Pensions (1954)

IRC
SINCE 1926

(INDUSTRIAL RELATIONS MEMOS no. 132)

1954 SOCIAL SECURITY AMENDMENTS AND PRIVATE PENSION PLANS

Published by

INDUSTRIAL RELATIONS COUNSELORS, INC.

Rockefeller Center, 1270 Avenue of the Americas, New York 20, N.Y.

Number 132

September 8, 1954

1954 SOCIAL SECURITY AMENDMENTS AND PRIVATE PENSION PLANS

Since most private pension plans are designed to supplement federal old age benefits, the problem arises as to whether the social security amendments of 1954, signed by the President on September 1, call for any changes in present plans.

In general, if present pension plans remain unchanged, the main effects of the amendments will be as follows:

1. An increase in the combined retirement incomes for all employees, but especially those earning over $3,600 per year, under plans with a step-rate or differential benefits formula.

2. No increase in retirement incomes but a decrease in company pension costs under envelope-type plans, which provide specified pensions including federal old age benefits.

3. An increase in the discrimination against higher paid employees under plans which are not integrated with social security.

4. An immediate imposition of employer and employee contributions on earnings between $3,600 and $4,200 and provision for an ultimate increase in contributions beyond the previously established maximum.

These effects suggest the following questions. Should the breaking point in plans with a step-rate benefit formula be changed from $3,000 or $3,600 to the new social security wage base of $4,200? Should envelope-type plans, which provide specified pensions including federal old age benefits, be changed to let pensioners benefit from the increase in social security? Should integration with social security be reconsidered for plans which are not now integrated? Should any retirements be deferred until employees can become eligible for federal benefits with respect to earnings between $3,600 and $4,200? Should consideration now be given to any future change in the level of employee contributions, as social security taxes are increased?

This memorandum sets forth some considerations that must be taken into account in answering these questions. It recognizes that answers will vary according to the particular facts of each case—according, for example, to the number of prospective retirements in the near future, according to whether benefit levels are or are not considered to be already adequate, according to possible effects on pension plan costs, and according to the collective bargaining implications of any change.

It does, however, suggest the following general presumptions:

1. That in formula-integrated plans an immediate change in the breaking point to $4,200, while logical, is probably inexpedient, except in connection with other offsetting plan amendments.

2. That such a change should, however, be made at the first such opportunity, with provision for automatic adjustment thereafter, if the social security wage base should again be changed.

3. That envelope-type plans will ultimately have to be changed to avoid employee dissatisfaction, since pensioners would otherwise be deprived of the increase in federal benefits.

Obviously, in making any such changes the decision about appropriate timing is all-important.

The relevant amendments[1] are as follows:

1. An increase, effective January 1, 1955, from $3,600 to $4,200 per year in the maximum wages credited for benefits and subject to contributions.

2. An increase, payable in October, 1954, for the month of September, in the primary benefits of current beneficiaries of from $5 to $13.50 a month, raising the minimum to $30 and the maximum to $98.50 a month, with corresponding increases in the benefits for wives and survivors.

3. A similar increase in the benefits for future beneficiaries by a new formula for primary benefits of 55 percent of the first $110 of average monthly wage plus 20 percent of the next $240 (as compared with 55 percent of the first $100 plus 15 percent of the next $200). The maximum primary benefit is, therefore, increased to $108.50 per month, but the maximum cannot be payable till July, 1956, when it will first be possible to have had six quarters of coverage at $350 a month.

4. A scheduled increase in tax rates, from the former maximum of 3 1/4 percent in 1970 and after, to 3 1/2 percent from 1970 to 1974, and 4 percent thereafter.

FORMULA-INTEGRATED PLANS

Formula-integrated plans take account of federal old age benefits indirectly by providing a lower rate of benefits, and of employee contributions, if any, on the first $3,000 or $3,600 of annual earnings and a higher rate of benefits on the excess (e.g., benefits of 1 percent of the first $3,000 and 2 percent of the excess, for each year of service; contributions of 2 percent of the first $3,000 and 4 percent on the excess).[2]

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[1] Other amendments are summarized in the appendix, which gives also a chronology of the legislation and a summary of the present program.

[2] (Footnote on the following page.)

The earnings break at $3,000 or $3,600 was written into these plans when these amounts were the social security maximum wage base. The question is whether these plans should be "reintegrated" by changing the break to $4,200, when that becomes the social security wage base in January, 1955.

