with 7 out of 10 living off farms. The income of farm persons, as noted above, does not include the value of home-grown produce.

Among aged men with income, the median income was \$1,000, i.e., about one-half had incomes below \$1,000 and about half \$1,000 or more. This compares with a median of about \$3,000 for men with incomes in the ages 35 to 44 years, about \$2,800 for men with incomes in the ages 45 to 54 years and about \$2,400 for men with incomes aged 55 to 64 years.

The aged, in other words, have lower incomes than other adults in the population. This is not necessarily undesirable socially, since aged individuals by and large are out of the child-rearing ages and in general have fewer family responsibilities than younger adults.

It is in point, however, to ask whether any substantial number of aged have incomes so low as to put them below an acceptable standard of adequacy. The answer in part depends on the standard used. A few years ago the Social Security Administration, in cooperation with the Bureau of Labor Statistics, developed a budget for an elderly couple living by themselves in an urban area at what may be described as a modest but adequate level of living.^{1/} At March 1949 prices, the annual cost of this budget ranged from \$1,520 in Mobile, Alabama, to \$1,830 in Washington, D.C. Census data suggest that perhaps half the aged couples living by themselves in 1948 had incomes below \$1,800. Some allowance must be made, of course, for the fact that the budget was designed for city life and that a similar budget for a farm couple may cost less. Assistance in kind, furthermore, such as free living quarters, is not counted by the Census as money income. It is probably true, nevertheless, that many aged persons are living at levels below what most of us would regard as necessary or desirable.

Sources of income.--For present purposes, the major sources of income available to older persons may be grouped into 4 main classes: earnings from employment, including self-employment; income from individual accumulations, such as bank savings, security holdings, insurance annuities, and so on; benefit payments from public or voluntary programs based on past employment or service; and assistance from public or voluntary agencies, friends or relatives.

Among persons 65 years of age and over, as is true among other adults in the population, employment constitutes the most significant source of income. In December 1949, about one-third of all persons 65 years

^{1/} "A Budget for an Elderly Couple," Social Security Bulletin, February 1948.

of age and over were in receipt of earnings either as earners or the wives of earners (table 2). In which direction this ratio will change in the future is a moot question. The long-range trend in the participation of older persons in the labor force has been downward, for various reasons. Between 1900 and 1940, for instance, the proportion of men 65 years of age and over in the labor force dropped from 63 to 42 percent. It has risen somewhat since then and at the present time is about 45 percent. The extent to which older persons can in the future look to earnings as a source of income will depend in large part on economic conditions and on retirement policies in industry.

For the immediate future industrial and military mobilization will undoubtedly cause employment opportunities of older workers to increase considerably as they did in World War II when more than half of all men aged 65 and over were in the labor force because of liberalized hiring and retirement policies prevailing in industry.

Information on the number of beneficiaries of private retirement plans in industry is not available in detail. It is estimated that the number 65 years and over in 1949 was about one-quarter of a million. This figure includes the beneficiaries of group annuities. Many individuals receiving such benefits were also, no doubt, in receipt of old-age and survivors insurance as well.

We know even less about the number of older persons with income from privately accumulated assets. Estimates indicate that in 1949 about three-quarters of a million persons aged 65 years and over were receiving payments under individual insurance and annuity contracts. How many older persons are in receipt of dividends, interest, rents, or are living in whole or part on withdrawals from savings accounts or the sale of assets, is unknown.

Between one-fourth and one-fifth of all persons 65 years of age or over were in receipt in December 1949 of benefits under social insurance programs, based on past employment or service. (A more precise ratio cannot be developed because the amount of overlapping among some of these programs is not known.) This estimate includes about 1.9 million individuals receiving old-age and survivors insurance as retired workers, wives of retired workers, aged widows and aged parents; about 270,000 beneficiaries under the railroad retirement system; about 300,000 beneficiaries of Federal, State and local government retirement programs, and a little over a quarter of a million veterans and the dependent survivors of deceased veterans.^{1/} (Table 2)

^{1/} These figures are exclusive of beneficiaries under age 65.

In December 1949, about 2.7 million individuals 65 years of age and over were on the old-age assistance rolls, comprising almost one-fourth of the population in this age group. The number receiving aid from private agencies and from friends and relatives is not known.

Most aged persons have income from more than one source. Surveys indicate that generally speaking the larger the aged person's income the larger the number of sources from which it is derived. The retired worker with earnings during his working years high enough to qualify him for a relatively large retirement benefit is also likely to have accumulated assets furnishing him with additional income.

A word about the aged in institutions. We will lack current information on the size of the institutional group until the returns of the 1950 Census are tabulated. In 1940, persons 65 years of age and over in institutions numbered 222,000 or 2 percent of the total population in this age class. Homes for the aged and infirm reported 126,000; 88,000 were in mental institutions and 8,000 in other types of institutions.

II. Employment as a Source of Income for the Aged

Another section of the Conference will be primarily concerned with the employment of older workers. The Income Maintenance Section will, however, have a direct interest in the extent to which employment can be counted on as a source of income for older persons. This involves, among others, two issues: industrial policy concerning retirement, and the part-time employment of older persons after they have retired from their regular jobs.

The Increasing Number and Proportion of the Aged

Concern with providing employment opportunities for older persons arises partly from the growing proportion and number of the aged in the population. In 25 years there may be 18 million persons in the United States age 65 or over. This is an increase from the present 11½ million of over 50 percent. Fifty years ago only 1 person in every 25 in the population was to be found in the aged group. Today there is one in every 13, and by 1975 there may be 1 in every 9.

Of even greater significance, is the ratio of persons age 65 and over to those in the age group 20-64 which is frequently, although not entirely accurately, referred to as the "productive" group. In 1900 there was one person in the older group for each 13 persons in the productive age range. Today this ratio is 1 to 8, and forecasts indicate that in the next few decades the ratio will be approximately 1 to 6. The extent to which the services of older people are used productively will therefore have an important effect on how far we realize our potentialities for an increasing standard of living. It

has been estimated, for example, that the 2.9 million workers aged 65 years and over holding jobs at the end of 1949 were producing goods and services at an annual rate of about \$10 billion.

