# Old-Age, Survivors, and Disability Insurance

# Provisions: Summary of Legislation, 1935-58

by Robert J. Myers\*

HE Social Security Act of 1935 established the first Federal social security system in the United States—a system that has been substantially revised by successive amendments since that year. The major features of the largest program, now old-age, survivors, and disability insurance, and the changes in coverage, benefit, and financing provisions resulting from the amendments to the Act are summarized in the following pages. The detailed provisions are given in the accompanying tables.

The program established by the Social Security Act of 1935 was a relatively simple one, designed to pay (1) old-age benefits to the worker when he retired at or after age 65 and (2) cash refunds to survivors when the wage earner died and to living workers aged 65 who had not been in covered employment long enough to qualify for monthly benefits. The ben-

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efit formula was weighted in favor of the worker with short service or low wages; yet at the same time significant consideration was given to those who would contribute for many years.

The program was financed completely by contributions from employer and employee, each of whom paid 1 percent of the worker's salary up to \$3,000 a year; the tax rate was scheduled to rise gradually in the future. The covered group consisted essentially of all workers under age 65 in industry and commerce. Contributions were first collected in 1937, and the first monthly benefit payments were to be made in 1942.

### 1939 Amendments

The program was substantially changed in 1939. Monthly benefits were made payable in 1940, not only to the retired worker—the only beneficiaries under the 1935 Act—but also to the dependents of retired workers and the survivors of deceased workers (whether or not the worker had retired). Except for widowed mothers and children under age 18, both dependents and survivors had to have attained age 65 to be eligible for benefits.

The method of computing the benefit amount was drastically revised so

Table 1.—Summary of effective contribution rates and maximum earnings bases under old-age, survivors, and disability insurance

	Con	Maxi- mum		
Calendar year	Em- ployer	Em- ployee	Self- em- ployed	earn- ings base
1937-49 1950 1951-53 1954 1955-56 1957-58 1957-58 1960-62 1960-62 1963-65 1966-68 1969 and after	1 1½ 1½ 2 2 2½ 3 3½ 4 4½	1 11/2 11/2 2 21/4 21/2 3 31/2 4 41/2	21/4 3 3 33/8 33/4 41/2 51/4 6 63/4	\$3,000 3,600 3,600 4,200 4,200 4,800 4,800 4,800 4,800

that there was less emphasis on length of contributions; the formula was still weighted in favor of workers with lower earnings. The "moneyback guarantee" provision was eliminated, and only a small lump-sum death payment was provided when no monthly benefits were immediately payable. Coverage provisions were not materially changed, except that the provision excluding workers aged 65 and over was removed.

The proposed increase in the tax rate that was to have become effective in 1940 was eliminated by the 1939 amendments. The actual financing basis of the program was left unclear; under the 1935 Act it had been clear that the program was to be selfsupporting from the employer-employee contributions. Many individuals believed that the 1939 amendments had changed the financing basis of the program from "full-reserve" to "pay-as-you-go," but this feeling is not substantiated by the legislative history and provisions; the original Act was not really on a fullreserve basis.

#### Legislation, 1940-49

During the 1940's the legislative enactments were relatively minor and related primarily to financing. Several times during the 10 years, amendments postponed the scheduled increase in the contribution rates. In other words, the tax rate was "frozen" at the initial level of 1 percent each from employer and employee until 1950, when it went up to  $1\frac{1}{2}$  percent each.

One of the amendments made during the decade carried a provision permitting a Government contribution to the system, but the authority was never put to use, and in 1950 the provision was removed from the law. Legislation passed in 1946 provided monthly benefits for survivors of certain World War II veterans. Another law adopted in 1946 provided for a degree of coordination of the newly es-

istration, 1 For fuller detail on the 1939 amendments and those that followed, see the following Social Security Bulletin articles: (1) "Federal Old-Age and Survivors Insurance: A Summary of the 1939 Amendments," December 1939; (2) Angela J. "Social Security Act Amend-Murray. ments of 1946," September 1946; (3) Wilbur J. Cohen and Robert J. Myers, "Social Security Act Amendments of 1950: A Summary and Legislative History," October 1950; (4) Wilbur J. Cohen, "Social Security Act Amendments of 1952," September 1952; (5) Wilbur J. Cohen, Robert M. Ball, and Robert J. Myers, "Social Security Act Amendments of 1954; A Summary and Legislative History," September 1954; (6) Charles I. Schottland, Security Act Amendments of 1954: A Summary and Legislative History," September 1958; and Robert J. Myers, "Old-Age and Survivors Insurance: Financing Basis and Policy Under 1956 Amendments," September 1956; and (7) Charles I. Schottland, "Social Security Amendments of 1958: A Summary and Legislative History," October 1958; and Robert J. Myers, "Old-Age, Survivors, and Disability Insurance: Financing Basis and Policy Under the 1958 Amendments," October

