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402

OLD AGE INCOME ASSURANCE

A COMPENDIUM OF PAPERS ON PROBLEMS AND POLICY ISSUES
IN THE PUBLIC AND PRIVATE PENSION SYSTEM

SUBMITTED TO THE

SUBCOMMITTEE ON FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

Part II: The Aged Population and Retirement
Income Programs



DECEMBER 1967

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LETTERS OF TRANSMITTAL

DECEMBER 9, 1967.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the members of the Joint Economic Committee and other Members of Congress is part II, "The Aged Population and Retirement Income Programs," of the compendium of papers entitled "Old Age Income Assurance," prepared for the Subcommittee on Fiscal Policy.

The views expressed in this document do not necessarily represent the views of members of the committee or the committee staff, but are statements of issues and alternatives intended to provide a focus for hearings and debate.

WILLIAM PROXMIRE,
Chairman, Joint Economic Committee.

DECEMBER 6, 1967.

HON. WILLIAM PROXMIRE,
Chairman, Joint Economic Committee, Congress of the United States, Washington, D.C.

Dear Mr. CHAIRMAN: Transmitted herewith is part II, "The Aged Population and Retirement Income Programs," of the compendium of papers on problems and policy issues in the public and private pension system, entitled "Old Age Income Assurance."

Part II includes papers by invited specialists. These describe the aged population and retirement income programs.

The subcommittee is indebted to these authors for their excellent contributions, which we believe will add much to a general awareness of the issues in retirement income policy, particularly as these relate to old-age and survivors insurance and tax programs. The time and learning devoted to the preparation of these papers should do much to stimulate interest and to assist in policy decisions concerning future programs for old age income assurance.

Dr. Nelson McClung, consultant to the subcommittee is responsible for the planning and preparation of the compendium, with the editorial assistance of Anne McAfee, and the advice and suggestions of other members of the committee's professional staff.

As the executive director's letter indicates, the compendium should not be viewed as an expression of views or conclusions of the committee staff, nor should it be viewed as an expression of views of the subcommittee or individual members.

MARTHA W. GRIFFITHS,
Chairman, Subcommittee on Fiscal Policy.

DECEMBER 5, 1967.

HON. MARTHA W. GRIFFITHS,
*Chairman, Subcommittee on Fiscal Policy, Joint Economic Committee,
 U.S. Congress, Washington, D.C.*

DEAR MADAM CHAIRMAN: Transmitted herewith is part II, "The Aged Population and Retirement Income Programs," of the compendium of papers entitled "Old Age Income Assurance." This study was prepared at your request in order to bring together current thinking on the questions of retirement income programs and thereby contribute to policy decisions by focusing attention on the more promising solutions of the income problems of older people.

The compendium, which is being issued in five parts, confirms the fact that programs to aid older people have grown in number, size, and complexity, and that the coordination of these programs and their combined impact on the income of older people have received too little attention. Clearly, public policy issues exist with respect to coordination of these programs, appraising their effects on the economy, and improving equity.

Part II contains contributions by the authors listed below. The committee is indebted to these contributors who have given generously of their time and expertise to provide the latest available information and competent analytical perspective on this important subject.

Prof. Donald E. Bellamy	Prof. Raymond Munts
Dr. Lenore Epstein Bixby	Dr. Janet H. Murray
Dr. Benjamin Bridges, Jr.	Dr. Mollie Orshansky
Prof. Lowell E. Gallaway	Dr. Erdman Palmore
Dr. Margaret S. Gordon	Prof. Donald E. Pursell
Mrs. Elizabeth M. Heidbreder	Prof. Gaston Rimlinger
Prof. George Katona	Prof. James H. Schulz
Mr. Walter W. Kolodrubetz	Prof. Yung-Ping Chen
Prof. Juanita M. Kreps	Dr. Alfred M. Skolnik
Prof. James N. Morgan	

The major work in planning and compiling this compendium was undertaken by Dr. Nelson McClung, consultant to the subcommittee, with the advice and suggestions of other members of the staff. He was assisted in the editorial work by Anne McAfee. Nothing herein should be interpreted as representing either the opinions of the staff or the members of the committee on any of the matters discussed.

JOHN R. STARK,
Executive Director, Joint Economic Committee.

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THE AGED POPULATION: ECONOMIC STATUS

BY LENORE EPSTEIN BIXBY, JANET H. MURRAY, and ERDMAN PALMORE*

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FOREWORD

This paper excerpts and combines sections from "The Aged Population of the United States,"** a summary report of the Social Security Administration's 1963 Survey of the Aged. In keeping with the purpose of the compendium, the sections which have been chosen for inclusion here deal primarily with the income of the aged.

The 1963 Survey of the Aged was planned and the analysis of the data carried out under the direction of Lenore Epstein Bixby. The principal authors of the sections in this paper are Lenore Epstein Bixby, Janet H. Murray, and Erdman Palmore.

INTRODUCTION AND SUMMARY

The major purpose of the 1963 Survey of the Aged was to measure the economic and social situation of a representative sample of all persons aged 62 and over in the United States in order to serve the detailed information needs of the Social Security Administration and of the Advisory Council on Social Security appointed in 1963. In considering adequacy of benefit levels and the retirement-test provisions, such information was needed not only for beneficiaries under the old-age, survivors, disability, and health insurance (OASDHI)¹ program, but also, on a comparable basis, for other aged persons.

The survey collection took place in early 1963, with most of the information relating to the year 1962. The Bureau of the Census was responsible for the sample design and the collection and tabulation of the data. The universe was composed of the civilian population aged 62 and over residing in the 50 States and the District of Columbia. Institutional residents were included. The basic interview unit for the survey was an "aged unit," defined as a married couple, either member of which was aged 62 or older,² or a nonmarried person³ who was aged 62 or older. About 8,500 aged units consisting of about 11,000

**Research Report No. 19, Office of Research and Statistics, Social Security Administration, Washington, U.S. Government Printing Office, 1967, 423 pp.

¹ In this report, the current terminology "OASDHI" has been adopted, although the health insurance provisions were not enacted until 1965.

² Couples were classified by age of husband, except for a few couples with a husband under 62 years of age and wife older; these were classified by age of wife.

³ Divorced, separated, widowed, or never married.

aged persons was the expected sample size; altogether, useful questionnaires were completed for 7,515 aged units, a completion rate of about 88 percent.

Within the relatively homogeneous group of the aged, there is considerable diversity. Even in the one thing that elderly people have in common—their “age”—there is an extensive range. Of the 22 million persons aged 62 and over who were covered in the 1963 Survey of the Aged, 4 million were in the “youngest” group, the 62 to 64 age range, but 1 million were more than 20 years older. More women than men live to be very old; yet 45 percent of those aged 62 and over were men. Although old age is the period of retirement, more than a fifth were employed. Typically, the aged received benefits under the OASDHI program; yet more than a third did not receive such benefits.

The emphasis is on those aged 65 and over rather than those aged 62 and over, and comparisons are then made with the younger group. The more restricted aged population, those aged 65 and over, contained relatively more women, more widowed, more nonemployed, more OASDHI beneficiaries, and more persons with only an elementary school education than the more broadly defined group that includes those aged 62 and over.

With regard to the income of the aged, the survey revealed the low-income status of a majority of the aged. The median income of married couples aged 65 and over was found to be \$2,875, and for nonmarried men and women, \$1,130.

There is, of course, considerable income diversity within the older population. This is apparent when median incomes of the major population subgroups used in the survey are compared. These subgroups are: the OASDHI beneficiaries and nonbeneficiaries; the three age groups 62 to 64, 65 to 72, and 73 years and over; and the three marital groups (couples, nonmarried men, and nonmarried women). The group with the highest incomes were the nonbeneficiary married couples aged 62 to 64 with a median income of \$5,900 (\$2,950 per person). The nonbeneficiary women aged 73 and over had the lowest incomes, as half of these women had incomes of less than \$720.

Earnings are important in providing a higher level of income for those in the younger age groups. OASDHI benefits are important in keeping income from falling to the lowest levels when, with advancing age, labor force participation is greatly curtailed.

Earnings decreased with advancing age for both men and women and for full- as well as part-time workers. It remained the pattern for each of the age groups even when the number of weeks worked was held constant, as, for example, among full-time, year-round workers. Thus, not only did the aged work less with advancing age, but in addition they worked at jobs that were lower paid.

In the aggregate, including spouses under age 65, nearly two-fifths of the income of people aged 65 and over in 1962 was from retirement programs: 30 percent, social security benefits; 6 percent, railroad retirement and other Government programs; and 3 percent, private pensions. With the addition of veterans' benefits (4 percent) and public assistance (5 percent), it is evident that public programs provided nearly half of the income of the elderly (45 percent). Nevertheless, earnings were still an important source of income for the aged; they provided nearly a third of the income; income from assets—interest,

dividends, and rents—provided almost half as much. Other miscellaneous sources, including small amounts of contributions from relatives not in the household, made up the remaining 5 percent.

Although money income is the customary and certainly the best single measure of the economic situation of any population group, the financial position is better understood if asset holdings and amount of debt are also known. The survey found that the median value of the asset holdings of couples aged 65 and over was \$11,180 and nonfarm homes accounted for almost one-third of total assets. When equity in the home was excluded, the median value of the assets of married couples was \$2,950. Nonmarried men and women had less than one-third these amounts. Savings in the form of financial assets—deposits in banks and savings accounts, U.S. savings bonds, marketable securities, and collectable loans to others—may be especially important as a resource if serious illness strikes or other emergencies arise. More than two-fifths of total assets were in these forms, and more than half of these were liquid assets. Investment in other real estate and in a farm (the farm home was treated as part of the value of the farm) or business constituted the remainder, about a quarter, of asset holdings. Personal debts were very small in relation to assets—about 1 percent. Approximately 75 percent of the married couples and 90 percent of the nonmarried men and women reported no personal debt.

Asset holdings, especially financial assets, increased as income increased. Because of a difference in the rate of increase between home equity and financial assets, the relative importance of these forms was quite different between low- and high-income groups. In the low-income third, more than half the holdings were in home equity; only a fourth was in the form of financial assets. In the top-income third, half the assets were in the form of financial assets and only a fourth in home equity. In general, the proportion owning assets and the median amounts of these holdings declined with age.

A measurement was also devised which combined the data on the income and assets of the survey units, taking account of their age and sex. Called "potential income," it involved an arbitrary proration of assets, plus earned interest, over the expected life of the survey units. Although a statistical construct, it provided a means of grouping units with approximately the same economic position when both income and assets are considered and thus for showing how the size distribution of current money income would be altered when assets are taken into account this way.

Median incomes were increased about 10 percent when prorated assets excluded the owned home and more than 30 percent when equity in the owned home was included. The increases in the medians were appreciably greater for those aged 73 and over than for those aged 62 to 64 or 65 to 72, because of the shorter period of life expectancy for which assets were prorated. The findings showed that asset holdings were larger at the higher income levels than at the lower. Inequality in the distribution of income was greater for potential than for actual income.

I. GENERAL CHARACTERISTICS OF THE AGED POPULATION

The overall picture of the population aged 65 and over gains perspective if it is set against a background of the total population. That

the aged group has been growing in both numbers and relative importance has been much emphasized in the last decade. The following figures show the total U.S. population, the number and proportion of persons aged 65 and over in each decennial census since 1890, and the estimate for January 1, 1963:

	Total (thousands)	Aged 65 and over	
		Number (thousands)	Percent
1890.....	62,654	2,418	3.9
1900.....	76,212	3,084	4.0
1910.....	92,229	3,954	4.3
1920.....	106,022	4,940	4.7
1930.....	123,203	6,644	5.4
1940.....	132,165	9,036	6.8
1950.....	151,326	12,295	8.1
1960.....	179,323	16,560	9.2
1963.....	185,428	17,470	9.4

Source: U.S. Department of Commerce, Bureau of the Census; 1890-1960, U.S. Census of Population: 1960, PC(1) 1B, table 17; 1963, Current Population Reports, Series P-25, No. 334.

Census projections suggest that the aged population will reach nearly 25 million by 1985 and that this number will amount to about 10 percent of the total population.⁴ The population projections prepared by the Division of the Actuary, Social Security Administration, also suggested that aged persons 65 years old and over will constitute 10 percent or more of the total population by 1985.⁵

Comparing the 65-and-over population with younger age groups, men, in 1960, constituted nearly half the 25-to-44 age group but only 45 percent of the 65-and-over population (table 1). In 1960, only 1 percent of the 25-to-44-year-old group and less than 10 percent of the 45-to-64 group were widowed, as compared with nearly two-fifths of those aged 65 and over. More than three-fifths of those under age 65 were employed, as compared with less than one-fifth of those over 65. There were relatively fewer nonwhites in the older group than in the younger.

AGED PERSONS

Most of the information given for individuals is provided and analyzed for 12 groups: the two sexes, the two beneficiary groups, and the three age groups. The population in each of these groups is summarized below (in thousands):

	Men		Women	
	Beneficiaries	Nonbeneficiaries	Beneficiaries	Nonbeneficiaries
Aged 62 to 64.....	483	1,545	1,163	1,097
Aged 65 to 72.....	3,101	1,241	3,851	1,294
Aged 73 and over.....	2,615	806	2,637	1,923

The two largest groups are the men and women beneficiaries aged 65 to 72, constituting nearly a third of all those aged 62 and over; the

⁴ U.S. Department of Commerce, Bureau of the Census, *Current Population Reports*, Series P-25, No. 329, March 10, 1966.

⁵ *Illustrative United States Population Projections*, Actuarial Study No. 46, May 1957. U.S. Department of Health, Education, and Welfare, Social Security Administration, Division of the Actuary. Later, unpublished projections confirm, in general, such a level for the aged population.

two smallest groups are the beneficiary men aged 62 to 64 and the nonbeneficiary men aged 73 and over, constituting less than 6 percent of all those aged 62 and over.

People who have earned insured status in covered employment may draw benefits under the OASDHI program regardless of their earnings when they reach age 72; below this age, the retirement, or earnings, test is in operation. This was the basis for subclassifying the 65-and-over population into the two age groups 65 to 72 and 73 and over. Age 73 was used rather than age 72 in order to identify a group not subject to the retirement test for at least 1 full year at the time of the survey. A further advantage is that the population aged 65 and over divides more evenly at 73 than at the more customary ages 70 or 75, and yet the difference of 2 or 3 years is not so great but that some comparisons can be made between the survey findings for persons aged 73 and over and data from census or other sources for those aged 70 and over or 75 and over.

Relationship Between Color, Education, and Employment

Some 8 percent of the total aged population were nonwhite, but the following summary of the percent nonwhite in each of the 12 groups shows considerable variation :

	Men		Women	
	Beneficiaries	Nonbeneficiaries	Beneficiaries	Nonbeneficiaries
Aged 62 to 64.....	15	11	8	10
Aged 65 to 72.....	8	12	7	13
Aged 73 and over.....	7	14	4	7

The proportion of those reporting on their schooling with more than an eighth-grade education, summarized below, show that the older groups tend to have less education than the younger, and the men less than the women :

	Men		Women	
	Beneficiaries	Nonbeneficiaries	Beneficiaries	Nonbeneficiaries
Aged 62 to 64.....	31	48	41	52
Aged 65 to 72.....	32	42	39	42
Aged 73 and over.....	31	25	38	34

Educational attainment is related to employment, and employment and beneficiary status are related. Nonbeneficiaries in the 62-to-64 age group have both greater employment and a higher level of education than beneficiaries. The proportions (percent) employed in each group are as follows:

	Men		Women	
	Beneficiaries	Nonbeneficiaries	Beneficiaries	Nonbeneficiaries
Aged 62 to 64.....	24	80	16	37
Aged 65 to 72.....	22	55	12	17
Aged 73 and over.....	18	5	5	2

Relationship of Age to Marital Status

Information on the differences in the marital status of men and women and on changes that occur with advancing age is basic to an understanding of many aspects of the social and economic situation of the aged as presented in this report. Of all persons aged 25 to 44, more than four-fifths were married with spouse present (table 1); among people aged 65 and over, half were married and nearly two-fifths had been widowed. Within the range of the aged population itself, the proportion married with spouse present decreased from 72, to 59, to 39 percent, in the 62-to-64, 65-to-72, and 73-and-over age groups, respectively; the corresponding proportions widowed increased from 18, to 30, to 50 percent, respectively, in these three age groups (table 2).

Certainly the shift in the predominance of the married to the widowed in the aging population is to be expected as the death of one of the spouses dissolves the marriage. And because men are usually older than their wives, because they are more apt to remarry, and because they do not live as long, on the average, as do women, there are more married men than married women 65 years old and older (5.4 million men, 3.4 million women) and more widowed women than men (5.3 million widows, 1.5 million widowers). In relative terms, the differences are even more striking; more than two-thirds of the aged men, but only about a third of the aged women, were married with spouse present. Only a fifth of the men were widowers; more than half the women were widows.

These figures lead directly to the numbers of aged units around which, as indicated earlier, most of the analyses in this study center. The subtracting of the 5.4 million married from the 7.8 million men aged 65 and over yields the 2.4 million units designated as nonmarried men (table 3). Similarly, the 6.3 million units designated as nonmarried women 65 years old and over are obtained by subtracting the 3.4 million married from the 9.7 million total (or, alternatively, by adding the widows, the divorced or separated, the married with spouse absent, and the never married).

In order to understand the age composition of the 5.4 million married units aged 65 and over, or the 7.3 million units aged 62 and over, it is necessary to analyze the cross-distribution of the couples by the ages of the husbands and wives. The information may be summarized for those 65 and over, as follows (in thousands) :

	Persons, aged 65 and over	Couples, aged 65 and over
Total.....	17, 470	.....
Wife 65 and over, husband 62 to 64 ¹	140	.....
Nonmarried men.....	2, 402	.....
Nonmarried women.....	6, 329	.....
Total.....	8, 599	5, 445
Husband 65 and over.....	8, 515	5, 361
Wife less than 62.....	1, 281	1, 281
Wife 62 to 64.....	926	926
Wife 65 and over.....	6, 308	3, 154
Wife 65 and over, husband less than 62.....	84	84

¹ Classified as "married couples aged 62 to 64."

Of the 5.4 million couples 65 years of age and over, 42 percent had one member less than 65. Of the 10.9 million persons in this group of married couples, about one-fifth were less than 65.

A similar analysis for the married couples classified as aged 62 to 64 shows that 70 percent had one member less than 62 years of age. Of the 3.6 million persons in this group of married persons, about 35 percent were less than 62 years old, and 5 percent were 65 and over.

SURVEY UNITS

The numbers of units in the basic 65-and-over groups are summarized below (in thousands):

	Married couples	Nonmarried men	Nonmarried women
Total.....	5,445	2,402	6,329
Beneficiaries.....	4,325	1,599	3,786
Nonbeneficiaries.....	1,120	803	2,543

Important differences in the ages of these groups are associated with many of the differences in their financial situations and living conditions. These differences are reflected in the median ages, in years, as follows:

	Married couples	Nonmarried men	Nonmarried women
Total.....	71.3	74.1	74.0
Beneficiaries.....	71.8	73.8	72.7
Nonbeneficiaries.....	69.4	75.1	77.3

The nonmarried men and women were older than the married couples, as would be expected.

Beneficiary Status and Age

Nonbeneficiaries among the nonmarried, especially women, were significantly older than beneficiaries. Nonbeneficiary couples, on the other hand, were younger than those who were receiving OASDHI benefits. Married couples and nonmarried men and women with and without benefits are distributed among the three groups, as follows (in thousands):

	Aged 62 to 64	Aged 65 to 72	Aged 73 and over
Married couples.....	1,782	3,344	2,101
Beneficiaries.....	464	2,540	1,785
Nonbeneficiaries.....	1,319	804	316
Nonmarried men.....	378	1,077	1,325
Beneficiaries.....	123	724	875
Nonbeneficiaries.....	256	353	350
Nonmarried women.....	809	2,797	3,531
Beneficiaries.....	401	1,969	1,817
Nonbeneficiaries.....	407	828	1,715

A distinction has been made in the income analyses between beneficiaries who had been on the rolls during the full year 1962, and those whose first benefit had not been received until February 1962 or later. The comparisons between beneficiaries and nonbeneficiaries become more clear cut and meaningful when those who retired during the

course of the year are excluded. Such exclusion also served to maximize comparability with data on income of beneficiaries collected in 1957.

Considerable interest attaches to differences in income between those nonmarried women whose benefits were based on their own work record and those whose benefits were based on the employment record of a deceased husband. Accordingly, the data for women in each group are separated in the income tables. Approximately half the full-year beneficiary women who were widows obtained their benefits on their own rather than on their husbands' work records.

Relationship Between Age, Beneficiary Status, and Color

Although the proportion of nonwhites tends to decrease with age, this was not consistently true for all subgroups. There were relatively more nonwhites among the nonbeneficiary married couples aged 73 and over than among those 62 and 64, as shown by the following figures on percent nonwhite by group:

	Aged 62-64	Aged 65-72	Aged 73 and over
Married couples.....	10	8	8
Beneficiaries.....	13	7	7
Nonbeneficiaries.....	8	11	13
Nonmarried men.....	21	11	11
Beneficiaries.....	13	10	8
Nonbeneficiaries.....	25	15	16
Nonmarried women.....	11	10	6
Beneficiaries.....	10	7	4
Nonbeneficiaries.....	11	14	7

For the most part, there were proportionately more beneficiaries among whites than among nonwhites, but married couples aged 62 to 64 were an exception. In this group, nonwhites were more apt to take actuarially reduced benefits than were whites. On the other hand, among the nonmarried in each age group, there were relatively more nonwhites among the nonbeneficiaries than among beneficiaries. The relatively large proportion of nonwhites among nonbeneficiary nonmarried men may help to explain some of the report findings with respect to this group.

Region and Place of Residence

The picture of where the different groups of the aged population live gains perspective through comparisons with the total U.S. population. Thus, the Census of 1960 showed the percentage of the total population and of those aged 65 and over in each region and in each type of urbanization as follows:

	Total population	Population 65 and over
Total.....	100	100
By region:		
Northeast.....	25	27
North Central.....	29	31
South.....	31	28
West.....	16	15
By place of residence:		
Urban.....	70	70
Rural nonfarm.....	23	22
Rural farm.....	7	8

Source: U.S. Department of Commerce, Bureau of the Census, U.S. Census of Population: 1960. Detailed Characteristics, U.S. Summary, table 233.

Contrary to the popular impression based on the growth of retirement communities in the South and West, there were relatively fewer older persons in these regions than in the North. In the North (Northeast and North Central regions), there were nearly 100 persons aged 65 and over per 1,000 population; in the South and West, fewer than 85 per 1,000. There was about the same proportion of older persons in the urban and rural areas of the country as in the total population. However, proportionately more nonmarried women lived in the urban than in rural areas and proportionately more nonmarried men and women than married couples lived in the North (table 3).

Except for the increasingly larger proportion of nonmarried women in the North at more advanced ages, there were no consistent shifts in residence as age increased. There were, however, some marked differences in residence of beneficiaries as compared with nonbeneficiaries. In general, there were relatively more beneficiaries than nonbeneficiaries in urban rather than rural areas, especially among the nonmarried, and more beneficiaries than nonbeneficiaries in the North than in the South. The pattern was not always consistent and simple, however. For example, nonmarried men and women who were beneficiaries were more apt to live in the Northeast, but relatively more beneficiary couples lived in the North Central region. About the same proportion of beneficiaries as of nonbeneficiaries lived in the West.

II. INCOME AND OTHER MONEY RECEIPTS

THE POPULATION AGED 65 AND OVER

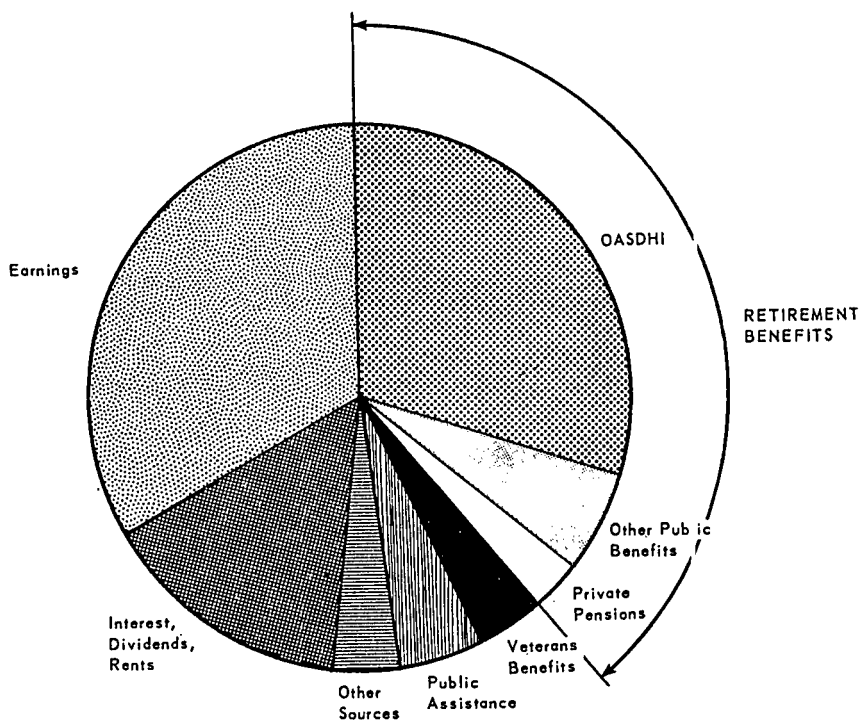
Sources of Income

In 1962, retirement programs provided two-fifths of the aggregate income of persons aged 65 and over and their spouses. Of these programs, OASDHI alone accounted for 30 percent of their income; programs for railroad and Government workers, about 6 percent; and private group pension plans, slightly more than 3 percent (chart 1).

It is perhaps surprising that an age group generally considered as out of the labor force had aggregate earnings four-fifths as large as their total benefits under public and private retirement programs combined. This relationship results in large part from the low ratio of retirement benefits to preretirement earnings that is characteristic of most retirement programs.

Retirement benefits were reported by 84 percent of the couples; and earned income, by 55 percent (table 4). For nonmarried persons, the corresponding figures were 67 percent and 24 percent, with men somewhat more likely than women to have both current earnings and benefits based on earlier employment. More than nine in every 10 of the units with payments under public or private retirement programs received OASDHI benefits. Private group pensions went to 16 percent of the couples and 5 percent of the nonmarried persons, most of whom were also OASDHI beneficiaries. About half the persons receiving payment as retirees or as survivors of workers in railroad or Government employment also received OASDHI benefits.

Chart 1—Shares of aggregate income by source for units aged 65 and over, 1962



Almost half the aggregate earnings of the aged were reported by couples and nonmarried persons aged 65 to 72 who were not on the OASDHI rolls, although they represented only 14 percent of the units in the 65-and-over age group. Most of these workers could have drawn benefits had it not been for their employment earnings which made them ineligible. For nonbeneficiary units aged 73 or older, on the other hand, earnings were much less important as a source of income. Presumably, people in the older group did not work because of health or other personal reasons or because no work was available to them. Among beneficiary couples, a not inconsiderable portion of the earnings came from the employment of spouses who were not themselves entitled to benefits.

Next in importance after OASDHI and earnings as a source of funds for the aged was income from assets. Interest, dividends, and rents made up more than 15 percent of the total income in 1962 for persons aged 65 and over and their spouses. More than three-fifths of the couples and almost half the nonmarried men and women reported some income of this type, but for about half of them it was no more than \$150 per person for the year (table 5).

Public assistance and veterans' programs, which provided 5 and 4 percent, respectively, of the aggregate money income of persons aged 65 and over and their spouses, followed retirement benefits, earnings, and asset income in importance as income sources. If agency payments for medical care made directly to a hospital, nursing home, physician, or other vendor had been treated as cash income, the total for public assistance would have been about one-third larger, or somewhat more than 6 percent. Public assistance was reported more often by the non-married (17 percent) than the married (8 percent). The reverse was true for veterans' compensation and pension payments, which more often go to men than to women, although many widows do receive such benefits.

These figures do not reflect the importance of different sources of income at various income levels. Thus public assistance was received by a fifth to a third of those with incomes below \$2,000, as shown by the following percentages for married couples and nonmarried men and women receiving income from this source at the specified income levels:

	Married couples	Nonmarried men	Nonmarried women
All income levels.....	8	17	17
Less than \$1,000.....	22	35	23
\$1,000 to \$1,999.....	23	19	22
\$2,000 to \$3,999.....	5	3	4

Relatively few of those at the very low income levels received any income from private pensions, and this source was less important at the levels above \$5,000 than in the \$2,000–\$5,000 range, as shown by the percentages receiving income from this source at the specified income levels:

	Married couples	Nonmarried men	Nonmarried women
All income levels.....	16	10	3
Less than \$2,000.....	2	4	2
\$2,000 to \$2,999.....	20	26	9
\$3,000 to \$3,999.....	27	30	3
\$4,000 to \$4,999.....	23	15	19
\$5,000 and over.....	17	9	10

Relatives may provide support by cash contributions, by sharing a home, or by paying bills. Cash contributions by relatives not living in the same household, or by friends, amounted to barely 1 percent of the aggregate income. Only 3 percent of the couples and 5 percent of the nonmarried reported cash contributions; these included occasional contributions as well as contributions received regularly. Not included were lump-sum inheritances and large cash gifts, which are discussed in the section "Other Money Receipts."

In summary, it may be noted that about 46 percent of the total income of couples and nonmarried persons aged 65 and over came from public income-maintenance programs—social insurance, veterans', and public assistance programs. Although information is not available on the exact amount received in the form of unemployment and temporary disability insurance or workmen's compensation, it is

estimated that it was not more than 1 percent. Nearly 90 percent of the couples and 80 percent of the nonmarried had some income from a public income-maintenance program. If about one-half million nonmarried persons who reported no cash income at all are excluded from the total, the latter proportion rises to 86 percent.

Size of Income

There is diversity among the aged not only in sources of income, but in the amount received. At one end of the income scale, 5 percent of the married couples reported \$10,000 or more, and 2 percent reported \$15,000 or more. Among the nonmarried, 4 percent had \$5,000 or more.

The proportion with income from each of the sources discussed above was smaller for nonmarried persons than it was for couples, except for public assistance and contributions from relatives. It follows, therefore, that the nonmarried were at a considerable disadvantage in terms of total cash income; their median income was \$1,130, compared with \$2,875 for couples (table 6). A third of the nonmarried persons aged 65 and over had less than \$810 during 1962, and a third of the couples had less than \$2,200.

Aged widows and other nonmarried women account for the unfavorable income position of the nonmarried. There were two and one-half times as many nonmarried women as nonmarried men, because women tend to outlive their husbands and because widowers are more likely than widows to remarry. Roughly half the women, compared with one-third of the nonmarried men, had less than \$1,000. Two-thirds of the women and half the men had less than \$1,370. On a per capita basis, the median income position of nonmarried men was roughly equivalent to that of couples. For independent living, however, one person needs considerably more than half as much as two who share a home. The similarity of income, therefore, does not imply a similar level of living.

Attention is focused on median rather than mean income figures (table 5) because the sample estimate of a mean is affected much more than the sample estimate of a median by a few extremely high values and also because the median and other measures of the distribution are more relevant to assessment of the well-being of the aged. The sample mean, on the other hand, is important to estimate aggregate income. Both measures are, of course, subject to sampling variability as well as to errors of response and nonreporting.

Careful review of the characteristics of those respondents who failed to provide complete data on income suggests that total money income was probably understated by about 6 percent. OASDHI benefit income was well reported except by a few respondents who failed to report sizable lump-sum payments. The data from this survey on income from assets are believed to be relatively complete, and earnings were relatively well reported. The distribution of the aggregate by type should therefore not be too far from the fact.

After upward adjustment of the sample data by 6 percent, the aggregate amount of income received in 1962 by persons aged 65 and over and younger spouses would have been about \$8 billion. The

estimated aggregate includes the income of married persons under age 65 whose spouses were older. If it is assumed that their income was the same, on the average, as that of half the average for couples, the aggregate income in 1962 of persons aged 65 and over would be estimated at \$33 billion.

BENEFICIARIES AND NONBENEFICIARIES AGED 65 AND OVER COMPARED

In general, OASDHI beneficiaries were better off in terms of income than nonbeneficiaries if they were not married and less well off if they were. The differences reflect in large part the degree of attachment to the labor force. The median income in 1962 of beneficiary couples aged 65 and over was \$2,710, compared with \$3,580 for couples not receiving benefits (table 6). Income of less than \$1,000 was reported by 4 percent of the beneficiaries and 10 percent of the nonbeneficiaries, and incomes of \$5,000 or more, by 15 percent and 35 percent.

Nonmarried men on the benefit rolls had a median income of \$1,375 (slightly more than half that of couples), and other nonmarried men had \$1,135. For nonmarried women the median income in 1962 was about \$1,200 for those receiving OASDHI, and only \$775 for the others. Nonmarried women whose benefits were based on their own work record were better off than those drawing widow's benefits based on the employment of a deceased husband; the median incomes were, respectively, \$1,300 and \$1,105.

The differences in income between beneficiaries and nonbeneficiaries result in large part from the income source and the interrelated factor of age. Beneficiary couples received half their income in the form of retirement benefits—40 percent from OASDHI alone and 6 percent from private pensions (table 7). Earnings made up one-fourth of the total. Nonbeneficiary couples, on the other hand, received more than two-thirds of their income from employment, only 12 percent from retirement benefits for railroad and government employees, and less than 1 percent from private pensions. Interest, dividends, and rents accounted for one-sixth of the income of beneficiary couples and one-tenth of that of nonbeneficiary couples. Only 1 percent of the income of beneficiary couples came from public assistance, while 4 percent of the income of nonbeneficiary couples came from this source.

Because public programs are limited in what they can pay, groups relying on such payments for a substantial share of their support will have lower incomes, on the average, than those who still rely heavily on earnings. However, some pension programs pay more than others. Among the nonbeneficiaries, almost one-fourth of the couples, one-seventh of the nonmarried men, and one-tenth of the nonmarried women reported retirement income from railroad or Federal, State, or local government employee programs. The median amounts received were substantially higher, on the average, than the median OASDHI benefits for each marital group (table 5).

Almost two-thirds of the nonbeneficiary couples had earnings, and half the beneficiary couples had some income from employment. Among couples reporting earnings, median income from this source was over \$4,800 for nonbeneficiaries, but less than \$1,200 for benefi-

ciaries. Most of the men beneficiaries who supplemented their retirement income by earnings had only part-time or occasional jobs; for a few, earnings were large enough to require suspension of their benefits. A few of the men had younger wives with sizable earnings, and a few married women aged 65 and over who were drawing benefits had younger husbands with full-time employment. The contribution made by the younger spouses is indicated by the fact that the median income other than benefits was twice as high for beneficiary couples with only one spouse entitled all year as for couples with both husband and wife entitled all year—\$1,990 compared with \$985;⁶ a third of the former group but only one-seventh of the latter had nonbenefit income of \$3,000 or more in 1962.

Because nonmarried persons were older than married persons, earnings were a much less important part of their income. For those not receiving OASDHI benefits, public assistance was of great importance, with cash assistance payments making up 16 percent of total income for nonmarried men and 27 percent for nonmarried women. Nearly one-third of the nonmarried nonbeneficiaries reported some support in this form. The median amount of the support that they received was almost \$800. By contrast, only one-tenth of the nonmarried beneficiaries received any cash payment from a public assistance agency, and such payments accounted for no more than 4 percent of their income. Because these payments were supplemental to a basic income provided by benefits, median payments to recipient beneficiaries were substantially less than the average reported by nonmarried nonbeneficiaries.

Relationship of Income Size to Source

OASDHI benefits.—OASDHI benefits served to reduce the need for public assistance, but their importance in this respect should not be overemphasized. Nearly two-fifths of the persons receiving old-age assistance in 1962 and about three-fifths of all new applicants in that year were already receiving OASDHI benefits.⁷ A considerable number of beneficiaries needed public assistance because of medical care costs, others because their benefits are low. In 1962 a substantial number aged 65 and over received the minimum benefit of \$40 then payable to a worker retiring at age 65 or to an aged widow. Some received even less than the legal minimum because they chose an actuarial reduction in order to obtain a benefit before they reached age 65.

A large number of beneficiaries had little cash income besides their benefit. In 1962 about one-third of the nonmarried beneficiaries received less than \$150 in income other than benefits (including public assistance) during the entire year, and one-fifth of the couples had less than \$300 in addition to their benefits. There had been little improvement in this respect since 1957, when the income of beneficiaries was last studied.

⁶ In some cases the spouse not entitled to OASDHI benefits was past age 65 but still employed full time, and in others the spouse was drawing a pension under another program. In most cases, however, the spouse was under age 65 and employed.

⁷ David Eppley, "Concurrent Receipt of PA and OASDI by Persons Aged 65 and Over, Early 1963," *Welfare in Review*, March 1964; also, Bureau of Family Services, *Reasons for Opening and Closing Public Assistance Cases, July to December 1962*. (Mimeographed.) Data are for 31 States.

OASDHI benefits are of particular importance for nonmarried men and women. The median income received by beneficiaries in 1962 other than their benefits is compared in the following tabulation with the median total income received by nonbeneficiaries:

	Beneficiaries	Nonbeneficiaries
Married couples.....	\$1,225	\$3,580
Nonmarried men.....	495	1,135
Nonmarried women.....	420	755

OASDHI benefits can be analyzed as a component of "retirement income," a classification that includes only those sources that are reasonably permanent, i.e., OASDHI and other public retirement benefits, such as railroad and government employees' retirement benefits, private group pensions and individual annuities, interest, dividends, and rents, and veterans' benefits; excluded are such sources as public assistance, earnings, unemployment insurance, and personal contributions. Retirement income other than OASDHI benefits of as much as \$150 per person was received by only 54 percent of the couples and 40 percent of the nonmarried beneficiaries, compared with 44 percent and 34 percent of those in the 1957 survey. The median retirement income in 1962, including OASDHI benefits, was \$2,000 for couples and about \$1,000 for nonmarried beneficiaries. For beneficiaries in the 1957 survey, the corresponding medians were \$1,580 and about \$800. A large proportion of the gain resulted from improvement in OASDHI benefits.

Earnings.—When aged units are classified by their work experience in 1962, it is clear that beneficiaries, whatever their marital status, generally had higher income than nonbeneficiaries, except for those with full-time jobs, that is, jobs at which one usually works 35 or more hours per week.

For couples with either, or both, husband or wife working in 1962 at jobs that were usually full time, the median income was \$4,110 if one or both was a beneficiary, and \$6,060 if neither was a beneficiary. When the jobs were part time, the median was \$3,000 for beneficiary couples and \$2,400 for nonbeneficiaries. Among those with only part-time jobs, beneficiaries, married or not, did better on the average than nonbeneficiaries.

Private pensions and public assistance.—Persons with private pensions constitute the economically elite among retired OASDHI beneficiaries. Their median total income of \$3,400 was only one-sixth less than that of beneficiary couples with at least one member working at a full-time job. And for nonmarried beneficiaries a private pension did as much as full-time employment to raise the average level of income. At the other extreme among beneficiaries were those who had turned to public assistance.

The median income for beneficiary couples with private pensions was about twice the median of \$1,730 for couples whose benefits were supplemented by public assistance money payments. For the non-married the differences were similar. The median for those with a private pension was roughly \$2,200, and for those receiving public

assistance it was about \$1,150, with only minor differences between men and women.

Few nonbeneficiaries had private pensions—so few that no analysis of the income of those who did, based on the sample study, would be statistically valid. Nonbeneficiary units receiving assistance were at a considerable disadvantage as compared with beneficiary units who were receiving assistance to supplement their benefits. This is at least in part because of the maximums placed on assistance payments by most States and the fact that limited funds make it impossible for some States to meet full need as determined under their own standard.⁸ On the other hand, some of the cash assistance received by beneficiaries may have been to meet heavy medical expenses rather than merely for family living expenses.

Veterans' pensions.—With payments to veterans vying in importance with private pensions and public assistance as a source of income for the aged, particularly nonbeneficiaries, it seems useful to examine the effect of veteran status on income. Veterans with service-connected disabilities are entitled to compensation that varies with the severity of the disability; those with non-service-connected disabilities are eligible for pensions subject to an income test.

About half the men covered in the survey, married and nonmarried alike, who reported themselves as veterans were drawing benefits under one of the income-maintenance programs of the Veterans' Administration, usually the pension program.

Veterans had substantially higher incomes than nonveterans, with the difference much smaller among those receiving OASDHI benefits than among those not on the rolls. This is shown by the following median-income figures for the 65-and-over group:

	Married couples		Nonmarried men	
	Veterans	Nonveterans	Veterans	Nonveterans
Total, 65 and over.....	\$3,900	\$2,560	\$2,075	\$1,230
By benefit status:				
Beneficiaries.....	3,680	2,465	1,900	1,285
Nonbeneficiaries.....	4,620	2,895	2,680	925
By age:				
65 to 72.....	3,950	2,920	2,150	1,460
73 and over.....	3,500	2,240	1,845	1,110

The pattern reflects, in part, age differences, with nonveterans heavily concentrated at ages 73 and over, and veterans at the younger ages. Income sources likewise differed. Taking all those aged 65 and over as a group, veterans were slightly more likely to work than nonveterans, slightly less likely to receive OASDHI benefits. Perhaps because of the veterans-preference provisions of the Federal and most State and local civil service systems, veterans were about twice as likely as nonveterans to receive benefits under other public retirement programs. As would be expected, therefore, veterans rarely turned to public assistance, although it was a relatively important resource for nonveterans.

⁸ David Eppley, "Concurrent Receipt of PA and OASDI by Persons Aged 65 and Over, Early 1963," *Welfare in Review*, March 1964.

AGE DIFFERENCES

The Younger and Older Groups Among Those Aged 65 and Over

Comparison of the income situation of the group aged 65 to 72 and the group aged 73 and over points up the relationship between age and income. Much of the disparity in income position between beneficiary and nonbeneficiary units or between married and nonmarried units has been attributed to differences in age distribution. Age is associated, in turn, with the extent of labor-force participation.

Of the couples aged 65 and over, three-fifths were less than 73 years old, but of the nonmarried units, almost three-fifths were 73 years old or older. Relatively more nonbeneficiary couples than beneficiary couples were in the younger age group (72 percent compared with 59 percent). For nonmarried men, the age difference between beneficiaries and nonbeneficiaries was insignificant, with slightly less than half under age 73. Among women, however, more than half of those with OASDHI benefits, but less than a third of the nonbeneficiaries, were under age 73.

Median incomes were smaller for the 73-and-over group than for the 65-to-72 age group, for each marital and beneficiary status classification, but the disparity was substantial only for couples and nonmarried men not on the OASDHI rolls: \$4,750 compared with \$1,680 for couples, and \$2,000 compared with \$860 for nonmarried men (table 8 and chart 2). These figures clearly reflect the fact that employment provided three-fourths of the income of younger nonbeneficiary couples but only 18 percent for older ones; the corresponding figures for nonmarried men were two-thirds and 9 percent. Presumably, most of the younger workers could have drawn OASDHI benefits had it not been for their employment, but those aged 73 and over were apparently not eligible.⁹

As previously noted, nonmarried women not receiving OASDHI benefits were the most seriously disadvantaged of all groups with respect to cash income. Moreover, those aged 65 to 72 were not much better off than those who were older. Because neither age group had much employment, the median incomes were \$855 and \$720.

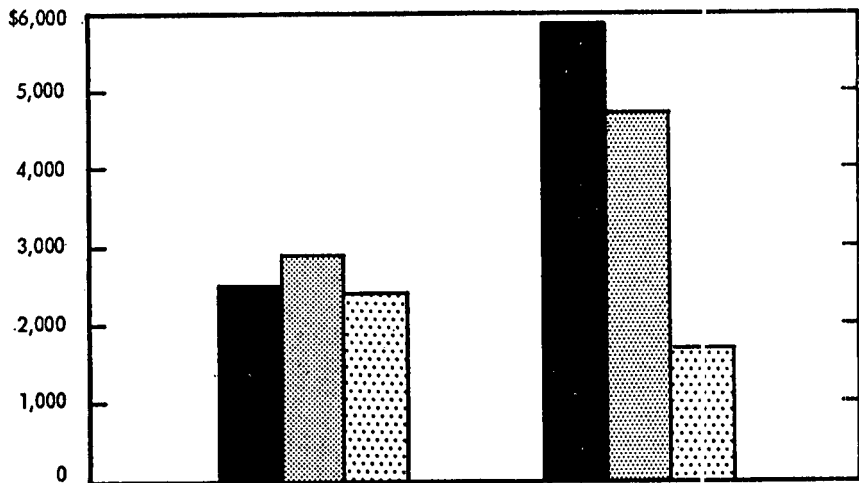
Among beneficiaries aged 65 and over, those under age 73 were somewhat better off than the older ones. The difference is not great, because so much of their income is in the form of benefits. Some difference in favor of the younger units might be expected, however, for the following reasons: first, the benefits of younger units generally started later and consequently were based on employment at higher average earnings; second, younger units would have had less time to use up any assets with which they entered retirement, an action that often reduces current income in later years; and third, they presumably have an advantage in the current labor market over older persons.

Earnings made up the same proportion of aggregate income for each of the two age groups for beneficiary couples (about one-fourth) and for nonmarried men beneficiaries (one-seventh). The

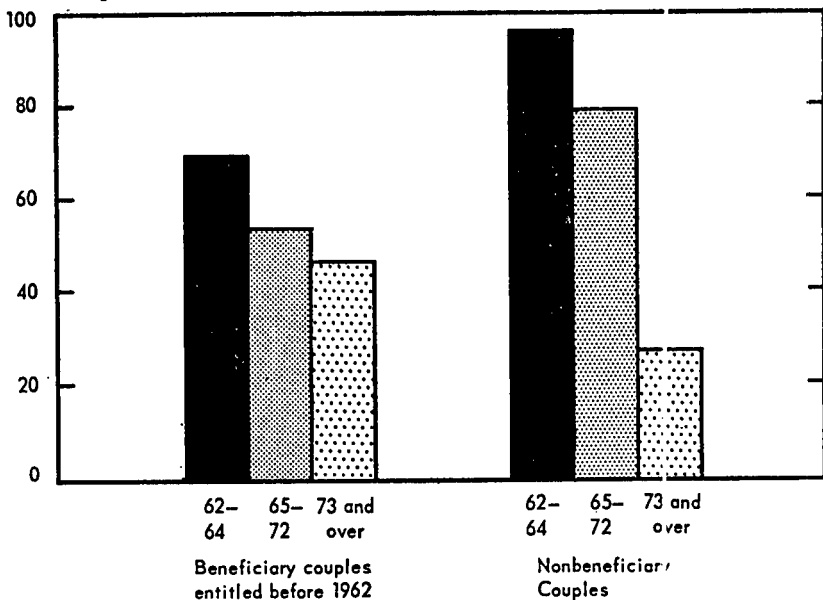
⁹ The earnings or "retirement" test under OASDHI does not apply after age 72.

Chart 2.—Income and earnings for married couples; by beneficiary status and age, 1962

Median income



Percent with earnings



median earnings for beneficiary units in each age group reporting them were almost \$1,200 for couples and around \$700 for nonmarried men (table 9). Interest, dividends, and rents formed about one-sixth of the aggregate income of beneficiary couples and nonmarried women beneficiaries. Moreover, almost as large a proportion of the older as of the younger men beneficiaries had earnings. This lack of difference probably reflects the effect of the retirement-test provisions. The proportion with asset income was likewise as high or higher for the oldest beneficiaries as for those aged 65 to 72, presumably because the great majority of older persons make every effort to hold on to some assets for final contingencies.

Nonmarried women aged 65 and over who were drawing OASDHI benefits as retired workers had almost the same total incomes as nonmarried men beneficiaries of that age. This similarity reflects to some extent a difference in age distribution; 58 percent of the men were aged 73 or older, compared with 46 percent of the women retired workers. Within each of the two age groups, women who were retired workers received less than men but more than women who received benefits as widows. Although median survivor income of widows tended to be as high as or higher than the retirement benefits of the retired women, twice as many retired women as widows in each age group reported earnings. In addition, median earnings were substantially higher for retired women than for widows. Many widows had never worked, or the benefits they could have drawn on their own earnings record were smaller than those to which they were entitled as dependents. (Almost three-fourths of the nonmarried women retired workers were widows.)

Among nonmarried retired workers, the differences in income between men and women were actually smaller than might have been expected on the basis of characteristic differences between the sexes in earnings. Partly responsible is the OASDHI benefit formula, which is weighted in favor of the worker with low average earnings. Fewer men than women reported earnings, and the median earnings of employed men were lower than those of employed women in both older age groups. Retired men generally had slightly less than retired women in income other than benefits because, with the exception of veterans' benefits and private group pensions, women usually had either a higher proportion receiving, or a higher amount of income per recipient from, other income components.

The Group Aged 62 to 64

When the group aged 62 to 64 is compared with the two older groups, it is immediately apparent that nonbeneficiaries aged 62 to 64 were, in the main, regular members of the labor force. Even among nonmarried women, 70 percent had worked in 1962, so that earnings represented more than four-fifths of the total income of the group. It is equally clear that those who claimed OASDHI benefits before they reached age 65 did so because they needed the benefit. About one-fourth of the men who were beneficiaries qualified for disability benefits. For most of the others, apparently, limited earnings made even a reduced benefit attractive. About seven out of 10 couples reported some income

from employment. The median earnings of couples with one or both members employed at some time during the year, however, were only \$1,220, essentially the same as for older beneficiary couples who reported earnings (table 9).

The median income of the group aged 62 to 64 was approximately the same as that of the 73-and-over age group for both beneficiary couples and nonmarried men and only moderately larger for women retired workers. In the case of women who receive benefits on the basis of their rights as widows, there is no actuarial reduction imposed for taking a widow's benefit at age 62. As a result, median income was slightly higher for widow beneficiaries aged 62 to 64 than for those 65 to 72 and substantially higher than for those aged 73 and over. It was somewhat higher also than the median for all nonmarried retired workers, men as well as women, in the same age group.

Except among widow beneficiaries, those who claim OASDHI benefits before they attain age 65 are much less likely than other beneficiaries to have income from assets, and the amount received is likely to be lower. Among these early retirees, only two-thirds as many couples and half as many nonmarried men had any income from interest, dividends, or rents. Fewer had private group pensions, even though the growth of private pension plans might lead one to expect that a larger proportion of each successive age cohort reaching retirement would have rights to a private pension.

OTHER MONEY RECEIPTS

A common question is whether it is realistic to judge the economic well-being of aged persons solely in terms of current money income. If the aged had saved before retirement, it is argued, they should draw on those savings. But, as shown in the next section, the great majority of the aged have only modest holdings (table 10). They either found it impossible to put much aside during their working years, or they used up retirement savings for emergencies, for educating their children, or to help out when their children established homes and started their own families.

Lump sums of money that are not classified as current income have also been considered as a resource. Such sums are large for a few individuals—the inheritance of a "wealthy widow," for example—but they cannot be considered as a resource for the great majority. Relatively few aged units had any receipts such as lump-sum life insurance payments (including cash for policies surrendered), inheritances or large cash gifts, proceeds from the sale of a car or other large item, tax refunds, back pay, or awards for personal injury or damage. Only one in 14 nonbeneficiaries and fewer than one in 25 beneficiaries had any receipts of this kind. Also, the average amount of money reported by recipient units—when there were enough of them to produce a reliable mean—was less than \$1,000 (married beneficiaries, \$980; nonmarried nonbeneficiary women, \$870; married nonbeneficiaries, \$710). As income supplements, these lump sums were more frequently available to units who, presumably, were least in need of such supplementation—the high income group—and there is some evidence that these units were also more favored in the amount received.

Analysis of the relationship of asset ownership to income, together with more detailed analysis of the relationship of beneficiary status and age to assets, follows in the next section.

III. ASSETS AND NET WORTH

THE POPULATION AGED 65 AND OVER

Amount of Assets

The median assets of units aged 65 and over in 1962 ranged from a low of \$2,900 for nonmarried men and \$3,285 for nonmarried women to a high of \$11,180 for married couples. Including equity in a home, more than one-third of the couples and one-sixth of the nonmarried persons had assets of \$15,000 or more. Approximately one-sixth of the couples and two-fifths of the nonmarried men and women had either no assets or less than \$1,000 in assets. There were three times as many married couples with assets of \$15,000 or more as with no assets. Among the nonmarried, in contrast, the number with no assets was more than 50 percent greater than the number with \$15,000 or more.

Including home equity among the assets may obscure the picture of the effective financial resources of a person or family. When equity in the home is excluded, the proportion of people without assets is substantially larger. One-fourth of the couples and nearly two-fifths of the nonmarried men and women had no assets other than equity in a home. About the same proportion of couples had \$15,000 or more in assets, excluding the home, as had none at all, but there were only about one-fourth as many nonmarried persons in the highest asset group as there were nonmarried persons with no assets. The median holdings for couples aged 65 and over were \$2,950 when the home equity is excluded, compared with \$11,180 when it is included.

With regard to beneficiaries and nonbeneficiaries aged 65 and over, beneficiaries appeared to be less well off among the married, and better off among the nonmarried. This finding parallels the finding on income position and reflects to some extent the differences in age distribution.

Composition of Assets

Financial holdings constituted the most important type of asset (table 11). More than two-fifths of total assets for all persons aged 65 and over are represented by financial assets, of which more than half were liquid assets. Equity in a nonfarm home was next in importance, making up about one-third of the total.¹⁰ Investment in other real estate and in a farm or business constituted the third form of asset holdings.

Two-thirds of the married couples aged 65 and over owned nonfarm homes in which they had an equity in 1962. The median equity of married owners was \$10,100. About one-third of the nonmarried men and women owned nonfarm homes, and their equity was, on the

¹⁰ A farm home was treated as part of the value of the farm. The category "nonfarm home" includes, for a few units, equity in a farm home where the value of such home was reported separately from the rest of the farm and excludes, for a few units, equity in a nonfarm home where the value was included in investment in other real estate or business.

average, somewhat lower. The median equity for men owning homes was \$7,270; for women, \$9,070.

Nearly two-fifths of the married couples and half the nonmarried men and women had less than \$500 in financial assets of any type (table 10). Of the beneficiary couples, nearly half had less than \$1,000 in financial assets at the end of 1962 and barely one-fifth had \$10,000 or more. Of the nonmarried beneficiaries, about half reported financial assets of less than \$500 and roughly one-fifth had \$5,000 or more. Nonmarried persons not entitled to OASDHI benefits had even less. At the other extreme, about one in seven married couples and one in 14 nonmarried men and women had financial assets of \$15,000 or more. About one in seven married couples and one in 10 nonmarried men and women owned marketable securities.

Liquid assets made up more than half the aggregate financial assets of married couples and nonmarried women and nearly three-fourths of the financial assets of men who were not married. One-sixth of all liquid asset holdings consisted of U.S. savings bonds; deposits in banks and other financial institutions made up the balance. The median amount of liquid assets held by married couples was about \$1,000, but nearly one-third had no liquid assets and two-fifths had less than \$500. About two-fifths of the nonmarried men and women had no liquid assets, and more than half had less than \$500. The median for these men and women was about \$300.

Personal Debt

About 75 percent of the married couples and 90 percent of the nonmarried men and women aged 65 and over had no debts. Among those having debts, the median amount ranged from \$275 for nonbeneficiary women to \$470 for nonbeneficiary couples and nonbeneficiary men. Medians were lower for beneficiary couples and nonmarried men beneficiaries than for nonbeneficiaries, but there was no significant difference for nonmarried women. As age increases, the proportion having debts decreases among both couples and the nonmarried. This situation may reflect a greater tendency of the younger group to rely on consumer credit and, perhaps more strongly, the greater availability of such credit to them. Personal debts were small in relation to assets at each income level. Although the relatively well to do had personal debts about as often as those with less income, the amounts represented a smaller proportion of their income.

RELATIONSHIP OF AGE AND BENEFICIARY STATUS TO ASSETS

Age, employment status, and beneficiary status¹¹ all play a role in the pattern of asset ownership and net worth. In general, the proportion with holdings and the median amount of those holdings declined with the advance in age of the head of the unit. There are several reasons why the value of asset holdings was higher among younger

¹¹ Income data presented for beneficiaries in the preceding sections related only to those who had been on the rolls for a full year, because income in the year of retirement is not meaningful in comparing the income of beneficiaries with that of nonbeneficiaries. Assets, however, are presented for all beneficiaries, which in effect shows them in a more favorable position than if only full-year beneficiaries were shown. Data for all beneficiaries have also been used in presenting the data on income with prorated assets.

units. First, the employment earnings of people aged 62 to 64 were higher than earnings of the older groups. Second, the older the person, the more likely he was to have had his holdings reduced by high medical bills. Furthermore, in a period of relatively high employment, each age cohort of workers may be expected to reach retirement with a larger accumulation of assets than the previous cohort.

The effect of retirement upon the assets of the worker would not be expected to be immediate or dramatic. There were sharp differences in size of holdings, however, between those who had retired and those who continued to work and, for those not working, between those receiving OASDHI benefits and those who were not. Married couples, for example, who were receiving benefits and, generally, were retired, had less in assets than did nonbeneficiary couples, who for the most part were still employed. Among those 73 years old and over, where retirement is the general rule, beneficiaries averaged greater holdings.

The Younger and Older Groups Among Those Aged 65 and Over

The proportion of married couples with assets was about the same among beneficiaries as among nonbeneficiaries aged 65 to 72, but clearly lower for older nonbeneficiaries. The median amount of total assets was considerably smaller for beneficiaries than for nonbeneficiaries among couples and nonmarried men aged 65 to 72.

The relatively high holdings of nonbeneficiary couples aged 65 to 72 reflect their higher employment rate and income levels. Although only 6 percent of all men beneficiaries aged 65 to 72 had had full-time jobs for 50 weeks in 1962, nearly half the nonbeneficiary men in this age group had worked full time throughout the year (see table 12).

For couples aged 73 and over, on the other hand, the median asset holdings for beneficiaries were about twice those for nonbeneficiaries. In general, the oldest nonbeneficiaries were greatly disadvantaged in comparison with those aged 65 to 72. Among beneficiaries, however, this was not the case.

When the equity in nonfarm homes was excluded from assets, the relationship among the various groups was generally similar to that described above, even though the size of the holdings was substantially smaller. The median amount for beneficiary couples aged 65 to 72 was \$2,640, compared with \$3,810 for nonbeneficiaries in the same age group and \$3,270 for older beneficiary couples. For nonbeneficiary couples aged 73 and over, the median was only \$920. The median holdings exclusive of an owned home were substantially less than \$1,000 for the nonmarried.

The pattern of financial assets was similar. A fourth or more of the beneficiary and nonbeneficiary couples aged 65 to 72 and the same proportion of the beneficiary couples aged 73 and over had no financial assets at all; nor did two-fifths of the nonbeneficiary couples aged 73 and over. Two-fifths of the nonmarried men and more than half the nonbeneficiary men aged 73 and over had no financial assets. Holdings were nominal for the great majority of the aged. Even among those with financial assets, the median holdings exceeded \$4,000 only for the nonbeneficiary couples aged 65 to 72 and beneficiary couples over 72 years of age.

The Group Aged 62 to 64

Up to age 72, when workers first become eligible for OASDHI benefits regardless of the amount of their earnings, beneficiary status goes hand in hand with low earnings and low assets. Fortunate by comparison are those who have employment beyond the general retirement age of 65 with earnings sizable enough to preclude their receiving OASDHI benefits. Least fortunate are those who must apply for reduced benefits at age 62 in order to supplement earnings too meager for subsistence or in order to have any income at all. Beneficiaries aged 62 to 64 had less in assets than either the beneficiaries aged 65 to 72 or the nonbeneficiaries in their own age group. Almost without exception, nonbeneficiaries were better off than beneficiaries from age 62 to 72.

Under the 1956 amendments, women workers and wives aged 62 to 64 are eligible for actuarially reduced benefits. Widow's benefits, however, are payable to eligible widows at age 62 without reduction. As three-fourths of the nonmarried women aged 62 to 64 were widows, it is not surprising that a relatively large proportion were drawing full benefits as widows. Among women in the age group 62 to 64, as among couples and nonmarried men, beneficiaries appeared to be less well off than nonbeneficiaries. They had more assets, however, than nonmarried men in the same age group.

Nonmarried nonbeneficiary women aged 62 to 64 were not only better off than their beneficiary counterparts but they were also better off than older women. About 40 percent of the younger beneficiary women worked in 1962 in comparison with 20 percent of the beneficiary women aged 62 to 64 and 20 percent of the nonbeneficiary women aged 65 to 72. The higher median assets of the more active, younger women are therefore to be expected.

Widows and Other Nonmarried Women

Among nonmarried women, those with the largest holdings were nonbeneficiaries aged 62 to 64 who were not widows, reflecting the fact that fully two-thirds of them had earnings during 1962. The following tabulation compares the median total assets for widows and other nonmarried women:

	Widows	Other nonmarried women
Beneficiaries:		
Aged 62 to 64.....	\$4,765	(¹)
Aged 65 to 72.....	4,045	\$8,980
Aged 73 and over.....	3,695	5,120
Nonbeneficiaries:		
Aged 62 to 64.....	5,120	11,310
Aged 65 to 72.....	1,395	2,835
Aged 73 and over.....	1,165	5,665

¹ Median not shown where base is less than 50,000.

With regard to total asset holdings, widows aged 65 and over had less than the younger widows and also less than other single women in the same age group.

Excluding home equity, the median assets for widows and other nonmarried women, regardless of beneficiary status, were as follows:

	Widows	Other nonmarried women
Aged 62 to 64.....	\$495	\$3,000
Aged 65 to 72.....	525	2,035
Aged 73 and over.....	435	1,410

RELATIONSHIP OF INCOME TO ASSETS

Not unexpectedly, the 1963 survey found a strong correlation between income and the amount of assets owned. The higher the income group, the larger the assets of people aged 65 and over, regardless of marital or beneficiary status.

The rise with income in the proportion of those holding assets is most striking if consideration is limited to financial assets. This means that those most in need of a supplement to current income are least likely to have assets on which they can draw to provide such a supplement. This inverse correlation becomes apparent when beneficiary units are classified into three groups on the basis of current income. Of the beneficiary couples in the low third of the income range, about three-fifths had less than \$500 in financial assets; of those in the middle third, about two-fifths had so little. Only 5 percent of the couples in the low third and 15 percent of those in the middle third had \$10,000 or more in financial assets. For a period of a few years, \$10,000, or even \$3,000, would contribute greatly to ease of living, but for those with 10, 15, or 20 or more years ahead, even \$10,000 would do little. In the top third, the proportion with some financial assets rose to more than nine in every 10 for couples and about eight in 10 for nonmarried persons.

Investments in business, farms, or real estate rise much less sharply with income than financial assets. The proportion with such holdings reached as much as one-third only for couples in the top income third, and about one-fourth for nonmarried persons in the top third. Some of those in the low income third, particularly the married men, had small farms or nonfarm businesses that were not very productive. Even though the incidence of homeownership was positively correlated with income, as were the other forms of assets, equity in a home constituted a larger share of the total asset holdings of low income units than it did for the high income group. In the aggregate, equity in a home was about twice as important and financial assets about half as important for the low income third as for the high income third, regardless of marital status. The proportions of assets represented by financial assets and by equity in a nonfarm home among couples and nonmarried men and women are shown below for the high and low income thirds:

	Percent in—	
	Low income group	High income group
Nonfarm home equity:		
Married couples.....	50	25
Nonmarried men.....	46	26
Nonmarried women.....	58	27
Financial assets:		
Married couples.....	23	52
Nonmarried men.....	22	52
Nonmarried women.....	29	52

Investments in real estate, farms, or nonfarm business made up most of the remainder. There was no consistent relationship to income.

CHANGES IN HOLDINGS

Changes During 1962

Financial assets are particularly important as resources which may be drawn upon in emergencies—and in the case of the elderly the chance of illness comes first to mind—or to provide for the maintenance of living standards when income falls with retirement. The frequency with which the aged reported a decrease in their holdings during 1962 affords an index of the extent to which financial assets were serving such purposes.

About three-fourths of the units reported that the amount of their financial assets was about the same at the end as at the beginning of the year. About half of these had no assets or less than \$500 worth of assets. On the whole, the elderly were using up their assets; nearly 17 percent reported decreases during the year; less than half as many were able to increase their financial assets.

The proportion decreasing their assets did not vary consistently or greatly among marital status, age, or income groups. On the other hand, a definitely larger proportion of those who had been in any medical institution during the year reported a decrease in their assets—about 25 percent—as compared to 15 percent of those who did not have a hospital episode. Expenditures for illness or health emergencies, along with requirements for ordinary living, were given as the major reasons for a decrease.

Increases in assets were most frequently reported by those in the top income and younger age groups. These were the people most apt to be working. Married couples, particularly those in the high-income group, increased their assets more frequently than the nonmarried women. Some 20 percent of these high-income married couples reported increases, more than those reporting decreases in this group. Although the need for medical care in an institution affected the proportion who decreased their financial assets, it did not affect the relatively small proportion who increased their assets.

Changes for Beneficiaries, 1957 to 1962

From 1957 to 1962 there was little change in the proportion of beneficiary couples with assets. Comparison of the beneficiaries who had been on the OASDHI rolls for at least a year at the time of the survey with a similar group studied in late 1957 shows that for both periods the proportion reporting assets was nearly 90 percent for couples. For nonmarried men and women, however, the proportion reporting assets increased from about two-thirds to three-fourths. There was little gain in the proportion reporting equity in a nonfarm home—about two-thirds for couples and one-third for others in both 1957 and 1962. The relative number of married couples with any financial assets was less than three-fourths in both periods. About three-fifths of the nonmarried had such assets in 1957 compared with nearly two-thirds in 1962. The median values of the assets, however, did increase during

this period. For couples, total assets and equity in a nonfarm home were about a fourth greater in 1962 than in 1957; financial assets were a sixth greater in 1962 (unadjusted for price changes).

IV. INCOME WITH PRORATED ASSETS

POTENTIAL INCOME: CONCEPT AND MEASUREMENT

In order to express the economic position of units with any combination of income and asset holdings and to group the units with broadly equivalent positions, "income with prorated assets"—in other words, potential income—was computed for each unit. The following procedure was used:

Assets were assumed to be capable of earning a 4-percent annual rate of return. The principal and the appropriate interest amounts were divided over the expected remaining years of the unit's life in equal annual sums so that the assets would be exhausted at the end of that period. The annual amount computed in this way was added to the current money income less income actually received from assets.¹² For couples, proration was based on a joint probability: the number of years of life remaining for husband and wife together and the number either spouse might survive alone to draw two-thirds of the annual portion of asset holdings previously available to the couple.¹³ In a few cases—usually those in the lower end of the age range, or couples who had assets other than equity in a home—the actual return was greater than the 4 percent used in the computation, and the prorated amount of assets added was less than the amount subtracted.

The adoption of these procedures, although in effect assuming the conversion of assets into life annuities, does not in any way bear upon the question of the feasibility or the desirability of this form of asset management for individuals. The advisability of such conversion would, indeed, be subject to many conditions and considerations important for the individuals involved. The conversion of the owned farm or other business holdings into prorated assets, for example, is recognized as particularly unrealistic. However, in order to achieve the objective of measuring equivalence of economic status within broad population groups, such assets have been included.

As an illustration of the concept and measurement of potential income, some questions may be raised, and answered, about groups of individuals with different combinations of income and assets. It would be generally agreed that persons with incomes of, say, \$1,500 and asset holdings of \$10,000 are better off than those with the same income and no assets. But would they be better off than others with an income of \$2,000 and with \$1,000 in assets? If these persons were all nonmarried women aged 65 and were currently receiving a 4-percent return from their assets, all would have about the same potential income—actual income minus the income from assets plus prorated

¹² The amounts that were subtracted were interest on deposits in banks, credit unions, etc.; interest or dividends on stocks and bonds; and 4 percent of any amounts reported as invested in a business or farm.

¹³ The factors needed in the computation were developed by the Division of the Actuary. The United States Life Tables for 1959 were used in determining life expectancies by age and sex. For simplicity in calculation for married couples, the wife was arbitrarily assumed to be 5 years younger than the husband and the joint life expectancies were computed on that basis.

assets—of slightly more than \$2,000. For those with \$10,000 in assets, \$900 of this amount would be income from prorated assets. If the latter group were aged 85 instead of 65, the potential income would be appreciably greater—about \$3,600, with more than \$2,500 from prorated assets.

An owned home, unlike other assets, is not normally acquired as a source of future money income or as a reserve for contingencies but rather for the services and satisfaction it yields as a place of family living. Accordingly, potential income has been calculated both including and excluding home equity among the assets prorated. For many purposes it may be more reasonable and realistic to exclude the owned home from prorated assets, especially since sale of the home would increase the need for income to cover rental costs. Such costs tend to run higher than the expense of ownership, particularly for the large group of the elderly who own their own homes clear of mortgage.

COMPARISON OF POTENTIAL AND ACTUAL INCOME

Distributions of survey units by actual and potential income are remarkably similar. When the comparison is based upon income with prorated assets other than the home, the differences that do exist usually amount to only 1 or 2 percentage points at any income interval. Differences are definitely larger when the owned home is included in the prorated assets. An indication of the shifts in the distributions may be obtained through a comparison of the medians for units aged 65 and over, shown below:

	Actual income	Income with prorated assets	
		Excluding home equity	Including home equity
Married couples.....	\$2,875	\$3,130	\$3,795
Nonmarried men.....	1,365	1,560	1,845
Nonmarried women.....	1,015	1,130	1,395

Although the median potential income is about 10 percent greater than actual income when home equity is excluded and a little more than 30 percent greater when home equity is included, these shifts in the medians do not indicate the amounts that prorated assets would add in the aggregate to current income. The distributions of potential income are even more skewed to the right than are the distributions of current income, and the inequalities in the distributions are increased.

The greater shift in the distribution when equity in the home is included among the assets reflects the importance of such equity and the extent of homeownership as a major form of asset among aged persons with relatively low incomes. Not that homeowners do not have higher incomes, in general, than nonhomeowners: the median income of homeowners was nearly \$3,000 as compared with \$2,500 for nonhomeowners; the median incomes of holders and nonholders of stocks, for example, would show a much greater discrepancy.

Another way of relating potential to actual income is to compare the percentages of units at less than a given level. About 42 percent of the couples had actual income of less than \$2,500, the low-income cutoff point, which approximates the level of the BLS budget for a retired

couple at a "modest but adequate" level of living. Thirty-six percent had less than \$2,500 if prorated assets excluding the owned home were added to income. It is not appropriate to relate to this benchmark the proportion of couples with less than \$2,500 in potential income when the equity in the owned home is prorated because the \$2,500 cost estimate assumes that a majority of units own their homes. If all units are assumed to rent their homes the cost of the "modest but adequate" budget would be higher.

For an individual living alone, the estimated amount required to provide the "modest but adequate" standard was \$1,800. Those non-married men and women having income of less than \$2,000 and those with less than \$1,500 as measured by the concepts—actual money income and income with prorated assets excluding the owned home—are shown in percentage terms in the following tabulation:

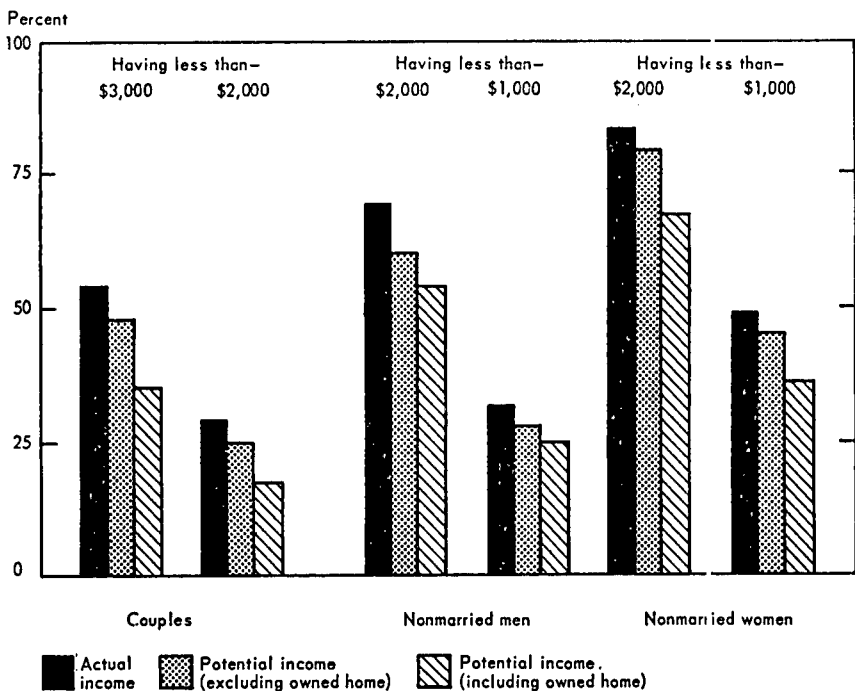
	Nonmarried men with income less than—		Nonmarried women with income less than—	
	\$2,000	\$1,500	\$2,000	\$1,500
Actual income.....	69	57	83	70
Income with prorated assets (excluding equity in owned home).....	60	48	79	66

The percentages of the survey units with income (actual and potential, including and excluding the owned home) of less than \$3,000 and less than \$2,000 for couples and, for nonmarried men and women, of less than \$2,000 and less than \$1,000 are shown in chart 3. These levels cover, in general, the critical ranges of concern in much of the discussion of identification of the "poor."

The role of assets may also be judged by examining the proportion of those at each income level who shift into a higher level when the classification is by potential income. A cross-tabulation of the units by actual income and by income with prorated assets excluding the owned home permits the measurement of such shifts. Those units with no assets, or with assets so small that their potential income falls in the same \$1,000 intervals as their actual income, are classified as having "no improvement." The few units whose potential income falls in a lower interval than their actual income are also classified in this way. The units who shift into the next higher income class with the addition of prorated assets are grouped as having "moderate improvement," and those who shift two or more classes, as having "appreciable improvement."

The results reflect the fact that most of the units with low incomes have little in the way of assets, especially when equity in the home is excluded. Most of the units—more than four-fifths of the nonmarried men and women and three-fourths of the couples—with actual incomes of less than \$3,000 remain in the same income interval when classified by potential income. The proportion remaining in the same class is greater at the income levels below \$3,000 than in the \$3,000 to \$5,000 class. Conversely, the proportion with "appreciable" improvement increased with income, particularly among the nonmarried. Four percent of the couples with actual income of less than \$2,000 showed an appreciable improvement when classified by potential income; of those

Chart 3—Actual and potential income by specified income level for units aged 65 and over, 1962



with actual income of \$3,000 to \$3,999, the improvement was substantial for 9 percent. For nonmarried men, on the other hand, 6 percent of those with actual income of less than \$2,000 but 27 percent of those with \$3,000 to \$3,999 showed an appreciable improvement. The pattern for nonmarried women was similar to that for nonmarried men.

V. WORK OR RETIREMENT

To work or not to work is a question faced by increasing numbers of aged persons. The question is not a real one for many—those who could not get a job if they wanted one because they have no salable skills, because they are disabled, or because the employer wants younger workers. The growth in public and private retirement benefits, however, means that more of the aged have a real choice: work or retirement.

Their decision usually affects their income, their style of life, and their relations with their family and the rest of society. On the aggregate level, their decisions affect the labor force, the market, and the cost of public and private retirement insurance programs.

Since World War II, there has been a steady trend toward more retirement among aged men. Nevertheless, aged workers constituted a slightly higher proportion of all workers in 1962 than they did in

1950. This apparent contradiction is explained by the increasing proportion of the population who are aged and by the growth in the proportion of aged women who work.

About a fourth of all persons aged 65 and over were employed at some time in 1962,¹⁴ and more than one-fifth of all aged men usually had full-time jobs.¹⁵ The men with any work earned an average of \$2,550; for women, the average was \$1,283. For men who worked full time the year around (50 or more weeks), average earnings were \$4,259. Altogether, persons aged 65 and over earned at least \$10 billion in 1962. Thus their earnings continue to be important, both to the aged themselves and to the total economy.

AGE DIFFERENCES

Work Experience

Age is a crucial factor in determining what percentage of the older population works. As age increases, the proportion employed in any one week decreases steadily. The proportion working full time the year around declines even more sharply with age. The primary reason is probably the increasing infirmities of old age, although retirement policies may also be important.

Data on employment by single years of age, based on the 1960 census, show that there is a sharp drop in employment at age 65, particularly for men. The proportion of men in the labor force declined by one-third between the ages of 64 and 66; of all men aged 64 in 1960, 70 percent were in the labor force, as against 46 percent of those aged 66. Age 65, of course, is the age at which workers may retire and receive full OASDHI benefits and may become eligible for pensions under many other retirement plans.

Beneficiaries showed a work pattern in relation to age that was rather different from the pattern of the total population. Among men, higher proportions worked full time and worked full time the year around at later ages than at ages 62 to 64 (table 12). The special composition of the beneficiary group aged 62 to 64 accounted for these higher proportions. About one-fourth of the men within this group were severely disabled and drew disability benefits (at full rate). The extension of retirement benefits to the group aged 62 to 64 at actuarially reduced rates was designed primarily for those unable to obtain substantial employment for other reasons besides disability.¹⁶ The extremely low average earnings of this group—about \$700 in 1962—are understandable in view of the special characteristics and low work-experience rates of the people who constitute this group.

¹⁴ Work-experience rates are based on the total aged population, including persons in institutions. Data on work-experience rates from the Bureau of Labor Statistics exclude persons in institutions. The BLS rates are therefore somewhat higher than those shown in this section. When persons in institutions are excluded from the data used in the Survey of the Aged, most of the survey rates are within 1 or 2 percentage points of the BLS rates. These differences result from differences in interviewing techniques, dates of interview, and weighting procedures, as well as sampling errors.

¹⁵ Persons were classified as having worked at full-time jobs if they worked 35 hours or more a week during most of the weeks they worked, no matter how few weeks they worked. For brevity, they are referred to as full-time workers.

¹⁶ The actuarial-reduction provision reduces the amount of the OASDHI benefit for each month before attainment of age 65 for which a benefit is drawn. The maximum reduction for workers is 20 percent; for spouses it is 25 percent; there is no reduction for widows.

In contrast to men, women receiving OASDHI benefits showed the same pattern as nonbeneficiaries: decreasing work experience with increasing age. One reason may be that the actuarial-reduction provision did not apply to the third of the women beneficiaries aged 62 to 64 who were drawing benefits as widows.

There was a slight increase at age 73 in the percentage of beneficiary men who worked the year around at full-time jobs. One of the main reasons may be that an insured worker who has attained age 72 can become a beneficiary and receive full benefits regardless of his earnings.¹⁷ Therefore, at age 73 some full-time workers who had not been receiving benefits because of the earnings test became beneficiaries.