Retirement of Older Industrial and Commercial Workers

A large percentage of workers eligible for benefits under old-age and survivors insurance have continued to work rather than retire and apply for benefits. At the present time, about three-fourths of a million such insured and eligible workers continue actively in the labor market--and presumably will remain there as long as their health or the policies of their employers permit. Among those who have applied for benefits, surveys have established that retirement was involuntary in the overwhelming percentage of cases. Only about 5 percent of those surveyed stopped working when they were in good health because they wanted to. About two-fifths reported they were unable to work because of a disability; a twelfth quit for various personal reasons. The rest, almost a half, were laid off despite their willingness to continue work, and were unable to find other employment.

The extremely small proportion of voluntary retirements under old-age and survivors insurance may be in part a reflection of the low level of benefits in that program. The experience of some concerns with pension plans paying relatively high benefits suggests that the rate of voluntary retirement is considerably higher than 5 percent when the drop in income resulting from retirement is not too drastic.

The number of older workers who are forced to leave the labor force because of their firm's compulsory retirement policy is not known. A recent survey by the National Industrial Conference Board covering 380 firms with pension plans asked, among other things, whether retirement is compulsory. As shown in the table below, 41 percent of the employers replied yes. Compulsory retirement was more prevalent among the larger firms than the smaller ones.

Size of establishment	Total number of firms	Firms requiring compulsory retirement	
		Number	Percent
Total.....	380	157	41
Under 250 employees.....	81	31	38
250 to 999 employees.....	138	44	32
1,000 to 4,999 employees....	111	55	49
5,000 and over.....	50	27	54

NICB. Handbook on Pensions, Studies in Personnel Policy No. 103, April 1950, p. 50.

Retirement of Farmers and Other Self-Employed Persons

The average person employed in agriculture tends to be older than the average non-farm worker. In 1949 almost 12 percent of the farm operators and hired farm workers were 65 years of age and over, in contrast with 5 percent among the non-farm workers. Self-employed persons as a group are older than wage and salary workers, mainly because relatively more of them are able to continue work after reaching age 65.

A large proportion of farmers undoubtedly expect to continue doing some farm work as long as they are able after retirement age. Assets built up in the farm serve either as a source of income in old age by continued operation with the help of hired labor, or by rent or sale. A considerable proportion of farmers continue to live on farms after they retire and often produce most of their own food. A Minnesota study made in 1944 found that 43 percent of retired farmers depended on rent from the farm to finance their retirement, while 14 percent depended on income from chicken farming, and 12 percent depended on income from the sale of their farm.^{1/}

Many of the economic problems of older farmers are those facing any self-employed group in our society. The marked trend toward commercial agriculture has made rural standards of living more like those of the general population with the consequent need for higher money incomes.

The non-farm self-employed, like farm operators, are in a better position than most wage and salary earners to maintain their income from earnings after they reach the age of 65. Many of the aging non-farm self-employed, however, operate on a declining level of activity and income, and sooner or later reach a point where they continue in business only because they have no alternative means of livelihood. In this respect the non-farm self-employed are less favorably situated than the operators of farms, for their business and professional assets do not usually have a substantial sale or rental value which can be relied upon to supplement their incomes from savings and other sources.

Retirement on Account of Disability

A frequent cause for retirement among persons over 65 is physical or mental incapacity. There are, however, considerable numbers in the age groups immediately preceding 65 who, because of disability, are likewise incapable of continuing in regular jobs in the competitive labor market. The problem for income maintenance of these workers is

^{1/} Lowry Nelson, "Farm Retirement in Minnesota," Minnesota Bulletin 394, page 8.

frequently treated as a question of premature retirement.

A recent Census Survey indicates that of the more than 2 million persons in the civilian non-institutional population 14-64 years of age who have been disabled 6 months or more, about two-thirds are in the age groups from 45 to 64, and more than one-half are 50 to 65. In the years immediately prior to 65, chronic disease is a major cause for the decline of the individual's productive powers.

Not only does incapacitating disability occur most often in the upper age groups, but the chances of recovery and return to gainful work are far less than at younger ages. Total disability is more likely to be permanent among older persons. A comparison recently made as to recovery time for certain disease categories compensable under industrial sick benefit plans, showed that in such causes of disability as high blood pressure, stroke, and kidney disease, the chances of recovery for those over 50 were from 12% to 14% less than for those under 50. Older disabled workers do not respond to rehabilitation as well as younger workers. During 1949, less than 13% of the total rehabilitated under the Federal-State rehabilitation program were in the 50-64 age group.

Part-Time Employment of Older Persons

Part-time employment is a significant source of income for many older workers, as well as a means of satisfying the need most older persons have of feeling useful and productive despite their age. Future planning for the income security of older persons may very well include the development of more opportunities for part-time jobs.

According to the Bureau of the Census, between a fifth and a fourth of the 2.3 million men 65 years of age and over who were employed in an average week in 1949 were part-time workers. Most of these elderly part-time workers preferred part-time to full-time jobs.

Surveys made by the Bureau of Old-Age and Survivors Insurance in Boston in 1946 and Philadelphia and Baltimore in 1949, indicate that about 1/4 of the men surveyed had done some gainful work the year before. About a sixth considered themselves able to work and of these, 7 out of 10 had been employed in the preceding year. Ability to work at light or part-time jobs was reported by over a fourth; of these about one-third had been employed during the preceding year, many at part-time jobs. Other Bureau data indicate that about one in three primary beneficiaries who work in employment covered by the Social Security Act have only part-time or short-time employment.

III. Savings as a Resource in Old Age

This section considers the extent to which income needs in old age are being met through individual thrift.