To leave the breaking point unchanged would not be consistent with the original intention of these plans, that is, to provide for each year of service substantially the same percentage rate of benefits, including federal old age benefits, to employees in all earnings brackets. It will produce anomalies in the new combined benefit and contributions structure. Primary federal benefits at the new rates are equivalent to about 1 percent of earnings for each of 30 years of service ($108.50 is 31 percent of $350). If the break is left at $3,000 in a plan paying benefits of 1 and 2 percent, with contributions of 2 and 4 percent, combined plan and federal benefits

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[2] Some define the break as $250 or $300 per month. A few also use intermediate breaks at such amounts as $600, $1,200, etc., per year, to achieve finer integration. Industrial Relations Counselors, Inc., will shortly publish a monograph, Pension Planning: Experience and Trends, based largely on an analysis of 491 plans with over 3.5 million participating employees. As to integration, these divide as follows:

Integration Method	Plans	Participants
By formula	336	1,160,000
By deduction of f.o.a.b.	43	625,000
By deduction of half of f.o.a.b.	16	933,000
No integration	108[a]	830,000

[a] Including plans for hourly employees in 12 companies with separate plans for hourly and salaried employees, which were otherwise treated as single plans.

and contributions will be at fortuitously higher rates on earnings between $3,000 and $4,200 than on other segments of earnings, as shown below:

Earnings	Benefits	Contributions
First $3,000.	2%	4%
Next $1,200	3	6
Excess over $4,200	2	4

In such a plan a similar anomaly has, of course, been present since 1950, with respect to earnings between $3,000 and $3,600. And it will similarly develop with respect to earnings between $3,600 and $4,200 in plans which now break at $3,600.

To change the break to $4,200 would restore the original plan objective and would result in uniform total benefits of 2 percent and contributions of 4 percent on all earnings. The change would affect only employees earning in excess of $3,000 but for them it would constitute a deliberalization of plan benefits as such. It would in effect deprive them of part, at least, of the increase in federal old age benefits. It would reduce plan benefits per year of service by 1 percent of the first $1,200 of earnings in excess of $3,000 and contributions by 2 percent of this amount. For employees earning $4,200 a year or more under this plan the combined effect of the social security amendments and a change in the break, with no other plan change, would be as follows:

1. An increase, but only after June, 1956, of $23.50 per month in primary federal benefits.

2. A decrease in plan benefits of $1 a month for each year of future service.

3. An increase in social security contributions of $1 a month.

4. A decrease in plan contributions of $2 a month.

Employer social security taxes will also be increased and plan contributions would be decreased, in amounts depending largely on the pattern of employee earnings.

How such effects would balance one another in individual cases would depend on the number of years of service remaining until retirement. How employees would react to the change would vary also with the relative importance they attach to small savings in contributions as compared to decreases in possible benefits. Under noncontributory plans, of course, the change would be more difficult to sell to employees since there would be no savings in contributions to offset the reduction in plan benefits.

Presumably, any change in the breaking point would be effective only with respect to future service, but the choice of an effective date presents a minor puzzle, since federal contributions on earnings between $3,600 and $4,200 start January 1, 1955, but these earnings will not usually be credited for benefits until 1956. To be precisely equitable the change should be effective January 1, 1955, except for employees retiring in 1955.

The question of changing the earnings break first arose in 1950 when the social security wage base was increased to $3,600. Most companies decided not to do so, for only 56 of the 336 plans of this type in the

IRC study previously mentioned made the change, and then generally in connection with other plan revisions. There is now greater justification for a change after this further increase in the wage base, but because of the increase in federal benefits there is less need for other offsetting plan improvements.

To change the breaking point would seem to be the logical and tidy thing to do. However, it would involve deliberalization of the plan as such for all employees earning in excess of the present breaking point. In some cases it could conceivably decrease their combined retirement incomes from the plan and primary federal benefits. Taken by itself, the change might have an adverse effect on employee morale. It would have to be negotiated with the unions, if any are involved, and would almost certainly be unacceptable without some offsetting concession. If the plan is contributory it might require resolicitation of employees. And the amended plan would have to be resubmitted for Treasury approval, although the change by itself could hardly be a basis for disapproval. While the Treasury Department has not yet developed new integration tests, it is reasonable to expect that they will be largely an application of the principles underlying the present requirements.[3]

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[3] The basic principle is that a plan may not provide relatively higher total benefits, including 150 percent of primary federal benefits, for higher paid employees than for lower paid employees, assuming identical periods of service. It is possible that the new tests will permit a somewhat larger differential than at present between benefits on that portion of earnings credited for social security and benefits on the excess—up perhaps to 1 1/2 percent for each year of current service. If so, some companies may wish to consider increasing plan benefit rates on the excess over $4,200 to assure equality of treatment to higher paid employees.