DIFFERENCES AMONG INCOME GROUPS

When work-experience rates for the three income groups—low, middle, and high—were examined, they showed a strong positive association; that is, the higher the income group the higher the work-experience rate. This was the finding for men and women and for beneficiaries and nonbeneficiaries. Part of the association results from the obvious fact that, in general, those who work will have more income because of their earnings than those who do not work. The greater earning capacity of those in higher income groups accounted only partly, however, for the income differences among the groups. Even after earnings were subtracted from the mean total incomes,¹⁸ those in the high third, because of greater financial assets, larger OASDHI benefits, higher pensions, etc., had two and a half to five times as much income as those in the low third, as shown in the following figures:

	Married couples	Nonmarried men	Nonmarried women
Low third.....	\$1,377	\$648	\$400
Middle third.....	2,317	1,281	972
High third.....	3,683	2,135	2,042

Thus it is clear that other sources of income than earnings themselves, i.e., assets and retirement benefits, are associated with the same factors that lead to higher earnings; namely, age, health, and education. The contrast is striking: those who, because of their low income, were most in need of earnings from work were the least able to work and therefore worked the least.

The low-income group had few full-time workers for the reasons discussed above, and there was little difference between OASDHI beneficiaries and nonbeneficiaries in this respect. On the other hand, there were marked differences between beneficiaries and nonbeneficiaries in the high third, with the nonbeneficiaries among the men three times as likely as beneficiaries to have full-time work. One factor here was the earnings test, which had little effect on the lower income workers because their earnings were so low, but a greater effect on the higher income workers because of their relatively high earnings.

¹⁷ The earnings or "retirement" test in effect in 1962 reduced benefits paid to persons under age 72 by \$1 for each \$2 earned between \$1,200 and \$1,700 and by \$1 for each \$1 in excess of \$1,700.

¹⁸ Although subtracting earnings had the effect of reducing somewhat the difference between the low- and the high-income groups, subtracting OASDHI benefits would have the opposite effect: the differences would be increased because benefits would represent a greater proportion of income in the low-income group than in the high-income group.

Earnings follow a similar pattern: workers in the high third earned up to 19 times more than workers in the low third, and not merely because they worked more weeks in the year. The pattern of earnings for full-time, year-round workers was the same as the pattern for all workers, although the differences were reduced somewhat. Thus, the lowest income workers must have been paid less for the same amounts of work. It is remarkable how small their earnings were. Even men who worked full time the year around averaged only \$444 a year. There may have been some underreporting in the amounts earned, but these earnings were so far below any minimum wage standards that many of these workers must have been unpaid family workers, domestic or farm workers, or self-employed persons with low earnings.

Beneficiaries in each of the three income groups earned less than nonbeneficiaries, and the difference was greater for the higher income groups. In the middle and high thirds, nonbeneficiaries earned more than twice as much as beneficiaries. Again this difference reflects the fact that higher paid workers generally do not receive benefits.

OCCUPATIONAL DIFFERENCES IN RETIREMENT RATES

Since men in the more highly paid occupations (professional and technical workers, managers, officials, and proprietors) generally have more savings and other resources for retirement income than do men in the jobs drawing lower pay, one might expect that they would be more likely to retire. The evidence from this, and from other surveys as well, indicates that the reverse is true: men in the better-paid occupations have a lower retirement rate than other men.

Fewer than a third of the professional or technical workers, for example, who had worked at regular full-time jobs within the preceding 5 years had stopped working full time in 1962. In contrast, about two-thirds of the craftsmen and foremen had stopped working full time. Similar findings were made in a 1952 study of the aged.¹⁹

Within each occupational group, OASDHI beneficiaries were more likely than nonbeneficiaries not to be working full time. But among beneficiaries and nonbeneficiaries, the better-paid occupational groups had the lowest retirement rates. The 1957 survey made by the Social Security Administration showed a similar pattern among beneficiaries. The pattern probably results from a combination of several factors. The higher paid men, in general, have less physically demanding work, their jobs are more interesting and more rewarding, and they have better health.

Among men aged 62 and over, a substantial majority of those who were partially retired (working less than 35 hours a week) continued in the same broad occupational group they were in when they worked at regular full-time jobs. However, the amount of shifting into new occupations after partial retirement was considerable. A fourth of the clerical and sales workers, for example, and about an eighth of the craftsmen and operatives said they had become professionals, managers, or proprietors after partial retirement. Since professional and managerial jobs generally require extensive training and experience,

¹⁹ Peter O. Steiner and Robert Dorfman, "The Economic Status of the Aged" (Berkeley: University of California Press, 1957), p. 50.

most of the reported shifts from the lower-paid occupational groups were probably into small-farm or small-business ownership. Altogether, more than a fourth of the part-time workers came from a different broad occupational group. The proportion would have been substantially greater if a finer occupational breakdown had been used.

WHITE AND NONWHITE WORKERS

Men and Women Compared

In the population as a whole, white men are more likely than nonwhite men to have work experience in any given year, but the reverse is true of women. The aged followed the same pattern: 39 percent of the white men aged 65 and over had work experience in 1962, compared with 36 percent of the nonwhite men; 14 percent of the white women, but 19 percent of the nonwhite women, had work experience.²⁰ The lower work-experience rate of nonwhite men probably reflects the difficulty they have in securing employment because of such factors as discrimination, lack of training, or poorer health. The higher work-experience rate of nonwhite women, on the other hand, may reflect the large proportion who need to work because of low family income and who are willing to work at the low wages so often paid to women workers.

Aged nonwhite workers, both men and women, likewise earned less than aged white workers, as indicated by the unit earnings. The complex reasons for these lower earnings, such as discrimination and lack of training, need not be repeated here.²¹

Beneficiaries and Nonbeneficiaries Compared

Although substantial, the differences between mean earnings for white and nonwhite workers were much smaller among beneficiaries than among nonbeneficiaries. This situation was probably related to a complex interaction between the Social Security Act provisions and the different socioeconomic characteristics of white and nonwhite persons. The OASDHI program probably provides benefits for proportionately more of those nonwhite persons who have had relatively well-paying jobs and stable work histories. This picture is dramatically clear among nonmarried women; in this category, beneficiaries earned almost two-thirds more than nonbeneficiaries, and nonwhite beneficiaries had earnings relatively close to the average for white beneficiaries. Conversely, OASDHI was providing benefits to more of the white persons who had low annual earnings. Among white units with earnings, beneficiaries earned from one-half to less than one-third as much as nonbeneficiaries. Also, white workers were less likely than nonwhite workers to claim benefits while still at work, because they were more likely to have regular employment at reasonably good wages.

²⁰ Samuel Saben, "Work Experience of the Population in 1962" (Bureau of Labor Statistics, Special Labor Force Report No. 38), table A-9. The difference in work experience for women is statistically significant at the .05 level, but it is not significant for men.

²¹ See Mollie Orshansky, "The Aged Negro and His Income," *Social Security Bulletin*, February 1964.

REASONS FOR RETIREMENT

Men who had stopped working at a regular full-time job within the past 5 years were asked why they had stopped. Only 28 percent of the wage and salary workers retired for such voluntary reasons as desire for leisure, being needed at home, or dissatisfaction with their job. The rest had retired for such compelling reasons as poor health, a compulsory retirement age, or being laid off.

Some might argue that the men who retired because of being laid off or reaching compulsory retirement age should be considered voluntary retirees on the assumption that they could get another job if they wanted, but the assumption is rather unrealistic for most of these men. Although there are no recent data, a 1952 study²² found that only 12 percent of the men who had retired under compulsory retirement systems later returned to work. More than half the retirees were not well enough to get another job; 11 percent were well enough to work and interested in working but could not find suitable employment.

Also, some might maintain that those who retired because of poor health but on their own decision rather than their employer's should be classified as having retired voluntarily. Eighty-five percent of those who named poor health as the reason for retiring considered their retirement voluntary on this basis.²³ Since more than half of these retirees, however, were not well enough to get another job, poor health was classified, for this analysis, as an involuntary reason for retirement.

When the reasons for retirement given in the 1963 survey are compared with those reported in earlier surveys, certain trends appear. In a comparison of the reasons for retirement given by full-year OASDHI beneficiaries in the 1951 survey made by the Social Security Administration and in the 1963 survey, it was found that the proportion retiring voluntarily had doubled between 1951 and 1963. If the reasons given in the 1963 survey by men who had retired within the past 5 years are compared with the reasons given by all retired men in the 1951 study referred to earlier, the same pattern results: increasing proportions retiring for voluntary reasons. Although the two samples are not strictly comparable because the 1963 data exclude men retired for more than 5 years, evidence from the 1957 survey of beneficiaries suggests that the inclusion in the 1963 survey of all retired men would not change these figures by more than a percentage point or two.

Further evidence that voluntary retirement is increasing is the marked growth since 1951 in the proportion of beneficiary men not employed but well enough to work who are not interested in going back to work. This proportion was less than a third in the 1951 survey, but it had increased to 52 percent in 1957 and to 54 percent in 1963.

The growth in voluntary retirements may partly explain the trend toward more retirement in general among men. There seem to be more and more aged men who are well enough to work and who might get some kind of job if they were interested, but who prefer the leisure of retirement.

²² Steiner and Dorfman, *op. cit.* p. 49.

²³ See E. Palmore, "Retirement Patterns Among Aged Men." *Social Security Bulletin*, August 1964, table 4.

TRENDS: LESS WORK AND LOWER EARNINGS

For the population of normal working age (18 to 64), the percentage of men with work experience has remained about the same since 1950. In contrast, the percentage of men aged 65 and over with work experience has shown a marked decline. This percentage was only three-fourths as great in 1962 as in 1950. Women show the opposite trend. The percentage aged 18 to 64 with work experience has increased by one-sixth since 1950. For aged women the increase was about the same, although all of it took place between 1950 and 1960. If these trends continue, the percentage of women who continue to work will become more like the percentage for men.

In terms of the percentage working at full-time, year-round jobs, the group aged 18 to 64 showed no change for men and some increase for women. In contrast, the proportion of aged workers in full-time, year-round jobs has sharply declined for men and remained the same for women. Not only are more men retiring, but more of those who continue to work are employed in part-time or intermittent jobs. Although there has been some increase in the proportion of aged women who do some work, this rise is accounted for by the growth in part-time or intermittent work.

The 1957 survey of old-age and survivors insurance beneficiaries provides data on the earnings and work experience of aged beneficiaries comparable to the data from the 1963 survey. These data show that the proportion with work experience and the proportion with full-time jobs have declined since 1957 at about the same rate for beneficiaries as for all aged persons.

Similarly, the percentage of beneficiary units with earnings declined, although to a lesser extent. Usually a higher percentage have earnings than work experience because some persons have no work experience during the year but do have earnings from roomers or boarders or as nonworking partners in a farm or a business.

Earnings have become a less important part of the total income of aged beneficiaries. Among married couples and nonmarried men, earnings in 1962 represented only three-fourths as large a proportion of total income as they did in 1957. Thus, beneficiaries are becoming less dependent on current employment and more dependent on their OASDHI benefits and other sources of income.

If the present trends toward less work among the aged were to continue, the aged, by the end of this century, would be completely dependent on OASDHI, private pensions, other nonearned income, and savings; and national production would depend entirely on persons under age 65. Whether this development would be desirable and, if not, what should be done to halt the present trends are beyond the scope of this analysis.

VI. A LOOK AHEAD ²⁴

The 1963 survey of the aged confirmed the fact that a substantial proportion of people aged 65 and over not in the labor force had income insufficient to meet their needs, even if they were receiving OASDHI

²⁴ The material in this section updates that which appeared under this heading in the original publication.

benefits. In 1965, the amendments to the Social Security Act provided a 7-percent increase in benefits. This increase was not quite enough to restore the purchasing power lost since the previous raise, and made no significant improvement in the economic status of older people. The 1967 amendments provided an across-the-board benefit increase of 13 percent. It remains to be seen if living costs will be stabilized enough for this increase to upgrade living standards for the retired in the near future.

The 1963 survey findings highlighted an emerging problem; namely, the unfavorable situation of the large numbers taking the reduced benefits, available to women since November 1956 and to men since August 1961, at ages 62 to 64. The majority of these early retirees had little income besides their small benefit. The problem of generally low benefit levels is thus compounded for a group with many years ahead of them. It appears that a provision intended to ease the way for workers forced out of the labor force prematurely may be creating a new group of very poor people, and this trend is continuing. According to a newly developed statistical series,²⁵ just over half of the men retiring in each year 1962-66 accepted an actuarial reduction in order to obtain a benefit before age 65. For women it was slightly above 60 percent in 1966, as it had been in 1960-62, but closer to 70 percent in 1963-65. The average monthly benefit awarded in 1966 to men who elected a reduction was barely \$84, compared to \$102 for men awarded a regular benefit (not reduced) payable immediately. For women the pattern was similar—\$64 for those electing a reduction, compared with \$80 for women awarded a regular benefit currently payable. Research is in progress on the reasons why so many workers choose early benefits in reduced amounts.

It has been customary to look to the characteristics of the younger beneficiaries for an indication of the shape of things to come. The oldest have always been in the worst financial plight. It has been assumed that, as older beneficiaries died and others entered retirement with years of higher wage levels behind them, beneficiaries as a group would be much better off. The small income advantage enjoyed by the age group 65 to 72 compared with the beneficiaries aged 73 and over raises a question concerning this assumption, even for those who retired on full-rate benefits. So, too, does the fact that for beneficiary couples the asset holdings were about the same for those aged 65 to 72 as for those older. True, persons under 73 and not yet retired had larger assets than those on the benefit rolls, but in this group, men aged 62 to 64 had less than those aged 65 to 72.

The proportion of the aged who are eligible for OASDHI benefits is still growing. As of July 1, 1967, an estimated 89 percent of persons aged 65 and over were either OASDHI beneficiaries or eligible for OASDHI but not retired. As even more persons become eligible, there will be fewer with cash incomes as pitifully small as those reported in 1962 by most nonbeneficiaries aged 73 and over. Moreover, rising earnings levels will be reflected in slowly increasing basic benefit levels,

²⁵ "Another Dimension to Measuring Early Retirement," *Social Security Bulletin*, December 1967.

and the growing proportion of women eligible for retirement benefits should improve the situation of couples and nonmarried women alike, unless these gains are offset by the large numbers taking reduced benefits. Also, the almost universal availability of Medicare to those over 65 should release some cash income and free for other living costs some assets that might otherwise have been held for medical emergencies. Relatively fewer persons should need public assistance.

If the labor-force participation rate for aged men continues downward, however, as it did between 1962 and 1966, the numbers of the aged with relatively high incomes may be decreased. There may be relatively fewer past age 65 who will do as well as the nonbeneficiary couples and nonmarried men aged 65 to 72 did in 1962. Although some of them received retirement benefits under other programs, the great majority were at work in 1962.

Coverage of private pension plans has grown sharply during the past 15 to 20 years. Aged persons with private pensions in addition to OASDHI benefits make out comparatively well. Their numbers are still small, however, in relation to the size of the aged population. Even 10 or 15 years from now, it is expected that no more than 25 to 30 percent of the aged will be drawing income from private pensions.

Thus, there seems little doubt that OASDHI will remain the major source of retirement income. The level of benefits under the program will continue to determine the level of well-being of the retired.

A new survey being conducted by the Social Security Administration this year will provide by early 1969 a general review of the economic situation in 1967 of the population aged 65 and over.

TABLE 1.—DEMOGRAPHIC AND SOCIAL CHARACTERISTICS OF PERSONS AGED 25 AND OVER, BY AGE, 1960 CENSUS, AND OF PERSONS AGED 65 AND OVER, 1963 SURVEY

Characteristic	1960 census						1963 survey	
	Aged 25 to 44		Aged 45 to 64		Aged 65 and over		Aged 65 and over	
	Number (thousands)	Percent	Number (thousands)	Percent	Number (thousands)	Percent	Number (thousands)	Percent
Total persons.....	46, 898	100	36, 333	100	16, 207	100	17, 470	100
SEX								
Male.....	22, 913	49	17, 709	49	7, 309	45	7, 763	44
Female.....	23, 985	51	18, 624	51	8, 898	55	9, 706	56
COLOR								
White.....	41, 725	89	32, 897	91	14, 959	92	16, 093	92
Nonwhite.....	5, 173	11	3, 436	9	1, 248	8	1, 377	8
MARITAL STATUS								
Married, spouse present.....	38, 432	82	27, 603	76	7, 984	49	8, 739	50
Widowed.....	588	1	3, 303	9	6, 032	37	6, 877	39
Divorced or separated.....	2, 374	5	2, 002	6	549	3	477	3
Married, spouse absent.....	993	2	685	2	325	2	108	1
Never married.....	4, 509	10	2, 741	8	1, 318	8	1, 268	7
LABOR FORCE STATUS¹								
Employed.....	29, 123	63	22, 416	62	2, 985	18	2, 766	17
Unemployed.....	1, 347	3	1, 026	3	162	1	376	2
Not in labor force.....	15, 686	34	12, 826	35	13, 058	81	13, 356	81

¹ Base excludes Armed Forces and persons not reporting on labor force status.

TABLE 2.—PERCENTAGE DISTRIBUTION OF PERSONS AGED 62 AND OVER BY DEMOGRAPHIC AND SOCIAL CHARACTERISTICS, BY BENEFICIARY STATUS, SEX, AND AGE, 1963 SURVEY

Beneficiary status and characteristic	Total			Men			Women		
	Aged 62 to 64	Aged 65 to 72	Aged 73 and over	Aged 62 to 64	Aged 65 to 72	Aged 73 and over	Aged 62 to 64	Aged 65 to 72	Aged 73 and over
TOTAL									
Number (thousands).....	4,290	9,487	7,983	2,029	4,341	3,421	2,261	5,146	4,562
Total percent.....	100	100	100	100	100	100	100	100	100
Color									
White.....	90	91	93	88	91	91	91	92	94
Nonwhite.....	10	9	7	12	9	9	9	8	6
Marital Status									
Married, spouse present.....	72	59	39	81	75	61	64	46	23
Widowed.....	18	30	50	7	13	28	27	44	67
Divorced or separated.....	3	3	2	4	4	3	2	3	2
Married, spouse absent.....	1	1	1	2	1	1	1	1	1
Never married.....	6	7	8	6	7	7	6	7	8
Labor Force Status									
Employed.....	45	21	9	67	31	15	26	13	5
Not employed ¹	55	79	91	33	69	85	74	87	95
Beneficiary Status									
Beneficiaries.....	38	73	66	24	71	76	51	75	58
Nonbeneficiaries.....	62	27	34	76	29	24	49	25	42
Years of School Completed									
8 years or less.....	52	59	58	52	62	63	52	56	5
9 to 12 years.....	30	25	20	28	22	17	32	27	2
13 years or more.....	13	11	9	14	10	9	13	11	1
Not reported.....	5	6	13	6	6	10	4	6	4
BENEFICIARIES									
Number (thousands).....	1,646	6,952	5,252	483	3,101	2,615	1,163	3,851	2,637
Total percent.....	100	100	100	100	100	100	100	100	100
Color									
White.....	90	93	94	85	92	93	92	93	96
Nonwhite.....	10	7	6	15	8	7	8	7	4
Marital Status									
Married, spouse present.....	68	61	49	75	77	67	66	49	31
Widowed.....	25	30	43	10	14	26	31	43	60
Divorced or separated.....	3	3	2	7	3	2	2	2	2
Married, spouse absent.....	1	(²)	(²)	2	(²)	1	(²)	(²)	(²)
Never married.....	2	6	6	6	6	5	1	6	7
Labor Force Status									
Employed.....	18	16	12	24	22	18	16	12	6
Not employed ¹	82	84	88	76	78	82	84	88	94
Years of School Completed									
8 years or less.....	59	61	59	65	65	64	57	58	55
9 to 12 years.....	30	24	21	24	22	19	32	27	23
13 years or more.....	7	10	11	6	8	10	8	11	11
Not reported.....	4	5	9	6	5	7	3	5	11
NONBENEFICIARIES									
Number (thousands).....	2,642	2,535	2,729	1,545	1,241	806	1,097	1,294	1,923
Total percent.....	100	100	100	100	100	100	100	100	100
Color									
White.....	89	87	91	89	88	86	90	87	93
Nonwhite.....	11	13	9	11	12	14	10	13	7

See footnotes at end of table.

TABLE 2.—PERCENTAGE DISTRIBUTION OF PERSONS AGED 62 AND OVER BY DEMOGRAPHIC AND SOCIAL CHARACTERISTICS, BY BENEFICIARY STATUS, SEX, AND AGE, 1963 SURVEY—Cont'd

Beneficiary status and characteristic	Total			Men			Women		
	Aged 62 to 64	Aged 65 to 72	Aged 73 and over	Aged 62 to 64	Aged 65 to 72	Aged 73 and over	Aged 62 to 64	Aged 65 to 72	Aged 73 and over
Marital Status									
Married, spouse present.....	75	53	21	83	72	44	63	36	11
Widowed.....	13	31	65	6	13	36	23	48	77
Divorced or separated.....	3	5	2	3	5	4	3	4	1
Married, spouse absent.....	1	1	1	1	1	1	1	1	1
Never married.....	8	10	11	6	9	14	11	11	10
Labor Force Status									
Employed.....	62	36	3	80	55	5	37	17	2
Not employed ¹	38	64	97	20	45	95	63	83	98
Years of School Completed									
8 years or less.....	47	53	54	48	53	60	46	52	52
9 to 12 years.....	30	25	18	29	24	13	31	26	21
13 years or more.....	17	13	6	16	15	7	18	12	6
Not reported.....	6	9	21	7	8	20	5	10	21

¹ Includes persons not reporting on labor force status.

² Not shown where 0.5 percent or less.

TABLE 3.—PERCENTAGE DISTRIBUTION OF UNITS AGED 65 AND OVER BY DEMOGRAPHIC AND SOCIAL CHARACTERISTICS, BY BENEFICIARY STATUS, 1963 SURVEY

Characteristic ¹	Married couples			Nonmarried men			Nonmarried women		
	Total	Beneficiaries	Non-beneficiaries	Total	Beneficiaries	Non-beneficiaries	Total	Beneficiaries	Non-beneficiaries
Number (thousands).....	5,445	4,325	1,120	2,402	1,599	803	6,329	3,786	2,543
Total percent.....	100	100	100	100	100	100	100	100	100
AGE									
65 to 69 years.....	42	38	57	28	27	31	28	33	20
70 to 72 years.....	20	21	15	16	18	13	16	19	13
73 and 74 years.....	12	13	7	10	12	6	11	14	8
75 to 79 years.....	18	20	10	20	21	18	21	21	20
80 to 84 years.....	6	6	6	15	15	16	15	10	22
85 years and over.....	3	2	5	11	7	17	9	4	17
Median age (years).....	71.3	71.8	69.4	74.1	73.8	75.1	74.0	72.7	77.3
COLOR									
White.....	92	93	89	89	91	84	92	94	90
Nonwhite.....	8	7	11	11	9	16	8	6	10
REGION									
Northeast.....	25	24	28	27	30	19	29	32	25
North Central.....	29	30	23	33	32	34	30	31	28
South.....	31	30	36	27	22	35	28	24	34
West.....	15	15	14	14	14	12	13	14	13
RESIDENCE									
Urban.....	65	66	64	65	69	57	74	78	68
Central city.....	32	33	31	36	40	29	36	39	32
Urban fringe.....	17	17	16	15	16	13	20	21	18
Other urban.....	16	16	17	14	13	15	18	18	18
Rural nonfarm.....	25	25	26	29	26	34	21	18	26
Rural farm.....	10	10	10	7	6	8	5	4	6
YEARS OF SCHOOL COMPLETED									
Less than 8 years.....	36	37	33	39	39	38	29	27	32
8 years.....	26	27	22	22	23	19	23	27	18
9 to 12 years.....	22	22	24	15	17	11	24	25	22
13 years or more.....	11	10	15	7	7	7	10	11	8
Not reported.....	4	3	5	18	14	26	14	10	20

¹ Characteristic of head of unit.

TABLE 4.—SOURCE OF INCOME FOR UNITS AGED 65 AND OVER—PERCENT WITH INCOME, BY SOURCE AND BENEFICIARY STATUS, 1962

Source of income	Married couples			Nonmarried persons								
	Total	Beneficiaries ¹	Nonbeneficiaries	Total	Men			Women				
					Total	Beneficiaries ¹	Nonbeneficiaries	Total	Beneficiaries ¹		Nonbeneficiaries	
									Retired	Widowed		
Number (thousands):												
Total.....	5,445	3,743	1,120	8,731	2,402	1,490	803	6,329	1,912	1,502	2,543	
Reporting on source.....	5,443	3,743	1,118	8,612	2,345	1,490	746	6,267	1,912	1,502	2,481	
Percent:												
Earnings.....	55	50	64	24	28	24	31	23	34	17	16	
Retirement benefits.....	84	100	25	67	72	100	16	64	100	100	11	
OASDHI.....	79	100	24	62	68	100	16	60	100	100	11	
Other public.....	12	9	24	7	8	6	14	7	8	2	10	
Private group pensions.....	16	20	3	5	10	13	3	3	7	2	1	
Veterans' benefits.....	14	14	14	8	11	11	12	6	6	8	5	
Interest, dividends, and rents.....	63	65	62	48	45	50	34	50	56	58	38	
Private individual annuities.....	4	4	4	3	1	2	1	3	5	2	2	
Unemployment insurance.....	3	2	2	1	1	1	(?)	1	2	(?)	(?)	
Public assistance.....	8	6	14	17	18	10	35	17	10	8	30	
Contributions by relatives ²	3	3	3	5	1	2	1	6	4	5	8	
Payments under any public program.....	89	100	47	80	87	100	59	78	100	100	45	

¹ Excludes part-year and parent beneficiaries. Retired women receive benefits based on their own wage record, regardless of eligibility as widows; widows receive benefits based on husband's wage record.

² Not shown where 0.5 percent or less.

³ Relatives or friends not in household.

TABLE 5.—MEDIAN INCOME FOR UNITS AGED 65 AND OVER—MEDIAN INCOME, BY SOURCE AND BENEFICIARY STATUS, 1962

Source of income	Married couples			Nonmarried persons							
	Total	Beneficiaries ¹	Nonbeneficiaries	Total	Men			Women			Nonbeneficiaries
					Total	Beneficiaries ¹	Nonbeneficiaries	Beneficiaries ^{1,2}		Nonbeneficiaries	
								Retired	Widowed		
Number (thousands):											
Total.....	5,445	3,743	1,120	8,731	2,402	1,490	803	6,329	1,912	1,502	2,543
Reporting on source.....	5,443	3,743	1,118	8,612	2,345	1,490	746	6,267	1,912	1,502	2,481
Median income of recipients:											
Earnings.....	\$1,485	\$1,170	\$4,845	\$900	\$1,065	\$715	\$3,470	\$840	\$885	\$485	\$1,025
Retirement benefits.....	1,605	1,585	2,365	820	980	950	1,595	770	740	785	935
OASDHI.....	¹ 1,405	1,405	.....	1,780	1,905	905	.....	1,740	705	775	.....
Other public.....	2,030	1,500	2,460	1,000	1,380	1,000	1,625	895	765	(³)	975
Private group pensions.....	775	790	(³)	640	630	670	(³)	645	675	(³)	(³)
Veterans' benefits.....	780	785	795	770	770	725	950	765	750	725	820
Interest, dividends, and rents.....	280	280	270	180	180	180	170	175	170	140	230
Public assistance.....	850	710	1,250	715	650	380	795	735	565	620	795
Contributions by relatives ⁴	75	115	(³)	265	(³)	(³)	(³)	285	590	270	235
Public and private retirement benefits other than OASDHI.....	980	900	2,365	840	910	745	1,595	810	735	(³)	935

¹ Excludes part-year and parent beneficiaries.² Retired women receive benefits based on their own wage record, regardless of eligibility as widows; widows receive benefits based on husband's wage record.³ Not shown where base is less than 50,000.⁴ Relatives or friends not in household.

TABLE 6.—SIZE OF INCOME FOR UNITS AGED 65 AND OVER—PERCENTAGE DISTRIBUTION OF UNITS BY INCOME, BY BENEFICIARY STATUS, 1962

Income	Married couples			Nonmarried persons							
	Total	Beneficiaries ¹	Nonbeneficiaries	Total	Men			Women			Nonbeneficiaries
					Total	Beneficiaries ¹	Nonbeneficiaries	Total	Beneficiaries ¹		
									Retired	Widowed	
Number (thousands):											
Total.....	5,445	3,743	1,120	8,731	2,402	1,490	803	6,329	1,912	1,502	2,543
Reporting on income.....	4,719	3,289	932	7,709	2,173	1,384	685	5,536	1,690	1,325	2,192
Total percent.....	100	100	100	100	100	100	100	100	100	100	100
Less than \$1,000.....	5	4	10	44	32	26	46	49	36	44	65
\$1,000 to \$1,499.....	10	9	12	22	25	32	13	21	23	27	14
\$1,500 to \$1,999.....	14	15	11	13	12	14	10	13	17	16	7
\$2,000 to \$2,499.....	13	16	5	8	11	13	6	7	9	6	4
\$2,500 to \$2,999.....	12	14	6	4	5	6	3	3	5	2	2
\$3,000 to \$3,999.....	16	16	12	4	6	5	4	3	4	2	3
\$4,000 to \$4,999.....	11	11	10	2	3	2	4	1	2	1	1
\$5,000 to \$9,999.....	15	12	24	4	6	2	12	3	4	2	2
\$10,000 or more.....	5	3	11	(?)	1	(?)	1	(?)	(?)	1	(?)
Median income.....	\$2,875	\$2,710	\$3,580	\$1,130	\$1,365	\$1,375	\$1,145	\$1,015	\$1,300	\$1,105	\$755

¹ Excludes part-year and parent beneficiaries. Retired women receive benefits based on their own wage record, regardless of eligibility as widows; widows receive benefits based on husband's wage record.

² Not shown where 0.5 percent or less.

TABLE 7.—SHARES OF INCOME FOR UNITS AGED 65 AND OVER—PERCENTAGE DISTRIBUTION OF INCOME BY SOURCE, BY BENEFICIARY STATUS, 1962

Source of income	Married couples			Nonmarried persons							
	Total	Beneficiaries ¹	Nonbeneficiaries	Total	Men			Women			Nonbeneficiaries
					Total	Beneficiaries ¹	Nonbeneficiaries	Total	Beneficiaries ¹		
									Retired	Widowed	
Number (thousands):											
Total.....	5,445	3,743	1,120	8,731	2,402	1,490	803	6,329	1,912	1,502	2,543
Reporting on income.....	4,719	3,289	932	7,709	2,173	1,384	685	5,536	1,690	1,325	2,192
Mean income.....	\$4,028	\$3,563	\$5,233	\$1,538	\$1,887	\$1,690	\$2,076	\$1,400	\$1,631	\$1,494	\$1,094
Total percent.....	100	100	100	100	100	100	100	100	100	100	100
Earnings.....	39	25	69	22	28	14	48	19	21	7	23
Retirement benefits.....	39	50	13	41	44	63	14	39	53	54	10
OASDI.....	28	40	.....	33	33	54	.....	33	46	52	.....
Other public.....	7	4	12	6	7	4	13	5	5	1	9
Private group pensions.....	4	6	(²)	2	4	6	1	1	3	1	1
Veterans' benefits.....	3	4	3	5	6	6	7	4	3	4	5
Interest, dividends, and rents.....	14	17	10	17	12	12	12	19	14	22	23
Public assistance.....	2	1	4	9	7	3	16	11	4	4	27
Contributions by relatives ³	(²)	(²)	(²)	1	(²)	(²)	(²)	2	2	1	8
Other.....	3	3	2	5	2	2	3	6	3	9	8

¹ Excludes part-year and parent beneficiaries. Retired women receive benefits based on their own wage record, regardless of eligibility as widows; widows receive benefits based on husband's wage record.

² Not shown where 0.5 percent or less.

³ Relatives or friends not in household.

TABLE 8.—SIZE OF INCOME FOR UNITS AGED 62 AND OVER—PERCENTAGE DISTRIBUTION OF UNITS BY INCOME, BY AGE AND BENEFICIARY STATUS, 1962

Income and age	Married couples			Nonmarried men			Nonmarried women			
	Total	Beneficiaries ¹	Non-beneficiaries	Total	Beneficiaries ¹	Non-beneficiaries	Total	Beneficiaries ¹		Non-beneficiaries
								Retired	Widowed	
Number (thousands):										
Aged 62 to 64:										
Total.....	1,782	224	1,319	378	78	256	809	84	147	407
Reporting on income.....	1,508	196	1,100	341	72	225	741	76	133	370
Aged 65 to 72:										
Total.....	3,344	2,029	804	1,077	630	353	2,797	1,028	724	828
Reporting on income.....	2,859	1,775	651	987	589	310	2,470	915	646	713
Aged 73 and over:										
Total.....	2,101	1,715	316	1,325	860	450	3,531	884	778	1,715
Reporting on income.....	1,860	1,515	281	1,186	795	376	3,066	774	679	1,479
Percent:										
Less than \$1,000:										
Aged 62 to 64.....	6	5	5	31	31	32	31	34	26	34
Aged 65 to 72.....	4	4	6	22	19	30	38	29	34	56
Aged 73 and over.....	6	5	17	41	32	60	58	44	54	70
\$1,000 to \$1,999:										
Aged 62 to 64.....	10	29	6	24	57	12	29	44	56	13
Aged 65 to 72.....	17	20	13	35	45	20	38	42	51	22
Aged 73 and over.....	33	30	47	39	46	24	30	38	37	21

\$2,000 to \$2,999:										
Aged 62 to 64.....	10	24	6	12	8	10	15	12	12	11
Aged 65 to 72.....	23	30	8	21	27	9	14	19	10	9
Aged 73 and over.....	28	30	16	12	14	10	7	10	5	5
\$3,000 to \$3,999:										
Aged 62 to 64.....	10	9	9	9	6	12	8	4	4	12
Aged 65 to 72.....	18	18	14	7	6	7	4	3	2	4
Aged 73 and over.....	13	14	8	4	5	3	2	4	1	2
\$4,000 to \$4,999:										
Aged 62 to 64.....	11	9	12	8	(?)	11	6	1	1	11
Aged 65 to 72.....	12	12	13	5	2	8	2	2	1	3
Aged 73 and over.....	8	9	4	2	2	1	1	2	(?)	1
\$5,000 to \$9,999:										
Aged 62 to 64.....	39	22	45	15	(?)	21	10	4	2	18
Aged 65 to 72.....	20	15	32	10	2	24	5	6	2	4
Aged 73 and over.....	9	9	6	2	2	2	1	1	1	1
\$10,000 or more:										
Aged 62 to 64.....	13	2	17	1	(?)	2	1	(?)	(?)	1
Aged 65 to 72.....	6	3	15	1	(?)	2	(?)	(?)	(?)	1
Aged 73 and over.....	4	4	2	1	1	1	(?)	(?)	1	(?)
Median income:										
Aged 62 to 64.....	\$5,200	\$2,470	\$5,900	\$1,775	\$1,265	\$2,685	\$1,610	\$1,220	\$1,350	\$2,205
Aged 65 to 72.....	3,340	2,900	4,750	1,765	1,610	1,980	1,280	1,455	1,285	855
Aged 73 and over.....	2,325	2,430	1,680	1,165	1,260	860	885	1,120	960	720

¹ Excludes part-year and parent beneficiaries. Retired women receive benefits based on their own wage record, regardless of eligibility as widows; widows receive benefits based on husband's wage record.

² Not shown where 0.5 percent or less.

TABLE 9.—MEDIAN INCOME BY SOURCE FOR UNITS AGED 62 AND OVER—MEDIAN INCOME BY SOURCE, AGE, AND BENEFICIARY STATUS, 1962

Source of income and age	Married couples			Nonmarried persons							
	Total	Beneficiaries †	Nonbeneficiaries	Total	Men			Women			
					Total	Beneficiaries †	Nonbeneficiaries	Total	Beneficiaries †		Nonbeneficiaries
								Retired	Widowed		
Number (thousands):											
Aged 62 to 64:											
Total.....	1,782	224	1,319	1,187	378	78	256	809	84	147	407
Reporting on source.....	1,782	224	1,319	1,171	371	78	248	800	84	147	399
Aged 65 to 72:											
Total.....	3,344	2,029	804	3,874	1,077	630	353	2,797	1,028	724	828
Reporting on source.....	3,342	2,029	802	3,846	1,062	630	338	2,784	1,028	724	815
Aged 73 and over:											
Total.....	2,101	1,715	316	4,856	1,325	860	450	3,351	884	778	1,715
Reporting on source.....	2,101	1,715	316	4,766	1,283	860	408	3,483	884	778	1,666
Median income of recipients:											
Earnings:											
Aged 62 to 64.....	(²)	\$1,220	(²)	\$2,305	\$3,120	(²)	\$3,480	\$1,710	(²)	(²)	\$3,335
Aged 65 to 72.....	\$2,090	1,150	\$5,000	1,045	1,350	\$675	4,365	950	\$925	\$575	2,190
Aged 73 and over.....	1,160	1,195	695	680	750	755	(²)	645	810	365	680
Retirement benefits:											
Aged 62 to 64.....	1,010	1,105	1,750	820	915	970	(²)	795	665	985	(²)
Aged 65 to 72.....	1,565	1,540	2,220	890	1,090	1,065	(²)	835	810	840	1,090
Aged 73 and over.....	1,655	1,625	2,620	770	905	880	1,490	720	665	740	880
Other than OASDHI:											
Aged 62 to 64.....	1,125	(²)	1,750	1,015	(²)	(²)	(²)	905	(²)	(²)	(²)
Aged 65 to 72.....	990	930	2,220	860	940	835	(²)	820	760	(²)	1,090
Aged 73 and over.....	975	850	2,620	825	880	625	1,490	810	680	(²)	880

Public:											
Aged 62 to 74.....	970	1,075	(?)	785	850	975	(?)	765	655	970	(?)
Aged 65 to 72.....	1,460	1,440	2,305	880	1,070	1,050	(?)	825	800	835	1,130
Aged 73 and over.....	1,560	1,540	2,630	760	875	850	1,515	720	660	740	920
Other than OASDHI:											
Aged 62 to 64.....	1,750	(?)	(?)	1,100	(?)	(?)	(?)	945	(?)	(?)	(?)
Aged 65 to 72.....	2,065	1,965	2,305	1,035	1,280	(?)	(?)	940	840	(?)	1,130
Aged 73 and over.....	1,980	1,230	2,630	970	1,435	(?)	1,515	865	(?)	(?)	920
Private group pensions:											
Aged 62 to 64.....	895	(?)	(?)	(?)	(?)	(?)	(?)	(?)	(?)	(?)	(?)
Aged 65 to 72.....	770	815	(?)	720	765	840	(?)	655	(?)	670	(?)
Aged 73 and over.....	770	755	(?)	535	485	490	(?)	625	(?)	(?)	(?)
Veterans' benefits:											
Aged 62 to 64.....	830	(?)	(?)	770	(?)	(?)	(?)	705	(?)	(?)	(?)
Aged 65 to 72.....	780	785	795	755	765	715	940	750	(?)	720	835
Aged 73 and over.....	780	780	(?)	780	800	(?)	(?)	770	(?)	(?)	825
Interest, dividends, and rents:											
Aged 62 to 64.....	240	195	245	135	125	(?)	150	140	(?)	115	160
Aged 65 to 72.....	295	320	270	175	150	145	145	185	175	150	275
Aged 73 and over.....	255	250	280	185	205	205	205	175	155	130	215
Public assistance:											
Aged 62 to 64.....	435	(?)	(?)	715	(?)	(?)	(?)	(?)	(?)	(?)	(?)
Aged 65 to 72.....	700	655	(?)	645	625	335	780	655	525	(?)	705
Aged 73 and over.....	1,000	745	1,345	750	665	400	800	775	610	615	820
Contributions by relatives: ⁴											
Aged 62 to 64.....	(?)	(?)	(?)	(?)	(?)	(?)	(?)	(?)	(?)	(?)	(?)
Aged 65 to 72.....	(?)	(?)	(?)	420	(?)	(?)	(?)	410	(?)	(?)	(?)
Aged 73 and over.....	125	130	(?)	160	(?)	(?)	(?)	180	(?)	(?)	145

¹ Excludes part-year and parent beneficiaries. Retired women receive benefits based on their own wage record, regardless of eligibility as widows; widows receive benefits based on husband's wage record.

² More than \$5,000.

³ Not shown where base is less than 50,000.

⁴ Relative or friends not in household.

TABLE 10.—FINANCIAL ASSETS FOR UNITS AGED 65 AND OVER—PERCENTAGE DISTRIBUTION OF UNITS BY VALUE OF ASSETS, BY BENEFICIARY STATUS, 1962

Value of financial assets ¹	Married couples			Nonmarried men			Nonmarried women		
	Total	Beneficiaries	Non-beneficiaries	Total	Beneficiaries	Non-beneficiaries	Total	Beneficiaries	Non-beneficiaries
Number (thousands):									
Total.....	5,445	4,326	1,120	2,402	1,599	803	6,329	3,786	2,543
Reporting on financial assets.....	4,998	4,006	992	2,057	1,440	617	5,300	3,286	2,014
Total percent.....	100	100	100	100	100	100	100	100	100
None.....	28	27	32	41	38	49	40	34	50
\$1 to \$499.....	10	11	9	11	11	9	12	12	12
\$500 to \$999.....	7	7	5	6	6	6	7	8	6
\$1,000 to \$1,499.....	5	5	4	4	4	3	5	6	4
\$1,500 to \$1,999.....	3	4	3	2	2	2	2	3	2
\$2,000 to \$2,999.....	5	6	4	7	8	5	5	6	4
\$3,000 to \$3,999.....	5	5	5	3	3	3	4	4	3
\$4,000 to \$4,999.....	3	3	3	2	2	2	3	3	1
\$5,000 to \$6,999.....	5	6	4	5	5	6	4	5	3
\$7,000 to \$9,999.....	5	4	5	4	5	2	3	4	3
\$10,000 to \$14,999.....	5	5	6	5	5	5	3	4	2
\$15,000 or more.....	14	13	16	7	8	6	7	7	6
Amount not reported.....	4	4	4	3	3	3	4	4	5
Median value:									
All reporting units.....	\$1,340	\$1,355	\$1,270	\$390	\$525	\$35	\$400	\$170	\$20
Units with financial assets.....	3,660	3,490	4,430	2,740	2,710	2,840	2,200	2,350	1,830

¹ Liquid assets, marketable securities, and the value of collectible loans to others.

TABLE 11.—TOTAL ASSETS FOR UNITS AGED 65 AND OVER WITH ASSETS—PERCENTAGE DISTRIBUTION OF ASSETS BY TYPE OF ASSET, BY BENEFICIARY STATUS, 1962

Type of asset	Married couples			Nonmarried men			Nonmarried women		
	Total	Beneficiaries	Non-beneficiaries	Total	Beneficiaries	Non-beneficiaries	Total	Beneficiaries	Non-beneficiaries
Total assets (percent).....	100	100	100	100	100	100	100	100	100
Financial assets.....	44	44	44	40	42	37	46	45	47
Liquid assets.....	24	24	23	28	26	30	26	27	23
Other ¹	20	20	21	12	16	7	20	18	24
Equity in nonfarm home.....	31	31	32	32	34	27	34	35	32
Investment in other real estate, business, or farm.....	25	25	24	28	25	36	20	19	22

¹ Includes marketable securities and value of collectible loans to others.

TABLE 12.—WORK EXPERIENCE OF PERSONS AGED 62 AND OVER—PERCENT WITH WORK EXPERIENCE, BY AGE AND BENEFICIARY STATUS, 1962

Extent of work experience and age	Men			Women		
	Total	Beneficiaries ¹	Nonbeneficiaries	Total	Beneficiaries ¹	Nonbeneficiaries
Number reporting on work experience (thousands):						
Aged 62 to 64.....	2,006	233	1,527	2,254	664	1,093
Aged 65 and over.....	7,705	5,004	2,032	9,661	5,926	3,204
Aged 65 to 72.....	4,314	2,497	1,230	5,127	3,463	1,289
Aged 73 and over.....	3,391	2,507	802	4,535	2,463	1,916
Percent with work experience in 1962:						
Aged 62 to 64.....	80	27	90	33	22	41
Aged 65 and over.....	36	30	43	13	14	10
Aged 65 to 72.....	47	33	65	20	18	21
Aged 73 and over.....	23	27	8	6	8	3
Usually at full-time jobs: ²						
Aged 62 to 64.....	70	7	84	22	9	33
Aged 65 and over.....	22	13	36	7	6	7
Aged 65 to 72.....	31	14	58	10	7	16
Aged 73 and over.....	10	13	3	3	4	1
Full-time, year-round jobs: ³						
Aged 62 to 64.....	47	3	60	11	3	20
Aged 65 and over.....	13	7	28	3	2	5
Aged 65 to 72.....	18	6	44	5	2	11
Aged 73 and over.....	6	7	2	1	2	1
Usually at part-time jobs:						
Aged 62 to 64.....	10	20	6	11	13	8
Aged 65 and over.....	14	17	6	7	8	3
Aged 65 to 72.....	16	19	7	10	11	5
Aged 73 and over.....	12	15	5	3	4	2

¹ Excludes part-year and parent beneficiaries.

² 35 or more hours a week.

³ 50 or more weeks of work in the year.

OLD-AGE INCOME PROGRAMS

BY ELIZABETH M. HEIDBREDER, WALTER W. KOLODRUBETZ, and
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FOREWORD

The American people over the years have developed a variety of programs to assure a continuing money income for older people who no longer have an income from work. This network of income-maintenance programs has to be considered as a whole, for it is the combination of protection which people have and the cumulative effects of the combined arrangements which are significant. Private pension plans cannot reasonably be considered separately from the public program; for

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those who have private plan coverage, it is the combination of social insurance with the supplementary protection of the private plan which constitutes the "retirement system."

Primary emphasis in this report is on the old-age income-maintenance aspects of these public and private programs, but some attention is also given to disability and survivor provisions. Health insurance programs for the aged are included because of the obvious impact that medical bills have upon the income status of the aged.

Most of the program descriptions refer to provisions as of the end of 1967. The provisions of the 1967 amendments to the Social Security Act are included in the discussion of the old-age, survivors, disability, and health insurance program.

This material was prepared in the Office of Research and Statistics in the Social Security Administration by Elizabeth M. Efeidbreder and Walter W. Kolodrubetz under the direction of Alfred M. Skolnik.

I. PENSIONS IN PERSPECTIVE

The Federal social security program is today the major source of retirement income for aged Americans and the major potential source of retirement income for the entire working population. It is also an important source of income for disabled workers and for survivors of workers. Any discussion of pension programs must, therefore, revolve around this basic Federal social insurance program—old-age, survivors, disability, and health insurance (OASDHI), not only because of the large aggregate impact but also because of its importance to the individual worker. Private retirement plans and separate public programs have considerable effect on income maintenance for sizable segments of the population and will also be examined in this report.

At the end of June 1967, 72.1 million persons or about 93 percent of the 77.6 million in paid employment had their major job in employment covered by the contributory OASDHI program. Of these 72.1 million, roughly 1.9 million—mainly State and local government employees—had not actually been brought under the program, but were eligible for OASDHI coverage under the special voluntary coverage provisions applying in certain employment areas. For the most part, the 5.5 million workers not covered in June 1967 were in one of two major categories: (1) Government workers—primarily Federal—who are covered under their own staff retirement system (about 2.5 million); and (2) persons who were irregularly employed at the time or had earnings that did not meet certain minimum requirements (about 3 million). The latter include many who will eventually qualify through additional earnings or as the wives of insured workers.

The above figures on OASDHI coverage include several million workers who are also covered under other governmental compulsory retirement systems. About three-quarters of a million workers are under the contributory railroad retirement system which is closely coordinated with the OASDHI system. About 3 million military personnel in the Armed Forces are covered by their own noncontributory system as well as by OASDHI. More than 6 million State and local government employees are covered by contributory staff retirement systems, of whom almost three-fourths are also covered by OASDHI.

Thus, today all but 4 percent of the people at work are earning public retirement protection for the future and many in this 4 percent will earn protection as they move to other jobs.

The nearly universal coverage of OASDHI assures workers that their protection will follow them whenever they shift to one job from another. Earnings with different employers and in different types of employment are combined and given full credit toward the computation of an individual's retirement benefits.

The impact of this continuous coverage and of complete portability of credits earned is reflected in the fact that 92 percent of the persons now turning age 65 are estimated to be eligible for monthly cash benefits under the program and 95 percent of all children and their mothers can count on monthly survivors' insurance benefits if the family breadwinner dies.

Supplementing the coverage of the public retirement system are private retirement plans in industrial and nonprofit employment. At the beginning of 1967, about 26 million wage and salary workers, or over a third of those who were covered by OASDHI, were also covered by private pension or deferred profit-sharing plans designed to build on the Federal social insurance system and provide additional benefits.

Two other sources of income during old age are veterans' benefits and public assistance. For aged veterans with service-connected disabilities, compensation is paid without regard to other income or resources. For aged veterans with non-service-connected disabilities, pensions are payable under an income test. Public assistance is available under the various State laws for those aged needy persons who meet a means test. The 1963 Survey of the Aged shows that of the aged men receiving OASDHI benefits, 12 percent were also receiving veterans' benefits and 7 percent public assistance. Among women beneficiaries, the respective ratios were 5 and 8 percent.

Largely as a result of the extension and maturing of the OASDHI program in recent years, the number of the aged (65 and over) who do not receive any *public* retirement or other income maintenance benefits is relatively small. The Survey of the Aged shows that in 1962, 89 percent of married couples aged 65 and over and 80 percent of non-married persons had income from social insurance, public assistance, or veterans' benefits. Since then, the Social Security Act has been amended to provide for a partial blanketing-in of certain people aged 72 and over who had insufficient covered employment to qualify for regular social security benefits.

Table 1 shows the estimated public retirement benefit status of 19.4 million persons 65 and over as of July 1, 1967. By far the largest public benefit program was OASDHI. Almost 16 million aged persons were receiving social security payments. Another 1.3 million of the aged were eligible for OASDHI but still had substantial income from earnings and did not meet the "retirement test" which is required to receive social security retirement benefits. Only about 1.2 million aged persons, or 6 percent of the total, were not eligible for any public retirement benefit. Of these, 0.9 million were recipients of public assistance.

TABLE 1.—ESTIMATED PUBLIC RETIREMENT BENEFIT STATUS OF THE POPULATION AGE 65 AND OVER, JULY 1, 1967

[In millions]

Beneficiary status	Persons aged 65 and over
Total aged population ¹	19.4
OASDHI beneficiaries ²	15.9
Eligible for OASDHI but not retired.....	1.3
Receiving other public retirement benefits ³	1.0
Not eligible for any public retirement benefits ⁴	1.2

- ¹ Office of the Actuary, Social Security Administration.
- ² Cash benefit status.
- ³ Government employee or railroad retirement beneficiaries not receiving OASDHI.
- ⁴ Includes 900,000 recipients of old-age assistance.

Private retirement plans in 1967 were estimated to be paying pensions to more than 3 million persons, of whom perhaps 2¾ million were age 65 and over. These annuitants, plus their wives, are estimated to comprise about 18 percent of the entire population aged 65 and over. It is anticipated that over the next dozen years the proportion of the aged with dual protection—from both OASDHI and private pensions—may rise to 25–30 percent.

The tremendous growth in coverage and beneficiaries under the various public and private programs is shown in tables 2 and 3. The evolution of the dual public-private system is explored in the following sections with brief analysis of the most important features which characterize the major components. Special emphasis is placed on the supplementary private retirement plans because they illustrate the wide variety of arrangements that are available under a nongovernmental system.

TABLE 2.—COVERAGE UNDER MAJOR TYPES OF RETIREMENT PROGRAMS ¹

[In thousands]

Year	OASDHI ²			Railroad retirement	Federal civil service ³	Armed Forces ⁴	State and local government ⁵	Private plans
	Total	Wage and salary	Self-employment					
1940.....	30,400 ²	30,400	-----	1,177	675	472	1,400	4,100
1945.....	38,900	38,900	-----	1,682	2,802	12,235	1,800	6,400
1950.....	40,400	40,400	-----	1,360	1,670	1,483	2,600	9,800
1955.....	56,700	56,700	-----	1,222	2,000	2,954	3,400	15,400
1960.....	59,300	51,400	8,000	930	2,138	2,537	4,400	21,200
1965.....	66,300	59,700	6,600	763	2,338	2,635	5,800	25,400
1966.....	69,200	62,400	6,800	747	2,450	3,126	6,400	26,400

- ¹ For OASDHI, State and local government, private pension plans, end of year; for railroad retirement programs, average employment fiscal years; for Federal retirement systems, number as of June 30.
- ² Coverage in effect, including State and local employees for whom coverage has been arranged, railroad employees and all members of Armed Forces.
- ³ Active employees covered by the civil service retirement system.
- ⁴ The Army, Navy, Marines, and Air Force plus the Coast Guard.
- ⁵ Estimated by the Social Security Administration.

Source: Social Security Bulletin, June 1967, table Q-2; Railroad Retirement Board, 1966 Annual Report; Civil Service Commission, "Statistical Abstract of the United States, 1966"; Skolnik, Alfred M., and Joseph Zisman, "Growth in Employee-Benefit Plans, 1954-57," Social Security Bulletin, March 1959; Kolodrubetz, Walter W., "Growth in Employee-Benefit Plans," Social Security Bulletin, April 1967; and unpublished data.

TABLE 3.—BENEFICIARIES UNDER MAJOR TYPES OF RETIREMENT PROGRAMS¹

[In thousands]

Year	OASDHI ²	Railroad retirement ²	Federal Government			State and local government	Private plans
			Civil service system	Armed Forces and other Federal			
				Total	Armed Forces ³		
1940.....	77.2	102.0	47.4	33.4	(9)	113	160
1945.....	591.8	129.1	62.5	38.6	(9)	155	310
1950.....	1,918.1	174.8	111.0	73.3	(9)	222	450
1955.....	5,443.2	329.2	164.9	106.2	98.3	335	980
1960.....	10,309.7	444.0	263.3	178.9	168.4	535	1,780
1965.....	13,918.2	498.4	359.4	387.9	373.4	735	2,750
1966.....	14,573.5	525.1	400.0	432.2	416.5	785	3,110

¹ Private plans include survivor and disabled beneficiaries. OASDHI totals include disabled beneficiaries and their dependents when they attain age 65. All other plans exclude survivor or disabled beneficiaries. For OASDHI, average monthly number; for railroad retirement programs and public employee retirement systems, number on rolls June 30; for private pensions, number of beneficiaries end of year.

² Includes dependents of retired workers.

³ The Army, Navy, Marines, and Air Force.

⁴ Not available.

Sources: Social Security Bulletin, Statistical Supplement, 1965, table 7; Dales, Sophie R., "Benefits and Beneficiaries Under Public Employee Retirement Systems, Calendar Year 1966." (Research and Statistics Note No. 10), Social Security Administration, May 1, 1967; Skolnik, Alfred M. and Joseph Zisman, "Growth in Employee-Benefit Plans, 1954-57," Social Security Bulletin, March 1959; Kolodrubetz, Walter W., "Growth in Employee-Benefit Plans," Social Security Bulletin, April 1967; U.S. Committee on Retirement Policy for Federal Personnel, Retirement Policy for Federal Personnel, Jan. 22, 1954, 83d Cong., 2d sess., S. Doc. 89; and unpublished data.

II. HISTORICAL DEVELOPMENT

OASDHI PROGRAM

On August 14, 1935, the Social Security Act was signed into law. The provisions of the act which pertained to the aged provided a Federal compulsory system of retirement (old-age insurance) benefits for workers employed in industry and commerce, financed by contributions from employers and employees alike, and administered by the Federal Government. Federal grants-in-aid to the States were also provided to help meet the cost of assistance to the needy aged.

Since its enactment, the national old-age insurance program has undergone rapid expansion and substantial improvement. Tables 2 and 3 illustrate how the number of covered workers and beneficiaries has grown over the years. Today the OASDHI program provides monthly cash benefits when earnings are cut off by old age, severe disability, or death. It has provided health insurance for the aged (Medicare) since 1966.

Even before the old-age insurance program was actually in full operation, the Congress expanded its scope. In 1939, it became a family program rather than a program for retired workers only, by providing for a worker's dependents and survivors. Also, the basis for computing benefits was changed from cumulative lifetime earnings after 1936 to average monthly earnings in covered work, and monthly benefits were made payable in 1940 instead of 1942, as originally planned.

No major changes were made again in the program until 1950, when it was broadened to cover many jobs that had at the beginning been excluded, partly because administrative problems had to be solved.

Among the groups added by the 1950 amendments were regularly employed farm and household employees and most persons—other than farm operators and professional people—who worked for themselves. Coverage was made available on a voluntary group basis to employees of State and local governments not under public employee retirement systems and to employees of nonprofit organizations.

Subsequent extensions of coverage in the next decade brought farm operators and most self-employed professional people under the program. Members of the Armed Forces were covered on a contributory basis (previously, noncontributory wage credits were provided for certain military services).

In the 1950's, coverage was also made available to State and local employees covered by their own retirement systems (except for policemen and firemen in some States) on a voluntary group basis. In 1965, self-employed doctors of medicine were covered.

With the exception of most Federal civilian employees, and some State and local government employees, virtually all gainfully employed workers are now covered by the OASDHI retirement program. In the private employment sector, only farm and domestic workers who do not earn enough or work long enough in their jobs to be covered, low-income self-employed people, and some employees of nonprofit organizations are excluded.

The original Social Security Act required that the individual reach the age of 65 before any retirement benefits could be paid. This eligibility age was lowered from 65 to 62 for women in 1956, to 62 for men in 1961, and from age 62 to 60 for widows in 1965. The benefits for working men and women, wives, and dependent husbands who claim benefits before age 65 and for widows who claim them before age 62 are reduced to take account of the longer period over which they will receive their monthly payments. Medicare benefits do not begin before age 65.

The introduction of disability insurance under the 1956 amendments also increased the number of workers under age 65 eligible to draw OASDHI benefits. Benefits were provided for severely disabled workers aged 50 to 64 and for adult disabled children (if disabled before age 18) of deceased and retired workers. In 1958 the act was further amended to provide for dependents of disabled workers benefits similar to those already provided for dependents of workers retired because of old age. In 1960 the age 50 limitation for disability benefits was removed so that disability benefits could be payable at any age before 65. The 1965 amendments modified the definition of disability so that a severely disabled person could qualify if his impairment could be expected to last at least 12 months. The previous requirement was that the disability be expected to be of long-continued and indefinite duration. Under the 1967 amendments, disability benefits at a reduced rate were extended to certain disabled widows and widowers aged 50 to 62.

As a result of the 1965 amendments, a special "transitional insured status" was introduced for those who attain age 72 before 1969 and who do not meet the usual insured requirements. Aged persons with from three to five quarters of coverage, and specified dependents, are provided a stipulated monthly benefit. A 1966 amendment extended these

special monthly payments to certain uninsured people age 72 and over who could not meet even these minimal requirements.

The social security benefit structure has been revised upward several times since enactment of the basic law. During the 1940's, however, provisions under the program remained unchanged, with a consequent serious loss in the purchasing power of the cash benefits as a result of wartime and postwar inflation. It was not until 1950 that Congress reaffirmed old-age and survivors insurance as the Nation's basic income-maintenance program by substantially increasing the value of the benefits for those on the rolls and raising future levels by adopting a new formula applicable after August 1950. The maximum amount of annual earnings that could be taxed under the program was also increased from \$3,000 to \$3,600.

Since 1950, benefits and the taxable earnings maximum have been increased periodically by legislative action in order to provide more adequate retirement income in the face of rising wages and living costs. Benefits were increased for all groups of beneficiaries in 1952, 1954, 1958, 1965, and 1967. In 1954, the annual contribution and benefit base was increased from \$3,600 to \$4,200, in 1958 to \$4,800, and in 1965 to \$6,600. The 1967 amendments provided for a 13-percent-across-the-board-benefit increase effective February 1968, and an increase in the contribution and benefit base to \$7,800 beginning in January 1968.

By far the most important provision of the 1965 amendments concerned the establishment of an extensive health insurance program for the aged, or Medicare. Since hospital and medical costs are often a serious or even prohibitive drain upon the income of the aged, this represented a major step forward in the provision of economic security for older Americans.

PUBLIC ASSISTANCE FOR THE AGED

The original Social Security Act established a program of Federal grants-in-aid to the States to pay part of the costs of aid to needy persons 65 and over, blind people, and needy children. The Federal Government participated in the financing of the payments to recipients of old-age assistance on a 50-50 basis up to a maximum of \$30 per month. Over the years, the formula for Federal-State sharing of the costs of the State programs has been changed many times, with the Federal share now almost two-thirds of the total. Federal sharing now varies, in part, according to each State's per capita income.

In 1950, the public assistance program (including old-age assistance) was broadened to provide Federal financial participation in the costs of medical care paid directly to doctors, hospitals, and other suppliers of medical services on behalf of assistance recipients (vendor payments). In 1960, a new program was established providing grants-in-aid to participating States for medical assistance to aged persons who were not recipients of old-age assistance, but who had insufficient income and resources to meet the costs of medical care. This program is being superseded by the 1965 Social Security Amendments which set up a single and separate medical-care program to replace the vendor medical programs provided under old-age assistance and the other public assistance programs.

When the old-age assistance (OAA) program first became operative, there were as yet no social security benefits being paid. The country was still in a depression. Due to economic conditions, the number of OAA recipients rose from about 1.6 million in 1937 to about 2.1 million in 1940. World War II checked this rising total as more jobs became available to the aged or their relatives were in a better position to provide support. After the war, the total again rose until a peak of almost 2.8 million OAA recipients was reached in 1951. Since then there has been a gradual decline—to 2.1 million in 1957, while the number of insurance beneficiaries age 65 and over has risen rapidly. By November 1967, the 16.2 million aged beneficiaries receiving OASDHI benefits outnumbered recipients of OAA by a ratio of more than 7 to 1.

RAILROAD RETIREMENT SYSTEM

Even before the enactment of the general Federal old-age insurance system for industrial and commercial workers in 1935, attempts had been made to establish a national pension system for railroad workers. The vast majority of railroad employees had been covered under the railroad's private pension plans, some of which dated back to the 19th century. During the depression in the early 1930's, these plans had considerable financial problems and Federal action was sought by the railroad labor organizations. Congress passed the Railroad Retirement Act of 1934, but it was declared unconstitutional. A second attempt, in 1935, was effective on a rather limited basis after the law's tax provisions were declared invalid in a lower court. Amendments in 1937 incorporated a compromise acceptable to both employers and employees in the industry. One of the items agreed upon was that the Federal system should take over the payment of pensions to retired and disabled employees on the private benefit rolls of the railroads.

The railroad system was first envisioned as a staff retirement plan similar to private pension plans with emphasis on retirement and disability annuities to railroad workers. As the program expanded to take account of the economic needs of entire families, close coordination with the OASDHI system was established by statute. In 1946, survivor benefits patterned after OASDHI survivor benefits were legislated, and in 1951 not only were wives' and dependents' benefits provided, but a new special minimum benefit was introduced which was directly related to benefits under the Social Security Act. In 1965 health insurance was made available to railroad workers at age 65 and over on the same basis as aged persons covered by the OASDHI program. The latest change in the program has been the enactment of a temporary system of supplemental annuities for certain career railroad employees who were awarded their regular retirement annuities after June 1966.

The railroad retirement system is a single industry-wide program which covered from the beginning virtually all employees of interstate railroads and associated companies and labor and management associations of the railroad industry. Unlike the OASDHI system, little of its growth is attributable to the broadening of coverage through the inclusion of additional occupational groups. Instead, the railroad retirement system grew by broadening the scope of benefits, and by

increases in the amount of individual benefit payments through liberalizing eligibility requirements and benefit formulas, as well as by increases in the amounts of earnings creditable toward benefits.

PUBLIC EMPLOYEE RETIREMENT SYSTEMS

Retirement plans in the area of public employment predated the social security legislation. State and local government employees were among the first occupational groups covered by retirement systems. These systems expanded in coverage until, by the early 1940's, almost one-half of all State and local employees had some type of retirement program. Today, about three-fourths of these employees have such programs.

On the Federal level, the Federal civil service retirement system providing benefits for age and disability retirement was established in 1920. Survivors of annuitants first became eligible for periodic benefits in 1940, with election of a reduced annuity by the retiring employee. Survivors of active employees were first eligible in 1948. Originally, only permanent competitive employees were included, but the Act of January 24, 1942, eliminated the requirement for competitive status and coverage was extended to include all Federal and District of Columbia employees except those who were then or subsequently excluded by statute or Executive Order.

PRIVATE RETIREMENT PLANS

Although the first formal private pension plans for industrial workers were introduced about a hundred years ago, it is only since 1940 that they have emerged as a major economic and social factor in the economy. While some growth took place from 1900 to 1940, most of the early plans were initiated by employers in large enterprises, with a few plans established by unions. The employer plans were typically noncontributory and unfunded, and they carefully avoided establishing "rights." The pension was usually discretionary and was considered a gratuity.

During the 1920's insurance companies began to sell group annuities, and following the establishment of social security there was a considerable upsurge in the establishment of insured plans as supplements to the public program.

Between 1940, when private plans included about 4 million persons, and 1950, the number of persons covered more than doubled, to almost 10 million. This growth was, in large part, attributable to favorable Federal tax laws, wartime wage stabilization measures, and high corporate profits during the war which encouraged the growth of pensions and other fringe benefits as a substitute for wage increases.

The surge in introduction of plans covering large numbers of workers after 1949 resulted from a number of interrelated influences. First, union pressures for economic security provisions increased after the favorable decision by the Supreme Court in 1949 supporting the National Labor Relations Board's determination that pensions were a proper issue for collective bargaining. In addition, the Steel Industry Fact-Finding Committee in 1949 included the recommendation that the industry has a social obligation to provide workers with pensions. Second, wage stabilization policies during the Korean conflict, as well

as continued favorable tax treatment, provided incentives to establish qualified plans. Development and expansion of negotiated multi-employer pension plans, particularly in construction, transportation, and trade and services, opened up coverage to millions of workers in smaller firms. Many of the plans established during the last 15 years were negotiated plans for large groups of production workers, so the private pensions spread coverage and potential benefits to mobile, lower income worker groups. By 1967, more than 26 million persons were covered (see table 2).

III. OLD-AGE, SURVIVORS, DISABILITY, AND HEALTH INSURANCE

COVERAGE

During a typical week, more than 9 out of 10 persons who work in paid employment or self-employment are covered or eligible for coverage under the OASDHI program. Except for special provisions that are applicable to only a few kinds of work, coverage is on a compulsory basis. The program covers all kinds of workers in a single system, whether wage earners, salaried employees, self-employed persons, farmworkers, or farm operators, including those workers with high earnings. These workers—numbering over 70 million—are contributing to their protection while working and are assured of continuous protection during all phases of their working career. From one-third to two-fifths of these workers are also building up retirement credits under private pension plans.

Special voluntary arrangements for coverage are in effect for State and local government employees and employees of nonprofit organizations. More than 70 percent of State and local government employees are now covered by OASDHI through voluntary agreements between the States and the Secretary of Health, Education, and Welfare. Almost three-fourths of the 70 percent are also covered by their own pension systems. Others are covered only by OASDHI or by their own systems. Coverage of employment by States and their political subdivisions was not made compulsory because of problems relating to Federal-State relationships that would be raised by any law that would levy a tax on the governmental functions of States and localities.

Almost all employees of nonprofit organizations who are eligible for coverage have now been brought into the program under special arrangements which take into account the traditionally tax exempt status of such organizations. To obtain coverage for its employees such an organization must waive its exemption from taxes under the program. When this is done, all current employees who elect coverage and all those hired or reemployed in the future are covered.

Veterans are granted wage credits of \$160 a month with certain restrictions for each month of active military service during the period from September 1940 through December 1956. In general, for service before 1957, wage credits are not granted if another Federal periodic retirement or survivor benefit (other than a benefit from the Veterans' Administration) is being paid based on the same period of service. However, servicemen who continued in military service after 1956 are given credit for service after 1950 and before 1957 even if the service is used for purposes of benefits paid by the uniformed services. After 1956, military service is covered under the regular contributory provi-

any age if she has a child in her care under 18 or disabled who is entitled to benefits; to a dependent parent at age 62; and to a dependent widower at age 62.

Benefits to retired workers and wives (unless a wife has a child in her care) or dependent husbands who choose to take them before age 65, or widows (unless a widow has a child in her care) who choose to take them before age 62 are in actuarially reduced amounts with the reduction continued throughout the period of entitlement. Unreduced monthly benefits are payable widows, widowers, and dependent parents beginning at age 62.

Monthly disability benefits are payable to a worker under age 65 after a 6-month waiting period and terminate if he recovers or at age 65 when the beneficiary is transferred to the retirement rolls. Disability benefits are also payable to a widow or dependent widower who becomes totally disabled within a specified period after the spouse's death. These benefits are payable at a reduced rate, starting at age 50.

A person (for example, a wife or dependent husband) who is eligible for a benefit based on his or her own earnings—and who also may be eligible for a benefit as a dependent or survivor—will draw his own benefit, plus any excess of the other benefit over his own.

Benefits are based on the worker's average monthly earnings as computed under the law, except for the benefits paid under the transitional insured status provision and special age-72 benefits previously mentioned. For the majority of workers, monthly earnings are averaged over a period of years beginning with 1951 (or age 22, if later) and up to the year the worker reaches age 65 (62 for women), becomes disabled, or dies. Generally, 5 years of the lowest earnings are omitted when the average is computed. After the worker's average monthly earnings have been determined, the benefit amount payable at age 65—the primary insurance amount (PIA)—is then obtained from a table in the law. In the interest of social adequacy, the table is weighted so that a higher benefit rate applies to the lower portion of earnings than to the higher portion.

Under the 1967 Social Security Amendments, the minimum PIA is \$55 except for the special benefit of \$40 paid to age-72 persons; the possible maximum for a man retiring in 1968 is \$156. As a result of the higher creditable earnings of \$7,800 under the new amendments, the maximum benefit will be \$218, though it will not be possible to qualify for the maximum for many years.

Benefits for dependents and survivors are calculated as a percentage of the insured person's PIA. The wife of a retired worker receives one-half of his PIA if she is age 65 or over, so that an aged couple's benefit is $1\frac{1}{2}$ times that of the worker alone. The aged widow if age 62 or older receives $82\frac{1}{2}$ percent of the deceased worker's PIA. The law also provides a maximum family benefit for each PIA. A maximum family benefit of \$82.50 is payable on a minimum PIA of \$55. The maximum family benefits payable on the maximum wage earner's PIA of \$218 will be \$434.40. Table 4 gives some examples of hypothetical worker and family benefits under different levels of credited earnings.

Actual benefit awards in November 1967 (before the 1967 amendments went into effect) averaged \$91 for retired workers, \$44 for wives, and \$78 for aged widows.

TABLE 4.—EXAMPLES OF MONTHLY CASH BENEFITS AWARDED UNDER 1967 SOCIAL SECURITY AMENDMENTS

Beneficiary-family	Average monthly earnings of insured worker ¹							
	\$67 or less	\$150	\$250	\$300	\$350	\$400	\$550	\$650
Retirement at 65 or disability benefit.....	\$55.00	\$88.40	\$115.00	\$127.10	\$140.40	\$153.60	\$189.90	\$218.00
Retirement at 62.....	44.00	70.80	92.00	101.70	112.40	122.90	152.00	174.40
Wife's benefit at 65 or with child in her care.....	27.50	44.20	57.50	63.60	70.20	76.80	95.00	² 105.00
Wife's benefit at 62.....	20.70	33.20	43.20	47.70	52.70	57.60	71.30	78.80
Widow, 62 or older.....	55.00	73.00	94.90	104.90	115.90	126.80	156.70	179.90
Widow at 60, no child.....	47.70	63.30	82.30	91.00	100.50	109.90	135.90	156.00
Disabled widow at 50.....	33.40	44.30	57.60	63.70	70.30	76.90	95.10	109.10
Maximum family benefit.....	82.50	132.60	202.40	240.00	280.80	322.40	395.60	434.40

¹ Generally, average earnings are figure over the period from 1950 until the worker reaches retirement age, becomes disabled, or dies. Up to 5 years of low earnings can be excluded. The maximum earnings creditable for benefits are \$3,600 for 1951-54; \$4,200 for 1955-58; \$4,800 for 1959-65;

and \$6,600 for 1966-67. The maximum creditable in 1968 is \$7,800, but average earnings cannot reach this amount until later.

² Maximum wife's benefit.

HEALTH INSURANCE FOR THE AGED

Hospital Insurance

Basic protection, financed through an earnings tax, is provided against the costs of inpatient hospital services and related post-hospital care (skilled nursing home and home health visits) for individuals who are eligible for social security or railroad retirement benefits when they attain age 65 (whether retired or not). The same hospital insurance protection, financed from general revenues, is provided under a special transitional provision for essentially all persons who attained age 65 before 1968, even though they were not eligible for cash social security or railroad retirement benefits. Those attaining age 65 in 1968 will need 3 quarters of coverage. The number of quarters needed by persons who reach age 65 in later years increases by 3 for each year until the regular insured status requirement is met.

Hospital insurance benefits include payment in any spell of illness for the full cost of 60 days' hospital care after the payment of a deductible amount of \$40 and for an additional 30 days of care for which the patient pays \$10 per day. Each beneficiary has a lifetime reserve period of 60 days' hospital care at a cost of \$20 per day to the patient, for use after the 90 days in any spell of illness are exhausted. Also included is provision for up to 100 days of recuperative care after at least 3 days in a hospital during a spell of illness in an extended care facility such as a nursing home with the first 20 days paid in full and the last 80 days at a cost to the patient of \$5 per day. Finally, the benefits include up to 100 home health visits by nurses or other health workers after a 3-day stay in a hospital or extended care facility.

Contributions for financing the hospital plan, paid by employers, employees, and self-employed persons, are placed in a separate hospital insurance trust fund established in the Treasury from which the plan's benefits and administrative costs are paid. The amount of annual earnings subject to the new taxes is the same as for financing OASDHI cash benefits. They are in addition to, but collected at the same time as, the other social security contributions. The cost of basic hospital and related benefits for aged people who are not eligible for cash social security or railroad retirement benefits is paid from the general funds of the Treasury.

Supplementary Medical Insurance

Benefits supplementing those provided under the hospital insurance plan are available to virtually all persons 65 and over on a voluntary basis. Aged persons who enroll currently (as of 1967) pay a monthly premium of \$3 (\$4, effective April 1968) and this is matched by an equal amount from Federal general revenues. Aged public assistance recipients can be enrolled in the supplementary plan by the State public assistance agency which pays the premium for the recipient. Coverage may be terminated at any time by the individual filing notice or by the Government for nonpayment of premium.

Supplementary medical insurance benefits include all medical services whether in or out of the hospital, certain outpatient services provided by a hospital, and certain ancillary hospital or extended care facility services not covered under the hospital insurance program. After the patient pays the first \$50, the program pays 80 percent of

the reasonable charges for physicians' services, with various deductibles and coinsurance features for certain outpatient and other services. Also provided are an additional 100 home health visits per year.

Individual and Government contributions for the supplementary medical insurance plan are placed in a separate trust fund from which all benefits and administrative expenses are paid.

IV. RAILROAD RETIREMENT ACT

About 750,000 persons employed by railroads, railroad associations, and railway labor-management are covered by the Railroad Retirement Act (RRA) which was enacted about the same time as the Social Security Act. The railroad retirement program is the only contributory program which is declining in coverage, reflecting declining employment because of automation, mergers, and other factors in the railroad industry (see table 2). As in the other programs, however, the number of beneficiaries continues to rise (see table 3).

The RRA provides retirement, disability, and survivorship benefits which, while separate from OASDHI, have been coordinated with that system in many important respects. Also, Federal health insurance protection for the aged is available to railroad workers on the same basis as workers covered by social security.

An employee must have at least 10 years of service in covered railroad or related work to qualify for RRA benefits. If he has less than 10 years of service, his railroad wage credits are transferred to OASDHI and combined with any credits he may have earned under that system. When an employee who has more than 10 years of service dies, the wage records are similarly combined, and the benefits are usually paid by the system under which he last worked. A railroad employee can qualify for retirement benefits under both programs if he worked long enough under each to be insured, but when he dies the survivors can qualify under only one program based on the combined earnings record.

Under RRA, an employee with 10 years of service may begin to draw a full lifetime annuity at age 65 if he retires. He may begin to receive a retirement benefit at age 60 with 30 years of service, or at age 62 with less than 30 years of service. In these cases the annuity is reduced, except for a woman with 30 years of service.

A spouse's full annuity is also payable monthly to the 65-year-old wife or dependent husband of a retired employee aged 35 or older and to a younger wife if she is caring for a dependent child of the employee. The wife without a child may elect a reduced annuity at age 62.

Monthly survivor annuities are payable to a widow or dependent widower of an insured worker at age 60, and to dependent parents at age 60, provided no qualified widow, widower, or child survives.

The amount of the retirement or disability annuity is normally based on the employee's years of service and his average monthly railroad compensation, with certain maximums. The benefit formula is weighted to provide that those having lower earnings will have relatively larger benefits than those with high earnings. Beginning in January 1968, the maximum amount of creditable earnings is \$650 per month.

The average annuity awarded in November 1967 to an employee who retired because of age was \$168 a month and to a disabled employee \$133. Retired employees' wives were awarded benefits averaging \$68 a month. The average annuity awarded to an aged widow was about \$92. The great majority of widows' annuities are computed under the special guarantee provision which assures that any benefits payable to a worker and/or his family must be at least equal to 110 percent of the amount that would have been payable to the family under the OASDHI program if the employee's railroad service after 1936 had been covered by that system.

V. PUBLIC EMPLOYEE RETIREMENT PROGRAMS

CIVIL SERVICE RETIREMENT SYSTEM

Most of the approximately 2.6 million Federal civilian employees are covered by the civil service retirement system, which has been in operation since 1920. Under civil service retirement, annuities are payable to qualified employees who retire because of age or disability, to widows and minor children of employees who die and, in certain circumstances, to the survivors of annuitants.

Civil service employees may retire at age 62 after 5 years of service or at age 60 after 20 years of service. They may also retire at age 55 with 30 years of service. They may be retired for disability at any age after a minimum of 5 years of service. Retirement is compulsory at age 70 if the employee has 15 years of service.

In cases when an employee dies or leaves Government service before completing 5 years of service, his contributions to the retirement system are refunded with interest. After having served 5 years or more, employees leaving Government service may either withdraw their deposits or allow them to remain in the system; in the latter case they are eligible for pensions at age 62.

The amount of the annuity depends on the employee's earnings and length of service. The annuity is based upon the annual salary received during the 5 consecutive years which afford the highest dollar average. A formula is used which provides an annuity amounting to 16¼ percent of high-5 average for 10 years of service, with 2 percent added for each additional year of service. At 30 years of service, the formula provides 56¼ percent of the high-5 average. Long service gives a proportionately higher percentage, up to a maximum basic annuity of 80 percent of the high-5 average.

