

Trends in Old-Age Insurance and Old-Age Assistance

By Merrill G. Murray and Elinor Pancoast*

THE SOCIAL SECURITY ACT established old-age assistance and old-age insurance as a twofold system of protection against one of life's major hazards—loss of income in old age. In its report to the President in 1935 the Committee on Economic Security recommended "as complementary measures noncontributory old-age pensions, compulsory contributory annuities, and voluntary contributory annuities, all to be applicable on retirement at age 65 or over." That two of the three recommendations were carried into effect in the resulting legislation of 1935 and amendments of 1939 indicates that Congress saw the advantage of dealing with the economic risks of old age by more than one method. Moreover, by incorporating these two systems with other assistance and insurance programs in the Social Security Act, Congress made them an essential part of the larger system of social security.

As the Committee on Economic Security pointed out, old-age insurance and old-age assistance are complementary. Although the methods are different, the goal of each is similar: to provide security against want through a basic income in old age. The groups covered have different qualifications: a retired worker who, by reason of his wage record (contributions), is insured may receive a cash insurance benefit; an old person who is in actual need may receive a cash payment of old-age assistance. Some old persons fail to qualify for old-age insurance benefits because they were too old to earn the necessary wage credits after the program was instituted, or because the greater part of their working lives has been spent in employment not covered by old-age and survivors insurance, or because they have not been members of the labor force. Some persons who do qualify and receive insurance benefits may, nevertheless, be in actual need because they have suffered unusual hazards or are entitled to small benefits only. Assistance serves as a residual program which provides for needy old persons who are not eligible

for insurance benefits, as well as for beneficiaries who are in need.

In providing social security, the methods of old-age insurance and of old-age assistance are different. The task of old-age and survivors insurance is the partial replacement, through cash benefits, of earnings lost by retirement so as to provide a basic income. The benefit will, presumably, be supplemented by personal savings and other types of nonwage income, although the plan takes it for granted that most contributors will not have sufficient savings and nonwage income for their support and will find some replacement of former earnings desirable. Eligibility for retirement benefits under old-age and survivors insurance is determined mainly on the basis of regular attachment to covered employment. The amount of the benefit is calculated in relation to former average earnings by means of a statutory formula. The benefit is financed through contributions previously made by the beneficiary and by his employer.

The task of old-age assistance is to meet the actual need of the recipient for income. Eligibility is determined mainly on the basis of the applicant's lack of income, or of insufficient income in relation to a given assistance standard. The amount of the payment is calculated by determining the budgetary requirements of the recipient for some standard of minimum subsistence and subtracting the income of the recipient from the sum of those requirements. The payment is financed through legislative appropriation, based on taxes which are levied on the general public.

To maintain a properly balanced development of the individual programs, it is important that the dynamic character of each program be perceived, as well as the effect of changes in one on the sphere of action and responsibility of the other.

Similarities and Distinctions

At first glance the two systems appear to be much alike. Both use a minimum age of 65 as one test of eligibility. This test, however, is essentially a method of classification, to segregate the population into cate-

gories which the legislation proposes to aid, and is not an important point of resemblance.

Certain rights are common to both programs. The applicant who is denied insurance benefits or the applicant who is denied assistance has a right to a hearing. However, the matter under dispute in the hearing of the assistance applicant—frequently the facts as to need—is much more subject to discretionary judgment than the matter under dispute in old-age and survivors insurance, which generally involves disputed interpretations of the law and results in a more impersonal hearing.

Both the insurance claimant or beneficiary and the assistance applicant or recipient possess the right of privacy in their personal affairs. Although protection of confidential information was a long-recognized principle of private welfare administration, some jurisdictions carried over the former "poor relief" practice of giving publicity to the recipients of public assistance. Not until the act was amended in 1939 were proper safeguards ensured uniformly to restrict disclosure of information concerning applicants and recipients. The Social Security Board's Regulation Number 1 further protects the privacy of persons covered under both programs, although each program requires different adaptations. As in other areas of administration, uniformity of practice is more difficult to achieve in public assistance than in the insurance program, because administrative responsibility under the former program is diffused among many State and local agencies.

Both recipients of old-age insurance benefits and recipients of old-age assistance have a right to freedom in the use of their cash payments. But here again, general recognition of that right has been slower in the assistance program. Assistance to needy persons is an old concept, whereas insurance is a comparatively modern idea and has not had to live down an illiberal history. Experience is gradually demonstrating, however, that the repressive poor-law controls are not only unnecessary but also undesirable from the point of view of sound public policy. Social insurance practice has likewise helped somewhat in educating the public away from its fear of unrestricted cash payments from public funds to those whose incomes have been interrupted.