Table 2.—Summary of old-age, survivors, and disability insurance provisions

	1935 Act	1939 Act	Legislation in the 1940's	1950 Act
	A. Coverage			
1. Compulsory	All workers in commerce and industry (except rail- roads) under age 65 in con- tinental U.S., Alaska, and Hawaii and on American vessels.		Railroad workers, in effect, covered for survivor bene- fits. <sup>2</sup>	Regularly employed farm an domestic workers, nonfart self-employed (except profesional groups), Federal civi ian employees not under terment system, American employed outside U.S. b American employer, and Pue to Rico and Virgin Islands.
2. Elective: (a) By employer only	No provision	-		State and local government en
(b) By both employer and employee.	No provision			system. Employees of nonprofit institutions (other than ministers).
(c) By individual only 3. Gratuitous, for members of Armed Forces.				\$160 for each month of service
		В. Тур	e of benefit	
<ol> <li>Monthly benefits: <sup>6</sup></li> <li>(a) Retired worker (old-age)</li> </ol>	Aged 65 and over			
(b) Disabled worker(c) Dependents of retired worker.	No provision No provision	Wife aged 65 or over and child under 18.	Child aged 16 or 17 no longer required to be attending school.	Wife under 65 with eligible chil present and dependent hus band aged 65 or over.
(d) Survivors of deceased worker.	No provision	ent parent aged 65 or over,8 child under 18, and widowed mother under 65 with eligible	Same as above	Dependent widower aged 65 o over, and dependent forme wife divorced (with eligibl child present).
(e) Dependents of disabled worker.	No provision	child present.		
Lump-sum payments:     (a) Deceased worker (including retired worker).	For all deaths	ble for monthly survivor bene- fits for month of death.		
(b) Living worker	At age 65, when not qualified for monthly benefits.	Provision eliminated		
		C. Insured-stat	us requirements 9	
. Fully insured	Cumulative wage credits of \$2,000, and some employment in each of 5 years.	Quarters of coverage 10 equal to at least half the quarters after 1936 (or after age 21) and up to retirement age (or death if earlier); minimum of 6 quar- ters required and maximum of 40 quarters.		Starting date advanced from 1936 to 1950 (but quarters of coverage credited at any time meet requirement).
c. Currently insured	No provision	6 quarters of coverage in 12 quarters preceding quarter of	6 quarters of coverage in 13 last quarters, including	6 quarters of coverage in 13 last quarters, including quarter of
. Insured for disability determination.	No provision	death.	quarter of death.	death or retirement.
		D. Computation of prin	nary insurance amount 11	
. Average monthly wage	Concept not used	In general, computed for period after 1936 or from age 22 up to retirement or death.		Alternatively, can be computed for period after 1950.
Formula	1/2% of first \$3,000 of cumulative wage credits +1/12% of next \$42,000 +1/24% of	40% of first \$50 of average wage +10% of next \$200, all increased by 1% for each year with \$200		50% of first \$100 of average wage +15% of next \$200,12
Minimum	next \$84,000.	or more of wage credits.	1	
Minimum	\$10\$85	or more of wage credits.		\$20