Three questions are involved:

1. How much are people saving?
2. How much is being saved for old age?
3. How much savings do old people have?

The liquid savings of individuals at the end of 1949, exclusive of the value of corporate securities owned and equity in a home, amounted to about \$300 billion. This total included \$128 billion in currency and bank deposits, \$12 billion in shares in savings and loan associations, \$71 billion in U.S. Government securities, \$9 billion in State and local government securities, an equity of \$58 billion in private life insurance, and of \$9 billion in National Service Life Insurance and U.S. Government Life Insurance.^{1/}

These are impressive figures. Their significance for income security in old age is affected, however, by the extent to which such savings are widely distributed in the general population and the uses to which savings are put.

A survey by the Federal Reserve Board suggests that at the beginning of 1949 one-tenth of the approximately 50 million consumer spending units in the country held two-thirds of the liquid asset holdings of all spending units. Four of every 10 spending units had no liquid assets, or at most, nominal amounts of \$10 or less. The aggregate holdings of half the spending units in the country amounted to only 1 percent of the total liquid assets held.^{2/}

This estimate of the distribution of liquid assets must be qualified to take account of the exclusion from the definition of such resources as currency, equity in life insurance, equity in owned homes,

^{1/} Securities and Exchange Commission, "Volume and Composition of Individuals' Savings in 1949," Statistical Series, Release No. 925, April 4, 1950, and unpublished data.

^{2/} "1949 Survey of Consumer Finances; Part IV, Consumer Ownership and use of Liquid Assets," Federal Reserve Bulletin, August 1949 p. 910. Liquid assets include bank deposits, shares in savings and loan associations, and U.S. Government securities, but unlike the Securities and Exchange Commission data cited earlier, exclude currency held by individuals, and equity in life insurance.

investments and other nonliquid assets. Census data indicate that over half the families in the country owned their own homes in 1947,^{1/} while the Federal Reserve Board survey suggests that life insurance is carried by members of 3 of every 4 spending units.^{2/} The concentration of liquid assets in a relatively small number of families nevertheless throws some doubt on the availability of savings as a resource in old age for perhaps half or more of the people in the country.

The extent to which persons save for old age is of course difficult to measure. The typical reason given for saving is "a rainy day," which may have reference to a drop in income in old age, but could also mean unforeseen contingencies before old age is reached. Half the spending units in the Federal Reserve Board survey experiencing a decrease in the size of their liquid assets in 1948 drew on them to meet the cost of sickness and other emergencies. Almost half, including some of those in the first group, used up part or all of their assets to buy an automobile or some other durable goods. Repairs and additions to houses, education, the purchase of a home, and travel were other reasons given for depleted savings.^{3/}

There is some indication that asset holdings tend to be largest in late middle age, just before retirement. When spending units in the Federal Reserve Board survey are classified by age of head, those with heads 55-64 years appear to have the highest proportion with some liquid assets, and with assets of \$5,000 or more.^{4/} This could be taken as an indication of heightened awareness, in the immediate years prior to retirement, of the need for accumulating savings for use in old age. It may also reflect a reduction in the drain on family resources consequent on the departure of the children from the family fold.

Perhaps the best measure of the effective ability of persons to save for old age is the amount of assets held by those now aged. One-third of the spending units in the Federal Reserve Board survey with heads 65 years and over had no liquid assets. One-half, including the spending units with no assets, had asset holdings of less than \$500. About 7 in 10 had assets valued at less than \$2,000.^{5/} Approximately

^{1/} Bureau of the Census, Current Population Reports, Housing, Series P-70, No. 1, table 1.

^{2/} Federal Reserve Bulletin, Oct. 1949, p. 1183.

^{3/} *Ibid*, August 1949, p. 906.

^{4/} *Ibid*, p. 911.

^{5/} *Ibid*.

the same proportions with no assets and with assets under \$500 and under \$2,000 were found among spending units with heads retired from the labor force, and consisting, presumably, of persons for the most part over 65 years.^{1/}

The surveys made by the Social Security Administration of the income, assets and living arrangements of old-age and survivors insurance beneficiaries suggest that half or more of the commercial and industrial workers who have retired in recent years have some assets but that such assets typically are small. Two-fifths to two-thirds of the retired workers receiving benefits, the ratio varying among the 20 cities surveyed, had assets other than an equity in a home. Among home owners the median value of additional assets did not exceed \$775 except in Los Angeles, where it was \$1,341. Among nonhome owners the median value of all assets did not reach \$100. Assets other than an owned home provide little financial security for most insurance beneficiaries. In three survey areas studied not over a sixth, and in two, not over a fourth of the retired male workers had assets enough to last for their life expectancy if withdrawn at the rate of \$25 a month.^{2/}

Perhaps it would be fair to say, in conclusion, that while available data are not too satisfactory, they suggest that most people do save, in varying amounts and for a variety of reasons, and that in recent years about half the aged have been able to accumulate some savings. Such savings are generally small and for most persons are not large enough to provide a significant resource in old age.

^{1/} Ibid, p. 903.

^{2/} Social Security Bulletin, October 1947, p. 18, and unpublished data. "Assets" in this study were defined somewhat differently from "liquid assets" in the FRB Survey of Consumer Finances and the "liquid savings" of the Securities and Exchange Commission. The "assets" of old-age and survivors insurance beneficiaries included currency, bank deposits, shares in savings and loan associations, the purchase value of U.S. Government securities, the market value of corporate securities, equity in real estate other than own home and equity in own business. The "assets" excluded equity in life insurance and equity in any private or government trust fund.

IV. Benefits Based on Past Employment or Service

A. Private Pension Plans

The number of private pension plans in operation today is not known. Some idea of the minimum number may be had from the plans approved for income tax deduction purposes by the Bureau of Internal Revenue. Since 1942 the Bureau has approved about 13,000 pension and deferred profit-sharing plans, of which about 10,000 are retirement plans, and 3,000 are profit-sharing plans maturing at a specified retirement date. Some of these plans go back 30 years or more; the great majority have been instituted since 1940.