The disability pension is computed on the same basis as the retirement benefit, with a minimum guaranteed.

An employee upon retirement can accept a reduced annuity in order to provide a survivor benefit to the spouse upon death. The widow's benefit is normally 55 percent of the employee's annuity. Since 1964 annuities are automatically adjustable for upward changes in the cost of living. Health benefits, payable and financed under a separate program, are also continued on the same basis as before retirement, with the Government and employee sharing the cost.

Employees under the Federal civil service system contribute 6½ percent of their regular salary with no ceiling. The law requires current matching payments from the employing agency.

OTHER FEDERAL PROGRAMS

More than 90 percent of the Government civilian work force is covered by CSR. There are, however, several other contributory plans covering civilian employees. FSR covers Foreign Service officers in the Department of State. The Board of Governors of the Federal Reserve System has a separate system for most of its employees. Other agencies which have their own systems are the Central Intelligence Agency, the Tennessee Valley Authority, and the Federal judiciary. All of these systems are relatively small compared to CSR. A report of the Cabinet Committee on Federal Staff Retirement Systems showed that as of June 30, 1965, there were 2,338,000 employees covered under CSR and only 24,830 covered under FSR, the Board of Governors, TVA, District of Columbia school teachers, policemen and firemen, and the Federal judiciary. The Tennessee Valley Authority was the largest of the systems, with 11,252 employees, and the Federal judiciary, with only 363 employees, the smallest.¹

In addition to the coverage of military personnel by the OASDHI program, the military retirement system provides noncontributory retired pay for career men who have at least 20 years of service. Under military personnel policies, most of the career men are separated after 20 years of service regardless of age; few are retained beyond 30 years of service. Pensions equal 2½ percent of the monthly base pay at the time of retirement, multiplied by years of service up to a maximum of 75 percent of basic pay. Pensions are automatically adjusted for upward changes in the cost of living, as with CSR. Survivor annuity-type payments may be provided if the member elects a reduced annuity for himself.

Because of the military policy of early retirement, service personnel often start new careers in middle age. At 62 or 65, they may then retire again with their military pensions augmented by OASDHI benefits, and possibly other retirement benefits from a second job.

While most of the men and women who have served or are now serving in the Armed Forces do not stay in long enough to qualify for military pensions, a substantial number do. Table 3 shows that in 1965 and 1966 the number of Armed Forces beneficiaries exceeded civil service retirees.

STATE AND LOCAL GOVERNMENT RETIREMENT SYSTEMS

Retirement systems administered by States or localities are in effect for more than 6 million employees or about three-fourths of those employed by these governments. There are many types of systems, including those of States, municipalities, counties, and special districts. Some systems include employees of many government departments, while others are limited to such groups as public school employees, university teachers, park department workers, policemen and firemen. Some State systems include only employees of the State government while others also cover local employees.

The original Social Security Act did not provide for the coverage of State and local government employees. In the 1950's, however, amendments to the law made it possible for State and local employees

¹ U.S. Cabinet Committee on Federal Staff Retirement Systems. *Federal Staff Retirement Systems*, 90th Cong., 1st sess., S. Doc. 14, Apr. 6, 1967, p. 300.

to be covered on a voluntary basis. Agreements are made between the States and the Secretary of Health, Education, and Welfare regarding (1) groups composed of employees of the State or one of its political subdivisions whose positions are not under a State or local retirement system, and (2) groups of employees whose positions are covered by a State or local retirement system. In 1967 approximately 6.2 million State and local government employees were covered by OASDHI. Of these, about 4.5 million were also members of staff retirement systems and thus had dual coverage. Many of these staff systems are considered to be supplementary to OASDHI, and were modified accordingly at the time their members were covered under OASDHI.

Provisions of these diverse staff systems are by no means uniform, but they typically permit normal retirement at less than age 65—usually at age 60—and also permit early retirement at reduced benefits before normal retirement age. Usually an employee must have had a considerable period of service—10 to 20 years—to qualify or to receive a substantial annuity. Employees in dangerous occupations—such as policemen and firemen—often have the option of retiring at any age after 20 or 25 years of service.

Commonly, plans provide for retirement benefits of about 50 percent of the highest 5-year-average wage after 30 years of service, though for plans that supplement OASDHI, lesser proportions are more prevalent. Practically all systems provide benefits for a disabled member if he has sufficient service to meet specified eligibility requirements.

Relatively few systems automatically provide benefit payments to the widow when the member dies after retirement. However, a member who is retiring is commonly permitted the option of taking a reduced annuity in order to provide a benefit for his widow, although surveys have shown that relatively few retirees elect this option. Payments to widows (without children) of nonretired members are generally limited to those who die after long service or at a relatively advanced age.

For workers covered by both a staff retirement system and OASDHI the average monthly benefit awarded in fiscal 1964 to age and service male retirees was \$178 (exclusive of OASDHI). For workers covered by just a staff retirement system, the average benefit awarded to men in fiscal year 1965 was about \$235 monthly.²

State and local government retirement systems typically require contributions both by the employees and the employing government. Most members are covered by systems that require uniform employee contributions—of 3.5 to 5 percent for employees also covered by OASDHI, and of 5 to 7 percent for employees not covered by OASDHI.

VI. VETERANS' PROGRAMS

Veterans' benefits are not primarily conceived of as old-age income programs, but a sizable number of aged veterans are receiving com-

² Joseph Krislov, "State and Local Government Retirement Systems—1965, a Survey of Systems Covering Employees Also Covered by the Federal Old-Age, Survivors, Disability, and Health Insurance Programs." U.S. Department of Health, Education, and Welfare, Social Security Administration, Office of Research and Statistics, Research Report No. 15; and Saul Waldman, "Retirement Systems for Employees of State and Local Governments—1966, the Findings of a Survey of Systems Whose Members Are Not Covered Under the OASDHI Program," U.S. Department of Health, Education, and Welfare, Social Security Administration, Office of Research and Statistics, Research Report No. 28.

pensation and pension—over 1.1 million. Benefits are also payable to aged widows of veterans who died of service-connected or non-service-connected disabilities. The 1963 Survey of the Aged found that 6 percent of the nonmarried women aged 65 and over were in receipt of veterans' benefits.

Compensation payments based on service-connected disabilities are paid without regard to other income or resources. Disabilities are rated according to a schedule and the monthly compensation varies in amount depending on the degree of impairment of earning capacity suffered by the veteran. Compensation payments range from \$21 per month for a 10-percent disability to \$300 for total disability. Additional amounts are allotted to veterans who are housebound or in need of regular aid and attendance. A veteran who has a disability of 50 percent or more is also entitled to benefits for his dependents.

Pensions for non-service-connected disability are payable to permanently and totally disabled veterans who meet an income test. The amount of the basic pension is based on a sliding scale according to income with higher payments going to veterans with low income and more dependents. Pensions vary from \$45 a month to \$104 a month, with additional amounts provided for dependents, for veterans in need of regular aid and attendance, and for permanently housebound veterans. The veteran's annual income must not exceed \$1,800 if he is unmarried or \$3,000 if he is married or if he has a minor child.

Survivors of servicemen who die from service-connected causes are also eligible for compensation payments, which vary in relation to the veteran's military basic pay. The rate is \$120 monthly, plus 12 percent of the basic pay, with a minimum of \$132. Death pensions, ranging from \$29 to \$70 for a widow without children, are payable as a result of non-service-connected deaths, if the widow meets a specified income limitation—not more than \$1,800 a year.

VII. PUBLIC ASSISTANCE

OLD-AGE ASSISTANCE

For those persons whose source of income during old age is not sufficient for current living needs, there is the Federal-State public assistance programs. Under the old-age assistance program, Federal grants are provided to the States for needy persons aged 65 and over. Unlike OASDHI benefits which are granted as a matter of right, OAA payments require the individual to meet a "needs" test, as determined by State standards.

Despite increases in OASDHI benefit levels, assistance payments are still necessary in some instances to supplement insurance benefits in order to meet basic living needs. In December 1966, almost 7 percent of those receiving OASDHI old-age benefits were also on the old-age assistance rolls. Almost half of all old-age assistance recipients also were receiving OASDHI benefits. The average insurance benefit received by the concurrent OAA recipient was well below the overall average for OASDHI beneficiaries.

All of the States have old-age assistance programs, but eligibility requirements and monthly payments vary. Some needy persons are excluded because of State residence requirements. In November 1967,

the average monthly payments for all States was almost \$70, and payments ranged from about \$39 per month in Mississippi to \$108 in New Hampshire. A combination of factors account for the wide variations among States, such as differences in items included in the budget, differences in income, and differences in ceilings on the money payments. Many of the individual States apply maximums or other devices to reduce payments so that the recipient receives less than the amount he needs as determined under the State assistance standards.

MEDICAL ASSISTANCE

The 1965 Social Security Amendments established a program of medical assistance in the form of Federal grants-in-aid to the States designed to replace the provisions for direct payments to suppliers of medical care and services under old-age assistance and other public programs. States may include persons who are able to provide their own maintenance but whose income and resources are not sufficient to meet their medical care costs.

The medical services offered must generally include inpatient and outpatient hospital services, other laboratory and X-ray services, skilled nursing-home services for adults, and physicians' services whether furnished in the office, the patient's home, a hospital, or a skilled nursing home. Other items of medical service such as dental services, prescribed drugs, eyeglasses, dentures, and prosthetic devices are optional with the States.

Under the OASDHI supplementary medical insurance program, State public assistance agencies may "buy in" for their aged recipients of cash payments and medical assistance. The deductible requirements are met by the State agencies.

VIII. PRIVATE PENSION PLANS

Private pension plans apply selectively in the economy, in contrast to the universal social security system. It must be emphasized they also differ from the universal system in many important respects as to their rationale. For example, private pension plans may serve as a method of dealing with individual problems of an older work force as well as a method of providing economic security for retiring workers.

Because of variations in the impact of public programs, collective bargaining, types of persons included, financial constraints, government regulations, and other underlying forces, private pension plans have resulted in widely diversified and selective coverage. In addition, a wide variety of financing arrangements and benefit provisions have evolved—depending upon, among other factors, the financial ability and interest of the individual firm or industry, the extent of collective bargaining, and the nature of industry and labor market forces.

Since almost all workers in private pension plans may expect to receive social security benefits, OASDHI provisions and benefit levels obviously have an influence on the structure and design of the supplementary private pension program. With each improvement in social security benefits, the interweaving of public-private provisions

takes on an added significance. The development of benefit levels in private pension plans has not always taken into account future consequences of changes in social security.

The private pension structure is a relatively young institution. Less than 5 percent of the plans in existence today were established in the first 40 years of this century. The period of greatest growth has been since 1950 and the implications of the programs are difficult to assess, because the programs are still developing. Historically, most private programs had modest beginnings. As they have matured, benefits have been improved, new approaches have been devised, and a wide range of alternative provisions have been added. In recent years, among the more significant trends in the private plan provisions have been improvements of benefit formulas, lowering of retirement ages, earlier vesting, liberalization of early and disability retirement provisions, and increased survivors' protection. These conditions of widespread diversity, rapid growth, and change have led to a number of associated problems about the mix of private and public pension systems that provide similar protection to the same group of workers.

COVERAGE AND BENEFICIARY TRENDS

More than 26 million persons are covered by private pension and deferred profit-sharing plans today, almost all of whom are also building up credits under the social security system (table 2). In the 16-year period since 1950, when pension plans first became a major issue in collective bargaining, the coverage more than doubled; the absolute growth amounted to 16.6 million workers. However, the last 6 years accounted for only 5.2 million of the increase. The percentage growth since 1950 has shown a decline when divided into 5-year intervals: coverage grew by more than 55 percent in the period 1950-55, 38 percent from 1955 to 1960, and only 20 percent from 1960 to 1965.

Private retirement plans are of two types—pension and deferred profit-sharing plans. A private pension plan is usually defined as one established by an employer, union, or both, that provides determinable cash benefits for life to qualified workers upon retirement. Benefits are usually financed by regular contributions by the employers, and in some cases by the employees. On the other hand, contributions and benefits under deferred profit-sharing plans are not known in advance but depend upon the profits of the employer. Most workers are covered by pension plans. Several million workers, however, are covered by deferred profit-sharing plans either exclusively or as a supplement to a pension plan.

About one-half of the 26 million workers covered by private retirement plans are under collectively bargained plans that have been negotiated between management and unions. The substantial number of workers belonging to plans under collective bargaining results to a large extent from multiemployer plans which cover more than a third of the workers under collective bargaining agreements. Multiemployer plans are generally organized on an industry basis to meet situations where, for example, employers are too small to set up their own plans. Under these plans, all employers contribute into a pooled central pension fund from which their employees, who may have

shifted from one employer to another in the industry, draw pensions. These plans covered fewer than 1 million workers before 1950. In the late fifties, they were extended in many industries, so that by 1960 they included over 3 million persons. At present, about 5 million workers are in these plans.

A high proportion of those potentially within reach of private pension coverage have already been included. Since 1950, the annual growth in coverage has exceeded the growth in the labor force and the cumulative effects of this difference have been substantial. The proportion of wage and salary workers covered by pension plans in private industry has increased by 1-2 percentage points a year since 1950, and now equals more than 45 percent of the employed private wage and salary work force. There has been some slowdown in the rates of growth since 1960. This slackening indicates that, under the existing structure and operation of private pension plans, a large proportion of the employed labor force is having difficulty in securing supplemental retirement protection. The most accessible groups are already covered, and future expansion must be in industries in which small businesses are prevalent. Current trends indicate that the vast majority of newly established plans are in this category.

One of the more recent changes affecting private pension coverage was the extension of certain tax advantages to the self-employed (and their employees) by the Self-Employed Individuals Tax Retirement Act of 1962 (as amended in 1966). Until now, the experience under the act has been limited, and only a small number of plans have been established. According to the Internal Revenue Service, about 37,000 favorable determination letters were processed by the end of June 1967. However, probably no more than 50,000 persons had obtained coverage under these qualified plans by that time.

The flow of persons into benefit status has been impressive. Reflecting the maturing of many plans, the number of persons receiving private pension benefits today is 20 times greater than in 1940—160,000 persons in 1940 and about 3 million in 1966. The number should grow rapidly, so that it is estimated that the number of beneficiaries will be about 6.5 million in 1980.

Yet, because eligibility requirements for pensions depend in most cases on completion of substantial periods of service and attainment of retirement age with the same company, the persons who are receiving or may expect to receive private plan benefits constitute a restricted group. The 1963 Survey of the Aged shows, for example, that private pensions are currently being received by a small percentage of the aged—only 16 percent of the couples and 5 percent of nonmarried persons received them in 1962.³ Moreover, persons receiving private pensions are the economically elite among retired OASDHI beneficiaries. Their median incomes were about \$1,000 higher than the medians for those without private pensions. For OASDHI beneficiary couples having private pensions income, more than 25 percent of their total income was provided through private pensions, and for nonmarried beneficiaries with private pensions, al-

³ *Income Status of OASDHI Beneficiaries With and Without Private Pension*, Research and Statistics Note No. 17, Social Security Administration, Office of Research and Statistics, 1966.

most 30 percent of total income came from this source, but OASDHI benefits were still the largest single source of money income.

SELECTED CHARACTERISTICS OF PRIVATE PLANS

An overall view of the private pension structure reveals: astonishing diversity and selectivity in financing and coverage, not possible for a basic social insurance program. Furthermore, the private structure is characterized by wide disparity in types of benefits provided and in the scope and level of protection afforded, reflecting the flexibility and latitude individual employers and unions have in developing the provisions to meet special needs and conditions in the firm or industry.

The tabulations in this section of the report were made available by the Bureau of Labor Statistics, and were based on a sample of reports and documents filed with the U.S. Department of Labor's Office of Labor-Management Welfare-Pension Reports pursuant to the Welfare and Pension Plans Disclosure Act, by private plans covering 26 or more workers. By the end of September 1966, financial reports for over 30,000 plans had been filed.⁴ The worker coverage figures relate to 1964-65.

About 60 percent of all workers in the study were in plans with 5,000 or more workers (table 5). A fifth of the coverage was accounted for by 18 large plans, each with 100,000 or more participants, with a combined coverage of almost 3.5 million. While almost 90 percent of the plans studied had fewer than 1,000 participants, they accounted for only 15 percent of the coverage. Medium-size plans—1,000 to 5,000 persons covered—accounted for another 10 percent of the plans, but had about a fourth of all covered workers.

TABLE 5.—DISTRIBUTION OF PRIVATE PENSION PLANS BY NUMBER OF ACTIVE WORKERS COVERED, SUMMER 1967

Number of workers covered	Plans		Workers ¹ (thousands)	
	Number	Percent	Number	Percent
All plans studied.....	17, 091	100. 0	17, 485	100. 0
Under 200.....	10, 674	62. 4	809	4. 6
200 and under 500.....	2, 824	16. 5	893	5. 1
500 and under 1,000.....	1, 498	8. 8	1, 020	5. 8
1,000 and under 5,000.....	1, 599	9. 4	4, 268	24. 4
5,000 and under 10,000.....	246	1. 4	1, 704	9. 7
10,000 and under 25,000.....	147	. 9	1, 976	11. 3
25,000 and under 50,000.....	65	. 4	2, 056	11. 8
50,000 and under 100,000.....	20	. 1	1, 268	7. 3
100,000 and over.....	18	. 1	3, 490	20. 0

¹ Active workers in 1964-65.

Note: Because of rounding, sums of individual items may not equal total.

Source: Unpublished data, U.S. Department of Labor, Bureau of Labor Statistics.

⁴ The Bureau of Labor Statistics analyzed a stratified random sample of these plans on file, selected on the basis of industry and size of plan. Data for each sample plan were weighted so that tables show estimates for all pension plans filing reports. The private plan and worker coverage in these tables differ from published data for plans on file in the Office of Labor-Management and Welfare-Pension Reports for the same date. The main reason for the differences is that the BLS study excludes profit-sharing, savings and thrift plans. Coverage estimates in the BLS study also differ from estimates of pension coverage by the Social Security Administration. The SSA estimates include deferred profit-sharing plans, those of nonprofit organizations, and plans with fewer than 26 workers—all of which are excluded from the BLS tables.

Almost 40 percent of the plans covering over 70 percent of the workers indicated that the plans were mentioned in collective-bargaining agreements between management and unions. The variations in the impact of collective bargaining and the other underlying forces in the development of private retirement plans have resulted in concentrations of coverage in certain industries and occupations (table 6). The high coverage in most manufacturing industries can be attributed, in large part, to the spread of private pension coverage to unionized workers in mass-production industries since 1950. Three out of five of all private plans with the same proportion of workers are in manufacturing industries, so that probably 65-70 percent of all employed workers—mostly in collectively bargained plans—in manufacturing now enjoy private pension coverage in addition to their basic social security protection. By way of contrast, only a small proportion of employed workers in trade and services are included in such plans. In some other nonmanufacturing industries, however, such as motor and water transportation, communication, public utilities, and finance, pension coverage is almost universal. In the construction industry, while coverage is below that of these industries, it is more extensive than found in trade and services. For mining and extractive industries, coverage has been extended to a high proportion of the work force, mostly through collective bargaining.

The growth and development of negotiated multiemployer plans has been responsible for heavy concentration of pension coverage in certain industries. The plans have developed, for the most part, in industries and occupations marked by seasonal employment, fre-

TABLE 6.—DISTRIBUTION OF PRIVATE PENSION PLANS BY INDUSTRY GROUP, TYPE OF EMPLOYER, AND COLLECTIVE BARGAINING STATUS, SUMMER 1967

[Workers in thousands]

Industry	Type of employer unit						Collective bargaining status			
	All plans		Single employer		Multiemployer		Mentioned in a collective bargaining agreement		Not mentioned in a collective bargaining agreement	
	Number	Workers ¹	Plans	Workers ¹	Plans	Workers ¹	Plans	Workers ¹	Plans	Workers ¹
All plans studied.....	17,091	17,485	15,786	12,555	1,305	4,929	6,341	12,524	10,730	4,952
Agriculture, forestry, and fisheries.....	96	44	92	19	4	25	16	35	80	9
Mining.....	318	334	300	94	18	240	45	248	273	86
Contract construction.....	546	1,599	140	55	406	1,544	446	1,569	100	29
Manufacturing.....	9,936	10,626	9,524	9,096	412	1,530	4,592	7,750	5,324	2,874
Durable.....	5,699	6,416	5,558	6,161	141	256	2,823	4,906	2,856	1,510
Nondurable.....	4,237	4,209	3,966	2,936	271	1,273	1,769	2,844	2,468	1,365
Transportation.....	655	1,281	517	530	138	751	338	891	317	390
Communications and public utilities.....	846	1,286	841	1,271	5	15	311	1,058	535	228
Wholesale and retail trade.....	1,877	1,004	1,686	616	191	388	456	520	1,421	484
Wholesale trade.....	1,180	540	1,050	208	130	333	394	362	786	179
Retail trade.....	697	463	636	408	61	55	62	158	635	305
Finance, insurance, and real estate.....	1,977	787	1,940	727	37	60	23	87	1,954	701
Services.....	840	523	746	147	94	376	114	366	726	157

¹ Active workers in 1964-65.

Note: Because of rounding, sums of individual items may not equal totals.

Source: Unpublished data, U.S. Department of Labor, Bureau of Labor Statistics.

quent job changing, small firms, and high rates of individual employer mortality. In mining, construction, water and motor transportation, and wholesale trade, most covered workers are included in collectively bargained multiemployer plans. In manufacturing industries, heavy concentrations of coverage of these plans are found in apparel and food products.

About three-fourths of workers in private plans are in plans financed in full by the employer, i.e., noncontributory plans (table 7). The remaining covered workers are in plans which require that a portion of the costs be borne by employees (contributory plans). The employee's portion in these plans is usually a fixed amount of percent of compensation, while the employer pays the balance or cost. A few union-operated plans are financed in full by workers' contributions. There is a close relationship between collective bargaining influence and full employer financing of retirement benefits. Almost all collectively bargained multiemployer plans are noncontributory, and are typically financed by specified employer contributors to a central fund. Similarly, collectively bargained single-employer plans, particularly those in highly organized mass production industries, typically are financed in full by the employer. In industries and for worker groups in which the influence of collective bargaining is limited, on the other hand, there are a significant number of contributory plans for salaried personnel.

Although many early pension plans were limited to salaried workers and executive groups, the scope of protection of most of these plans has since broadened to include all employees, or the employer has established separate plans for production workers. According to available data, the number of persons in plans covering salaried and executive groups only is limited and probably accounts for about 15 percent

TABLE 7.—DISTRIBUTION OF PRIVATE PENSION PLANS BY INDUSTRY GROUP AND METHOD OF FINANCING
SUMMER 1967

[Workers in thousands]

Industry	All plans		Method of financing			
			Noncontributory		Contributory	
	Number	Workers ¹	Plans	Workers ¹	Plans	Workers ¹
All plans studied.....	17,091	17,485	12,517	13,335	4,403	3,855
Agriculture, forestry, and fisheries.....	96	44	61	25	35	19
Mining.....	318	334	282	306	36	28
Contract construction.....	546	1,599	414	1,065	111	379
Manufacturing.....	9,936	10,626	7,841	8,174	2,050	2,324
Durable.....	5,699	6,416	4,392	5,168	1,287	1,246
Nondurable.....	4,237	4,209	3,449	3,005	763	1,078
Transportation.....	655	1,281	458	983	197	298
Communications and public utilities.....	846	1,286	686	1,097	160	189
Wholesale and retail trade.....	1,877	1,004	1,389	780	388	218
Wholesale trade.....	1,180	540	889	435	191	101
Retail trade.....	697	463	500	345	197	118
Finance, insurance, and real estate.....	1,977	787	1,208	488	768	294
Services.....	840	523	178	416	658	106

¹ Active workers in 1964-65.

² Includes 141 plans, covering 15,000 workers for which information as to financing is not available, and includes 30 plans, covering 279,000 workers, which were union sponsored and operated, and financed by the worker alone.

Note: Because of rounding, sums of individual items may not equal totals.

Source: Unpublished data, U.S. Department of Labor, Bureau of Labor Statistics.

TABLE 8.—DISTRIBUTION OF PRIVATE PENSION PLANS BY INDUSTRY GROUP AND TYPE OF WORKER COVERED
SUMMER 1967

[Workers in thousands]

Industry	All plans		Salaried and production workers		Production workers only		Salaried workers only		Workers earning in excess of a specified amount	
	Number	Workers ¹	Plans	Workers ¹	Plans	Workers ¹	Plans	Workers ¹	Plans	Workers ¹
All plans studied...	217,091	217,485	6,974	7,052	5,119	7,902	4,247	2,177	649	341
Agriculture, forestry, and fisheries.....	96	44	69	16	27	28	-----	-----	-----	-----
Mining.....	318	334	56	50	50	244	212	40	-----	-----
Contract construction.....	546	1,599	101	86	405	1,507	40	6	-----	-----
Manufacturing.....	9,936	10,626	2,855	4,220	4,044	4,658	2,463	1,558	572	183
Nondurable.....	4,237	4,209	1,533	1,779	1,278	1,875	1,258	485	168	71
Durable.....	5,699	6,416	1,322	2,441	2,766	2,783	1,205	1,073	404	112
Transportation.....	655	1,281	143	275	257	735	213	131	42	140
Communications and public utilities.....	846	1,286	786	1,192	59	87	1	7	-----	-----
Wholesale and retail trade.....	1,877	1,004	1,005	572	102	328	642	95	28	4
Wholesale trade.....	1,180	540	549	222	69	240	442	72	20	1
Retail trade.....	697	463	456	350	33	87	200	23	8	3
Finance, insurance, and real estate.....	1,977	787	1,522	446	13	42	436	291	6	8
Services.....	840	523	437	195	162	273	240	49	1	6

¹ Active workers in 1964-65.² Includes 102 plans covering 13,000 workers for which information as to type of worker covered is not available.

Note: Because of rounding, sums of individual items may not equal totals.

Source: Unpublished data, U.S. Department of Labor, Bureau of Labor Statistics.

of private pension coverage (table 8). These plans are more likely to require employee financing of part of the cost of the plan than plans extended to all employees or those limited to production workers. Furthermore, as previously mentioned, a separate plan for other employees is usually made available by the employer. About 30 percent of the plans with 45 percent of the total workers in the BLS study were in plans limited to production or blue-collar workers. Another 40 percent of the plans with about 40 percent of coverage included both salaried and production workers within the plan. Salaried-worker plans were most likely to require employee contributions—about a third of the salaried workers were in contributory plans. A similar proportion of coverage in plans including both salaried and production workers were in contributory plans, while only 10 percent of the covered production workers were required to make a contribution. As would be expected, few plans limited to salaried workers were under collective bargaining, while 9 out of 10 workers in plans covering production workers were in plans under collective bargaining.

NORMAL RETIREMENT PROVISION

The normal retirement provision is a pension plan's most important feature, because it specifies retirement benefits for qualified workers, and it is the framework on which other plan provisions are based. It indicates the earliest age at which a worker can voluntarily retire and receive the full benefits based on his credited service and earnings. It also states the benefit formula for computing benefits and the relationship of plan benefits to social security payments.

The normal retirement age for most private plans coincides with the earliest qualifying age for full benefits under the OASDHI program, age 65. A substantial number of workers are covered under some large plans permitting retirement before that age as, for example, in the telephone company plans and some major multiemployer plans. Service requirements for regular retirement at age 65 are typically 10 to 15 years. For plans permitting retirement before age 65, service requirements tend to be longer.

Furthermore, in some plans in manufacturing industries, such as meatpacking, automobile, farm machinery, aerospace, and rubber products, the normal retirement age has been shifted to age 62 (the age at which reduced benefits are first payable under OASDHI). Frequently, longer service is needed than for retirement at age 65. Some plans have adopted an alternative requirement that permits retirement on full benefits at any age with specified service. For example, today the Steelworkers' plans have alternative requirements—in which full benefits are paid at age 65 with 15 years of service, or at any age after 30 years of service.

BENEFIT FORMULAS

The benefit formula for computing normal retirement benefits is of vital concern to all involved in private pension plans. Although there is no clear consensus as to the "right" level of retirement benefits, many persons—employers and unions—express the view that the plan design should aim for a target of between 50–60 percent replacement (including primary social security benefits) of a worker's earnings in the 5–10 years before retirement.

The benefit formulas in private plans are extremely varied, reflecting the needs, financial ability, and desires of a particular employer or industry, as well as collective bargaining pressures. The basic considerations in computing benefits are credited service, earnings, or both, and the relationship to social security benefits. In actual practice, there is an almost limitless number of combinations of factors used, designed to serve a particular purpose in a specific situation. While there are these wide variations, in terms of broad categories, formulas may be classified as one of the following types: (1) defined benefits, (2) money purchase benefits, and (3) variable benefits.

Defined benefit formulas are by far the most common type of formulas used in private pension planning, and are usually based on years of credited service under the plan, earnings, or both. The formula may provide different computation factors for service accumulated before the plan was established or amended, and service after that date. Furthermore, minimum and maximum limits on benefits may be specified. Finally, the amount of social security benefits to which a worker may be entitled is considered directly or indirectly in the benefit structure of the plan. Within these general boundaries a wide variety of methods are used to compute retirement benefits under defined formulas, but most can be placed in one of the following categories:

Benefits related to both earnings and service.—This is the most common type of defined benefit formula, and applies to about half the workers in pension plans. The formulas are usually based on earnings, credited service, and a percent factor, for example, 1 percent of earn-

ings during each year of credited service. About half the workers are in plans using terminal years, for example, 1 percent of average earnings in the last, or highest 5 or 10, years of employment times years of credited service.⁵ The remaining workers are in plans using career earnings. The definition of credited service in these formulas may relate to all employment or to plan membership; each plan treats service by its own method. The percentage factors used tend to concentrate in the range of 1 to 2 percent.

Many of the plans use a step-rate formula, in which a larger percent factor is used to apply to earnings in excess of a specified amount (usually maximum earnings taxable under social security) than to those below such an amount. The more usual formulas of this type apply a 1 percent factor to earnings up to \$4,800, and 1.5 to 2 percent above for each year of service.

Benefits related to service alone.—These defined benefit formulas include about 30 percent of the workers in private plans, and are most typically found in negotiated plans for production workers. These formulas multiply a dollar amount times years of credited service, for example, \$5 a month for each year of credited service. Limits on service used to compute benefits are frequently specified, for example, 30 to 35 years.

Benefits unrelated to earnings and service.—Formulas providing a flat uniform amount to those meeting specified requirements are usually restricted to multiemployer plans, for example, \$100 a month for persons retiring with 25 or more years of credited service. They include between 10 and 15 percent of workers in private plans.

Benefits related to earnings, not service.—Formulas providing a uniform percent of earnings to workers meeting specified requirements (for example, 40 percent of terminal earnings for all workers with 20 or more years of service) are now uncommon in private plans.

Under the second general type of benefit formula found in private plans, a *money purchase formula*, a fixed contribution is specified, usually a certain percentage of earnings, which is used to purchase retirement benefits. The benefit depends upon the age at purchase, as well as the retirement age specified in the plan. As the worker nears retirement, the benefit purchased per-dollar of contribution becomes smaller because of the shorter period over which the contribution will earn income. The amount of retirement income can only be estimated before actual retirement. The money purchase formula is now infrequently found in private plans.

Finally, other approaches to pension planning envisage *variable benefit formulas* with built-in features to adjust to changes in living costs for retired workers. A variable or equity annuity formula consists of two parts: (1) a portion which provides a fixed and determinable benefit following one of the usual formulas discussed above, and (2) a portion that adjusts the amount of benefit depending upon the investment experience of the funds allocated. Plans of this type are relatively uncommon. In the cost-of-living type of variable formula, the basic computation uses the usual type of for-

⁵ U.S. Department of Labor, "The Older American Worker." Report of the Secretary of Labor to Congress under section 715 of the Civil Rights Act of 1964, Research Materials, 1965.

mulas previously described, but the retirement benefit is adjusted upon retirement and, periodically thereafter, to changes in the Consumer Price Index. Like the variable annuity benefit formula, this approach to computing retirement benefits is relatively rare in private pension plans.

Minimum benefits.—Many pension plans, especially those under collective bargaining, guarantee a minimum pension (similar to social security) to workers qualifying for normal retirement benefits. The minimum benefit is planned to provide a higher benefit than that resulting from the application of the basic formula to individuals with low earnings and long service, while the basic benefit formula applies to persons with average or above-average earnings. Plans typically specify a flat minimum amount, or a minimum varying by years of service for those who qualify. The plans in the steel industry, for example, provide a retirement benefit based on the larger of two computations: (1) 1 percent of average monthly earnings in the 120 months before retirement times years of service, reduced by \$60 for the primary social security benefit, or (2) \$5 times years of service up to 35 years. The percentage formula applies, in this example, only to employees with 35 years of service averaging over \$670 monthly earnings in the last 120 months of employment. For shorter service periods, substantially higher average earnings would be needed for the percent formula to apply.

PRIVATE PLAN BENEFITS AND SOCIAL SECURITY

The social security system has had a great influence in shaping the normal retirement benefit provisions of private plans (as well as other provisions), particularly the levels of retirement benefits promised, since for almost all persons who qualify under private plans, retirement income will come from both sources. Not many private retirement plans directly coordinate plan benefits with social security benefits. All pension plans, however, presumably take potential social security benefits into account in setting projected benefit levels of the plan. In earlier years when benefit levels were relatively low there was little concern about overlap of protection by public and private plans. The improvements in both systems, however, are drawing attention to the overlap.

Some employers choose to integrate their plans directly with old-age benefits provided by social security through a number of devices. Under one approach, the "offset method," the plan provides a retirement benefit including social security benefits, that is, all or a portion of the primary social security benefits payable to the individual worker will be deducted from the amount calculated under the private plan benefit formula. Future changes in the primary social security benefit can have an effect on the amount of benefit paid by the plan. For example, in any plan with a fixed benefit level any increase in social security would result in a decrease in the amount paid by the plan. Under other alternatives, plan design partially or completely eliminates this possibility. For example, in plans in which only one-half of the social security benefit is offset in the benefit formula, the retired worker will benefit to some extent by future increases in social security. Another approach is to freeze the social security deduction on

the basis of the law in effect at time of plan adoption (or negotiation), or the law in effect at the time of retirement. Thus, the private pension of a retired worker will not be further reduced because of increases in social security that may be enacted.

The practice of tying the private plan benefit directly to benefits payable under OASDHI has been declining in recent years. The effect of discarding the "offset" type formula has been to raise retirement income levels, since the retired (or retiring) employee receives the full benefit of future increase in benefits under social security. While the majority of collectively bargained plans negotiated in the early 1950's were directly tied to social security benefits, as will be discussed later, since that time the trend has been to eliminate any direct social security tie-in. Today, the typical negotiated plan provides benefits exclusive of social security benefits.

In another approach, the benefit formula may provide a higher level of benefits for workers with earnings above a specified amount, usually the OASDHI maximum taxable wage base, than are provided those whose earnings are below this amount. In formulas of this step-rate type, a percent rate is applied to earnings of up to a specific amount, and a higher percent rate is applied to earnings above that amount—for example, 1 percent of annual earnings up to \$4,800 and 1.5 percent above that amount for each year of service. Under the exclusion of earnings approach, or excess plan, employees earning less than a specified amount are excluded because benefits apply to earnings above the specified amount. For example, a plan may have a formula of 1 percent of annual earnings in excess of \$4,800 for each year of credited service. This approach is not common but has been increasing in popularity.

As an alternative, in a method similar to the step-rate and excess methods, additional benefits are made available to employees covered by a basic pension plan (typically financed in full by the employer) who choose to make contributions to a supplementary plan. While some supplementary plans are offered to all employees, they are most often restricted to salaried workers or to those with earnings in excess of a specified amount, usually the amount subject to social security taxes.

LEVEL OF BENEFITS

Most private plans are based on the premise that retirement benefits should be a function of years of service, either with a particular firm or in the case of multiemployer plans, with a group of firms. Gearing benefits solely to length of employment has the effect of providing fairly large pensions for the career worker but small benefits for the individual with a short-term attachment to the particular employer.

Many conventional plans relate benefits to earnings as well as to service so that benefits tend to be proportionate to earnings. If greater credit is given for earnings above the OASDHI wage base than for earnings below this amount, the effect is to provide relatively large pensions for regularly employed, middle management employees and executives with above-average earnings.

Under collectively bargained plans, which usually provide uniform benefits or benefits related to service alone, lower-paid workers tend

to be in an advantageous position. Minimum benefit provisions in plans with earnings-related formulas also tend to favor the below-average wage earner.

Accordingly to a recent Bureau of Labor Statistics study, workers in private pension plans can expect the major share of their retirement income to be made up from social security benefits.⁶ Only for long-service workers with high earnings can the expected private pension benefit approach primary social security benefit levels.

LIBERALIZATION OF BENEFIT FORMULAS

The primary purpose of a retirement plan—public or private—is to provide a level of benefits which replaces a portion of earnings prior to retirement. Increasing attention has focused on the levels of benefits promised under public as well as private plans in light of rising price and wage levels. The evidence from changes in private pension plans clearly indicates that some attempts are made (as is true of OASDHI benefits) to keep the private pension benefits promised for active workers nearing retirement in pace with the rising wage levels and living costs. There are various ways by which this type of adjustment has been made for the benefit of those persons who have not yet retired.

First, the levels of benefits under the formulas developed in private pension plans, as under other retirement programs, may adjust automatically to rising wage levels. Under retirement formulas relating benefits to compensation during the final years of employment, for example, high or last 5 or 10 years, wage and salary changes are more readily recognized in the ultimate benefit level, and retirement benefits are more closely related to preretirement income. Under career average earnings related formulas and service-related formulas, on the other hand, a rise in the earnings of the individual has little effect on the ultimate benefit level at retirement. There is growing tendency to base retirement benefits on compensation in terminal years of employment, especially in plans including white collar and professional groups.

Second, private plan benefits may be adjusted on an ad hoc basis through collective bargaining and unilateral employer action. Private pension plans do not change as frequently as wages and other conditions of employment set by collective bargaining agreements and employer personnel policies that are essentially short-term commitments. However, the history of bargaining experience over the past 15 years and the favorable experience in private pension financing have clearly shown that pension plans have not been static programs. Most private plans began with a much lower level of benefits than they now provide. As they have progressed and developed, they have liberalized benefits (as well as granted a wider range of other provisions). Furthermore, plans are subject to pressure for change to meet new goals and needs.

During the period 1950-67, several patterns have emerged in private plan efforts to keep promised pension benefits in pace with rising wage levels and inflation during a person's working lifetime. Flat dollar amounts in formulas using length of service as a variable have shown

⁶ U.S. Department of Labor, Bureau of Labor Statistics. *Private Pension Plan Benefits* (Bulletin No. 1485). Washington, D.C., 1966.

a persistent increase over time, especially through collective bargaining pressures. Furthermore, formulas originally tied to social security benefits have broken completely away from that pattern, especially through collective bargaining, and where social security "offsets" have been retained, the amount has been frozen or reduced. Many plans originally basing benefits on career compensation have either adopted minimum benefits based on some final average earnings base, or have changed the basic formula to some final average earnings base. The period of service used for computing benefits has been extended and minimum pension provisions have been adopted to provide higher benefits for workers with below-average earnings. The use of step-rate formulas, providing greater benefits for higher paid persons, has increased in prevalence and the percentage factors used in computing benefits have been increased. Finally, variable annuity formulas have been adopted in a few cases.

Some rough impression of changes in retirement benefit levels, reflecting in part some of these liberalizations in benefit formulas, may be derived from the aggregates of benefits and beneficiaries. The average annual amount of payments per beneficiary has moved from about \$900 in 1951 to more than \$1,250 in 1966.

Changes in benefit levels can also be illustrated by viewing improvements in well-known major pension plans since 1950. During this period, other provisions such as early and disability retirement and vesting also have been added to many of these plans, and some of these gains have been liberalized over time. Furthermore, changes in negotiated plans have influenced employer plans not subject to collective bargaining.

The plans that resulted from the major union push for private pensions in mass production industries in 1950 were typically tied to social security benefits. In the primary metals industry, for example, the plan negotiated by the Steelworkers with the United States Steel Corp. in 1950 called for a monthly pension for workers with 15 years or more of service at age 65, based on the larger of two computations: (1) 1 percent of average monthly earnings in the 120 months before retirement times the years of service, or (2) \$4 times years of service up to 25 years, both to be reduced by the full amount of the primary social security benefit. Under this formula, a 30-year worker earning the maximum wage taxable under the social security program would receive \$20 a month from the plan.

In 1954, the Steelworkers broke away from the pattern by providing a minimum pension of \$2 for each year of service (exclusive of social security). The offset applied to the percent formula was fixed at \$85. Today, the formula in typical Steelworkers' contracts (which cover about a million workers) provides that the social security offset applied to the percent formula be fixed at \$60, and a minimum pension of \$5 per year of service up to 35 years (excluding any social security benefit) be provided. The private plan provides \$100 a month for a 20-year man (\$150 a month for 30 years of credited service) earning the maximum social security benefit.

The Auto Workers' plans show a similar pattern of development. In 1950, the UAW-Ford Motor Co. plan provided for workers retiring at age 65 with 25 or more years of service a \$100 monthly pension re-

duced by any social security benefit to which the worker was entitled. The benefit was reduced proportionately for workers with 10 years of service but less than 25 years. Thus, in 1950 a worker with 25 years of service and entitled to the maximum primary social security benefit would have received a private pension of \$20 a month. Typical Auto Workers' pension plans (which cover about a million persons) now provide a benefit that varies by job class in the last 2 years before retirement. The benefits effective in 1969 provide \$5.50 times years of service for workers with hourly earnings less than \$3.41; \$5.75 times years of service for those with base hourly rates from \$3.415 to \$3.54; and \$6 times years of service for those with hourly rates above \$3.545.

Since 1950, the benefit formulas of the telephone company plans (which now involve around a million workers) have been revised by lowering the social security offset, improving the minimum pension amount, and changing the earnings base upon which benefits are computed. The formula in 1950 was 1 percent of average monthly earnings in the 10 years before retirement times years of service, reduced by one-half the amount of the retired-worker benefit under the social security program. The minimum pension at age 65 for a worker with 20 years of service was \$100 (also offset by one-half of the social security benefit). Now, the minimum benefit at age 65 with 20 to 29 years of service is \$115, and with 30 to 39 years of service it is \$120 (and \$125 with 40 years of service) offset by one-fourth of the primary social security benefit, as is the basic 1-percent formula. The computed benefit under the 1-percent formula is based on earnings in the last 5 years of employment. Furthermore, future changes in social security benefits do not affect the amount of company-paid pension for workers already retired.

Plans negotiated by the Rubber Workers in 1950 were based on the larger of two computations: (1) 1 percent of aggregate earnings, reduced by one-half of the primary social security benefit, or (2) \$4 times years of service, reduced by the full amount of social security benefit. Under this formula, a 20-year worker earning an average of \$300 monthly (the maximum taxable wage base at that time) would receive \$20 a month from the plan. The typical Rubber Workers' plan now has a uniform benefit formula of \$5.50 times years of credited service (exclusive of social security), and would provide a 20-year worker \$110 a month retirement income.

Some large multiemployer plans have not changed benefits to any large extent since 1950, but these are plans that are not directly coordinated with the amount of the social security benefit that the worker may receive. For example, plans of three large unions—the United Mine Workers, Amalgamated Clothing Workers, and Ladies' Garment Workers—pay uniform flat benefits for qualified workers and have little or no change in the amount provided in 1950. The bulk of the Ladies' Garment Workers' plans provided \$50 a month to eligible workers in 1950. Since that time the individual plans have been merged into the National Ladies' Garment Workers Retirement Fund, and the current benefit is \$65 a month (\$75 for members of the New York Cloak Joint Board). The typical Amalgamated Clothing Workers' plan provided for \$50 a month in 1950; some now provide eligible workers \$75 a month at age 65. The United Mine Workers' plan provided benefits of \$100 a month for eligible mineworkers retiring at age 60 in 1950.

The plan now permits retirement as early as age 55, with a monthly benefit of \$115.

A number of newer multiemployer plans have, on the other hand, made notable advances, especially those in the motor and water transportation industries. The Central States Teamsters' plan, for example, established in 1955, initially provided \$90 a month for the first 60 months and \$22.50 a month thereafter for workers retiring with 20 years of service at age 60. The plan (which covers over a quarter million workers) now permits retirement at age 57 with 20 years of service, and pays up to \$250 a month for the first 60 months of retirement, and \$110 a month thereafter.

Hypothetical benefit amounts.—A comparison of future benefits (with and without social security benefits) under the current benefit formulas of 18 large, well-known private pension plans (covering over 3 million employees and currently paying benefits to about a half million retirees) further illustrates the major changes taking place in the short span of about 15 years (see table 9). For this purpose, the following assumptions were made to compute the hypothetical current-service retirement benefits that would be payable for workers retiring at age 65. First, benefits were computed on the basis of selected average monthly earnings \$350, \$400, and \$550, assumed to be level throughout a future service period of 30 years. Second, full primary old-age benefits under the Social Security Act are assumed to be payable at age 65 for each hypothetical employee at each of the assumed earnings levels. In terms of the OASDHI provisions in effect in 1967 (based on the Social Security Amendments of 1965), this would mean a maximum monthly primary old-age benefit of \$124.20 for the \$350-a-month worker, \$135.90 for the \$400-a-month worker, and \$168 for the \$550-a-month worker.⁷ In 1952, the maximum benefit was \$85 for these earnings categories.

During the period 1952-67, there were several general changes in the benefit formulas of these plans, which affected illustrative benefits: flat dollar benefits for each year of service have increased substantially; social security offsets have been reduced or, in some cases, eliminated; periods of service in computing benefits have been increased; minimum benefit formulas were introduced and improved in plans with basic formulas using earnings and service for computing benefits; plans with formulas providing higher benefits for workers earning in excess of the social security maximum taxable wage base typically made changes in their formulas to correspond with wage base changes in the Social Security Act.

At the present time, the benefit formulas in five of the 18 plans are based on a flat monthly dollar amount per year of service; three plans—all multiemployer plans—pay uniform monthly amounts to qualified workers; two plans provide flat monthly dollar amounts that vary by job classification; and the remainder base benefit computations on some type of earnings and service formula (all of these plans

⁷ It must be emphasized that these computations do not indicate the amount individual workers would receive today at retirement, because many private plans determine benefits partly on the basis of past service formulas. Furthermore, current OASDHI benefit amounts fall far below assumed amounts because social security benefit computations are usually based on an earlier earnings history when wage levels and maximum creditable earnings were lower. The computed benefits, however, provide benchmarks to indicate broad changes in benefit formulas since 1952.

have alternative or minimum formulas usually based on flat monthly amounts times years of service). Only three plans (all with earnings and service formulas) have an offset for social security benefits (deducting one-fourth of the amount in one plan, and a fixed amount in two plans). Two plans provide a smaller benefit for the portion of earnings up to \$6,600 than for earnings above that level, and in one plan the earnings level has been frozen at \$3,000.

Reflecting the changes described above, the increase in total prospective benefits (social security plus private plan) in the 18 plans between 1952 and 1967 ranged from about 30 percent to about 160 percent for the \$350-a-month worker; 25 to 170 percent for the \$400-a-month worker; and 10 percent to over 200 percent for the \$550-a-month worker. A major influence in raising combined benefits during this period, of course, were the Social Security Act amendments in 1954, 1958, and 1965, which liberalized primary old-age benefit amounts (as well as other important changes), and raised the taxable earnings base (to \$4,800 in 1958, and to \$6,600 in 1965). For example, maximum primary social security benefits rose by about 45 percent for the \$350-a-month worker, 60 percent for the \$400-a-month worker, and almost 100 percent for the \$550-a-month worker. Despite these substantial increases in social security benefits, private plan benefits tend to show a vastly greater percentage increase in the benefit provided workers in the lower illustrative earnings categories, while the reverse is true at the highest illustrative earnings category.

In 1952, the benefit formulas in private illustrative plans typically provided workers with 30 years of future service and level average annual earnings of \$350 and \$400 with private pensions ranging from about 5 percent to 30 percent of preretirement income. Combined benefits (private plan plus OASDHI) were in the range of 30 to 50 percent at both the \$350 and \$400 average earnings levels. Wage replacement at the \$550 earnings level was typically lower.

In contrast, in 1967 these same plans usually replaced from 30 to 50 percent of preretirement earnings at the \$350 and \$400 earnings levels. When plan benefits are combined with OASDHI benefits, the replacement generally ranged from 60 to 85 percent at the \$350 and \$400 earnings levels. At the \$550 earnings level the wage replacement by the plan was in the range of 20 to 35 percent, and when OASDHI benefits are added, 50 to 65 percent was the range of wage replacement.

Finally, in 1952 for the 30-year \$350-a-month worker, only four of the plans provided combined benefits of 50 percent or more of preretirement earnings. At the \$550 monthly earnings level, three plans provided retirement benefits of over 50 percent of preretirement earnings. Maximum primary social security benefits alone amounted to about 24 percent and 15 percent of preretirement earnings of \$350 and \$550, respectively. On the other hand, in 1967 all of the plans provided combined benefits of at least 50 percent of preretirement earnings at the \$350 and \$400 earnings levels. All but two plans replaced at least 50 percent at the \$550 earnings level, and even these plans provided over 40 percent. Under the assumed conditions in 1967 the \$550-a-month worker had a lower replacement of preretirement earnings, because social security is a smaller fraction of earnings at higher (about 30.5 percent of the \$550-a-month level) than at lower earnings levels (about 35.5 percent of the \$350-a-month level).

In a number of instances, the private plan benefit now equals, or exceeds, the primary social security benefit for workers with level earnings of \$350 and \$400 a month in 1967. For shorter plan service periods, of course, social security benefits would generally exceed the private plan benefits. In 1952, in most cases the private plan benefit was a good deal smaller than the maximum primary social security benefit, at \$350 and \$400 earnings levels, while the differences were not as great at the \$550 earnings level.

ADJUSTMENTS FOR RETIRED WORKERS

Interest is also focused on adjustment of benefits for those already on the pension rolls. While variable annuity plans and other types of automatic formulas to adjust benefits for retired workers to changes in the cost of living have received considerable attention, only a handful of such plans, as has been noted, have evolved in the private pension sector. Ad hoc adjustments in benefits for those retired have been secured under a number of collectively bargained plans, and less frequently, through unilateral employer action. Costs are a deterrent for such adjustments and, as the numbers in retirement swell, the cost may become completely prohibitive. For the most part, retired persons with income from a private pension plan must depend on increases in income after retirement through liberalization of social security benefits.

Examples where unions have negotiated increases in benefits for persons already in retirement may be found in the mass production industries. When the Automobile Workers negotiated pension increases for active workers in 1953 and 1955 in the automotive industry, the new benefits were extended to workers already retired. In the 1958 negotiations, pension benefits for workers already retired were increased, but were not the equivalent of benefits promised active workers. At the same time, the UAW agreed not to make further demands for benefit increases for workers already retired. In the 1962 negotiations, future service benefits were raised for active workers, but no adjustments were made for retired workers. However, in the 1965 and 1967 negotiations, the amounts provided retired workers were increased, but not to the same level as that for active workers. The Steelworkers negotiated improved minimum benefits levels in 1957 at \$2.25 times years of service, for future retirees, and at the same time provided the same increases for previously retired workers under the 1954 plan, but a lower amount for those retired under the 1950 plan. In 1960 and 1965 negotiations, pensions for workers already retired were adjusted by flat monthly amounts, \$5 and \$15, respectively.

Similar patterns of negotiated pension increases for retired workers can also be traced in many negotiated plans (as well as unilateral plans) in the metalworking, rubber products, electrical and food products industries.

OTHER PLAN PROVISIONS

Although the primary purpose of a retirement plan is to provide lifetime benefits to qualified workers who retire, other benefits have been introduced as plans mature and the benefit levels attain more or less "adequate" levels. Of course, costs are still an overriding constraint

on plan improvements. The major auxiliary benefit provisions in private plans—early and disability retirement and vesting—have been added to the pension plans as experience has unfolded, although, as has been indicated, pressure for improving retirement benefit levels has never abated. Almost all plans now have one or more of these protective provisions.

A comprehensive review of private pension plans in effect in 1962–63 made the following estimates: about three out of four plans with the same proportion of workers had early retirement provisions; one out of two plans with seven out of 10 workers had disability retirement provisions; and two out of three with three out of five workers had vesting provisions (table 10). Furthermore, about 30 percent of the plans studied (with 40 percent of the workers) had all major supplemental benefits—early and disability retirement and vesting provisions. A large part of this group was accounted for by negotiated plans. Another 40 percent of the plans (with 20 percent of the workers) had only vesting, or only early retirement, or both; another 20 percent of the plans (with 30 percent of the workers) had at least a disability retirement provision and, in some cases, a vesting or early retirement provision. About 10 percent of the plans (with another 10 percent of the workers, mostly in negotiated multiemployer plans) had only normal retirement provisions.

Under regular early retirement features, a worker may retire before the normal retirement age and receive an immediate, though usually reduced, benefit. The actuarial equivalent of accrued benefits is usually payable—amounting to about a one-third reduction for a male retiring at age 60. In addition to meeting specified age or service requirements, or both, in many plans early retirement is contingent upon the employer's consent. The most common requirements to qualify for benefits are age 55 or age 60 with 10–15 years of credited service.

Disability retirement provisions permit workers who are totally and permanently disabled (as defined by the plan) before retirement age, to retire on an immediate benefit. Benefits paid usually are related to the normal retirement formula, but—in contrast to early retirement benefits—frequently are in full amount for accrued service. More liberal disability benefits are often provided, especially for workers who do not qualify under a public program. Most plans with disability provisions have no age requirement, but the most common service requirements are 10 to 15 years.

Vesting provides the worker who terminates before he becomes eligible for regular retirement benefits an equity in the plan based on his accrued benefits. The most common requirements for vesting are a combination of age 40 and 10 or 15 years of service. In plans without age requirements, longer service periods are usually specified. The vested accrued benefit is usually payable in the same form and manner as normal retirement benefits of the plan.

Provisions for survivor or death benefits, on the other hand, have been slow in developing in private plans, so OASDHI still provides the only significant protection for most persons who enjoy the supplementary coverage in private industrial plans. Under one approach used in private plans, the employee is allowed a choice of one or more types of retirement benefits, including continuation of benefits to a

surviving spouse (joint and survivor), or a guarantee of benefits for a minimum number of payments (period certain). The pensioner's benefit is adjusted (reduced) on an actuarial basis, so that no added cost is accrued by the plan. These provisions are now fairly common in private pension plans. In some plans, however, such as some of those negotiated by the Automobile Workers, the survivors' option is subsidized by the plan, so that the adjustment (reduction) is much less than the added value of the benefit. Limited information on selection of the joint and survivor option in private plans indicates that it is infrequently exercised.

Another form of survivor benefit guarantees payments for a specified period, at no cost to the employee, or provides a lump-sum payment when the employee dies—either before or after retirement. According to the study of pension plans filed under the Welfare and Pension Plans Disclosure Act of 1962-63, about a third of the plans, with slightly more than a third of the workers, had a death or survivor benefit of this type.⁸ They were more common in plans not under collective bargaining (about 40 percent of the plans, with 37 percent of the workers) than in negotiated plans (about 20 percent of the plans, with 34 percent of the workers). An earlier BLS study of 300 negotiated plans in effect in 1960-61 showed that about a sixth of the plans, with a fourth of the workers, had death benefits of the type under discussion.⁹

In recent years special early retirement provisions, under which the employer can compel the worker to retire, have been introduced. They have been adopted, at least in part, to adjust work force requirements to technological change. Despite the heavy costs involved, there has been a rash of permanent (and temporary) changes in pension plans, in which early retirement benefits are supplemented to make retirement more feasible or attractive. These provisions have been mainly adopted in manufacturing industries, such as primary metals, transportation equipment, rubber products, food products, and electrical equipment industries, and they covered about a sixth of the workers under private pension plans in 1965. They generally apply only to production workers under collective bargaining agreements.

Although there is wide variation in the requirements to be met to qualify for these special benefits, age 55 with 10, 15, or 20 years of service is frequently stipulated. They usually have a further condition that the request for retirement may be initiated by the employer or be granted under mutually satisfactory conditions. Other conditions include plant shutdown, permanent layoffs, or disability not qualifying under the regular disability retirement provisions. In contrast to regular early retirement provisions (found in almost every private pension plan), which usually provide for a reduced pension, special early-retirement provisions feature benefits equal to or greater than the normal benefit for the same service. The benefits under these provisions are typically tied to receipt of social security benefits. Since full social security benefits will not be paid until age 65, a larger benefit—often double the normal benefit—is frequently paid until age

⁸ *Ibid.*

⁹ Bureau of Labor Statistics, *Pension Plans Under Collective Bargaining, Benefits for Survivors, Winter 1960-61* (Bulletin No. 1296) 1961.

TABLE 9.—ILLUSTRATIVE HYPOTHETICAL MONTHLY PENSIONS PAYABLE TO HOURLY WORKERS UNDER 18 SELECTED PRIVATE PLANS, SELECTED YEARS 1952-67

Plan	Hypothetical benefit at age 65 for workers beginning work in indicated years after 30 years of continuous service, assuming level monthly earnings of—								
	\$350			\$400			\$550		
	1952	1959	1967	1952	1959	1967	1952	1959	1967
Ford Motor Co.:									
Plan only.....	\$40.00	\$75.00	\$165.00	\$40.00	\$75.00	\$165.00	\$40.00	\$75.00	\$165.00
Plan & OASDHI ²	125.00	191.00	289.00	125.00	201.00	301.00	125.00	201.00	333.00
Firestone Tire & Rubber Co.:									
Plan only.....	62.50	75.00	165.00	77.50	75.00	165.00	122.50	75.00	165.00
Plan and OASDHI.....	147.50	191.00	289.00	162.50	201.00	301.00	207.50	201.00	333.00
Westinghouse Electric Corp.:									
Plan only.....	20.00	67.50	111.00	35.00	67.50	120.00	80.00	67.50	147.00
Plan and OASDHI.....	105.00	183.50	235.00	120.00	193.50	256.00	165.00	193.50	315.00
United States Steel Corp.:									
Plan only.....	20.00	78.00	150.00	35.00	78.00	150.00	80.00	85.00	150.00
Plan and OASDHI.....	105.00	194.00	274.00	120.00	204.00	286.00	165.00	211.00	318.00
Aluminum Co. of America:									
Plan only.....	38.90	78.00	150.00	56.60	78.00	150.00	109.70	26.25	150.00
Plan and OASDHI.....	123.90	194.00	274.00	141.60	204.00	286.00	194.70	52.25	318.00
du Pont (E. I.) de Nemours & Co.:									
Plan only.....	81.00	116.00	155.00	97.00	132.00	160.00	146.50	81.50	181.50
Plan and OASDHI.....	166.00	232.00	279.00	182.00	258.00	296.00	231.50	307.50	349.50
General Electric Co.:									
Plan only.....	102.00	84.00	135.00	132.00	96.00	135.00	222.00	186.00	165.00
Plan and OASDHI.....	187.00	200.00	259.00	217.00	222.00	271.00	307.00	312.00	333.00
American Telephone & Telegraph Co.:									
Plan only.....	62.50	57.00	89.90	77.50	57.00	86.00	122.50	102.00	123.00
Plan and OASDHI.....	147.50	173.00	213.00	162.50	183.00	222.00	207.50	228.00	291.00
Armour & Co.:									
Plan only.....	20.00	45.00	150.00	20.00	45.00	150.00	20.00	45.00	150.00
Plan and OASDHI.....	105.00	161.00	274.00	105.00	171.00	286.00	105.00	171.00	318.00
Western Union Telegraph Co.:									
Plan only.....	62.50	57.00	\$105.00	77.50	57.00	\$120.00	122.50	102.00	\$165.00
Plan and OASDHI.....	147.50	173.00	229.00	162.50	183.00	256.00	207.50	228.00	\$333.00
International Harvester Co.:									
Plan only.....	15.00	75.00	127.50	15.00	75.00	127.50	15.00	75.00	127.50
Plan and OASDHI.....	100.00	191.00	251.50	100.00	201.00	263.50	100.00	201.00	295.50
Pacific Gas & Electric Co.:									
Plan only.....	135.00	172.50	172.50	165.00	210.00	210.00	255.00	322.50	322.50
Plan and OASDHI.....	220.00	288.50	296.50	250.00	336.00	346.00	340.00	448.50	490.50
Sinclair Oil Corp.:									
Plan only.....	105.00	157.50	157.50	135.00	180.00	180.00	195.00	270.00	247.50
Plan and OASDHI.....	190.00	273.50	281.50	220.00	306.00	316.00	280.00	396.00	415.50
United Mine Workers Welfare and Retirement Fund: ⁴									
Plan only.....	100.00	100.00	115.00	100.00	100.00	115.00	100.00	100.00	115.00
Plan and OASDHI.....	185.00	216.00	239.00	185.00	226.00	251.00	185.00	226.00	283.00
Amalgamated Clothing Workers: ⁴									
Plan only.....	50.00	50.00	75.00	50.00	50.00	75.00	50.00	50.00	75.00
Plan and OASDHI.....	135.00	166.00	199.00	135.00	176.00	211.00	135.00	176.00	243.00
Ladies' Garment Workers' National Retirement Fund:									
Plan only.....	50.00	50.00	*65.00	50.00	50.00	*65.00	50.00	50.00	*65.00
Plan and OASDHI.....	135.00	166.00	189.00	135.00	176.00	201.00	135.00	176.00	233.00
National Maritime Union:									
Plan only.....	65.00	100.00	250.00	65.00	100.00	250.00	65.00	100.00	250.00
Plan and OASDHI.....	150.00	216.00	374.00	150.00	226.00	386.00	150.00	226.00	418.00
Western Conference of Teamsters:									
Plan only.....	(7)	75.00	*180.00	(7)	75.00	*180.00	(7)	75.00	*180.00
Plan and OASDHI.....	85.00	191.00	304.00	85.00	201.00	316.00	85.00	201.00	348.00

¹ Benefit formula effective in 1969.
² Represents maximum old-age (primary) benefits in effect in 1967. In 1963, OASDHI benefits will increase by about 13 percent.
³ Benefit formula effective in 1970.
⁴ Bituminous coal industry.
⁵ Men's and boy's clothing industry pension plan.
⁶ Benefit formula effective Jan. 1, 1968.
⁷ Plan was established in 1955.
⁸ Assumes benefit contribution rate of 20 cents per hour.

65, after which the normal benefit is payable. In the steel industry, for example, a supplement of \$75 a month (added to the normal benefit computation based on accumulated service) is provided workers retiring early because of plant closings, disability, or long layoff (if age plus service equal 85). Moreover, voluntary retirement with an unreduced pension is permitted at any age after 30 years of service. In the automobile industry, the Auto Workers have negotiated plans with full retirement benefits at age 62 with 10 years of service. In addition, special early retirement benefits are provided to supplement benefits until the retiree reaches age 65. A person retiring at age 60 with 30 years of service, for example, could receive up to \$400 a month, or 70 percent of final monthly pay—whichever is smaller—until he reaches age 65, when the regular formula applies.

TABLE 10.—BENEFIT PROVISIONS IN PRIVATE PENSION PLANS BY PERCENT OF PLANS AND WORKERS COVERED, 1962-63

Plans (percent)	Workers (percent)	Normal retirement	Early retirement	Disability retirement	Vesting
100.0	100.0				
9.4	10.0	X	—	—	—
8.5	4.7	X	X	—	—
9.9	17.2	X	X	X	—
27.3	14.5	X	X	—	X
30.9	39.1	X	X	X	X
6.0	4.9	X	—	X	X
5.0	8.5	X	—	X	—
3.1	1.1	X	—	—	X

Source: Private Pension Plan Benefits, Bulletin 1485, Bureau of Labor Statistics, 1966.

IX. GENERAL OBSERVATIONS

There have been tremendous advances in the public and private sectors with respect to providing arrangements for economic security in old age. More than nine out of 10 workers are currently building up retirement protection through OASDHI and among those already aged, 89 percent are receiving or could receive OASDHI benefits. More than one-third of those covered by OASDHI are also building up protection under private pension plans and roughly one-fifth of the aged have a private pension income to supplement their OASDHI monthly checks.

Despite the rapid growth in private plan coverage during the past 20 years, continuation of the growth pattern is uncertain. The most rapid gains to date have been in those industries that lend themselves to coverage most readily. The manufacturing, transportation, public utilities, and mining industries, which account for less than half the employment in private nonfarm establishments, have about 80 percent of all workers now covered by retirement plans. These industries are characterized by large-scale operations and strong unions. It is estimated that from one-half to two-thirds of the workers in these industries are covered by private retirement plans.

This is in sharp contrast with the situation in the wholesale and retail trade and service industries which have many small employers and high rates of employee turnover. Probably less than one-fifth of the workers in these industries are covered.

surviving spouse (joint and survivor), or a guarantee of benefits for a minimum number of payments (period certain). The pensioner's benefit is adjusted (reduced) on an actuarial basis, so that no added cost is accrued by the plan. These provisions are now fairly common in private pension plans. In some plans, however, such as some of those negotiated by the Automobile Workers, the survivors' option is subsidized by the plan, so that the adjustment (reduction) is much less than the added value of the benefit. Limited information on selection of the joint and survivor option in private plans indicates that it is infrequently exercised.

Another form of survivor benefit guarantees payments for a specified period, at no cost to the employee, or provides a lump-sum payment when the employee dies—either before or after retirement. According to the study of pension plans filed under the Welfare and Pension Plans Disclosure Act of 1962-63, about a third of the plans, with slightly more than a third of the workers, had a death or survivor benefit of this type.⁸ They were more common in plans not under collective bargaining (about 40 percent of the plans, with 37 percent of the workers) than in negotiated plans (about 20 percent of the plans, with 34 percent of the workers). An earlier BLS study of 300 negotiated plans in effect in 1960-61 showed that about a sixth of the plans, with a fourth of the workers, had death benefits of the type under discussion.⁹

In recent years special early retirement provisions, under which the employer can compel the worker to retire, have been introduced. They have been adopted, at least in part, to adjust work force requirements to technological change. Despite the heavy costs involved, there has been a rash of permanent (and temporary) changes in pension plans, in which early retirement benefits are supplemented to make retirement more feasible or attractive. These provisions have been mainly adopted in manufacturing industries, such as primary metals, transportation equipment, rubber products, food products, and electrical equipment industries, and they covered about a sixth of the workers under private pension plans in 1965. They generally apply only to production workers under collective bargaining agreements.

Although there is wide variation in the requirements to be met to qualify for these special benefits, age 55 with 10, 15, or 20 years of service is frequently stipulated. They usually have a further condition that the request for retirement may be initiated by the employer or be granted under mutually satisfactory conditions. Other conditions include plant shutdown, permanent layoffs, or disability not qualifying under the regular disability retirement provisions. In contrast to regular early retirement provisions (found in almost every private pension plan), which usually provide for a reduced pension, special early-retirement provisions feature benefits equal to or greater than the normal benefit for the same service. The benefits under these provisions are typically tied to receipt of social security benefits. Since full social security benefits will not be paid until age 65, a larger benefit—often double the normal benefit—is frequently paid until age

⁸ *Ibid.*

⁹ Bureau of Labor Statistics, *Pension Plans Under Collective Bargaining, Benefits for Survivors, Winter 1960-61* (Bulletin No. 1296) 1961.

TABLE 9.—ILLUSTRATIVE HYPOTHETICAL MONTHLY PENSIONS PAYABLE TO HOURLY WORKERS UNDER 18 SELECTED PRIVATE PLANS, SELECTED YEARS 1952-67

Plan	Hypothetical benefit at age 65 for workers beginning work in indicated years after 30 years of continuous service, assuming level monthly earnings of—								
	\$350			\$400			\$550		
	1952	1959	1967	1952	1959	1967	1952	1959	1967
Ford Motor Co.:									
Plan only.....	\$40.00	\$75.00	\$165.00	\$40.00	\$75.00	\$165.00	\$40.00	\$75.00	\$165.00
Plan & OASDHI ²	125.00	191.00	289.00	125.00	201.00	301.00	125.00	201.00	333.00
Firestone Tire & Rubber Co.:									
Plan only.....	62.50	75.00	165.00	77.50	75.00	165.00	122.50	75.00	165.00
Plan and OASDHI.....	147.50	191.00	289.00	162.50	201.00	301.00	207.50	201.00	333.00
Westinghouse Electric Corp.:									
Plan only.....	20.00	67.50	111.00	35.00	67.50	120.00	80.00	67.50	147.00
Plan and OASDHI.....	105.00	183.50	235.00	120.00	193.50	256.00	165.00	193.50	315.00
United States Steel Corp.:									
Plan only.....	20.00	78.00	150.00	35.00	78.00	150.00	80.00	85.00	150.00
Plan and OASDHI.....	105.00	194.00	274.00	120.00	204.00	286.00	165.00	211.00	318.00
Aluminum Co. of America:									
Plan only.....	38.90	78.00	150.00	56.60	78.00	150.00	109.70	126.25	150.00
Plan and OASDHI.....	123.90	194.00	274.00	141.60	204.00	286.00	194.70	252.25	318.00
du Pont (E. I.) de Nemours & Co.:									
Plan only.....	81.00	116.00	155.00	97.00	132.00	160.00	146.50	181.50	181.50
Plan and OASDHI.....	166.00	232.00	279.00	182.00	258.00	296.00	231.50	307.50	349.50
General Electric Co.:									
Plan only.....	102.00	84.00	135.00	132.00	96.00	135.00	222.00	186.00	165.00
Plan and OASDHI.....	187.00	200.00	259.00	217.00	222.00	271.00	307.00	312.00	333.00
American Telephone & Telegraph Co.:									
Plan only.....	62.50	57.00	89.90	77.50	57.00	86.00	122.50	102.00	123.00
Plan and OASDHI.....	147.50	173.00	213.00	162.50	183.00	222.00	207.50	228.00	291.00
Armour & Co.:									
Plan only.....	20.00	45.00	150.00	20.00	45.00	150.00	20.00	45.00	150.00
Plan and OASDHI.....	105.00	161.00	274.00	105.00	171.00	286.00	105.00	171.00	318.00
Western Union Telegraph Co.:									
Plan only.....	62.50	57.00	\$105.00	77.50	57.00	\$120.00	122.50	102.00	\$165.00
Plan and OASDHI.....	147.50	173.00	229.00	162.50	183.00	256.00	207.50	228.00	333.00
International Harvester Co.:									
Plan only.....	15.00	75.00	127.50	15.00	75.00	127.50	15.00	75.00	127.50
Plan and OASDHI.....	100.00	191.00	251.50	100.00	201.00	263.50	100.00	201.00	295.50
Pacific Gas & Electric Co.:									
Plan only.....	135.00	172.50	172.50	165.00	210.00	210.00	255.00	322.50	322.50
Plan and OASDHI.....	220.00	288.50	296.50	250.00	336.00	346.00	340.00	448.50	490.50
Sinclair Oil Corp.:									
Plan only.....	105.00	157.50	157.50	135.00	180.00	180.00	195.00	270.00	247.50
Plan and OASDHI.....	190.00	273.50	281.50	220.00	306.00	316.00	280.00	396.00	415.50
United Mine Workers Welfare and Retirement Fund:⁴									
Plan only.....	100.00	100.00	115.00	100.00	100.00	115.00	100.00	100.00	115.00
Plan and OASDHI.....	185.00	216.00	239.00	185.00	226.00	251.00	185.00	226.00	283.00
Amalgamated Clothing Workers:⁵									
Plan only.....	50.00	50.00	75.00	50.00	50.00	75.00	50.00	50.00	75.00
Plan and OASDHI.....	135.00	166.00	199.00	135.00	176.00	211.00	135.00	176.00	243.00
Ladies' Garment Workers' National Retirement Fund:⁶									
Plan only.....	50.00	50.00	\$65.00	50.00	50.00	\$65.00	50.00	50.00	\$65.00
Plan and OASDHI.....	135.00	166.00	189.00	135.00	176.00	201.00	135.00	176.00	233.00
National Maritime Union:									
Plan only.....	65.00	100.00	250.00	65.00	100.00	250.00	65.00	100.00	250.00
Plan and OASDHI.....	150.00	216.00	374.00	150.00	226.00	386.00	150.00	226.00	418.00
Western Conference of Teamsters:⁷									
Plan only.....	(?)	75.00	\$180.00	(?)	75.00	\$180.00	(?)	75.00	\$180.00
Plan and OASDHI.....	85.00	191.00	304.00	85.00	201.00	316.00	85.00	201.00	348.00

¹ Benefit formula effective in 1969.

² Represents maximum old-age (primary) benefits in effect in 1967. In 1963, OASDHI benefits will increase by about 13 percent.

³ Benefit formula effective in 1970.

⁴ Bituminous coal industry.

⁵ Men's and boy's clothing industry pension plan.

⁶ Benefit formula effective Jan. 1, 1968.

⁷ Plan was established in 1955.

⁸ Assumes benefit contribution rate of 20 cents per hour.

65, after which the normal benefit is payable. In the steel industry, for example, a supplement of \$75 a month (added to the normal benefit computation based on accumulated service) is provided workers retiring early because of plant closings, disability, or long layoff (if age plus service equal 85). Moreover, voluntary retirement with an unreduced pension is permitted at any age after 30 years of service. In the automobile industry, the Auto Workers have negotiated plans with full retirement benefits at age 62 with 10 years of service. In addition, special early retirement benefits are provided to supplement benefits until the retiree reaches age 65. A person retiring at age 60 with 30 years of service, for example, could receive up to \$400 a month, or 70 percent of final monthly pay—whichever is smaller—until he reaches age 65, when the regular formula applies.

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Plans (percent)	Workers (percent)	Normal retirement	Early retirement	Disability retirement	Vesting
100.0	100.0				
9.4	10.0	X	—	—	—
8.5	4.7	X	X	—	—
9.9	17.2	X	X	X	—
27.3	14.5	X	X	—	X
30.9	39.1	X	X	X	X
6.0	4.9	X	—	X	X
5.0	8.5	X	—	X	—
3.1	1.1	X	—	—	X

Source: Private Pension Plan Benefits, Bulletin 1485, Bureau of Labor Statistics, 1966.

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There have been tremendous advances in the public and private sectors with respect to providing arrangements for economic security in old age. More than nine out of 10 workers are currently building up retirement protection through OASDHI and among those already aged, 89 percent are receiving or could receive OASDHI benefits. More than one-third of those covered by OASDHI are also building up protection under private pension plans and roughly one-fifth of the aged have a private pension income to supplement their OASDHI monthly checks.

Despite the rapid growth in private plan coverage during the past 20 years, continuation of the growth pattern is uncertain. The most rapid gains to date have been in those industries that lend themselves to coverage most readily. The manufacturing, transportation, public utilities, and mining industries, which account for less than half the employment in private nonfarm establishments, have about 80 percent of all workers now covered by retirement plans. These industries are characterized by large-scale operations and strong unions. It is estimated that from one-half to two-thirds of the workers in these industries are covered by private retirement plans.

This is in sharp contrast with the situation in the wholesale and retail trade and service industries which have many small employers and high rates of employee turnover. Probably less than one-fifth of the workers in these industries are covered.

The groups left uncovered so far represent in large part those whose characteristics are least amenable to incurring any long-term obligations involved in private pension plans. The voluntary nature of the coverage makes it dubious that many small, marginal, and seasonal employers will seek pension plans.

Even with the continued growth of coverage, there remains the question of how many persons will actually build up sufficient credits with a single employer to qualify for pensions. Many factors tend to prevent persons with retirement credits from eventually qualifying for private pensions. The high frequency of job turnover, age and long-service requirements for benefit eligibility, and lack of vesting provisions or restrictions on such provisions combine to limit the number of persons who will actually receive a private pension in old age.

In addition, adverse economic conditions in individual industries or firms may result in the curtailment of benefit rights or in the reduction of the resources that could be devoted to making the plan financially solvent. There is also much uncertainty as to the rights of individuals in case of layoffs, abandonment of the plan, sale or merger of the business, and bankruptcy of the employer.

Over the next dozen years, the proportion of the aged with dual protection—from both OASDHI and private pensions—might rise to 25 or 30 percent, compared with 18 percent today. There is no real likelihood in the foreseeable future, however, that a majority of older people will become eligible for supplemental pensions. Too much of the problem of income maintenance for old age is a problem of survivors' insurance for widows which is seldom covered by private pension plans; too many jobs are difficult to include in private pension plans; and very early vesting would be required to supply protection to the large number of workers that change jobs frequently.

These are the reasons that the President's Committee on Corporate Pension Funds stressed that the public OASDHI program is the basic instrument for assuring adequate retirement income to workers. In addition to universality of coverage and portability of credits earned, the public program has the advantage that its financing rests on the entire economy rather than on a single firm or industry. The scope of public program protection is also broader in most cases than in the private plans—it includes cash benefits for survivors in the case of the death or disability of an insured worker, and virtually all aged persons 65 and over (whether retired or not) have the protection of Medicare. Furthermore, a social insurance program can be adjusted with relative ease to rising earnings levels and to changing standards of living, whereas private plans find it difficult to meet the additional costs invariably involved in adjusting benefits for those on the rolls.

Although private pensions cover fewer workers than the public system, they are a significant element in the Nation's total retirement program. For OASDHI beneficiaries in receipt of such pensions, the supplementary benefit means the difference between a less than modest and a reasonably comfortable level of living. This is especially the case with respect to career employees and regularly employed members of the labor force with average and above-average earnings.

In addition, private plans offer a flexibility not available under a public program. This flexibility permits employers to adapt their plans

according to special circumstances, needs, and financial ability. For example, in some occupations and in some industries special types of provisions, such as lower retirement ages, may be desirable. In other instances, retirement provisions may be used to attract and hold good employees, to reduce labor turnover and its attendant costs, and to make it easier to retire those who are unproductive.

This summary of the scope and complexity of our dual public-private retirement system has been necessarily brief. Although the main outlines are fairly clear, adjustment of its components to the emerging needs of our society is a continuous process. The type of review and analysis of the system included in this compendium is a vital part of the adjustment process. We, therefore, welcome the opportunity extended by the Joint Economic Committee to contribute to this compendium.

CURRENT REDISTRIBUTIONAL EFFECTS OF OLD-AGE INCOME ASSURANCE PROGRAMS

BY BENJAMIN BRIDGES, JR.*

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INTRODUCTION

Aged persons have a number of possible sources of purchasing power: Earnings, prior savings, personal gifts, private charity; and public assistance, social security pensions, and other pensions. In addition, they enjoy tax benefits and are aided under a number of Government expenditure programs directed expressly toward meeting their needs. This paper does not deal with all of these old-age income sources, but only with the collective old-age money income transfer programs (public pensions, private group pensions, and public assistance) and with income tax concessions for the aged.