On balance, and in view of the fact that few plans provide retirement incomes including recently increased primary federal benefits that can be regarded as excessive in relation to current levels of earnings and the cost of living, there is probably a presumption against changing the breaking point without some other plan improvement. Conversely, however, a change in the breaking point, i.e., reintegration, should be a primary objective whenever a pension plan is liberalized. This change should be made less perhaps for its own sake than for the purpose of establishing the principle that social security amendments may justify changes in private pension plans. The increases in federal benefits in 1950, 1952 and 1954 and the increases in the maximum wage base in 1950 and 1954 may not have been of the magnitude to make such changes essential, in view of the extent to which inflation from about 1940 to 1952 had undermined the effectiveness of the combined public and private old age security programs. But pressures for liberalization of social security, and increases in the maximum wage base, probably will continue and may result in such future changes in federal benefits as to necessitate substantial readjustments in private plans. When the breaking point is changed, therefore, provision should be made for its automatic adjustment to any future increase in the maximum wage base. This can be done by stating the breaking point not as $4, 200 but as the maximum amount of annual earnings now or hereafter credited for the determination of federal old age benefits.

ENVELOPE-TYPE PLANS

Envelope-type plans integrate with social security directly by providing specified pensions including federal old age benefits, in whole or part. Federal benefits are thus deducted from the promised pension to determine the amount payable from the company plan.

To leave these plans unchanged would be consistent with their original objective, but that would deprive employees of the advantage (in whole or part) of the recent increases in federal benefits, thus apparently nullifying the intent of Congress, which was to increase retirement incomes, not to decrease employer pension plan costs.

It has always been difficult to explain this type of provision satisfactorily to employees who feel that the employer is taking away what the government provides and who feel so most strongly at the time of any increase in federal benefits. This was very evident in 1952. Many companies which, in accordance with their pension plans and agreements, then reduced pensions being paid to retired employees by $5 a month when federal benefits were increased by this amount noted so unfavorable a reaction from employees and the public that they felt it advisable to cancel the reduction. One large company with a much better than average plan of the envelope-type revised its plan in 1953, not only to increase benefits, but to make them independent of social security. Like other companies it was shocked to find that the deduction of federal benefits was making the most expensive of its industrial relations plans the primary cause of employee unrest.

In anticipation of the federal benefit increases most companies in the steel industry have already modified their plans in their 1954 negotiations with the CIO steelworkers, although they had deducted the 1952 increase in accordance with their pension agreements. Their 1949 agreements provided for employees at age 65 minimum pensions (actually the basic pensions for the majority of employees) of from $60 a month after 15 years' service to $100 a month after 25 years' service, including each employee's federal old age benefit. The new agreements, negotiated while the social security amendments were pending in Congress but effective after termination of the old agreements on October 31, provide for minimums of from $110 a month after 15 years' service to $140 a month after 30 years' service, including a flat $85. Although the figure of $85 was selected because it was the maximum federal benefit, the steel companies for all practical future purposes have thus abandoned the envelope-type of adjustment to social security. Minimum company pension payments will be from $25 to $55 a month exclusive of federal old age benefits, and pensioners will receive the full advantage of the 1954 and any subsequent increases in federal benefits during the contract. A very powerful precedent has thus been set which will stimulate employee and union demands for the revision of envelope-type plans elsewhere. The demands for change will be somewhat less pressing but will be of the same general sort under plans which deduct only half the amount of federal benefits.

The problem will be most acute in those companies which have agreed, as some did especially after 1952, to continue unchanged the full amount of plan pensions awarded to individuals at the time of retirement. In such companies employees retired before September, 1954, will receive the full advantage of the increase, while if the plan is unchanged employees retiring in the future will receive no such advantage.