1952 Act	1954 Act	1956 Act <sup>1</sup>	1958 Act <sup>1</sup>
	A. Cov	verage .	
	Additional regularly employed farm and domestic workers, farm self-employed, and professional self-employed except lawyers and doctors, dentists, and other medical groups.	Members of uniformed services and remainder of professional self-employed except doctors of medicine.	Minor coverage extensions.
Military service wage credits pro- vided for specified period after World War II. <sup>5</sup>	Americans employed outside U.S. by for- eign subsidiary of American employer. State and local government employees under retirement system.4		Minor coverage extensions, mainly for State and local government employees.
	D 7	***	
	B. Type o	of benefit	1
		Age for women lowered to 62, but with permanently reduced benefits for retirement before 65. Aged 50-64, after 6-month waiting period.7. Wife aged 62-64 but benefit permanently reduced. Child's benefits paid to disabled child after age 18 if disabled before 18. Minimum age for widow without child present and for female dependent parent reduced from 65 to 62. Child's benefit paid to disabled child after age 18 if disabled before 18.	Same as for dependents of retired worker.
	C. Insured-statu	s requirements •	
	Alternatively, if every quarter after 1954 is quarter of coverage (minimum of 6 required).	Alternatively, if all but 4 of the quarters after 1954 are quarters of coverage (minimum of 6 required).	
	6 quarters of coverage in last 13 quarters, including quarter of death, retirement, or disability. 20 quarters of coverage in last 40 quarters, including quarter of disability.		
	D. Computation of prime	ary insurance amount 11	1
55% of first \$100 of average wage +15% of next \$200.12	Lowest 4 years omitted in computing average (lowest 5 years if 20 or more quarters of coverage). Under "disability freeze," periods of extended total disability also omitted.  55% of first \$110 of average wage +20% of next \$240.12	Lowest 5 years omitted in computing average in all cases.	58.85% of first \$110 of average wage +21.4% of next \$290.12
<b>\$</b> 25 <b>\$</b> 85	\$30 \$108.50		\$33 \$127

Item	1935 Act	1939 Act	Legislation in the 1940's	1950 Act
	E. Benefit amounts			
1. Old-age (retired worker)	100% of primary insurance amount.			
2. Disability	No provision			
3. Wife's (or husband's)	No provision	50% of primary insurance amount.		
4. Child's (child of retired worker).	No provision	50% of primary insurance amount.		
5. Child's (child of deceased worker).	No provision	50% of primary insurance amount.		In effect, 75% of primary insurance amount for first child and 50% for all others.
6. Widow's (or widower's) and widowed mother's.	No provision	75% of primary insurance amount.		
7. Parent's	No provision	50% of primary insurance amount_		75% of primary insurance amount_
8. Lump-sum death	Amount equal to 3½% of cumulative wage credits, less any monthly benefits received.	6 times primary insurance amount.		3 times primary insurance amount.
9. Lump-sum refund (to living worker).	Same as above	Eliminated		
10. Minimum family benefit	Not applicable	\$10		\$15
11. Maximum family benefit	Not applicable	Smaller of \$85, 80% of average wage, or 2 times primary insurance amount.		Smaller of \$150 or 80% of average wage (but not less than \$40).
	F. Retirement test 14			
1. Type of earnings to which applicable.	Covered earnings			
2. Amount of earnings permitted.	None from regular employment.	\$14.99 in a month		\$50 in a month 15
3. Age at which no longer applicable.	No provision			75
		G. Financia	ng provisions	
1. Maximum earnings taxable and creditable. 17	1			\$3,600
2. Contribution rates: <sup>17</sup> (a) Combined employer-employee.	1937-39—2%; 1940-42—3%; 1943-45—4%; 1946-48—5%; 1949 on—6%.	Same, except 2% rate extended through 1942.	2% rate extended through 1949; 1950-51-3%; 1952 on-4%.	1950-53-3%; 1954-59-4%; 1960- 64-5%; 1965-69-6%; 1970 on -6½%.
(b) Self-employed	No provision			Self-employed pay 3% of combined employer-employee rate.
3. Appropriations from general revenues.	No provision		Authorized (but not made)	Authorization repealed

<sup>&</sup>lt;sup>1</sup> Includes other legislation affecting the program that was enacted in this year

to Dec. 31, 1956.

In effect, an individual can receive only one type of monthly benefit—the largest for which he is eligible.

Benefits were reduced by amount of any other Federal disability benefit or any workmen's compensation benefit under 1956 Act, but this provision was eliminated by 1958 Act.

Benefit payable only if worker is not survived by a widow or an eligible child under 1939 Act, but this provision was eliminated by 1958 Act.

See table 3 for insured-status requirements for various types of benefits, Under the "disability freeze" provision (1954 Act), periods of extended total disability are not counted in determining insured status.

tablished survivor benefits under the railroad retirement system with those under old-age and survivors insurance.