The programs dealt with here can be examined from different economic viewpoints (i.e., various of their economic aspects can be stressed). Each program has a significant element of current redistribution or current transfer and, in addition, most have one or more of the following aspects: Insurance, saving, deferred compensation, and lifetime redistribution. This paper does not deal with all of these characteristics, but only with the element of current redistribution. It

presents estimates of the distributions of current benefits, taxes, and net benefits (benefits minus taxes) under old-age income programs among family groups. Families are classified into groups according to relative economic status and age of family head. In other words, estimates are presented of the distributions of gross and net increases and decreases in currently spendable income resulting from the operation of the various old-age income programs.

It is recognized that the programs dealt with here differ in a number of significant ways. Despite their differences, some of these programs often are considered as possible alternatives for others in this group. For example, alternative mixes of social security and old-age assistance benefit increases are being considered as means of reducing poverty among the aged. Increases in social security benefits and income tax concessions for the aged likewise can be considered as alternative ways of increasing the incomes of retired workers. In order to provide bases for choices among such alternatives, it is useful to analyze these programs consistently and from each of the relevant viewpoints. In this paper I have tried to analyze the current redistribution effects of these various programs in a consistent manner; analysis of the other important aspects of these programs is beyond its scope.¹

It should be emphasized that the distributional estimates presented here are just that, estimates. They are subject to a number of conceptual and data limitations. For example, economists' knowledge concerning the incidence of some taxes is quite sparse. Moreover, the survey data used in this study contain sizable response and sampling errors.

In view of the conceptual and data problems that have not yet been resolved, this paper should be considered an interim report. We at the Social Security Administration have underway several research projects that should result in considerably improved current-redistribution estimates. This work will be discussed later in the paper. It is hoped, however, that this paper will stimulate others to make further contributions to solving some of these conceptual and data problems.

No policy recommendations are offered in this report. Its primary purpose is to present an analysis that should prove helpful in evaluating certain aspects of the equity or fairness of various old-age income programs.²

I. METHODOLOGY

A. PROGRAMS ANALYZED

This analysis deals with some of the old-age income programs, those that have to do with collective old-age money income transfers and with the special income tax treatment of the aged.³ Each program

¹ On the basis of this analysis it is not possible to say anything about the controversial subject of the extent to which a covered worker gets a "good buy" under social security or under some other pension program.

² In addition, these distributional data provide a basis for developing estimates of the aggregate demand effects of these programs. For example, see John J. Carroll, "Alternative Methods of Financing Old-Age, Survivors, and Disability Insurance, Michigan Governmental Studies No. 38," Institute of Public Administration, University of Michigan, Ann Arbor, Mich. 1960.

³ Excluded from this analysis are in-kind transfer payments to the aged (e.g., medicare and medicaid benefits), Government goods and service expenditures on behalf of the aged (e.g., expenditures on housing for the aged), and State and local government tax concessions for the aged (income tax concessions, property tax concession, etc.). These programs were excluded mainly because satisfactory data were not readily available. Other programs were not included mainly because they do not have significant current redistribution aspects and do not involve significant amounts of compulsion (e.g., individual annuities).

included has important current redistribution effects. These involving money transfer payments are public assistance, veterans and military programs, social security, government civilian and railroad pensions, and private employee pensions. The tax concessions examined here are all granted under the Federal personal income tax—the exemption for social security and railroad benefits, the age exemption, the retirement income credit, and the special medical deduction for the aged. In addition, the tax concessions for private pension plans are discussed briefly.

B. THE CURRENT REDISTRIBUTION ASPECT AND OTHER ECONOMIC ASPECTS

As stated earlier, this paper focuses on the current redistribution aspects of old-age income programs. If on an individual basis the link between individual taxes or contributions (or value of work effort) on the one hand, and individual benefit payments or protection on the other, differs considerably from a quid pro quo link, then the particular program under discussion has significant current redistribution effects. In this sense each of the programs dealt with in this paper has significant current redistributive effects. Moreover, many of these programs involve considerable compulsion. From an equity viewpoint it is important to examine the distributions of changes in currently spendable income that are caused by programs which deviate considerably from quid pro quo and/or involve considerable compulsion.⁴ For various old-age income programs this is done in sections II and III.

Some of these programs also have significant lifetime redistribution effects. Lifetime redistribution effects are not dealt with here. Thus, this paper does not attempt to shed any new light on the controversial subject of whether social security and other pension plans are “good buys.”⁵

As noted earlier, most of the programs under consideration also have one or more of the following features: Insurance, saving, deferred compensation, and lifetime redistribution.⁶ The importance of the current redistribution aspect relative to these other aspects differs significantly among these programs.

C. DATA SOURCES

The primary source of data for this paper is a set of special Social Security Administration tabulations produced from the master tapes of the Bureau of Labor Statistics' 1960-61 Survey of Consumer Expenditures (SCE).⁷

These tabulations were not designed specifically for this study, but for a study of the distributional effects of all taxes and transfer payments. This survey gives fairly detailed data on transfer payments

⁴ Another approach would be to attempt to separate the current redistribution elements of a program from its other elements (quid pro quo insurance, etc.). If this approach were feasible, it should be considered as a useful supplement to (rather than as a substitute for) the approach used in this paper. This supplementary approach would be extremely difficult from a conceptual viewpoint and at present even less feasible empirically.

⁵ For a discussion of this topic see pt. III of this Compendium.

⁶ For a quite different view, see *Old Age Income Assurance: An Outline of Issues and Alternatives*, materials prepared by the Subcommittee on Fiscal Policy of the Joint Economic Committee, Congress of the United States, U.S. Government Printing Office, Washington: 1966, pp. 7-8.

⁷ These tabulations were designed by the author, programmed by Mrs. Victoria Kunnecke of SSA, and were run on an SSA computer in Baltimore.

and taxes and covers both the nonaged and the aged.⁸ Although the data are not as up-to-date as one would wish and contain response and sampling errors, they should give a fairly reliable picture of the important old-age income program redistributive patterns. For three of the tax benefit programs I had to rely on data from the Internal Revenue Service's *Statistics of Income* volume;⁹ the sources of these data are samples of Federal personal income tax returns.

D. THE MEASURE OF RELATIVE ECONOMIC STATUS

Meaningful empirical estimates of the relative economic status of persons require some aggregation of persons into units. The literature reveals that various units have been considered appropriate. In my SCE tabulations, persons are grouped into families as defined by the BLS.

In these tabulations the measure of relative economic status used is the welfare ratio.¹⁰ The welfare ratio of a family is the ratio of its before tax-before transfer income (numerator) to its basic income needs (denominator). The numerator of this ratio is before tax-before public transfer income as reported in the BLS survey. Before tax-before public transfer income is BLS before-tax money income minus income from public-transfer programs. The denominator of this ratio is the Social Security Administration's low-cost level income. These low-cost level cutoffs vary (and by sizable amounts) with family size and composition (which are assumed to reflect family income needs). These cutoffs are similar in nature to SSA's poverty or economy-level income cutoffs, but are about 30 percent higher than the poverty cutoffs.¹¹

Welfare ratios are used in this paper as ordinal measures of economic status; it was not necessary to interpret them as cardinal measures of economic status.¹² Here no allowance was made for the possibility that, at high levels of welfare, the relative income requirements of the various family types might differ significantly from those at low levels of welfare.¹³ The average size of aged families (those with

⁸ For a description of the BLS survey (definitions, purpose and scope, sample design, collection and processing of the data, weighting of data, etc.), see U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditures and Income: Total United States, Urban and Rural, 1960-61*, BLS Report No. 237-93, February 1965, or other reports in the BLS Report No. 237 series.

⁹ U.S. Treasury Department, Internal Revenue Service, *Statistics of Income—1960: Individual Income Tax Returns for 1960*, U.S. Government Printing Office; Washington, D.C. 1962; and U.S. Treasury Department, Internal Revenue Service, *Statistics of Income—1961: Individual Income Tax Returns for 1961*, U.S. Government Printing Office, Washington, D.C. 1963.

¹⁰ A similar concept was used in Martin David, "Welfare, Income, and Budget Needs," *Review of Economic and Statistics*, 41 (November 1959), pp. 393-399 and in James N. Morgan, Martin H. David, Wilbur J. Cohen, and Harvey E. Brazer, *Income and Welfare in the United States*, McGraw-Hill, 1962.

¹¹ For a description of these cutoffs, see Mollie Orshansky, "Counting the Poor: Another Look at the Poverty Profile," *Social Security Bulletin*, Jan. 28, 1965, pp. 3-29 and Mollie Orshansky, "Recounting the Poor—A Five Year Review," *Social Security Bulletin*, Apr. 29, 1966, pp. 20-37. To some extent taxes whose incidence is on consumers increase the price level. Since these taxes amount to more than one-sixth of total consumption expenditures, after-tax income needs may exceed before-tax income needs by sizable amounts. The levels of the SSA cutoffs were chosen to reflect after-tax income needs. The above facts should be kept in mind in interpreting the welfare ratios used in this paper.

¹² The terms welfare and economic status as used in this paper differ in meaning from the term welfare as used in theoretical welfare economics.

¹³ For example, the low-cost level incomes of a typical one-person family (nonfarm, male, under age 65) and a typical four-person family (nonfarm, male head, two children under age 18) are \$1,920 and \$3,877, respectively. In other words, at this low level of welfare the four-person family in order to be as "well off" as the one-person family needs approximately twice as much income as the one-person family. At a considerably higher level of welfare (e.g., an income of \$6,000 for the one-person family), the four-person family in order to be as "well off" as the 1-person family might need considerably less (or more) than twice as much income as the one-person family.

heads aged 65 or over) is 1.8 persons; the average size of nonaged families (those with heads under 65) is 3.4 persons. Among aged and nonaged families, and especially among the latter, there is considerable variation in family size and hence in income needs. For example, the low-cost-level income of a one-person nonfarm family is approximately \$1,800; for the seven-person nonfarm family with five children under age 18 it is approximately \$6,200. Aged families receive most of the transfer payments under the old-age income assurance programs, but nonaged families pay most of the old-age income assurance program taxes. It can be seen that the differences in income needs between aged and nonaged and between transfer recipients and taxpayers are quite significant, and that differences in income needs within these groups are also quite significant. Thus it is important to adjust for these differences and the use of welfare ratios is one way of making such adjustments.¹⁴

The use of before tax-before public transfer income as the numerator of the welfare ratio deserves some comment. This paper looks at part of the distributional effects of introducing the Government budget and the private pension system into an economy where there is no Government budget and no private pension system; this part consists of the distributional effects of the Government old-age income programs and the private pension system. This approach is useful in giving a global view of the distributional effects of these programs.¹⁵ If one wants to examine the distributional effects of marginal changes in some existing program (or the introduction of some new program), then it is clearly more useful to look at the effects of introducing these changes into the existing economy (with the Government budget and the private pension system); in this case the numerator of the welfare ratio would be after tax-after transfer income.

As mentioned earlier, for three of the tax benefit programs I had to use *Statistics of Income* data. In the *Statistics of Income* data persons are grouped into income tax return units rather than into families. The measure of relative economic status is adjusted gross income (AGI) rather than the welfare ratio. Definitionally, AGI is fairly similar to before tax-before public transfer income. However, AGI is not adjusted for differences in unit size and composition.

E. AGED AND NONAGED

In my SCE tabulations, families are classified as nonaged or aged according to whether the family head is under age 65 or older.¹⁶ Thus some aged families include persons under age 65, and some nonaged families include persons aged 65 or over. In the *Statistics of Income*

¹⁴ See David, loc. cit., for further discussion of this point.

¹⁵ These tabulations were designed for a study of the redistributional effect of all taxes and public transfers. If I had designed tabulations especially for this study of old-age income program taxes and transfers, I would have used a different numerator for the welfare ratio; I would have used income after all transfers except old-age income program transfers and after all taxes except old-age income program taxes. Then I would have looked at the distributional effects of introducing the old-age income programs into an economy in which the Government budget except for the old-age income programs was already present. For a related discussion, see W. Irwin Gillespie, "Effect of Public Expenditures on the Distribution of Income," Richard A. Musgrave, editor, *Essays in Fiscal Federalism*, Brookings Institution, Washington, D.C., 1965, pp. 123-132.

¹⁶ Alternatively, families could be classified as nonaged or aged according to whether the family includes or does not include at least one person aged 65 or over.

data tax returns are classified as nonaged or aged according to whether or not the return has at least one age exemption. Taxpayers and spouses aged 65 or over receive age exemptions; dependents aged 65 or over do not receive such exemptions. Thus some aged returns include persons under age 65, and some nonaged returns include persons aged 65 or over.

F. TRANSFER PAYMENTS AND TAXES

The total amounts of transfer payments and taxes distributed among welfare ratio classes are the amounts actually paid and collected by the programs (the program totals) and not the totals reported in the SCE survey.¹⁷ The program totals distributed are averages of calendar year 1960 and 1961 program totals. The SCE survey excludes the institutional population, and the program totals do not. However, the institutional population receives a very small proportion of transfer payments and pays an even smaller proportion of taxes.

The series used in distributing transfer payments and taxes among SCE welfare classes are from the SCE, and the series used in distributing taxes among IRS adjusted gross income classes are mostly from the IRS *Statistics of Income* volumes.

It is assumed that there is no shifting of transfer payments. Some shifting of transfers occurs, but our knowledge about its nature and extent is so limited that in this study it seemed best to abstract from this shifting problem. The shifting of transfer payments takes various forms. Transfer payments cause reductions in earnings via reduction in work effort, reduction in contributions from relatives, and reduction in other transfer payments¹⁸ (e.g., higher social security benefits may result in lower public assistance payments). These types of shifting generally tend to reduce the progressivity of transfer payments.

The tax incidence assumptions used in this paper are described later. Economists are fairly certain about the incidence of some taxes and quite uncertain about the incidence of others.¹⁹ This paper employs only one set of tax incidence assumptions. This set of assumptions is fairly similar to that used in most other tax burden studies.²⁰ Alternative assumptions are discussed briefly in footnotes.

This paper attempts to estimate the distributional effects of certain transfer payments and taxes or contributions. In order to isolate these distributional effects from the distributional effects of accompanying

¹⁷ Most of these program totals are from the national income and product statistics of the Office of Business Economics of the U.S. Department of Commerce.

¹⁸ Such reductions may result because of existing benefit formulas or because of changes in benefit laws. In addition, transfer payments cause changes in prior saving and via changes in health, etc. cause changes in the productivity of recipients; they also affect the future productivity of recipients' children via effects on health, etc. For examples of studies of these effects, see Lowell E. Galloway, *The Retirement Decision: An Exploratory Essay*, U.S. Department of Health, Education, and Welfare, Social Security Administration, Office of Research and Statistics, Research Report No. 9, U.S. Government Printing Office, Washington, D.C., 1965; and George Katona, *Private Pension and Individual Saving*, Monograph No. 40, Survey Research Center, Institute for Social Research, University of Michigan, Ann Arbor, Mich., 1965.

¹⁹ To get a feel for the conceptual and empirical problems involved in a study such as this, see Richard A. Musgrave, *The Theory of Public Finance: A Study in Public Economy*, McGraw-Hill, 1959, pt. 3, especially, ch. 10, and Musgrave, "Estimating the Distribution of the Tax Burden," *Income Redistribution and the Statistical Foundations of Economic Policy*, Colin Clark and Geer Stuvell, editors, *Income and Wealth: Series X*, International Association for Research in Income and Wealth, New Haven, Conn., 1964, pp. 186-219.

²⁰ For example, see Peter Newman, "An Empirical Study of the Distribution of the Tax Burden in the United States, 1955-1959," mimeographed, 1961, Gillespie, op. cit., and Musgrave, op. cit.

changes in aggregate demand, it is often best to assume that the Federal Government takes fiscal policy actions to prevent these aggregate demand changes.²¹

The trust fund programs analyzed in this paper (social security, Government and railroad pensions, and private pensions) cause such aggregate demand changes. Accordingly, here it was assumed that the Federal Government changes its general taxes proportionally in order to offset the inflationary or deflationary effects of these programs.²²

A trust fund program may add to or subtract from aggregate spendable income. On the one hand, the program via benefit payments adds A to total spendable income; on the other hand, via earmarked contributions, it subtracts B. Moreover, there may be other additions to or subtractions from spendable income. If the program benefits are taxable under the personal income tax, the income tax paid on this pension income is a subtraction of C from spendable income. The backward shifting of employer contributions reduces wage and salary income, which in turn reduces personal tax income collections by D and increases spendable income by D. Thus, on balance the program adds E ($E = A - B - C + D$; E may be positive or negative) to spendable income.

This change in spendable income normally causes a change in the level of aggregate demand in the economy.²³ If the program adds to total spendable income (E is positive), it normally has an inflationary effect on the economy; on the other hand, if it subtracts from total spendable income (E is negative), it normally has a deflationary effect. Here it was assumed that the Federal Government changes its tax collections by E (by making proportional changes in its general taxes) in order to offset the aggregate demand effects of the trust fund program.^{24 25}

In this paper, we denote the earnings tax or contribution (B) as the "unadjusted tax or contribution" and the tax or contribution (B) plus the income tax paid on the pension income (C) minus the decrease in Federal personal income resulting from backward shifting (D) plus the change in Federal general tax revenue resulting from the proportional change in Federal tax rates (E) as the "adjusted tax or contribution." We denote benefit minus unadjusted tax or contribution as unadjusted net benefit and benefit minus adjusted tax or contribution as adjusted net benefit.

For the trust fund programs (social security, government civilian and railroad pensions, and for private pensions) this paper analyzes the distributional effects of both unadjusted and adjusted taxes or contributions and net benefits.

²¹ See the discussion of differential incidence in Musgrave, *op. cit.*, ch. 10.

²² Moreover, regardless of the operations of the trust fund programs, the Federal Government tries to maintain the appropriate level of aggregate demand (the level most consistent with its employment, price level, and other goals).

²³ For purposes of analytical convenience, I am ignoring numerous complications.

²⁴ In calculating the program-induced change in total spendable income, the interest income of the fund is not treated as a subtraction from total spendable income. The reason for this treatment is as follows: Because each year from the beginning of the program the Federal Government (by assumption) offsets program-induced changes in total income (E) by changing its taxes by E, the program does not significantly affect the amount of interest-bearing debt held outside of the fund or the interest income from this debt or total spendable income.

²⁵ In calculating the program-induced change in total spendable income, the administrative expense of the fund is not treated as an addition to total spendable income as it probably should be from a conceptual viewpoint.

It might be argued that the increase in the balance of the trust funds should be allocated among families by employee contributions, by benefits, or by some other series. The property rights of individuals in these trust funds are often quite uncertain; thus the allocation of these fund increases among families becomes extremely difficult both conceptually and empirically. It seemed that in a paper which concentrates on the current redistribution aspects of the various old-age income it was reasonable not to allocate such trust fund increases.²⁶

G. MEASURING PROGRESSIVITY

In this paper the tax rate is the ratio of an economic status class' tax to its adjusted before-tax, before-transfer income (or AGI); benefit rate is the ratio of a class' transfer payment or tax benefit to its adjusted before-tax, before-transfer income (or AGI); net benefit rate is the ratio of a class' benefit minus tax to its adjusted before-tax before-transfer income (or AGI). Here a tax is progressive, proportional, or regressive when the tax rate increases, remains constant, or decreases, respectively, as the welfare ratio or (AGI) increases; a benefit is progressive, proportional, or regressive when the benefit rate decreases, remains constant, or increases, respectively, as the welfare ratio (or AGI) increases;²⁷ the net benefit is progressive, proportional, or regressive when the net benefit rate decreases, remains constant, or increases, respectively, as the welfare ratio (or AGI) increases.²⁸

Adjusted before tax-before transfer income (the denominator of these tax, benefit, and net benefit rates) is not the same as before tax-before public transfer income (the numerator of the welfare ratios used in ranking families according to economic status). The following steps were involved in going from before tax-before public transfer income to adjusted before tax-before transfer income. First, the components of before tax-before public transfer income as reported in the survey were inflated (or deflated) to adjust for underreporting (overreporting). Second, various items were subtracted from or added to this adjusted total. Private pension income was subtracted; corporate retained earnings, the unshifted portion of the corporate income tax, and the backward shifted portions of employers' payroll taxes were added. This result is adjusted before tax-before transfer income.²⁹

There are various ways of comparing the progressivity of different taxes or benefits.³⁰ In this paper the progressivity of different taxes

²⁶ In a paper which deals intensively with only one (or two) trust fund programs, it would be interesting to compare alternative methods of handling the trust fund increases or decreases. Such an intensive analysis of one particular program is beyond the scope of this paper.

²⁷ Gillespie (*loc. cit.*, p. 132) calls a benefit "progressive" when the benefit rate increases as the measure of economic status increases. Using his terminology, a program with a "progressive" benefit and a progressive tax can have a regressive net benefit. In my view, this terminology is confusing. If one treats taxes and benefits symmetrically, i.e., if one considers benefits as negative taxes or tax reductions, then one calls a benefit progressive when the benefit rate (or negative tax rate) decreases as the measure of economic status increases.

²⁸ In other words, this paper examines interclass differences in average benefit, tax, and net benefit rates. It does not examine intraclass variations in benefits, taxes, and net benefits.

²⁹ See table A-11. Capital gains are not included in adjusted before tax-before transfer income. The inclusion of retained corporate earnings makes the inclusion of capital gains on corporate stock unnecessary. No satisfactory distributive series was available for capital gains on assets other than corporate stock.

³⁰ For a discussion of various ways of comparing progressivity, see Richard A. Musgrave and Tun Thin, "Income Tax Progression, 1929-48," *Journal of Political Economy*, 56, December 1948, pp. 498-514.

and benefits is compared as follows: First, all families are divided into two welfare-ratio groups. Of two taxes, the tax with the lower proportion paid by the lower welfare class is the more progressive tax.³¹ Of two benefits, the benefit with the higher proportion received by the lower welfare class is the more progressive benefit. If A is more progressive than B independent of where the line between the lower and upper welfare classes is drawn, then I will call A more progressive than B. This means that overall or on the average A is more progressive than B; A may not be more progressive than B over all parts of the welfare scale.³² On the other hand, if whether A is more or less progressive than B depends upon where the line between the lower and upper welfare classes is drawn, then A definitely is more progressive than B over parts of the welfare scale and less progressive than B over other parts of the scale; in such a case A on the average is not clearly either more or less progressive than B.

By looking at cumulative percentage distributions of A and B by welfare classes, one can easily determine whether A on the average is (1) more progressive than B, (2) less progressive than B, or (3) not clearly either more or less progressive than B. For example, let us examine the upward cumulative percentage distributions of tax A and tax B. If for every³³ welfare interval (under .50, under .75, etc.) A's cumulative percentage is greater than (is less than) B's cumulative percentage, then tax A is less (more) progressive than tax B. If A's cumulative percentage is greater than B's for some welfare intervals and less than B's for others, then tax A on the average is not clearly either more or less progressive than tax B.

II. DISTRIBUTIONAL EFFECTS OF OLD-AGE TRANSFER PROGRAMS

In this section of the paper the distributional effects of old-age transfer programs are examined. The transfer programs analyzed here are public assistance, veteran and military programs, social security, government civilian and railroad pensions, and private employee pensions. The next section of the paper examines income tax concessions for the aged.

A good feel for the quantitative significance of the various old-age programs is necessary if one is to understand the distributional effects of this set of programs; tables 2, 3, and 4 should serve this purpose.³⁴

Each of the first five parts of this section (pts. A through E) deals with an individual old-age program. The sixth part (pt. F) compares the five individual programs, and the seventh part (pt. G) examines the combined effects of these programs. The reader who wishes to get a broad overview before turning to the more detailed analysis may wish to read parts F and G first, then read parts A through E, and then reread parts F and G. The reader who is interested only in getting a broad overview may want to skip parts A through E and read only parts F and G.

³¹ In effect, this paper uses the measure that Musgrave and Thin call liability progression.
³² If A is not more progressive than B over all parts of the scale, then in this case the measure of average progression implicitly treats the welfare ratio as if it possesses some cardinal properties.

³³ Or almost every.

³⁴ Note that table 2 deals with nonaged and aged families, and that table 3 deals with nonaged and aged beneficiaries.

A. PUBLIC ASSISTANCE

This section of the paper examines the redistributive effects of the money payments' categories of public assistance (PA) programs—old-age assistance, aid to dependent children, aid to the blind, aid to the permanently and totally disabled, and general assistance. As the title implies, old-age assistance is made available only to persons aged 65 or over. Payments under each of the other programs go largely to the nonaged. Because the SCE distributive series was for all PA money programs combined, it was decided to include all these programs in this analysis.

Cash benefits under all these programs are subject to a needs-test; that is, only the needy receive payments. Each of these programs is financed from general tax revenues. Thus, the important current-redistribution aspect of the PA programs is quite obvious.

1. Transfer payments

The \$3.3 billion of cash PA payments (average of calendar 1960 and calendar 1961 payments) was distributed among welfare classes by the "Survey of Consumer Expenditures" (SCE) public assistance payments series. As one would expect, PA payments are highly concentrated in the lowest welfare classes; and are sharply progressive: 83 percent go to those with welfare ratios of less than 0.50 (tables 5 and 11).^{35 36}

Nonaged and aged families receive 71 and 29 percent, respectively, of the dollar amount of PA payments (table 2).³⁷ However, the sums received were much larger relative to income for the aged than for the nonaged—the average PA benefit rate for the aged (PA transfer payments divided by adjusted before tax-before transfer income) of 2.1 percent was 3½ times the nonaged rate of 0.6 percent (table 5). The following two facts explain this difference in average benefit rates. First, the incidence of poverty is higher among the aged than among the nonaged. Second, the proportion of aged poor receiving PA benefits is greater than the proportion of nonaged poor receiving such benefits. For both the aged and the nonaged PA payments are highly concentrated in the lowest welfare classes and are sharply progressive (tables 5 and 11).

2. Taxes

Public-assistance payments are financed out of Federal, State, and local general tax revenues. It was assumed that governments finance PA programs by making proportional increases in their general taxes.³⁸ Accordingly, the Federal share of these PA taxes was distributed among welfare classes in proportion to Federal general tax revenue. State and local shares were distributed by State general tax revenue and local general tax revenue, respectively.

As can be seen in table 4, the \$3.3 billion of PA taxes is made up of sales and excise taxes (33 percent), Federal personal income taxes

³⁵ Because of various errors in the survey process, the SCE data probably somewhat understate the concentration of PA payments in the lowest welfare classes.

³⁶ To get a better quantitative idea of the meaning of these welfare ratio intervals, see tables 1 and A-21.

³⁷ These percentages are from the SCE. PA program data suggest that the aged receive almost half of PA money payments (table 3).

³⁸ Proportional to tax payment, not proportional to income.

(30 percent), corporate income taxes (18 percent), property taxes (11 percent), State and local personal income taxes (5 percent), and death and gift taxes (3 percent). Federal and State-local income taxes were distributed among welfare classes by the SCE Federal income tax and State-local income tax series, respectively. Sales and excise taxes, one-third of corporate income taxes, and one-half of property taxes were distributed by the SCE total consumption series. Two-thirds of corporate income taxes were distributed by the SCE dividends series and one-half of the property taxes were distributed by the SCE property tax on owner-occupied housing series.³⁹ One hundred percent of death and gift taxes was allocated to the 3.5-and-over welfare class; two-thirds was allocated to nonaged families.

PA taxes are sharply regressive from welfare ratio 0 to welfare class 0.50–0.74, slightly regressive from class 0.50–0.74 to class 0.75–0.99, proportional from 0.75–0.99 to 1.50–1.99 and slightly progressive above 1.50 (table 5).⁴⁰ This pattern of tax rates results from the importance of regressive sales and excise taxes in the lower welfare classes and the importance of progressive income taxes in the upper welfare classes.

Nonaged and aged families pay 86 and 14 percent of PA taxes, respectively (table 2). However, the average PA tax rate for the aged (PA taxes divided by adjusted before tax-before transfer income) of 1 percent exceeds the nonaged rate of 0.8 percent (table 5).

3. Net benefits

Public assistance net benefit equals PA transfer payments minus PA taxes. For each welfare class under 1.00 the net benefit is positive; that is, transfer payments exceeds taxes; for each class above 1.00 the net benefit is negative. The net benefit is progressive throughout the welfare scale (table 5).

For nonaged and aged families the net benefits are $-\$0.5$ billion and $+\$0.5$ billion, respectively (table 2). The average net benefit rates (net benefits divided by adjusted before tax-before transfer income) are -0.1 percent for the nonaged and 1.1 percent for the aged (table 5). Each dollar of payments involves a net benefit of -15 cents for the nonaged and a net benefit of $+15$ cents for the aged (table 2). For the nonaged the net benefit is progressive throughout the welfare scale (table 5).

B. VETERANS' AND MILITARY PROGRAMS

Programs analyzed in this section are veterans' compensation for service-connected disabilities, veterans' pensions for non-service-connected disability, other money transfer payments to veterans (not including veterans' life insurance), and military pensions. Because other money transfer payments to veterans were included in the SCE distributive series, it was decided to include them in this analysis.

³⁹ Recent empirical studies of the incidence of the corporate income tax reach conflicting conclusions. For a brief discussion of some of these studies, see George F. Break's review of "Effects of Corporation Income Tax: Papers Presented at the Symposium on Business Taxation" (edited by Marian Kryzanlak) which appears in the "American Economic Review," 57, June 1967, pp. 644–648. Only about three-fourths of OBE dividends are received by individuals; the other one-fourth is received by nonprofit institutions, fiduciaries, noninsured pension funds, etc. Here I abstract from this problem and distribute all of the unshifted corporate income tax by the SCE series on dividends received by individuals.

⁴⁰ Increasing the proportion of corporate income taxes distributed by consumption decreases the average progressivity of public assistance taxes.

Veterans' pensions are needs-tested, but veterans' compensation and military pensions are not. All of these programs are financed from Federal general tax revenues. Thus, the important current redistribution aspect of the veterans' programs (especially of veterans' pensions) is obvious; although military pensions are in part a form of deferred compensation, the military pension program has significant current redistribution aspects.

1. *Transfer payments*

The \$4.6 billion of veteran and military transfer payments was distributed among welfare classes by the SCE veteran and military transfer payment series. Of this amount, veterans' compensation makes up 45 percent, veterans' pensions 31 percent, other veterans' transfer payments 8 percent, and military pensions 16 percent (table 3). Retirement payments, disability income, and survivor benefits accounts for 11, 60, and 20 percent, respectively (table 3).

Thirty-seven percent of the dollar amount of these benefits goes to those with welfare ratios of less than .50 (table 11). These benefits are progressive over most of the welfare scale (table 6). Because they are needs-tested, veterans' pensions are more progressive than other veterans' payments (compensation and miscellaneous) and military pensions. Other veterans' benefits are more progressive than military pensions, one reason for this being that many military pensioners retire from military service in their middle years and then hold civilian jobs while receiving military retirement pensions.^{41 42}

Nonaged and aged families receive 68 and 32 percent, respectively, of veterans, and military benefits (table 2). Nonaged families receive about four-fifths of military pension benefits and about two-thirds of veterans' pension and compensation payments (table 3). The average benefit rates for the nonaged and the aged are 0.9 and 3.2 percent, respectively (table 6).

Benefits for the aged are much more concentrated in the lower welfare classes than are benefits for the nonaged: 67 percent of aged benefits go to those with welfare ratios of less than .50, while the comparable figure for the nonaged is only 22 percent (table 11). The following facts largely explain this difference. Military pensions (the least progressive of these benefits) account for about one-fifth of nonaged benefits, but for only about one-tenth of aged benefits. In addition, the share of veterans pensions (the most progressive of these benefits) in total veterans benefits is greater for the aged than for the nonaged due to the fact that reaching age 65 is considered a partial disability under the veterans pension program, and because veterans benefits other than pensions and compensation go mainly to the nonaged. For the nonaged benefits are progressive from 0 to 2.00-2.49 and irregular above 2. For the aged they are progressive throughout the welfare scale (table 6).

2. *Taxes*

Veterans and military benefits are financed out of Federal general tax revenues. It was assumed that the Federal Government finances

⁴¹ Table A-19 sheds more light on the progressivity of veterans' pensions and compensations.

⁴² Despite the fact that the military pension data in table A-20 are considerably more recent than the data on the other transfer programs, this table sheds some light on the progressivity of military pensions.

these programs by means of proportional increases in its general taxes. Accordingly, taxes to support veterans and military benefits were distributed among welfare classes in proportion to Federal general tax revenue. The \$4.6 billion allocated to veterans and military programs is composed of personal income taxes (56 percent), corporate income taxes (29 percent), excise taxes (12 percent), and death and gift taxes (3 percent).

Military pensions are partially subject to the Federal personal income tax. My crude estimate of the Federal income tax paid on military pension income is \$37 million.⁴³ The general revenue needed to finance the \$4,610 million of veterans and military benefits is \$4,573 million (\$4,610 million minus \$37 million). Veteran and military taxes are regressive from 0 to 0.75–0.99 and progressive above 0.75 (table 6).⁴⁴

This tax rate pattern results from the importance of regressive excise taxes and of the regressive forward-shifted part of the corporate income tax in the lower welfare classes and from the importance of the progressive personal income tax and the progressive unshifted part of the corporate income tax in the upper welfare classes.

Nonaged and aged families pay 85 and 15 percent of veterans and military taxes, respectively. The average tax rate for the aged of 1.5 percent exceeds the nonaged rate of 1.1 percent (table 6).

3. *Net benefit*

For each welfare class under 1.50 the net benefit is positive; for each class above 1.50 it is negative. The net benefit is progressive throughout the welfare scale (table 6).

Nonaged and aged families have net benefits of $-\$0.8$ billion and $+\$0.8$ billion, respectively (table 2). The corresponding average net benefit rates are -0.2 and $+1.7$ percent (table 6). For each dollar of payments made the nonaged have a net benefit of -18 cents and the aged have a net benefit of $+18$ cents (table 2). Both the nonaged and aged have net benefits that are progressive throughout the welfare scale (table 6).

C. SOCIAL SECURITY

The social security system has the following characteristics. There is no needs test, but there is a retirement test; employees and employers pay earmarked taxes or contributions; on an individual worker basis there is a substantial link between amount of lifetime tax payments and amount of lifetime benefit protection, but the link between taxes and benefits is far from a quid pro quo link. In other words, the OASDI system has important current redistribution aspects as well as important insurance, saving, and lifetime redistribution aspects.

1. *Transfer payments*

The \$11.9 billion of old-age, survivors, and disability insurance (OASDI) benefits was distributed among welfare classes by the SCE social security benefit series. Seventy-two percent of this sum is

⁴³ No attempt was made to estimate the State-local income tax paid on military pension income.

⁴⁴ Increasing the proportion of corporate income taxes distributed by consumption, i.e., shifted forward to consumers in the form of higher prices, reduces the average progressivity of veteran-military taxes.

composed of retirement benefits, with the remainder divided among disability benefits (6 percent), and survivor benefits (22 percent) (table 3). OASDI benefits are progressive throughout the welfare scale (table 7). Fifty percent of the dollar amount goes to those with welfare ratios of less than 0.50 (table 11).

Nonaged and aged families receive 24 and 76 percent of these benefits, respectively, and the average benefit rates for the two groups are 0.8 and 19.4 percent (tables 2 and 7). Retirement, disability, and survivor benefits among the nonaged account for one-fifth, one-fourth, and one-half, respectively, of benefits received; retirement benefits account for seven-eighths of the aged benefits, with survivors benefits making up the remainder (table 3). For both the nonaged and the aged OASDI benefits are progressive throughout the welfare scale (table 7).

2. Taxes

OASDI benefits are financed by the earmarked taxes paid by employers, employees, and self-employed persons, who contributed 47, 47, and 6 percent, respectively, of the \$12.1 billion collected (table 4).

In 1960 and 1961 employees and self-employed people paid OASDI taxes on annual earnings up to \$4,800 and employers paid taxes on the first \$4,800 paid to each of their employees. Contribution rates were 3 percent each for the employee and his employer and 4.5 percent for the self-employed.

Among economists there is no consensus concerning the incidence of earnings taxes. In this paper it is assumed that there is no shifting of the OASDI employee and self-employment taxes, that half of the OASDI employer tax is shifted forward to consumers in the form of higher prices, and that half of the OASDI employer tax is shifted backward to employees in the form of lower wages and salaries.⁴⁵ Accordingly, the self-employment tax was distributed among welfare classes by the SCE series on OASDI self-employment taxes, the employee tax and half the employer tax were distributed by the SCE series on OASDI employee taxes, and the other half of the employer tax was distributed by the SCE series on total consumption.

The backward shifting of one-half of employer taxes reduces wage and salary income by \$2.8 billion which, in turn, reduces Federal personal income tax collections by \$0.6 billion (table 4).⁴⁶

The OASDI system thus added \$11.5 billion to Government receipts (\$12.1 billion of earnings taxes minus the \$0.6 billion reduction in personal income taxes), raised Government expenditures by \$11.9 billion, and added \$0.3 billion to the Government deficit and to spendable income (tables 2 and 4). Let us assume that, in order to compensate for the aggregate demand effects of the OASDI system, the Federal Government increases its tax collections \$0.3 billion by making proportional increases in its general taxes (table 4). The rationale

⁴⁵ Musgrave (loc. cit.) and Gillespie (loc. cit.) assume that one-half of Federal social insurance employer contributions (as defined by the Office of Business Economics) is shifted forward to consumers and the other half is shifted backward to employees. Newman (op. cit.) assumes that two-thirds of OASDI employer taxes fall on consumers and one-third falls on workers.

⁴⁶ No attempt was made to estimate the corresponding reduction in State-local personal income tax collections. Similarly, no attempt was made to estimate the increase in sales and excise tax collections resulting from the forward shifting of the other half of employer taxes.

behind this assumption was discussed in section I-F. Total OASDI contributions are referred to as the "unadjusted OASDI tax" and contributions minus the decrease in Federal personal income tax (resulting from the partial backward shifting of the employer tax) plus the increase in Federal general tax revenues (resulting from the proportional increases in Federal general tax rates) as the "adjusted OASDI tax."

The OASDI unadjusted tax moves irregularly between 0 and 0.75-0.99 in the welfare scale, is slightly regressive from 0.75-0.99 to 2.50-3.49, and is sharply regressive above 2.50 (table 7).⁴⁷ The sharp regression at the top of the scale results from the taxable earnings limit and from the decline in the share of wage and salary income in total income as the welfare ratio increases.

The progressivity of the adjusted OASDI tax is very similar to (but not identical with) that of the unadjusted tax. The adjusted tax moves irregularly from 0 to 0.75-0.99, is slightly regressive from 0.75-0.99 to 2.50-3.49, and is sharply regressive above 2.50 (table 7).

Nonaged families pay 93 percent of all OASDI taxes (table 2). As might be expected, in view of the difference in employment rates, the average adjusted tax rate for the nonaged (3.1 percent) exceeds the aged rate (1.8 percent) (table 7).

3. *Net benefit*

OASDI unadjusted net benefit equals OASDI benefits minus unadjusted OASDI taxes, and OASDI adjusted net benefit equals OASDI benefits minus adjusted OASDI taxes. Since the redistributive effects of unadjusted OASDI net benefits and adjusted OASDI net benefits are quite similar, the following discussion will deal only with adjusted net benefits.

The net benefit is positive for each welfare class under 1.00 and negative for classes above this level. It is progressive from 0 to 1.50-1.99, proportional from 1.50-1.99 to 2.50-3.49, and regressive above 2.50 (table 7).

For nonaged and aged families the net benefits are -\$8.2 billion and +\$8.2 billion, respectively, and the corresponding average net benefit rates are -2.3 and 17.6 percent (tables 2 and 7). For each dollar of benefits paid, the nonaged have a net benefit of -69 cents and the aged have a net benefit of +69 cents (table 2).

For each welfare class under 0.75 the net benefit of the nonaged is positive; for each class above 0.75 the net benefit is negative. The net benefit for the aged is positive in all welfare classes. The net benefit is progressive from 0 to 1.00-1.49, proportional from 1.00-1.49 to 2.50-3.49, and regressive above 2.50 for the nonaged and progressive throughout the scale for the aged (table 7).

D. GOVERNMENT CIVILIAN AND RAILROAD PENSIONS

Analyzed in this section are pensions for Federal Government civilian employees, State and local government employees, and railroad workers.

These programs have the following characteristics. There is no needs-tests; employees and employers pay earmarked taxes or con-

⁴⁷ Increasing the proportion of the employer tax which is distributed by consumption increases the average regressivity of the social security tax.

tributions; on an individual worker basis there is a substantial link between amount of lifetime tax payments and amount of lifetime benefit protection, but the link between taxes and benefits is certainly not a *quid pro quo* link. In other words, these programs have important current redistribution aspects as well as important insurance, saving, lifetime redistributive, and deferred compensation aspects. In the government employee pension programs the current redistribution aspect probably has less importance relative to these other economic aspects than in the social security system.

1. *Transfer payments*

The \$3 billion of government civilian and railroad benefits was distributed among welfare classes by the SCE government civilian and railroad benefits series. Federal pensions make up 30 percent of this total, State-local pensions 38 percent, and railroad pensions 33 percent (table 3). Retirement, disability, and survivor benefits account for 69, 14, and 17 percent of this sum, respectively (table 3). Fifty-four percent of benefits go to those with welfare ratios of less than .50 (table 11). The benefits are progressive throughout the welfare scale (table 8).⁴⁸

Nonaged and aged families, respectively, receive 29 and 71 percent of these benefits and the average benefit rates for the two groups are 0.2 and 4.5 percent (tables 2 and 8). For the nonaged benefits are progressive from 0 to 1.00-1.49, roughly proportional from 1.00-1.49 to 2.50-3.49, and progressive above 2.50; for the aged they are progressive from 0 to 0.75-0.99, slightly regressive from 0.75-0.99 to 1.50-1.99, and progressive above 1.50 (table 8).

2. *Taxes*

Benefits for government civilian and railroad workers, are financed out of earmarked contributions by employers and employees. State-local, Federal, and railroad contributions account for 55, 33, and 12 percent, respectively, of the combined \$4.9 billion total (table 4). We denote these government civilian and railroad earnings taxes as the "unadjusted government and railroad tax." Of the \$4.9 billion, employee and employer contributions account for 40 and 60 percent, respectively (table 4). In 1960 and 1961, the railroad tax rates were applied to earnings up to \$400 a month. The tax rate applied to both employees and employers was 6.75 percent. The Federal civil service tax rate, applied to total earnings, was 6.5 percent each for the employee and the Government. Under State-local pension programs tax bases and rates vary among States; the most usual tax base was total earnings.

In this paper it is assumed that there is no shifting of the government civilian and railroad employee taxes and that all of the employer taxes are shifted backward to employees in the form of lower wage and salary income.^{49 50} Accordingly, employee and employer taxes are dis-

⁴⁸ Table A-18 sheds some light on the progressivity of railroad pensions.

⁴⁹ Railroad taxes might in part be shifted forward to consumers; government employer taxes might be shifted in part to general taxpayers via higher general taxes or to the beneficiaries of general government expenditures via lower real government expenditures.

⁵⁰ Newman (op. cit.) assumes that these employer taxes fall entirely on employees. Musgrave (*loc. cit.*) and Gillespie (*loc. cit.*) assume that one-half of Federal social insurance employer contributions and all of State-local social insurance employer contributions fall on workers and that one-half of Federal social insurance employer contributions fall on consumers.

tributed among welfare classes by the SCE series on government civilian and railroad employee contributions.

Government civilian pensions are taxable in part under the Federal personal income tax. My crude estimate of the Federal income tax paid on government civilian pension benefits is \$0.06 billion (table 4). The backward shifting of government and railroad employer taxes reduces wage and salary income by \$2.94 billion, which in turn reduces Federal personal income tax collections by \$0.67 billion (table 4).

The government civilian and railroad pension systems thus add \$4.30 billion to government receipts (\$4.91 billion of earnings taxes plus \$0.06 billion of Federal personal income tax minus \$0.67 billion of Federal personal income tax not paid due to the backward shifting), \$2.98 billion to government expenditures, and \$1.32 billion to the Federal-State-local government surplus and subtract \$1.32 billion from spendable income (tables 3 and 4). The State-local and Federal civilian systems contribute \$1.2 billion and \$0.6 billion, respectively, to this surplus; on the other hand, the railroad system reduces this surplus by \$0.4 billion (tables 3 and 4).

It was assumed that the Federal Government reduces its tax collections \$1.32 billion (by making proportional decreases in its general taxes) in order to offset the deflationary effects of the \$1.32 billion surplus (table 4).⁵¹ We denote the earnings tax as the "unadjusted Government and railroad tax" and the earnings tax plus the increase in Federal personal income tax (resulting from the taxing of Government pensions) minus the decrease in Federal personal income tax (resulting from the backward shifting of the employer tax) minus the decrease in Federal general tax revenue (resulting from the proportional decrease in Federal general tax rates) as the "adjusted Government civilian and railroad tax."

Unadjusted Government and railroad taxes are progressive from 0 to 2.50–3.49 and regressive above 2.50 (table 8). Because of its limit on taxable earnings, the railroad tax is probably more regressive than the Federal and State-local earnings taxes.

The adjusted tax totals \$3 billion, or \$1.9 billion less than the unadjusted tax (table 2). Like the unadjusted tax, the adjusted tax is progressive from 0 to 2.50–3.49 and regressive above 2.50 (table 8). For the two welfare classes under 0.50 the adjusted tax is negative due to the reduction in Federal general tax revenue.

Nonaged families pay 94 percent of unadjusted taxes and 97 percent of adjusted taxes (table 2). The average unadjusted and adjusted tax rates for the nonaged are 1.3 percent and 0.8 percent, respectively; the comparable figures for the aged are 0.6 percent and 0.3 percent, respectively (table 8).

3. Net benefit

For all families the government civilian and railroad unadjusted and adjusted net benefits are $-\$1.9$ billion and $\$0$ billion (table 2). For each welfare class under 1.00 the unadjusted or adjusted net benefit is positive; for each class above 1.00 the net benefit is negative (table 8). The unadjusted or adjusted net benefit is progressive from 0 to 2.50–3.49 and regressive above 2.50 (table 8).

⁵¹ For a discussion of this offsetting action, see section I-F above.

For nonaged families the unadjusted and adjusted net benefits are -\$3.8 billion and -\$2 billion, respectively; the comparable figures for the aged are +\$1.8 billion and +\$2 billion (table 2). The average unadjusted and adjusted net benefit rates for the nonaged are -1 percent and -0.6 percent, respectively; for the aged the comparable rates are +3.9 percent and +4.3 percent, respectively (table 8). Each dollar of benefits paid represents unadjusted and adjusted net benefits of -126 cents and -68 cents, respectively, for the nonaged; and +61 cents and +68 cents, respectively, for the aged (table 2).

The adjusted net benefit of the nonaged is positive for each welfare class under 1.00; above this level it is negative. The adjusted net benefit of the aged is positive in eight classes and near zero in the 2.50-3.49 class. For the nonaged the adjusted net benefit is progressive from 0 to 2.50-3.49 and regressive above 2.50. The adjusted net benefit for the aged is progressive from 0 to 0.75-0.99, proportional from 0.75-0.99 to 1.50-1.99, progressive from 1.50-1.99 to 2.50-3.49, and regressive above 2.50 (table 8).

E. PRIVATE EMPLOYEE PENSIONS

Private employee pensions generally have the following characteristics. There is no needs test; employees and/or employers make earmarked contributions; on an individual worker basis there is a substantial link between amount of lifetime contributions and amount of lifetime benefit protection, but the link between contributions and benefits is typically not a quid pro quo link because of past-service credits, and so forth. In other words, the private pension system has important current redistribution aspects as well as important insurance, saving, lifetime transfer, and deferred compensation aspects.

1. *Transfer payments*

Retirement benefits probably account for more than nine-tenths of the \$1.8 billion of private pension benefits, distributed among welfare classes by the SCE private pension benefits series (table 3). Only 15 percent of the dollar amount of these benefits goes to those with welfare ratios of less than 0.50; 21 percent goes to those with welfare ratios of 3.50 or over (table 11). These benefits are progressive from 0 to 1.50-1.99; above 1.50 benefit rates move irregularly, probably due mainly to sampling variability (table 9).

Nonaged and aged families, respectively, receive 25 and 75 percent of private pension benefits and the average transfer rates for the two groups are 0.1 and 2.9 percent (tables 2 and 9). For the nonaged, benefits are progressive from 0 to 0.75-0.99, move irregularly between 0.75-0.99 and 2.50-3.49, and are progressive above 2.50; for the aged, benefits are generally progressive from 0 to 1.50-1.99 and move irregularly above 1.50 (table 9).

2. *Contributions*

Earmarked employees and employer contributions finance private pensions and account for 13 and 87 percent, respectively, of the \$5.4 billion of private pension contributions (table 4).

In this paper it is assumed that there is no shifting of employee contributions, that one-half of the employer contributions are shifted backward to employees in the form of lower wage and salary income,

and that one-half of the employer contributions are shifted forward to consumers in the form of higher prices. Employee contributions were distributed among welfare classes by the SCE series on employee private pension contributions. Assuming employer contributions to contributory pension plans to be twice employee contributions (before refunds) to such plans, my estimate of such employer contributions is \$1.6 billion. One-half of this \$1.6 billion was distributed by the SCE series on employee contributions. The average wage of firms with contributory plans is higher than that of firms with non-contributory plans. Thus, casual empiricism suggests that the backward-shifted part of employer contributions to noncontributory plans (\$1.6 billion) is less progressively distributed than the backward-shifted part of employer contributions to contributory plans, but it probably is more progressively distributed than total money wage and salary income. With this in mind, it was decided to distribute one-half of this \$1.6 billion by employee contributions and one-half by total money wage and salary income. The remainder of employer contributions (\$2.4 billion) was distributed by the SCE series on total consumption.

Private pensions are in part taxable under the Federal personal income tax. My crude estimate of the Federal income tax paid on private pensions benefits is \$0.13 billion (table 4). The backward shifting of private pension employer contributions reduces wage and salary income by \$2.37 billion, which in turn reduces Federal personal income tax collections by \$0.54 billion (table 4).

On the one hand, the private pension system via benefit payments adds \$1.76 billion to total spendable income; on the other hand, it subtracts \$5.03 billion (\$5.44 billion of contributions plus \$0.13 billion of Federal personal income tax minus \$0.54 billion of Federal personal income taxes) from spendable income (tables 2 and 4). Thus, on balance, the private pension system subtracts \$3.27 billion (\$5.03 billion minus \$1.76 billion) from spendable income.

This \$3.27 billion reduction in spendable income normally has a deflationary effect on the economy. In this study, it was assumed that the Federal Government reduces its tax collections \$3.27 billion (by making proportional decreases in its general taxes) in order to offset the deflationary effects of this \$3.27 billion reduction in spendable income (table 4).⁵² We denote the earnings contributions as the "unadjusted private pension contribution," and the earnings contributions plus the increase in Federal income tax (resulting from the taxing of private pensions) minus the decrease in Federal income tax (resulting from the backward shifting of the employer contribution) minus the decrease in Federal general tax revenue (resulting from the proportional decrease in Federal general tax rates) as the "adjusted private pension contribution."

The unadjusted and adjusted contributions total \$5.4 billion and \$1.8 billion, respectively (table 2). Unadjusted private pension contributions are regressive from 0 to 0.50–0.74 in the scale, progressive from 0.50–0.74 to 1.50–1.99, and proportional above 1.50; adjusted private pension contributions are regressive from 0 to 0.50–0.74, pro-

⁵² For a discussion of this offsetting action, see sec. I–F above.

gressive from 0.50–0.74 to 1.50–1.99, proportional from 1.50–1.99 to 2.50–3.49, and regressive above 2.50 (table 9).⁵³

Nonaged families pay 93 percent of unadjusted contributions and 101 percent of adjusted contributions (table 2).⁵⁴ The average unadjusted and adjusted contribution rates for the nonaged are 1.4 and 0.5 percent, respectively; the comparable figures for the aged are 0.9 percent and –0.1 percent (table 9).

3. *Net benefit*

For all families unadjusted and adjusted private pension net benefits are –\$3.7 billion and \$0 billion (table 2). For each welfare class between 0 and 0.99 the unadjusted net benefit is positive; for each class above 1.00 the net benefit is negative. For each welfare class under 1.50 and for the 3.50-and-over class the adjusted net benefit is positive; for each class between 1.50 and 3.49 the net benefit is negative. The unadjusted net benefit is progressive from 0 to 2.50–3.49 and regressive above 2.50; the adjusted net benefit is progressive from 0 to 1.50–1.99, roughly proportional from 1.50–1.99 to 2.50–3.49, and regressive above 2.50 (table 9).

For nonaged families the unadjusted and adjusted net benefits are –\$4.6 and –\$1.3 billion, respectively; the comparable figures for the aged are +\$0.9 billion and +\$1.3 billion (table 2). The average unadjusted and adjusted net benefit rates for the nonaged are –1.3 and –0.4 percent, respectively, and for the aged the comparable rates are +2.0 and +2.9 percent (table 9). For each dollar of benefits paid, the nonaged have unadjusted and adjusted net benefits of –260 and –76 cents, respectively; the comparable figures for the aged are +52 and +76 cents, respectively (table 2).

The nonaged have a negative net benefit for each welfare class 0 and over. The net benefit of the aged is positive in each class 0 or above. For the nonaged the adjusted net benefit is progressive from 0 to 1.50–1.99, roughly proportional from 1.50–1.99 to 2.50–3.49, and regressive above 2.50. The adjusted net benefit for the aged is roughly proportional from 0 to 0.75–0.99, progressive from 0.75–0.99 to 1.50–1.99, and moves irregularly above 1.50 (table 9).

F. COMPARISON OF PROGRAMS

1. *Transfer payments*

Public assistance benefits are sharply progressive; social security and government employee-railroad worker benefits are progressive throughout the welfare scale; those for veterans and military personnel are progressive from 0 to 2.00–2.49 and irregular above 2.00; and those paid under private pensions are progressive from 0 to 1.50–1.99 and irregular above 1.50 (table 10). Benefits range from most to least progressive in the following order: (1) public assistance, (2) and (3) social security and payments to Government civilian workers and railroad employees, (4) benefits for veterans and the military, and (5) private pensions (table 11).

⁵³ Increasing the proportion of the contributions distributed by consumption decreases their average progressivity.

⁵⁴ Due to the decrease in Federal general tax rates, the adjusted contribution of the aged is negative.

For nonaged families public assistance benefits are sharply progressive; social security benefits are progressive throughout the welfare scale; veterans and military pensions are progressive in the 0 to 2.00–2.49 range and irregular above 2.00; benefits for government civilian workers and railroad employees are progressive from 0 to 1.00–1.49 and irregular above 1.00; and private pension benefits are progressive from 0 to 0.75–0.99 and irregular above 0.75 (table 10). The following order develops when these benefits are ranked from most progressive to least progressive: (1) public assistance, (2) social security, (3) Government civilian-railroad, (4) veteran-military, and (5) private pension (table 11).

For aged families public assistance benefits are sharply progressive; social security benefits are progressive throughout the welfare scale; government-railroad and veteran-military benefits are progressive over most of the welfare scale; private pension benefits are progressive from 0 to 1.50–1.99 and irregular above 1.50 (table 10). The rank of aged benefits from most to least progressive is as follows: (1) public assistance, (2) veteran-military, (3) and (4) government-railroad and social security, and (5) private pension. Note that for the nonaged veteran-military benefits are fourth most progressive and for the aged they are second most progressive (table 11).

2. Taxes on contributions

Unadjusted taxes paid by government and railroad employees are progressive except at the very top of the welfare scale. Unadjusted social security taxes, on the other hand, are roughly proportional over the lower part of the scale and regressive over the upper part and veteran-military and public assistance taxes are regressive over the lower part and over the upper part they are progressive (table 12). Private pensions contributions are regressive over the lower fourth of the scale, progressive over the next fourth, and proportional over the upper half of the scale. When ranked from most to least progressive over the lower half of the welfare scale (under 1.50) the taxes or contributions fall within the following order: (1) government civilian-railroad systems, (2) veteran-military systems, (3) private pensions, and (4) and (5) social security and public assistance.^{55 53} Ranking the taxes or contributions over the upper half of the scale (1.50 and over) produces the following most-to-least progressive pattern: (1) veteran-military, (2), (3), and (4) unadjusted private pension, unadjusted government civilian-railroad, and public assistance, and (5) unadjusted social security tax.⁵⁷ The latter is clearly the most regressive of these five taxes and contributions (table 13).

After adjustment, the government-railroad tax is progressive except at the very top of the welfare scale; the social security tax is roughly proportional over the lower part of the scale and regressive over the upper part; the private pension contribution is regressive over the

⁵⁵ In other words for each lower interval (under 0.50, under 0.75, under 1.00, and under 1.50) the ratios shown in table 13 are larger for social security and public assistance than for the other three programs.

⁵⁶ Changes in shifting assumptions can cause major changes in progression rankings. For example, if full backward shifting of the private pension employer contribution had been assumed, the private pension contribution would have been more progressive than veteran-military taxes and as progressive as government-railroad taxes.

⁵⁷ In other words, for each upper interval (under 3.50, under 2.50, and under 2.00) the ratios shown in table 13 are smaller for veteran-military than for the other four programs.

lower fourth of the scale, progressive over the next fourth, proportional over most of the upper half, and regressive at the very top (table 14). In the lower half of the scale, a most-to-least progressive ranking lists the taxes and contributions in this order: (1) government-railroad, (2) veteran-military, and (3), (4), and (5) private pension, public assistance, and social security. An upper-half ranking results in the following realignment: (1) veteran-military, (2) and (3) government-railroad and public assistance, (4) social security, and (5) private pension (table 12). Unlike the case before adjustment, the private pension contribution is the most regressive (table 15).

3. *Net benefit*

Public assistance and veteran-military net benefits are progressive throughout the welfare scale; government-railroad net benefits, whether adjusted or unadjusted, and the unadjusted private pension net benefit are progressive except at the very top of the scale; the adjusted private pension net benefit and the adjusted or unadjusted social security net benefit are progressive over the lower part of the scale, proportional over most of the upper part, and regressive at the very top (tables 16 and 17).

In this paper the progressivity for all families of different adjusted net benefits is compared as follows. Let us divide all families into two welfare ratio groups. Of two net benefits, I denote the net benefit with the higher ratio of net benefit for the lower welfare class to total benefit for all welfare classes combined as the more progressive net benefit. If net benefit A is more progressive than net benefit B, independent of where the line between the lower and upper welfare classes is drawn, then I will call A more progressive than B. This means that on the average A is more progressive than B. On the other hand, if whether A is more or less progressive than B depends upon where the line between the lower and upper welfare classes is drawn, then I will say that A on the average is not clearly either more or less progressive than B.

By looking at cumulative distributions by welfare classes of the ratios of A and B to total benefits, one can easily determine whether A on the average is (1) more progressive than B, (2) less progressive than B, or (3) not clearly either more or less progressive than B. For example, let us examine the upward cumulative distributions of these ratios for A and B which are shown in table 18. If for every welfare interval⁵⁸ A's cumulative sum is greater than (is less than) B's cumulative sum, then A is more (less) progressive than B. For example, the social security net benefit is more progressive than the private pension net benefit. If A's cumulative sum is greater than B's for some welfare ratio intervals and less than B's for others, then A on the average is not clearly either more or less progressive than B. For example, the social security net benefit is not clearly either more or less progressive than the veteran-military net benefit.

Ranking adjusted net benefits over the lower half of the welfare scale (under 1.50) produces the following most-to-least progressive pattern: (1) public assistance, (2) government-railroad, (3) social security, (4) veteran-military, and (5) private pension. The following

⁵⁸ Or almost every.

order develops when these net benefits are ranked over the upper half of the scale (1.50 or over): (1) public assistance, (2) veteran-military, (3) government-railroad, (4) social security, and (5) private pension. Clearly, the public assistance net benefit is the most progressive and the private pension net benefit is the least progressive of these five net benefits (table 18).

When the nonaged are considered separately, the net benefits for public assistance and veteran-military programs are progressive throughout the welfare scale; the unadjusted or adjusted social security net benefits are progressive over the bottom part of the scale, roughly proportional over most of the upper part, and regressive at the very top; the private pension net benefit is progressive over most of the scale before adjustment, and afterward is progressive over the lower part, roughly proportional over most of the upper part, and regressive at the very top; the government-railroad net benefit, before and after adjustment, is progressive over the lower part of the scale and roughly proportional over the upper part (tables 16-17).

For the aged, (unadjusted or adjusted) social security and veteran-military net benefits are progressive throughout the welfare scale; the (unadjusted or adjusted) private pension net benefit is irregular over the lower part of the scale, progressive in the middle part, and irregular in the upper part; the public assistance net benefit is progressive in the lower part of the scale, proportional over most of the upper part, and progressive at the top; and the government-railroad net benefit is progressive in the lower part of the scale, proportional in the middle part, progressive over most of the upper part, and regressive at the very top (tables 16 and 17).

G. COMBINED OLD-AGE INCOME ASSURANCE PROGRAMS

1. *Transfer payments*

Social security benefits account for 48 percent of the combined benefits of \$24.5 billion; veterans and military benefits for 19 percent; public assistance benefits, 14 percent; Government employee and railroad benefits, 12 percent; and private pension benefits, 7 percent (table 2). Benefits for retirement, disability, survivors, and public assistance account for one-half, one-sixth, one-sixth, and one-seventh, respectively, of the total amount (table 3).

Fifty percent of the dollar amount of these benefits goes to those with welfare ratios of less than 0.50; these benefits are progressive throughout the welfare scale (tables 11 and 19).

Sixty percent of these benefits go to aged families and the remainder to the nonaged; the average transfer rates for the two groups are 32.2 and 2.6 percent, respectively (tables 2 and 19). The combined benefits of the nonaged include public assistance benefits (one-fourth), veterans and military benefits (one-third), social security benefits (one-third), government, civilian and railroad benefits (one-tenth), and private pension benefits (one-twentieth). Combined benefits are distributed among the aged in the following proportions: public assistance benefits (one-fifteenth), veterans and military benefits (one-tenth), social security benefits (six-tenths), government and railroad benefits (one-seventh), and private pension benefits (one-twelfth).

(table 2). Retirement benefits and those payable to the disabled, survivors, and public assistance recipients account for one-fifth, one-third, one-fourth, and one-sixth, respectively, of benefits to the nonaged: the comparable proportions for the aged are seven-tenths, one-twelfth, one-tenth, and one-tenth (table 3).

Forty percent of nonaged benefits go to those with welfare ratios of less than 0.50; the comparable figure for the aged is 57 percent (table 11). Benefits for both the nonaged and the aged are progressive throughout the welfare scale (table 19).

2. Taxes

As shown in table 2 social security taxes represent 40 percent of the \$30.4 billion total in unadjusted taxes and contributions and the remainder is accounted for by public assistance (11 percent), veterans' and military taxes (15 percent), government civilian and railroad taxes (16 percent), and private pension contributions (18 percent).⁵⁹ Seventy-four percent of the total is obtained through payroll taxes or contributions and 26 percent from general revenues (table 4). The unadjusted tax is regressive from 0 to 0.50–0.74 in the welfare scale, progressive from 0.50–0.74 to 1.50–1.99, proportional from 1.50–1.99 to 2.50–3.49, and regressive about 2.50 (table 19).

Of an adjusted tax total of \$24.5 billion, payroll receipts, general tax revenues, the increase in Federal income tax due to the taxing of pensions, and the decrease in Federal income tax due to the backward shifting of employer taxes account for 92, 15, 1, and –7 percent, respectively (table 4).⁶⁰ The adjusted tax is regressive from 0 to 0.50–0.74 in the scale, progressive from 0.50–0.74 to 1.50–1.99, and regressive above 1.50 (table 19).

Nonaged families pay 91 percent of unadjusted taxes and 92 percent of adjusted taxes (table 2). The average unadjusted and adjusted tax rates for the nonaged are 7.7 percent and 6.3 percent, respectively; the comparable rates for the aged are 5.7 percent and 4.4 percent (table 19).

3. Net benefit

For all families the unadjusted and adjusted net benefits are –\$5.9 billion and \$0 billion, respectively (table 2).⁶¹ For each welfare class under 1 the unadjusted or adjusted net benefit is positive; for each class above 1 the net benefit is negative. The unadjusted or adjusted net benefit is progressive from 0 to 2.50–3.49 and regressive above 2.50 (table 19).

For nonaged families the unadjusted and adjusted net benefits are –\$18.1 billion and –\$12.8 billion, respectively; the comparable figures for the aged are +\$12.2 billion and +\$12.8 billion, respectively (table 2). The average unadjusted and adjusted net benefit rates for the nonaged are –5 percent and –3.6 percent, respectively; for the aged the comparable rates are +26.4 percent and +27.7 percent (table 19). For each dollar of benefits paid the nonaged have unadjusted and adjusted

⁵⁹ The combined unadjusted tax includes the public assistance tax, the veteran-military tax, the unadjusted social security tax, the unadjusted government-railroad tax, and unadjusted private pension contributions.

⁶⁰ The combined adjusted tax includes the public assistance tax, the veteran-military tax, the adjusted social security tax, the adjusted government-railroad tax, and adjusted private pension contributions.

⁶¹ The combined unadjusted net benefit equals the combined benefit minus the combined unadjusted tax; the combined adjusted net benefit equals the combined benefit minus the combined adjusted tax.

net benefits of -74 cents and -52 cents, respectively; the comparable figures for the aged are +50 cents and +52 cents (table 2).

The unadjusted or adjusted net benefit is positive for each nonaged welfare class below 0.75; for higher classes the net benefit is negative. The unadjusted net benefit of the aged is positive in eight classes and negative in the 3.50 and over class; the adjusted net benefit is positive in all nine classes. Among the nonaged the unadjusted or adjusted net benefit is progressive from 0 to 2.50-3.49 in the welfare scale and regressive above 2.50; the unadjusted or adjusted net benefit for the aged is progressive throughout the scale (table 19).

III. DISTRIBUTIONAL EFFECTS OF INCOME TAX CONCESSIONS FOR THE AGED

In this section of the paper the distributional effects of income tax concessions for the aged are examined. The tax concessions analyzed here are the exemption for social security and railroad benefits, the age exemption, the retirement income credit, and the special medical deduction for the aged. In addition, tax concessions for private pension plans are discussed briefly. These tax concession programs are all financed from general tax revenues and clearly have important current redistribution effects. For three of these tax concession programs (age exemption, retirement income credit, and special medical deduction for the aged) I had to rely on data from the Internal Revenue Service's *Statistics of Income* volumes.

Tables 20 and 23 should give the reader a good feel for the quantitative significance of the various old-age transfer programs. Note that table 20 deals with nonaged and aged families and that table 23 deals with nonaged and aged tax-return units.

A. TAX EXEMPTION FOR SOCIAL SECURITY AND RAILROAD EMPLOYEE BENEFITS

Social security and railroad employee benefits are exempt from taxation under the Federal personal income tax. Many economists on equity grounds favor taxing that portion of social security and railroad retirement pension income which is not a return of the employee's contributions; they disagree as to the proper tax treatment of social security and railroad survivor and disability benefits. This paper presents some crude estimates of the effects of substituting the present tax treatment provisions for a representative set of "proper" provisions. This "proper" set of provisions exempt disability benefits and 10 percent of retirement and survivor benefits; this 10 percent is assumed to be a return of employee contributions. The remainder of retirement and survivor benefits is not exempt from taxation.

1. Tax benefits

Exempting 90 percent of social security and railroad retirement and survivor benefits decreases Federal personal income tax revenue by \$0.8 billion a year, with the tax loss on social security benefits accounting for about 95 percent of the total (table 20). This tax benefit is regressive from 0 to 0.50-0.74 in the welfare scale and progressive

above 0.50; it is less progressive than public assistance benefits, social security benefits, veteran-military benefits, and government-railroad benefits; it is not clearly more or less progressive than private pension benefits (tables 20 and 21).

Nonaged and aged families receive one-third and two-thirds, respectively, of the money value of this tax benefit (table 20). The average transfer rates for the two groups are 0.1 and 1.1 percent, respectively. For the nonaged this tax benefit is regressive from 0 to 0.50–0.74 and progressive above 0.50; for the aged it is regressive from 0 to 0.75–0.99 and progressive above 0.75.

2. *Taxes*

Federal tax benefits of this nature are financed out of Federal general tax revenues. It was assumed that the Federal Government finances this benefit by making proportional increases in its general taxes. Accordingly, \$0.8 billion of taxes was distributed among welfare classes in proportion to Federal general tax revenue. Federal general tax revenue is regressive from 0 to 0.75–0.99 and progressive above 0.75 (table 20).

3. *Net benefits*

This tax concession net benefit is already included as part of the social security and government-railroad net benefits. Hence, in calculating combined net benefits, one should be careful not to count it twice.

For each welfare class from 0.50 to 1.99 the net benefit is positive; for all others it is negative. The net benefit is regressive from 0 to 0.50–0.74 and progressive above 0.50 (table 20). It is less progressive than the public assistance, veteran-military, and government-railroad net benefits, but it is not clearly either more or less progressive than the social security and private pension net benefits (table 22).

For nonaged and aged families the net benefits are –\$0.4 billion and +\$0.4 billion, respectively, and the average net benefit rates for the two groups are –0.1 percent and +0.9 percent. For each dollar of tax benefits, the nonaged have a net benefit of –52 cents and the aged have a net benefit of +52 cents (table 20).

The net benefit for the nonaged is regressive from 0 to 0.50–0.74 in the scale and progressive above 0.50; for the aged it is regressive from 0 to 0.75–0.99 and progressive above 0.75 (table 20).

B. TAX CONCESSIONS FOR PRIVATE PENSIONS

Under present tax law employer contributions to qualified private pension plans are deducted from employer taxable income and are not included in employee taxable income. In addition, the investment income of private pension trust funds is not taxable. On tax equity grounds many economists favor including vested employer contributions in employee taxable income and disallowing the deductibility of nonvested employer contributions from employer taxable income; in addition, they favor taxation of the investment income of the private pension trust funds.

In 1960–61 employer contributions to private pension plans totaled \$4.7 billion. Most of these contributions were not vested to employees.

The tax-exempt investment income of private pension funds amounted to approximately \$1.9 billion. Thus, these tax concessions are quite quantitatively quite significant.

The distributional effects of these tax concessions or of removing these concessions are quite uncertain. Removing the deductibility of nonvested employer contributions from employer taxable income could have one or more of the following effects: (1) Employers would substitute vested contributions for nonvested contributions; (2) employers would substitute wage payments for nonvested contributions; (3) employers would reduce nonvested contributions without increasing vested contributions or wage payments; (4) employers would shift the increase in corporate income tax due to the removal of deductibility backward to employees; and (5) employers would shift the increase in corporate income tax forward to consumers. Taxing the investment income of private pension funds could have one or more of the following effects: (1) Pension benefits would be reduced; (2) pension contributions would be decreased (or increased); and (3) fund balances would be decreased.

This paper does not present any distributional estimates for these tax concessions. The reader, if he wishes, can construct such estimates on the basis of data which appear in the appendix of this paper.

C. AGE EXEMPTIONS

Taxpayers and spouses aged 65 or over receive additional \$600 Federal income tax exemptions. This section of the paper analyzes the redistributional effects of these age exemptions.

1. *Tax benefits*

Age exemptions decrease Federal personal income tax revenue by \$590 million annually (table 23). This tax benefit is regressive for adjusted gross incomes (AGI) of from \$0 to \$2,000–\$2,999, progressive from \$2,000–\$2,999 to \$8,000–\$9,999, and regressive above \$3,000 (table 24).

Persons filing tax returns with one or more age exemptions receive 100 percent of this tax benefit. For aged returns the benefit is regressive from \$0 to \$2,000–\$2,999 and progressive above \$2,000 (table 24).

2. *Taxes*

It was assumed that the Federal Government finances this benefit by making proportional increases in its general taxes. Federal general tax revenue is roughly proportional from \$1,000–\$1,999 to \$8,000–\$9,999, slightly progressive from \$8,000–\$9,999 to \$10,000–\$14,999, and sharply progressive above \$10,000 (table 24).

Nonaged and aged taxpaying units pay five-sixths and one-sixth, respectively, of this tax and the average tax rates for the two groups are 0.17 percent and 0.39 percent (tables 23 and 24). For the nonaged the tax is proportional from \$1,000–\$1,999 to \$6,000–\$7,999, slightly progressive from \$6,000–\$7,999 to \$10,000–\$14,999, and sharply progressive above \$10,000; for the aged it is roughly proportional from \$1,000–\$1,999 to \$4,000–\$4,999, and progressive above \$4,000 (table 24).

3. *Net benefit*

For each income class from \$1,000 to \$6,000 the net benefit is positive; for all other classes it is negative. The net benefit is regressive under \$3,000 and progressive above \$2,000 (table 24).

For nonaged and aged taxpaying units the net benefits are -\$490 million and +\$490 million, respectively, and their average net benefit rates are -0.17 percent and +1.97 percent (tables 23 and 24). For each dollar of tax benefit the nonaged have a net benefit of about -80 cents and the aged have a net benefit of about +80 cents (table 23).

For all income classes the net benefit is negative for the nonaged and positive for the aged. The net benefit of the aged is regressive under \$3,000 and progressive above \$2,000 (table 24).

D. RETIREMENT INCOME CREDIT

This section examines the redistributive effects of the special tax credit for retirement income.

1. *Tax benefits*

The retirement income credit decreases Federal personal income tax revenue by \$110 million a year (table 23). This tax benefit is regressive from \$0 to \$2,000-\$2,999, progressive from \$2,000-\$2,999 to \$6,000-\$7,999, and proportional above \$6,000 (table 25). It is less concentrated at the bottom and top of the income scale than is true of the age-exemption benefit (table 27).

Nonaged and aged taxpaying units receive one-sixth and five-sixths of this tax benefit, respectively, and the average benefit rates for the two groups are 0.01 percent and 0.37 percent (tables 18 and 20). For the aged this tax benefit is regressive under \$4,000 and generally progressive above \$3,000 (table 25).

2. *Taxes*

It was assumed that the Federal Government finances this benefit by making proportional increases in its general taxes.

3. *Net benefit*

For each income class from \$1,000 to \$5,000 the net benefit is positive; for the \$5,000-\$6,000 class it is zero; for all other classes it is negative. The net benefit is regressive under \$3,000 and progressive over \$2,000 (table 25).

Nonaged and aged taxpaying units have respective net benefits of -\$75 million and +\$75 million, and average net benefit rates of -0.03 percent and +0.30 percent (tables 23 and 25). Each dollar of tax benefit involves a net benefit of about -70 cents for the nonaged and about +70 cents for the aged (table 23).

For the \$1,000-\$2,000 income class the net benefit of the nonaged is positive; for the \$2,000-\$3,000 class it is zero; and for all other classes it is negative. Among the aged, each income class between \$1,000 and \$15,000 has a positive net benefit, but the class above this amount has a negative net benefit. For the nonaged the net benefit is regressive under \$3,000 and generally progressive above \$2,000; for the aged it is regressive under \$4,000 and generally progressive above \$3,000 (table 25).

E. EXTRA MEDICAL DEDUCTION FOR THE AGED

All taxpayers may deduct medical expenses in excess of 3 percent of adjusted gross income. In 1960 and 1961, however, aged taxpayers were not subject to this limitation and could deduct expenses in full up to certain maximums, a provision that was repealed after the passage of medicare.

1. Tax benefits

The extra medical deduction for the aged decreases Federal personal income tax revenue by \$150 million a year (table 23). This tax benefit is regressive from \$0 to \$2,000–\$2,999 of income, roughly proportional from \$2,000–\$2,999 to \$10,000–\$14,999, and sharply regressive above \$10,000 (table 26). The medical deduction benefit is more regressive than the age exemption and retirement credit benefits (table 27).

Aged taxpaying units receive almost all of this tax benefit. In tables 23 and 26 it is assumed that all of the benefit goes to aged returns. For the aged this benefit is regressive throughout the income scale.

2. Taxes

It was assumed that the Federal Government finances this benefit by increasing its general taxes proportionately.

3. Net benefit

For income classes under \$15,000 the net benefit is negative; for the \$15,000-and-over class it is positive. The net benefit is roughly proportional from \$1,000–\$1,999 to \$10,000–\$14,999 and regressive above \$10,000 (table 25). The medical deduction net benefit is more regressive than those for the age exemption and retirement credit (table 28).

The net benefits are –\$120 million and +\$120 million, respectively, for the nonaged and aged taxpaying units and the corresponding average net benefit rates are –0.04 percent and +0.49 percent (tables 23 and 26). For each dollar of tax benefit the nonaged have a net benefit of about –80 cents and the aged a net benefit of about +80 cents (table 23).

In each income class the net benefit of the nonaged is negative. Among the aged, income classes over \$2,000 have a positive net benefit; for all other classes it is negative. The net benefit for the aged is regressive above \$1,000 (table 26).

F. COMBINED TAX BENEFITS

Aged taxpayers receive virtually all of these three tax benefits, which in the year studied amounted to \$850 million. Of the total, age exemptions accounted for 69 percent, with the retirement credit (13 percent) and medical deductions (17 percent) making up the remainder. The combined benefit is regressive from \$0 to \$2,000–\$2,999, progressive from \$2,000–\$2,999 to \$8,000–\$9,999, and regressive above \$8,000. For aged taxpayers the combined benefit is regressive from \$0 to \$2,000–\$2,999 and progressive above \$2,000 (table 29).

For each income class between \$1,000 and \$5,000 the combined net benefit is positive; for all other classes it is negative. The net benefit is regressive under \$3,000 and progressive above \$2,000 (table 29).

For nonaged and aged families the net benefits are $-\$690$ million and $+\$690$ million, respectively, and the average net benefit rates for the two groups are -0.23 percent and $+2.76$ percent (tables 23 and 29). For each dollar of tax benefit the nonaged have a net benefit of about -80 cents and the aged have a net benefit of about $+80$ cents (table 23).

Regardless of income class, the net benefit is negative among the nonaged and positive among the aged. The net benefit for the nonaged is roughly proportional from $\$1,000$ – $\$1,999$ to $\$4,000$ – $\$4,999$ and progressive above $\$4,000$; for the aged it is regressive under $\$3,000$ and progressive above $\$2,000$ (table 29).

IV. SUMMARY AND CONCLUDING COMMENTS

This paper has analyzed the current redistribution effects of the collective old-age money income transfer programs (public pensions, private group pensions, and public assistance) and income tax concessions for the aged. For 1960–61 it has presented estimates of the distributions of current benefits, taxes, and net benefits under these old-age income programs among economic status groups; estimates were presented for nonaged and aged families separately as well as for all families combined. These estimates are summarized briefly in tables 30, 31, and 32.⁶² For a more complete summary, see sections II–F and II–G above; also see sections III–A and III–F above.