Most envelope-type plans have been negotiated and incorporated in collective agreements. Even if it were assumed that some change in them may ultimately be necessary to take account of recent social security amendments, there remains the question of whether management should initiate the change or insist on waiting till the expiration of their current pension agreements. A decision to wait can be defended on the following grounds:

1. Some unions specifically promoted plans of this type in order, so they said, to encourage employer support for, or to decrease employer opposition to, increases in federal benefits. They cannot logically or fairly, now that such increases have been achieved, ask for plan revisions because of them. They signed the pension agreements for specified terms with a full awareness of the possibility of future changes in federal benefits.

2. It defeats a major objective of collective bargaining if contracts can be reopened, otherwise than as previously agreed, whenever there is any development that operates to the disadvantage of one of the parties.

3. Unless the voluntary reopening happens to coincide with the time of negotiations about wages and other contract terms, employers

will be weakening their bargaining position by offering pension plan concessions in exchange for which they can ask nothing in return.

In steel companies pension plan changes in 1954 were part of a total "package" in settling their basic contracts, and it was fortunate that their pension agreements happened to expire so close to the effective date of the federal amendments. The problem of timing in many other companies will be somewhat more difficult.

On the other hand, some managements may well conclude that employee and public reaction to a deduction for September and thereafter of the full increase of federal benefits may be so strong as to make it inadvisable to insist legalistically that pension agreements be unchanged till they would ordinarily expire. Such strategy might materially worsen current relationships and set the stage for unnecessarily difficult bargaining about pensions in the future. For managements in this frame of mind a precedent was set by the voluntary reopening of pension agreements in 1953 by companies in the automobile industry, although these reopenings were not related to the questions presently under discussion. And managements that feel secure in their relations with employees and their unions may wish to choose their own timing to do what they believe to be right and equitable.

All of this sums up to a suggestion that envelope-type plans probably have to be changed eventually and that it would be most equitable to make the change coincident with the increase in federal benefits, unless collective bargaining or similar considerations make different timing more expedient.

UNINTEGRATED PLANS

The amendments do not automatically raise any question about modification of unintegrated plans. Their benefit rates—doubtless set after general consideration of the level of federal benefits—are uniform for all employees and make no specific allowance for federal benefits.

These plans involve a risk that possible increases in federal benefits and contributions may result in the provision of larger retirement incomes than may have been originally regarded as necessary and at unnecessarily high combined costs to the companies. This risk is discounted by those who contend that it will not really be more difficult to amend plans of this sort, when circumstances make some change imperative, than to preserve unchanged the integrating provisions of other types of plans. If, without adverse employee reaction, formula-integrated plans cannot readily keep their breaking points at the amount of earnings credited for social security purposes and envelope-type plans cannot continue to make the deduction of federal benefits as provided, the hope that integration provides automatic protection against excessive pension costs may be illusory.

Failure to integrate has a second consequence. Because federal benefits are heavily weighted in favor of employees with low incomes, the combined retirement incomes from an unintegrated plan and social security, unless relatively high for such employees, are likely to be relatively inadequate for employees in higher earnings brackets. For example, under a plan paying a benefit of 1 percent of final average earnings per year of service, plan benefits plus 150 percent of primary federal benefits would equal nearly 80 percent of pay for an employee earning $3,600 a year but only 46 percent for an employee earning $12,000 a year. While there is some justification for relatively higher retirement incomes in relation to earnings for lower paid employees, the equity of so large a differential as that illustrated may be questioned. The recent amendments have intensified this type of discrimination against higher paid employees under unintegrated plans and may prompt some managements to restudy the long-range soundness of their decision not to integrate.

TEMPORARY DEFERMENT OF RETIREMENT

After the 1950 amendments some managements, despite their normal policy of compulsory retirement, permitted employees to defer retirement until they had six quarters of coverage after January 1, 1951, and could get the advantage of higher federal benefits computed on the basis of average earnings after 1950, instead of after 1936. Some may wish to consider the advisability of a similar transition policy to permit employees to receive federal benefit credit on earnings between $3,600 and $4,200, as will be possible only after 1955. Benefits can be based entirely on earnings exceeding $3,600 only after June 30, 1956. The maximum difference this can make in any primary federal benefit is, of course, $10 a month.

Whether this policy would be advisable for any company will depend on the number of employees reaching retirement age before July, 1956, on management's appraisal of their individual efficiency, on the trend of employment in the company and on the importance management may attach to the fact that it is becoming increasingly difficult to restore the practice of compulsory retirement once it is suspended.