*Bureau of Old-Age and Survivors Insurance, Analysis Division.

All these movements toward greater respect for, and consequent freedom of, the recipient of assistance have tended to remove the stigma with which the receipt of assistance has too often been associated. Though the belief that only the thriftless require public assistance persists in many quarters, an increasing proportion of the public understands that lack or inadequacy of income and resources more often arises from social and economic factors, such as injury, unemployment, or the physical handicaps of old age, than from purely personal causes. Ordinarily, these are insurable risks, which in some areas of employment are compensated under one or another social insurance system. Growing public awareness of these social and economic facts, together with the example of insurance, have tended to remove the stigma from public assistance and thus to lessen the contrast between old-age assistance and old-age insurance.

In spite of these similarities, the programs have several basic distinctions. In the first place, the really important test of eligibility for old-age insurance is not the age of the applicant but rather the amount of his earnings in covered employment and the continuity of such employment, shown by his wage record, which is also, in effect, a record of contributions paid by him and in his behalf. Unless he has a substantial attachment to covered employment, the wage earner will not qualify for insurance benefits even if he is in need. The significant test of eligibility for old-age assistance, on the other hand, is the relationship of the applicant's resources to his requirements. Unless this test proves that he is actually needy, under the standard set by the State, he cannot qualify even though he may meet the State's age, residence, and citizenship requirements.

Old-age insurance is planned on the assumption that, for the great majority of insured workers, retirement will mean cessation of earnings and reduction in income. Insurance benefits make possible a continuity in income after retirement and help protect the individual from the risk of becoming needy. Since the size of the retirement benefit is related, within fixed minimum and maximum amounts, to the individual's previous

wages, the amount is highly individualized even though the same formula for determining the benefit is applied to all in the same class. The insured group, moreover, is classified into those with dependents and those without, and higher benefits are paid to beneficiaries with dependents. As a result of varying total wages and of varying numbers of dependents, the benefit amount differs from person to person and from family to family. Since benefit payments under a social insurance program are not affected by nonwage resources which the retired beneficiary has accumulated in other ways, total incomes of beneficiaries also show marked variations.

The underlying assumption in old-age assistance is that some aged persons will be in need because they have no income, or because their income is insufficient to meet their minimum requirements. In calculating the assistance payment of the needy old person, authorities will evaluate his individual requirements and resources. However, the amount of the payment will be related to the scale of living established by the administering agency, his income being offset against that standard. In many localities, limited funds will force a reduction of his payment below the budgeted amount and will tend still further to level all assistance payments.

Amounts of both benefit and assistance payments thus tend to fall within somewhat fixed limits, with a narrower Nation-wide range of benefit than of assistance payments. These limits result from the operation of the maximum and the minimum in the Federal insurance program and in many Federal-State assistance programs. In States that set low maximums for assistance—often but not always States that reduce assistance payments because of insufficient funds—the range is undoubtedly narrower than in old-age insurance. On the other hand, the far greater range in the *total income* of insurance beneficiaries means that they have, on the whole, a higher average income from all sources.

Old-age insurance benefits are paid from an earmarked fund supported by the direct contributions of workers and their employers, in much the same fashion as private group insurance is supported. Old-age assistance grants are noncontributory and are financed entirely out of tax revenues. The con-

tributory feature of old-age insurance, apart from its fiscal aspects, has social value in that it conveys a sense of self-reliance and independence to the worker, who feels that he has thus "paid for" his benefits, in the ordinary market sense. The old-age assistance recipient may also have contributed to his community through taxes, but his contribution is less apparent and fails to provide an analogous psychological satisfaction. The earmarked contribution and the reserve fund which support insurance benefits, and also the nondiscretionary character of the benefit formula, give a high degree of assurance that specific benefit payments will be made, which contributes further to the wage earner's preference for social insurance. This traditional attitude may give way before new concepts of economic interdependence, but at the moment it prevails throughout most of the country. In areas where change is most actively sought, public assistance, as such, is actually receiving less favor, while entirely new forms of old-age security are being pressed for adoption.

In administrative responsibility, also, the two programs for old-age security are differentiated. Federal old-age and survivors insurance has complete geographic coverage and uniform standards of operation throughout the country. In old-age assistance, also Nation-wide in coverage, the policy-forming and operating responsibilities are located in 51 different jurisdictions and in some States are shared with local governments. Thus eligibility requirements, coverage, and the extent to which the need of each old person can be met vary from one jurisdiction to another, depending upon State laws, practices, and fiscal resources; it is slow and arduous to attain among local units higher uniform minimum standards of operation as well as less restrictive eligibility requirements. (It is well to keep in mind that many old and needy persons cannot qualify for payments under either the insurance or the assistance program.) Although Federal grants-in-aid have helped to make old-age assistance both more nearly adequate and more nearly uniform than when the care of this group of needy old persons was solely a local or a State responsibility, the amount of the Federal grant-in-aid is limited in two ways: by what the

States and localities appropriate for assistance, and by a Federal maximum for matching the individual State payment. Adequacy of the assistance program, therefore, depends to a large extent on how well each State can or will finance and administer it.