Over the period from 1960–61 to 1966 the old-age transfer programs grew rapidly. Benefits and earmarked taxes or contributions increased 56 and 65 percent, respectively (table 33); benefits increased from 6.0 to 6.6 percent of personal income; benefits (excluding private pension benefits) increased from 16.0 to 16.6 percent of Government expenditures.

This growth reflects both legal changes and the growth of the economy. For Government civilian-railroad pensions the increase in average benefit payment per beneficiary was about 25 percent; for each of the other transfer programs the increase was 15 to 20 percent. Additional increases in social security benefits (of 13 percent) and in railroad benefits (of 14 percent) go into effect in 1968; changes in the Federal public assistance law also go into effect in 1968. In 1960 and 1961 employees and employers each paid a 3-percent OASDI tax on annual earnings of up to $\$4,800$; in 1968 they pay 3.8 percent on earnings of up to $\$7,800$. In 1960 and 1961 railroad employees and employers each paid a 6.75-percent tax on monthly earnings of up to $\$400$; in 1968 they pay 8.90 percent on earnings of up to $\$650$. The contribution base and rates for Federal civil service pensions have not changed since before 1960.

In many respects the redistribution effects of the old-age income programs of today are rather similar to those of 1960–61, but in some important respects they are markedly different. At the time I agreed to do this study, I expected to present distributional estimates for 1965 based on special tabulations from the Office of Economic Oppor-

⁶² Several examples should help to clarify the meaning of these tables. Column 1 of table 30 indicates that for all families the public assistance tax is regressive from 0 to 0.75–0.99, proportional from 0.75–0.99 to 1.50–1.99, and progressive above 1.50. Column 3 of table 31 indicates that over the upper half of the welfare ratio scale, the social security tax is the fourth most progressive of the five transfer program taxes or contributions.

tunity's Survey of Economic Opportunity (SEO). Unfortunately, the SEO data are not yet available, but should be soon. In the near future, I plan to publish updated distributional estimates based on these SEO data and on other sources; this work is already in progress; the comments and suggestions of readers are most welcome.

In addition to updating the distributional estimates for these programs, much remains to be done. The distributional effects of some of the programs not dealt with here (e.g., medicare, medical, expenditures on housing for the aged, etc.) need to be examined. More conceptual work on the relation between current redistribution and other economic aspects (saving, insurance, deferred compensation, and lifetime redistribution) would be of great value. More detailed distributive data (e.g., separate data on military pensions, etc.) would be useful.⁶³ In collecting survey data more effort needs to be devoted to increasing the accuracy of income source reporting (via more detailed interviewer instructions, more intensive interviewing, etc.). Comparability of distributional data for transfer programs and for tax concession programs is highly desirable. Further conceptual and empirical work on measures of relative economic status (e.g., how to take account of assets, how the relative income requirements of the various family types vary as level of welfare varies, etc.) is certainly needed. We need to know much more about the shifting of transfer payments and taxes (e.g., the social security payroll tax). Much research is already underway in various places on these problems; economists at the Social Security Administration are busy working on a number of these problems.

TEXT TABLES

TABLE 1.—DOLLAR EQUIVALENTS OF WELFARE RATIOS FOR DIFFERENT NONFARM FAMILIES WITH MALE HEADS, 1960-61 AVERAGES

Welfare ratio	1-person family with head under age 65	4-person family with 2 children under age 18	7-or-more-person family with 5 children under age 18
\$0.50	\$960	\$1,939	\$3,094
.75	1,440	2,908	4,641
1.00	1,920	3,877	6,188
1.50	2,880	5,816	9,282
2.00	3,840	7,754	12,376
2.50	4,800	9,693	15,470
3.50	6,720	13,570	21,658

⁶³ Of course, the collection of more detailed data would require larger samples of survey and/or administrative record data.

TABLE 2.—AMOUNTS OF BENEFITS, TAXES OR CONTRIBUTIONS, AND NET BENEFITS, BY PROGRAM AND AGE OF HEAD, 1960-61 AVERAGES

[In millions]

Program and age of head	Benefit	Unadjusted tax or contribution	Adjusted tax or contribution	Unadjusted net benefit	Adjusted net benefit
Public assistance:					
All families.....	\$3,318	\$3,318	\$3,318	\$0	\$0
Head under age 65.....	2,343	2,854	2,854	-511	-511
Head aged 65 or over.....	975	464	464	511	511
Veteran and military programs:					
All families.....	4,610	4,610	4,610	0	0
Head under age 65.....	3,126	3,932	3,932	-806	-806
Head aged 65 or over.....	1,484	678	678	806	806
Social security:					
All families.....	11,873	12,126	11,873	-253	0
Head under age 65.....	2,897	11,328	11,050	-8,431	-8,153
Head aged 65 or over.....	8,976	798	823	8,178	8,153
Government civilian and railroad pensions:					
All families.....	2,981	4,911	2,981	-1,930	0
Head under age 65.....	873	4,631	2,904	-3,758	-2,031
Head aged 65 or over.....	2,108	280	77	1,828	2,031
Private pensions:					
All families.....	1,762	5,437	1,762	-3,675	0
Head under age 65.....	449	5,036	1,785	-4,587	-1,336
Head aged 65 or over.....	1,313	401	-23	912	1,336
Combined programs:					
All families.....	24,544	30,402	24,544	-5,858	0
Head under age 65.....	9,688	27,781	22,525	-18,093	-12,837
Head aged 65 or over.....	14,856	2,621	2,019	12,235	12,837

TABLE 3.—AMOUNT OF BENEFITS, BY TYPE OF BENEFIT AND AGE OF BENEFICIARY,¹ 1960-61 AVERAGES

[In millions]

Type of benefit	Total benefits	Benefits received by beneficiaries	
		Under age 65	Aged 65 or over
Public assistance.....	\$3,318	\$1,642	\$1,676
Special assistance.....	2,984	1,341	1,643
Old-age assistance.....	1,589	0	1,589
Other.....	1,395	1,341	54
General assistance.....	334	301	33
Veteran and military programs.....	4,610	3,204	1,406
Veterans pensions and compensation.....	3,491	2,252	1,239
Disability.....	2,561	1,670	891
Compensation.....	1,563	(?)	(?)
Pensions.....	998	(?)	(?)
Survivors.....	930	582	348
Compensation.....	495	(?)	(?)
Pensions.....	435	(?)	(?)
Other veteran programs.....	383	345	38
Military pensions.....	736	607	129
Retirement.....	512	427	85
Disability.....	221	178	43
Survivor.....	3	2	1
Social security.....	11,873	2,831	9,042
Retirement.....	8,523	607	7,916
Disability.....	720	720	0
Survivor.....	2,630	1,504	1,126
Government civilian and railroad pensions.....	2,981	858	2,123
Federal civilian ²	881	308	573
Retirement.....	589	136	453
Disability.....	168	66	62
Survivor.....	124	366	58
State and local government ³	1,130	366	764
Retirement.....	883	221	662
Disability.....	99	72	27
Survivor.....	148	73	75
Railroad.....	970	184	786
Retirement.....	578	22	576
Disability.....	146	65	81
Survivor.....	226	97	129
Private pensions ⁴	1,762	441	1,321
Retirement ⁴	1,674	(?)	(?)
Disability ⁴	88	(?)	(?)

¹ Divided between nonaged and aged on basis of age of beneficiary. In table 2 the division between nonaged and aged is on the basis of age of family head.

² Not estimated.

³ Excludes refunds of employee contributions.

⁴ It was assumed that retirement and disability pensions account for 95 percent and 5 percent respectively, of private pensions.

Sources: Column 1: U.S. Department of Commerce, Office of Business Economics, "The National Income and Product Accounts of the United States, 1929-65: Statistical Tables," a supplement to the Survey of Current Business, U.S. Government Printing Office, Washington, D.C., 1966, pp. 58-59; Walter W. Kolodrubetz, "Growth of Employee-Benefits Plans, 1950-65," Social Security Bulletin, April 1967, p. 20; and program data.

Columns 2 and 3: Veterans pensions and compensation, military pensions, social security, Federal civilian pensions, and railroad pensions divided between nonaged and aged on basis of Federal Council on Aging, 1967 Report to the President: How the Government Works for Older People, U.S. Government Printing Office, Washington, D.C., 1962, pp. 105-108. Special assistance divided between nonaged and aged on basis of Welfare Administration surveys. It was assumed that the nonaged and aged receive 90 percent and 10 percent, respectively, of general assistance; and that the nonaged and the aged receive 90 percent and 10 percent, respectively, of other veterans benefits. State-local pensions divided between nonaged and aged on basis of Social Security Administration estimates. Private pensions divided between nonaged and aged on basis of SCE data.

TABLE 4.—AMOUNTS OF TAXES OR CONTRIBUTIONS BY TYPE OF TAX OR CONTRIBUTION, 1960-61 AVERAGES

[In millions]

Type of tax or contribution	Amount	Type of tax or contribution	Amount
Public assistance.....	\$3,318	Government civilian and railroad pensions—Con.	
Federal general tax revenue ¹	1,765	Federal employer tax.....	\$867
State general tax revenue.....	1,177	State-local employee tax ²	934
Local general tax revenue.....	376	State-local employer tax.....	1,785
Veteran and military programs.....	4,610	Railroad employee tax.....	286
Federal general tax revenue ¹	4,573	Railroad employer tax.....	286
Tax on military pensions.....	37	Adjustments:	
Social security:		Tax on Government pensions.....	60
Unadjusted tax.....	12,126	Tax loss due to backward shifting.....	-667
Self-employment tax.....	760	Federal general tax revenue ¹	-1,323
Employee tax.....	5,683	Adjusted tax.....	2,981
Employer tax.....	5,683	Private pensions:	
Adjustments:		Unadjusted contribution.....	5,437
Tax loss due to backward shifting.....	-594	Employee contribution ⁴	707
Federal general tax revenue ¹	341	Employer contribution.....	4,730
Adjusted tax.....	11,873	Adjustments:	
Government civilian and railroad pensions:		Tax on private pensions.....	132
Unadjusted tax.....	4,911	Tax loss due to backward shifting.....	-537
Federal employee tax ²	753	Federal general tax revenues ¹	-3,271
		Adjusted contribution.....	1,762

¹ Excludes earmarked highway trust fund taxes.² Collections minus refunds of \$96,000,000.³ Collections minus refunds of \$274,000,000.⁴ Collections minus estimated refunds of \$93,000,000. Refunds estimated as 5 percent of benefits including refunds.

Sources: The National Income and Product Accounts of the United States, 1929-65: Statistical Tables, pp. 58-59; Kolo-drubetz, loc. cit., and unpublished data.

TABLE 5.—PUBLIC ASSISTANCE: BENEFIT, TAX, AND NET BENEFIT RATES, BY WELFARE RATIO INTERVAL AND AGE OF HEAD, 1960-61 AVERAGES

[In percent]

Welfare ratio interval and age of head	Benefit	Tax	Net benefit
All families:			
0 to 0.49.....	43.0	1.8	41.2
0.50 to 0.74.....	2.0	.8	1.2
0.75 to 0.99.....	1.0	.7	.3
1.00 to 1.49.....	.3	.7	-.5
1.50 to 1.99.....	0	.7	-.7
2.00 to 2.49.....	.1	.8	-.7
2.50 to 3.49.....	0	.8	-.8
3.50 and over.....	0	.9	-.9
0 and over.....	.8	.8	0
Head under age 65:			
0 to 0.49.....	53.7	1.4	52.4
0.50 to 0.74.....	2.2	.7	1.5
0.75 to 0.99.....	1.1	.6	-.4
1.00 to 1.49.....	.3	.7	-.4
1.50 to 1.99.....	.1	.7	-.7
2.00 to 2.49.....	.1	.8	-.7
2.50 to 3.49.....	0	.8	-.8
3.50 and over.....	0	.9	-.9
0 and over.....	.6	.8	-.1
Head aged 65 or over:			
0 to 0.49.....	30.7	2.2	28.5
0.50 to 0.74.....	1.6	1.0	.6
0.75 to 0.99.....	.4	.8	-.4
1.00 to 1.49.....	0	.8	-.8
1.50 to 1.99.....	0	.8	-.8
2.00 to 2.49.....	.3	.8	-.6
2.50 to 3.49.....	0	.8	-.7
3.50 and over.....	0	1.1	-1.1
0 and over.....	2.1	1.0	1.1

Source: Tables A-4 and A-11.

TABLE 6.—VETERAN AND MILITARY PROGRAMS: BENEFIT, TAX, AND NET BENEFIT RATES, BY WELFARE RATIO INTERVAL AND AGE OF HEAD, 1960-61 AVERAGES

[In percent]

Welfare ratio interval and age of head	Benefit	Tax	Net benefit
All families:			
0 to 0.49.....	26.3	1.2	25.2
0.50 to 0.74.....	4.5	.7	3.8
0.75 to 0.99.....	1.8	.6	1.1
1.00 to 1.49.....	1.4	.8	.6
1.50 to 1.99.....	.9	.9	-.1
2.00 to 2.49.....	.4	1.1	-.6
2.50 to 3.49.....	.5	1.1	-.6
3.50 and over.....	.2	1.6	-1.4
0 and over.....	1.1	1.1	0
Head under age 65:			
0 to 0.49.....	20.6	.9	19.7
0.50 to 0.74.....	3.9	.6	3.4
0.75 to 0.99.....	1.5	.6	.9
1.00 to 1.49.....	1.3	.7	.6
1.50 to 1.99.....	.7	.9	-.2
2.00 to 2.49.....	.4	1.0	-.6
2.50 to 3.49.....	.5	1.1	-.6
3.50 and over.....	.3	1.5	-1.2
0 and over.....	.9	1.1	-.2
Head aged 65 or over:			
0 to 0.49.....	32.9	1.5	31.4
0.50 to 0.74.....	5.6	.9	4.7
0.75 to 0.99.....	3.8	.8	2.9
1.00 to 1.49.....	2.3	1.1	1.1
1.50 to 1.99.....	2.4	1.2	1.2
2.00 to 2.49.....	.4	1.3	-.9
2.50 to 3.49.....	.2	1.2	-.1
3.50 and over.....	0	2.0	-2.0
0 and over.....	3.2	1.5	1.7

Source: Tables A-5 and A-11.

TABLE 7.—SOCIAL SECURITY: BENEFIT, TAX, AND NET BENEFIT RATES, BY WELFARE RATIO INTERVAL AND AGE OF HEAD, 1960-61 AVERAGES

[In percent]

Welfare ratio interval and age of head	Benefit	Unadjusted tax	Adjusted tax	Unadjusted net benefit	Adjusted net benefit
All families:					
0 to 0.49.....	91.9	4.2	4.3	87.7	87.6
0.50 to 0.74.....	14.6	3.5	3.5	11.1	11.2
0.75 to 0.99.....	6.0	4.0	3.9	2.0	2.1
1.00 to 1.49.....	2.5	3.8	3.7	-1.3	-1.1
1.50 to 1.99.....	1.2	3.7	3.6	-2.5	-2.4
2.00 to 2.49.....	1.0	3.5	3.3	-2.5	-2.3
2.50 to 3.49.....	.7	3.1	3.0	-2.4	-2.4
3.50 and over.....	.3	1.7	1.7	-1.4	-1.4
0 and over.....	2.9	3.0	2.9	-1	0
Head under age 65:					
0 to 0.49.....	28.9	4.5	4.5	24.4	24.3
0.50 to 0.74.....	4.4	4.2	4.1	3	3
0.75 to 0.99.....	2.0	4.2	4.1	-2.2	-2.1
1.00 to 1.49.....	.9	3.9	3.8	-3.0	-2.9
1.50 to 1.99.....	.6	3.8	3.7	-3.3	-3.2
2.00 to 2.49.....	.5	3.5	3.4	-3.1	-3.0
2.50 to 3.49.....	.2	3.2	3.1	-3.0	-2.9
3.50 and over.....	.1	1.8	1.8	-1.7	-1.7
0 and over.....	.8	3.2	3.1	-2.4	-2.3
Head aged 65 or over:					
0 to 0.49.....	163.5	4.0	4.1	155.5	159.4
0.50 to 0.74.....	39.1	1.9	2.0	37.3	37.2
0.75 to 0.99.....	33.7	2.4	2.4	31.3	31.3
1.00 to 1.49.....	18.2	2.3	2.3	15.9	15.9
1.50 to 1.99.....	10.2	2.1	2.1	8.1	8.1
2.00 to 2.49.....	7.9	2.3	2.3	5.6	5.6
2.50 to 3.49.....	5.6	2.1	2.1	3.6	3.6
3.50 and over.....	1.3	.8	.9	.5	.4
0 and over.....	19.4	1.7	1.8	1.7	17.6

Source: Tables A-6 and A-11.

TABLE 8.—GOVERNMENT CIVILIAN AND RAILROAD PENSIONS: BENEFIT, TAX, AND NET BENEFIT RATES, BY WELFARE RATIO INTERVAL AND AGE OF HEAD, 1960-61 AVERAGES

[In percent]

Welfare ratio interval and age of head	Benefit	Unadjusted tax	Adjusted tax	Unadjusted net benefit	Adjusted net benefit
All families:					
0 to 0.49.....	24.3	0.1	-0.3	24.2	24.6
0.50 to 0.74.....	3.0	.3	.1	2.7	2.8
0.75 to 0.99.....	.8	.6	.4	.2	.4
1.00 to 1.49.....	.5	1.0	.7	-.6	-.3
1.50 to 1.99.....	.4	1.2	.9	-.8	-.4
2.00 to 2.49.....	.3	1.4	.9	-1.1	-.6
2.50 to 3.49.....	.2	1.5	1.0	-1.3	-.8
3.50 and over.....	.1	1.2	.6	-1.1	-.5
0 and over.....	.7	1.2	.7	-.5	0
Head under age 65:					
0 to 0.49.....	8.4	.1	.1	8.3	8.3
0.50 to 0.74.....	1.3	.3	.2	.9	1.0
0.75 to 0.99.....	.5	.6	.4	-.2	0
1.00 to 1.49.....	.2	1.1	.8	-.9	-.6
1.50 to 1.99.....	.2	1.3	.9	-1.1	-.7
2.00 to 2.49.....	.1	1.4	.9	-1.3	-.8
2.50 to 3.49.....	.2	1.5	1.0	-1.4	-.8
3.50 and over.....	0	1.3	.7	-1.3	-.6
0 and over.....	.2	1.3	.8	-1.0	-.6
Head aged 65 or over:					
0 to 0.49.....	42.4	0	-.4	42.3	42.8
0.50 to 0.74.....	7.1	0	-.1	7.0	7.2
0.75 to 0.99.....	2.7	.1	0	2.6	2.8
1.00 to 1.49.....	3.2	.5	.3	2.6	2.9
1.50 to 1.99.....	3.4	.8	.5	2.6	2.9
2.00 to 2.49.....	2.3	.6	.3	1.7	2.0
2.50 to 3.49.....	.7	1.2	.8	-.5	0
3.50 and over.....	.4	.6	0	-.2	.5
0 and over.....	4.5	.6	.2	3.9	4.3

Source: Tables A-7 and A-11.

TABLE 9.—PRIVATE PENSIONS: BENEFIT, CONTRIBUTION, AND NET BENEFIT RATES, BY WELFARE RATIO INTERVAL AND AGE OF HEAD, 1960-61 AVERAGES

[In percent]

Welfare ratio interval and age of head	Benefit	Unadjusted contribution	Adjusted contribution	Unadjusted net benefit	Adjusted net benefit
All families:					
0 to 0.49.....	4.2	1.8	0.9	2.4	3.2
0.50 to 0.74.....	1.8	.9	.4	.9	1.4
0.75 to 0.99.....	1.1	1.0	.5	.2	.6
1.00 to 1.49.....	.5	1.1	.5	-.6	.0
1.50 to 1.99.....	.2	1.4	.6	-1.1	-.4
2.00 to 2.49.....	.4	1.4	.6	-1.1	-.2
2.50 to 3.49.....	.2	1.5	.6	-1.3	-.4
3.50 and over.....	.3	1.4	.1	-1.0	.2
0 and over.....	.4	1.3	.4	-.9	0
Head under age 65:					
0 to 0.49.....	.7	1.6	.9	-.9	-.3
0.50 to 0.74.....	.3	1.0	.6	-.7	-.3
0.75 to 0.99.....	.2	1.0	.6	-.8	-.4
1.00 to 1.49.....	.2	1.1	.5	-1.0	-.4
1.50 to 1.99.....	.1	1.4	.7	-1.3	-.6
2.00 to 2.49.....	.2	1.5	.6	-1.3	-.4
2.50 to 3.49.....	.1	1.6	.6	-1.5	-.5
3.50 and over.....	0	1.4	.2	-1.4	-.1
0 and over.....	.1	1.4	.5	-1.3	-.4
Head aged 65 or over:					
0 to 0.49.....	8.2	2.0	.9	6.2	7.3
0.50 to 0.74.....	5.5	.7	.0	4.8	5.5
0.75 to 0.99.....	7.7	.6	.1	7.1	7.6
1.00 to 1.49.....	3.9	.8	.3	3.1	3.6
1.50 to 1.99.....	1.6	.6	-.1	1.1	1.8
2.00 to 2.49.....	2.2	.6	-.1	1.6	2.3
2.50 to 3.49.....	1.2	.9	.0	.3	1.1
3.50 and over.....	1.9	.9	-.4	1.0	2.3
0 and over.....	2.9	.9	-.1	2.0	2.9

Source: Tables A-8 and A-11.

TABLE 10.—PROGRESSION OF BENEFITS, BY PROGRAM, WELFARE RATIO INTERVAL, AND AGE OF HEAD; AND AMOUNTS OF BENEFITS BY PROGRAM AND AGE OF HEAD, 1960-61 AVERAGES

Welfare ratio interval	Public assistance	Veterans and military programs	Social security	Government civilian and railroad pensions	Private pensions	Combined programs †
All families:						
Amount (in billions).....	\$3.3	\$4.6	\$11.9	\$3.0	\$1.8	\$24.5
0.00-0.49.....						
.50-0.74.....	P				P	
0.75-0.99.....		P				
1.00-1.49.....			P	P		P
1.50-1.99.....	■				■	
2.00-2.49.....		■				
2.50-3.49.....	N	GN			GN	
3.50 and over.....						
Head under age 65:						
Amount (in billions).....	\$2.3	\$3.1	\$2.9	\$0.9	\$0.4	\$9.7
0.00-0.49.....						
0.50-0.74.....	P			P		
0.75-0.99.....					■	
1.00-1.49.....			P	■		P
1.50-1.99.....	■			GN	GN	
2.00-2.49.....		■				
2.50-3.49.....	N	GN		■	■	
3.50 and over.....				P	P	
Head aged 65 and over:						
Amount (in billions).....	\$1.0	\$1.5	\$9.0	\$2.1	\$1.3	\$14.9
0.00-0.49.....				P		
0.50-0.74.....	P				P	
0.75-0.99.....				■		
1.00-1.49.....	■	P	P	R		P
1.50-1.99.....				■	■	
2.00-2.49.....	N					
2.50-3.49.....				P	GN	
3.50 and over.....						

■ Denotes, for example, that in col. 2 the benefit for all families is progressive from 0.00 to 2.00-2.49 and generally proportional above 2.00.

- P Progressive.
- N Proportional.
- GN Generally proportional.
- R Regressive.

† Includes public assistance, veterans and military programs, social security, government civilian-railroad pensions, and private pensions.

Source: Derived from tables 2, 5 to 9, and 19.

TABLE 11.—CUMULATIVE PERCENTAGE DISTRIBUTIONS OF BENEFITS, BY PROGRAM, WELFARE RATIO INTERVAL, AND AGE OF HEAD, 1960-61 AVERAGES

[In percent]

Welfare ratio interval and age of head	Public assistance	Veterans and military programs	Social security	Government civilian and railroad pensions	Private pensions	Combined programs
All families:						
Under 0.....	0.7	0.6	1.0	2.3	1	1.0
Under 0.49.....	82.8	36.8	50.1	54.0	11.0	50.0
Under 0.74.....	88.5	45.9	61.6	63.3	21.7	59.9
Under 0.99.....	93.3	52.1	69.8	67.5	31.2	66.9
Under 1.49.....	97.2	67.4	80.6	75.3	50.2	77.6
Under 1.99.....	98.2	80.0	87.6	84.6	51.7	85.2
Under 2.49.....	99.5	85.4	92.6	90.5	70.8	90.4
Under 3.49.....	100.0	94.4	97.1	96.0	71.7	95.6
Total.....	100.0	100.1	99.9	100.0	90.9	100.0
Head under age 65:						
Under 0.....	.1	.2	.7	.5	1	.5
Under 0.49.....	78.4	22.4	34.4	33.0	1.8	39.7
Under 0.74.....	84.7	30.8	44.5	42.5	0.4	48.0
Under 0.99.....	91.1	37.5	54.5	50.4	11.0	55.7
Under 1.49.....	96.6	56.6	69.3	59.7	31.7	69.3
Under 1.99.....	98.0	71.5	81.5	72.9	40.7	80.0
Under 2.49.....	99.5	78.8	90.2	81.2	70.4	87.3
Under 3.49.....	100.0	91.7	96.2	94.4	91.1	95.3
Total.....	100.0	99.9	100.0	99.9	101.0	100.0
Head aged 65 or over:						
Under 0.....	0	1.4	1.2	3.0	1	1.3
Under 0.49.....	93.3	67.0	55.2	62.6	13.4	56.7
Under 0.74.....	97.7	77.5	67.2	71.8	20.9	67.6
Under 0.99.....	98.6	82.7	74.8	74.5	4.8	74.2
Under 1.49.....	98.6	90.0	84.4	81.7	51.9	83.0
Under 1.99.....	98.6	97.7	89.8	89.4	6.9	88.6
Under 2.49.....	99.7	98.8	93.6	94.3	61.0	92.4
Under 3.49.....	100.0	99.5	97.6	96.6	71.6	95.7
Total.....	100.0	100.0	100.1	100.0	101.0	100.0

Source: Tables A-1 and A-9.

TABLE 12.—PROGRESSION OF UNADJUSTED TAXES OR CONTRIBUTIONS, BY PROGRAM, WELFARE RATIO INTERVAL, AND AGE OF HEAD; AND AMOUNTS OF UNADJUSTED TAXES OR CONTRIBUTIONS, BY PROGRAM AND AGE OF HEAD 1960-61 AVERAGES

Welfare ratio interval	Public assistance	Veterans and military programs	Social security	Government civilian and railroad pensions	Private pensions	Combined programs ¹
All families: Amount (in billions).....	\$3.3	\$4.6	\$12.1	\$4.9	\$5.4	\$30.4
0.00-0.49.....	R	R	GN		R	R
0.50-0.74.....					■	■
0.75-0.99.....	■	■	■	P	P	P
1.00-1.49.....	N					
1.50-1.99.....	■				■	■
2.00-2.49.....		P	R			N
2.50-3.49.....	P			■	N	■
3.50 and over.....				R		R
Head under age 65: Amount (in billions).....	\$2.9	\$3.9	\$11.3	\$4.6	\$5.0	\$27.8
0.00-0.49.....	R	R			R	R
0.50-0.74.....					■	■
0.75-0.99.....	■	■		P		P
1.00-1.49.....			R		P	
1.50-1.99.....						■
2.00-2.49.....	P	P				N
2.50-3.49.....				■	■	■
3.50 and over.....				R	R	R
Head aged 65 and over: Amount (in billions).....	\$0.5	\$0.7	\$0.8	\$0.3	\$0.4	\$2.6
0.00-0.49.....	R	R	R		R	R
0.50-0.74.....			■	P	■	■
0.75-0.99.....	■	■				P
1.00-1.49.....		P	GN		N	■
1.50-1.99.....	N	■		■		
2.00-2.49.....		N			■	GN
2.50-3.49.....	■	■	■	GN	P	
3.50 and over.....	P	P	R			

■ Denotes, for example, that in col. 1 the tax for all families is regressive from 0.00 to 0.75-0.99, proportional from 0.75-0.99 to 1.50-1.99, and progressive above 1.50.

P Progressive.

N Proportional.

GN Generally proportional.

R Regressive.

¹ Includes public assistance, veterans and military programs, social security, government civilian-railroad pensions and private pensions.

Source: Derived from tables 2, 5 to 9, and 19.

TABLE 13.—CUMULATIVE PERCENTAGE DISTRIBUTIONS OF UNADJUSTED TAXES OR CONTRIBUTIONS, BY PROGRAM, WELFARE RATIO INTERVAL, AND AGE OF HEAD

[In percent]

Welfare ratio interval and age of head	Public assistance	Veterans and military programs	Social security	Government civilian and railroad pensions	Private pensions	Combined programs
All families:						
Under 0.....	0.1	0.1	0.1	0	0.1	0.1
Under 0.50.....	3.4	1.7	2.3	.1	2.1	2.0
Under 0.75.....	5.6	3.0	5.0	.6	3.7	3.9
Under 1.00.....	8.9	5.1	10.4	2.6	6.6	7.6
Under 1.50.....	19.7	13.6	26.2	13.2	16.9	19.9
Under 2.00.....	34.8	27.2	46.8	30.3	33.8	37.6
Under 2.50.....	48.8	40.9	63.8	46.9	49.3	53.4
Under 3.50.....	67.7	60.7	84.5	71.3	71.7	74.7
Total.....	99.9	99.9	100.0	99.9	100.1	100.0
Head under age 65:						
Under 0.....	.1	.1	.1	0	0	0
Under 0.50.....	1.7	.9	1.4	.1	1.0	1.0
Under 0.75.....	3.3	1.8	3.8	.6	2.3	2.6
Under 1.00.....	6.6	3.9	9.1	2.6	5.2	6.2
Under 1.50.....	17.7	12.6	25.1	13.3	15.5	18.7
Under 2.00.....	34.0	27.1	46.3	30.7	33.2	37.2
Under 2.50.....	49.0	41.7	63.6	47.8	49.5	53.7
Under 3.50.....	69.2	62.9	84.6	72.0	72.5	75.5
Total.....	100.0	99.9	100.0	100.0	100.0	99.8
Head aged 65 or over:						
Under 0.....	0	.1	.4	0	.3	.2
Under 0.50.....	14.3	6.6	15.2	.4	15.0	11.2
Under 0.75.....	20.1	10.3	21.7	.8	19.6	15.9
Under 1.00.....	23.8	12.8	27.7	1.9	22.6	19.6
Under 1.50.....	32.2	20.3	41.3	10.8	32.5	29.6
Under 2.00.....	40.4	28.4	54.0	24.0	39.6	39.5
Under 2.50.....	48.0	36.4	66.4	33.6	46.0	48.7
Under 3.50.....	58.8	48.1	83.0	61.8	60.2	63.9
Total.....	99.9	99.9	100.0	100.0	100.1	99.9

Source: Tables A-4, A-5, A-6, A-7, A-8, and A-9.

TABLE 14.—PROGRESSION OF ADJUSTED TAXES OR CONTRIBUTIONS, BY PROGRAM, WELFARE RATIO INTERVAL, AND AGE OF HEAD; AND AMOUNTS OF ADJUSTED TAXES OR CONTRIBUTIONS BY PROGRAM AND AGE OF HEAD, 1960-61 AVERAGES

Welfare ratio interval	Public assistance	Veterans and military programs	Social security	Government civilian and railroad pensions	Private pensions	Combined programs ¹
All families: Amount (in billions).....	\$3.3	\$4.6	\$11.9	\$3.0	\$1.8	\$24.5
0.00-0.49.....	R	R	GN		R	R
0.50-0.74.....					■	■
0.75-0.99.....	■	■	■	P	P	P
1.00-1.49.....	N					
1.50-1.99.....	■				■	■
2.00-2.9.....		P	R		N	
2.50-3.49.....	P			■	■	R
3.50 and over.....				R	R	
Head under age 65: Amount (in billions).....	\$2.9	\$3.9	\$11.1	\$2.9	\$1.8	\$22.6
0.00-0.49.....	R	R			R	R
0.50-0.74.....					■	■
0.75-0.99.....	■	■		P		P
1.00-1.49.....			R		N	
1.50-1.99.....						■
2.00-2.49.....	P	P				
2.50-3.49.....				■	■	R
3.50 and over.....				R	R	
Head aged 65 and over: Amount (in billions).....	\$0.5	\$0.7	\$0.8	\$0.1	\$0.0	\$2.0
0.00-0.49.....	R	R	R		R	R
0.50-0.74.....			■	P	■	■
0.75-0.99.....	■	■				P
1.00-1.49.....		P	GN		GN	■
1.50-1.99.....	N	■		■		GN
2.00-2.49.....		N		GN		
2.50-3.49.....	■	■	■	■	■	■
3.50 and over.....	P	P	R	R	R	R

■ Denotes, for example, that in column 1 the tax for all families is regressive from 0.00 to 0.75-0.99, proportional from 0.75-0.99 to 1.50-1.99, and progressive above 1.50.

P Progressive.

N Proportional.

GN Generally proportional.

R Regressive.

¹ Includes public assistance, veterans and military programs, social security, government civilian-railroad pensions, and private pensions.

Source: Derived from tables 2, 5 to 9, and 19.

TABLE 15.—CUMULATIVE PERCENTAGE DISTRIBUTIONS OF ADJUSTED TAXES OR CONTRIBUTIONS BY PROGRAM, WELFARE RATIO INTERVAL, AND AGE OF HEAD

[In percent]

Welfare ratio interval and age of head	Public assistance	Veterans and military programs	Social security	Government civilian and railroad pensions	Private pensions	Combined programs
All families:						
Under 0.....	0.1	0.1	0.1	0	-0.1	0.1
Under 0.50.....	3.4	1.7	2.4	- .5	3.2	2.1
Under 0.75.....	5.6	3.0	5.1	- .1	5.5	4.2
Under 1.00.....	8.9	5.1	10.4	2.0	10.3	8.2
Under 1.50.....	19.7	13.6	26.1	14.1	25.2	21.4
Under 2.00.....	34.8	27.2	46.5	33.5	48.7	39.9
Under 2.50.....	48.8	40.9	63.3	51.4	67.7	56.0
Under 3.50.....	67.7	60.7	83.8	77.8	93.8	77.3
Total.....	99.9	99.9	99.8	99.8	99.8	99.9
Head under age 65:						
Under 0.....	.1	.1	.1	0	-.1	0
Under 0.50.....	1.7	.9	1.5	.1	1.6	1.2
Under 0.75.....	3.3	1.8	3.9	.6	3.8	3.0
Under 1.00.....	6.6	3.9	9.2	2.8	8.5	7.0
Under 1.50.....	17.7	12.6	25.0	14.7	22.5	20.3
Under 2.00.....	34.0	27.1	46.0	33.9	46.1	39.6
Under 2.50.....	49.0	41.7	63.2	52.0	65.2	56.3
Under 3.50.....	69.2	62.9	84.1	77.4	90.6	78.1
Total.....	100.0	99.9	99.9	100.3	100.0	99.9
Head aged 65 or over:						
Under 0.....	0	.1	.4	0	0	.2
Under 0.50.....	14.3	6.6	15.1	-16.0	-96.4	12.5
Under 0.75.....	20.1	10.3	21.7	-20.0	-100.0	17.7
Under 1.00.....	23.8	12.8	27.5	-21.3	-110.7	21.9
Under 1.50.....	32.2	20.3	40.7	-2.6	-164.3	33.3
Under 2.00.....	40.4	28.4	53.0	28.1	-142.9	43.8
Under 2.50.....	48.0	36.4	65.0	45.4	-121.5	53.5
Under 3.50.....	58.8	48.1	81.0	110.7	-132.2	69.1
Total.....	99.9	99.9	99.7	100.0	199.9	100.1

¹ Total contribution is negative.

Source: Tables A-4, A-5, A-6, A-7, A-8, and A-9.

TABLE 16.—PROGRESSION OF UNADJUSTED NET BENEFITS BY PROGRAM, WELFARE RATIO INTERVAL, AND AGE OF HEAD; AND AMOUNTS OF UNADJUSTED NET BENEFITS, BY PROGRAM AND AGE OF HEAD, 1960-61 AVERAGES

Welfare ratio interval	Public assistance	Veterans and military programs	Social security	Government civilian and railroad pensions	Private pensions	Combined programs ¹
All families: Amount (in billions).....	\$0.0	\$0.0	-\$0.3	-\$1.9	-\$3.7	-\$5.9
0.00-0.49.....						
0.50-0.74.....			P			
0.75-0.99.....						
1.00-1.49.....	P	P		P	P	P
1.50-1.99.....			■			
2.00-2.49.....			N			
2.50-3.49.....			■	■	■	■
3.50 and over.....			R	R	R	R
Head under age 65: Amount (in billions).....	-\$0.5	-\$0.8	-\$8.4	-\$3.7	-\$4.6	-\$18.1
0.00-0.49.....					R	
0.50-0.74.....			P		■	
0.75-0.99.....				P		P
1.00-1.49.....	P	P	■		P	
1.50-1.99.....			N			
2.00-2.49.....				■		
2.50-3.49.....			■	N	■	■
3.50 and over.....			R		N	R
Head aged 65 and over: Amount (in billions).....	\$0.5	\$0.8	\$8.2	\$1.8	\$0.9	\$12.2
0.00-0.49.....				P		
0.50-0.74.....	P					
0.75-0.99.....				■	■	
1.00-1.49.....	■	P	P	N	P	P
1.50-1.99.....	N			■	■	
2.00-2.49.....				P		
2.50-3.49.....	■			■		
3.50 and over.....	P			R		

■ Denotes, for example, that in col. 4 the net benefit for all families is progressive from 0.00 to 2.50-3.49 and regressive above 2.50.

- P Progressive.
- N Proportional.
- GN Generally proportional.
- R Regressive.

¹ Includes public assistance, veterans and military programs, social security, government civilian-railroad pensions, and private pensions.

Source: Derived from tables 2, 5 to 9, and 19.

TABLE 17.—PROGRESSION OF ADJUSTED NET BENEFITS, BY PROGRAM, WELFARE RATIO INTERVAL, AND AGE OF HEAD; AND AMOUNTS OF ADJUSTED NET BENEFITS, BY PROGRAM AND AGE OF HEAD, 1960-61 AVERAGES

Welfare ratio interval	Public assistance	Veterans and military programs	Social security	Government civilian and railroad pensions	Private pensions	Combined programs ¹
All families:						
Amount (in billions).....	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
0.00-0.49.....						
0.50-0.74.....			P		P	
0.75-0.99.....				P		P
1.00-1.49.....	P	P				
1.50-1.99.....			■		■	
2.00-2.49.....			N		GN	
2.50-3.49.....			■	■	■	■
3.50 and over.....			R	R	R	R
Head under age 65:						
Amount (in billions).....	-\$0.5	-\$0.8	-\$8.2	-\$2.0	-\$1.3	-\$12.9
0.00-0.49.....						
0.50-0.74.....			P		P	
0.75-0.99.....				P		P
1.00-1.49.....	P	P	■			
1.50-1.99.....			N		■	
2.00-2.49.....			■		GN	
2.50-3.49.....			■	■	■	■
3.50 and over.....			R	R	R	R
Head aged 65 and over:						
Amount (in billions).....	\$0.5	\$0.8	\$8.2	\$2.0	\$1.3	\$12.9
0.00-0.49.....				P	GN	
0.50-0.74.....	P					
0.75-0.99.....				■	■	
1.00-1.49.....	■	P	P	N	P	P
1.50-1.99.....	N			■	■	
2.00-2.49.....				P		
2.50-3.49.....	■			■	GN	
3.50 and over.....	P			R		

■ Denotes, for example, that in col. 3 the net benefit for all families is progressive from 0.00 to 1.50-1.99, proportional from 1.50-1.99 to 2.50-3.49, and regressive above 2.50.

- P Progressive.
- N Proportional.
- GN Generally proportional.
- R Regressive.

¹ Includes public assistance, veterans and military programs, social security, government civilian -railroad pensions, and private pensions.

Source: Derived from tables 2, 5 to 9, and 19.

TABLE 18.—RATIO OF ADJUSTED NET BENEFIT FOR EACH WELFARE RATIO INTERVAL TO BENEFIT FOR ALL WELFARE RATIO INTERVALS, BY PROGRAM, 1960-61 AVERAGES

Welfare ratio interval	Public assistance	Veteran and military programs	Social security	Government civilian and railroad pensions	Private pensions	Combined programs
All families:						
Negative.....	0.006	0.005	0.009	0.023	0.001	0.009
Under 0.50.....	.794	.351	.477	.545	.118	.478
Under 0.75.....	.829	.429	.565	.634	.192	.556
Under 1.00.....	.844	.470	.594	.654	.249	.586
Under 1.50.....	.775	.537	.545	.611	.250	.561
Under 2.00.....	.634	.527	.410	.510	.101	.452
Under 2.50.....	.507	.444	.292	.390	.032	.343
Under 3.50.....	.323	.336	.132	.181	-.150	.182
Total.....	.001	.001	0	.001	-.003	.001

Source: Tables A-4, A-5, A-6, A-7, A-8, and A-9.

TABLE 19.—COMBINED OLD-AGE TRANSFER PROGRAMS:¹ BENEFIT, TAX, AND NET BENEFIT RATES, BY WELFARE RATIO INTERVAL AND AGE OF HEAD, 1960-61 AVERAGES

[In percent]

Welfare ratio interval and age of head	Benefit	Unadjusted tax	Adjusted tax	Unadjusted net benefit	Adjusted net benefit
All families:					
0 to 0.49.....	189.7	9.0	7.9	180.7	181.8
0.50 to 0.74.....	25.9	6.1	5.5	19.8	20.5
0.75 to 0.99.....	10.6	6.8	6.1	3.8	4.5
1.00 to 1.49.....	5.2	7.4	6.4	-2.2	-1.2
1.50 to 1.99.....	2.8	8.0	6.8	-5.2	-4.0
2.00 to 2.49.....	2.1	8.1	6.6	-5.9	-4.5
2.50 to 3.49.....	1.6	8.0	6.5	-6.4	-4.9
3.50 and over.....	1.0	6.8	4.9	-5.8	-3.9
0 and over.....	6.1	7.5	6.1	-1.4	0
Head under age 65:					
0 to 0.49.....	112.3	8.4	7.7	103.8	104.6
0.50 to 0.74.....	12.2	6.8	6.2	5.4	6.0
0.75 to 0.99.....	5.2	7.1	6.4	-1.9	-1.1
1.00 to 1.49.....	2.9	7.6	6.6	-4.7	-3.7
1.50 to 1.99.....	1.7	8.2	6.9	-6.5	-5.3
2.00 to 2.49.....	1.3	8.3	6.8	-7.0	-5.5
2.50 to 3.49.....	1.0	8.2	6.6	-7.1	-5.6
3.50 and over.....	.5	7.0	5.1	-6.5	-4.6
0 and over.....	2.6	7.7	6.3	-5.0	-3.6
Head aged 65 or over:					
0 to 0.49.....	277.6	9.7	8.3	267.9	269.3
0.50 to 0.74.....	58.9	4.5	3.8	54.4	55.1
0.75 to 0.99.....	48.3	4.8	4.1	43.5	44.1
1.00 to 1.49.....	27.5	5.5	4.8	22.0	22.7
1.50 to 1.99.....	17.6	5.4	4.4	12.2	13.2
2.00 to 2.49.....	13.0	5.6	4.5	7.5	8.5
2.50 to 3.49.....	7.7	6.2	4.9	1.5	2.8
3.50 and over.....	3.6	5.3	3.5	-1.7	1.1
0 and over.....	32.2	5.7	4.4	26.4	27.7

¹ Includes public assistance, veteran and military programs, social security, government civilian and railroad pensions, and private pensions.

Source: Tables A-9 and A-11.

TABLE 20.—EXEMPTION OF SOCIAL SECURITY AND RAILROAD BENEFITS: BENEFIT, TAX, AND NET BENEFIT RATES, BY WELFARE RATIO INTERVAL AND AGE OF HEAD; AND AMOUNT OF BENEFIT, TAXES, AND NET BENEFIT, BY AGE OF HEAD, 1960-61 AVERAGES

Welfare ratio interval and age of head	Benefit	Tax	Net benefit
Rate (percent)			
All families:			
0 to 0.49.....	0	0.20	-0.20
0.50 to 0.74.....	.85	.11	.74
0.75 to 0.99.....	.55	.10	.45
1.00 to 1.49.....	.33	.13	.21
1.50 to 1.99.....	.19	.15	.04
2.00 to 2.49.....	.16	.17	-.01
2.50 to 3.49.....	.12	.18	-.06
3.50 and over.....	.08	.26	-.18
0 and over.....	.19	.19	.00
Head under age 65:			
0 to 0.49.....	0	.15	-.15
0.50 to 0.74.....	.39	.09	.30
0.75 to 0.99.....	.24	.09	.15
1.00 to 1.49.....	.12	.12	.00
1.50 to 1.99.....	.08	.15	-.07
2.00 to 2.49.....	.07	.17	-.10
2.50 to 3.49.....	.04	.18	-.15
3.50 and over.....	.02	.25	-.23
0 and over.....	.07	-.18	-.11
Head aged 65 or over:			
0 to 0.49.....	0	.24	-.24
0.50 to 0.74.....	1.93	.15	1.78
0.75 to 0.99.....	2.76	.15	2.62
1.00 to 1.49.....	2.38	.17	2.21
1.50 to 1.99.....	1.66	.19	1.47
2.00 to 2.49.....	1.44	.21	1.23
2.50 to 3.49.....	1.11	.20	.90
3.50 and over.....	.39	.33	.06
0 and over.....	1.08	.24	.86
Amount (millions)			
All families.....	\$753	\$753	0
Head under age 65.....	251	642	-\$391
Head aged 65 or over.....	502	111	391

Source: Table A-10 and A-11.

TABLE 21.—EXEMPTION FOR SOCIAL SECURITY AND RAILROAD BENEFITS: CUMULATIVE PERCENTAGE DISTRIBUTIONS OF BENEFITS BY WELFARE RATIO INTERVAL AND AGE OF HEAD, 1960-61 AVERAGES

Welfare ratio interval	[In percent]		
	All families	Head under age 65	Head aged 65 or over
All families:			
Negative.....	0	0	0
Under 0.50.....	0	0	0
Under 0.75.....	10.5	10.4	10.6
Under 1.00.....	22.5	23.9	21.8
Under 1.50.....	44.9	46.2	44.3
Under 2.00.....	62.0	66.1	60.0
Under 2.50.....	75.0	80.4	72.4
Under 3.50.....	88.1	91.6	86.5
Total.....	99.9	100.0	100.0

Source: Table A-10.

TABLE 22.—EXEMPTION OF SOCIAL SECURITY AND RAILROAD BENEFITS: RATIO OF NET BENEFIT FOR EACH WELFARE RATIO INTERVAL TO BENEFIT FOR ALL WELFARE RATIO INTERVALS, 1960-61 AVERAGES

Welfare ratio interval	Ratio of net benefit to benefit
All families:	
Negative.....	—0.001
Under 0.50.....	— .017
Under 0.75.....	.075
Under 1.00.....	.173
Under 1.50.....	.312
Under 2.00.....	.348
Under 2.50.....	.355
Under 3.50.....	.289
Total.....	.013

Source: Table A-10.

TABLE 23.—TAX CONCESSIONS FOR THE AGED: AMOUNTS OF BENEFITS, TAXES, AND NET BENEFITS, BY TAX CONCESSION AND TYPE OF RETURN,¹ 1960-61 AVERAGES

[In millions]

Tax concession and type of return	Benefit	Tax	Net benefit
All returns:			
Age exemption.....	\$589	\$590	—\$1
Retirement income credit.....	112	111	1
Medical deduction for aged.....	147	145	2
Combined tax concessions for aged.....	848	846	2
Returns without age exemption:			
Age exemption.....	0	493	—493
Retirement income credit.....	19	94	—75
Medical deduction for aged.....	0	121	—121
Combined tax concessions for aged.....	19	708	—689
Returns with age exemption:			
Age exemption.....	589	97	492
Retirement income credit.....	93	18	75
Medical deduction for aged.....	147	24	123
Combined tax concessions for aged.....	829	139	690

¹ Excludes under \$1,000 of adjusted gross income intervals which account for a small amount of tax.

TABLE 24.—AGE EXEMPTION: BENEFIT, TAX, AND NET BENEFIT RATES, BY AGI INTERVAL AND TYPE OF RETURN, 1960-61 AVERAGES

[In percent]

Adjusted gross income intervals	Benefit	Tax	Net benefit
All returns:			
Under \$1,000.....	0	(1)	(1)
\$1,000 to \$1,999.....	.57	0.14	0.43
\$2,000 to \$2,999.....	.60	.13	.47
\$3,000 to \$3,999.....	.33	.13	.20
\$4,000 to \$4,999.....	.23	.13	.10
\$5,000 to \$5,999.....	.14	.13	.01
\$6,000 to \$7,999.....	.10	.14	-.03
\$8,000 to \$9,999.....	.08	.15	-.07
\$10,000 to \$14,999.....	.10	.18	-.08
\$15,000 and over.....	.17	.40	-.21
\$1,000 and over.....	1.84	.18	0
Returns without age exemption:			
Under \$1,000.....	0	(1)	(1)
\$1,000 to \$1,999.....	0	.13	-.13
\$2,000 to \$2,999.....	0	.12	-.12
\$3,000 to \$3,999.....	0	.13	-.13
\$4,000 to \$4,999.....	0	.12	-.12
\$5,000 to \$5,999.....	0	.13	-.13
\$6,000 to \$7,999.....	0	.13	-.13
\$8,000 to \$9,999.....	0	.15	-.15
\$10,000 to \$14,999.....	0	.17	-.17
\$15,000 and over.....	0	.35	-.35
\$1,000 and over.....	0	.17	-.17
Returns with age exemption:			
Under \$1,000.....	0	(1)	(1)
\$1,000 to \$1,999.....	3.49	.17	3.32
\$2,000 to \$2,999.....	4.96	.19	4.76
\$3,000 to \$3,999.....	3.89	.15	3.74
\$4,000 to \$4,999.....	3.34	.19	3.14
\$5,000 to \$5,999.....	2.67	.22	2.45
\$6,000 to \$7,999.....	2.34	.24	2.10
\$8,000 to \$9,999.....	2.10	.30	1.80
\$10,000 to \$14,999.....	1.81	.36	1.45
\$15,000 and over.....	1.01	.70	.30
\$1,000 and over.....	2.36	.39	1.97

1 Not estimated.

Source: Tables A-13 and A-17.

TABLE 25.—RETIREMENT INCOME CREDIT: BENEFIT, TAX, AND NET BENEFIT RATES, BY AGI INTERVAL AND TYPE OF RETURN, 1960-61 AVERAGES

[In percent]			
Adjusted gross income intervals	Benefit	Tax	Net benefit
All returns:			
Under \$1,000.....	0	(1)	(1)
\$1,000 to \$1,999.....	.05	0.03	0.02
\$2,000 to \$2,999.....	.09	.02	.07
\$3,000 to \$3,999.....	.08	.03	.06
\$4,000 to \$4,999.....	.06	.02	.04
\$5,000 to \$5,999.....	.03	.03	0
\$6,000 to \$7,999.....	.02	.03	0
\$8,000 to \$9,999.....	.02	.03	-.01
\$10,000 to \$14,999.....	.02	.03	-.01
\$15,000 and over.....	.02	.08	-.06
\$1,000 and over.....	.35	.03	0
Returns without age exemption:			
Under \$1,000.....	0	(1)	(1)
\$1,000 to \$1,999.....	.03	.02	.01
\$2,000 to \$2,999.....	.02	.02	.00
\$3,000 to \$3,999.....	.01	.02	-.01
\$4,000 to \$4,999.....	.01	.02	-.01
\$5,000 to \$5,999.....	0	.02	-.02
\$6,000 to \$7,999.....	0	.03	-.02
\$8,000 to \$9,999.....	0	.03	-.02
\$10,000 to \$14,999.....	0	.03	-.03
\$15,000 and over.....	0	.06	-.06
\$1,000 and over.....	.01	.03	-.03
Returns with age exemption:			
Under \$1,000.....	0	(1)	(1)
\$1,000 to \$1,999.....	.11	.06	.06
\$2,000 to \$2,999.....	.63	.05	.58
\$3,000 to \$3,999.....	.85	.05	.80
\$4,000 to \$4,999.....	.68	.05	.63
\$5,000 to \$5,999.....	.44	.05	.38
\$6,000 to \$7,999.....	.52	.03	.49
\$8,000 to \$9,999.....	.36	.06	.30
\$10,000 to 14,999.....	.36	.08	.28
\$15,000 and over.....	.11	.13	-.02
\$1,000 and over.....	.37	.07	.30

¹ Not estimated.

Source: Tables A-14 and A-17.

TABLE 26.—SPECIAL MEDICAL DEDUCTION FOR THE AGED: BENEFIT, TAX, AND NET BENEFIT RATES, BY AGI INTERVAL AND TYPE OF RETURN, 1960-61 AVERAGES

[In percent]

Adjusted gross income intervals	Benefit	Tax	Net benefit
All returns:			
Under \$1,000.....	0	(1)	(1)
\$1,000 to \$1,999.....	0	0.04	-0.04
\$2,000 to \$2,999.....	.01	.03	-.02
\$3,000 to \$3,999.....	.02	.03	-.02
\$4,000 to \$4,999.....	.02	.03	-.02
\$5,000 to \$5,999.....	.01	.03	-.02
\$6,000 to \$7,999.....	.01	.03	-.02
\$8,000 to \$9,999.....	.01	.04	-.03
\$10,000 to \$14,999.....	.02	.04	-.02
\$15,000 and over.....	.21	.10	.11
\$1,000 and over.....	.46	.05	0
Returns without age exemption:			
Under \$1,000.....	0	(1)	(1)
\$1,000 to \$1,999.....	0	.03	-.03
\$2,000 to \$2,999.....	0	.03	-.03
\$3,000 to \$3,999.....	0	.03	-.03
\$4,000 to \$4,999.....	0	.03	-.03
\$5,000 to \$5,999.....	0	.03	-.03
\$6,000 to \$7,999.....	0	.03	-.03
\$8,000 to \$9,999.....	0	.04	-.04
\$10,000 to \$14,999.....	0	.04	-.04
\$15,000 and over.....	0	.08	-.08
\$1,000 and over.....	0	.04	-.04
Returns with age exemption:			
Under \$1,000.....	0	(1)	(1)
\$1,000 to \$1,999.....	0	.06	-.06
\$2,000 to \$2,999.....	.10	.05	.05
\$3,000 to \$3,999.....	.20	.05	.15
\$4,000 to \$4,999.....	.24	.05	.19
\$5,000 to \$5,999.....	.27	.05	.22
\$6,000 to \$7,999.....	.31	.07	.24
\$8,000 to \$9,999.....	.30	.06	.24
\$10,000 to \$14,999.....	.44	.08	.36
\$15,000 and over.....	1.29	.17	1.12
\$1,000 and over.....	.59	.10	.49

¹ Not estimated.

Source: Tables A-15 and A-17.

TABLE 27.—CUMULATIVE PERCENTAGE DISTRIBUTIONS OF BENEFITS, BY AGI INTERVALS AND TYPE OF BENEFIT, 1960-61 AVERAGES

[In percent]

Adjusted gross income intervals	Age exemption	Retirement credit	Medical deduction
All returns:			
\$1,000 to \$1,999.....	10.4	4.5	0
\$1,000 to \$2,999.....	27.7	18.8	1.4
\$1,000 to \$3,999.....	40.9	36.7	4.1
\$1,000 to \$4,999.....	52.6	52.8	7.5
\$1,000 to \$5,999.....	60.9	60.8	10.9
\$1,000 to \$7,999.....	72.3	75.1	17.0
\$1,000 to \$9,999.....	78.2	82.2	20.4
\$1,000 to \$14,999.....	85.8	91.1	27.9
\$1,000 and over.....	99.9	100.0	100.0

Source: Tables A-13, A-14, and A-15.

TABLE 28.—RATIO OF NET BENEFIT FOR EACH AGI INTERVAL TO BENEFIT FOR ALL AGI INTERVALS, BY TYPE OF BENEFIT, 1960-61 AVERAGES

Adjusted gross income intervals	Age exemption	Retirement credit	Medical deduction
All returns:			
\$1,000 to \$1,999.....	0.078	0.018	—0.027
\$1,000 to \$2,999.....	.214	.125	— .047
\$1,000 to \$3,999.....	.294	.250	— .074
\$1,000 to \$4,999.....	.345	.348	— .108
\$1,000 to \$5,999.....	.350	.348	— .149
\$1,000 to \$7,999.....	.314	.339	— .237
\$1,000 to \$9,999.....	.260	.294	— .312
\$1,000 to \$14,999.....	.197	.249	— .373
\$1,000 and over.....	.015	— .001	.015

Source: Tables A-13, A-14, and A-15.

TABLE 29.—3 TAX CONCESSIONS FOR THE AGED COMBINED: ¹ BENEFIT, TAX, AND NET BENEFIT RATES BY AGI INTERVAL AND TYPE OF RETURN, 1960-61 AVERAGES

[In percent]

Adjusted gross income intervals	Benefit	Tax	Net benefit
All returns:			
Under \$1,000.....	0	(²)	(²)
\$1,000 to \$1,999.....	.61	0.20	0.41
\$2,000 to \$2,999.....	.70	.18	.52
\$3,000 to \$3,999.....	.43	.19	.24
\$4,000 to \$4,999.....	.30	.19	.12
\$5,000 to \$5,999.....	.18	.19	— .01
\$6,000 to \$7,999.....	.14	.20	— .05
\$8,000 to \$9,999.....	.11	.22	— .11
\$10,000 to \$14,999.....	.14	.26	— .11
\$15,000 and over.....	.40	.57	— .18
\$1,000 and over.....	2.65	.26	0
Returns without age exemption:			
Under \$1,000.....	0	(²)	(²)
\$1,000 to \$1,999.....	.03	.29	— .16
\$2,000 to \$2,999.....	.02	.29	— .15
\$3,000 to \$3,999.....	.01	.25	— .17
\$4,000 to \$4,999.....	.01	.29	— .16
\$5,000 to \$5,999.....	0	.33	— .18
\$6,000 to \$7,999.....	0	.29	— .19
\$8,000 to \$9,999.....	0	.42	— .21
\$10,000 to \$14,999.....	0	.52	— .24
\$15,000 and over.....	0	1.01	— .49
\$1,000 and over.....	.01	.56	— .23
Returns with age exemption:			
Under \$1,000.....	0	(²)	(²)
\$1,000 to \$1,999.....	3.60	.19	3.32
\$2,000 to \$2,999.....	5.69	.17	5.39
\$3,000 to \$3,999.....	4.93	.18	4.68
\$4,000 to \$4,999.....	4.26	.18	3.97
\$5,000 to \$5,999.....	3.38	.18	3.06
\$6,000 to \$7,999.....	3.18	.19	2.83
\$8,000 to \$9,999.....	2.76	.21	2.34
\$10,000 to \$14,999.....	2.62	.24	2.09
\$15,000 and over.....	2.40	.49	1.39
\$1,000 and over.....	3.32	.24	2.76

¹ Includes age exemption, retirement income credits, and special medical deduction for the aged.² Not estimated.

Source: Tables A-16 and A-17.

TABLE 30.—OLD-AGE INCOME PROGRAMS: PROGRESSION OF BENEFITS, ADJUSTED TAXES OR CONTRIBUTIONS AND ADJUSTED NET BENEFITS, BY PROGRAM AND WELFARE RATIO INTERVAL; AND AMOUNTS OF BENEFITS, ADJUSTED TAXES OR CONTRIBUTIONS, AND ADJUSTED NET BENEFITS, BY PROGRAM, 1960-61 AVERAGES

Welfare ratio interval	Public assistance, all families	Veterans and military programs, all families	Social security, all families	Government civilian-railroad pensions, all families	Private pensions, all families	Combined programs ¹			Exemption of social security-railroad benefits, all families
						All families	With head under age 65	With head aged 65 or over	
Benefits (in billions).....	\$3.3	\$4.6	\$11.9	\$3.0	\$1.8	\$24.5	\$9.7	\$14.9	\$0.8
0.00-0.49.....									R
0.50-0.74.....									■
0.75-0.99.....	P	P			P				
1.00-1.49.....									
1.50-1.99.....	■		P	P	■	P	P	P	P
2.00-2.49.....		■							
2.50-3.49.....	N				GN				
3.50 and over...		GN							
Adjusted taxes or contributions (in billions)....	\$3.3	\$4.6	\$11.9	\$3.0	\$1.8	\$24.5	\$22.6	\$2.0	\$0.8
0.00-0.49.....					R	R	R	R	
0.50-0.74.....	R	R	GN		■	■	■	■	R
0.75-0.99.....	■	■	■					P	■
1.00-1.49.....	N			P	P	P	P	■	
1.50-1.99.....	■				■	■	■	GN	
2.00-2.49.....		P	R		N				P
2.50-3.49.....	P			■	■	R	R	■	
3.50 and over...				R	R			R	
Adjusted net benefits (in billions).....	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	-\$12.9	\$12.9	\$0.0
0.00-0.49.....									R
0.50-0.74.....			P		P				■
0.75-0.99.....				P		P	P		
1.00-1.49.....	P	P						P	
1.50-1.99.....			■		■				P
2.00-2.49.....			N		GN				
2.50-3.49.....			■	■	■	■	■		
3.50 and over...			R	R	R	R	R		

■ Denotes, for example, that in col. 1 the benefit is progressive from 0.00-0.49 to 1.50-1.99 and proportional above 1.50.
 P Progressive.
 N Proportional.
 GN Generally proportional.
 R Regressive.

¹ Includes public assistance, veterans and military programs, social security, government civilian-railroad pensions, and private pensions. The exemption of social security and railroad benefits is already included in the social security and government civilian-railroad distributional effects.

Source: Derived from tables 2, 5 to 9, 19, and 20.

TABLE 31.—OLD-AGE TRANSFER PROGRAMS: PROGRESSION RANKS OF BENEFITS, TAXES OR CONTRIBUTIONS AND NET BENEFITS FOR ALL FAMILIES, BY PROGRAM,¹ 1960-61 AVERAGES

Benefit or tax	Public assistance	Veterans and military programs	Social security	Government civilian and railroad pensions	Private pensions
Benefits.....	1	4	2.5	2.5	5
Adjusted taxes or contributions:					
Under 1.50.....	4	2	4	1	4
1.50 or over.....	2.5	1	4	2.5	5
Adjusted net benefits:					
Under 1.50.....	1	4	3	2	5
1.50 or over.....	1	2	4	3	5

¹ Ranked from most-to-least progressive; i.e., rank 1 is most progressive and rank 5 is least progressive. When two programs have the same rank, this means that on the average neither program is clearly more or less progressive than the other.

Source: Derived from tables 10, 12, and 13.

TABLE 32.—TAX CONCESSIONS FOR THE AGED: PROGRESSION OF BENEFITS, TAXES, AND NET BENEFITS, BY TAX CONCESSION AND AGI INTERVALS; AND AMOUNTS OF BENEFITS, TAXES, AND NET BENEFITS, BY TAX CONCESSION, 1960-61 AVERAGES

Adjusted gross income interval	Age exemption, all returns	Retirement credit, all returns	Medical deduction, all returns	Combined tax concessions		
				All returns	Returns without age exemption	Returns with age exemption
Benefits (in billions).....	\$0.59	\$0.11	\$0.15	\$0.85	\$0.02	\$0.83
\$1,000-\$1,999.....	N	R		R		R
\$2,000-\$2,999.....	■	■		■		■
\$3,000-\$3,999.....					P	
\$4,000-\$4,999.....		P	GN			
\$5,000-\$5,999.....	P			P	■	
\$6,000-\$7,999.....		■				P
\$8,000-\$9,999.....	■			■		
\$10,000-\$14,999.....	R	N	■	R	N	
\$15,000 and over.....			R	R		
Taxes (in billions).....	\$0.59	\$0.11	\$0.15	\$0.85	\$0.71	\$0.14
\$1,000-\$1,999.....						
\$2,000-\$2,999.....						
\$3,000-\$3,999.....	N	N	N	N	GN	N
\$4,000-\$4,999.....						
\$5,000-\$5,999.....						
\$6,000-\$7,999.....	■	■	■	■	■	■
\$8,000-\$9,999.....						
\$10,000-\$14,999.....	P	P	P	P	P	P
\$15,000 and over.....						
Net benefits (in billions).....	\$0.00	\$0.00	\$0.00	\$0.00	-\$0.69	\$0.69
\$1,000-\$1,999.....	N	R		R		R
\$2,000-\$2,999.....	■	■		■	GN	■
\$3,000-\$3,999.....						
\$4,000-\$4,999.....			N		■	
\$5,000-\$5,999.....						
\$6,000-\$7,999.....	P	P		P		P
\$8,000-\$9,999.....					P	
\$10,000-\$14,999.....			■			
\$15,000 and over.....			R			

■ Denotes, for example, that in col. 1 the benefit is proportional from \$1,000-\$1,999 to \$2,000-\$2,999, progressive from \$2,000-\$2,999 to \$8,000-\$9,999, and regressive above \$8,000.
 P Progressive.
 N Proportional.
 GN Generally proportional
 R Regressive.

Source: Derived from tables 23 to 26 and 29.

TABLE 33.—AMOUNTS OF OLD-AGE TRANSFER PAYMENTS, UNADJUSTED TAXES OR CONTRIBUTIONS, AND TAX CONCESSIONS, 1960-61 AVERAGE AND 1966¹

	1960-61 average (in millions)	1966 (in millions)	1966 as percent of 1960-61 average (in percent)
Transfer payments.....	\$24,544	\$38,398	156
Public assistance.....	3,318	4,296	129
Old-age assistance.....	1,589	1,624	102
Other assistance.....	1,729	2,672	155
Veterans and military programs.....	4,610	5,724	124
Veterans pensions and compensation.....	3,491	4,013	115
Compensation.....	2,058	2,154	105
Pensions.....	1,433	1,859	130
Other veterans programs.....	383	158	41
Military pensions.....	736	1,553	211
Social security (OASDI).....	11,873	19,786	167
Government and railroad pensions.....	2,981	4,902	164
Federal civilian.....	881	1,716	195
State-local government.....	1,130	1,975	175
Railroad.....	970	1,211	125
Private pensions.....	1,762	3,600	204
Unadjusted taxes or contributions.....	27,385	45,050	165
Social security (OASDI).....	12,126	23,244	192
Government and railroad pensions.....	4,911	7,303	151
Federal civilian.....	1,620	2,283	141
State local government.....	2,719	4,270	157
Railroad.....	572	750	131
Private pensions.....	5,437	7,200	132
Tax concessions:			
Exemption of social security and railroad benefits.....	753	1,100	150
Age exemption.....	621	² 700	110
Retirement income credit.....	112	200	180
Medical deduction for the aged.....	147	(³)	-----

¹ Part of benefits received by nonaged and part of taxes paid by aged.² Includes extra minimum standard deduction for the aged.³ Repealed.

Sources: Tables A-22 and A-23.

APPENDIX

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TABLE A-1.—DISTRIBUTIVE SERIES FROM SURVEY OF CONSUMER EXPENDITURES: BENEFITS, 1960-61 AVERAGES

[In percent]

Welfare ratio interval and age of head	Public assistance ¹	Veterans and military programs ²	Social security ³	Government civilian-railroad pensions ⁴	Private pensions ⁵
All families:					
Negative.....	0.7	0.6	1.0	2.3	0
0 to 0.49.....	82.1	36.2	49.1	51.7	15.0
0.50 to 0.74.....	5.7	9.1	11.5	9.3	9.7
0.75 to 0.99.....	4.8	6.2	8.2	4.2	10.5
1.00 to 1.49.....	3.9	15.3	10.8	7.8	15.0
1.50 to 1.99.....	1.0	12.6	7.0	9.3	8.5
2.00 to 2.49.....	1.3	5.4	5.0	5.9	12.1
2.50 to 3.49.....	0.5	9.0	4.5	5.5	7.9
3.50 and over.....	0	5.7	2.8	4.0	21.2
Total.....	100.0	100.1	99.9	100.0	99.9
Head under age 65:					
Negative.....	1.0	.2	.7	.5	0
0 to 0.49.....	77.4	22.2	33.7	32.5	4.8
0.50 to 0.74.....	6.3	8.4	10.1	9.5	4.6
0.75 to 0.99.....	6.4	6.7	10.0	7.9	6.6
1.00 to 1.49.....	5.5	19.1	14.8	9.3	17.7
1.50 to 1.99.....	1.4	14.9	12.2	13.2	16.0
2.00 to 2.49.....	1.5	7.3	8.7	8.3	25.7
2.50 to 3.49.....	.5	12.9	6.0	13.2	14.7
3.50 and over.....	0	8.2	3.8	5.5	8.9
Total.....	100.0	99.9	100.0	99.9	100.0
Head aged 65 or over:					
Negative.....	0	1.4	1.2	3.0	0
0 to 0.49.....	93.3	65.6	54.0	59.6	18.4
0.50 to 0.74.....	4.4	10.5	12.0	9.2	11.5
0.75 to 0.99.....	.9	5.2	7.6	2.7	11.9
1.00 to 1.49.....	0	7.3	9.6	7.2	14.1
1.50 to 1.99.....	0	7.7	5.4	7.7	6.0
2.00 to 2.49.....	1.1	1.1	3.8	4.9	7.1
2.50 to 3.49.....	.3	.7	4.0	2.3	5.6
3.50 and over.....	0	.5	2.5	3.4	25.4
Total.....	100.0	100.0	100.1	100.0	100.0

¹ Public assistance and private relief. Public assistance accounts for about 98 percent of the reported amount. Reported public assistance amounted to about $\frac{3}{4}$ of the roughly comparable program total. Nonaged and aged families receive 70.6 and 29.4 percent, respectively, of the reported total.

² Veterans pensions and compensations (retirement, survivor, and service-connected disability pay, educational benefits, and other allowances to veterans). Excludes lump-sum payments. Reported veterans benefits amount to about $\frac{3}{4}$ of the roughly comparable program total. Nonaged and aged families receive 67.8 and 32.2 percent, respectively, of the reported total.

³ Excludes lump-sum payments. Reported benefits amounted to 97 percent of the program total. Nonaged and aged families receive 24.4 and 75.6 percent, respectively, of the reported total.

⁴ Excludes lump-sum payments. Reported benefits amounted to about 110 percent of the roughly comparable program total. Nonaged and aged families receive 29.2 and 70.8 percent, respectively, of the reported total.

⁵ Private pensions and retirement pay from private employers, labor unions, and other private sources. Excludes lump-sum payments. Reported benefits amounted to about 100 percent of the roughly comparable program total. Nonaged and aged families receive 25.5 and 74.5 percent, respectively, of the reported total.

TABLE A-2.—DISTRIBUTIVE SERIES FROM SURVEY OF CONSUMER EXPENDITURES: TAXES 1960-61 AVERAGES

[In percent]

Welfare ratio interval and age of head	Social security tax		Government civilian-railroad employee tax ³	Private pension employee contribution ⁴	Federal personal income tax ⁵	State-local personal income tax ⁶	Property tax on owner-occupied housing ⁷
	Employee ¹	Self-employment ²					
All families:							
Negative.....	0	0.7	0	0	0.1	0.2	0.2
0 to 0.49.....	.9	1.7	.1	.1	.1	.2	6.5
0.50 to 0.74.....	2.4	2.7	.5	.4	.3	.4	3.3
0.75 to 0.99.....	5.1	7.2	2.0	1.1	1.1	1.4	3.6
1.00 to 1.49.....	16.2	12.9	10.6	6.8	7.0	6.6	11.8
1.50 to 1.99.....	21.6	16.8	17.1	15.3	14.6	12.5	18.5
2.00 to 2.49.....	18.0	12.9	16.6	15.3	16.0	13.2	15.8
2.50 to 3.49.....	21.6	19.1	24.4	24.5	23.9	19.9	18.9
3.50 and over.....	14.2	25.9	28.6	36.4	36.9	4.6	21.4
Total.....	100.0	99.9	99.9	99.9	100.0	100.0	100.0
Head under age 65:							
Negative.....	0	.7	0	0	.1	.2	.2
0 to 0.49.....	.8	1.4	.1	.1	.1	.1	1.8
0.50 to 0.74.....	2.2	2.6	.5	.4	.2	.3	1.6
0.75 to 0.99.....	5.0	7.5	2.1	1.2	1.1	1.4	3.1
1.00 to 1.49.....	16.2	13.0	10.7	6.7	7.1	6.5	12.0
1.50 to 1.99.....	21.9	18.0	17.4	16.1	15.2	12.9	20.1
2.00 to 2.49.....	18.1	12.8	17.1	16.1	16.5	13.8	17.5
2.50 to 3.49.....	21.6	19.2	24.2	25.0	24.4	11.3	21.0
3.50 and over.....	14.1	24.8	28.0	34.4	35.4	3.4	22.7
Total.....	99.9	100.0	100.1	100.0	100.1	99.9	100.0
Head aged 65 or over:							
Negative.....	0	1.1	0	0	0	0	.4
0 to 0.49.....	3.4	4.2	.4	0	.5	1.6	30.2
0.50 to 0.74.....	4.8	3.2	.3	0	.7	1.2	11.6
0.75 to 0.99.....	5.9	5.3	1.2	0	1.2	1.0	6.0
1.00 to 1.49.....	16.0	12.0	9.0	8.6	6.3	7.1	10.8
1.50 to 1.99.....	16.7	6.2	13.1	4.2	7.8	7.4	10.6
2.00 to 2.49.....	15.9	13.8	9.6	3.8	10.3	6.9	6.9
2.50 to 3.49.....	21.3	18.0	28.2	16.5	17.9	7.2	8.1
3.50 and over.....	15.9	36.2	38.1	66.9	55.3	17.4	15.3
Total.....	99.9	100.0	99.9	100.0	100.0	100.0	99.9

¹ Reported tax amounted to about 90 percent of the roughly comparable program total. Nonaged and aged families pay 95.2 and 4.8 percent, respectively, of the reported total.

² On a payments basis instead of on a liability basis. Reported tax amounted to about 75 to 80 percent of the roughly comparable program total. Nonaged and aged families pay 90.3 and 9.7 percent, respectively, of the reported total.

³ Before refunds. Reported tax amounted to about 90 percent of the roughly comparable program total. Nonaged and aged families pay 94.3 and 5.7 percent, respectively, of the reported total.

⁴ Before refunds. Reported tax amounted to about 100 percent of the roughly comparable program total. Nonaged and aged families pay 93.9 and 6.1 percent, respectively, of the reported total.

⁵ On a payments basis. Federal payments minus Federal, State, and local income tax refunds. Reported tax amounted to about 80 to 85 percent of the roughly comparable national income and product account (NIPA) total. Nonaged and aged families pay 92.3 and 7.7 percent, respectively, of the reported total.

⁶ On a payments basis. Before refunds. Reported tax amounted to about 90 percent of the roughly comparable NIPA total. Nonaged and aged families pay 91.5 and 8.5 percent, respectively, of the reported total.

⁷ Nonaged and aged families pay 83.4 and 16.6 percent, respectively, of the reported total.

TABLE A-3.—DISTRIBUTIVE SERIES FROM SURVEY OF CONSUMER EXPENDITURES: MISCELLANEOUS ITEMS, 1960-61 AVERAGES

[In percent]

Welfare ratio interval and age of head	Total consumption ¹	Dividends ²	Wages and salaries ³	Net profit minus net loss ⁴	Other before tax—before public transfer income ⁵	Death and gift taxes ⁶
All families:						
Negative.....	0.2	0.2	0	-0.8	0.1	0
0 to 0.49.....	6.3	1.1	1.0	.8	7.5	0
0.50 to 0.74.....	3.7	1.8	1.9	1.8	6.4	0
0.75 to 0.99.....	5.7	1.1	4.1	4.3	6.5	0
1 to 1.49.....	15.3	5.9	13.8	9.2	14.1	0
1.50 to 1.99.....	18.5	6.4	19.6	11.8	12.0	0
2 to 2.49.....	15.0	7.3	17.4	10.3	9.2	0
2.50 to 3.49.....	18.3	12.3	22.2	17.3	15.0	0
3.50 and over.....	16.9	63.8	20.1	45.4	29.0	100.0
Total.....	99.9	99.9	100.1	100.1	99.8	100.0
Head under age 65:						
Negative.....	.1	.2	0	-.8	.1	0
0 to 0.49.....	3.1	.3	.8	.6	3.6	0
0.50 to 0.74.....	3.0	.5	1.8	1.6	4.3	0
0.75 to 0.99.....	5.6	.4	4.1	4.2	6.2	0
1 to 1.49.....	15.9	4.7	13.8	9.5	14.8	0
1.50 to 1.99.....	19.7	5.0	19.9	12.3	12.9	0
2 to 2.49.....	15.9	7.1	17.6	10.4	9.6	0
2.50 to 3.49.....	19.3	13.8	22.2	17.9	16.7	0
3.50 and over.....	17.3	68.0	19.8	44.3	31.8	100.0
Total.....	99.9	100.0	100.0	100.0	100.0	100.0
Head aged 65 or over:						
Negative.....	.7	.1	0	-.9	0	0
0 to 0.49.....	32.2	2.3	4.2	2.3	16.0	0
0.50 to 0.74.....	9.4	4.1	4.4	4.1	11.1	0
0.75 to 0.99.....	6.4	2.4	4.3	4.5	7.4	0
1 to 1.49.....	10.9	7.9	12.3	6.6	12.6	0
1.50 to 1.99.....	8.9	8.8	13.7	7.0	10.2	0
2 to 2.49.....	7.8	7.4	12.8	9.6	8.5	0
2.50 to 3.49.....	10.1	9.9	22.4	11.3	11.2	0
3.50 and over.....	13.5	56.9	25.9	55.5	23.0	100.0
Total.....	99.9	99.8	100.0	100.0	100.0	100.0

¹ Reported consumption amounted to about 90 to 95 percent of the roughly comparable NIPA total. Nonaged and aged families account for 88.9 and 11.1 percent, respectively, of the reported total.

² Dividends received from stocks and cooperatives. Reported dividends amounted to about 1/2 of the roughly comparable NIPA total. Nonaged and aged families receive 62.5 and 37.5 percent, respectively, of the reported total.

³ Before occupational expenses. Reported wages and salaries amounted to 95 to 100 percent of the roughly comparable NIPA total. Nonaged and aged families receive 95.2 and 4.8 percent, respectively, of the reported total.

⁴ Reported net profit minus net loss amounted to about 85 to 90 percent of the roughly comparable NIPA total. Nonaged and aged families receive 90.5 and 9.5 percent, respectively, of the reported total.

⁵ Before tax—before public transfer income minus the following income items: wages and salaries, net profit minus net loss, dividends, and private pension benefits. Nonaged and aged families receive 68 and 32 percent, respectively, of the reported total.

⁶ It was assumed that the nonaged and aged pay 1/4 and 1/2, respectively, of these taxes.