EMPLOYEE CONTRIBUTIONS

Some managements have begun to wonder whether the scheduled increase of social security contributions to 4 percent after 1975, instead of the originally planned maximum of 3 percent, may call for any future reconsideration of the present levels of employee plan contributions. In comparison with the size of wage adjustments in recent years an ultimate increase of 1 percent in contributions beyond levels previously taken into account does not seem very serious. The impact of each quinquennial increase of 1/2 of 1 percent, or a maximum of $1.75 a month, will depend in part on what is happening to employment, wage rates and income tax rates at that time. Whether employee contributions should be continued and, if so, at what levels will have to be determined from time to time by reference to a series of factors and forces, of which the level of federal contributions will probably be far from the most important.

APPENDIX

*FEDERAL OLD AGE AND SURVIVORS INSURANCE PROGRAM

A. CHRONOLOGY

The major provisions of the Social Security Act of 1935 and subsequent amendments dealing with old age and survivors insurance developed as follows:

1935 Act

1. Coverage of employees in trade and industry—about 3 out of 5 persons in gainful employment.

2. Monthly benefits to start in 1942 for retired employees at age 65.

3. Lump-sum payments after 1936 to covered employees at age 65 if ineligible for benefits and to survivors of covered workers who died before age 65.

4. Equal taxes on employers and employees starting at 1 percent of the first $3,000 of annual wages in covered employment and scheduled to rise triennially by 1/2 of 1 percent to 3 percent after 1948.

1939 Amendments

1. Commencement of benefit payments advanced to 1940 from 1942.

2. Primary old age benefits set at 40 percent of the first $50 of average monthly wages plus 10 percent of the next $200 plus 1 percent of the resulting sum for each year of coverage.

3. Addition of benefits for wives at age 65 and for survivors.

4. Suspension of benefits for any month in which beneficiary earned $15 or more from covered employment.

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*This summary is an appendix in the monograph, Pension Planning: Experience and Trends, to be published by Industrial Relations Counselors, Inc., about October 1.

5. Deferment of tax increase scheduled for 1940 to 1942.

6. Abandonment of full actuarial reserve basis.

1946 Amendment

Temporary survivorship protection for veterans of World War II.

1950 Amendments

1. Extension of coverage to many self-employed persons, some regularly employed domestic servants and farm workers and other groups—about 7.5 million on compulsory basis and about 2 million on voluntary basis—thus covering about 8 out of 10 persons in paid employment.

2. Relaxation of eligibility requirements to permit newly covered older employees quickly to qualify for benefits and to give others advantage of increase in maximum wage base to $3,600.

3. Revision of primary benefit formula for new applicants to 50 percent of the first $100 of average monthly wages plus 15 percent of the next $200, minimum of $20 and maximum of $80 per month, and liberalization of method of computing average monthly wage.

4. Correlative increase, by a conversion table, of benefits for current beneficiaries, minimum of $20 and maximum of $68.50.

5. Some liberalization of survivors' benefits.

6. Provision of a death benefit of three times the primary insurance amount.

7. Provision of wage credits of $160 a month for military service in World War II (later extended to postwar service).

8. Increase in amount beneficiary may earn in covered employment without suspension of benefits from $14.99 to $50 per month and elimination of this retirement test at age 75.

9. Revision of the schedule of payroll taxes to reach 3 1/4 percent after 1970. Imposition of tax on self-employment income at 1 1/2 times the rate for employees.

1952 Amendments

1. Revision of the primary benefit formula to 55 percent of the first $100 of average monthly wage plus 15 percent of the next $240, minimum of $25 and maximum of $85 per month.

2. Correlative increase of benefits for current beneficiaries, minimum of $25 and maximum of $77.10.

3. Increase in earnings permitted without suspension of benefits to $75 per month.

1954 Amendments

1. Extension of coverage to practically all persons in gainful employment, except self-employed doctors, dentists and lawyers, members of the Armed Forces, most civilian employees of the federal government, employees covered by the Railroad Retirement Act, and policemen and firemen covered by a state or local retirement system. The coverage of American citizens employed outside the United States by foreign subsidiaries of American corporations requires agreement by the parent company to pay the combined employer-employee tax; that of ministers and members of certain religious orders requires individual election; that of employees covered by state and local retirement system requires agreement by the state after an affirmative majority vote of the employees.