Perhaps the most striking material difference between the two programs is found in the number of persons each is serving—more than 2 million old-age assistance recipients contrasted with only about 666,000 aged insurance beneficiaries—retired workers and their aged wives, and aged widows and parents of deceased insured workers. Old-age assistance payments totaled \$61 million in July 1945 as compared with monthly insurance benefits of about \$14.1 million paid to persons 65 years of age and over.

This differential in numbers of beneficiaries and recipients is attributable in part to the fact that it will take at least a generation for the insurance system to mature. In its early years, an old-age insurance system has a relatively low claim load because most of its potential beneficiaries are workers who will become old in the future, not those who are old at the time the system is initiated. Most persons already retired or those too old to accumulate the necessary wage credits under the insurance program will, if in need, be cared for by old-age assistance. Grants-in-aid have been provided to the States to help them develop their old-age assistance resources to bear the burden while the old-age insurance program is maturing.

Other characteristics of the insurance program also help to explain the present disparity in numbers of persons aided. It is true that the greater number of the individuals and families for whom old-age assistance payments are necessary might well have been covered by social insurance, which is by its nature suited to providing for average or typical cases that can be handled on a formalized basis with a minimum of individualized service. If most of the aged were so protected, old-age assistance could then provide the financial assistance and services required by those whose needs cannot be completely met by a more generalized program. In 1935 the problem involved in initiating social insurance was so enormous in a

country of this size that it seemed wise to begin by covering workers in commerce and industry only, and expand as experience and public acceptance were gained. Unfortunately, although a decade has passed, coverage under old-age and survivors insurance has not yet been extended beyond its original limited coverage. Old-age assistance, therefore, continues to carry a greater load than it otherwise would. Assistance rolls, moreover, are swollen because the low-paid employments from which many recipients retire—domestic service, agriculture, and self-employment—are those which do not facilitate private provision for old age. Yet workers in these very employments are now excluded from coverage under old-age and survivors insurance. Furthermore, about 40 percent of the covered workers who have earned some wages in covered employment and have paid the corresponding taxes are nevertheless ineligible for benefits, ordinarily because their short-term attachment to covered employment has prevented their accumulating sufficient wage credits to meet eligibility requirements. Some work the greater part of the time in noncovered employment, and others have entered the labor market too recently to become eligible. Public assistance will be their only resource if they become needy in their later years, unless in the meantime they acquire sufficient wage credits to qualify for benefits.

The increase in the number of old-age insurance beneficiaries has been retarded during the war by employment opportunities for older workers. About one-sixth of the monthly benefits in force for persons aged 65 and over are not being paid, chiefly because those entitled to them keep on at their jobs. In addition, hundreds of thousands of eligible persons have never made application for benefits; now that the war is over, most of them may be expected to do so. Actually, if all persons who are now eligible for insurance benefits were to file claims, the beneficiary rolls would be almost tripled. Nevertheless, it will probably take at least 5 more years, and possibly as many as 10, barring other changes, for the number of aged insurance beneficiaries to exceed the present number of old-age assistance recipients. Although many persons will receive insurance benefits who would in the past have had to seek old-age assistance, it is possible that

the actual number of aged persons receiving assistance will not be materially reduced in the long-run future. This prediction takes into account current population trends, which point inevitably to an increasing proportion of old people in the population, as well as industrial trends, which imply that workers will more and more be dependent upon wage income and will need assistance when that income ceases, if they are not eligible for retirement benefits. Public welfare trends, moreover, reveal a growing tendency to supplement old-age insurance benefits with public assistance payments. This practice will undoubtedly increase assistance rolls.

Some Present Trends

The comparatively slow expansion of old-age insurance, resulting in large public assistance rolls, and the marked variations in development of State old-age assistance programs explain much of the drift of public attitudes toward old-age assistance. Generalized rather than individualized methods of determining the amounts of payments and the exemption of other income from consideration have frequently appeared in public demands and recur in provisions of legislative bills and referenda. One State has by statute substituted for the traditional determination of the cost of individual requirements a payment representing a flat amount minus income, which is used for all recipients. Four States have made the minimum total income of recipients more nearly uniform by prescribing a minimum amount for assistance and other income. These examples reflect not only attempts to seek the convenience of generalization in dealing with large numbers but also the desire to create a predictable payment to which the needy person has a right, without any implication that the individual requirements should be determined by others than himself.