TABLE A-4.—PUBLIC ASSISTANCE: AMOUNTS OF BENEFITS, TAXES, AND NET BENEFITS BY WELFARE RATIO INTERVAL AND AGE OF HEAD, 1960-61 AVERAGES

[In millions]

Welfare class intervals and age of head	Benefits ¹	Tax ²	Net benefit
All families:			
Negative.....	\$23	\$4	\$19
0 to 0.49.....	2,724	111	2,613
0.50 to 0.74.....	189	73	116
0.75 to 0.99.....	159	110	49
1 to 1.49.....	129	357	-228
1.50 to 1.99.....	33	502	-469
2 to 2.49.....	43	463	-420
2.50 to 3.49.....	16	628	-612
3.50 and over.....	0	1,070	-1,070
Total.....	3,318	3,318	0
Head under age 65:			
Negative.....	23	2	21
0 to 0.49.....	1,813	46	1,767
0.50 to 0.74.....	148	46	102
0.75 to 0.99.....	150	93	57
1 to 1.49.....	129	316	-187
1.50 to 1.99.....	33	464	-431
2 to 2.49.....	35	428	-393
2.50 to 3.49.....	12	577	-565
3.50 and over.....	0	879	-879
Total.....	2,343	2,854	-511
Head aged 65 or over:			
Negative.....	0	0	0
0 to 0.49.....	910	66	844
0.50 to 0.74.....	43	27	16
0.75 to 0.99.....	9	17	-8
1 to 1.49.....	0	39	-39
1.50 to 1.99.....	0	38	-38
2 to 2.49.....	11	35	-24
2.50 to 3.49.....	3	50	-47
3.50 and over.....	0	190	-190
Total.....	975	464	511

¹ Distributed by column 1 of table A-1.

² 30, 5, 6, 44, 12, and 3 percent of this tax distributed by columns 5, 6, and 7 of table A-2, and columns 1, 2, and 6 of table A-3, respectively.

TABLE A-5.—VETERAN AND MILITARY PROGRAMS: AMOUNTS OF BENEFITS, TAXES, AND NET BENEFITS, BY WELFARE RATIO INTERVAL AND AGE OF HEAD, 1960-61 AVERAGES

[In millions]

Welfare class interval and age of head	Benefits ¹	Tax ²	Net benefit
All families:			
Negative.....	\$28	\$5	\$23
0 to 0.49.....	1,669	74	1,595
0.50 to 0.74.....	420	62	358
0.75 to 0.99.....	286	99	187
1.00 to 1.49.....	705	394	311
1.50 to 1.99.....	581	625	-44
2.00 to 2.49.....	249	630	-381
2.50 to 3.49.....	415	914	-499
3.50 and over.....	263	1,806	-1,543
Total.....	4,610	4,610	0
Head under age 65:			
Negative.....	6	4	2
0 to 0.49.....	694	30	664
0.50 to 0.74.....	259	37	222
0.75 to 0.99.....	209	82	127
1.00 to 1.49.....	597	343	254
1.50 to 1.99.....	466	570	-104
2.00 to 2.49.....	228	576	-348
2.50 to 3.49.....	403	835	-432
3.50 and over.....	256	1,455	-1,199
Total.....	3,126	3,932	-806
Head aged 65 or over:			
Negative.....	19	1	18
0 to 0.49.....	974	44	930
0.50 to 0.74.....	154	25	129
0.75 to 0.99.....	76	17	59
1.00 to 1.49.....	107	51	56
1.50 to 1.99.....	114	55	59
2.00 to 2.49.....	16	54	-38
2.50 to 3.49.....	10	79	-69
3.50 and over.....	6	351	-345
Total.....	1,484	678	806

¹ Distributed by col. 2 of table A-1. Includes lump-sum benefit payments.² 56, 22, 19, and 3 percent of Federal general tax revenue distributed by col. 5 of table A-2, and cols. 1, 2, and 6 of table A-3, respectively.

TABLE A-6.—SOCIAL SECURITY: AMOUNTS OF BENEFITS, TAXES, AND NET BENEFITS, BY WELFARE RATIO INTERVAL AND AGE OF HEAD, 1960-61 AVERAGES

[In millions]

Welfare class interval and age of head	Benefits ¹	Unadjusted tax ²	Adjusted tax ³	Unadjusted net benefit	Adjusted net benefit
All families:					
Negative.....	\$119	\$14	\$14	\$105	\$105
0 to 0.49.....	5,830	269	274	5,561	5,556
0.50 to 0.74.....	1,365	326	323	1,039	1,042
0.75 to 0.99.....	974	650	635	324	339
1 to 1.49.....	1,282	1,916	1,859	-634	-577
1.50 to 1.99.....	831	2,499	2,428	-1,668	-1,597
2 to 2.49.....	594	2,061	1,995	-1,467	-1,401
2.50 to 3.49.....	534	2,505	2,438	-1,971	-1,904
3.50 and over.....	332	1,883	1,904	-1,551	-1,572
Total.....	11,873	12,126	11,873	-253	0
Head under age 65:					
Negative.....	20	6	6	14	14
0 to 0.49.....	976	151	153	825	823
0.50 to 0.74.....	293	275	270	18	23
0.75 to 0.99.....	290	600	585	-310	-295
1 to 1.49.....	429	1,806	1,748	-1,377	-1,319
1.50 to 1.99.....	353	2,397	2,326	-2,044	-1,973
2 to 2.49.....	252	1,962	1,896	-1,710	-1,644
2.50 to 3.49.....	174	2,372	2,305	-2,198	-2,131
3.50 and over.....	110	1,748	1,750	-1,638	-1,640
Total.....	2,897	11,328	11,050	-8,431	-8,153
Head aged 65 or over:					
Negative.....	108	3	3	105	105
0 to 0.49.....	4,847	118	121	4,729	4,726
0.50 to 0.74.....	1,077	52	54	1,025	1,023
0.75 to 0.99.....	682	48	48	634	634
1 to 1.49.....	862	108	109	754	753
1.50 to 1.99.....	485	101	101	384	384
2 to 2.49.....	341	99	99	242	242
2.50 to 3.49.....	360	132	132	228	228
3.50 and over.....	224	135	154	89	70
Total.....	8,976	798	823	8,178	8,153

¹ Distributed by column 3 of table A-1. Includes lump-sum benefit payments.

² Self-employment tax distributed by column 2 of table A-2; employee tax and one-half of employer tax distributed by column 1 of table A-2; and one-half of employer tax distributed by column 1 of table A-3.

³ 56, 22, 19, and 3 percent of Federal general tax revenue distributed by column 5 of table A-2, and columns 1, 2, and 6 of table A-3, respectively.

TABLE A-7.—GOVERNMENT CIVILIAN AND RAILROAD PENSIONS: AMOUNTS OF BENEFITS, TAXES, AND NET BENEFITS, BY WELFARE RATIO INTERVAL AND AGE OF HEAD, 1960-61 AVERAGES

[In millions]

Welfare class interval and age of head	Benefits ¹	Unadjusted tax ²	Adjusted tax ³	Unadjusted net benefit	Adjusted net benefit
All families:					
Negative.....	\$69	0	-\$1	\$69	\$70
0 to 0.49.....	1,541	\$5	-16	1,536	1,557
0.50 to 0.74.....	277	24	11	253	265
0.75 to 0.99.....	125	98	64	27	61
1 to 1.49.....	233	521	361	-288	-128
1.50 to 1.49.....	277	840	579	-563	-302
2 to 2.49.....	176	815	535	-639	-359
2.50 to 3.49.....	164	1,199	788	-1,035	-624
3.50 and over.....	119	1,404	657	-1,285	1,954
Total.....	2,981	4,911	2,981	-1,930	0
Head under age 65:					
Negative.....	4	0	-1	4	5
0 to 0.49.....	284	5	4	279	280
0.50 to 0.74.....	83	23	14	60	69
0.75 to 0.99.....	69	93	63	-24	6
1 to 1.49.....	81	496	347	-415	-266
1.50 to 1.99.....	115	806	557	-691	-442
2 to 2.49.....	73	792	525	-719	-452
2.50 to 3.49.....	115	1,121	739	-1,006	-624
3.50 and over.....	48	1,297	665	-1,249	-617
Total.....	873	4,631	2,904	-3,758	-2,031
Head aged 65 or over:					
Negative.....	63	0	0	63	63
0 to 0.49.....	1,256	1	-12	1,255	1,268
0.50 to 0.74.....	194	1	-3	193	197
0.75 to 0.99.....	55	3	-1	52	56
1 to 1.49.....	150	25	14	125	136
1.50 to 1.99.....	160	37	23	123	137
2 to 2.49.....	101	27	13	74	88
2.50 to 3.49.....	48	79	49	-31	-1
3.50 and over.....	72	107	-8	-35	80
Total.....	2,108	280	77	1,828	2,031

¹ Distributed by col. 4 of table A-1. Includes lump-sum benefit payments.² Distributed by col. 3 of table A-2.³ 56, 22, 19, and 3 percent of Federal general tax revenue distributed by col. 5 of table A-2, and cols. 1, 2, and 6 of table A-3, respectively.

TABLE A-8.—PRIVATE PENSIONS: AMOUNTS OF BENEFITS, CONTRIBUTIONS, AND NET BENEFITS, BY WELFARE RATIO INTERVAL AND AGE OF HEAD, 1960-61 AVERAGES

[In millions]

Welfare class interval and age of head	Benefits ¹	Unadjusted contribution ²	Adjusted contribution ³	Unadjusted net benefit	Adjusted net benefit
All families:					
Negative.....	0	\$3	-\$1	-\$3	-\$1
0 to 0.49.....	\$264	111	58	153	206
0.50 to 0.74.....	171	86	41	85	130
0.75 to 0.99.....	185	156	84	29	101
1 to 1.49.....	264	559	263	-295	1
1.50 to 1.99.....	150	916	413	-766	-263
2 to 2.49.....	213	843	335	-630	-122
2.50 to 3.49.....	139	1,217	460	-1,078	-321
3.50 and over.....	374	1,542	105	-1,168	269
Total.....	1,762	5,437	1,762	-3,675	0
Head under age 65:					
Negative.....	0	1	-1	-1	1
0 to 0.49.....	22	53	31	-31	-9
0.50 to 0.74.....	20	67	39	-47	-19
0.75 to 0.99.....	29	145	83	-116	-54
1 to 1.49.....	79	520	249	-441	-170
1.50 to 1.99.....	72	889	420	-817	-348
2 to 2.49.....	120	819	341	-699	-221
2.50 to 3.49.....	66	1,157	453	-1,091	-387
3.50 and over.....	40	1,383	168	-1,343	-128
Total.....	449	5,036	1,785	-4,587	-1,336
Head aged 65 or over:					
Negative.....	0	1	0	-1	0
0 to 0.49.....	242	58	27	184	215
0.50 to 0.74.....	151	18	1	133	150
0.75 to 0.99.....	156	12	3	144	153
1 to 1.49.....	185	39	15	146	170
1.50 to 1.99.....	78	28	-6	50	84
2 to 2.49.....	93	25	-6	68	99
2.50 to 3.49.....	74	56	3	18	71
3.50 and over.....	334	157	-65	177	399
Total.....	1,313	401	-23	912	1,336

¹ Distributed by col. 5 of table A-1. Includes lump-sum benefit payments. Includes deferred profit-sharing plans.

² Employee contribution and about 1/4 of employer contribution distributed by col. 4 of table A-2; about 1/8 and 1/8 of employer contributions distributed by cols. 1 and 3, respectively, of table A-3.

³ 56, 22, 19, and 3 percent of Federal general tax revenue distributed by col. 5 of table A-2, and cols. 1, 2, and 6 of table A-3, respectively.

TABLE A-9.—COMBINED OLD-AGE TRANSFER PROGRAMS:¹ AMOUNTS OF BENEFITS, TAXES, AND NET BENEFITS, BY WELFARE RATIO INTERVAL AND AGE OF HEAD, 1960-61 AVERAGES

[In millions]

Welfare class interval and age of head	Benefits	Unadjusted tax	Adjusted tax	Unadjusted net benefit	Adjusted net benefit
All families:					
Negative.....	\$239	\$26	\$21	\$213	\$212
0 to 0.49.....	12,028	570	501	11,458	11,527
0.50 to 0.74.....	2,422	571	510	1,851	1,912
0.75 to 0.99.....	1,729	1,113	992	616	737
1 to 1.49.....	2,613	3,747	3,238	-1,134	-621
1.50 to 1.99.....	1,872	5,382	4,547	-3,510	-2,675
2 to 2.49.....	1,275	4,812	3,958	-3,537	-2,683
2.50 to 3.49.....	1,268	6,463	5,228	-5,195	-3,960
3.50 and over.....	1,088	7,705	5,542	-6,617	-4,454
Total.....	24,544	30,402	24,544	-5,858	0
Head under age 65:					
Negative.....	53	13	10	40	39
0 to 0.49.....	3,789	285	260	3,502	3,529
0.50 to 0.74.....	803	448	406	355	397
0.75 to 0.99.....	747	1,013	906	-266	-159
1 to 1.49.....	1,315	3,481	3,003	-2,166	-1,688
1.50 to 1.99.....	1,039	5,126	4,337	-4,087	-3,298
2 to 2.49.....	708	4,577	3,766	-3,869	-3,058
2.50 to 3.49.....	770	6,062	4,909	-5,292	-4,139
3.50 and over.....	454	6,762	4,917	-6,308	-4,463
Total.....	9,688	27,781	22,525	-18,093	-12,837
Head aged 65 or over:					
Negative.....	190	5	4	185	184
0 to 0.49.....	8,229	287	246	7,942	7,983
0.50 to 0.74.....	1,619	123	104	1,496	1,515
0.75 to 0.99.....	978	97	84	881	894
1 to 1.49.....	1,304	262	228	1,042	1,076
1.50 to 1.99.....	837	259	211	578	626
2 to 2.49.....	562	240	195	322	367
2.50 to 3.49.....	495	396	313	99	182
3.50 and over.....	636	940	622	-304	14
Total.....	14,856	2,621	2,019	12,235	12,837

¹ Includes public assistance, veteran-military programs, social security, government civilian-railroad pensions, and private pensions.

TABLE A-10.—AMOUNTS OF ADJUSTMENTS TO TAXES AND AMOUNTS OF BENEFITS FROM THE EXEMPTION OF SOCIAL SECURITY AND RAILROAD PENSIONS, BY WELFARE RATIO INTERVAL AND AGE OF HEAD, 1960-61 AVERAGES

[In millions]

Welfare class interval and age of head	Veteran-military: tax on benefits ¹	Social security: tax loss due to backward shifting ²	Government-railroad: tax on benefits ¹	Government-railroad: tax loss due to backward shifting ²	Private pension: tax on benefits ¹	Private pension: tax loss due to backward shifting ²	Exemption of social security and railroad pensions: benefits ³
All families:							
Negative.....	0	-0	0	-0	0	-0	0
0 to 0.49.....	0	-0	0	-0	0	-0	0
0.50 to 0.74.....	\$2	-\$8	\$6	-\$2	\$1	-\$3	\$79
0.75 to 0.99.....	3	-22	4	-10	5	-8	90
1 to 1.49.....	8	-86	10	-58	20	-40	169
1.50 to 1.99.....	8	-117	13	-96	13	-75	129
2 to 2.49.....	4	-113	9	-108	22	-83	98
2.50 to 3.49.....	7	-135	9	-158	15	-124	99
3.50 and over.....	5	-113	9	-235	56	-205	89
Total.....	37	-594	60	-667	132	-537	753
Head under age 65:							
Negative.....	0	-0	0	-0	0	-0	0
0 to 0.49.....	0	-0	0	-0	0	-0	0
0.50 to 0.74.....	2	-8	3	-2	0	-3	26
0.75 to 0.99.....	3	-21	3	-10	2	-8	34
1 to 1.49.....	8	-83	4	-56	7	-39	56
1.50 to 1.99.....	7	-113	6	-92	7	-74	50
2 to 2.49.....	4	-109	4	-105	13	-82	36
2.50 to 3.49.....	7	-129	6	-148	7	-119	28
3.50 and over.....	5	-106	3	-216	5	-183	21
Total.....	36	-569	29	-629	41	-506	251
Head aged 65 or lower:							
Negative.....	0	-0	0	-0	0	-0	0
0 to 0.49.....	0	-0	0	-0	0	-0	0
0.50 to 0.74.....	0	-0	3	-0	1	-0	53
0.75 to 0.99.....	0	-1	1	-0	3	-0	56
1 to 1.49.....	0	-3	6	-2	13	-1	113
1.50 to 1.99.....	1	-4	7	-4	6	-2	79
2 to 2.49.....	0	-4	5	-3	9	-2	62
2.50 to 3.49.....	0	-6	3	-10	8	-5	71
3.50 and over.....	0	-7	6	-19	51	-22	68
Total.....	1	-25	31	-38	91	-31	502

¹ The Federal personal income tax increases resulting from the taxation of pension income were estimated as follows: First, estimated potentially taxable benefits (retirement and survivor benefits in excess of employer contributions) were distributed by welfare ratio classes. Second, the increases in taxable income were estimated. For the bottom two welfare ratio classes, it was assumed that there were no such increases. For each other welfare class (for nonaged and aged families), the increase in taxable income was estimated as the product of the class' potentially taxable pensions and the ratio of the class' number of families with Federal income tax to the class' total number of families. When compared with Statistics of Income data on taxable pensions and annuities, our estimated increase in taxable income seemed much too high. Accordingly, the estimated increases in taxable income were reduced about 45 percent. Third, the marginal tax rates were estimated as explained in footnote 2. Fourth, the deflated increases in taxable income were multiplied by the marginal tax rates to get the increases in Federal tax.

² The Federal personal income tax losses resulting from the backward-shifting of employer payroll taxes were estimated as follows: First, the decreases in taxable income were estimated. For the bottom two welfare ratio classes it was assumed that there were no such increases. For each other welfare class (for nonaged and aged families) the increase in taxable income was estimated as the product of the class' backward-shifted tax and the ratio of the class' number of families with Federal income tax to the class' total number of families. Second, the marginal tax rates were estimated. For each welfare class average reported Federal income tax per family with such tax was calculated. On the basis of these average tax payments, marginal tax rates were estimated. Third, the decreases in taxable income were multiplied by the marginal tax rates to get the decreases in Federal tax.

³ The Federal personal income tax decreases resulting from the exemption of 90 percent of social security and railroad retirement and survivor benefits were estimated as follows: First, estimated exemptible benefits (90 percent of retirement and survivor benefits) were distributed by welfare ratio classes. Second, the decrease in taxable income were estimated. For the bottom two welfare ratio classes, it was assumed that there were no such decreases. For each other welfare class (for nonaged and aged families) the decrease in taxable income was estimated as the product of the class' exemptible pensions and the ratio of the class' number of families with Federal income tax to the class' total number of families. Third, the marginal tax rates were estimated as explained in footnote 2. Fourth, the decreases in taxable income were multiplied by the marginal tax rates to get the decreases in Federal tax.

TABLE A-11.—BEFORE TAX-BEFORE PUBLIC TRANSFER INCOME, INFLATED BEFORE TAX-BEFORE PUBLIC TRANSFER INCOME, ADJUSTED BEFORE TAX-BEFORE TRANSFER INCOME, LOW-COST LEVEL INCOME, NUMBER OF FAMILIES, AND NUMBER OF PERSONS, BY WELFARE RATIO INTERVAL AND AGE OF HEAD, 1960-61 AVERAGES

Welfare class interval and age of head	Before tax-before public transfer income (millions) ¹	Inflated before tax-before public transfer income (millions) ²	Adjusted before tax-before transfer income (millions)	Low-cost level income (millions)	Number of families (thousands)	Number of persons (thousands)
All families:						
Negative.....	-\$241	-\$260	-\$202	\$477	204	499
0 to 0.49.....	4,564	6,190	6,341	23,179	8,641	20,704
0.50 to 0.74.....	7,146	8,759	9,341	11,438	3,459	11,420
0.75 to 0.99.....	13,788	15,734	16,297	15,653	4,294	16,071
1 to 1.49.....	42,525	47,435	50,530	33,937	9,325	34,458
1.50 to 1.99.....	57,909	63,157	67,305	33,287	9,648	32,898
2 to 2.49.....	51,103	55,557	59,699	22,870	6,952	21,953
2.50 to 3.49.....	67,489	74,135	80,721	23,144	7,690	21,018
3.50 and over.....	77,874	91,075	114,055	14,897	5,097	13,432
Total.....	322,164	361,798	404,106	178,882	55,310	172,453
Head under age 65:						
Negative.....	-208	-221	-175	259	94	307
0 to 0.49.....	2,700	3,286	3,375	11,521	3,294	11,600
0.50 to 0.74.....	5,549	6,374	6,589	8,890	2,318	9,321
0.75 to 0.99.....	12,443	13,858	14,267	14,107	3,598	14,784
1 to 1.49.....	39,645	43,546	45,792	31,607	8,346	32,497
1.50 to 1.99.....	55,100	59,461	62,551	31,652	8,969	31,488
2 to 2.49.....	48,414	52,099	55,372	21,660	6,468	20,878
2.50 to 3.49.....	63,367	68,979	74,303	21,744	7,109	19,827
3.50 and over.....	69,913	80,208	96,433	13,711	4,603	12,399
Total.....	296,923	327,589	358,510	155,151	44,799	153,101
Head aged 65 or over:						
Negative.....	-33	-38	-26	217	110	192
0 to 0.49.....	1,863	2,903	2,964	11,659	5,347	9,105
0.50 to 0.74.....	1,597	2,385	2,751	2,549	1,141	2,099
0.75 to 0.99.....	1,343	1,874	2,026	1,546	696	1,287
1 to 1.49.....	2,881	3,892	4,741	2,330	979	1,962
1.50 to 1.99.....	2,810	3,698	4,754	1,635	678	1,411
2 to 2.49.....	2,686	3,451	4,319	1,210	484	1,075
2.50 to 3.49.....	4,124	5,160	6,419	1,400	582	1,191
3.50 and over.....	7,963	10,870	17,623	1,186	494	1,033
Total.....	25,234	34,198	45,585	23,732	10,511	19,355

¹ BLS before tax-money income minus income from public transfer programs; the public transfer programs are public assistance, veteran-military programs, social security, government civilian-railroad pensions, unemployment insurance, and workmen's compensation.

² Before tax-before public transfer income adjusted for underreporting. Reported money wages, in-kind wages, net profit minus net loss, dividends, private pension benefits, and other before tax-before public transfer income were as follows (in billions): \$257.6, \$1.6, \$37.4, \$5, \$1.7, and \$18.9, respectively. These income items were increased by 4, 15, 13, 108, -1, and 100 percent, respectively, to adjust for underreporting.

³ Inflated before tax-before public transfer income minus private pension benefit income, and plus the following (in millions) (a) retained corporate profits (\$13,359), (b) unshifted part of corporate income taxes (\$15,378), (c) dividends paid to institutions (\$3,234), (d) backward-shifted social security payroll taxes and unemployment insurance payroll taxes (\$4,321), (e) backward-shifted private pension contributions (\$4,730), and (f) backward-shifted government civilian-railroad pension taxes and veterans life insurance contributions and cash sickness contributions (\$2,938). Items (a), (b), and (c) are distributed by col. 2 of table A-3. Items (d) and (f) are distributed by cols. 1 and 3, respectively, of table A-2. $\frac{1}{4}$ and $\frac{3}{4}$ of item (e) are distributed by col. 3 of table A-3 and col. 4 of table A-2, respectively. Item (e) should have been distributed $\frac{1}{6}$ by col. 3 of table A-3, $\frac{1}{6}$ by col. 4 of table A-2, and $\frac{1}{2}$ by col. 1 of table A-3. Lack of time made it necessary to forgo this minor correction.

TABLE A-12.—DISTRIBUTIVE SERIES, BY AGI INTERVAL AND TYPE OF RETURN, 1967-61 AVERAGES

[In percent]

Adjusted gross income intervals	Federal personal income tax ¹	Dividends before exclusion ²	Consumption ³	Death and gift taxes ⁴
All returns:				
\$1,000 to \$1,999.....	1.2	2.2	6.5	0
\$2,000 to \$2,999.....	2.6	2.9	7.5	0
\$3,000 to \$3,999.....	4.6	2.8	9.3	0
\$4,000 to \$4,999.....	6.6	2.9	10.7	0
\$5,000 to \$5,999.....	8.2	2.9	11.5	0
\$6,000 to \$7,999.....	16.9	5.7	19.7	0
\$8,000 to \$9,999.....	13.2	5.2	12.5	0
\$10,000 to \$14,999.....	16.1	11.1	12.2	0
\$15,000 and over.....	30.6	64.2	10.1	100
\$1,000 and over.....	100.0	99.9	100.0	100
Returns without age exemptions:				
\$1,000 to \$1,999.....	1.3	1.5	5.8	0
\$2,000 to \$2,999.....	2.8	1.6	7.1	0
\$3,000 to \$3,999.....	4.8	2.1	9.2	0
\$4,000 to \$4,999.....	6.9	2.0	10.8	0
\$5,000 to \$5,999.....	8.6	2.3	11.8	0
\$6,000 to \$7,999.....	17.8	4.9	20.4	0
\$8,000 to \$9,999.....	14.0	5.7	13.0	0
\$10,000 to \$14,999.....	16.7	11.5	12.5	0
\$15,000 and over.....	27.2	68.4	9.3	100
\$1,000 and over.....	100.1	100.0	99.9	100
Returns with age exemption:				
\$1,000 to \$1,999.....	2	3.0	15.1	0
\$2,000 to \$2,999.....	1.1	4.3	12.8	0
\$3,000 to \$3,999.....	2.6	3.7	10.6	0
\$4,000 to \$4,999.....	4.0	3.8	9.3	0
\$5,000 to \$5,999.....	4.5	3.6	7.9	0
\$6,000 to \$7,999.....	8.3	6.7	10.9	0
\$8,000 to \$9,999.....	5.6	4.6	6.1	0
\$10,000 to \$14,999.....	9.6	10.6	7.5	0
\$15,000 and over.....	64.2	59.7	19.7	100
\$1,000 and over.....	100.1	100.0	99.9	100

¹ Nonaged and aged returns pay 91 and 9 percent, respectively, of Federal personal income tax.

² Nonaged and aged returns received 52.6 and 47.4 percent, respectively, of dividends.

³ Nonaged and aged returns account for 92.7 and 7.3 percent, respectively, of consumption. For each SCE before tax-before public transfer income class (for all families, nonaged families, and aged families), the ratio of total consumption was calculated to an income concept which approximates AGI. This approximation of AGI is before tax-income minus the following: social security benefits, unemployment insurance, workmen's compensation, public assistance, gifts of cash, military allocations, pensions, etc., and contributions for support. These consumption-income ratios were applied to the distributions of AGI by AGI classes to estimate distributions of consumption.

⁴ It was assumed that nonaged and aged returns pay $\frac{3}{4}$ and $\frac{1}{4}$, respectively, of death and gift taxes.

TABLE A-13.—AGE EXEMPTION: AMOUNTS OF BENEFITS, TAXES, AND NET BENEFITS, BY AGI INTERVAL AND TYPE OF RETURN, 1960-61 AVERAGES

[In millions]

Adjusted gross income intervals	Benefit ¹	Tax ²	Net benefit
All returns:			
\$1,000 to \$1,999.....	\$61	\$15	\$46
\$2,000 to \$2,999.....	102	22	80
\$3,000 to \$3,999.....	78	31	47
\$4,000 to \$4,999.....	69	39	30
\$5,000 to \$5,999.....	49	46	3
\$6,000 to \$7,999.....	67	88	-21
\$8,000 to \$9,999.....	35	67	-32
\$10,000 to \$14,999.....	45	82	-37
\$15,000 and over.....	83	200	-107
\$1,000 and over.....	589	590	-1
Returns without age exemption:			
\$1,000 to \$1,999.....	0	12	-12
\$2,000 to \$2,999.....	0	18	-18
\$3,000 to \$3,999.....	0	28	-28
\$4,000 to \$4,999.....	0	35	-35
\$5,000 to \$5,999.....	0	42	-42
\$6,000 to \$7,999.....	0	81	-81
\$8,000 to \$9,999.....	0	62	-62
\$10,000 to \$14,999.....	0	73	-73
\$15,000 and over.....	0	142	-142
\$1,000 and over.....	0	493	-493
Returns with age exemption:			
\$1,000 to \$1,999.....	61	3	58
\$2,000 to \$2,999.....	102	4	98
\$3,000 to \$3,999.....	78	3	75
\$4,000 to \$4,999.....	69	4	65
\$5,000 to \$5,999.....	49	4	45
\$6,000 to \$7,999.....	67	7	60
\$8,000 to \$9,999.....	35	5	30
\$10,000 to \$14,999.....	45	9	36
\$15,000 and over.....	83	58	25
\$1,000 and over.....	589	97	492

¹ Estimate based on assumption that all other 1960-61 tax provisions are in effect.

² Of this tax 58, 19, 21, and 2 percent were distributed by cols. 1, 2, 3, and 4, respectively, of table A-12.

TABLE A-14.—RETIREMENT INCOME CREDIT: AMOUNTS OF BENEFITS, TAXES, AND NET BENEFITS, BY AGI INTERVAL AND TYPE OF RETURN, 1960-61 AVERAGES

[In millions]

Adjusted gross income intervals	Benefit ¹	Tax ²	Net benefit
All returns:			
\$1,000 to \$1,999.....	\$5	\$3	\$2
\$2,000 to \$2,999.....	16	4	12
\$3,000 to \$3,999.....	20	6	14
\$4,000 to \$4,999.....	18	7	11
\$5,000 to \$5,999.....	9	9	0
\$6,000 to \$7,999.....	16	17	-1
\$8,000 to \$9,999.....	8	13	-5
\$10,000 to \$14,999.....	10	15	-5
\$15,000 and over.....	10	38	-28
\$1,000 and over.....	112	111	1
Returns without age exemption:			
\$1,000 to \$1,999.....	3	2	1
\$2,000 to \$2,999.....	3	3	0
\$3,000 to \$3,999.....	3	5	-2
\$4,000 to \$4,999.....	4	6	-2
\$5,000 to \$5,999.....	1	8	-7
\$6,000 to \$7,999.....	1	16	-15
\$8,000 to \$9,999.....	2	12	-10
\$10,000 to \$14,999.....	1	13	-12
\$15,000 and over.....	1	27	-26
\$1,000 and over.....	19	94	-75
Returns with age exemption:			
\$1,000 to \$1,999.....	2	1	1
\$2,000 to \$2,999.....	13	1	12
\$3,000 to \$3,999.....	17	1	16
\$4,000 to \$4,999.....	14	1	13
\$5,000 to \$5,999.....	8	1	7
\$6,000 to \$7,999.....	15	1	14
\$8,000 to \$9,999.....	6	1	5
\$10,000 to \$14,999.....	9	2	7
\$15,000 and over.....	9	11	-2
\$1,000 and over.....	93	18	75

¹ Estimate based on assumption that all other 1960-61 tax provisions are in effect.

² Of this tax 58, 19, 21, and 1 percent were distributed by columns 1, 2, 3, and 4, respectively, of table A-12.

TABLE A-15.—MEDICAL DEDUCTION FOR THE AGED: AMOUNTS OF BENEFITS, TAXES, AND NET BENEFITS, BY AGI INTERVAL AND TYPE OF RETURN, 1960-61 AVERAGES

[In millions]

Adjusted gross income intervals	Benefit ¹	Tax ²	Net benefit
All returns:			
\$1,000 to \$1,999.....	0	\$4	-\$4
\$2,000 to \$2,999.....	\$2	5	-3
\$3,000 to \$3,999.....	4	8	-4
\$4,000 to \$4,999.....	5	10	-5
\$5,000 to \$5,999.....	5	11	-6
\$6,000 to \$7,999.....	9	22	-13
\$8,000 to \$9,999.....	5	16	-11
\$10,000 to \$14,999.....	11	20	-9
\$15,000 and over.....	106	49	57
\$1,000 and over.....	147	145	2
Nonaged returns:			
\$1,000 to \$1,999.....	0	3	-3
\$2,000 to \$2,999.....	0	4	-4
\$3,000 to \$3,999.....	0	7	-7
\$4,000 to \$4,999.....	0	9	-9
\$5,000 to \$5,999.....	0	10	-10
\$6,000 to \$7,999.....	0	20	-20
\$8,000 to \$9,999.....	0	15	-15
\$10,000 to \$14,999.....	0	18	-18
\$15,000 and over.....	0	35	-35
\$1,000 and over.....	0	121	-121
Aged returns:			
\$1,000 to \$1,999.....	0	1	-1
\$2,000 to \$2,999.....	2	1	1
\$3,000 to \$3,999.....	4	1	3
\$4,000 to \$4,999.....	5	1	4
\$5,000 to \$5,999.....	5	1	4
\$6,000 to \$7,999.....	9	2	7
\$8,000 to \$9,999.....	5	1	4
\$10,000 to \$14,999.....	11	2	9
\$15,000 and over.....	106	14	92
\$1,000 and over.....	147	24	123

¹ Estimate based on assumption that all other 1960-61 tax provisions are in effect.

² Of this tax 58, 19, 21, and 2 percent were distributed by columns 1, 2, 3, and 4, respectively, of table A-12.

TABLE A-16.—3 TAX CONCESSIONS FOR THE AGED COMBINED:¹ AMOUNTS OF BENEFITS TAXES, AND NET BENEFITS, BY AGI INTERVAL AND TYPE OF RETURN, 1960-61 AVERAGES

[In millions]

Adjusted gross income intervals	Benefit	Tax ²	Net benefit
All returns:			
\$1,000 to \$1,999.....	\$66	\$22	\$44
\$2,000 to \$2,999.....	120	31	89
\$3,000 to \$3,999.....	102	45	57
\$4,000 to \$4,999.....	92	56	36
\$5,000 to \$5,999.....	63	66	-3
\$6,000 to \$7,999.....	92	127	-35
\$8,000 to \$9,999.....	48	96	-48
\$10,000 to \$14,999.....	66	117	-51
\$15,000 and over.....	199	287	-88
\$1,000 and over.....	848	846	2
Nonaged returns:			
\$1,000 to \$1,999.....	3	17	-14
\$2,000 to \$2,999.....	3	25	-22
\$3,000 to \$3,999.....	3	40	-37
\$4,000 to \$4,999.....	4	50	-46
\$5,000 to \$5,999.....	1	60	-59
\$6,000 to \$7,999.....	1	117	-116
\$8,000 to \$9,999.....	2	89	-87
\$10,000 to \$14,999.....	1	104	-103
\$15,000 and over.....	1	204	-203
\$1,000 and over.....	19	708	-689
Aged returns:			
\$1,000 to \$1,999.....	63	5	58
\$2,000 to \$2,999.....	117	6	111
\$3,000 to \$3,999.....	99	5	94
\$4,000 to \$4,999.....	88	6	82
\$5,000 to \$5,999.....	62	6	56
\$6,000 to \$7,999.....	91	10	81
\$8,000 to \$9,999.....	46	7	39
\$10,000 to \$14,999.....	65	13	52
\$15,000 and over.....	198	83	115
\$1,000 and over.....	829	139	690

¹ Includes age exemption, retirement income credit, and special medical deduction for the aged.

² Of this tax 58, 19, 21, and 2 percent were distributed by cols. 1, 2, 3, and 4, respectively, of table A-12.

TABLE A-17.—ADJUSTED GROSS INCOME AND NUMBER OF RETURNS, BY AGI INTERVAL AND TYPE OF RETURN, 1960-61 AVERAGES

Adjusted gross income intervals	AGI (millions)	Number of returns (thousands)
All returns:		
\$1,000 to \$1,999.....	\$10,776	7,311
\$2,000 to \$2,999.....	17,098	6,835
\$3,000 to \$3,999.....	23,721	6,786
\$4,000 to \$4,999.....	30,249	6,725
\$5,000 to \$5,999.....	34,708	6,325
\$6,000 to \$7,999.....	64,282	9,303
\$8,000 to \$9,999.....	43,517	4,898
\$10,000 to \$14,999.....	45,679	3,884
\$15,000 and over.....	50,022	1,780
\$1,000 and over.....	320,052	53,845
Returns without age exemption:		
\$1,000 to \$1,999.....	9,027	6,110
\$2,000 to \$2,999.....	15,040	6,007
\$3,000 to \$3,999.....	21,714	6,209
\$4,000 to \$4,999.....	28,181	6,263
\$5,000 to \$5,999.....	32,875	5,989
\$6,000 to \$7,999.....	61,422	8,897
\$8,000 to \$9,999.....	41,851	4,708
\$10,000 to \$14,999.....	43,196	3,675
\$15,000 and over.....	41,775	1,553
\$1,000 and over.....	295,081	49,409
Returns with age exemption:		
\$1,000 to \$1,999.....	1,749	1,201
\$2,000 to \$2,999.....	2,058	828
\$3,000 to \$3,999.....	2,007	577
\$4,000 to \$4,999.....	2,068	462
\$5,000 to \$5,999.....	1,833	336
\$6,000 to \$7,999.....	2,860	406
\$8,000 to \$9,999.....	1,666	190
\$10,000 to \$14,999.....	2,483	209
\$15,000 and over.....	8,247	227
\$1,000 and over.....	24,971	4,436

TABLE A-18.—CUMULATIVE PERCENTAGE DISTRIBUTIONS OF NUMBER OF AGED BENEFICIARY UNITS,¹ BY PROGRAM, TYPE OF UNIT, AND INCOME INTERVAL, 1962

[In percent]

Type of unit and income intervals	Public assistance	Veterans pensions and compensation	Railroad pensions	Government civilian and military pensions	Social security	Private pensions
Married couples:						
Under \$2,202.....	84	19	15	8	33	8
Under \$3,833.....	99	70	59	42	70	58
Total.....	100	100	100	100	100	100
Nonmarried men:						
Under \$1,023.....	61	14	0	9	27	2
Under \$1,848.....	96	50	50	26	66	26
Total.....	100	100	100	100	100	100
Nonmarried women:						
Under \$785.....	34	9	10	4	23	10
Under \$1,372.....	81	31	51	26	60	23
Total.....	100	100	100	100	100	100

¹ Aged 65 or over.

Source: Unpublished tabulations from the 1963 Social Security Survey of the Aged. For a description of this survey study see Lenore A. Epstein and Janet H. Murray, *The Aged Population of the United States: The 1963 Social Security Survey of the Aged*, U.S. Department of Health, Education, and Welfare, Social Security Administration, Office of Research and Statistics, Research Report No. 19, U.S. Government Printing Office, Washington, D.C., 1967.

TABLE A-19.—CUMULATIVE PERCENTAGE DISTRIBUTIONS OF AMOUNTS OF BENEFITS TO THE AGED,¹ BY PROGRAM, TYPE OF UNIT, AND INCOME INTERVAL, 1962

[In percent]

Type of unit and income intervals	Public assistance	Veterans pensions and compensation	Government civilian, military, and railroad pensions	Social security	Private pensions
Married couples:					
Under \$2,202.....	79	19	6	28	4
Under \$3,833.....	100	71	36	40	39
Total.....	100	100	100	100	100
Nonmarried men:					
Under \$1,023.....	49	12	2	20	0
Under \$1,848.....	92	47	27	60	13
Total.....	100	100	100	100	100
Nonmarried women:					
Under \$785.....	23	7	4	16	5
Under \$1,372.....	69	26	28	55	15
Total.....	100	100	100	100	100

¹ Aged 65 or over.

Source: Epstein and Murray op. cit.

TABLE A-20.—AVERAGE INCOME OF UNITS RECEIVING PARTICULAR TRANSFER PAYMENTS

[In thousands]

Units receiving particular transfer payments	Average before tax—	
	After transfer income ¹	After transfer income minus designated transfer payment ²
Defense Department survey (1965 income):		
All families: Military nondisability pensions for males.....	\$10.8	\$7.6
Head under age 65: Military nondisability pensions for males.....	11.0	7.9
Head aged 65 or over: Military nondisability pensions for males.....	9.1	5.0
BLS Survey of Consumer Expenditures (1960-61 income):		
All families:		
Public assistance.....	2.0	1.0
Veterans and military programs.....	6.5	5.6
Social security.....	4.0	2.9
Government civilian and railroad pensions.....	4.6	3.2
Private pensions.....	5.2	4.1
Head under age 65:		
Public assistance.....	2.7	1.6
Veterans and military programs.....	7.3	6.4
Social security.....	5.8	4.9
Government civilian and railroad pensions.....	6.1	4.8
Private pensions.....	6.9	5.9
Head aged 65 or over:		
Public assistance.....	1.7	.9
Veterans and military programs.....	3.6	2.7
Social security.....	3.4	2.3
Government civilian and railroad pensions.....	4.0	2.4
Private pensions.....	4.7	3.6
SSA 1963 Survey of the Aged (1962 income):		
Aged units:		
Public assistance.....	1.4	.4
Veterans programs.....	2.9	2.0
Social security.....	2.5	1.5
Government civilian, military, and railroad pensions.....	3.4	1.8
Private pensions.....	3.4	2.6

¹ Average before tax—after transfer income of units receiving a particular type of transfer payment.² Column 1 minus average transfer payment of a particular type for units receiving that type of transfer payment.

Source: Defense Department survey; Bette L. Mahoney and Alan E. Fechter, "The Economics of Military Retirement," pt. IV of this compendium, pp. 177-196.

TABLE A-21.—LOW-COST LEVEL INCOME CUTOFFS FOR DIFFERENT NONFARM FAMILY TYPES, WEIGHTED AVERAGES FOR 1960 ^{1 2}

Number of family members	Total	Male head	Female head
1 member, total.....	\$1,805	\$1,890	\$1,755
Head under age 65.....	1,850	1,935	1,790
Head aged 65 and over.....	1,715	1,745	1,705
2 members, total.....	2,595	2,610	2,485
Head under age 65.....	2,670	2,690	2,530
Head aged 65 and over.....	2,420	2,425	2,375
3 members.....	3,105	3,120	3,020
4 to 5 members.....	4,195	4,200	4,100
6 to 7 or more members.....	5,695	5,695	5,710

¹ Farm cutoffs are 70 percent of nonfarm cutoffs.² 1960 income cutoffs weighted by March 1961 population weights.

TABLE A-22.—AMOUNT OF BENEFITS, BY TYPE OF BENEFIT AND AGE OF BENEFICIARY,¹ CALENDAR 1966

[In millions]

Type of benefit	Total benefits	Received by beneficiaries	
		Under age 65	Age 65 or over
Public assistance.....	\$4,296	\$2,578	\$1,718
Special assistance.....	4,048	2,355	1,693
Old-age assistance.....	1,624	0	1,624
Other.....	2,424	2,355	69
General assistance.....	248	223	25
Veteran and military programs.....	5,724	3,746	1,978
Veterans pensions and compensation.....	4,013	2,266	1,747
Disability.....	2,884	1,702	1,182
Compensation.....	1,689	(?)	(?)
Pensions.....	1,195	(?)	(?)
Survivors.....	1,129	564	565
Compensation.....	465	(?)	(?)
Pensions.....	664	(?)	(?)
Other veterans programs.....	158	142	16
Military pensions.....	1,553	1,338	215
Retirement.....	1,243	1,094	149
Disability.....	305	241	64
Survivor.....	5	3	2
Social security (OASDI).....	19,786	5,667	14,119
Retirement.....	13,240	1,324	11,916
Disability.....	1,757	1,757	0
Survivor.....	4,789	2,586	2,203
Social security (health insurance).....	1,019	0	1,019
Government civilian and railroad pensions.....	4,902	1,540	3,362
Federal civilian ²	1,716	678	1,038
Retirement.....	1,141	308	833
Disability.....	334	227	107
Survivor.....	241	143	98
State and local government ³	1,975	636	1,339
Retirement.....	1,555	389	1,166
Disability.....	170	124	46
Survivor.....	250	123	127
Railroad pensions.....	1,211	226	985
Retirement.....	733	29	704
Disability.....	164	74	90
Survivor.....	314	123	191
Private pensions ⁴	4,600	900	2,700
Retirement ⁵	3,420	(?)	(?)
Disability ⁵	180	(?)	(?)

¹ Divided between nonaged and aged on basis of age of beneficiary.

² Not estimated.

³ Excludes refunds of employee contributions.

⁴ Estimated on basis of data in Walter W. Kolodrubetz, "Growth in Employee-Benefit Plans, 1956-65," Social Security Bulletin, April 1967, p. 20.

⁵ It was assumed that retirement and disability benefits accounts for 95 and 5 percent, respectively, of private pension benefits.

Sources: Col. 1: Survey of Current Business, 47, July 1967, p. 27; and unpublished data. Cols. 2 and 3: Veterans pensions and compensation, military pensions, social security, Federal civilian pensions, and railroad pensions divided between nonaged and aged on basis of unpublished data for fiscal years 1965 and 1966 from the Administration on Aging. Special assistance divided between nonaged and aged on basis of Welfare Administration surveys. It was assumed that the nonaged and the aged receive 90 and 10 percent, respectively, of general assistance and that the nonaged and aged receive 90 and 10 percent, respectively, of other veterans benefits. State-local pensions divided between nonaged and aged on basis of Social Security Administration estimates. Private pensions divided between nonaged and aged on basis of SCE data.

TABLE A-23.—AMOUNTS OF TAXES OR CONTRIBUTIONS, BY TYPE OF TAX OR CONTRIBUTION, CALENDAR 1966

[In millions]

Type of tax or contribution	Amount	Type of tax or contribution	Amount
Public assistance.....	\$4,296	Social Security—Continued	
Federal general tax revenue.....	2,363	Adjustments: Federal general tax revenue..	—\$1,732
State general tax revenue.....	1,461	Adjusted tax.....	1,019
Local general tax revenue.....	472	Government civilian and railroad pensions:	
Veterans and military programs.....	5,724	Unadjusted tax.....	7,303
Federal general tax revenue.....	5,644	Federal employee tax ¹	1,181
Tax on military pensions.....	80	Federal employer tax.....	1,254
Social security (OASDI):		State-local employee tax ¹	1,850
Unadjusted tax.....	23,244	State-local employer tax.....	2,750
Self-employment tax.....	955	Railroad employee tax.....	375
Employee tax.....	11,159	Railroad employer tax.....	375
Employer tax.....	11,130	Adjustments:	
Adjustments:		Tax on Government pensions.....	90
Tax loss due to backward shifting.....	—1,000	Tax loss due to backward shifting.....	—900
Federal general tax revenue.....	—2,458	Federal general tax revenue.....	—1,591
Adjusted tax.....	19,786	Adjusted tax.....	4,902
Social security (health insurance):		Private pensions:	
Unadjusted tax.....	2,751	Unadjusted contribution.....	\$7,200
Hospital insurance:		Employee contribution.....	\$1,600
Self-employment tax.....	95	Employer contribution.....	\$5,600
Employee tax.....	1,011	Adjustments:	
Employer tax.....	1,011	Tax on pensions.....	230
Medical insurance:		Tax loss due to backward shifting.....	—550
Personal contributions.....	317	Federal general tax revenue.....	—3,280
Government contributions.....	317	Adjusted contribution.....	3,600

¹ Collections minus refunds.² Estimated on basis of data in Walter W. Kolodrubetz, "Growth in Employee-Benefit Plans, 1950-65," Social Security Bulletin, April 1967, p. 20.

Sources: Survey of Current Business, 47, July 1967, p. 27; and unpublished data.

COUNTING THE POOR: BEFORE AND AFTER FEDERAL INCOME-SUPPORT PROGRAMS

BY MOLLIE ORSHANSKY*

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 INTRODUCTION

Despite much progress, and in the face of a record run of continuing prosperity unique in our history, the anomaly of privation in plenty continues. A large share of that privation—indeed more than in earlier years—is borne by aged persons, women who must themselves serve as family heads, Negroes, and others who in our society have a hard time earning enough to support themselves and their dependents. This is not to say that such groups fare worse in the absolute sense than their counterparts of yesteryear but rather that today they have fewer others around to keep them company.

To be sure there are public programs to provide income when earnings are interrupted or lacking altogether, but they are limited in both how much they may pay and to whom they will pay it. Thus, some get no help at all from any program though their other sources of income are well below what they need, while others who do get such help are nevertheless poor even after the payments.

As a group the aged can look to more help from public sources than those younger, yet persons past their 65th birthday continue to be the most poverty-stricken age group in the Nation. With relatively few aged persons able to count on regular earnings, and a majority now drawing part if not all of their current income from social security or some other public program, the fact that so many are poor is intimately related to the amounts payable under such programs—though many more not now ranked among the poor are counted among the nonpoor solely because of the programs.

But most young households now poor don't receive any public income support, and many of them are poor despite regular attachment to the labor force.

The fact that there now exists, if only until a better measure is developed, an official working definition of poverty, makes it possible to evaluate progress and pinpoint specific areas of concern in a way not possible before.

In 1965 the Social Security Administration developed two criteria to assay the relative economic well-being of different types of households in this country, and the lower of these two measures is being used as the current delineator of poverty for program planning.¹ The implied level of living is that afforded by an income in 1966 of about \$65 weekly for an average family of four not living on a farm (and correspondingly more for larger households and less for smaller). The slightly less stringent measure, labeled "near poor," requires about a third more in income, or about \$20 more for a four-person family, than the amount of income at the poverty threshold (table 1).

The poverty and low-income criteria, adjusted for price changes, have been carried back as far as 1959, so that it is possible to see the changes in both the number and the kinds of households identified as poor or near poor during the 7 successive years of plenty. At the end of 1959, a total of 38.9 million Americans in 13.4 million households were classified as poor. Four years later the number of individuals with inadequate income had declined by about 3½ million. By the end of 1966, the same income standard—considered by some almost too niggardly to be American—counted 9¼ million fewer persons as living in poverty than were so designated in 1959.

These counts are made on the basis of money income from all sources, including social security, public assistance, and other public transfers. Judged by 1965, the latest year for which there is information on public transfer payments, no more than half these households

¹ For a description and discussion of both the Social Security Administration indexes, see the Social Security Bulletin, Mollie Orshansky: "The Shape of Poverty in 1966," March 1968; "The Poor in City and Suburb," December 1966; "More About the Poor in 1964," May 1966; "Recounting the Poor: A 5-Year Review," April 1963; "Who's Who Among the Poor, A Demographic View of Poverty," July 1965; and "Counting the Poor: Another Look at the Poverty Profile," January 1965.

TABLE 1.—WEIGHTED AVERAGE OF POVERTY AND LOW-INCOME CRITERIA¹ FOR FAMILIES OF DIFFERENT COMPOSITION BY HOUSEHOLD SIZE, SEX OF HEAD, AND FARM OR NONFARM RESIDENCE, MARCH 1967

Number of family members	Nonfarm			Farm		
	Total	Male head	Female head	Total	Male head	Female head
Weighted average of incomes at poverty level						
1 member.....	\$1,635	\$1,710	\$1,595	\$1,145	\$1,180	\$1,110
Head under age 65.....	1,685	1,760	1,625	1,195	1,230	1,140
Head aged 65 or over.....	1,565	1,580	1,560	1,095	1,105	1,090
2 members.....	2,115	2,130	2,055	1,475	1,480	1,400
Head under age 65.....	2,185	2,200	2,105	1,535	1,540	1,465
Head aged 65 or over.....	1,970	1,975	1,955	1,380	1,380	1,370
3 members.....	2,600	2,610	2,515	1,815	1,820	1,725
4 members.....	3,335	3,335	3,320	2,345	2,345	2,320
5 members.....	3,930	3,930	3,895	2,755	2,755	2,775
6 members.....	4,410	4,410	4,395	3,090	3,090	3,075
7 or more members.....	5,430	5,440	5,310	3,790	3,795	3,760
Weighted average of incomes at low-income level						
1 member.....	1,985	2,080	1,930	1,390	1,440	1,340
Head under age 65.....	2,045	2,140	1,975	1,450	1,495	1,380
Head aged 65 or over.....	1,890	1,925	1,880	1,330	1,350	1,315
2 members.....	2,855	2,875	2,735	1,990	2,000	1,870
Head under age 65.....	2,945	2,970	2,790	2,075	2,080	1,945
Head aged 65 or over.....	2,665	2,675	2,615	1,870	1,875	1,835
3 members.....	3,425	3,440	3,330	2,400	2,400	2,325
4 members.....	4,345	4,355	4,255	3,060	3,060	3,000
5 members.....	5,080	5,085	4,970	3,565	3,565	3,560
6 members.....	5,700	5,710	5,600	3,995	4,000	3,920
7 or more members.....	6,945	6,960	6,780	4,850	4,850	4,815

¹ Required income in 1966 according to Social Security Administration poverty or low-income index for a family of a given size and composition. Family income criteria weighted together in accordance with percentage distribution of total units by number of related children and sex of head, as of Current Population Survey, March 1967.

For detailed description of the Social Security Administration measures of poverty and low income and their rationale, see the Social Security Bulletin for January 1965 (pp. 5-11) and July 1965 (pp. 3-10).

in poverty had received any public income maintenance, but the overall count for 1966 of households below the poverty line might be about 15.7 million rather than 10.9 million if there had been no income maintenance whatever.

The number not sharing fully in the Nation's prosperity thus is growing smaller, but the fact that it is mainly certain groups who are bypassed is more obvious and hence more disturbing. It becomes, then, even more challenging to insure for all Americans the good living long taken for granted by the majority.

COUNTING THE POOR IN 1966

By 1966, the income of the U.S. population had climbed to a new high. Even after allowance for higher prices, families averaged \$5 in

real income for every \$4 available to them in 1959. But though a majority in the country were enjoying record high incomes, a total of 29.7 million persons, or one out of every seven noninstitutionalized Americans, were in households with money incomes for the year below the poverty line. The poor were distributed throughout 11 million households, which contained one-sixth of all the Nation's children under age 18. Indeed, in 1966 as in 1959, such youngsters made up half of all the persons in poor families.

The total for the poverty roster in 1966 denoted a drop of 9.2 million from the number counted poor in 1959, a year when nearly every fourth person was living in a household with incomes insufficient to cover even the barest necessities. The number called near poor—those with incomes barely above the poverty threshold yet still in what might be termed the low-income range—is now, however, 15.2 million, very little different from the 15.8 million so characterized 7 years before. Another 5 million would be added to the ranks of the economically deprived were we to include the 2 million persons in institutions—not now in the count but ranking among the poorest of the poor—as well as the many aged persons and parent-child groups not now on the poverty roll but who would be there if they had to rely on their own resources instead of on those of the more fortunate relatives whose homes they share (table 2).

Included among the 45 million Americans designated poor or near poor in 1966 were 18 to 28 percent of the Nation's children and from 30 to 43 percent of the aged—groups whose members could do little on their own to improve their income. Minorities, however defined, were less favored than the rest. Counted poor were nearly one in four of those living on farms, compared with one in seven of the nonfarm population, but most of the poor were not on a farm. The total with low incomes included from 12 to 19 percent of the white population and from 41 to 54 percent of the nonwhite. Of the total in poverty, however, two out of three were white, and among the near poor, four out of five were white (table 3).

As might be expected, the family with the head currently employed was only one-fourth as likely to be poor as one with the head unemployed or out of the labor force altogether. Yet every sixth poor family of two or more persons was that of a white man under age 65 who had worked every week in the year—the kind of family that has the best chance to escape poverty in our society.

TABLE 2.—THE POOR AND NEAR POOR, 1966: NUMBER AND PERCENT OF PERSONS IN HOUSEHOLDS BELOW SSA POVERTY LEVEL AND ABOVE THAT LEVEL BUT BELOW LOW-INCOME LEVEL, BY AGE AND FAMILY STATUS AND SEX OF HEAD

[Numbers in thousands]

Age and family status	All households					With male head					With female head				
	Total	Poor		Near poor		Total	Poor		Near poor		Total	Poor		Near poor	
		Number	Percent	Number	Percent		Number	Percent	Number	Percent		Number	Percent	Number	Percent
Total persons.....	193,415	29,657	15.3	15,150	7.8	168,536	18,952	11.2	13,031	7.7	24,878	10,704	43.0	2,119	8.5
Living alone ¹	12,367	4,821	39.0	781	6.3	4,564	1,277	28.0	281	6.2	7,803	3,544	45.4	500	6.4
Aged 14 to 21.....	690	378	54.8	43	6.2	280	141	50.4	27	9.6	409	237	57.9	16	3.9
Aged 22 to 64.....	6,799	1,746	25.7	269	3.9	2,999	571	19.0	119	4.0	3,801	1,175	30.9	150	3.9
Aged 65 and over.....	4,878	2,697	55.3	469	9.1	1,285	565	44.0	135	10.5	3,593	2,132	59.3	334	9.3
In families.....	181,048	24,836	13.7	14,369	7.9	163,972	17,675	10.8	12,750	7.8	17,075	7,160	41.9	1,619	9.5
Children under age 18.....	69,771	12,539	18.0	6,637	9.5	62,522	8,117	13.0	5,931	9.5	7,251	4,423	61.0	706	9.7
Own children of head or spouse.....	66,319	11,307	17.0	6,258	9.4	60,183	7,472	12.4	5,652	9.4	6,137	3,835	62.5	605	9.9
Other related children.....	3,452	1,232	35.7	379	11.0	2,339	645	27.6	279	11.9	1,114	588	52.8	101	9.1
Under age 6.....	23,550	4,386	18.6	2,360	10.0	21,534	2,964	13.8	2,196	10.2	2,018	1,423	70.5	164	8.1
Aged 6 to 13.....	32,303	5,904	18.3	3,167	9.8	28,816	3,767	13.1	2,829	9.8	3,487	2,140	61.4	338	9.7
Aged 14 to 17.....	13,918	2,249	16.2	1,110	8.0	12,172	1,389	11.4	906	7.4	1,746	860	49.3	204	11.7

Aged 18 to 54 ²	83,502	7,968	9.5	5,081	6.1	76,749	5,855	7.6	4,484	5.8	6,751	2,112	31.3	594	8.8
Head.....	34,304	3,748	10.9	2,177	6.3	31,043	2,337	7.5	1,877	6.0	3,260	1,411	43.3	299	9.2
Wife.....	33,202	2,549	7.7	1,990	6.0	33,202	2,549	7.7	1,990	6.0					
Never-married children aged 18 to 21.....	8,238	818	9.9	454	5.5	7,052	503	7.1	334	4.7	1,185	314	26.5	120	10.1
Other relatives.....	7,758	853	11.0	460	5.9	5,452	466	8.5	283	5.2	2,306	387	16.8	175	7.6
Aged 55 to 64.....	14,716	1,653	11.2	854	5.8	13,487	1,403	10.4	762	5.6	1,230	251	20.4	92	7.5
Head.....	7,689	800	10.4	381	5.0	6,900	635	9.2	329	4.8	790	166	21.0	52	6.6
Wife.....	5,803	685	11.8	386	6.7	5,803	685	11.8	386	6.7					
Other relatives.....	1,224	168	13.8	87	7.1	784	83	10.6	47	6.0	440	85	19.3	40	9.1
Aged 65 and over.....	13,059	2,675	20.5	1,798	13.8	11,215	2,300	20.5	1,572	14.0	1,844	375	20.3	227	12.3
Head.....	6,929	1,538	22.2	996	14.4	5,806	1,304	22.5	855	14.7	1,122	234	20.9	141	12.6
Wife.....	3,548	835	23.5	594	16.7	3,548	835	23.5	594	16.7					
Other relatives.....	2,582	302	11.7	208	8.1	1,861	161	8.7	123	6.6	722	141	19.5	86	11.9
Poor by own income.....	2,007	292	14.5			1,448	157	10.8			559	135	24.2		
Not poor by own income ³	573	10	1.7			412	4	1.0			163	6	3.7		

¹ Excludes children under age 14 who live with a family to no member of which they are related. Income normally not reported for persons under 14.

² Includes heads, wives, and other ever-married relatives under age 18.

³ An additional 100,000 of those not poor nevertheless had income below the near poor level. Thus

the total number of aged other relatives with own income below the near poor level was 2,100,000; only 500,000 lived in a poor or near poor family.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1967.

TABLE 3.—THE POOR AND NEAR POOR, 1966: NUMBER AND PERCENT OF PERSONS IN HOUSEHOLDS BELOW SSA POVERTY LEVEL AND ABOVE THAT LEVEL BUT BELOW LOW-INCOME LEVEL, BY FAMILY STATUS AND SEX AND COLOR OF HEAD

[Numbers in thousands]

Family status	All households					With male head					With female head				
	Total	Poor		Near poor		Total	Poor		Near poor		Total	Poor		Near poor	
		Number	Percent	Number	Percent		Number	Percent	Number	Percent		Number	Percent	Number	Percent
	All households														
Total persons.....	193,415	29,657	15.3	15,150	7.8	168,536	18,952	11.2	13,031	7.7	24,878	10,704	43.0	2,119	8.5
In families.....	181,048	24,836	13.7	14,369	7.9	163,972	17,675	10.8	12,750	7.8	17,075	7,160	41.9	1,619	9.5
Head.....	48,922	6,086	12.4	3,554	7.3	43,750	4,276	9.8	3,061	7.0	5,171	1,810	35.0	492	9.5
Children under age 18.....	69,771	12,539	18.0	6,637	9.5	62,521	8,117	13.0	5,932	9.5	7,251	4,423	61.0	705	9.7
Other family members.....	62,355	6,211	10.0	4,178	6.7	57,701	5,282	9.2	3,757	6.5	4,653	927	19.9	422	9.1
Unrelated individuals.....	12,367	4,821	39.0	781	6.3	4,564	1,277	28.0	281	6.2	7,803	3,544	45.4	500	6.4
Under age 65.....	7,489	2,124	28.4	312	4.2	3,279	712	21.7	146	4.5	4,210	1,412	33.5	166	3.9
Aged 65 and over.....	4,878	2,697	55.3	469	9.6	1,285	565	44.0	135	10.5	3,593	2,132	59.3	334	9.3

White households															
Total persons.....	170,384	20,313	11.9	12,278	7.2	151,265	13,417	8.9	10,651	7.0	19,120	6,896	36.1	1,627	8.5
In families.....	159,598	16,287	10.2	11,601	7.3	147,445	12,410	8.4	10,427	7.1	12,154	3,877	31.9	1,174	9.7
Head.....	44,016	4,375	9.9	2,968	6.7	40,006	3,264	8.2	2,586	6.5	4,010	1,111	27.7	382	9.5
Children under age 18.....	59,578	7,526	12.6	5,222	8.8	55,103	5,280	9.6	4,732	8.6	4,475	2,246	50.2	492	11.0
Other family members.....	56,004	4,386	7.8	3,411	6.1	52,336	3,866	7.4	3,109	5.9	3,669	521	14.2	300	8.2
Unrelated individuals.....	10,786	4,026	37.3	677	6.3	3,820	1,007	26.4	224	5.9	6,966	3,019	43.3	453	6.5
Under age 65.....	6,296	1,626	25.8	241	3.8	2,688	540	20.1	110	4.1	3,608	1,086	30.1	131	3.6
Aged 65 and over.....	4,490	2,400	53.5	436	9.7	1,132	467	41.3	114	10.1	3,358	1,933	57.6	322	9.6
Nonwhite households															
Total persons.....	23,034	9,345	40.6	2,873	12.5	17,271	5,535	32.0	2,381	13.8	5,761	3,809	66.1	492	8.5
In families.....	21,450	8,549	39.9	2,768	12.9	16,527	5,265	31.9	2,323	14.1	4,921	3,283	66.7	445	9.0
Head.....	4,905	1,711	34.9	586	11.9	3,744	1,012	27.0	476	12.7	1,161	699	60.2	111	9.6
Children under age 18.....	10,193	5,014	49.2	1,413	13.9	7,419	2,837	38.2	1,201	16.2	2,776	2,177	78.4	213	7.7
Other family members.....	6,352	1,824	28.7	769	12.1	5,364	1,416	26.4	646	12.0	984	407	41.4	121	12.3
Unrelated individuals.....	1,584	796	50.3	105	6.6	744	270	36.3	58	7.8	840	526	62.6	47	5.6
Under age 65.....	1,196	499	41.7	72	6.0	592	172	29.1	37	6.3	604	327	54.1	35	5.8
Aged 65 and over.....	388	297	76.5	33	8.5	152	98	64.5	21	13.8	236	199	84.3	12	5.1

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1967.

Because income of families generally rose more than enough to offset rising prices between 1959 and 1966, while the poverty line was adjusted only by the amount of such price rise, those counted poor at the end of the period were even less well off, compared with the non-poor population, than those counted poor at the beginning. But beyond this, the profile of poverty had changed, leaving more difficult problems to solve. The decline in the number considered poor was largely a result of increased job opportunities and higher earnings. Those equipped to make the most of such possibilities fared best. By 1966, families of a woman with children, the aged, and the households of the disabled accounted for about 3 million of the 6 million families counted poor.

For the aged as for the disabled, changes in social security benefits and other existing public programs to provide income when earnings are lacking could serve to improve economic status and thus alleviate poverty.² But for families with young children, in straitened circumstances because there is no father in the home or because his earnings are too low to support the number dependent on him, other remedies have yet to be devised.

The final section of this paper reports on the number of households who benefited from public income support programs in 1965 and suggests how many households not poor as we now count them were kept off the poverty roster only by their social security benefits, public assistance, or other program payments. It indicates also how many payees who were poor before the payments were still poor even after they got them.

THE POVERTY INDEX

The index of poverty used as a reference criteria is a far from generous measure. It is the minimum income per household of a given size, composition, and farm-nonfarm status, as set by the Social Security Administration. In 1966 the Agriculture Department economy food plan, which is the core of the poverty index, provided for total food expenditures of only 75 cents a day per person (in an average four-person family). The index adds only twice this amount to cover all family living items other than food. It has not been adjusted for changes since 1959, except to allow for rising prices.³

Between 1959 and 1966, both the income received by consumers and the prices of what they bought continued to climb but income went up faster. Inevitably then, the poverty thresholds, adjusted only for price changes were farther below general levels of income at the end of the period than at the outset. Median income of four-person families had increased by 37 percent but the poverty line by only 9 percent, or one-fourth as much.⁴

² See Ida C. Merriam, "Social Security Benefits and Poverty" (Social Security Administration, Research and Statistics Note No. 6, 1967).

³ The measure of near poverty—about one-third higher in cost—centers about the lowest food plan.

⁴ See U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 53, "Income in 1966 of Families and Persons in the United States," and No. 35, "Income of Families and Persons in the United States in 1959." See Social Security Bulletin, April 1966, op. cit.

CHANGES IN POVERTY, 1959-66

In 1959, 24 percent of the Nation's households—counting as households both one-person units and families of two or more persons—had so little income as to be counted poor. Seven years later, only 17.7 percent had too little money income to support the number dependent on them. What is perhaps of greater significance than the general improvement is that, as already indicated, more of the poor in 1966 were persons of limited earning capacity or those whom age, home responsibilities, race discrimination, or other factors kept out of the labor force altogether.

Children—particularly if they live in a home without a father—and old people are at a disadvantage, compared with persons aged 18 to 64, when it comes to earning. The number of children under age 18 being reared in poverty went down from 16.6 million in 1959 to 12.5 million in 1966, but the number near poor dipped by only 0.4 million to reach 6.6 million. All told, even in 1966, after a continued run of prosperity and steadily rising family income, one-fourth of the Nation's children were in families living in poverty or hovering just above the poverty line.

Though the poverty rate among all persons aged 18 to 64 or older declined by more than one-third in the 7-year period, for the aged as a group it dropped only 20 percent. Children in a family with a woman at the head were only 17 percent less likely to be poor in 1966 than in 1959; for children in a home headed by a man, the risk of poverty was 40 percent lower in 1966 than it had been earlier.

As a group, persons aged 65 or older were even worse off than the youngsters. Those counted poor in 1966 numbered 5.4 million, the same number as the count of aged poor 2 years earlier, and only half a million less than the count in 1959. In that year, one-third of all aged couples were poor, and in 1966 only one-fourth were so situated. But in 1966, the 1.2 million aged couples in poverty represented 1 in 5 of all families counted poor; in 1959 these couples had accounted for only 1 in 6 of the total. In similar fashion, the financial fate of the aged living alone was better than it once had been, but it still spelled poverty for the majority (55 percent). Moreover, compared with the situation in 1959 when aged unrelated individuals accounted for fewer than one-fifth of all households tagged poor, in 1966 every fourth household in poverty was that of an aged person living alone. Indeed, despite the overall drop in the number of poor of all ages, the number of elderly women living in solitary poverty was now 2.1 million, though it was only 1.8 million in the earlier year (table 4).

Such findings did not signify that these elderly persons as a group had less income than they used to have. It was rather that, thanks to social security and related programs, more of them had enough income to try going it alone—choosing privacy, albeit the privacy of poverty, rather than being an "other relative" in the home of their children. But despite spectacular improvement aided in large measure by increases in the number drawing OASDI benefits, and in the size of the checks, persons aged 65 or older remained the most poverty-stricken age group in the Nation.

TABLE 4.—TRENDS IN POVERTY: PERCENT OF PERSONS WITH INCOME BELOW THE SSA POVERTY INDEX, BY AGE, 1959 TO 1966

[Numbers in millions]

Age	1959			1964			1966		
	Total persons, number	Poor		Total persons, number	Poor		Total persons, number	Poor	
		Number	Per cent		Number	Per cent		Number	Per cent
All ages.....	176.5	38.9	22.1	189.7	34.1	18.0	193.4	29.7	15.4
Under 18 ¹	63.7	16.6	26.1	69.4	14.9	21.4	69.8	12.5	17.9
Families with male head...	58.2	12.6	21.7	62.3	10.5	16.9	62.5	8.0	12.9
Families with female head...	5.5	4.0	72.6	7.1	4.4	62.6	7.4	4.5	60.6
18 to 64 ²	96.8	16.4	16.9	103.0	13.8	13.4	105.7	11.9	11.2
65 or over.....	15.9	5.9	37.2	17.4	5.4	30.8	17.9	5.4	29.9
In families.....	12.1	3.4	28.4	12.8	2.6	20.5	13.0	2.7	20.5
Unrelated individuals.....	3.8	2.5	68.1	4.6	2.8	59.3	4.9	2.7	55.3
Men.....	1.1	.6	59.9	1.3	.6	47.9	1.3	.6	44.0
Women.....	2.6	1.8	71.5	3.3	2.1	63.7	3.6	2.1	59.3

¹ Never married children in families.² Includes ever-married persons under age 18.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey.

Though the odds that households headed by women would have insufficient income were less than they used to be, the improvement was less marked than for units headed by men. In 1959, of all households counted poor, 5.4 million had a woman at the head and 8 million were headed by a man. By 1966, the number poor with a man at the head dropped 2.4 million, but the number poor and headed by a woman remained unchanged. (There was, to be sure, no telling how many were families who had been in poverty throughout the period and how many were replacing units elevated to better status or disbanded as families.) Accordingly, in 1966, households headed by a woman accounted for nearly one-half of all units tagged poor rather than the two-fifths they represented in 1959. And if there were children in the home making it difficult for the mother to work, the disadvantage was especially striking.

The number of poor families with a man at the head and children under age 18 went from 3.8 to 2.4 million in 1966. But the 1½ million poor families headed by a woman with children numbered almost as many as those poor in 1959. Thus, though the total count of children in poverty was one-fourth less than it had been 7 years earlier, the number poor in families with a woman at the head was actually one-tenth higher.

The peril of poverty for the child with several brothers and sisters remained high: The family with five or more children was still 3½ times as likely to be poor as the family raising only one or two, and, just as in earlier years, almost one-half the poor children were in families with five or more children. The number of poor families with five or more children remained almost unchanged—0.9 million in 1966, compared with 1.1 million in 1959—with the added disadvantage that 29 percent of them now were headed by a woman, instead of 18 percent as in 1959. What is more, the economic deprivation associated with a

father's absence was more common than it used to be: from 1959 to 1966 the proportion of all children under age 18 who were in a family headed by a woman rose from 9 to 11 percent; and in parallel fashion it was 1 in 3 of all poor children in 1966 who were minus a father, not 1 in 4 as in 1959. To make matters worse, the poverty rate among children in families headed by a woman was now $4\frac{1}{2}$ times as high as in families headed by a man; in 1959 it was only $3\frac{1}{3}$ times as high (table 5).

There was other evidence that economic growth had not helped all population groups in equal measure. The nonwhite population generally had not fared as well as the white during the 1959-66 upswing, though by the end of the period it was making greater strides than at the beginning. To be sure, in 1966 it was 1 in 3 nonwhite families who were poor compared with 1 in 10 white families whereas in 1959 it was 1 in 2 nonwhite families and 1 in 7 white families who were poor. It is also a fact that the nonwhite made up about one-third of the Nation's poor in 1966, compared with just over one-fourth in 1959—a widening disadvantage explained only in small part by the greater population growth among the nonwhite.

The farm population, though still poorer than the nonfarm, had reduced the incidence of poverty by nearly one-half, a rate of improvement twice that registered by the nonfarm population. But with the nonfarm population growing while the farm population steadily declined, it was likely that many families had merely exchanged a farm address for a city one at which they might be even worse off than before.

It is clear that in the period since 1959, poverty, which never was a random affliction, has become even more selective, and some groups initially vulnerable are now even more so. There is still no all-embracing characterization that can encompass all the poor. Some are poor because they cannot work; others are poor even though they do. Most of the poor receive no assistance from public programs; others remain poor because they have no resources but the limited payments provided under such programs. And public programs to help the poor are in the main geared to serve those who cannot work at all or are temporarily out of a job. The man who works for a living but is not making it will normally find no avenue of aid.

THE GEOGRAPHY OF POVERTY

About half of all the Nation's poor families—one-seventh of the white poor and two-thirds of the nonwhite poor—lived in the South in 1966. Incomes in that area continue to be lower than elsewhere, by more than could possibly be compensated for by any price differential. Despite the exodus of many nonwhite persons from the South in recent years, the South still spells home for about half of all nonwhite families in the country (tables 6-7). It is thus the nonwhite population that is most immediately affected by the region's economic disadvantage. In 1966, white families in the South on an average had only \$5 in income for every \$6 enjoyed by white families elsewhere; Southern nonwhite families averaged less than \$3 for every \$5 of income of nonwhite families outside the South. A fifth of all nonwhite families not in the South and a third of the white families had at

TABLE 5.—INCIDENCE OF POVERTY AND LOW-INCOME STATUS, 1966: NUMBER AND PERCENT OF HOUSEHOLDS BELOW SSA POVERTY LEVEL AND ABOVE THAT LEVEL BUT BELOW LOW-INCOME LEVEL, BY NUMBER OF CHILDREN UNDER AGE 18, AND SEX, AND COLOR OF HEAD

[Numbers in thousands]

Type of household	All households					With male head					With female head				
	Total	Poor		Near poor		Total	Poor		Near poor		Total	Poor		Near poor	
		Number	Percent	Number	Percent		Number	Percent	Number	Percent		Number	Percent	Number	Percent
	All households														
Total.....	61,291	10,906	17.7	4,334	7.1	48,314	5,552	11.5	3,341	6.9	12,977	5,354	41.3	993	7.7
Unrelated individuals.....	12,367	4,821	39.0	781	6.3	4,564	1,277	28.0	281	6.2	7,803	3,544	45.4	500	6.4
Under age 65.....	7,489	2,124	28.4	312	4.2	3,279	712	21.7	146	4.5	4,210	1,412	33.5	166	3.9
Aged 65 and over.....	4,878	2,697	55.3	469	9.6	1,285	565	44.0	135	10.5	3,593	2,132	59.3	334	9.3
Families.....	48,924	6,085	12.4	3,553	7.3	43,750	4,275	9.8	3,060	7.0	5,174	1,810	35.0	493	9.5
With no children.....	20,332	2,204	10.8	1,436	7.1	18,118	1,874	10.3	1,247	6.9	2,214	330	14.9	189	8.5
With children.....	28,593	3,877	13.6	2,118	7.4	25,634	2,399	9.4	1,814	7.1	2,959	1,478	49.9	304	10.3
1 child.....	9,081	843	9.3	433	4.8	8,034	491	6.1	331	4.1	1,047	352	33.6	102	9.7
2 children.....	8,491	869	10.2	454	5.3	7,665	503	6.6	359	4.7	826	366	44.3	95	11.5
3 children.....	5,416	694	12.8	458	8.5	4,949	406	8.2	411	8.3	467	288	61.7	47	10.1
4 children.....	2,923	543	18.6	361	12.4	2,629	342	13.0	323	12.3	294	201	68.4	38	12.9
5 children.....	1,396	387	27.7	206	14.8	1,262	281	22.3	195	15.5	134	106	79.1	11	8.2
6 or more.....	1,286	541	42.1	206	16.0	1,095	376	34.3	195	17.8	191	165	86.4	11	5.7

White households															
Total.....	54,801	8,402	15.3	3,644	6.6	43,826	4,272	9.7	2,808	6.4	10,975	4,130	37.6	836	7.6
Unrelated individuals.....	10,786	4,026	37.3	677	6.3	3,820	1,007	26.4	224	5.9	6,966	3,019	43.3	453	6.5
Under age 65.....	6,296	1,626	25.8	241	3.8	2,688	540	20.1	110	4.1	3,608	1,086	30.1	131	3.6
Aged 65 and over.....	4,490	2,400	53.5	436	9.7	1,132	467	41.3	114	10.1	3,358	1,933	57.6	322	9.6
Families.....	44,026	4,373	9.9	2,967	6.7	40,006	3,265	8.2	2,584	6.5	4,013	1,111	27.7	383	9.5
With no children.....	18,759	1,863	9.9	1,268	6.8	16,823	1,607	9.6	1,111	6.6	1,936	256	13.2	157	8.1
With children.....	25,257	2,509	9.9	1,701	6.7	23,182	1,656	7.1	1,476	6.4	2,075	853	41.1	225	10.8
1 child.....	8,164	616	7.5	340	4.2	7,337	372	5.1	258	3.5	827	244	29.5	82	9.9
2 children.....	7,721	599	7.8	373	4.8	7,114	373	5.2	303	4.3	607	226	37.2	70	11.5
3 children.....	4,865	461	9.5	394	8.1	4,533	278	6.1	358	7.9	332	183	55.1	36	10.8
4 children.....	2,498	336	13.5	280	11.2	2,321	235	10.1	252	10.9	177	101	57.1	28	15.8
5 children.....	1,125	217	19.3	165	14.7	1,063	175	16.5	159	15.0	62	42	67.7	6	9.7
6 or more.....	884	280	31.7	149	16.9	814	223	27.4	146	17.9	70	57	81.4	3	4.3
Nonwhite households															
Total.....	6,488	2,506	38.6	690	10.6	4,487	1,281	28.5	533	11.9	2,001	1,225	61.2	157	7.8
Unrelated individuals.....	1,584	796	50.3	105	6.6	744	270	36.3	58	7.8	840	526	62.6	47	5.6
Under age 65.....	1,196	499	41.7	72	6.0	592	172	29.1	37	6.3	604	327	54.1	35	5.8
Aged 65 and over.....	388	297	76.5	33	8.5	152	98	64.5	21	13.8	236	199	84.3	12	5.1
Families.....	4,898	1,712	34.9	585	11.9	3,743	1,011	27.0	475	12.7	1,161	699	60.2	110	9.5
With no children.....	1,568	341	21.7	166	10.6	1,293	267	20.6	134	10.4	275	74	26.9	32	11.6
With children.....	3,333	1,371	41.1	421	12.6	2,449	746	30.5	341	13.9	884	625	70.7	80	9.0
1 child.....	916	228	24.8	94	10.3	696	119	17.1	73	10.5	220	109	49.5	21	9.5
2 children.....	770	270	35.1	82	10.6	551	130	23.6	57	10.3	219	140	63.9	25	11.4
3 children.....	550	231	42.0	64	11.6	416	128	30.8	53	12.7	134	103	76.9	11	8.2
4 children.....	424	209	49.3	82	19.3	308	108	35.1	72	23.4	116	101	87.1	10	8.6
5 children.....	271	170	62.7	43	15.9	198	107	54.0	38	19.2	73	63	86.3	5	6.8
6 or more.....	402	263	65.4	56	13.9	280	154	55.0	48	17.1	122	109	89.3	8	6.6

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1967.