2. Special transitional provisions about insured status.

3. Increase of maximum wage base, effective January 1, 1955, to $4,200 per year and revision of primary benefit formula to 55 percent of the first $110 of average monthly wage plus 20 percent of the next $240, minimum of $30 and maximum of $108.50. Maximum of $108.50 can first be payable for July, 1956, in cases where earnings have been at an annual rate of $4,200 in 1955 and 1956.

4. Correlative increase in benefits for current beneficiaries, first payable in October, 1954, for the month of September, minimum of $30 and maximum of $98.50 per month.

5. Liberalization of method of computing average monthly wage. For those who first qualify for benefits after August, 1954, or who meet certain other conditions after that date up to five years of lowest or no earnings may be disregarded in making the computation. Computations will generally be based on wage and employment records for complete calendar years.

6. Preservation of benefit rights for disabled workers. After January 1, 1955, applications will be accepted to exclude periods of total disability from consideration in determining insured status and benefit amounts. The disability must have lasted six months or more and have been certified to by a designated state agency. For those now disabled the exclusion can be retroactive to October, 1941. Thus the status of disabled workers will be "frozen" almost in the same way that a "waiver of premium" maintains the protection of a life insurance policy during a policyholder's disability. Applicants for a "freeze" must have had covered employment for six quarters out of the 13 and for 20 quarters out of the 40 ending with the quarter during which the disability began.

7. Limitation of death benefits to a maximum of $255.

8. Liberalization of retirement test. One month's benefits will be withheld for each $80 or fraction thereof in excess of $1,200 earned in a year from any source, but only up to age 72, and no benefit will be withheld for any month in which the individual neither earned $80 in wages nor rendered substantial services in self-employment.

9. Revision of the schedule of payroll taxes to reach 3 1/2 percent in 1970 and 4 percent in 1975, with proportionate increases in taxes on self-employed persons.

B. THE PROGRAM TODAY

1. Extent of Coverage

As of January 1, 1955, coverage is extended or made available to an estimated additional 10 million persons. During 1953 about 48 million persons were covered in an average week and about 60 million worked in covered employment at some time during the year. About 69 million were insured, of whom 27 million had sufficient coverage to be fully insured.

2. Qualification for Benefit

A quarter of coverage is a calendar quarter in which an individual earns at least $50 in wages from covered employment or $100 net from covered self-employment.

An individual is "fully insured" and will retain eligibility for benefits, even if he does not continue to work in covered employment, (1) if he has one quarter of coverage acquired at any time for each of the two quarters elapsing after 1950 or after age 21, if later, up to the quarter in which he reaches age 65 or dies, and has at least six quarters of coverage, or (2) if he has coverage in all and not less than six of the quarters elapsing after July, 1954, and prior to July, 1956, or, if later, to the quarter in which he attains age 65 or dies, or (3) if he has forty quarters of coverage. The quarters of coverage required for full insured status by persons aged 21 or over on January 1, 1951, are indicated in the following tabulation:

Quarter in Which Age 65 or Death Occurs	Required Quarters of Coverage	
	Whenever Obtained	If After 1954
1955: January—March . .	8	a
April—June	8	a
July—September . .	9	a
October—December	9	a
1956: January—March . .	10	a
April—June	10	6[b]
July—September . .	11	6
October—December	11	7
1957: January—March . .	12	8
April—June	12	9
July—September . .	13	10
October—December	13	11
1958: January—March . .	14	12
April—June	14	13
July—September . .	15	14
October—December	15[c]	a

a
Not applicable.

b
Applicable to persons reaching age 65 in this or prior quarters. In this case all the quarters since 1954 including this one must be quarters of coverage.

c
The required number increases by one for each subsequent half year up to 40 in 1971, or later.

An individual is "currently insured" if he has coverage for six of the thirteen quarters ending with the quarter in which he dies or becomes entitled to old age benefits.

Elapsed quarters of extended disability are disregarded. For example, an employee aged 45 in 1951 who worked for five years thereafter and was then permanently disabled would previously have lost all rights to benefits at age 65 in 1971. Under the new amendments he would be fully and currently insured at age 65.

3. Kinds of Benefits Paid

a. Old Age Insurance Benefits: Payable to a fully insured worker when he retires, at age 65 or later, or at age 72, whether or not he has retired, "retirement" being subject to the test of the earnings limitation, described above.