# Legislation, 1950-52

The 1950 Act made many important changes. Coverage was considerably extended by the bringing in of such groups as the nonfarm self-employed (except members of specified professions), regularly employed farm and domestic workers, employees of nonprofit institutions (on a group elective basis), and State and local government employees not covered by a retirement system (at the option of the employer). The benefit amounts were roughly doubled-a reflection of the appreciable changes

in wage levels and the cost of living since the 1939 amendments. The retirement test (the amount of earnings permitted beneficiaries if they are to receive benefits) was notably liberalized. Important changes were made in the financing basis. A revised long-range contribution schedule was placed in the law, the principle of self-support was clearly established,

Includes other legislation affecting the program that was enacted in this year and in the preceding year.

Railroad and other earnings are combined in determining eligibility for and amount of survivor benefit; provision extended in 1951 to place workers with less than 10 years of railroad service under old-age, survivors, and disability insurance for all benefits.

Employees who vote against coverage are not covered; all new employees are covered.

Firemen and policemen not covered; 1956 Act permitted their coverage in certain States.

certain States.

certain States.

<sup>5</sup> Provision first effective from July 25, 1947, to Dec. 31, 1953. Legislation in 1953 extended effective date to June 30, 1955; in 1955 to Mar. 31, 1956; and in 1956

1952 Act	1954 Act	1956 Act 1	1958 Act 1	
	E. Benefit	t amounts		
		For women retiring before 65, permanent reduction of 63% for each year under 65.  100% of primary insurance amount. 13.  For wife claiming benefit before 65 (with no eligible child), permanent reduction of 84% for each year under 65.		
	Maximum of \$255 introduced			
\$18.80 Smaller of \$168.75 or 80% of average wage (but not less than \$45).	\$30.  Smaller of \$200 or 80% of average wage (but not less than the larger of \$50 or 1½ times primary insurance amount).		\$33	
F. Retirement test <sup>14</sup>				
\$75 in a month <sup>15</sup>	\$1,200 in a year. For each \$80 (or fraction thereof) in excess of \$1,200, 1 month's benefit is withheld. <sup>16</sup>			
	G. Financing	g provisions		
	\$4,200	1957-59-4½%; 1960-64-5½%; 1965-69-6½%; 1970-74-7½%; 1975 on-8½% (increase of ½% is for disability benefits).	\$4,800. 1959—5%; 1960-62—6%; 1963-65—7%; 1966-68—8%; 1969 on—9% (in all years, ½% is for disability benefits).	

for farm workers and self-employed persons.

11 The term "primary insurance amount," introduced in the 1950 Act, denotes the amount payable to a retired worker and on which the benefits of his dependents and survivors are based (also used as basis for benefits payable to survivors of worker who dies before retirement, computed as if deceased worker had attained retirement age on date of death).

12 Applies to average computed from 1951 on, as indicated above; for average computed from 1937 on, the 1939 formula (somewhat modified) is used in conjunction with a conversion table. Under the 1954 and 1956 Acts, an alternative computation based on the 1952 formula, plus \$5, was possible.

13 This benefit (and benefit for disabled child aged 18 or over) was reduced by amount of any other Federal disability benefit or any workment's compensation

amount of any other Federal disability benefit or any workmen's compensation

benefit under 1958 Act, but this provision was eliminated by 1958 Act.

14 Employment permitted without suspension of benefits. Applies to all types of benefit except disability. If retired worker's benefit is suspended, so are benefits of dependents.

15 Provision applies only to wages; comparable provisions (but on an annual basis) for self-employment income.

16 Benefits not withheld for any month with wages of \$80 or less (changed to \$100 or less by 1958 Act), and with no substantial services in self-employment rendered. Special provisions apply to earnings from noncovered employment outside the United States.

17 See table 1 for actual and scheduled contribution rates and maximum earn-

17 See table 1 for actual and scheduled contribution rates and maximum earnings base

and the maximum earnings base wasby about 15 percent and further libincreased to \$3,600 a year. eralized the retirement test. No

In 1951 the railroad retirementchange in the financing provisions system was amended to provide furth-was necessary because the rise in er coordination with the old-age andearnings levels in the preceding few survivors insurance program- affect-years was sufficient to pay for the ing not only survivor and retirementbenefit liberalizations. As covered benefits but also the program's fi-earnings rise, contribution income nancing. rises proportionately; benefit dis-

The 1952 Act raised the benefit levelbursements also increase, but more

slowly—because of the weighted benefit formula.