It is estimated that at the present time about 7.5 million persons are covered under private retirement plans. Perhaps 300,000 retired workers are receiving benefits under such plans, including about 250,000 aged 65 years and over.

Pension plans have been sponsored by management and by trade unions and jointly by the two under collective bargaining agreements. Plans sponsored by management predominate. In recent years many former management plans have been brought within the scope of collective bargaining agreements.

Characteristics

Coverage.--In earlier years formal plans tended to limit coverage to salaried employees only. With the advent of the Social Security Act, some of the plans then in operation were amended to cover only employees with earnings in excess of \$3,000 annually. New plans were set up with the same earnings coverage. During World War II there was a tendency to extend coverage to all classes of employees. The process of broadening coverage from salaried workers to all workers is evident also in recently negotiated plans.

Retirement age.--Retirement age is usually 65, sometimes 60 for women. Some plans provide for optional retirement at a specified age and compulsory retirement 3 or 5 years later. Both earlier and delayed retirement are often permitted under certain conditions. There is good reason to believe that during the next few years, with a tight labor market, the delayed retirement provisions of these pension plans will more often be invoked.

Service requirements for benefits.--In most plans, contributory and non-contributory, an employee must be in the employer's service at retirement age to receive full benefits. Contributory plans do not ordinarily impose service requirements as such as a condition for the receipt of monthly benefits at retirement age, except for those employees who begin participation in retirement plans after they have reached a specified age, usually 55. In such cases they may be required to serve as much as 10 years before they qualify for benefit.

Non-contributory plans often require a minimum period of service, as well as the attainment of a specified age, as a condition for benefit. Service for a period of as long as 25 years is not infrequently specified and the requirement of being in the employ of the employer at retirement age is common in collective bargaining plans.

Termination of employment and vested rights.---In contributory retirement plans, an employee whose employment is terminated before retirement is always entitled to a refund of his contributions, sometimes with interest.

In most contributory plans an employee who meets requirements with respect to length of service, age, or both, is given an equity in the pension rights accumulated out of his own and the employer's contributions. This is known as vesting and usually takes the form of a paid-up annuity payable at normal retirement age. Most non-contributory plans do not provide for vesting.

Amount of benefit.---In most plans, the benefit amount is expressed as a percent of the average earnings of the employee during the period covered, multiplied by the years of service or coverage. These formulas are generally integrated with the benefit formula under old-age and survivors insurance by giving smaller weight to the first \$3,000 of annual earnings. Many of the older plans pay benefits with respect to annual earnings above \$3,000 only. Some compute the benefit on total earnings but provide for the deduction of the primary old-age and survivors insurance benefit from the amount resulting from the application of the benefit formula.

In an analysis of 256 plans adopted between 1942 and 1948, or revised in 1946 or 1947, the Bankers Trust Company found that for the lower paid worker the benefit formula sought to provide a combined benefit (old-age and survivors insurance plus pension plan) approximating 40 to 55 percent of average annual earnings.^{1/}

Many of the recently negotiated union-management plans seek a minimum monthly benefit, including old-age and survivors insurance, of a specified amount (e.g. \$100), for all employees with a specified period of service.

Survivor benefits, disability benefits.---Many plans make provision for payment of benefits in the event of death prior to or after retirement. Most plans contain provisions giving the employee the option between a straight life annuity ending upon his death and an "actuarially" reduced annuity to be continued, in whole or in part, after his death, to a designated beneficiary.

^{1/} Bankers Trust Company, "289 Retirement Plans," New York, 1948.

Benefits in the event of total and permanent disability are specifically provided in some plans. These are found most often in self-insured plans of large firms.

Administration

In management-controlled plans, administration rests with the employer directly or with a pension committee. In negotiated plans, the administration may rest with a Board of Trustees, such as that of the United Mine Workers Welfare and Retirement Fund, consisting of a representative of the employer, the union and an impartial member selected by the first two. It may reside in a Board of Trustees consisting of union representatives only, with decisions on policy matters subject to veto by an employer advisory committee, as for instance, in the men's clothing industry. In some insured plans administration is handled solely by the employer, subject to the provisions in the collective bargaining agreements. In many recent agreements joint employer-union committees have been set up whose functions are analogous to those of the pension committees in management-controlled plans.

Fiscal Aspects

Private retirement plans may be financed entirely by the employer (non-contributory) or by the employees and the employers jointly (contributory). The few unilateral trade union plans are financed entirely by the unions out of dues or special assessments collected from their members.

Statistics on this subject are limited. The very early plans in industry were largely non-contributory. Those established between World War I and World War II tended to be contributory. During World War II non-contributory plans were popular again. Since then, the tide has shifted back to contributory arrangements. With few exceptions plans resulting from collective bargaining agreements have been non-contributory.

Contribution formulas vary greatly. In contributory plans the employee's contribution is expressed as a percent of earnings and relates to benefits for future or current service, that is, to service after the inception of the plan. Benefits with respect to service prior to the inception of the plan are financed entirely by the employer. Since most plans provide smaller benefits with respect to the first \$3,000 of annual earnings, the formula usually provides for a smaller employee contribution on such earnings. It may range from 1 percent to 5 percent, with 2 percent the contribution most frequently specified. With respect to that part of annual earnings in excess of \$3,000, the contribution ranges from 1 percent to 7 percent. The employer usually contributes the balance necessary to provide the benefit contemplated. It is nearly always at least equal to the employee's contribution and often may be one and a half to twice the employee's contributions.

In the non-contributory negotiated plans the collective bargaining agreement may specify the exact amount the employer is to contribute to the pension plan.