For most individuals becoming eligible for benefits after August, 1954, the primary insurance amount will be 55 percent of the first $110 of average monthly wages plus 20 percent of the next $240, with a minimum of $30 and a maximum of $108.50 per month.

Disregarding some technicalities, an individual's average monthly wage will be the total wages and self-employment income credited to his account after his starting date up to his closing date divided by the number of months (but by not less than 18) between such dates. There will be excluded from the computation such years of lowest or no earnings up to four (or up to five if he has had twenty quarters of coverage) as will produce the highest primary benefit. After 1954, quarters of extended disability may also be excluded.

An individual's starting date is December 31, 1950, or, if later, December 31 of the year in which he attains age 21, whichever results in the higher benefit amount. His closing date is January 1 of the year in which he dies or becomes entitled to old age benefits, or January 1 of the next following year, or January 1 of the year in which he both was fully insured and had attained age 65, whichever results in the highest benefit amount. For individuals with six quarters of coverage after 1954 who die or become entitled to benefits in 1956, the closing and starting dates may be December 31, 1954, and July 1, 1956, respectively. Maximum benefits of $108.50 may thus first become payable for July, 1956.

If it would be to their advantage, some individuals will have their benefits computed under prior provisions of the law on the basis of average earnings since 1936 and adjusted by use of the conversion table.

b. Wife's Benefit: Payable at age 65 to the wife of a man receiving old age insurance benefits, at the rate of one-half the worker's benefit; if she is under 65, payable only if she has in her care a child entitled to child's insurance benefits based on her husband's account.

c. Widow's Benefit: Payable at age 65 to the widow of an old age insurance beneficiary or of a worker who died fully insured, at the rate of three-fourths of the worker's benefit.

d. Husband's or Widower's Benefit: Payable at age 65, but only if dependent, to the husband of a currently insured old age beneficiary at the rate of one-half the worker's benefit, or to the widower of a currently insured old age beneficiary or of a worker who died fully and currently insured, at the rate of three-fourths of the worker's benefit.

e. Child's Benefit: Payable to dependent child under 18 years of age of an old age insurance beneficiary, at the rate of one-half the worker's benefit, or to such a child of a worker who dies fully or currently insured, at the rate of three-fourths of the worker's benefit. (If such a worker has more than one dependent child each receives one-half of his benefit plus a proportionate share of one-fourth of his benefit.)

f. Mother's Benefit: Payable upon the death of an old age insurance beneficiary or of a worker who died fully or currently insured to his widow, if caring for a dependent child, at the rate of three-fourths of the worker's benefit.

g. Parent's Benefit: Payable at age 65 to a dependent parent of a deceased fully insured worker not survived by a wife, husband, or child who could qualify for monthly benefits, at the rate of three-fourths of the worker's benefit.

h. Lump-Sum Death Benefit: Payable to the widow or widower or, if there is no surviving spouse, to the person who paid the burial expenses of an old age insurance beneficiary or of a worker who died fully or currently insured, at the rate of three times the worker's benefit, but not more than $255.

4. Contributions or Taxes

The schedule of employer and employee contributions on the first $4,200 of annual earnings is as follows:

Year	Contributions
1954—1959	2 %
1960—1964	2 1/2
1965—1969	3
1970—1974	3 1/2
1975 and after	4

Self-employed persons pay 1 1/2 times the above rates.

5. Benefit Payments

1. It is estimated that about 6.5 million beneficiaries on the roll in September, 1954, will have their total benefits increased from about $283 million to $319 million per month.

2. The number of beneficiaries in December, 1953, was nearly 6 million, distributed by types as follows: primary, 3,215,000; wife or husband, 885,000; child of old age beneficiary, 90,000; child of deceased worker, 965,000; aged widow, widower and parent, 563,000; mother, 252,000.

3. Average payments in December, 1953: (a) to retired worker (man or woman with no dependents) $49; (b) to retired worker and wife $84.75.

6. Receipts and Disbursements: Trust Fund

The excess of receipts over disbursements for the program is credited to a trust fund, which is invested in United States Government bonds.

During calendar year 1953, social security tax contributions received were $4 billion. Interest on investments held by the trust fund added another $400 million. Benefit payments were $3 billion and administrative expenses were $90 million, leaving a net of $1.31 billion to be added to the trust fund. There was a balance of $18.7 billion in the trust fund at the end of the year.

Under the law, this fund can be used only to pay old age and survivors insurance benefits and the cost of administering the program.

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