#### 1954 Amendments

The 1954 amendments extended coverage further to include virtually all types of employment. Brought in at this time were self-employed farmers, more domestic and farm workers, State and local government

employees under retirement systems (at the option of the employer and the election of the group concerned), ministers, and many self-employed professional groups. Benefits were again raised by about 15 percent, and the retirement test was considerably liberalized and made more flexible.

The 1954 amendments also introduced the concept of disability into the program through the "disability freeze" provision, which is essentially a "waiver of premium" clause designed to maintain both the insured status of permanently and totally disabled workers and their benefit amount. The financial provisions were also altered. The maximum earnings base was raised to \$4,200, and tax rates scheduled for 1970 and thereafter were increased in order to finance the additional benefit costs.

# 1956 Amendments

Additional coverage was provided by the 1956 amendments. They brought in members of the uniformed services on a regularly contributory basis and all the professional self-employed except for doctors of medicine, and they made somewhat broader the coverage requirements for selfemployed farmers and State and local government employees. Other important changes were the introduction of monthly disability benefits for insured workers aged 50-64 and the lowering of the minimum eligibility age from 65 to 62 for women workers, wives of retired workers. and widows and dependent mothers of deceased insured workers. (For women workers and wives, however, there is an actuarial reduction in the amount of the benefit.) In addition, the amendments provided that the child aged 18 or over of a retired or deceased worker may receive benefits if he became permanently and totally disabled before he reached age 18 and continues to be disabled. The financing provisions were significantly changed by an increase in the long-range contribution schedule of ½ of 1 percent for the combined employer-employee rate and of 3/8 of 1 percent for the self-employed rate. The purpose of this increase is to finance the monthly disability benefits for disabled workers.

## 1958 Amendments

The 1958 amendments provided additional coverage for groups in certain limited areas — primarily for State and local government employees. Benefits both for those on the

Table 3.—Current requirements for insured status under old-age, survivors, and disability insurance, by beneficiary category

Beneficiary category	Insured-status require- ment for worker <sup>1</sup>
Retired worker (old-age) Disabled worker Dependents of retired	Fully. Fully and for disability determination. <sup>2</sup>
worker (for old-age and disability): Wife	Fully. Fully and currently. Fully.
Widow- Widower- Widowed mother- Parent- Child	Fully. Fully and currently. Fully or currently. Fully. Fully or currently.
Lump-sum payment beneficiary "Disability freeze" bene- ficiary	Fully or currently. Fully and for disability determination.

See table 2 for definitions of the different types

rolls currently and for future beneficiaries were raised by about 7 percent, with somewhat larger increases for those with the lowest benefits and in the maximum family benefits. Parent's benefits were made payable regardless of the existence of other survivors, and the retirement test was liberalized slightly. The maximum

annual earnings base for both benefits and contributions was raised from \$4,200 to \$4,800.

Disability insurance benefits were liberalized in several ways, in addition to the general increase in the benefit level and in the maximum earnings base, described above. Benefits were provided for the dependents of disability beneficiaries, paralleling those for the dependents of old-age beneficiaries (retired workers). The provision for offsetting certain Federal disability benefits and State workmen's compensation benefits against the disability benefits under the Social Security Act was eliminated; an amendment in 1957 had eliminated the offset for service-connected benefits paid by the Veterans Administration. Finally, the insuredstatus provisions for the monthly benefits payable to disabled workers were liberalized by eliminating the requirement of currently insured status.

The financing provisions, too, were significantly altered. The amendments not only raised the maximum taxable earnings base from \$4,200 to \$4,800 but also revised the contribution schedule by (1) increasing by  $\frac{1}{2}$  of 1 percent the combined employer-employee rate and by 3% of 1 percent the rate for the self-employed in all future years and (2) accelerating future scheduled increases so that, beginning in 1960, they will occur at 3-year intervals instead of at 5-year intervals. The changes in the financing provisions were designed both to meet the cost of the liberalized benefit provisions and to place the system on a sounder actuarial basis. This purpose was achieved by substantially reducing the long-range actuarial deficit previously present to the point where it can be said to be within the range of variation inherent in the cost estimates. The financing of the system may therefore be said to be "actuarially sound."

of insured status.

<sup>2</sup> Currently insured status also was required under the 1956 Act, but this provision was eliminated by the 1958 Act.

the 1958 Act.

3 In certain instances (for most married women workers) currently insured status is required.

4 Currently insured status rather than fully insured status was required under the 1954 Act, but this provision was changed by the 1958 Act.