TABLE 6.—INCIDENCE OF POVERTY IN 1966: NUMBER AND PERCENT OF FAMILIES WITH INCOME BELOW THE SSA POVERTY LEVEL, BY SEX OF HEAD AND OTHER SPECIFIED CHARACTERISTICS

[Numbers in thousands]

Characteristic	All families				With male head				With female head			
	Total	Poor			Total	Poor			Total	Poor		
		Number	Percent	Percentage distribution		Number	Percent	Percentage distribution		Number	Percent	Percentage distribution
Total.....	48,922	6,086	12.4	100.0	43,751	4,276	9.8	100.0	5,172	1,810	35.0	100.0
Residence:												
Nonfarm.....	46,225	5,598	12.1	92.0	41,199	3,835	9.3	89.7	5,026	1,764	35.1	97.5
Farm.....	2,697	488	18.1	8.0	2,552	441	17.3	10.3	145	47	32.4	2.6
Race:												
White.....	44,017	4,375	9.9	71.9	40,007	3,264	8.2	76.3	4,010	1,111	27.7	61.4
Nonwhite.....	4,905	1,711	34.9	28.1	3,744	1,012	27.0	23.7	1,162	699	60.2	38.6
Age of head:												
14 to 24.....	3,011	510	16.9	8.4	2,761	347	12.6	8.1	250	163	65.2	9.0
25 to 34.....	9,560	1,139	11.9	18.7	8,753	668	7.6	15.6	806	472	58.6	26.1
35 to 44.....	11,113	1,180	10.6	19.4	10,026	737	7.4	17.2	1,087	444	40.8	24.5
45 to 54.....	10,620	919	8.7	15.1	9,503	587	6.2	13.7	1,116	333	29.8	18.4
55 to 64.....	7,689	800	10.4	13.1	6,900	635	9.2	14.9	789	166	21.0	9.2
65 and over.....	6,929	1,538	22.2	25.3	5,807	1,304	22.5	30.5	1,122	234	20.9	12.9
Number of persons in family:												
2.....	16,354	2,271	13.9	37.3	13,978	1,693	12.1	39.6	2,376	578	24.3	31.9
3.....	10,098	889	8.8	14.6	8,901	532	6.0	12.4	1,197	357	29.8	19.7
4.....	9,400	793	8.4	13.0	8,687	488	5.6	11.4	712	305	42.8	16.9
5.....	6,189	649	10.5	10.7	5,808	440	7.6	10.3	382	209	54.7	11.5
6.....	3,438	501	14.6	8.2	3,230	362	11.2	8.5	209	138	66.0	7.6
7 or more.....	3,443	984	28.6	16.2	3,146	762	24.2	17.8	296	222	75.0	12.3

Region:													
Northeast.....	12,039	1,037	8.6	17.0	10,650	675	6.3	15.8	1,389	362	26.1	20.0	
North Central.....	13,617	1,259	9.2	20.7	12,400	874	7.0	20.4	1,216	385	31.7	21.3	
South.....	14,978	2,950	19.7	48.5	13,251	2,186	16.5	51.1	1,727	763	44.2	42.2	
West.....	8,288	840	10.1	13.8	7,448	540	7.2	12.6	839	300	35.8	16.6	
Type of family:													
Male head.....	43,751	4,276	9.8	70.3	43,751	4,276	9.8	100.0	-----	-----	-----	-----	
Married, wife present.....	42,553	4,069	9.6	66.9	42,553	4,069	9.6	95.2	-----	-----	-----	-----	
Wife in paid labor force.....	15,005	743	5.0	12.2	15,005	743	5.0	17.4	-----	-----	-----	-----	
Wife not in paid labor force.....	27,548	3,326	12.1	54.7	27,548	3,326	12.1	77.8	-----	-----	-----	-----	
Other marital status.....	1,197	207	17.3	3.4	1,197	207	17.3	4.8	-----	-----	-----	-----	
Female head.....	5,172	1,810	35.0	29.7	-----	-----	-----	-----	5,172	1,810	35.0	100.0	
Employment status and occupation of head:													
Employed, March 1967.....	38,885	3,020	7.8	49.6	36,293	2,376	6.5	55.6	2,593	641	24.7	35.4	
Professional and technical workers.....	5,338	129	2.4	2.1	5,050	107	2.1	2.5	286	22	7.7	1.2	
Farmers and farm managers.....	1,588	315	19.8	5.2	1,572	309	19.7	7.2	16	6	(¹)	.3	
Managers, officials, and proprietors (except farm).....	5,759	233	4.0	3.8	5,643	216	3.8	5.1	118	17	14.4	.9	
Clerical and sales workers.....	5,146	225	4.4	3.7	4,323	124	2.9	2.9	823	100	12.2	5.5	
Craftsmen and foremen.....	8,050	353	4.4	5.8	8,013	349	4.4	8.2	36	3	(¹)	.2	
Operatives.....	7,696	746	8.4	10.6	7,230	544	7.5	12.7	466	102	21.9	5.6	
Service workers.....	3,011	585	19.4	9.6	2,192	212	9.7	5.0	820	373	45.5	20.6	
Private household workers.....	282	154	54.6	2.5	13	2	(¹)	(²)	270	152	56.3	8.4	
Laborers (except mine).....	2,297	533	23.2	8.9	2,270	515	22.7	12.0	28	18	(¹)	1.0	
Unemployed.....	904	248	27.4	4.1	780	180	23.1	4.2	124	68	54.8	3.8	
Not in labor force.....	9,132	2,817	30.8	46.3	6,678	1,718	25.7	40.2	2,454	1,100	44.8	60.8	
Number of earners in 1966:													
None.....	4,073	1,978	48.6	32.5	3,017	1,216	40.3	28.4	1,056	762	72.2	42.1	
1.....	20,451	2,620	12.8	43.0	18,163	1,892	10.4	44.2	2,288	729	31.9	40.3	
2.....	17,992	1,112	6.2	18.3	16,608	891	5.4	20.8	1,384	221	16.0	12.2	
3 or more.....	6,405	376	5.9	6.2	5,961	278	4.7	6.5	443	100	22.6	5.5	

¹ Not shown for base less than 100,000.

² Less than 0.05 percent.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1967.

TABLE 7.—INCIDENCE OF POVERTY IN 1966: NUMBER AND PERCENT OF UNRELATED INDIVIDUALS WITH INCOME BELOW THE SSA POVERTY LEVEL,
BY SEX AND OTHER SPECIFIED CHARACTERISTICS

[Numbers in thousands]

Characteristic	All unrelated individuals				Male unrelated individuals				Female unrelated individuals			
	Total	Poor			Total	Poor			Total	Poor		
		Number	Percent	Percentage distribution		Number	Percent	Percentage distribution		Number	Percent	Percentage distribution
Total.....	12,368	4,820	39.0	100.0	4,563	1,276	28.0	100.0	7,804	3,544	45.4	100.0
Residence:												
Nonfarm.....	12,068	4,683	38.8	97.2	4,414	1,212	27.5	95.0	7,654	3,471	45.3	97.9
Farm.....	300	138	46.0	2.9	150	65	43.3	5.1	150	73	48.7	2.1
Region:												
Northeast.....	3,210	1,172	36.5	24.3	1,136	302	26.6	23.7	2,074	870	41.9	24.5
North Central.....	3,402	1,362	40.0	28.3	1,173	322	27.5	25.2	2,230	1,039	46.6	29.3
South.....	3,368	1,573	46.7	32.6	1,257	434	34.5	34.0	2,111	1,139	54.0	32.1
West.....	2,385	713	29.9	14.8	996	217	21.8	17.0	1,390	496	35.7	14.0
Race:												
White.....	10,784	4,026	37.3	83.5	3,819	1,007	26.4	78.9	6,965	3,019	43.3	85.2
Nonwhite.....	1,583	794	50.2	16.5	744	269	36.2	21.1	839	525	62.6	14.8
Age:												
14 to 24.....	1,294	509	39.3	10.6	586	194	33.1	15.2	707	314	44.4	8.9
25 to 34.....	1,134	159	14.0	3.3	690	69	10.0	5.4	444	89	20.0	2.5
35 to 44.....	1,077	220	20.4	4.6	613	81	13.2	6.3	464	139	30.0	3.9
45 to 54.....	1,482	364	24.6	7.6	639	127	19.9	10.0	843	237	28.1	6.7
55 to 64.....	2,502	872	34.9	18.1	751	238	31.7	18.7	1,752	634	36.2	17.9
65 and over.....	4,878	2,697	55.3	56.0	1,284	564	43.9	44.2	3,594	2,132	59.3	60.2

Sex:													
Male.....	4,563	1,276	28.0	26.5	4,563	1,276	28.0	100.0					
Female.....	7,804	3,544	45.4	73.5					7,804	3,544	45.4	100.0	
Earner status:													
Earner.....	7,370	1,459	19.8	30.3	3,335	545	16.3	42.7	4,035	914	22.7	25.8	
Nonearner.....	4,998	3,361	67.2	69.7	1,228	731	59.5	57.3	3,769	2,630	69.8	74.2	
Employment status and occupation:													
Employed, March 1967:	6,479	1,225	18.9	25.4	2,899	422	14.6	33.1	3,580	804	22.5	22.7	
Professional and technical workers.....	1,294	192	14.8	4.0	559	60	10.7	4.7	735	133	18.1	3.8	
Farmers and farm managers.....	102	31	30.4	.6	82	25	(1)	2.0	21	6	(1)	.2	
Managers, officials, and proprietors (except farm).....	507	50	9.9	1.0	306	20	6.5	1.6	201	31	15.4	.9	
Clerical and sales workers.....	1,567	155	9.9	3.2	385	43	11.2	3.4	1,180	111	9.4	3.1	
Craftsmen and foremen.....	431	38	8.8	.8	382	29	7.6	2.3	49	9	(1)	.3	
Operatives.....	889	97	10.9	2.0	505	41	8.1	3.2	384	55	14.3	1.6	
Service workers.....	1,361	545	40.0	11.3	360	86	23.9	6.7	1,002	459	45.8	13.0	
Private household workers.....	425	288	67.8	6.0	7	7	(1)	.5	419	281	67.1	7.9	
Laborers (except mine).....	328	117	35.7	2.4	320	118	36.9	9.2	8				
Unemployed.....	287	103	35.9	2.1	176	60	34.1	4.7	112	42	37.5	1.2	
Not in labor force.....	5,603	3,492	62.3	72.4	1,491	794	53.3	62.2	4,113	2,697	65.8	76.1	

¹ Not shown for base less than 100,000.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1967.

least \$10,000 in income in 1966. Within the South, almost none of the nonwhite families and only a fourth of the white families had this much income as the figures below indicate:

Race of family	Total United States	South	Rest of country
All families.....	\$7,440	\$6,235	\$7,930
White.....	7,720	6,775	8,090
Nonwhite.....	4,630	3,445	5,970
	Percent with income of \$10,000 or more		
All families.....	29.6	21.7	33.1
White.....	31.6	24.8	34.3
Nonwhite.....	12.2	5.0	18.8

The Southern States today support a larger proportion of their population on public assistance than is true of the rest of the country. Indeed, of the 10 States with the highest OAA recipient rate per 1,000 aged persons in December 1966, eight were Southern States, despite the fact that eligibility requirements are at least as restrictive in the South as anywhere else.

Much of the burden of poverty among the fully employed—that is, in terms of weeks worked—rested on nonwhite men, and particularly so in the South. There, more than one-third of the nonwhite men who worked full time throughout 1965 had been poor, as were 7 percent of the white men. Elsewhere in the country the corresponding rates were 10 percent and 4 percent.⁵

Overall, half the population in poverty and about two-thirds of the nonpoor were residing in metropolitan areas—a city of at least 50,000 persons or its environs. But whereas the poor were more likely to be in the central city, the nonpoor were more often in the suburbs. Among aged persons, however, even among the nonpoor the majority of metropolitan residents were in the central city rather than in a suburb.

About one-fourth of the white poor and two-fifths of the nonwhite poor resided in central cities of metropolitan areas. Yet, for the Nation as a whole, the white poor outnumbered the nonwhite even in the central cities: There were about 5½ million white persons counted poor in central cities and 4 million nonwhite (table 8). Because of the well-established difficulties of Negroes—whatever their income—in finding housing, a larger proportion of them, both poor and nonpoor, are clustered in what may be termed poverty areas of large cities than is true for the white population.⁶

⁵ Cf. Economic Report of the President and Annual Report of the Council of Economic Advisers, January 1967, table 19.

⁶ See Winard, Arno I., "Characteristics of Families Residing in Poverty Areas Within Large Metropolitan Areas," prepared for presentation at annual meeting of Population Association of America, April 1967.

TABLE 8.—GEOGRAPHY OF POVERTY, 1966: NUMBER AND PERCENT OF PERSONS IN HOUSEHOLDS BELOW SSA POVERTY LEVEL, BY AGE AND RACE

[Numbers in thousands]

Area	All ages			Under age 6			Aged 6 to 15 ¹			Aged 16 to 64			65 or over		
	Total	White	Nonwhite	Total	White	Nonwhite	Total	White	Nonwhite	Total	White	Nonwhite	Total	White	Nonwhite
United States.....	193,558	170,464	23,093	23,551	19,795	3,756	39,761	34,143	5,618	112,309	100,009	12,298	17,937	16,517	1,421
Poor.....	29,798	20,394	9,403	4,387	2,563	1,823	7,345	4,482	2,863	12,695	8,715	3,981	5,371	4,634	736
Percent poor.....	15.4	12.0	40.7	18.6	12.9	48.5	18.5	13.1	51.0	11.3	8.7	32.4	29.9	28.1	51.8
Metropolitan area:															
Central cities.....	58,376	46,043	12,334	6,902	4,904	1,998	10,822	7,975	2,847	34,604	27,786	6,819	6,048	5,378	670
Poor.....	9,441	5,376	4,066	1,519	653	867	2,329	1,075	1,255	3,918	2,244	1,668	1,675	1,404	276
Percent poor.....	16.2	11.7	33.0	22.0	13.3	43.4	21.5	13.5	44.1	11.3	8.1	24.5	27.7	26.1	41.2
Suburbs.....	66,915	63,572	3,343	8,249	7,719	531	14,371	13,549	823	39,398	37,573	1,823	4,897	4,731	166
Poor.....	5,761	4,815	943	758	591	168	1,345	1,050	295	2,457	2,058	400	1,201	1,116	80
Percent poor.....	8.6	7.6	28.2	9.2	7.7	31.6	9.4	7.7	35.8	6.2	5.5	21.9	24.5	23.6	48.2
Nonmetropolitan area:															
Rural nonfarm.....	31,978	28,449	3,530	4,192	3,610	582	6,961	6,051	910	17,731	15,968	1,764	3,094	2,820	274
Poor.....	7,389	5,402	1,987	1,051	702	349	1,841	1,271	570	3,175	2,300	875	1,322	1,129	193
Percent poor.....	23.1	19.0	56.3	25.1	19.4	60.0	26.4	21.0	62.6	17.9	14.4	49.6	42.7	40.0	70.4
Farm.....	10,877	9,618	1,259	1,080	882	197	2,511	2,112	399	6,181	5,602	580	1,105	1,022	83
Poor.....	2,447	1,563	883	332	184	148	707	404	303	1,177	792	384	231	183	48
Percent poor.....	22.5	16.3	70.1	30.7	20.9	75.1	28.2	19.1	75.9	19.0	14.1	66.2	20.9	17.9	57.8
Urban.....	25,411	22,782	2,627	3,123	2,678	444	5,095	4,454	641	14,401	13,086	1,314	2,792	2,564	228
Poor.....	4,761	3,235	1,524	721	432	288	1,122	681	441	1,975	1,321	654	943	801	141
Percent poor.....	18.7	14.2	58.0	23.1	4.9	64.9	22.0	15.3	68.8	13.7	10.1	49.8	33.8	31.2	61.8

¹ Includes as poor some children aged 6 to 13 who lived as unrelated individuals in families to no member of which they were related. Other tables exclude these children because the Bureau of the Census does not normally collect data from unrelated individuals under age 14. The number shown poor in this table thus totals 29,800,000 rather than 29,700,000 as presented elsewhere.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1967.

CHILDREN OF THE POOR

Along with old age, disability, or death of the breadwinner, the years of child raising can place special pressures on the economic situation of a family. Recognition of both the economic vulnerability of families raising their children and the importance to society of the well-being of our future citizens has even led some to propose that allowances for families with children be paid in the United States, as they are in most Western countries.

Children themselves ordinarily do not contribute income to a family. In fact the presence of children can be a deterrent to augmenting family income because the homemaker with youngsters to look after, whether she herself is the family head or she shares responsibility with a husband, will find it more difficult to take a job.

Accordingly, the risk of poverty for a family of specified size is more closely related to the number of young children in it than to the number of adults—as illustrated by the poverty rates in 1966 below for men's families of various types:

PERCENT OF FAMILIES POOR

Total persons in family	Number of children under age 18						
	None	1	2	3	4	5	6 or more
2, head aged 65 or older.....	23	(1)	-----	-----	-----	-----	-----
2, head under age 65.....	7	23	-----	-----	-----	-----	-----
3.....	5	6	(1)	-----	-----	-----	-----
4.....	5	5	6	(1)	-----	-----	-----
5.....	4	4	9	8	(1)	-----	-----
6.....	(1)	0	10	11	12	(1)	-----
7 or more.....	(1)	(1)	2	9	18	22	34

† Percentages not shown for base less than 75,000.

Children generally do not contribute income of their own to a family but must rely instead on the support of others. As a result, after the aged—whose earning capacity is also likely to be limited if not lacking altogether—children are the poorest age group, particularly if the father is absent. Three out of five youngsters in families headed by women were being raised in poverty—a total of 4½ million poor children—but there were also 8 million other children who were poor in unbroken families. The mother of young children, whether she herself is the family head or shares the responsibility with a husband, finds it hard to take a job, but many families can escape poverty only if both parents work, and some not even then. Twelve percent of the husband-wife families were poor when the wife did not work and 5 percent even when she did. Perhaps more to the point in assessing remedial action against poverty is the fact that 4½ million children were counted poor though they were in the home of a man who had worked throughout 1966 and nearly 1 million more were in the family of a woman who held a job all year (table 9).

Children with a working mother but minus a father receive little help from existing public programs unless they are the orphans of veterans or workers who were covered under OASDHI, but the children with a father present and working receive almost no help at all. Youngsters in large families were particularly bad off, and if the large family had a woman at its head, the odds were better than 4 out of 5 that it was poor.

All told, close to half the Nation's poor children were in families with at least five youngsters present, but the size and current living arrangements of families, as the census normally counts them, are sometimes the result of poverty; they are not always the cause. Family groups with insufficient income, particularly if there is no man at the head, may share living quarters with relatives to help meet living expenses. Thus in nonpoor families in 1966, only 1 in 25 of the children under age 18 were not the children of the head or wife but children of other relatives. In poor families as a group, 1 in 10 children were related rather than own children, and in poor families headed by a woman, the proportion was 1 in 8.

Many families with four or five youngsters had insufficient income to support even two or three, though all would be less poor if they spread their limited resources among fewer members. For example, of the families poor in 1966 with a woman at the head and four children, one-half had less than \$2,300 income for the year. Even on the assumption that there was no one else in the family, this median was 40 percent less than the minimum of \$3,900 required to enable a nonfarm family of this size to stay above the poverty line and was not even enough for a mother and two children (table 10).

As is well known, nonwhite families as a rule must get along on far less income than white families, though the income of the nonwhite family will usually have to provide for a greater number of family members. Yet when family income is appraised relative to need—insofar as measured by the SSA minimum criteria depending on the number of adults and number of children to be supported, and whether or not the family lives on a farm—among those families classed as poor there is very little difference in income of white and nonwhite families of the same composition. It is principally among nonpoor families that the difficulty of the nonwhite man in achieving a better living for himself and his children manifests itself.

As one example, among families of nonwhite men with two children, poverty struck 1 in 4—a rate five times that for the corresponding group of white men's families. But among men's families below the poverty line and with two children under 18, median income of nonwhite families in 1966 was \$2,170, about 7 percent less than for the white families. Among the parallel group above the poverty line the median income of the nonwhite families was \$7,050, a fifth less than that enjoyed by the nonpoor white families of a man with two children (table 11).

TABLE 9.—DISTRIBUTION OF MEMBERS OF FAMILIES WITH 1966 INCOME BELOW SSA POVERTY LEVEL BY WORK EXPERIENCE OF FAMILY HEAD, BY COLOR AND SEX OF HEAD

Age and race	Total	In household with male head						In household with female head					
		Total †	Work experience, 1966				Worked all year	Total	Work experience, 1966				Worked all year
			Didn't work		Worked part year				Didn't work		Worked part year		
			Ill	Other	Unem- ployed	Other			Ill	Other	Unem- ployed	Other	
Number (in thousands)													
Families.....	6,086	4,276	575	890	471	661	1,606	1,810	144	809	102	419	337
White.....	4,375	3,264	433	794	305	519	1,151	1,111	72	565	57	247	170
Nonwhite.....	1,711	1,012	142	96	166	142	455	699	72	243	45	173	167
Persons in families.....	24,836	17,675	1,979	2,283	2,396	2,548	8,139	7,160	474	3,145	427	1,727	1,388
White.....	16,287	12,410	1,381	1,946	1,485	1,843	5,486	3,877	193	1,975	213	887	609
Nonwhite.....	8,549	5,265	598	337	911	704	2,653	3,283	282	1,169	215	839	778
Children under age 18 2.....	12,539	8,117	639	372	1,321	1,073	4,526	4,423	213	1,933	281	1,135	861
White.....	7,527	5,281	408	261	826	702	2,940	2,245	58	1,104	139	571	373
Nonwhite.....	5,014	2,837	232	112	496	370	1,586	2,177	156	827	140	566	487
Children under age 6.....	4,386	2,964	137	118	496	418	1,697	1,423	43	680	88	385	228
White.....	2,564	1,893	83	73	312	274	1,071	671	11	356	36	183	85
Nonwhite.....	1,823	1,071	54	46	184	145	627	752	33	322	51	202	143
Persons aged 18 to 24.....	3,748	2,337	120	92	372	405	1,275	1,411	50	593	93	373	302
White.....	2,540	1,706	87	79	248	322	910	834	20	387	54	221	152
Nonwhite.....	1,208	631	34	12	124	83	366	577	31	206	41	151	148
Persons aged 55 to 64.....	800	635	172	84	69	111	199	166	35	63	7	34	27
White.....	558	458	129	68	39	83	139	100	17	50	3	16	13
Nonwhite.....	243	177	43	16	30	28	59	66	17	13	4	17	15
Persons 65 and over.....	1,538	1,304	282	715	29	146	132	234	59	153	1	13	8
White.....	1,277	1,100	217	648	17	116	102	177	34	129	1	8	5
Nonwhite.....	261	204	65	67	12	30	30	57	24	25	0	5	3

Percentage distribution													
Families.....	100	70.3	9.4	14.6	7.7	10.9	26.4	29.7	2.4	13.3	1.7	6.9	5.5
White.....	100	74.6	9.9	18.1	7.0	11.9	26.3	25.4	1.6	12.9	1.3	6.6	3.9
Nonwhite.....	100	59.1	8.3	5.6	9.7	8.3	26.6	40.9	4.2	14.2	2.6	10.1	9.8
Persons in families.....	100	71.2	8.0	9.2	9.6	10.3	32.8	28.8	1.9	12.7	1.7	7.0	5.6
White.....	100	76.2	8.5	11.9	9.1	11.3	33.7	23.8	1.1	12.1	1.3	5.4	3.7
Nonwhite.....	100	61.6	7.0	3.9	10.7	8.2	31.0	38.4	3.3	13.7	2.5	9.8	9.1
Children under age 18 ²	100	64.7	5.1	3.0	10.5	8.6	36.1	35.4	1.7	15.4	2.2	6.9	6.9
White.....	100	70.2	5.4	3.5	11.0	9.3	39.1	29.8	.8	14.7	1.8	6.0	5.0
Nonwhite.....	100	56.6	4.6	2.2	9.9	7.4	31.6	43.4	3.1	16.5	2.8	11.3	9.7
Children under age 6.....	100	67.6	3.1	2.7	11.3	9.5	38.7	32.4	1.0	15.5	2.0	8.8	5.2
White.....	100	73.8	3.2	2.8	12.2	10.7	41.8	26.2	.4	13.9	1.4	7.1	3.3
Nonwhite.....	100	58.7	3.0	2.5	10.1	8.0	34.4	41.3	1.8	17.7	2.8	11.1	7.8
Persons aged 18 to 54.....	100	62.4	3.2	2.5	9.9	10.8	34.0	37.7	1.3	15.8	2.5	10.0	8.0
White.....	100	67.2	3.4	3.1	9.8	12.7	35.8	32.7	.8	15.2	2.1	8.7	6.0
Nonwhite.....	100	52.2	2.8	1.0	10.3	6.9	30.3	47.8	2.6	17.1	3.4	12.5	12.3
Persons aged 55 to 64.....	100	79.4	21.5	10.5	8.6	13.9	24.9	20.7	4.4	7.1	.9	2.8	3.4
White.....	100	82.1	23.1	12.2	7.0	14.9	24.9	17.9	3.2	9.0	.5	2.2	3.4
Nonwhite.....	100	72.8	17.7	6.6	12.3	11.5	24.3	27.3	3.2	9.0	1.6	7.0	3.2
Persons 65 and over.....	100	84.8	19.3	46.5	1.9	9.5	8.6	15.2	3.8	9.9	.1	6.6	5.2
White.....	100	86.1	17.0	50.7	1.3	9.1	8.0	13.9	2.7	10.1	.1	6.6	4.4
Nonwhite.....	100	78.2	24.9	25.7	4.6	11.5	11.5	21.8	9.2	9.6	.....	1.9	1.1

¹ Includes heads in Armed Forces in March 1967, not shown separately; work experience in 1966 not asked for such heads.

² Never-married children.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1967.

TABLE 10.—1966 INCOME OF FAMILIES: PERCENTAGE DISTRIBUTION OF POOR AND NONPOOR FAMILIES BY AMOUNT OF INCOME, BY SEX OF HEAD AND NUMBER OF CHILDREN UNDER AGE 18

Income	Total families	With no children	With children						
			Total	1 child	2 children	3 children	4 children	5 children	6 or more
All families									
Number (in thousands).....	48,923	20,327	28,598	9,082	8,492	5,416	2,922	1,397	1,287
Total percent.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Under \$1,000.....	2.3	2.4	2.3	.5	2.3	1.7	2.1	2.6	2.6
\$1,000 to \$1,499.....	2.3	3.2	1.6	2.0	1.4	1.2	1.0	2.1	2.5
\$1,500 to \$1,999.....	3.1	4.9	1.8	2.3	1.5	1.6	1.6	1.8	2.7
\$2,000 to \$2,499.....	3.4	4.9	2.3	2.4	2.0	2.1	2.1	2.4	5.9
\$2,500 to \$2,999.....	3.2	4.5	2.2	2.0	2.0	2.2	2.5	2.5	4.0
\$3,000 to \$3,499.....	3.5	4.3	3.0	3.0	2.4	2.6	3.5	3.7	5.9
\$3,500 to \$3,999.....	3.3	3.9	2.9	3.2	2.4	2.5	2.7	2.9	5.8
\$4,000 to \$4,999.....	7.1	7.5	6.8	6.8	6.0	6.0	7.8	8.4	11.1
\$5,000 to \$5,999.....	8.4	8.4	8.4	8.5	8.0	8.2	9.7	7.5	9.3
\$6,000 to \$6,999.....	9.4	8.0	10.3	9.3	11.2	10.1	10.2	12.0	11.0
\$7,000 to \$7,999.....	9.3	7.6	10.5	10.4	11.4	10.7	9.2	8.8	8.8
\$8,000 to \$8,999.....	8.1	6.9	9.0	8.7	9.2	9.5	9.2	9.0	7.1
\$9,000 to \$9,999.....	7.0	5.6	8.0	7.4	8.7	9.0	7.8	8.4	4.4
\$10,000 to \$11,999.....	11.2	9.7	12.3	12.3	12.3	13.7	12.1	11.3	8.1
\$12,000 to \$14,999.....	9.2	8.9	9.5	9.9	9.8	9.3	9.5	8.7	5.4
\$15,000 to \$24,999.....	7.5	7.3	7.6	7.9	7.9	7.6	7.2	7.0	3.8
\$25,000 and over.....	1.7	1.9	1.6	1.4	1.4	2.0	1.9	1.0	1.7
All poor families †									
Number (in thousands).....	6,086	2,206	3,880	844	869	695	544	390	541
Total percent.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Under \$1,000.....	18.9	22.7	16.7	26.7	22.3	13.6	11.4	9.6	6.1
\$1,000 to \$1,499.....	18.3	29.6	11.9	21.7	14.1	9.7	5.1	7.5	5.9
\$1,500 to \$1,999.....	22.5	38.7	13.4	24.1	14.3	12.3	8.6	6.5	6.5
\$2,000 to \$2,499.....	12.7	7.6	15.6	18.9	19.1	16.3	11.0	8.5	14.0
\$2,500 to \$2,999.....	7.8	1.1	11.6	5.6	14.7	16.5	13.6	9.0	9.6
\$3,000 to \$3,499.....	7.7	.4	11.9	2.1	12.2	16.7	17.6	13.2	14.0
\$3,500 to \$3,999.....	4.5	0	7.1	.2	2.0	12.1	11.9	9.8	12.9
\$4,000 to \$4,999.....	5.8	0	9.0	.2	1.1	2.0	17.1	25.1	24.4
\$5,000 and over.....	1.8	0	2.8	.4	.1	.9	3.7	10.9	6.5
All nonpoor families									
Number (in thousands).....	42,835	18,121	24,710	8,239	7,620	4,723	2,379	1,008	744
Total percent.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Under \$1,000.....	0	0	0	0	0	0	0	0	0
\$1,000 to \$1,499.....	0	0	0	0	0	0	0	0	0
\$1,500 to \$1,999.....	.3	.8	0	0	0	0	0	0	0
\$2,000 to \$2,499.....	2.0	4.5	.2	.7	0	0	0	0	0
\$2,500 to \$2,999.....	2.5	4.9	.7	1.7	.5	.1	0	0	0
\$3,000 to \$3,499.....	2.9	4.8	1.5	3.1	1.2	.6	.2	0	0
\$3,500 to \$3,999.....	3.1	4.4	2.2	3.5	2.5	1.1	.5	.3	.5
\$4,000 to \$4,999.....	7.3	8.5	6.4	7.5	6.6	6.5	5.7	2.0	1.5
\$5,000 to \$5,999.....	9.3	9.4	9.3	9.3	8.9	9.3	11.1	6.3	11.3
\$6,000 to \$6,999.....	10.7	9.0	11.9	10.3	12.5	11.6	12.5	16.6	18.9
\$7,000 to \$7,999.....	10.6	8.5	12.1	11.4	12.7	12.3	11.3	12.2	15.2
\$8,000 to \$8,999.....	9.3	7.8	10.4	9.6	10.2	10.9	11.3	12.5	12.2
\$9,000 to \$9,999.....	8.0	6.3	9.3	8.1	9.7	10.3	9.6	11.6	7.5
\$10,000 to \$11,999.....	12.8	10.9	14.2	13.6	13.7	15.7	14.9	15.6	14.0
\$12,000 to \$14,999.....	10.5	10.0	10.9	11.0	10.9	10.6	11.7	12.0	9.4
\$15,000 to \$24,999.....	8.5	8.2	8.8	8.8	8.8	8.7	8.8	9.6	6.6
\$25,000 and over.....	2.0	2.1	1.8	1.6	1.6	2.4	2.3	1.4	3.0

See footnotes at end of table, p. 204.

TABLE 10.—1965 INCOME OF FAMILIES: PERCENTAGE DISTRIBUTION OF POOR AND NONPOOR FAMILIES BY AMOUNT OF INCOME, BY SEX OF HEAD AND NUMBER OF CHILDREN UNDER AGE 18—Continued

Income	Total families	With no children	With children						
			Total	1 child	2 children	3 children	4 children	5 children	6 or more
All families with male head									
Number (in thousands)	43,751	18,116	25,638	8,034	7,666	4,949	2,629	1,261	1,095
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Under \$1,000	1.5	2.2	1.1	1.3	1.0	.7	.7	1.8	1.7
\$1,000 to \$1,499	1.8	3.0	1.0	1.3	.9	.6	.6	1.4	1.9
\$1,500 to \$1,999	2.6	4.8	1.0	1.3	.7	1.0	.9	1.0	1.4
\$2,000 to \$2,499	2.8	4.8	1.5	1.7	1.2	1.2	1.1	1.6	4.5
\$2,500 to \$2,999	2.8	4.4	1.7	1.7	1.5	1.4	1.7	2.0	3.3
\$3,000 to \$3,499	3.1	4.3	2.4	2.5	1.9	1.9	2.7	3.2	4.9
\$3,500 to \$3,999	2.9	3.7	2.4	2.9	2.1	2.1	1.9	2.1	4.4
\$4,000 to \$4,999	6.6	7.1	6.1	6.0	5.3	5.7	7.5	7.5	10.4
\$5,000 to \$5,999	8.4	8.2	8.5	8.4	8.1	8.2	0.1	8.1	10.0
\$6,000 to \$6,999	9.5	7.7	10.8	9.6	11.8	10.7	0.7	12.5	12.4
\$7,000 to \$7,999	9.8	7.7	11.2	11.1	12.0	11.4	0.0	9.5	10.1
\$8,000 to \$8,999	8.7	7.2	9.7	9.4	10.0	10.1	0.1	9.8	7.8
\$9,000 to \$9,999	7.4	5.6	8.7	7.8	9.4	9.7	8.5	9.3	5.1
\$10,000 to \$11,999	12.1	10.0	13.5	13.6	13.1	14.9	3.3	12.2	9.4
\$12,000 to \$14,999	10.0	9.4	10.4	11.0	10.7	10.0	0.4	9.4	6.4
\$15,000 to \$24,999	8.1	7.8	8.3	8.8	8.7	8.2	7.8	7.5	4.4
\$25,000 and over	1.9	2.1	1.7	1.6	1.6	2.2	2.0	1.1	1.9
Poor families with male head ¹									
Number (in thousands)	4,276	1,874	2,403	492	503	405	343	283	376
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Under \$1,000	16.1	21.5	11.9	21.4	16.5	8.8	5.3	7.8	5.1
\$1,000 to \$1,499	18.7	29.1	10.7	21.8	13.1	7.8	4.4	6.4	5.6
\$1,500 to \$1,999	23.3	39.6	10.5	21.0	9.9	12.0	6.7	4.2	4.0
\$2,000 to \$2,499	12.0	8.3	14.9	23.0	17.2	14.2	8.8	7.1	13.1
\$2,500 to \$2,999	7.9	1.3	13.1	8.8	20.4	15.7	13.2	8.8	9.6
\$3,000 to \$3,499	8.3	.3	14.6	2.9	19.0	19.6	19.0	14.1	14.4
\$3,500 to \$3,999	4.6	0	8.2	.2	2.2	17.9	12.8	8.8	11.7
\$4,000 to \$4,999	6.8	0	12.1	.4	1.6	2.7	25.4	28.6	28.0
\$5,000 and over	2.3	0	4.1	.6	.2	1.2	4.7	14.1	8.5
Nonpoor families with male head									
Number (in thousands)	39,474	16,242	23,230	7,542	7,161	4,542	2,289	979	719
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Under \$1,000	0	0	0	0	0	0	0	0	0
\$1,000 to \$1,499	(²)	(²)	0	0	0	0	0	0	0
\$1,500 to \$1,999	.3	.8	0	0	0	0	0	0	0
\$2,000 to \$2,499	1.9	4.4	.1	.3	(²)	0	0	0	0
\$2,500 to \$2,999	2.2	4.7	.5	1.2	.2	.1	0	0	0
\$3,000 to \$3,499	2.6	4.7	1.1	2.5	.7	.4	.3	0	0
\$3,500 to \$3,999	2.8	4.1	1.8	3.0	2.1	.7	.3	.2	.6
\$4,000 to \$4,999	6.5	8.0	5.5	6.4	5.5	5.9	4.8	1.4	1.3
\$5,000 to \$5,999	9.0	9.2	8.9	8.9	8.6	8.9	10.9	6.3	10.8
\$6,000 to \$6,999	10.6	8.6	12.0	10.2	12.6	11.6	12.3	16.4	18.8
\$7,000 to \$7,999	10.8	8.6	12.4	11.8	12.9	12.4	11.5	12.3	15.4
\$8,000 to \$8,999	9.6	8.0	10.7	10.0	10.7	11.0	11.6	12.6	11.8
\$9,000 to \$9,999	8.2	6.3	9.6	8.3	10.0	10.5	9.7	12.0	7.8
\$10,000 to \$11,999	13.3	11.1	14.9	14.6	14.3	16.2	15.4	15.7	14.3
\$12,000 to \$14,999	11.1	10.5	11.5	11.7	11.5	10.9	12.0	12.0	9.7
\$15,000 to \$24,999	9.0	8.7	9.2	9.4	9.3	9.0	9.0	9.7	6.7
\$25,000 and over	2.1	2.4	1.9	1.7	1.7	2.4	2.3	1.4	2.9

See footnotes at end of table, p. 204.

TABLE 10.—1966 INCOME OF FAMILIES: PERCENTAGE DISTRIBUTION OF POOR AND NONPOOR FAMILIES BY AMOUNT OF INCOME, BY SEX OF HEAD AND NUMBER OF CHILDREN UNDER AGE 18—Continued

Income	Total families	With no children	With children						
			Total	1 child	2 children	3 children	4 children	5 children	6 or more
All families with female head									
Number (in thousands).....	5,172	2,211	2,960	1,048	826	467	293	136	192
Total percent.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Under \$1,000.....	8.9	4.4	12.2	11.7	13.5	12.2	15.3	10.7	7.3
\$1,000 to \$1,499.....	6.1	5.0	5.9	7.2	6.9	7.7	5.1	8.4	5.8
\$1,500 to \$1,999.....	7.6	5.6	9.1	9.9	9.0	7.9	7.8	9.2	10.5
\$2,000 to \$2,499.....	7.8	5.6	9.5	7.4	9.6	11.8	10.5	9.2	14.2
\$2,500 to \$2,999.....	6.4	5.5	7.0	4.9	6.1	10.9	9.9	8.4	7.9
\$3,000 to \$3,499.....	6.8	4.8	8.2	7.4	6.9	9.8	10.5	8.4	12.1
\$3,500 to \$3,999.....	6.3	5.6	6.8	5.6	5.7	6.2	9.5	10.7	13.7
\$4,000 to \$4,999.....	11.8	10.8	12.5	12.8	13.2	9.4	10.9	16.8	14.7
\$5,000 to \$5,999.....	8.6	9.8	7.7	9.2	7.8	7.9	6.1	3.1	4.7
\$6,000 to \$6,999.....	7.8	10.5	5.7	7.2	5.6	3.8	5.4	4.6	3.7
\$7,000 to \$7,999.....	5.3	6.6	4.3	4.5	5.9	3.6	2.4	2.3	1.6
\$8,000 to \$8,999.....	3.6	5.0	2.6	3.1	1.8	3.4	1.4	1.5	2.6
\$9,000 to \$9,999.....	3.7	5.2	2.6	3.9	2.5	1.5	1.7	0	0
\$10,000 to \$11,999.....	4.4	7.6	2.1	2.4	3.0	.9	.3	3.1	.5
\$12,000 to \$14,999.....	2.8	4.5	1.5	1.5	1.2	1.9	1.4	3.1	0
\$15,000 to \$24,999.....	2.0	3.3	1.1	1.2	1.1	.9	1.4	.8	.5
\$25,000 and over.....	.3	.3	.2	.2	.1	.2	.3	0	0
Poor families with female head ¹									
Number (in thousands).....	1,809	332	1,477	353	365	288	202	107	166
Total percent.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Under \$1,000.....	25.5	29.7	24.5	34.7	30.6	19.8	22.1	13.6	8.4
\$1,000 to \$1,499.....	17.3	32.7	13.8	21.3	15.6	12.5	7.4	10.7	6.6
\$1,500 to \$1,999.....	20.8	33.3	18.0	28.7	20.2	12.9	11.3	11.7	12.0
\$2,000 to \$2,499.....	14.5	3.6	16.9	13.1	21.6	19.2	15.2	11.7	16.3
\$2,500 to \$2,999.....	7.5	.3	9.1	.9	6.8	17.8	14.2	10.7	9.0
\$3,000 to \$3,499.....	6.4	.3	7.7	1.1	2.5	12.5	15.2	10.7	13.9
\$3,500 to \$3,999.....	4.3	0	5.3	.3	1.9	3.8	9.8	12.6	15.7
\$4,000 to \$4,999.....	3.2	0	3.9	0	.8	1.0	2.9	16.5	16.3
\$5,000 and over.....	.6	0	.7	0	0	.3	2.0	1.9	1.8
Nonpoor families with female head									
Number (in thousands).....	3,361	1,879	1,480	695	459	180	92	29	25
Total percent.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Under \$1,000.....	0	0	0	0	0	0	0	0	0
\$1,000 to \$1,499.....	(?)	.1	0	0	0	0	0	0	0
\$1,500 to \$1,999.....	.5	.7	.2	.3	0	0	0	0	0
\$2,000 to \$2,499.....	4.3	6.0	2.1	4.5	0	0	0	0	0
\$2,500 to \$2,999.....	5.7	6.4	4.9	6.8	5.7	0	0	0	0
\$3,000 to \$3,499.....	7.0	5.6	8.8	10.5	10.4	5.6	0	0	0
\$3,500 to \$3,999.....	7.4	6.6	8.3	8.4	8.7	10.0	(?)	(?)	0
\$4,000 to \$4,999.....	16.4	12.7	21.1	19.4	23.0	22.2	(?)	(?)	(?)
\$5,000 to \$5,999.....	12.9	11.5	14.7	13.9	13.9	20.0	(?)	(?)	(?)
\$6,000 to \$6,999.....	12.0	12.3	11.5	10.8	10.0	10.0	(?)	(?)	(?)
\$7,000 to \$7,999.....	8.1	7.8	8.5	6.8	10.7	9.4	(?)	(?)	(?)
\$8,000 to \$8,999.....	5.5	5.9	5.1	4.6	3.3	8.9	(?)	(?)	(?)
\$9,000 to \$9,999.....	5.7	6.1	5.1	5.9	4.6	3.9	(?)	(?)	(?)
\$10,000 to \$11,999.....	6.8	8.9	4.2	3.6	5.4	2.2	(?)	(?)	(?)
\$12,000 to \$14,999.....	4.3	5.3	2.9	2.3	2.2	5.0	(?)	(?)	(?)
\$15,000 to \$19,999.....	3.1	3.8	2.2	1.9	2.0	2.2	(?)	(?)	(?)
\$25,000 and over.....	.4	.4	.4	.3	.2	.6	(?)	(?)	(?)

¹ Families with 1966 income below SSA poverty level.² Less than 0.05 percent.³ Not shown for base less than 100,000.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1967.

TABLE 11.—1966 INCOME OF FAMILIES: NUMBER AND MEDIAN INCOME OF FAMILIES BY NUMBER OF CHILDREN UNDER AGE 18 AND SEX AND RACE OF HEAD

Type of family	Total families	With no children	With children						
			Total	1 child	2 children	3 children	4 children	5 children	6 or more
Number (in thousands)									
All families.....	48,923	20,327	28,598	9,082	8,492	5,416	2,922	1,397	1,287
With male head.....	43,751	18,116	25,638	8,034	7,666	4,949	2,629	1,261	1,095
White.....	40,007	16,824	23,183	7,338	7,114	4,533	2,321	1,062	815
Nonwhite.....	3,744	1,292	2,455	696	552	416	308	199	280
With female head.....	5,172	2,211	2,960	1,048	826	467	293	136	192
White.....	4,010	1,936	2,075	827	607	332	177	61	70
Nonwhite.....	1,162	275	885	221	219	135	116	75	122
Poor families ¹	6,086	2,206	3,880	844	869	695	544	390	541
With male head.....	4,276	1,874	2,403	492	503	405	343	283	376
White.....	3,264	1,607	1,657	373	373	277	236	176	223
Nonwhite.....	1,012	267	746	119	130	128	107	107	153
With female head.....	1,805	332	1,477	353	365	288	202	107	166
White.....	1,110	258	852	244	226	184	101	42	58
Nonwhite.....	699	74	625	109	139	104	101	65	108
Nonpoor families.....	42,835	18,121	24,710	8,239	7,620	4,723	2,379	1,008	744
With male head.....	39,474	16,242	23,230	7,542	7,161	4,542	2,289	979	719
White.....	36,742	15,217	21,522	6,965	6,740	4,254	2,088	887	592
Nonwhite.....	2,732	1,025	1,708	577	421	288	201	92	127
With female head.....	3,361	1,897	1,480	695	459	180	92	29	25
White.....	2,899	1,678	1,221	583	380	148	77	19	12
Nonwhite.....	462	201	259	112	79	32	15	10	13
Median income									
All families.....	\$7,436	\$6,740	\$7,803	\$7,776	\$7,945	\$8,108	\$7,750	\$7,467	\$6,014
With male head.....	7,816	6,975	8,238	8,234	8,350	7,842	8,208	7,926	6,605
White.....	8,012	7,156	8,484	8,426	8,525	8,693	8,561	8,500	7,144
Nonwhite.....	5,370	4,724	5,693	5,881	6,200	5,977	5,563	4,922	4,781
With female head.....	4,012	5,275	3,320	3,640	3,355	2,980	3,065	3,250	3,174
White.....	4,466	5,510	3,710	3,995	3,818	3,140	3,538	(?)	(?)
Nonwhite.....	2,825	3,488	2,635	2,417	2,324	2,736	2,633	(?)	3,100
Poor families ¹	1,784	1,461	2,257	1,533	1,976	2,445	3,005	3,338	3,283
With male head.....	1,826	1,491	2,578	1,663	2,307	2,727	3,308	3,590	3,440
White.....	1,764	1,506	2,554	1,623	2,348	2,723	3,400	3,868	3,733
Nonwhite.....	2,160	1,401	2,629	1,777	2,174	2,694	3,190	3,234	3,164
With female head.....	1,673	1,310	1,823	1,360	1,595	2,123	3,306	2,614	2,867
White.....	1,587	1,264	1,747	1,413	1,635	2,041	3,161	(?)	(?)
Nonwhite.....	1,835	(?)	1,954	1,284	1,493	2,306	3,397	(?)	2,750
Nonpoor families.....	8,122	7,441	8,524	8,269	8,486	8,782	7,760	9,017	8,214
With male head.....	8,342	7,645	8,719	8,567	8,689	8,906	8,864	9,068	8,271
White.....	8,471	7,774	8,837	8,687	8,778	8,986	8,058	9,268	8,558
Nonwhite.....	6,832	5,838	7,221	7,038	7,053	7,706	2,204	(?)	7,339
With female head.....	5,680	6,043	5,317	5,010	5,156	5,611	(?)	(?)	(?)
White.....	5,813	6,171	5,393	5,062	5,302	5,778	(?)	(?)	(?)
Nonwhite.....	5,041	4,982	5,051	4,867	(?)	(?)	(?)	(?)	(?)

¹ Families with 1966 income below SSA poverty level.

² Not shown for base less than 100,000.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1967.

WOMEN IN POVERTY

Among the poor, women outnumbered the men, 8 to 5. In the age group 65 or older, there were nearly two women living in poverty for every man. Aged women living alone were particularly ill-favored, with more than 3 out of 5 purchasing their privacy only at the price of poverty, but whatever their age or family status the woman was poorer than the man. Those who had to double as family head and homemaker were $3\frac{1}{2}$ times as likely to be poor as men heading a family, and they were even more disadvantaged if they had children under age 6 to look after.

Of the 5.8 million women heading a family, 35 percent were counted poor, and 2 out of 3 of those heading a family with children under age 6 were raising their youngsters on incomes too low to provide for them properly. Because their home responsibilities were greater than in nonpoor families, women in poor families would find it more difficult to hold down a full-time job and some could take no job at all. The woman in a poor family—whether wife or family head—had more children and younger children to care for. It is not surprising then to find that among poor families with a husband present, only 1 in 6 out of the wives was in the paid labor force, but that in nonpoor families, 2 in 5 were either working or looking for work.

Poor families generally were larger than those better off, mainly because they included more children, not because they had more adults. And every disadvantage of the poor family was greater if the head was a woman. As one instance, in the women's families just about one-fifth of all family members were preschoolers under age 6, and 6 out of 10 members were not yet aged 18. In families of men in poverty, one-half the members were not yet aged 18, and about one-sixth were not yet 6 years of age (table 2).

The role of social security and other public programs in ameliorating poverty, but yet in another sense perpetuating it, is quite evident in the situation of families headed by a woman. Because a woman responsible for a family cannot work as readily as a man, and will earn less when she does, the families of women are generally much poorer than men's families. But by age 65 when most men heading a family are not working regularly either, the economic gap between the man's and woman's family lessens. With a head under age 55, a woman's family is nearly six times as likely to be poor as a man's; between age 55 and 64, the woman's family is $2\frac{1}{3}$ times as likely to be poor as the man's; at age 65 or older, the risk of poverty for a woman's family is about the same as for a man's and, if both are not working at all, the risk for the woman's family is about one-fourth less than the man's (table 12).

TABLE 12.—INCIDENCE OF POVERTY AMONG FAMILIES IN 1966 BY WORK EXPERIENCE AND SEX OF HEAD

Work experience of head in 1966	All families				With male head				With female head			
	Total	Head under age 55	Head aged 55-64	Head 65 or over	Total	Under age 55	Aged 55-64	65 or over	Total	Under age 55	Aged 55-64	65 or over
All families (in thousands)												
Total ¹	48,922	34,304	7,689	6,929	43,750	31,043	6,900	5,806	5,171	3,260	790	1,122
Didn't work.....	6,893	1,468	966	4,459	4,743	535	691	3,516	2,149	931	275	942
Ill, disabled.....	1,757	357	493	906	1,433	276	434	721	324	80	58	185
Other.....	5,136	1,111	473	3,553	3,310	259	257	2,795	1,825	851	217	757
Worked part year.....	7,805	5,418	1,353	1,033	6,615	4,499	1,168	948	1,189	919	185	85
Unemployed.....	2,858	2,313	430	116	2,626	2,117	400	108	232	195	30	6
Other.....	4,947	3,105	923	917	3,989	2,382	768	840	957	724	155	79
Worked all year.....	33,389	26,582	5,370	1,437	31,555	25,173	5,040	1,342	1,834	1,410	330	95
Poor families (in thousands)												
Total ¹	6,086	3,748	800	1,538	4,276	2,337	635	1,304	1,810	1,411	166	234
Didn't work.....	2,418	855	353	1,209	1,465	212	256	997	953	643	98	212
Ill, disabled.....	719	171	207	340	575	120	172	282	144	50	35	59
Other.....	1,699	684	146	869	890	92	84	715	809	593	63	153
Worked part year.....	1,653	1,243	221	189	1,132	777	180	175	521	466	41	14
Unemployed.....	573	467	76	31	471	372	69	29	102	93	7	1
Other.....	1,080	776	145	158	661	405	111	146	419	373	34	13
Worked all year.....	1,943	1,577	226	140	1,606	1,275	199	132	337	302	27	8
Percent of families in poverty												
Total ¹	12.4	10.9	10.4	22.2	9.8	7.5	9.2	22.5	35.0	43.3	21.0	20.9
Didn't work.....	35.1	58.2	36.5	27.1	30.9	39.6	37.0	28.4	44.3	69.1	35.6	22.8
Ill, disabled.....	40.0	47.0	42.0	37.5	40.1	43.5	20.6	39.1	44.4	62.5	60.3	31.9
Other.....	33.1	61.6	30.9	24.5	26.9	35.5	32.7	25.6	44.3	69.7	29.0	20.2
Worked part year.....	21.2	22.9	16.3	18.3	17.1	17.3	15.4	18.5	43.8	50.7	22.2	16.5
Unemployed.....	20.0	20.2	17.7	26.7	17.9	17.6	17.3	26.9	44.0	47.7	23.3	16.7
Other.....	21.8	25.0	15.7	17.2	16.6	17.0	14.5	17.4	43.8	51.5	21.9	16.5
Worked all year.....	5.8	5.9	4.2	9.7	5.1	5.1	3.9	9.8	18.4	21.4	8.2	8.4

¹ Includes heads in Armed Forces in March 1967, not shown separately; work experience in 1966 not asked for such heads.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1967.

It is evident, however, that this lessening of the poverty gap between households of men and those of women occurs because what comes as a deterioration in financial situation for men as they grow older can, where families of women are concerned, often be an improvement. As table 11 indicates, the rate at which poverty strikes families increases with age of the head for the man—as his earnings decline or cease altogether, to be replaced by public programs which are only a partial substitute. By contrast, among families headed by a woman—who as a rule is less likely to work than a man and will earn less when she does—advancing age can mean counting on a regular income not possible before, or as will be seen later, shifting from a means-test limited public program such as public assistance to one more generous in its payment schedule, such as social security.

In the case of families with a head not yet age 65, just about every other one headed by a woman had to rely on a public program for at least partial support, but this was true for only 1 in 6 families headed by a young man. On the other hand with a head past age 65, about 6 in 7 families were relying on public programs, irrespective of whether the head was a man or a woman.

AGE AND POVERTY

In 1966, persons age 65 or older accounted for 18 percent of the 29.7 million persons counted poor, though they made up only 7 percent of the nonpoor population. This reflected the fact that, among persons age 65 or older, nearly 1 in 3 was in a household with income below the poverty line compared with only 1 in 7 persons under 65.

The heavy poverty burden of the aged results from several factors. Compared with those younger the aged have a preponderance of women, particularly women living alone. Women at all ages are likely to be poorer than men, and persons living alone are more often poorer than those who are part of a family group. Fewer of the aged are in the labor force than is true for the rest of the adult population, and in our society those who do not or cannot work will almost always be poorer than those who do.

The living arrangements of the 17.9 million men and women aged 65 or older in March 1967, when income data for the year 1966 were collected, are shown in table 13. Of those in households with not enough income to come up to the poverty standard, almost two-thirds were women, but only half of the aged in nonpoor households. Moreover, of the women in the nonpoor units, 2 in 5 were living as the wife of a family head; of the aged women in poverty only 1 in 4 was sharing the income of a husband. For those aged living in another's household rather than in their own, it was usually a younger relative, and a nonpoor one at that, with whom they were sharing.

Three out of four of the "other relatives" did not have enough money to live by themselves except in poverty, but most of these were living with a family group that did have sufficient income for the entire household to be labeled nonpoor.

Half of all the aged poor were living by themselves, the majority of them women, reflecting how little income this group has. But the status also reflected the fact that more and more people, including

TABLE 13.—LIVING ARRANGEMENTS OF AGED NONINSTITUTIONAL POPULATION IN MARCH 1967, BY SEX AND POVERTY STATUS IN 1966

Family status	Incidence of poverty	Number (in millions)			Percentage distribution		
		Total	In poor households ¹	In nonpoor households	Total	In poor households ¹	In nonpoor households
Persons aged 65 or over.....	29.9	17,937	5,372	12,565	100.0	100.0	100.0
Living alone ²	55.3	4,878	2,697	2,181	27.2	50.2	17.4
Living in family units.....	20.5	13,059	2,675	10,384	72.8	49.8	82.6
Head.....	22.2	6,929	1,538	5,391	38.6	28.6	42.9
Wife of head.....	23.5	3,548	835	2,713	19.8	15.5	21.6
Other relative.....	11.7	2,582	302	2,280	14.4	5.6	18.1
Poor by own income ³	14.5	2,007	292	1,715	11.2	5.4	13.6
Not poor by own income.....	1.7	575	10	565	3.2	.2	4.5
Men.....	24.9	7,784	1,934	5,849	43.4	36.0	46.5
Living alone ²	44.0	1,285	565	720	7.2	10.5	5.7
Living in family units.....	21.1	6,499	1,369	5,129	36.2	25.5	40.3
Head.....	22.5	5,806	1,304	4,502	32.4	24.3	35.3
Other relative of head aged 65 or over.....	14.3	154	22	131	.9	.4	1.0
Other relative of head under age 65.....	8.0	539	43	496	3.0	.8	3.9
Women.....	33.9	10,152	3,437	6,715	56.6	64.0	53.4
Living alone ²	59.3	3,593	2,132	1,461	20.0	39.7	11.6
Living in family units.....	19.9	6,559	1,305	5,254	36.6	24.3	41.8
Head.....	20.9	1,122	234	888	6.3	4.4	7.1
Wife, husband aged 65 or over.....	24.3	3,289	800	2,488	18.3	14.9	19.8
Wife, husband under age 65.....	13.5	259	35	225	1.4	.7	1.8
Other relative of head aged 65 or over.....	21.6	435	94	340	2.4	1.7	2.7
Other relative of head under age 65.....	9.8	1,454	142	1,313	8.1	2.6	10.4
In household with head aged 65 or over.....	32.8	15,684	5,150	10,530	87.4	95.9	83.8
Male head.....	25.6	10,668	2,731	7,936	59.5	50.8	63.2
Female head.....	48.2	5,016	2,419	2,594	27.9	45.0	20.6
In household with head under age 65.....	9.8	2,248	220	2,034	12.6	4.1	16.2
Male head.....	7.2	1,826	132	1,699	10.2	2.5	13.5
Female head.....	20.9	422	88	335	2.4	1.6	2.7

¹ Income in 1966 of person living alone or of family unit below the SSA poverty index.

² Or with nonrelatives only.

³ Income in 1966 below \$1,565.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1967.

women, are enabled to continue maintaining a household in their old age because they now can count on some regular income, even if only an inadequate one.

In 1959, 97 percent of the men aged 65 or older and 75 percent of the women had some money of their own. By 1966 the proportion reporting some income was 99 percent for men and 83 percent for women. Over the same period the number of aged living by themselves (or with nonrelatives only) increased from 24 percent⁷ to 27 percent.

Today, a majority of the aged live alone or with just one other person. In 1966, 2 out of 5 households consisting of one aged person or an elderly couple fell below the poverty line, compared with but 1 in 7 of all other households. Families headed by aged persons generally have lower incomes than younger households of the same size because they are less likely to include a steady earner, and because

⁷ Based on revised figures issued Jan. 25, 1967. See U.S. Bureau of the Census, Current Population Reports, Series P-20, No. 159.

the public programs that help many of the aged almost always pay less than the earnings they are intended to replace.

On the average, aged couples or persons living alone must get along on less than half the money income available to a young couple or single person⁸—a difference greater than any possible differential in living requirements. The fact that for a variety of reasons, more and more aged persons are spending their last years living by themselves or just with a spouse rather than as part of a larger family group emphasizes the significance of the income disadvantage of such elderly households. Between 1959 and 1966 the number of nonaged one-person households rose by only 6 percent, but the number of elderly men and women living alone—or with nonrelatives only—was a third greater in 1966 than in 1959. In parallel fashion, with youngsters marrying and starting their families at an earlier age than they formerly did, the number of childless couples under age 65 rose by only 2 percent in this 7-year period, whereas the number of aged couples increased by a fifth. There are thus relatively more elderly persons who must manage by themselves on their own meager resources.

The fact that aged men and women are less likely to work regularly than younger persons and that they earn less when they do work is the main reason why poverty is so much more prevalent among the aged. As a case in point, fewer than a fourth of all men 65 or older and heading a family in 1966 worked throughout the year compared with five-sixths of those under 55. Indeed, of the family men under 55, even among the poor, nearly 3 in 5 worked all year but only 1 in 10 of the aged heads of poor families did so. As a result, whether poor or nonpoor, male heads under 55 were able by their earnings to provide at least 70 percent of the family's total money income. Among the aged families the man's earnings represented less than 30 percent of total income among the nonpoor, and only 6 percent among the poor (table 14).

When families are matched by work experience and by sex of the head, aged families are not so much worse off than others. As seen in table 11, the poverty rate for families of all aged men is nearly triple that of younger ones, but when the family head works the year round the rate of poverty among the aged is only twice that of the others. And, indeed, when the family head does not work at all, the average aged family will do better than a corresponding younger one because social security and other public support programs are more readily available to older people. Among the families headed by men who did not work at all in 1966, 28 percent of the aged were in poverty, compared with 37 percent when the head was aged 55–64 and 40 percent if he was under age 55.

THE WORKING POOR

In our society it is a truism at all ages that work is the key to economic security. Yet, though a job is usually necessary if one is to keep out of poverty, having one does not guarantee it.

With all the interest in more jobs for the poor, the statistics reveal that for many it is not more jobs that are needed but better ones. In

⁸ Derived from unpublished special tabulations of March 1965 for the Social Security Administration of the Current Population Survey.

TABLE 14.—WORK EXPERIENCE OF FAMILY HEAD AND PROPORTION OF FAMILY INCOME DERIVED FROM HEAD'S EARNINGS, BY SEX, AGE, AND POVERTY STATUS IN 1966

Family poverty status and work experience of head	All families	With male head				With female head			
		All ages	Under 55	55 to 64	65 or over	All ages	Under 55	55 to 64	65 or over
Percentage distribution by work experience ¹									
All heads.....	100	100	100	100	100	100	100	100	100
Worked in 1966.....	86	89	98	90	39	58	71	65	16
50 to 52 weeks.....	69	74	83	73	23	35	43	42	8
1 to 49 weeks.....	16	15	15	17	16	23	28	23	8
Seeking work.....	6	5	7	6	2	5	6	4	1
Did not work in 1966.....	14	11	2	10	61	42	29	35	34
Ill or disabled.....	4	3	1	6	12	6	3	7	17
Poor families.....	100	100	100	100	100	100	100	100	100
Worked in 1966.....	60	65	91	60	23	47	54	41	9
50 to 52 weeks.....	32	38	56	31	10	19	21	16	3
1 to 49 weeks.....	28	27	34	28	13	29	33	25	6
Seeking work.....	10	11	16	11	2	6	7	4	(?)
Did not work in 1966.....	40	35	9	40	77	53	46	59	91
Ill or disabled.....	12	14	5	16	22	8	4	21	25
Nonpoor families.....	100	100	100	100	100	100	100	100	100
Worked in 1966.....	89	91	99	93	44	64	84	72	18
50 to 52 weeks.....	75	77	86	77	27	44	60	49	10
1 to 49 weeks.....	15	14	13	16	17	20	24	23	8
Seeking work.....	5	6	6	5	2	4	5	4	1
Did not work in 1966.....	11	9	1	7	56	36	16	28	82
Ill or disabled.....	3	2	1	4	10	5	2	4	14
Earnings of head as percent of total family income									
All heads ²	69	72	77	68	27	35	49	31	5
Poor families.....	45	52	71	33	6	26	30	16	1
Nonpoor families.....	70	72	77	68	29	36	53	32	5
Heads worked in 1966 ¹	76	77	79	71	52	55	61	44	28
40 to 52 weeks.....	77	78	80	73	57	60	65	47	33
1 to 39 weeks.....	54	57	66	54	33	35	42	23	(?)
Poor families.....	45	52	71	33	6	26	30	16	1
Nonpoor families.....	76	77	79	72	53	55	62	45	28

¹ Excludes heads in Armed Forces in March 1967; work experience not asked for such heads.

² Less than 0.5 percent.

³ Includes heads in Armed Forces in March 1966.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1967.

1966, 1 in 4 of all poor families was headed by a man who had worked throughout the year. The families of these workingmen included 8 million persons, or one-third of all the poor who were not keeping house by themselves. To put it more directly, of 3 million poor families headed by a man under age 65—leaving out families headed by an aged person or by a woman, persons who might have difficulty getting any work at all—half were “fully employed” in terms of time spent on the job. Seven out of 10 of these men were white and so presumably not subjected to discrimination in the hiring hall. Though a number of these men had large families, many had earnings so low they would have been poor with only two or three children to support. Overall,

there was an average of 2.8 children under age 18 per family. Indeed, in 1965—the latest year for which such details are available—of the men under age 65 heading a family in poverty despite their “full employment,” three-fifths had no more than three children to support.⁹

For many of the poor, particularly in households headed by women, it was the inability of the family breadwinner to find a job or keep one that accounted for their plight. When the family head did not work at all in 1966, 1 out of 3 families was counted poor, compared with only 1 in 17 when the family head was on a job every week in the year. But 9½ million persons were poor though they were in the family of a breadwinner who did have a job throughout 1966. To be sure, many families were poor because the head was unemployed during some part of the year. Families in poverty included 1 out of 4 of all those with the head looking for a job in March 1967, and 1 out of 5 of those whose family head had lost some weeks' pay in 1966 because of unemployment. Among men who were family heads and in the labor force in 1966, one-sixth of the poor had been out of work and actively seeking a job sometime during the year—an unemployment rate nearly three times that for the heads of nonpoor families. In families headed by women, the unemployment rate reported by the poor was about 12 percent, or twice that in nonpoor families.

All told, among poor families headed by men under age 65, 5 out of 6 of the heads worked some time in 1966, and the majority of those who didn't were disabled.

As one would expect, the kind of job held was intimately related to the risk of poverty. The most poverty-prone calling for men was farming or unskilled labor; for women workers it was domestic service. Indeed, among women family heads employed as household workers in March 1967, nearly 3 in 5 reported family income for 1966 below the poverty line (table 6). Most of these women were nonwhite. Some women who go out to work achieve a gracious standard of living for their own family, but the families of some of the women who keep house for them are likely to remain on a substandard one.

THE POVERTY GAP IN 1965

The latest statistics on the aggregate dollar amount by which poor households fell short of their estimated income need are for 1965 when the total poverty roster numbered 31.9 million persons of whom 14 million were under age 18 and 5.3 million were at least 65. At that time the SSA poverty income standards were about 4 percent lower than in 1966—to conform to the change in the estimated cost per capita of the U.S. Department of Agriculture economy food plan which serves as the core of the SSA poverty index. For example, the 1965 minimum requirements (shown in table 15) for an elderly couple not on a farm average \$1,895 as against \$1,975 for 1966 (shown in table 1). In like fashion the low-income criteria for 1965 were 5 percent lower than in 1966.

In 1965 the total dollar poverty gap—the aggregate difference between required and actual income—stood at \$11 billion. This figure rep-

⁹ Cf. “Economic Report of the President,” January 1967, op. cit.

TABLE 15.—WEIGHTED AVERAGE OF POVERTY AND LOW-INCOME CRITERIA¹ FOR FAMILIES OF DIFFERENT COMPOSITION BY HOUSEHOLD SIZE, SEX OF HEAD, AND FARM OR NONFARM RESIDENCE, MARCH 1966

Number of family members	Nonfarm			Farm		
	Total	Male head	Female head	Total	Male head	Female head
Weighted average of incomes at poverty level						
1 member.....	\$1,570	\$1,635	\$1,530	\$1,110	\$1,145	\$1,070
Head under age 65.....	1,615	1,685	1,560	1,140	1,180	1,090
Head aged 65 or over.....	1,500	1,515	1,495	1,055	1,060	1,045
2 members.....	2,030	2,040	1,975	1,415	1,420	1,365
Head under age 65.....	2,100	2,110	2,025	1,475	1,480	1,410
Head aged 65 or over.....	1,890	1,895	1,880	1,325	1,325	1,325
3 members.....	2,495	2,505	2,405	1,740	1,745	1,660
4 members.....	3,200	3,200	3,180	2,250	2,255	2,205
5 members.....	3,765	3,770	3,730	2,640	2,640	2,640
6 members.....	4,235	4,235	4,220	2,970	2,970	3,055
7 or more members.....	5,205	5,215	5,090	3,630	3,635	3,560
Weighted average of incomes at low-income level						
1 member.....	\$1,890	\$1,980	\$1,840	\$1,340	\$1,385	\$1,290
Head under age 65.....	1,950	2,040	1,880	1,380	1,425	1,315
Head aged 65 or over.....	1,805	1,835	1,790	1,265	1,285	1,255
2 members.....	2,725	2,745	2,610	1,905	1,910	1,800
Head under age 65.....	2,810	2,835	2,665	1,980	1,985	1,860
Head aged 65 or over.....	2,545	2,550	2,500	1,785	1,785	1,760
3 members.....	3,265	3,275	3,175	2,280	2,285	2,210
4 members.....	4,145	4,150	4,050	2,920	2,920	2,825
5 members.....	4,835	4,845	4,730	3,395	3,395	3,370
6 members.....	5,440	5,445	5,345	3,820	3,820	3,860
7 or more members.....	6,615	6,630	6,455	4,610	4,615	4,515

¹ Required income in 1965 according to Social Security Administration poverty or low-income index for a family of given size and composition. Family income criteria weighted together in accordance with percentage distribution of total units by number of related children and sex of head, as of Current Population Survey, March 1966.

Note: For detailed description of the Social Security Administration measures of poverty and low income and their rationale, see the Social Security Bulletin for January 1965 (pp. 5-11) and July 1965 (pp. 3-10).

resented an overall reduction of 20 percent since 1959, but now one-fifth of the gap represented unmet needs of families with children and headed by a woman, compared with one-sixth then. In contrast, the share of the total gap accounted for by families with children and a man at the head dropped from 37 percent in 1959 to 34 percent in 1965. A fourth of the aggregate shortfall—\$4 billion—quantified the unmet income needs of the 4 million aged households in poverty.

It must be remembered that aggregate deficits as computed represent a needs-resources gap still remaining after payments of public assistance, OASDHI benefits, and any other public programs aiming to help families with insufficient income of their own. Many receive no such help. It has been estimated that only about a fourth of all persons counted poor receive any public assistance and the proportion of poor households receiving help is even less. In 1965 only a sixth of all households with income for the year below the poverty line had received any public assistance payment.

Because, as a rule, women's families have fewer persons than men's families, the income needed for the women's families to stay above poverty is lower. But even allowing for this lesser need the families headed by women had incomes proportionately less in relation to their estimated requirements than was true of men's families.

For example, the median income deficit for poor families with a head under 65 and with some children—that is, the difference between

TABLE 16.—THE POVERTY GAP, 1959 AND 1965: TOTAL DIFFERENCE BETWEEN ACTUAL AND REQUIRED INCOME OF ALL HOUSEHOLDS BELOW THE POVERTY LEVEL

Type of household	Poor households				Dollar deficit			
	Number (in millions)		Percentage distribution		Amount (in billions)		Percentage distribution	
	1959	1965	1959	1965	1959	1965	1959	1965
Total.....	13.4	11.2	100.0	100.0	\$13.7	\$11.0	100.0	100.0
Unrelated individuals.....	5.1	4.8	38.0	42.5	4.0	3.4	29.2	30.5
Men.....	1.6	1.3	11.7	11.4	1.2	.9	8.8	8.3
Women.....	3.5	3.5	26.3	31.1	2.8	2.5	20.4	22.2
Families.....	8.3	6.4	62.0	57.5	9.7	7.7	70.8	69.5
No children under age 18.....	2.9	2.2	22.2	19.7	2.3	1.7	16.8	15.3
Some children under age 18.....	5.4	4.2	39.8	37.8	7.4	6.0	54.0	54.2
With male head.....	6.3	4.6	47.6	40.7	7.0	5.1	51.1	46.3
No children under age 18.....	2.5	1.8	19.1	16.1	2.0	1.4	14.6	12.5
Some children under age 18.....	3.8	2.8	28.5	24.6	5.0	3.8	36.5	33.8
With female head.....	2.0	1.9	14.4	16.8	2.7	2.6	19.7	23.2
No children under age 18.....	.4	.4	3.1	3.6	.3	.3	2.2	2.8
Some children under age 18.....	1.6	1.5	11.3	13.2	2.4	2.3	17.5	20.4
Race:								
White.....	10.4	8.5	77.5	76.0	9.8	7.9	71.5	71.3
Unrelated individuals.....	4.2	3.9	31.2	35.1	3.2	2.8	23.3	24.9
Families.....	6.2	4.6	46.3	40.9	6.6	5.2	48.2	46.4
Nonwhite.....	3.0	2.7	22.6	24.0	3.9	3.2	28.5	28.7
Unrelated individuals.....	.9	.8	6.9	7.4	.8	.6	5.8	5.6
Families.....	2.1	1.9	15.7	16.6	3.1	2.6	22.7	23.1
Age of head:								
Under 25.....	1.1	1.1	8.4	9.6	1.2	1.2	8.7	11.2
Unrelated individuals.....	.5	.5	3.9	4.4	.5	.5	3.6	4.9
Families.....	.6	.6	4.5	5.2	.7	.7	5.1	6.3
25 to 64.....	7.9	6.0	58.9	53.7	9.2	7.3	67.2	65.7
Unrelated individuals.....	2.1	1.7	15.6	14.7	1.8	1.4	13.1	12.3
Families.....	5.8	4.4	43.3	39.0	7.4	5.9	54.1	53.4
65 and over.....	4.4	4.1	32.7	36.7	3.3	2.6	24.1	23.2
Unrelated individuals.....	2.5	2.6	18.5	23.4	1.7	1.5	12.4	13.5
Families.....	1.9	1.5	14.2	13.3	1.6	1.1	11.7	9.7

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1960 and 1966.

the family's actual money income and the minimum amount appropriate for a household of that size and composition—was \$1,140 for the families headed by a man and \$1,430 where the head was a woman. As a parallel to the fact that the larger the family the more likely it was to be poor, it was also true that irrespective of the sex of the head, the more children in the poor family the greater the dollar gap between the income it had to live on and what it should have had. Among families with an aged head, those headed by a woman had a median difference of \$850 between the income they had and what they should have had, and those headed by a man, a median deficit of \$830 (table 17).

PUBLIC INCOME-SUPPORT AND POVERTY

The Economic Opportunity Act authorized a number of new mechanisms to combat poverty, for the most part aimed at increasing earning power. The main task of providing income to those out of the labor force still remains, as before, the function of income-maintenance programs already in operation for a number of years. Among the most prominent are social security, public assistance, veterans' pensions and compensation, unemployment insurance, workmen's compensation, and retirement pensions for Government employees. In the main, these programs make payments only when earnings are interrupted or stopped altogether, and almost always the payments are less than the earnings for which they must substitute.

TABLE 17.—INCOME DEFICIT OF HOUSEHOLDS: PERCENTAGE DISTRIBUTION OF HOUSEHOLDS POOR IN 1965 BY INCOME DEFICIT, BY AGE AND SEX OF HEAD AND PRESENCE OF CHILDREN UNDER AGE 18

Income deficit ¹	Unrelated individuals		Families		
	Aged 65 or over	Under age 65	Aged 65 or over	Under age 65	
				Without children	With children
All households					
Number poor (in thousands).....	2,623	2,140	1,497	981	3,974
Total percent.....	100.0	100.0	100.0	100.0	100.0
\$1 to \$249.....	19.9	14.4	26.2	14.2	11.9
\$250 to \$499.....	27.0	15.3	19.5	16.2	9.2
\$500 to \$749.....	27.3	17.9	18.6	14.7	9.5
\$750 to \$999.....	15.6	11.6	13.6	13.6	9.4
\$1,000 to \$1,249.....	3.9	10.9	6.9	13.7	10.6
\$1,250 to \$1,499.....	5.8	8.6	5.2	8.3	8.2
\$1,500 to \$1,749.....	.5	21.3	3.3	5.5	6.9
\$1,750 to \$1,999.....			2.1	5.2	6.6
\$2,000 to \$2,499.....			2.8	4.7	12.3
\$2,500 to \$2,999.....			.9	.5	5.9
\$3,000 or more.....			.9	3.4	9.5
Median deficit.....	\$530	\$800	\$560	\$830	\$1,240
With male head					
Number poor (in thousands).....	575	704	1,168	865	2,593
Total percent.....	100.0	100.0	100.0	100.0	100.0
\$1 to \$249.....	25.5	16.7	27.7	13.9	13.9
\$250 to \$499.....	22.3	16.1	19.8	16.3	10.4
\$500 to \$749.....	29.1	16.4	18.4	15.3	9.7
\$750 to \$999.....	14.1	9.2	13.4	12.9	9.5
\$1,000 to \$1,249.....	5.7	12.4	6.3	13.2	11.1
\$1,250 to \$1,499.....	.9	6.8	4.8	8.4	7.2
\$1,500 to \$1,749.....	2.4	22.4	3.0	6.1	6.5
\$1,750 to \$1,999.....			2.3	4.7	5.9
\$2,000 to \$2,499.....			2.5	4.7	10.9
\$2,500 to \$2,999.....			.9	.6	5.8
\$3,000 or more.....			.9	3.9	9.1
Median deficit.....	\$520	\$780	\$540	\$830	\$1,140
With female head					
Number poor (in thousands).....	2,048	1,436	329	166	1,381
Total percent.....	100.0	100.0	100.0	100.0	100.0
\$1 to \$249.....	18.3	13.4	21.2	15.5	7.9
\$250 to \$499.....	28.2	15.0	18.5	16.1	7.0
\$500 to \$749.....	26.9	18.7	19.2	12.1	9.1
\$750 to \$999.....	16.1	12.7	14.3	16.6	9.3
\$1,000 to \$1,249.....	3.3	10.2	8.8	16.1	9.6
\$1,250 to \$1,499.....	7.2	9.5	6.7	7.5	10.1
\$1,500 to \$1,749.....		20.5	4.3	2.9	7.7
\$1,750 to \$1,999.....			1.2	7.5	8.0
\$2,000 to \$2,499.....			4.0	4.5	14.7
\$2,500 to \$2,999.....			.9		6.2
\$3,000 or more.....			.9	1.2	10.4
Median deficit.....	\$530	\$810	\$630	\$830	\$1,430

¹ Difference between actual income and required income according to the SSA poverty index.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1966.

Information on the amount of payments under these separate programs and the persons to whom they go are available on a regular basis in the operating statistics of the various administering agencies, but it is only infrequently and through special studies that it is possible to learn much about other resources of recipients and to determine how the individual programs complement each other. For the year 1965, such an opportunity is provided in the data collected by the Bureau of the Census in the Current Population Survey for 1966.