Methods of underwriting or funding plans vary. Some are underwritten by the employer himself (self-insured), who may set aside special funds with a trustee for the payment of benefits, or, less often, pay benefits out of current revenue. Other plans are underwritten by a commercial insurance company. Of 255 post-war pension plans recently analyzed by the National Industrial Conference Board about half were self-insured and about half insured with commercial carriers.

B. Public Programs

Old-Age and Survivors Insurance

The old-age and survivors insurance program is the largest of the social insurance programs. Under this system, workers and their employers--and in the future most self-employed persons--contribute to make advance provision for the replacement, in part, of earned income lost upon the death or retirement of a worker. Benefits are based on past employment or service.

When the program was adopted in 1935, it was the intent of Congress that this program should become the Nation's primary method of preventing dependency in old-age. This expectation was not realized, however, because only a little more than half of the Nation's jobs were under the program and the millions of workers who had already retired or did so soon after the program began had no opportunity to qualify for benefits. Moreover, the benefit level established in 1939 proved to be inadequate, and many beneficiaries have been living at income levels considerably below those prevailing for public assistance in a given locality. Benefits for a retired worker and his wife averaged about \$41 in December 1949.

With the amendments of 1950, the present Congress has affirmed its intention to strengthen and expand the contributory social insurance program so as to "speed the day when most of the aged and of the Nation's dependent families will look to the insurance program for protection." Under the new social security law, which is expected to receive the President's signature this month, nearly 10 million additional workers will be brought under the coverage of the program. Some 850,000 more aged workers and their dependents will be able to qualify immediately for monthly benefits, and the benefits (both for those already receiving payments and those qualifying in the future) will be greatly increased.

Coverage.--After the 1950 amendments, which will extend coverage on a compulsory basis to about 7.7 million persons and to about 2 million on a voluntary basis, about 45 million of the Nation's 60 million workers will be covered by the program. About 7.5 million of those not covered are under public retirement systems such as civil service, railroad retirement, the systems of the armed forces and State and local retirement programs.

The major groups who will still not have systematic retirement protection under a public program even after the amendments, are self-employed farmers and self-employed professional persons and those agricultural and domestic workers who are not "regularly" employed. Eliminating from consideration for the moment persons included in the labor force whose self-employment activity is part-time or incidental, these remaining groups represent something less than 10 percent of the Nation's paid workers and self-employed persons.

Types of benefits.---The program provides for monthly payments to specified family members upon the retirement or death of a qualified worker. Monthly retirement payments are provided for the following:

The qualified worker himself after he reaches age 65 and stops regular work;

His wife at age 65;

His unmarried dependent children under age 18;

His wife, at any age, while she has such children in her care;
and

The dependent husband of a qualified woman worker.

Monthly benefits are also provided for the following when a qualified worker dies:

His widow at age 65;

His dependent parents at age 65 if he has left no widow or young child;

His unmarried dependent children under age 18;

His widow, at any age, while she has such children in her care;
and

The dependent widower of a qualified woman worker.

Qualifications for benefits.---In general, the benefits of the program are limited to workers who have been in employment covered by the program for a substantial proportion of their working lifetime. However, when the program began, allowance was made for those who, because of age, would probably continue to work for only a short time. The general requirement for "fully insured" status and eligibility for the various types of old-age benefits (to a retired worker, his aged wife, his aged widow, or his aged parents) was set as half the worker's working lifetime after the program began, or a maximum of 10 years of covered employment. A worker who was age 62 or older when the program began could qualify for benefits with as little as 1½ years of coverage, but a man who reached 62 in 1950 needed about 8 years of covered work to qualify.

The amendments provide for a "new start" in the eligibility requirements. This "new start" would require the same qualifying period for an older worker first covered now as was required for an older worker when the system began operation. The provision is even more liberal than the original requirement, since past covered employment counts

toward meeting the new qualifying period. Thus any person age 62 or over on the effective date of the amendments will be "fully insured" if he has had $1\frac{1}{2}$ years of covered work at any time since the program began.

Survivors benefits for the widow and young children may be paid if the deceased worker was either "fully insured," as defined above, or "currently insured," i.e., has at least 6 quarters of coverage during the period consisting of the quarter in which he died and the 12 preceding quarters.

Under the new legislation, World War II veterans will receive wage credits of \$160 per month for the time spent in military or naval service between September 16, 1940, and July 24, 1947. These credits will be used in determining both eligibility and benefit amounts.

Retirement test.--Old-age insurance benefits are not intended as an annuity payable to all insured persons who reach a given age, but as assured income when the worker retires from regular work in covered occupations. The retirement test used, under the new legislation, permits the payment of a benefit to an entitled person for any month in which his wages are \$50 or less, or for any month to which no excess amount of net earnings from self-employment is charged. (For this purpose, annual net earnings below \$650 in self-employment do not prevent the payment of any benefits. Excesses over \$600 will be allocated to months in the year in units of \$50, but a particular month will not be charged with the excess and the individual will nevertheless receive his benefit if he can show he rendered no substantial services in self-employment during that month.)

Payment of benefits is made for a month in which no work is performed even though the beneficiary may expect to return to work, and so is not necessarily "retired" under the usual meaning of that word. Persons age 75 and over will receive their benefits without regard to the amount of their earnings from covered employment.

Amount of benefits.--The amount of the insurance benefits paid under the program is based on the worker's own earnings in jobs covered by the law--and is therefore related to the contribution he has paid. However, old-age and survivors insurance is like group insurance in that the rate of contribution is the same for all even though differences in age, number of dependents, etc., make the benefits more valuable to some than to others. Under old-age and survivors insurance there is also a weighting in favor of those with relatively low earnings.

Workers near retirement age are paid full or nearly full benefits in spite of their relatively small contribution to the program. This principle, followed also in private pension plans and group annuities, is designed to make the insurance system quickly effective.

The average monthly benefit to a retired worker alone a few years after enactment of the amended legislation is expected to be about \$55. Benefits will range from a \$20 minimum to about \$80 at the maximum. In the future, benefits to the average full-time industrial worker and his eligible wife will be about \$100 per month.