In a few States, where funds are adequate and standards high, old-age assistance payments have tended to approach a "flat" amount very near the statutory or administrative maximum. Under these conditions the assistance features of the program are partially lost, and it may come to resemble in practice a "pension" program. This development coincides in some States with a general and deepening conviction that, regardless of

individual requirements, one needy old person has about the same claim on public funds as another, and that right is asserted in part by his receiving a relatively equal payment. There is also a definite trend toward liberalization of State maximums. On the other hand, the practice of making exceptions to the maximums where recipients have unusual needs, such as the need for medical care, is becoming more common. The consequent broadening in range of payments and increases in individualization at the upper end of the range partly counteract the tendency for the individual payment to approximate a flat amount.

In still other respects the assistance payment begins to take on the unconditional aspects of the insurance benefit or of a "pension." There is a trend toward less routine investigation of the ability of relatives to support aged persons, and assistance is less frequently withheld when relatives are deemed able to support but do not actually contribute. A few States have adopted definite statutory scales for relatives' contributions, which exempt relatives with low incomes or heavy family obligations. There has also been a fairly strong drive in many States to exclude a certain portion of the applicant's own income in determining the old-age assistance payment. Those who would completely undermine the present basis of correlating assistance with need are proposing to go a step farther and disregard all income in determining assistance. This proposal, flowing from the concept that all old people, irrespective of economic status, have a right to support from the State, may be a force toward converting old-age assistance into a non-contributory "pension" program, in which need would not be determined. Of course, such a change would necessitate a change in the Federal law as well as in State laws.

Association of old-age assistance with what the public usually calls "the

means test," which it believes is necessarily accompanied by intrusive inquiry and repressive action (and which sometimes proves the case), subjects assistance to criticism and makes the public eager to convert it into something more acceptable. This is one of the reasons for the greater pressure on old-age assistance for conversion to a "pension" program. The State program likewise may be more responsive to local voters, especially those organized into State pension leagues or other pressure groups. Even though a plan for pensions with no determination of need appears to threaten old-age assistance directly, old-age insurance might also be weakened. So long as a public assistance program retains its distinctive feature, i. e., determination of need and payments varying with the needs of individuals, it is not likely to compete with social insurance, but a noncontributory "pension" program may be a considerable threat to a contributory social insurance program.

As a matter of fact, substitutes have been proposed for both old-age titles of the Federal Social Security Act. Some groups have sought to do away with both provisions and substitute a national scheme for paying uniform old-age pensions to all retired old persons, irrespective of previous contributions or of demonstrated need. Pressure is thus diverted to promoting "pensions" that might go into expanding a national social insurance system or developing a more nearly adequate and effective assistance program. Before voters take headlong action, the undesirable features of a noncontributory flat "pension" plan should be weighed against the favored elements. The insufficiency of a flat pension to meet special needs would give the pension system an inflexibility in undesirable contrast to old-age assistance. On the other hand, to discard the social insurance principle of individualized benefits related to past earnings would throw away a principle of so-

cial insurance which is highly valued in this country. Finally, enthusiasts frequently overlook the fact that the pension system would be more costly to the general taxpayer than the dual assistance-contributory program.

Improvements in Both Programs

All the factors which influence present trends should be understood if an adequate system of social security for the aged is to be developed and kept operating on a satisfactory basis. What is needed to overcome causes of dissatisfaction which may lead to the substitution of a different system is to strengthen both programs. Old-age and survivors insurance should be extended to cover all gainful workers, particularly such excluded groups as employees in non-profit institutions, agriculture, and household employment, and the self-employed. The average monthly wage and benefit formulas should be liberalized to provide more nearly adequate benefits. And disability cash benefits for wage earners who are under age 65 but are permanently unable to continue at work should be incorporated in the program.

With its responsibility limited by these extensions of old-age and survivors insurance, old-age assistance should be able to provide more nearly adequate payments in all States to all old persons who are in need, and to include supplementary amounts for medical and hospital care. These improvements may be accelerated if the amounts of the Federal grants-in-aid are varied inversely with the State's economic capacity. Eligibility requirements in the States, such as residence, should also be relaxed to remove the anomaly of having some old and needy persons unable to qualify for either old-age assistance or old-age insurance. Changes of this type in our twofold system of social security will aid it to approach its goal of providing basic security against the economic hazards which old age and retirement bring.