How the system is financed.---Benefits are financed by contributions of employers and employees covered under the program. Each year an amount equal to 100 percent of the taxes collected is automatically appropriated to the Federal Old-Age and Survivors Insurance Trust Fund. The money in the Fund can be used only to pay the benefits and administrative expenses of the program, and such part of the Fund as is not needed to meet current payments is invested in interest-bearing obligations of the United States.

Contributions are a percentage of the first \$3,000 of the employee's wages in any one year through 1950, and, under the new legislation, the first \$3,600 in any year beginning with 1951. The rate is currently $1\frac{1}{2}$ percent on employer and employee, each. The rate is scheduled to increase, by gradual steps, to $3\frac{1}{4}$ percent, each, by 1970. The self-employed will pay $1\frac{1}{2}$ times the employee rate. It is expected that contributions at the scheduled rate will be sufficient to make the old-age and survivors insurance system self-supporting.

The level premium cost of the expanded program (that is, the rate which would be required to carry the full cost of the program from the present time indefinitely into the future) is about 6%. Thus, the cost of benefits as a percent of payroll will be about the same under the expanded program as was contemplated under either the original 1935 Act or the 1939 Amendments.

The development of the Nation's economic system in the past has been accompanied by a rising level of income and earnings. If past trends continue, earnings in the future will be substantially higher than they are now. The cost estimates, and hence the contribution rate schedule, are based on the assumption that benefits in the long-range future will be adjusted by Congress, as needed, so as to bear about the same relationship to future average earnings that benefits under the new bill bear to present average earnings. To the extent that benefit changes fail to keep pace with rising earnings levels, the cost of the program as a percent of pay roll will be lower than the estimates indicate. This is due to the weighted nature of the benefit formula; as average earnings approach the \$300 maximum a larger portion of such earnings becomes subject to the 15% factor rather than the 50% factor in the benefit formula and, therefore, benefits based on high average earnings are smaller in relation to such earnings.

The cost of the protection under the new program for a generation of workers covered during their full working lifetime is estimated to be approximately 4% of pay roll. Thus, under the schedule in the bill

the combined rate in 1954 would approximate the value of the benefits for the group of young workers who enter covered employment at that time. The excess of the 6% level premium cost over the 4% rate results from the fact that persons retiring during the next 30 or 40 years will receive full benefits even though they have not contributed over a full working lifetime.

Other Public Retirement Programs and Veterans Programs

Special programs have been established for certain groups of employees outside the coverage of old-age and survivors insurance. These make provision for retirement benefits to railroad workers, some Federal, State and local government employees, and regular members of the armed forces. In some of these plans, provision is made for survivor benefits to dependents of deceased workers.

Both contributions and benefits under these programs tend to be higher than those under old-age and survivors insurance. Currently, for instance, the employees under the railroad and Federal civil service plans contribute 6 percent of wages. The present monthly retirement benefit averages about \$85 for retired railroad workers, and about \$100 for retired Federal employees; for higher paid workers with relatively long service, benefits run considerably higher. Still another difference between other public programs and old-age and survivors insurance is that the special systems usually permit retirement for disability as well as age.

Veterans compensation and pensions constitute a significant source of income to several hundred thousand aged veterans and the aged survivors of deceased veterans. Both compensation and pensions are payable for disability, and in the case of Spanish-American war veterans, on the basis of age alone.

Compensation is paid for service-connected disability or death. The amount of compensation is generally determined by the degree of disability and the presence of dependents. Compensation is payable regardless of the amount or sources of other income. On the other hand, non-service-connected disability pensions (and pensions payable to widows and children for non-service-connected deaths) have an income limitation which governs eligibility. Generally speaking, this limitation prevents payments to single individuals with income in excess of \$1,000 and to families with income over \$2,500. Social security benefits must be taken into account in determining the income of veterans and their families.

V. Assistance

The purpose of public assistance is to provide income to persons who are in need to enable them to obtain the essentials of living. Old-age assistance is the principal type of public assistance available to older persons in want, but some persons of advanced age receive aid to the blind or general assistance. H.R. 6000 creates a new category of assistance for the permanently and totally disabled which also will care for some older persons. The Federal Government makes grants to States to help them finance old-age assistance and aid to the blind and, effective October 1, will make grants for aid to the permanently and totally disabled; general assistance, however, is solely the responsibility of the States and localities.

Provisions of Public Assistance Programs

The Social Security Act establishes certain conditions that must be met if a State is to qualify for Federal funds. The Act also defines assistance and describes the limits of Federal participation in the cost of assistance and its administration. States are required to submit plans for the operation of the programs to the Social Security Administration for approval. The conditions under which approval is granted are set forth in the Act.

Scope of assistance.--Assistance is defined as money payments to needy individuals. Under H.R. 6000 the definition of assistance is expanded to include also payments made directly to practitioners, hospitals, clinics, and other suppliers of medical or remedial services to needy individuals.

Determination of need.--To be eligible for assistance, an individual must be needy. The Social Security Act does not define need, but each State is required to define a standard by which need is determined. The Act requires that all income and resources of the individual must be considered in making this determination (H.R. 6000 makes an exception to this provision in aid to the blind).

It is the general practice for States to establish policies under which a person may retain certain property and yet get assistance to help meet current needs. State policies commonly allow recipients to own their homes, have small life and burial insurance policies, or maintain small cash reserves. Homes and income-producing properties have value in meeting current needs. Insurance and other deferred assets are available to meet prospective needs. The amounts and kinds of property that a recipient may have, and the circumstances under which he may retain it, differ from State to State. In some States, automatic liens are placed on the real property of a recipient so that at his death, or that of his surviving spouse, the State may recover for assistance granted. Other types of recovery provisions are in effect in some other States. Some States require a recipient to surrender title to the property as a condition to receiving aid.

In determining how much assistance needy persons are to get, each State establishes a standard which includes such basic requirements as food, shelter, clothing, utilities, and household operating expenses, and such special requirements as nursing home care or medical services. The difference between the total cost of the individual items essential for living and the value of the resources available to meet current living costs is commonly taken to represent the amount of need. In some States, the assistance payment may equal the amount needed; in others, it may be a lesser amount. In the latter group are the States which limit by law or administrative ruling the maximum monthly amount that a recipient may receive to meet basic or total needs. Where appropriations are insufficient to cover even these limited amounts, the States may be forced to make percentage cuts in payments.

States must measure how far the individual's resources will go in meeting their current living costs. Policies governing the evaluation of resources relate to the use-value of property, net income from earnings and other sources, and value of home-grown produce. Policies relating to possible contributions from relatives are widely divergent. Some States, in determining the extent of an individual's resources, assume that legally responsible relatives contribute to the support of recipients even if they do not. Two States at the other extreme have provisions barring the assistance agency from making any inquiry from relatives concerning their ability or willingness to contribute to the support of needy individuals. In all States, when such contributions are made the income from this source must, of course, be taken into account.

Federal financial participation.--The Federal share of assistance costs is three-fourths of the first \$20 of the average payment and one-half the balance up to a maximum of \$50 monthly for an individual. Under H.R. 6000 the \$50 limit will apply to the sum of the money payment to the individual and of any payments that may be made to persons, agencies, or organizations supplying him with medical or other remedial care.

Volume of Old-Age Assistance

In December 1949, more than 2.7 million persons, or 241 per 1,000 persons in the population 65 years of age and over, were receiving old-age assistance. The average monthly payment was \$45. Expenditures for old-age assistance in 1949 were \$1.4 billion, of which the Federal Government contributed \$.8 billion. In mid-1948 about one recipient in 16 was getting old-age assistance in addition to his old-age and survivors insurance benefit.

Great variations are to be found among the States in the number of recipients of old-age assistance in relation to aged population. In December 1949 the recipient rate ranged from 67 per 1,000 in Delaware and New Jersey to 829 per 1,000 in Louisiana. In general the States

that are predominately rural—and consequently have least protection from the old-age and survivors insurance system—have the highest recipient rates (Chart 1). These are for the most part States with low fiscal resources and with a relatively large amount of need. Assistance standards, and policies relating to the responsibility of relatives for support, the ownership of property by recipients, liens on property, and recoveries from the estates of recipients for assistance granted during their lifetimes are also factors affecting the size of the recipient load in a State.

Average old-age assistance payments in December 1949 ranged from \$78 in Colorado to \$19 in Mississippi. In 14 States the averages exceeded \$50, the maximum monthly amount in which the Federal Government will share. In 10 States—all but one of which is in the South—the averages were under \$30. The variations in assistance levels reflect several factors, chief of which are differences among the States in ability of the States to finance their share of assistance costs and in attitudes toward meeting need.

The Federal share of old-age assistance costs in 1949 was 55 percent, but in individual States ranged from 75 percent to 40 percent. States making individual payments in excess of \$50 monthly meet the full cost of the amounts over \$50. Only a State making no payment over \$20 would get straight 75 percent matching.

Other Assistance for Older Persons

Not all needy persons 65 years of age and over can qualify for old-age assistance. Some States have restrictive conditions of eligibility which bar from old-age assistance noncitizens and persons who are relatively newcomers to the State. Many States require as much as 5 years' residence in the last 9, including the year immediately preceding the application. The only type of public aid available to these needy old people (unless they are blind) is general assistance. For this residual group depending upon State-local general assistance, provisions are far more uneven than in the case of the special types of public assistance. This is illustrated by the following data: Expenditures per capita for general assistance in 1949 ranged from only \$.04 in Mississippi to \$4.94 in Washington; the highest State recipient rate was 50 times the lowest; the highest State average payment was seven times the lowest.

A substantial proportion of the persons who will become eligible under the new State programs of aid to the permanently and totally disabled will presumably be between the ages of 55 and 64 since the incidence of permanent and total disability progresses rapidly with successive age groups.

Although the aid to the blind program is very small, more than two-thirds of the persons on the rolls may be 50 years of age and over, and about one-third, 65 years of age and over. Blindness like other disabling conditions is closely associated with the aging process.

There are no satisfactory data on the extent of privately organized aid to older needy persons. It is generally believed that the volume of such aid is quite small by comparison with the volume of public aid.

Table 1.--Estimated money income of persons 65 years of age and over, 1948

[In thousands]

Income	Total	Male	Female
Total number of persons.....	10,977	5,205	5,772
No income.....	3,487	568	2,919
With income (number).....	7,490	4,637	2,853
(percent).....	100.0	100.0	100.0
Loss.....	.2	.3	.1
\$1-499.....	28.8	23.2	43.4
500-999.....	30.5	26.6	36.1
1,000-1,499.....	13.1	14.3	9.4
1,500-1,999.....	7.1	8.2	4.5
2,000-2,499.....	6.4	8.4	2.5
2,500-2,999.....	3.8	5.4	1.1
3,000-3,999.....	4.8	6.5	1.5
4,000-4,999.....	2.0	2.6	.4
5,000-5,999.....	1.2	1.6	.3
6,000-9,999.....	1.3	1.6	.5
10,000 and over.....	.9	1.2	.2
Median		\$998	\$589

Source: Bureau of the Census: "Income of Families and Persons in the United States: 1948," February 14, 1950, Table 12 (Current Population Reports, Consumer Income, Series P-60, No. 6) and unpublished data. Total number of persons 65 years and over is exclusive of about 200,000 persons in institutions.

The word "income," as used in this table, excludes:

- Money receipts from sale of property
- Withdrawals from bank deposits
- Borrowed money
- Tax refunds
- Gifts
- Lump-sum inheritances or insurance payments
- Value of home-grown food consumed by family
- Imputed rental value of owned home
- Assistance in kind

Table 2.--Estimated number of persons, aged 65 and over, receiving money income from specified sources, December 1940, December 1945, December 1949 ^{1/}

[In millions]

Source of income	December 1940	December 1945	December 1949		
	Total	Total	Total	Men	Women
Total population 65 years and over..	9.1	10.2	11.5	5.4	6.0
Employment.....	2.8	3.7	3.8	2.4	1.4
Earners.....	2.1	2.8	2.9	2.4	.5
Wives of earners.....	.7	.9	.9	---	.9
Social insurance and related programs:					
Old-age and survivors insurance.....	.1	.8	1.9	1.1	.8
Railroad retirement.....	.1	.2	.3	.2	.1
Federal civil-service retirement.....	(2/)	.1	.1	.1	(2/)
Veterans' program.....	.2	.3	.3	.1	.1
Other ^{3/}2	.3	.4	.1	.3
Old-age assistance.....	2.1	2.1	2.7	1.3	1.4

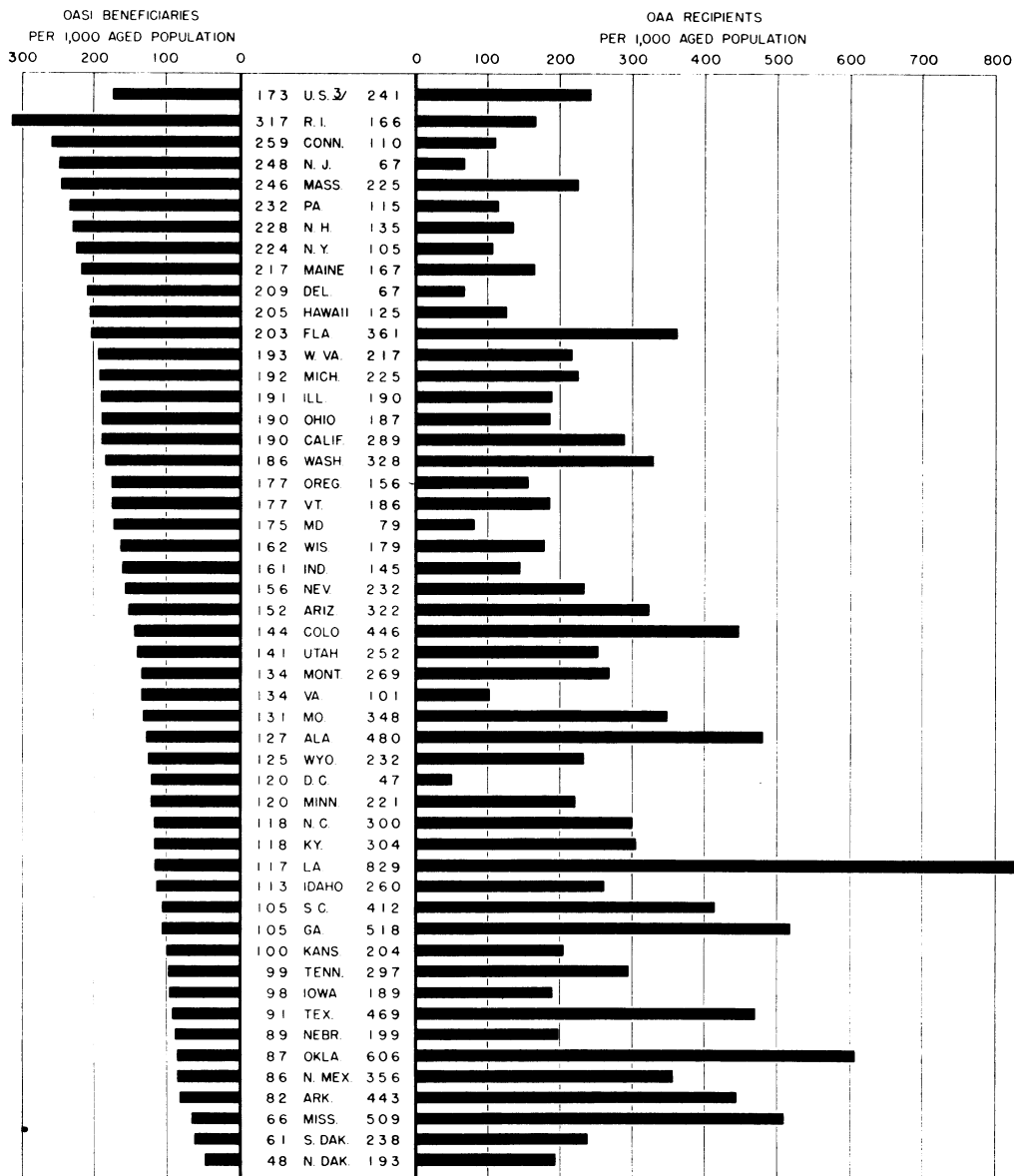
^{1/} Some persons received income from more than one of the sources listed.

^{2/} Less than 50,000.

^{3/} Federal retirement programs other than civil service; State and local government retirement programs; wives of male beneficiaries of programs other than old-age and survivors insurance.

Source: Social Security Bulletin, June 1950, p. 16.

**NUMBER OF AGED PERSONS RECEIVING BENEFITS UNDER OLD-AGE AND SURVIVORS
INSURANCE 1/ AND NUMBER RECEIVING OLD-AGE ASSISTANCE PER 1,000
PERSONS 65 YEARS AND OVER IN EACH STATE, 2/ DEC. 1949**



1/ PRIMARY, WIFE'S, WIDOW'S, AND PARENT'S BENEFITS IN CURRENT-PAYMENT STATUS AT END OF DECEMBER.

2/ ESTIMATED POPULATION AGED 65 AND OVER AS OF JULY 1949 BASED ON ESTIMATE FOR JULY 1948 BY BUREAU OF CENSUS.

3/ INCLUDES HAWAII