From this source, information for 1965 is available separately on the amount of family income received from OASDHI benefits or public assistance payments and on the amount from all other public programs as a group. The data have obvious limitations. In the brief interview, one cannot always be sure that the respondent identifies accurately the particular programs of which he or some other household member is a beneficiary. Moreover, in preparing income statistics, the Bureau of the Census uses a definition of a family—all related persons sharing a household at the time of the interview—that may not jibe with the definition of recipient unit used by the agency administering the program.

As a case in point, an elderly husband and wife, both receiving social security benefits, will show up in agency operating statistics as one beneficiary couple if the wife receives her benefits as a secondary claimant on her husband's wage record, but as two retired workers if both husband and wife are entitled to benefits on their own wage record; and a widowed daughter-in-law and grandchild living with the couple while drawing benefits on the wage record of their deceased son will be counted as still another beneficiary family group. Yet in each instance cited the census income data used to determine poverty status will reflect all the income for all the members as part of a single family.

As another example, an elderly woman or a mother-child unit will be considered as a family group and may be eligible to receive public assistance or payments from a veterans' program because their own other resources are very low, yet the relatives whose home they share—as part of a census family group—may be better off financially and not themselves eligible for aid.

It must be remembered also that the family characteristics relate to the situation at time of interview—that is, March 1966—while the income data refer only to receipts in the calendar year 1965. Changes occurring either in living arrangements or income sources would not be identifiable; we cannot readily determine how many of the persons in the household when income is being ascertained were actually there all through the year before, nor how many others not now there might have been present part of the year either to contribute to or be supported by family funds. Nor indeed do we know for a given source of income how many months or weeks it was actually available. Thus, an aged person or a family group might in March 1966 be part of a family unit reporting a financial situation considerably different in both amount and source of income from what it had been when they were deemed eligible for public assistance—an elderly woman who received old-age assistance when she was living alone but now who lives with her son, for example, or perhaps a family group who were receiving aid to families with dependent children until the mother could arrange to take a job. And, finally, some persons supported in whole or in part by public programs during part of 1965 would not be alive in March 1966, and thus no income report would be available for them.

Data were obtained separately for social security, that is, OASDHI cash payments (including any railroad retirement benefits); public assistance; all other programs—veterans' payments, unemployment insurance, workmens compensation, and government employee pen-

sions. Analysis of the overlap among the programs is not yet complete. In any case it is not possible if more than one program is mentioned to know whether payments were concurrent or *seriatim* and, if the latter, in what order they were received.

Within the limitations outlined, it is possible, however, to estimate how many households in 1965 were receiving some income from transfer payments and how many not now counted poor would have been so designated if they had not received such payments. The first findings of an analysis of these data are reported below, as they relate to all households, with special attention to the impact of OASDHI payments on economic status of households headed by an aged person.

Of the 60½ million households in the United States in March 1966—counting as a household an unrelated individual as well as a family of two or more—19.5 million or just under 1 in 3 reported that someone in the household received payment from a public income-maintenance program sometime during 1965. For two-thirds of these households, social security benefits made up at least part of the public income payment. As one would expect, households with an aged head were much more likely to receive support from a public program than households with a head under age 65—6 in 7 of the older households, compared with only 1 in 5 of the younger ones. Even among young families of a woman with children under age 18, only half received any help from a public program, and the program involved was more often public assistance than social security (table 18).

Among the households with payment from public assistance, which makes payments only to those considered in need by the standard of the State in which they live, 81 percent of the recipient households in 1965 had so little income otherwise that they would fall below the poverty line in the absence of any public assistance payments. But the amounts of assistance were so small that even with the payments counted in two-thirds, of all households receiving public assistance were found among the 11.2 million households designated poor in 1965—as the poor are counted in terms of money income including public transfer payments. In other words, of the households poor before receiving any public assistance, 5 out of 6 were still poor after they got it. By contrast, among households with a payment from the social security program, which doesn't limit its payments with a means test, only about half of those poor before they drew their OASDHI checks were still poor afterward: Before OASDHI benefits were added to income, about 6 out of 10 households receiving benefit checks fell below the poverty line; after OASDHI benefits were added to income, only 3 in 10 were still below the poverty line (see table 19).

For reasons already stated, estimates of households receiving transfers who are or were poor are understatements, but this is particularly true in the case of assistance: By definition, public assistance will not be paid unless income from all other sources is below State standards. Some households whose income for the year is above the standard would nevertheless have needed assistance at some point to tide them over until entitlement under other public programs took effect or until income from employment or contribution from other relatives was assured.

TABLE 18.—POOR AND NONPOOR HOUSEHOLDS RECEIVING PUBLIC INCOME PAYMENTS, BY AGE AND SEX OF HEAD, AND PRESENCE OF CHILDREN UNDER AGE 18

Age and sex of head	Total (in millions)	Percent receiving payments			
		Any payment ¹	Social security	Public assistance	Other
Total poor and nonpoor					
All households.....	60.4	32.3	21.5	4.8	11.2
Under age 65.....	48.8	19.6	8.0	3.6	10.2
Unrelated individuals.....	7.5	17.8	8.3	3.2	8.1
Men.....	3.2	16.7	5.1	3.3	9.7
Women.....	4.3	18.7	10.7	3.2	6.8
Families.....	41.4	19.9	7.9	3.7	10.6
Male head.....	37.5	17.1	6.2	1.9	10.6
Without children.....	12.7	21.0	10.0	1.6	11.4
With children.....	24.8	15.1	4.3	2.1	10.2
Female head.....	3.9	47.4	24.3	20.6	10.3
Without children.....	1.2	43.9	31.7	8.7	10.1
With children.....	2.7	49.0	21.0	25.8	10.4
Aged 65 or over.....	11.6	85.9	78.6	9.9	15.2
Unrelated individuals.....	4.7	84.3	75.5	12.5	11.1
Men.....	1.3	87.0	78.1	11.1	14.9
Women.....	3.4	83.3	74.5	13.0	9.6
Families.....	6.9	86.9	80.7	8.2	18.1
Male head.....	5.8	87.3	82.2	6.0	18.3
Female head.....	1.1	85.0	72.6	19.4	16.8
Total who would be counted poor—if all public payments were excluded from income					
All households.....	15.9	67.5	48.4	14.8	12.2
Under age 65.....	8.3	43.6	19.2	16.2	12.6
Unrelated individuals.....	2.4	37.4	20.9	9.5	11.2
Men.....	.8	38.6	18.7	12.5	13.1
Women.....	1.6	36.8	21.9	8.1	10.3
Families.....	5.9	46.2	18.5	19.0	13.1
Male head.....	4.0	37.7	15.1	10.4	15.2
Without children.....	1.1	55.6	30.7	10.0	18.3
With children.....	2.9	31.1	9.3	10.6	14.1
Female head.....	1.9	64.2	25.9	37.3	8.7
Without children.....	.2	74.1	44.9	25.5	14.4
With children.....	1.7	62.8	23.1	39.0	7.9
Aged 65 or over.....	7.6	93.8	80.4	13.2	11.7
Unrelated individuals.....	3.8	91.1	78.2	15.3	10.2
Men.....	1.0	94.8	81.4	14.0	14.9
Women.....	2.8	89.9	77.1	15.7	8.5
Families.....	3.8	96.3	82.5	11.2	13.1
Male head.....	3.3	97.0	84.5	8.6	12.9
Female head.....	.5	92.5	70.1	27.3	14.7
Total presently counted as poor—including any public payments as income					
All households.....	11.2	53.8	36.8	17.3	7.5
Under age 65.....	7.1	33.7	13.6	16.2	7.8
Unrelated individuals.....	2.1	29.1	16.8	9.0	6.8
Men.....	.7	32.1	15.6	12.5	8.5
Women.....	1.4	27.6	17.4	7.2	5.9
Families.....	5.0	35.7	12.3	19.4	8.3
Male head.....	3.4	26.2	10.2	9.9	9.2
Without children.....	.8	40.2	23.2	10.8	10.2
With children.....	2.6	21.8	6.1	9.6	8.8
Female head.....	1.6	56.4	16.9	40.0	6.3
Without children.....	.2	64.2	38.6	24.4	8.5
With children.....	1.4	55.4	14.1	42.0	6.0
Aged 65 or over.....	4.1	88.5	76.6	19.2	6.9
Unrelated individuals.....	2.6	87.3	75.6	19.5	5.0
Men.....	.6	91.0	78.4	20.7	6.1
Women.....	2.0	86.2	74.8	18.7	4.6
Families.....	1.5	90.6	78.4	19.5	10.2
Male head.....	1.2	91.4	82.0	16.5	9.8
Female head.....	.3	87.8	65.7	30.1	11.9

¹ Total smaller than sum of recipients of individual programs because some households received income from more than 1 program.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1966.

TABLE 19.—POVERTY STATUS OF HOUSEHOLDS RECEIVING INCOME FROM PUBLIC PROGRAMS IN 1965: PERCENT OF ALL RECIPIENTS POOR BEFORE PAYMENTS AND PERCENT POOR AFTER PAYMENTS, BY AGE AND SEX OF HEAD AND PRESENCE OF CHILDREN UNDER AGE 18

[Numbers in thousands]

Age and sex of head	Total number of households	Households receiving public income payments ¹											
		Any programs			Social security			Public assistance			Programs other than social security or public assistance		
		Total number	Percent poor		Total number	Percent poor		Total number	Percent poor		Total number	Percent poor	
			Before payment	After payment		Before payment ²	After payment		Before payment ²	After payment		Before payment	After payment
All households.....	60,410	19,510	55.2	30.9	12,990	59.3	31.8	2,910	81.2	66.8	6,740	28.7	12.4
Under age 65.....	48,840	9,580	38.0	25.0	3,900	41.1	24.8	1,760	77.1	65.5	4,980	21.1	11.1
Unrelated individuals.....	7,460	1,330	68.1	46.7	620	81.5	58.0	250	95.0	79.3	600	45.0	24.1
Men.....	3,200	530	56.3	42.2	160	89.0	67.0	110	91.5	83.0	310	32.6	19.4
Women.....	4,270	800	76.0	49.7	460	78.8	54.7	140	97.8	76.5	290	58.2	29.1
Families.....	41,390	8,250	33.2	21.4	3,280	33.5	18.6	1,510	74.3	63.3	4,380	17.8	9.3
Male head.....	37,520	6,410	13.9	13.9	2,340	25.9	14.8	720	58.3	46.7	3,980	15.4	7.8
Without children.....	12,740	2,670	22.5	12.1	1,280	26.0	14.6	200	52.4	42.1	1,450	13.7	5.7
With children.....	24,780	3,740	24.5	15.1	1,060	25.8	14.9	520	60.6	48.5	2,530	16.4	9.0
Female head.....	3,870	1,830	66.4	47.9	940	51.8	28.0	800	88.8	78.3	400	41.4	24.6
Without children.....	1,180	520	34.8	21.9	370	29.2	18.2	100	60.8	42.2	120	29.4	12.6
With children.....	2,690	1,310	78.9	48.1	570	67.6	34.5	700	92.9	83.6	280	46.4	29.6
Aged 65 or over.....	11,570	9,930	71.7	36.7	9,090	67.2	34.7	1,150	87.3	68.9	1,760	50.3	16.0
Unrelated individuals.....	4,680	3,940	87.2	68.0	3,530	83.6	56.1	580	99.0	85.8	520	74.5	25.1
Men.....	1,280	1,110	84.5	47.0	1,000	80.9	45.2	140	97.9	83.8	190	77.5	18.3
Women.....	3,400	2,830	88.2	62.3	2,530	84.7	60.5	440	99.3	86.4	330	72.8	29.1
Families.....	6,890	5,990	61.5	22.7	5,560	56.7	21.1	570	75.3	51.5	1,240	40.3	12.3
Male head.....	5,770	5,030	63.4	21.2	4,740	58.6	20.2	350	81.0	55.5	1,060	40.2	10.8
Female head.....	1,130	960	51.3	30.1	820	45.5	26.4	220	66.2	45.2	180	41.1	20.5

¹ Payments to unrelated individual or any family member any time in 1965. Some households received income from more than 1 program.

² Without payment from specified program but with payments from any other program.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1966.

For this preliminary analysis a household that had received program payments, but was not presently counted among the 11.2 million poor, is considered to have been removed from poverty by the program if the amount paid was more than the amount by which after-transfer income exceeded the appropriate poverty income threshold. The estimates were made separately for OASDHI, public assistance, other programs taken as a unit, and finally total payments from all programs combined. Obviously under the procedure followed, for recipients who get help from more than one program it would be difficult sometimes to establish which program was primarily responsible for removing the household from poverty. It is also unrealistic to ignore the effect of transfer income on other sources of income—an effect sometimes within the control of the recipient. Without social security payments a man might continue to work, or might apply for public assistance he does not now receive. But there is no definitive way to account for such contingencies in the analysis.

All told, as table 20 suggests, all transfer payments combined succeeded in averting poverty for about 1 in 3 of young payee households—that is, households headed by a man or woman under age 65—whose total income from sources other than public income programs was below the poverty line, and about 1 in 2 aged households that would otherwise be poor. Compared with social security or other programs taken as a group, public assistance—with its payments limited by State standards of need generally well below the poverty line—was less than half as effective in keeping households off the poverty rolls. Of households receiving assistance but below the poverty line to begin with, only 1 in 7 young ones were edged over the poverty line by their assistance checks, and barely 1 in 3 of the aged recipients.

TABLE 20.—ANTIPOVERTY EFFECT OF PUBLIC INCOME PROGRAMS ON HOUSEHOLDS RECEIVING PAYMENTS IN 1965: PERCENT OF HOUSEHOLDS POOR BEFORE THE PAYMENTS WHO WERE REMOVED FROM POVERTY STATUS BY THE PAYMENTS, BY AGE AND SEX OF HEAD AND PRESENCE OF CHILDREN UNDER AGE 18

Age and sex of head	All programs	Social security	Public assistance	Other
All households.....	44	46	18	57
Under age 65.....	34	40	15	47
Unrelated individuals.....	31	29	17	46
Men.....	25	25	9	41
Women.....	35	31	21	50
Families.....	35	45	15	47
Male head.....	41	43	20	49
Without children.....	46	44	20	59
With children.....	38	42	20	45
Female head.....	28	46	12	41
Without children.....	37	38	31	(1)
With children.....	26	49	10	36
Aged 65 or over.....	49	48	21	68
Unrelated individuals.....	33	33	13	66
Men.....	44	44	14	76
Women.....	29	29	13	60
Families.....	63	63	32	70
Male head.....	67	66	32	73
Without children.....	69	68	38	76
With children.....	36	38	(1)	(1)
Female head.....	41	42	32	50
Without children.....	48	49	40	(1)
With children.....	15	18	(1)	(1)

¹ Not shown for base less than 75,000.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1966.

It is clear that a considerable number of households presently classed as nonpoor achieve such status only because of public income payments. If it had not been for the public programs, the number of households poor in 1965 would have registered 16 million instead of the 11.2 million now shown in the poverty series. This means that as defined, fewer than 1 in 5 was counted poor rather than the 1 in 4 that the count might have been otherwise. The social security program itself was responsible for keeping at least 3½ million households off the poverty roster. If there had been no OASDHI payments but only the actual payments under other public programs the number of poor households would have been 14.8 million (table 21). But more than this, the profile of poverty would have been different without existing public income programs. Of the 11.2 million households poor in 1965 as presently defined—after all transfer payments have been added to income—37 percent had an aged head and 63 percent a head younger than 65. With no payments under existing programs, the 16 million poor households would comprise 48 percent with an aged head and 52 percent with one under 65. And the proportion of poor households headed by a man—about 1 in 2 of the poor as presently defined—would rise to almost 3 in 5.

This change in the poverty profile wrought by transfer payments reflects, of course, the profile of households receiving the payments. Social security, the program serving the largest number, has more beneficiaries age 65 or older than persons under 65. And as a group

TABLE 21.—EFFECT OF PUBLIC INCOME MAINTENANCE PROGRAMS ON POVERTY ROSTER OF HOUSEHOLDS IN 1965, BY AGE AND SEX OF HEAD AND PRESENCE OF CHILDREN UNDER AGE 18

[In thousands]

Age and sex of head	Number of counted poor ¹	Added number who would be counted poor ² but for transfer payments			
		Excluding any public-income maintenance payments	Excluding social security benefits ³	Excluding public assistance payments ³	Excluding payments other than social security or public assistance
Total households.....	11,220	4,730	3,580	420	1,100
Under age 65.....	7,100	1,250	640	210	500
Unrelated individuals.....	2,140	280	150	40	130
Men.....	700	70	40	10	40
Women.....	1,440	210	110	30	90
Families.....	4,960	970	490	170	370
Male head.....	3,400	630	260	80	300
Without children.....	810	280	140	20	120
With children.....	2,590	350	120	60	180
Female head.....	1,560	340	230	80	70
Without children.....	180	70	40	20	20
With children.....	1,380	270	190	70	50
Aged 65 or over.....	4,120	3,480	2,950	210	600
Unrelated individuals.....	2,620	1,150	970	80	250
Men.....	570	420	360	20	110
Women.....	2,050	730	610	60	140
Families.....	1,500	2,330	1,980	140	350
Male head.....	1,170	2,120	1,820	90	310
Female head.....	330	200	160	50	40

¹ Poor as now defined, in terms of money income in 1965 after all transfers.

² Households receiving payments from public programs and not counted poor but whose income excluding such payments is below the SSA poverty index.

³ But including any other program payments.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1966.

public-income programs—as table 20 suggests—are more effective in removing poverty among payee families of men than among families of women. Of the 19.5 million households receiving any public income support in 1965, more than half were aged households and, whether old or young, two out of three were headed by a man. Among the 10.8 million households poor before they received any payments, about two-thirds were aged, and about half had a woman for the head (table 22).

TABLE 22.—HOUSEHOLDS RECEIVING ANY PUBLIC INCOME PAYMENTS IN 1965: PERCENTAGE DISTRIBUTION BY AGE AND SEX OF HEAD, PRESENCE OF CHILDREN UNDER AGE 18, AND POVERTY STATUS

Age and sex of head	All recipient households ¹	Not poor before receiving payments	Poor before receiving payments		
			Total	Remained poor after receiving payments	Removed from poverty by receiving payments
Number (in thousands).....	19, 510	8, 750	10, 760	6, 040	4, 730
Total percent.....	100	45	55	31	24
Under age 65.....	49	30	19	12	6
Unrelated individuals.....	7	2	5	3	1
Men.....	3	1	2	1	(²)
Women.....	4	1	3	2	1
Families.....	42	28	14	9	5
Male head.....	33	25	8	5	3
Without children.....	14	11	3	2	1
With children.....	19	14	5	3	2
Female head.....	9	3	6	4	2
Without children.....	3	2	1	1	(²)
With children.....	7	1	5	4	2
Aged 65 or over.....	51	14	37	19	18
Unrelated individuals.....	20	2	18	12	6
Men.....	6	1	5	3	2
Women.....	14	2	13	9	4
Families.....	31	12	19	7	12
Male head.....	26	9	17	6	11
Without children.....	24	9	15	5	10
With children.....	2	1	2	1	1
Female head.....	5	2	3	1	1
Without children.....	4	2	2	1	1
With children.....	1	(²)	1	(²)	(²)

¹ Payments made to unrelated individuals or any family members any time in 1965.

² Less than 0.5 percent.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1966.

SOCIAL SECURITY AS AN ANTIPOVERTY PROGRAM

The social security program is designed to make up some of the income lost when a worker ceases work because of age, total disability, or in the event of his death. OASDHI benefits go to retired or disabled workers and their dependents or to dependent survivors of deceased workers as a matter of right—on the basis of contributions out of earnings and in amounts related to those earnings. Obviously, such a program will have objectives and commitments beyond merely eliminating poverty, yet for many OASDHI beneficiaries who must depend on their benefits for a good measure of their support, it is the anti-poverty role that is overriding. And, indeed, in sheer numbers of those for whom poverty is averted the social security program is more important as an anti-poverty mechanism than any other single public income program.

Of the 19.5 million households in 1965 who received any public income support, 13 million—or two in three—had at least one member receiving OASDHI benefits¹⁰ during some part of the year. Of the total of 4¾ million payee households pushed over the poverty line by their public program payments, in three out of four of these households the social security benefit checks alone could have made up the income deficiency.¹¹ And, even for those whom the payments left in poverty, the social security benefit was able to ease the burden by narrowing the gap between the income the households did have and what they needed according to the minimum poverty criteria.

All told, 37 percent of all households currently defined as poor in 1965, in terms of money income including any transfer payments, received OASDHI benefits while a total of 54 percent received payments under all public programs combined. Obviously, OASDHI benefits would be a better protector against poverty for the aged than for those under age 65: Seventy percent of the households in which anyone was drawing social security in 1965 were headed by an aged person, and among those beneficiary households who needed the money if they were to keep out of poverty—i.e., their income other than benefits was not enough to meet the SSA poverty standard for their family—eight out of ten had an aged head (table 23).

TABLE 23.—HOUSEHOLDS RECEIVING SOCIAL SECURITY BENEFITS IN 1965: PERCENTAGE DISTRIBUTION BY AGE AND SEX OF HEAD, PRESENCE OF CHILDREN UNDER AGE 18, AND POVERTY STATUS

Age and sex of head	All beneficiaries ¹	Not poor before receiving benefits	Poor before receiving benefits		
			Total	Remained poor after receiving benefits	Removed from poverty by receiving benefits
Number (in thousands).....	12,990	5,270	7,710	4,130	3,580
Total percent.....	100	41	59	32	27
Under age 65.....	30	18	12	7	5
Unrelated individuals.....	5	1	4	3	1
Men.....	1	(?)	1	1	(?)
Women.....	4	1	3	2	1
Families.....	25	16	9	5	4
Male head.....	18	13	5	3	2
Without children.....	10	7	3	2	1
With children.....	8	6	2	1	1
Female head.....	7	3	4	2	2
Without children.....	3	2	1	1	(?)
With children.....	4	1	3	1	2
Aged 65 or over.....	70	23	47	24	23
Unrelated individuals.....	27	4	23	15	7
Men.....	8	1	6	3	3
Women.....	19	3	16	12	5
Families.....	43	19	24	9	15
Male head.....	37	15	21	7	14
Without children.....	34	14	20	6	13
With children.....	3	1	2	1	1
Female head.....	6	3	3	2	1
Without children.....	5	3	2	1	1
With children.....	1	(?)	1	1	(?)

¹ OASDHI benefits paid to unrelated individuals or any family members any time in 1965.

² Less than 0.5 percent.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1966.

¹⁰ The relatively small number receiving railroad retirement benefits are also included.
¹¹ Some of the social security beneficiary households obviously received payments from other programs also.

TABLE 24.—INCOME DEFICIT OF AGED HOUSEHOLDS: PERCENTAGE DISTRIBUTION OF HOUSEHOLDS POOR IN 1965 BY INCOME DEFICIT, BY RECEIPT OF SOCIAL SECURITY BENEFITS

Income deficit ¹	Households with aged male head		Households with aged female head	
	Receiving social security ²	Not receiving social security	Receiving social security ²	Not receiving social security
	Unrelated individuals			
Number of poor (in thousands).....	451	124	1,531	517
Total percent.....	100.0	100.0	100.0	100.0
\$1 to \$249.....	28.5	14.8	21.7	8.2
\$250 to \$499.....	24.6	13.9	31.5	19.0
\$500 to \$749.....	28.5	31.1	26.0	29.3
\$750 to \$999.....	12.2	21.3	16.8	14.0
\$1,000 or more.....	6.2	18.9	4.0	29.5
Median deficit.....	\$470	\$680	\$470	\$700
	Families			
Number of poor (in thousands).....	958	210	218	111
Total percent.....	100.0	100.0	100.0	100.0
\$1 to \$249.....	29.0	20.4	23.9	15.3
\$250 to \$499.....	20.9	15.2	19.7	17.1
\$500 to \$749.....	18.3	18.9	20.6	16.2
\$750 to \$999.....	14.8	7.1	12.8	16.2
\$1,000 to \$1,249.....	6.2	7.6	9.2	8.1
\$1,250 to \$1,499.....	3.4	10.5	5.0	9.9
\$1,500 to \$1,999.....	3.6	13.3	4.1	8.1
\$2,000 or more.....	3.8	7.1	4.6	9.0
Median deficit.....	\$500	\$690	\$580	\$780

¹ Difference between actual income and required income according to the SSA poverty index.

² OASDHI benefits paid to any household member any time in 1965.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1966.

As mentioned at the beginning of this article the antipoverty effect of economic growth is largely confined to households of young earners. In contrast the antipoverty contribution of social security is primarily in lifting the burden of privation from the aged: The number of households with an aged head counted poor in 1965 would be two-thirds again as high—7.1 million rather than the 4.1 million now shown as poor—were it not for OASDHI benefits. Of the 9 million aged households enjoying these benefits in 1965, two-thirds were poor in terms of money income before adding in the benefits, but only one-third of all aged beneficiary households were still in poverty after counting in their benefits with other money income (table 19).

Although it served the aged better, even for households headed by a person under age 65, OASDHI benefits played a sizable role in correcting poverty. (In some of the young households, it was undoubtedly an aged "other relative" who was the actual beneficiary.) Instead of the 7.1 million households with a nonaged head counted poor in 1965—in terms of money income including public transfer payments—there would have been 7.7 million households poor if there were no OASDHI benefits, or a number in poverty 8 percent larger than presently defined.

Among families with children under age 18 and a woman younger than age 65 at the head, the number below the poverty line would be 14 percent greater than at present but for the existence of the social security program. About 0.6 million of these 2.7 million families reported drawing OASDHI benefits in 1965. For two-thirds of these beneficiary families, their income with the benefits excluded was below

the poverty line. When the OASDHI benefits were added, however, only a third of the young beneficiary families were left with money income below the poverty line.

The social security program, as planned and as administered, is a mechanism for replacing wages, not for adding to them.¹² In many instances, therefore, drawing OASDHI benefits during the prime earning years—signifying as it does withdrawal of a worker from the labor force—portends a worsening in overall economic status, in that household income will now be less than what it was with a regular earner in the family. Accordingly, taken as a group, nonaged households of a young male head, in which someone was receiving OASDHI benefits in 1965, were more often poor than households with no member drawing benefits. The differences were particularly great when there were children. On the other hand, measured by the percent in poverty, the situation of families of young women with children was much better for social security beneficiaries than for others, because mothers with youngsters in their care are restricted in ability to take a full-time job, and many of those who don't get OASDHI must rely on public assistance which by and large pays smaller amounts.

Among aged families, because many older workers experience a reduction in earnings—voluntarily or otherwise—for some time before they officially retire and begin drawing OASDHI, households receiving benefits were as well off or better off in respect to poverty than non-beneficiary households.

The figures below compare for the year 1965 the percent in poverty among households of specified type receiving any social security during the year with the percent poor among similar households in which no one had received a social security benefit check:

Age and sex of household head	Percent of those receiving social security ¹ who were poor	Percent of those not receiving social security who were poor
All households.....	32	15
Under age 65.....	25	14
Unrelated individuals.....	58	26
Men.....	67	20
Women.....	55	31
Families.....	19	11
Male head.....	15	9
Without children.....	15	5
With children.....	15	10
Female head.....	28	44
Without children.....	18	13
With children.....	35	56
Aged 65 or older.....	35	39
Unrelated individuals.....	56	56
Men.....	45	44
Women.....	61	60
Families.....	21	24
Male head.....	20	20
Female head.....	26	37

¹ OASDHI benefits going to any household member any time in 1965.

¹² Beneficiaries age 72 and older, however, have no restriction on the amount they may earn and still draw full benefits, and even younger beneficiaries may earn limited amounts without penalty. In 1965, the year to which the data analyzed apply, a beneficiary could draw full benefits if he had earned no more than \$1,500 during the year and even with earnings over this amount would lose no benefits for any month in which earnings were \$125 or less. Under the new amendment effective in January 1968, the annual exempt amount has been lifted to \$1,680 and the monthly maximum to \$140.

But granted that it was easier to stay out of poverty with earned income than with social security benefits, for households that did fall below the poverty line it was better to have social security to rely on than not to have it.

Among poor households headed by someone age 65 or older, those receiving any social security benefits in 1965 had less unmet need—using as a measure the difference between their actual income for the year and the minimum requirement according to the SSA poverty index. As table 24 suggests, aged households who were poor but weren't receiving OASDHI benefits had an income deficiency \$200 or \$300 greater than those drawing benefits. Among aged poor persons living alone, for example, a fifth of the men and almost a third of the women who were nonbeneficiaries needed at least \$1,000 more income than they had to come out of poverty—implying they were living on a current rate of income no more than one-third their estimated minimum requirements. By contrast, among aged one-person households living in poverty but drawing social security, only one in 25 was this far below the poverty line. Obviously the comparison would be more meaningful if the beneficiary households could be separated into those receiving benefits part year and those on the rolls the entire year. It would be helpful also to know for the part-year beneficiaries whether the entitlement signified a sudden change in income status—the retirement or death of a worker previously employed full time—or merely the affirmation of a longstanding spell of waning earnings for a worker or lack of earnings for a widow before reaching the age to qualify for benefits. Such details must await detailed studies beyond the scope of the presently available information.

AMOUNT OF BENEFITS AND POVERTY STATUS

Because we do not know, for households receiving OASDHI benefits how many months they were on the rolls in 1965, it is not possible to say how many aged households reporting minimal amounts include full year beneficiaries entitled only to small benefits—that is, with PIA's at or close to the statutory minimum—and how many are part-year beneficiary households of a worker with a higher earnings base who retired, became disabled, or died during the year. But even without being able to classify households according to part-year or full-year benefit status, it is possible to verify what one would suspect—namely that the higher the benefits the more likely they are to edge families or unrelated individuals who receive them over the poverty line (tables 25–26).

Although differences do occur in the amount of benefits received by poor versus nonpoor aged households relative to other resources, it is difficult to see a consistent pattern, particularly for households of women. This is partly because we don't know the number of months in which benefits were paid, and partly because we cannot always be sure of the family status of the person(s) receiving the benefits: An elderly woman living alone at the time of interview, who was widowed during the year, may actually be reporting benefits paid to the deceased husband along with her own. We find accordingly that among elderly aged men living alone and drawing OASDHI, about 83 percent of those

TABLE 25.—FAMILIES WITH AGED HEAD RECEIVING SOCIAL SECURITY BENEFITS IN 1965: PERCENTAGE DISTRIBUTION BY AMOUNT OF BENEFIT AND POVERTY STATUS

Amount of social security benefits in 1965	All beneficiary families ¹	Not poor before receiving benefits	Poor before receiving benefits		
			Total	Remained poor after receiving benefits	Removed from poverty by receiving benefits
Families with male head					
Any benefits.....	100	100	100	35	65
Under \$500.....	5	8	3	2	1
\$500 to \$749.....	7	8	6	5	1
\$750 to \$999.....	9	10	9	6	3
\$1,000 to \$1,249.....	12	12	12	6	6
\$1,250 to \$1,499.....	14	16	13	6	7
\$1,500 to \$1,749.....	12	12	12	5	7
\$1,750 to \$1,999.....	13	10	15	4	11
\$2,000 to \$2,499.....	19	18	20	1	19
\$2,500 to \$2,999.....	5	4	5	(?)	5
\$3,000 or more.....	4	2	5	(?)	5
Families with female head					
Any benefits.....	100	100	100	58	42
Under \$500.....	12	11	13	11	2
\$500 to \$749.....	20	20	20	15	5
\$750 to \$999.....	20	23	16	12	4
\$1,000 to \$1,249.....	20	23	16	10	6
\$1,250 to \$1,499.....	7	6	9	5	4
\$1,500 to \$1,749.....	6	6	6	2	4
\$1,750 to \$1,999.....	6	3	9	2	7
\$2,000 to \$2,499.....	7	6	8	1	7
\$2,500 or more.....	2	2	3	0	3

¹ OASDHI benefits paid to any family member any time in 1965.
² Less than 0.5 percent.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1966.

TABLE 26.—AGED UNRELATED INDIVIDUALS RECEIVING SOCIAL SECURITY BENEFITS IN 1965: PERCENTAGE DISTRIBUTION BY AMOUNT OF BENEFIT AND POVERTY STATUS

Amount of social security benefits in 1965	All beneficiaries	Not poor before receiving benefits	Poor before receiving benefits		
			Total	Remained poor after receiving benefits	Removed from poverty by receiving benefits
MEN					
Any benefit.....	100	100	100	56	44
Under \$500.....	8	7	8	6	2
\$500 to \$749.....	16	11	17	13	4
\$750 to \$999.....	18	13	20	15	5
\$1,000 to \$1,249.....	20	20	20	13	7
\$1,250 to \$1,499.....	21	22	20	9	11
\$1,500 or more.....	17	27	15	0	15
WOMEN					
Any benefit.....	100	100	100	71	29
Under \$500.....	11	13	10	9	1
\$500 to \$749.....	25	24	25	21	4
\$750 to \$999.....	26	22	26	19	7
\$1,000 to \$1,249.....	27	26	28	12	10
\$1,250 to \$1,499.....	8	13	7	4	3
\$1,500 or more.....	4	2	4	(1)	4

¹ Less than 0.5 percent.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1966.

receiving less than \$500 in 1965 had nonbenefit income below the poverty line. Eighty-seven percent of those receiving \$50 to \$999 would have been poor with income other than benefits; and about 77 percent of those receiving \$1,000 or more. Among the elderly female beneficiaries living alone, for 81 percent of those with less than \$500 in benefits other income totaled less than the poverty line; 86 percent of those receiving \$500 to \$999 would have been poor if they lived only on income other than benefits, and 84 percent of those getting \$1,000 or more.

One pattern does emerge clearly, however: among aged beneficiaries with income other than OASDHI so low as to make them poor, the less money in benefits received, the greater the chance that the households would remain in poverty even with the benefits added in.

Among elderly women living alone in March 1966, and with income other than social security benefits below the poverty line, nine-tenths of those receiving less than \$500 in benefits ended, as they began, still poor, but when benefits totaled \$750 to \$999, only three-fourths of those poor before receiving them were poor afterwards—that is, when OASDHI payments were counted in with other income.

Similarly, among families with an aged male head and income other than benefits below the poverty line, only a fifth of those getting less than \$500 in 1965 were removed from poverty by the benefit, whereas with benefits amounting to \$1,500 to \$1,750, three-fourths of those poor before receiving them were no longer poor when benefits were added to income, as the percentages below suggest:

Total OASDHI benefits	Aged households poor before receiving OASDHI in 1965 who were removed from poverty by benefits—			
	Unrelated individuals		Families	
	Men	Women	Male head	Female head
Any.....	44	29	66	42
Under \$500.....	30	13	19	9
\$500 to \$749.....	22	15	22	24
\$750 to \$999.....	23	27	33	} 39
\$1,000 to \$1,249.....	38	36	47	
\$1,250 to \$1,499.....	53	38	53	} 64
\$1,500 to \$1,749.....	} 100	93	64	
\$1,750 to \$1,999.....			76	} 71
\$2,000 or more.....			97	

With families of women typically poorer than men—that is, having total income further below their estimated minimum requirements—it is only to be expected that a given dollar benefit will be less successful in taking families headed by women out of poverty than for families headed by men. Moreover, families with an aged woman as head are more likely than those of men to include related units of a mother and young children—subfamilies whose own resources typically are not large.

Table 27 illustrates for unrelated aged individuals the connection between the amount of payments from all public income programs and how many of those who would be poor without the payments were enabled to escape poverty with the payments. As would be expected, the relationship is similar to that described for OASDHI, but if anything even sharper: Among aged men living alone and poor in terms

TABLE 27.—AGED UNRELATED INDIVIDUALS RECEIVING ANY PUBLIC INCOME PAYMENTS III 1965: PERCENTAGE DISTRIBUTION BY AMOUNT OF PAYMENT AND POVERTY STATUS

Amount of public income payments in 1965	All recipients	Not poor before receiving payments	Poor before receiving payments		
			Total	Remained poor after receiving payments	Removed from poverty by receiving payments
MEN					
Any payments.....	100	100	100	56	44
Under \$500.....	6	9	5	4	1
\$500 to \$749.....	10	5	11	10	1
\$750 to \$999.....	18	14	19	17	2
\$1,000 to \$1,249.....	19	18	19	14	5
\$1,250 to \$1,499.....	18	19	18	10	8
\$1,500 or more.....	29	35	28	(1)	27
WOMEN					
Any payments.....	100	100	100	70	30
Under \$500.....	7	9	6	5	1
\$500 to \$749.....	18	22	17	15	2
\$750 to \$999.....	27	23	28	22	6
\$1,000 to \$1,249.....	26	24	27	20	7
\$1,250 to \$1,499.....	10	12	10	7	3
\$1,500 or more.....	12	10	12	1	11

¹ Less than 0.5 percent.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1966.

of income other than payments, a fifth of those receiving less than \$500 in 1965 were removed from poverty; with payments of \$1,000 to \$1,249, a fourth were enabled to live above the poverty income line.

It has already been demonstrated that as a group households receiving social security benefits are more likely to be poor than those without—though if a household is poor it is likely to be closer to its minimum income need when OASDHI payments are available than when they are not. The corollary can also be shown—among households not poor, those not receiving social security are likely to enjoy a larger income relative to their estimated minimum need than nonpoor households who do receive social security payments. Among elderly men living alone with income for 1965 above the poverty line, only half of those receiving social security benefits had as much as \$750 income—including the benefit payments—over what the poverty criteria stipulates. But among nonpoor elderly men living alone and not receiving OASDHI benefits in 1965, half had at least \$2,560 more income than the poverty cutoff. On the other hand, among nonpoor aged men living alone and drawing benefits, those with other income high enough so they would not be poor even without the OASDHI payment as a group averaged almost as much in income above the poverty line (after receiving the benefits) as those who got no benefits at all.

In parallel fashion among families of two or more persons headed by aged men and with total income (including transfer payments) above the poverty line in 1965, both among those who didn't receive any social security benefits, and those who did receive some but had enough other income so they didn't need the benefits in order to stay out of poverty, two-thirds had \$3,000 or more income than the poverty cri-

terion called for; but among non-poor-beneficiary families of aged men who would have been poor without their social security payments, only 2 percent ended the year with \$3,000 or more income than the poverty income cutoff (table 28).

The figures suggest that in our society today the relationship between OASDHI benefits and earnings being what it is, it is better—from the standpoint of avoiding poverty—for the aged to work than not to work. If one cannot work, it is better to be able to draw social security benefits than not. But if one does draw benefits, it is better not to need the money. It is obvious that the same factors which would enable a worker or his dependents to look forward to a relatively high benefit in old age, namely, a continuous work history with earnings close to or greater than the maximum payroll base, are the same factors which would predispose a worker to maintain his opportunity to earn even in retirement, and to acquire during his working years those other resources, cash savings, private pension rights, an owned home, which can help make retirement living more comfortable.

The data discussed are incomplete, particularly as they relate to young families and those including young children. Additional analyses will explore the relation of the amount of transfer payments to earnings and to the amount of income from other sources, and to the

TABLE 28.—INCOME IN EXCESS OF MINIMUM NEED OF AGED HOUSEHOLDS: PERCENTAGE DISTRIBUTION OF HOUSEHOLDS NOT POOR IN 1965 BY AMOUNT OF INCOME ABOVE POVERTY LINE, BY RECEIPT OF SOCIAL SECURITY BENEFITS

Income exceeding minimum need ¹	Households with aged male head				Households with aged female head			
	Receiving social security ²			Not receiving social security	Receiving social security ²			Not receiving social security
	Total	Poor before receiving benefits	Not poor before receiving benefits		Total	Poor before receiving benefits	Not poor before receiving benefits	
	Unrelated individuals							
Number nonpoor (in thousands).....	550	360	190	160	1,000	610	360	350
Total percent.....	100	100	100	100	100	100	100	100
\$1 to \$499.....	41	62	1	15	38	61	2	18
\$500 to \$999.....	20	26	8	9	24	33	10	14
\$1,000 to \$1,499.....	10	7	15	6	9	4	18	7
\$1,500 to \$1,999.....	7	2	16	3	7	1	17	11
\$2,000 to \$2,999.....	11	2	30	26	8		19	16
\$3,000 or over.....	11	1	30	41	14	1	34	34
Median, above poverty line.....	\$750	\$380	\$2,350	\$2,560	\$710	\$390	\$2,140	\$2,000
	Families							
Number nonpoor (in thousands).....	3,780	1,830	1,960	820	600	150	450	200
Total percent.....	100	100	100	100	100	100	100	100
\$1 to \$499.....	16	32	(³)	6	13	50	(³)	11
\$500 to \$999.....	15	29	2	4	13	36	5	7
\$1,000 to \$1,499.....	11	19	5	5	7	7	7	6
\$1,500 to \$1,999.....	10	13	6	6	4	1	5	10
\$2,000 to \$2,999.....	13	5	21	11	13	3	17	15
\$3,000 or over.....	35	2	66	68	50	3	66	51

¹ Excess of actual income over required income according to the SSA poverty index.

² OASDHI benefits paid to any household member any time in 1965.

³ Less than 0.5 percent.

Source: Derived by the Social Security Administration from special tabulations by the Bureau of the Census from the Current Population Survey for March 1966.

degree by which total income including the transfers exceeds or falls below the estimate of minimum requirements. With the poverty line so Spartan, it will be useful also to replicate the analysis substituting the low income—a third higher in cost—for the criteria used here.

It is safe to conclude even now, however, that though public transfer programs do much to lessen the number of poor they could do much more. It is clear that for many already receiving help from public programs it is the degree of that help that must be increased if they are to escape poverty, but new programs or extensions of existing ones are required for those now in poverty and receiving no help at all.

A majority of aged persons today already receive income from one public program or another. As a group then, aged households now poor or near poor will benefit more from increased amounts payable under such programs than from a changed eligibility requirement for payment. But both types of improvement will be needed for poor or near poor households headed by someone younger than age 65.

RETIREMENT IN PROSPECT AND RETROSPECT

BY GEORGE KATONA and JAMES N. MORGAN*

Differences in the income of different groups of retired people as well as in the expected retirement income of those not yet retired are presented in this paper in order to shed light on changes in the economic position of the retired during the recent past and on probable changes in the near future.

I. DIFFERENCES IN INCOME AMONG THE RETIRED

We know far too little about the current economic situation of retired people and the factors which make for the prevailing great differences in the well-being of the retired, some of whom are well off while others are not. Some data collected in the 1966 Survey of Consumer Finances will be presented here in order to—

indicate the importance of some crucial factors that influence the financial position of the retired,
stimulate more intensive work on these issues, and
provide a tentative basis for predictions.

The tabulations are based on data from 675 respondents and therefore on a fairly small number of cases. Yet they are derived from a carefully drawn representative sample. The total sample of the 1966 survey consisted of close to 3,500 families and single individuals. In about 18 percent of that sample the head of the family, or the single person living without close relatives in a selected dwelling unit, was found to be retired in 1966.¹

Three criteria were selected for the purpose of comparing the economic position of different groups of retired: their current age; their age at retirement; and planned as against unexpected retirement. The three criteria are interrelated. Nevertheless, in studying the influence of the three variables, only the second and the third variables will be combined. This method of presenting the findings was chosen because of the probable predictive significance of data on the differences between currently younger and currently older retired people. Since the older retired people have much less formal education than the younger

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¹ For a description of the methods of the survey as well as for some additional data on the retired, see the monograph, 1966 Survey of Consumer Finances, published by the Institute for Social Research, Ann Arbor, Mich.

It should be noted that retired wives and retired people who live with their children are not counted separately because the analysis in this article relates to retired heads of families. A single retired person is counted as the head. The analysis also excluded older females who have never worked and call themselves housewives or widows rather than retired, even if they live alone or are heads of families.

ones, and since many older retired people have neither social security nor private pensions, it is probable that in a decade or so the financial position of the average retired American will resemble the position of the younger ones among those who are now retired, rather than the average of all currently retired people.

Table 1 presents the distribution of the retired people by their age, as well as the relation of age to the age at retirement. It appears that in 1966 only 27 percent of all retired (family heads and single persons considered together) were less than 65 years of age, while more than half were 70 years old or older. Naturally, all retired people in the two youngest age groups retired "early," i.e., before they were 65 years of age. Yet early retirement as defined was much more frequent; it comprised more than one-half of all retired. Nevertheless, the majority of those who were over 70 years of age in 1966 retired "late," i.e., at a time when they were 66 years old or older.

TABLE 1.—DISTRIBUTION OF RETIRED PEOPLE BY CURRENT AGE AND AGE AT RETIREMENT

Age in 1966	Percent retired	Retired (percent)		
		Early ¹	At 65	Late ²
Under 60.....	17	17	0	0
60 to 64.....	10	10	0	0
65 to 69.....	22	12	8	2
70 to 74.....	23	8	5	10
75 and older.....	28	6	5	17
Total.....	100	53	18	29

¹ Retired at age 64 or earlier.
² Retired at age 66 or later.

Following the question about their age at the time of retirement, respondents were asked: "Had you planned to retire then, or did you have to?" Most respondents who did not answer that they retired as planned said that they retired unexpectedly (and frequently referred to health considerations). Some respondents explained that they had plans to retire but had to change them. These respondents are included among those who retired unexpectedly. Planned retirement is most common among people who retired at the age of 65; both early and late retirement are more frequently unexpected:

Among those who retired at the age of—

64 or earlier: 39 percent retired as planned; 61 percent retired unexpectedly.

65: 70 percent retired as planned; 30 percent retired unexpectedly.

66 or older: 46 percent retired as planned; 54 percent retired unexpectedly.

Income level represents a crucial question in assessing the economic status of the retired. The cash income of all respondents is determined in the Surveys of Consumer Finances by asking not fewer than 18 questions regarding the amount received from various kinds of income sources of the family head, as well as of other family members. The tabulation of total family income before taxes of retired people (table 2) results from questions asked in January and February 1966 regarding income received in the calendar year 1965.

TABLE 2.—FAMILY INCOME BEFORE TAXES IN 1965 BY AGE OF THE RETIRED

Age in 1966	Median income in dollars	Proportion in age group in percent with income of—	
		Less than \$2,000	\$5,700 and over
Under 60.....	3,770	20	29
60 to 64.....	3,650	28	21
65 to 69.....	3,610	20	17
70 to 74.....	2,690	32	10
75 and older.....	2,350	44	10
All retired.....	3,140	33	16

The younger the retired family head (or a single retired person), the higher is this income on the average. The median income of retired people who are 70 years of age or older is particularly low; in these age groups income of less than \$2,000 is frequent and income of more than \$7,500 infrequent (table 2).

How can these substantial income differences be explained? One may assume that earned income makes for a difference because the younger a person, the greater the probability that he will be able to work during retirement to earn some money. All retired people were asked: "Did you work for money at any time during 1965?" In reply, 13 percent answered in the affirmative. Surprisingly, the proportion was somewhat lower both among the younger and older retired people, and higher only among those 65 to 69 years of age. On the other hand, receipt of old-age insurance payments and of private pensions makes for some difference among the age groups. The most crucial difference among age groups is in their education, a factor known to be related to income level among those not retired. The distribution of education attainment among the retired is related to their current age in table 3. Close to 60 percent of the retired who in 1966 were 70 years or older had eight grades of schooling or less; among those younger than 60, the proportion is 34 percent. No doubt, the older retired people had much lower incomes before retirement than the younger retired people, both because their retirement was at an earlier time, and because they had less education.

TABLE 3.—DISTRIBUTION OF RETIRED PEOPLE BY AGE AND EDUCATIONAL LEVEL IN 1966
[In percent]

Education of head	Younger than 60	60 to 64	65 to 69	70 to 74	75 or older	All retired
0 to 5 grades.....	10	13	18	23	23	19
6 to 8 grades.....	24	39	38	39	33	34
9 to 11 grades.....	20	11	14	12	14	14
12 or more grades.....	37	27	25	18	22	25
College degree or more.....	9	10	4	5	6	6
Not available.....	0	0	1	3	2	2
Total.....	100	100	100	100	100	100

Median family income of the retired people is related to their age at retirement and to planned versus unexpected retirement. Table 4 shows that people who retired when they were fairly young had much higher incomes during retirement than people who retired when they were older. Furthermore, those who retired when planned had much higher

incomes than those who did not. In these respects, earned income makes for a difference: Those who retired as planned worked for money far more often than did those who did not retire as planned. In addition, we again find some difference in education related to income during retirement.

TABLE 4.—MEDIAN FAMILY INCOME IN 1965 BY AGE AT RETIREMENT AND PLANNED VERSUS UNEXPECTED RETIREMENT

Age at retirement	Retired when planned		Retired unexpectedly	
	Amount	Percent	Amount	Percent
56 or younger.....	\$4,950	8	\$3,100	12
Between 56 and 64.....	3,830	10	2,150	16
65.....	3,900	11	2,120	5
66 or older.....	3,500	12	2,100	14

Note: The figures in percent columns indicate the proportion of all retired people in each group. They add to less than 100 percent because retired people for whom planned versus unexpected retirement could not be ascertained are excluded from the table.

We may summarize the findings as follows: The group of retired people with the highest incomes consists of those who retired at a relatively early age as planned. Two groups with low income during retirement may be singled out: Those who are fairly old, and those who retired late and unexpectedly. The same people often fall into both groups, but others fall only into one and not the other group. Probably both considerations make for a difference.

Income represents one indicator of economic position, but the latter no doubt depends on several additional considerations as well, such as the available assets and the expenses of the retired. The expenses will vary according to the number of people dependent on the family income and also according to the accustomed standard of living. Rather than generating somewhat arbitrary measures of economic welfare, we asked survey respondents for a subjective evaluation of their standard of living in comparison with the one they had before they retired. In this respect practically no differences were found among younger and older retired people (table 5). In each age group about one-third said that their current standard of living was lower than the one before retirement and a small percentage (approximately 5 percent) that it was higher than the one before retirement. The majority of retired people said that their standard of living was the same. (Some respondents could not answer the question; all that may be said about the not ascertained group is that they did not have a clear notion about a deterioration or an improvement in their standard of living.)

TABLE 5.—PERCENT DISTRIBUTION OF RETIRED PEOPLE, BY AGE AND CHANGE IN THE STANDARD OF LIVING

Present standard of living compared to preretirement standard	Younger than 60	60 to 64	65 to 69	70 to 74	75 or older	All retired
Better.....	5	7	4	6	5	5
Same.....	39	48	55	55	61	53
Lower.....	32	32	33	34	30	32
Not available.....	24	13	8	5	4	10
Total.....	100	100	100	100	100	100

Note: The question asked was: "Considering income and expenses, is your standard of living about the same as before you retired, not quite as good, or what?"

It appears then that the substantial income differences between younger and older people did not make for major changes in their feelings about their standard of living. This finding reinforces the notion, derived from the relation between the age of the retired and their education, that the income differences among the retired are greatly influenced by differences in their preretirement income.

It should be added, however, that planned versus unexpected retirement was found to make a difference in the changes in the standard of living people reported. Among people who retired as planned, 22 percent said that their standard of living was lower than the one before retirement, while among those who retired unexpectedly 44 percent said so.

An additional question asked in the survey is relevant for an understanding of income differences among retired people. Table 6 shows how the retired reported the ratio of their retirement income in 1965 to their income in the year before they retired. The answers may not reflect the true income differences correctly because the recollection of preretirement income—often an income earned many years earlier—will be faulty or even biased in many cases. But the answers do reflect people's impressions about how retirement has affected their income. The findings on all retired people are presented here in order to provide a basis for comparison with future data (and not for the purpose of demonstrating that one-third of all retired people had a retirement income of 25 percent or less than their preretirement income).

Older and younger retired people gave substantially the same answers. The impression about the extent of the reduction in income because of retirement does not vary by age. If we recall that actual retirement income varies greatly by age, we again reach the conclusion that the income differences among the retired are influenced primarily by differences in preretirement income. Preretirement income influences retirement income to some extent because of higher social security benefits, and to a greater extent because of more frequent or higher private pensions, earned income, and returns on capital.

TABLE 6.—SUBJECTIVE EVALUATION OF DIFFERENCES BETWEEN RETIREMENT AND PRERETIREMENT INCOME

Ratio of preretirement income to current income	[In percent]					
	Age of head					
	Under 60	60 to 64	65 to 69	70 to 74	75 and older	All retired
Less than one-fourth.....	4	11	5	8	11	8
About one-fourth.....	15	23	27	32	27	26
Smaller, don't know how much.....	1	4	4	6	6	4
About one-half.....	27	25	29	24	26	26
About three-fourths.....	3	7	5	5	3	4
Nearly as large.....	11	13	17	11	14	14
Larger.....	5	7	3	4	4	4
Don't know, NA.....	34	10	10	10	9	14
Total.....	100	100	100	100	100	100

Note: The question was: "How does your income last year compare with your income the year before you retired—is it closer to one-fourth as large, one-half as large, or almost as large as before you retired?"

II. IMPROVEMENT IN THE INCOME OF RETIRED PEOPLE DURING THE LAST FEW YEARS

Data on the income of retired people a few years ago may provide the proper perspective for the discussion presented in the previous section. To be sure, the available data, taken from the 1960 Survey of Consumer Finances, are based on a very small sample (273 retired people). Nevertheless, they indicate a substantial improvement in the income of the retired during the 6 years prior to 1965.

The median income of retired people was \$2,200 in 1959 as against \$3,140 in 1965 (table 7).² An upward adjustment of the 1959 income data by approximately 10 percent, needed because of the greater purchasing power of the dollar in 1959, does not alter the comparison greatly. (The consumer price index stood at 101.5 in 1959, at 109.9 in 1965 and at 113.1 in 1966.) In 1959 close to one-half of all retired had a family income of less than \$2,000, while in 1965 only one-third of the retired fell in this income bracket. The difference between the retired in a very favorable economic position (income of more than \$7,500) and those in a highly unfavorable position appears to have been even larger in 1959 than in 1965.

The lower half of table 7 is indicative of income differences in 1959 and in 1965 among younger and older retired people. In 1959 a smaller proportion of all retired than in 1965 were 64 years of age or younger. It appears that a pronounced income differential by age prevailed in 1959 as well.

TABLE 7.—FAMILY INCOME OF RETIRED PEOPLE IN 1959 AND IN 1965

Income	1959, percent	1965, percent
Less than \$2,000.....	46	33
\$2,000 to \$2,999.....	19	18
\$3,000 to \$7,499.....	24	33
\$7,500 and over.....	11	16
Total.....	100	100
Median.....	\$2,200	\$3,140

PERCENT WITH LESS THAN \$2,000 INCOME		
Age	1959	1965
Under 65.....	37 (17)	23 (27)
65 to 74.....	40 (52)	26 (45)
75 or older.....	60 (31)	44 (28)
All retired.....	46 (100)	33 (100)

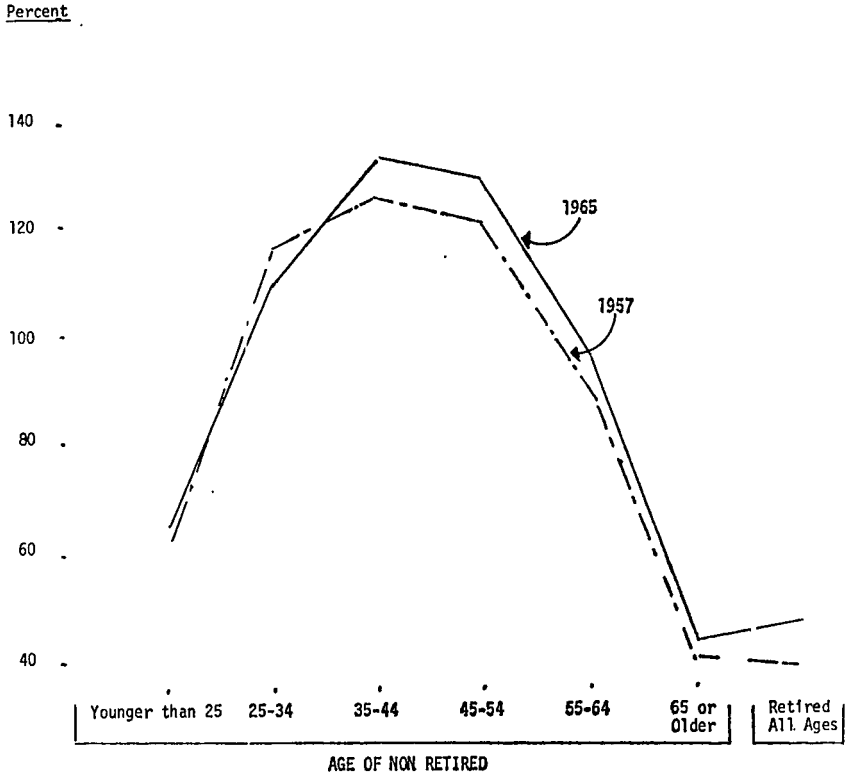
Note: The figures in parentheses represent the proportion of all retired in each age group in percent.

The relative income position of the retired is compared with that of the nonretired in different age groups in figure 1. The relation of the median income of the various groups to the median income of all family units is shown for 1957 and 1965. Thereby the absolute growth of income and the effects of inflation are disregarded.

² The definition of the retired was the same in 1959 and in 1966. In complete families only the retirement of the family head was considered and the total family income was taken into account.

Figure 1

Median Income of Age Groups and of the Retired, Expressed in Percent of Median Income of all Families, 1957 and 1965*



* Income of Spending Units in 1957 and of family units in 1965
Source: 1958 Survey of Consumer Finances and 1966 Survey of Consumer Finances.

As expected, the income of the retired is lower than the income of the nonretired. But it is only slightly lower than the income of people aged 65 or more who are not retired.³ Figure 1 shows that the relative income position of the retired improved considerably in the last few years. In 1965 their median income was 47 percent of the overall median; in 1959 it was 42 percent, in 1957 37 percent. To be sure, the income position of all age groups (except those under 35 years of age) improved in this period, but the proportion of improvement was the greatest among the retired.

III. LOOKING FORWARD TO EARLY RETIREMENT

There is some evidence of an increasing desire to retire early. Table 8 shows, for selected relevant groups, the proportions planning to

³ Many of those 65 and over and not retired are not in the labor force either (being widows).

retire before they are 65 years of age in 1963 and in 1966. While some difference in the questions and in what preceded them may have had some effect, it seems clear, first, that younger people are more likely than older people to think of retiring early and, second, that this difference reflects at least in part a difference resulting from developments during the last few years. Therefore the difference between 1963 and 1966 may presage a trend toward more purposeful early retirement.

In the past early retirement has been frequently associated with trouble: illness, obsolescence of job skills, unemployment. But people at the other end of the scale may constitute a new source of early retirement in the future: those who planned and saved and retired early because they could afford it. While at present the majority of those who had retired early did not retire as planned (see table 4), in the future a different relation between planned and unexpected early retirement may prevail.

The distributions of when people said they planned to retire are given in table 9. The table indicates that members of the labor force may be divided into three almost equal groups, those who plan to retire early, those who plan to retire at the age 65 to 69, and those who wish to work as long as possible or do not think of retirement.

The 1966 sample of 1,853 family heads, 35 to 64 years old and in the labor force, were asked not only about retirement plans, but also about

TABLE 8.—PLANS TO RETIRE EARLY, BY AGE (FOR FAMILY HEADS IN THE LABOR FORCE 35-64 YEARS OLD AND WITH FAMILY INCOME \$3,000 OR MORE; NATIONWIDE SAMPLES)

[In percent]

Age	Proport on who plan to retire before they are 65	
	1963 surveys	1966 surveys
35 to 44.....	25	43
45 to 54.....	23	33
55 to 64.....	21	22

Note: In surveys conducted in 1963, in connection with a study of individual saving and participation in private pension plans, the following question was asked: "Now I have a few questions about retirement. When do you think you will retire from the work you do; I mean at what age?" In surveys conducted in 1966, in connection with a study of early retirement, the question asked was: "When do you think you will retire from the main work you are now doing; I mean at what age?" The 1966 question followed other questions about retirement and about what things would be like later on. The 1963 studies were restricted to the group indicated; the 1966 question was asked of a broader group but was tabulated for the indicated group. Both studies were made possible by grants from the Social Security Administration to the Survey Research Center.

TABLE 9.—WHEN PEOPLE PLAN TO RETIRE (HEADS OF FAMILIES)

When plan to retire	35 to 64, in labor force, with family income \$3,000 or more		All those 35 to 64 and in labor force, 1966 surveys
	1963 surveys	1966 surveys	
Before age 60.....	4	10	9
60 to 64.....	20	25	25
65 to 69.....	50	37	35
70 or over.....	3	3	4
Will work as long as possible.....	23	25	13
Don't know when will retire.....				14
Total (percent).....	100	100	100
Number of cases.....	1,853	1,436	1,853

related facts and expectations. The most powerful single factor leading people to plan to retire early (before 65) was the size of their expected pension income. Figure 2 shows, however, a threshold at about \$4,000 below which differences in expected retirement income did not matter. Several other economic forces were also important: Having a mortgage that would not be paid off in time, or having dependents who would still be a burden, deter plans for early retirement. On the other hand the vision of other ways of earning some money after retirement or the expectation of substantial other (nonpension) income encourages such plans. A major form of other income is the nonmoney benefit of a home that is paid for, and we have included an estimated such nonmoney income in our analysis.

Figure 3 shows that after dividing the sample according to their expected pension incomes, such other economic forces as obligations to dependents, nonpension income, or not ending mortgage payments account for further differences in people's retirement plans.

By looking at differences within the four groups (third row of fig. 3) and pooling them, we can investigate whether any of a much broader range of things affects people's plans to retire early. It turns out that nothing else makes a substantial difference, except having

Figure 2

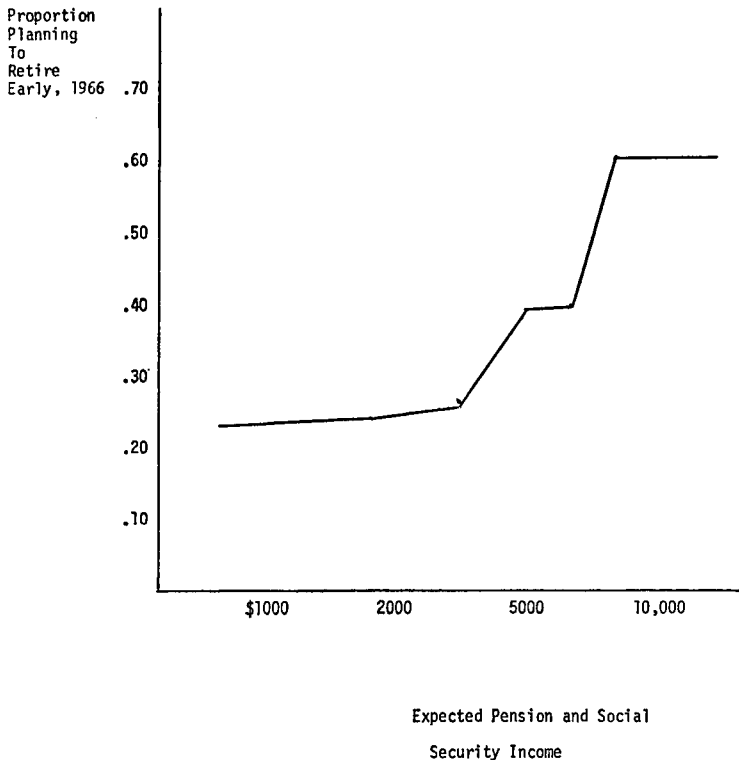
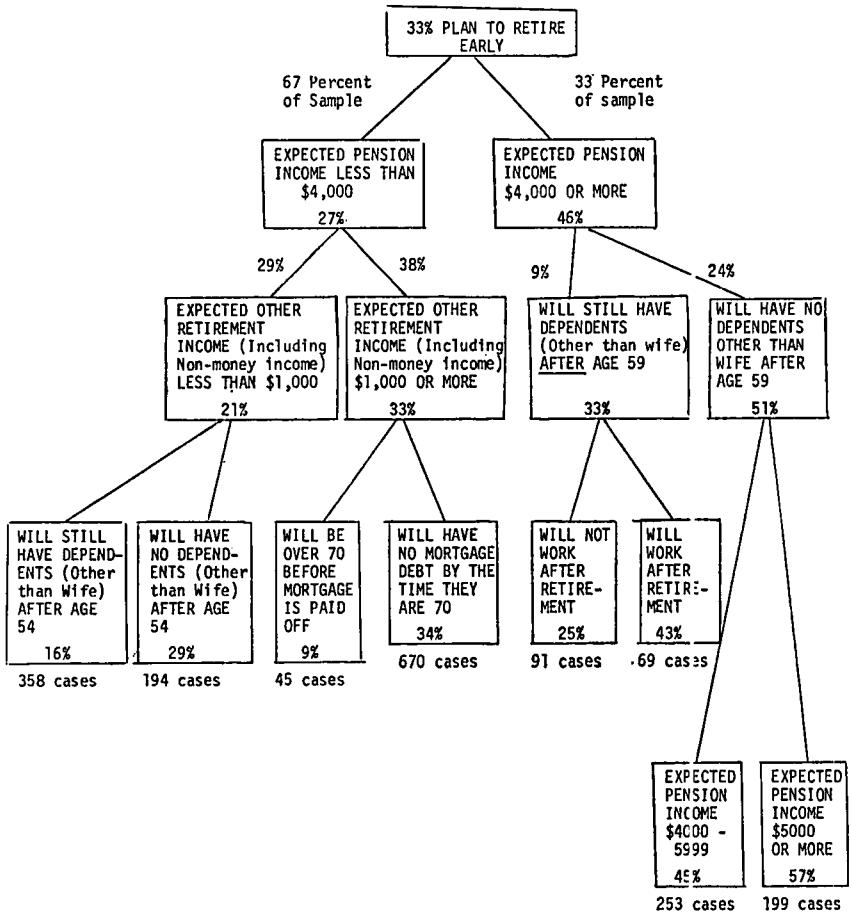


Figure 3

WHO PLANS TO RETIRE EARLY - ECONOMIC FACTORS



talked with one's wife and being convinced that she wants one to retire early, and that may be a result rather than a cause. A number of things appear to be related to early retirement plans (associated with a moderately larger proportion having such plans).

We asked the question: "Now about your income and financial situation after retirement. Some people feel sure that they will be fairly comfortable at that time, while others think that retirement will cause financial problems for them. How is it with you?"

Those who thought it would cause no financial problems were somewhat more likely to plan to retire early.

Younger people are more likely to plan early retirement, and older people less likely, even if one allows for the fact that at the older

ages some of the earlier retirers have already disappeared from the sample, and adjusts for differences in economic expectations.

[In percent]

Age	Actual proportion planning to retire early	Expected proportion, adjusted by fig. 3, row 3
35 to 44.....	42	38
45 to 49.....	36	35
50 to 54.....	31	31
55 to 59.....	28	30
60 to 64.....	16	21

Still adjusting for differences of figure 3 (row 3), union members, and nonwhites were somewhat more likely to plan early retirement, as were those who thought that the unions were putting pressure on people to retire early, and those who knew someone else who had retired early. Similarly, thinking that young people felt that older workers should retire early and make room for others was associated with more desire for early retirement, particularly if the respondent agreed with the proposition.

The relatively few who admitted disliking their work were 12 percent more likely to plan early retirement. Early retirement plans were also more frequent among those who had thought of changing jobs to "get into some more interesting or more promising work," and among those in a semi-skilled occupation, or who ranked security as the least important aspect of a good job.

Those who had lost some time from work owing to illness during the last 5 years were also more likely to plan to retire early, particularly if not too many days were lost. (Presumably extensive periods lost require added work to make up.)

Finally, in a more positive vein, there were some who were looking forward to more time to spend on sports and games and travel, or were just looking forward in general to retirement as something positive and enjoyable; and they were more likely to be planning early retirement.

Since measures of attitudes, expectations, and perceptions taken at a point in time are possibly as much the result of a man's plans for the future as a cause of them, we can only say that there are some sensible interrelationships between attitudes and plans in the area of retirement, and that they are considerably weaker than the (likewise meaningful) associations between economic factors and planned retirement. Some of these economic factors are positive: Expected money and nonmoney income or earnings after retirement. Some are negative: Expected obligations to dependents or to a mortgage lender. Indeed, there appears to be an appreciable number of people with obligations that do not end until after they are 60, which make early retirement difficult.

It is also interesting to note the reasons people give for retiring early or planning to do so. The simple finding is that the reasons given for planning to retire early are most financial: "I'm able to afford it." But a negative reason, poor health, is also given by a substantial mi-

nority to explain their plans, and by most people who did retire early to explain why they did so:

14 percent of the nonretired mention health reasons for planning to retire early;

20 percent also attribute to their wives health reasons for her preference that they retire early;

27 percent give it as a reason they think other people decide to retire early; and

48 percent of the retired who retired early give it as a reason for retiring when they did.

Indeed, among the retired who retired early and unexpectedly according to their report, seven in 10 mentioned health as a reason. And as is clear from other data in our report, these people are in the worst economic circumstances.

Plans about retirement, particularly those expressed many years in advance, might not predict what people will actually do. A closer approximation to the forces affecting the actual retirement decision might come from a study, not yet completed, with a sample of automobile and agricultural implement workers 58 to 61 years old. In preparation for an interview study, a mail questionnaire was sent to a sample of such workers, and among the 3,811 replies, it was again clear that two economic factors mattered: Seniority (which affects the size of the UAW-negotiated supplemental early retirement benefit) and whether the worker owned his home debt free. Neither age, sex, education, nor whether the spouse worked mattered. In this group of workers with relatively high retirement benefits the proportions planning to retire early varied from about half among those with the least seniority to more than nine-tenths among those with the most seniority.

IV. PRIVATE PENSIONS AND INDIVIDUAL SAVING

Clearly, the income position of retired people has improved in the recent past and will improve further in the future. This trend resulted from the spread of collective security arrangements (old-age insurance and private pension plans), as well as from the fact that on the average those who retired during the last few years, and those who will retire during the next decade, had and will have higher preretirement incomes than those who retired many years ago. It should be noted that the impact of private pension plans on the economic position of the retired was fairly restricted up to now. Because of the recency of many private plans, in 10 or 20 years a much higher proportion of the retired will benefit from private pensions than of those currently retired. It has been frequently assumed that these changes influence not only the standard of living of the retired, but also the saving performance and the inclinations to save of the nonretired.

Some theorists argued that collective security arrangements would reduce the need for private reserves and therefore would reduce individual saving. It was assumed that when people are assured of some resources after retirement they would cut down on putting money in savings accounts, securities, or life insurance, and would spend more freely on the good things of life. This argument was supported by the finding that providing for retirement was one of the strongest

motives to save, especially among working people 40 to 60 years of age.

Certain psychological considerations pointed, however, to the opposite direction. It appeared possible that the retirement income assured by collective arrangements would seem insufficient to many people; yet being assured of some funds during old age, the provision of adequate funds would no longer seem an unsurmountably difficult problem. Being closer to the goal would stimulate people to work harder to achieve the goal, and therefore private pension plans would stimulate individual saving.

It was not possible to test these assumptions with regard to social security because a comparable control group, that is, people not covered by social security, did not exist. But during the last few years it was possible to find out whether those who participated in private pension plans saved more or less than those who did not participate. The studies were restricted to a "crucial group," consisting of heads of complete families in the labor force, age 35 to 64, with a family income of more than \$3,000 in 1963. Saving was defined as net additions to financial reserves (deposits in banks and savings and loan associations, and purchases of stocks and bonds), disregarding contributions to pension plans which for the "rational man" would provide substitutes to individual saving efforts.

Since the findings of surveys conducted in 1963 were published in detail,⁴ they will not be reproduced here. It may suffice to state that a positive correlation was found between coverage by private pension plans and individual saving. Those with private pension plans were found to have added more than those without such plans to bank deposits and securities during the year before the survey, as well as in 2 preceding years, and their interest in savings ("saving mindedness") was also higher. The findings were obtained on the basis of a multivariate analysis in which such crucial factors as income level, age, and amount of financial reserves were held constant.

The findings support the assumption, confirmed in a variety of studies of consumer behavior, that felt needs and wants are not static. Under the impact of favorable developments, levels of aspiration are stepped up.⁵ Concrete and attainable rewards stimulate behavior. On the other hand, the feeling of being very far from one's goal tends to accentuate the perceived difficulties and may stifle motivation.

We conclude, then, that the spread of private pension plans has not restricted individual saving by the American people, nor their desire to add to their individually accumulated financial reserves. In 1963, apparently, private pension plans even increased individual saving and the desire to save. Possibly the latter finding is a function of the recency of many private pension plans. Behavioral findings may not be generalized for all time. Whether or not the stimulating effect on individual saving of the private pension plans will endure must be checked by further studies. But the notion that collective security arrangements necessarily reduce individual saving can be contradicted.

⁴ George Katona, "Private Pensions and Individual Saving," Institute for Social Research, Ann Arbor, Mich., 1965. For a study with similar findings, based on a rather special (nonrepresentative) sample, see Philip Cagan, "The Effect of Pension Plans on Aggregate Saving," Occasional Paper 95, New York: National Bureau of Economic Research, Columbia University Press, 1965.

⁵ George Katona, "The Mass Consumption Society, McGraw Hill, New York 1964.

AGED RETIREMENT INCOME ADEQUACY—SIMULATION PROJECTIONS OF PENSION-EARNINGS RATIOS

BY JAMES H. SCHULZ*

There are currently widespread efforts in the United States to eliminate poverty among all age groups—poverty being defined as income below some minimum. Much of the discussion regarding old-age income adequacy has, consequently, been centered around poverty levels and the needs of low-income aged persons. When, and if, the basic problem of poverty is solved for the aged, there will probably still remain the important “old-age income assurance” question of how preretirement living standards can be maintained (and, perhaps, improved) in retirement.

Currently, and in the future, many poor and nonpoor aged persons face what may be a substantial “economic shock” as a result of the sharp decline in their income when they retire. This paper presents evidence which indicates that pension systems in the United States are failing to generate, by very substantial amounts, pension incomes for retirees which are close to their preretirement earnings. Although pension systems are only one means of maintaining living standards in retirement, they are clearly the major means of maintenance for most retired persons. The extent to which they succeed in replacing prior earnings, therefore, is a matter of primary concern when evaluating aged income maintenance policies.

This paper begins by briefly surveying various concepts and standards of income adequacy. It then summarizes the available empirical information regarding the earnings replacement potential of United States and foreign pension systems. Finally, it presents simulation projections of pension-earnings ratios for persons retiring in the United States between the years 1960 and 1980.

A. INCOME ADEQUACY MEASURES

In recent years there has been a growing awareness of the unique problem facing older people in the United States. A rapidly growing number of people are living to and beyond age 64 due to declining mortality in the earlier years prior to retirement.¹ The number of retired aged persons is, at the same time, increasing due to mandatory retirement requirements, the expansion of public and private pension systems, and various pressures for “early retirement.”²

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¹ Age 64 is a somewhat arbitrary but commonly used cutoff point for defining the aged population.

² See my “Early Retirement Trends and Pension Eligibility Under Social Security” in U.S. Joint Economic Committee, *Old Age Income Assurance*, vol. 111 (Washington: GPO, 1967), pp. 156-68.

With an increasing number of older Americans facing a lengthening period of life without work earnings, interest has developed in the question of what is an adequate retirement income. There is now, for example, a growing literature concerned with measures of "income adequacy."³

The most widely used measures of income adequacy for aged families are the Social Security Administration's (SSA) "poverty" and "low income" indexes⁴ and the Bureau of Labor Statistics (BLS) "Budget for a Retired Couple."⁵ The SSA poverty and low-income indexes are based on Department of Agriculture estimates of the cost of "required foods" and on the assumption that these costs constitute one-third of the total required living expenditure for families. The BLS Retired Couple's Budget is based on expenditure pattern surveys and is designed to provide a "modest but adequate" living standard for a retired older couple living alone in the city.

The SSA and BLS measures are useful for setting a minimal level of income below which aged persons can be considered living in poverty. However, as has been pointed out by Lenore A. Epstein, "recognition has spread that neither need nor adequacy are fixed. In the Western nations at least, basic physical subsistence is no longer considered a useful benchmark for public income programs."⁶

Insofar as aged income adequacy is concerned, moreover, discussion has not been limited solely to the question of income adequacy for those older people close to or below some accepted level of poverty. Interest has also developed in relative standards of adequacy for all retired aged persons, regardless of retirement income level.

Acceptance of a relative concept of adequacy means that the standards for assessing adequacy become increasingly subjective—a product of social consensus determined mainly through the political process.

The article will examine, however, one relative measure of adequacy which offers promise as a useful criterion upon which such policy discussions can be based.

B. THE RETIREMENT TO PRERETIREMENT INCOME RATIO

If we assume income before and after retirement approximate the level or standard of living possible in each of the respective periods, then measurement of the retirement to preretirement income ratio yields an indicator of retirement income adequacy.⁷ Several limitations in this indicator immediately arise, however. The indicator, as defined above, does not take into account the wealth situation of the individual in the two time periods. It does not take account of the expenditure

³ See, for example, Mollie Orshansky, "Recounting the Poor: A Five-Year Review," *Social Security Bulletin*, vol. 29 (April, 1965), pp. 2-19; Helen H. Lamale, "Poverty: The Word and the Reality," *Monthly Labor Review*, vol. 88 (July 1965), pp. 822-27; Lenore A. Epstein, *Income Security Standards in Old-Age*, Research Report No. 3 (Washington: GPO, undated); Harold W. Watts, "The Iso-Prop Index: An Approach to the Determination of Differential Poverty Income Thresholds," *The Journal of Human Resources*, vol. 2, pp. 3-18; Ida C. Merriam, "Social Security Benefits and Poverty," Research and Statistics Note No. 6, Social Security Administration (Washington: February 1967).

⁴ Orshansky, *op. cit.*

⁵ Margaret S. Stotz, "The BLS Interim Budget for a Retired Couple," *Monthly Labor Review*, vol. 83 (November 1960), pp. 1141-57.

⁶ Epstein, *op. cit.*, p. 3.

⁷ For this indicator to be meaningful, however, preretirement income must have previously been judged to be "adequate."

patterns at different points in the life cycle (for example, occupational expenses, child-raising expenses, medical expenses, etc.). And it assumes that the "pace of living" or activity in retirement is not significantly different from the preretirement period in terms of income requirements.

Still another problem arises in using this measure. Presumably, preretirement income would include all income—including income from financial assets, rentals, etc. Given the limitations of existing data, however, current measures by necessity must focus upon a different but related measure—the ratio of retirement pension income to preretirement average earnings (hereafter referred to as the P/E ratio). Fortunately earnings and pension income currently constitute the bulk of income for the overwhelming proportion of U.S. working and retired families.⁸

C. TARGET PENSION-EARNINGS LEVEL

What is an adequate P/E ratio at retirement? Much of the relevant theoretical discussion in economics has focused on individuals' time preferences (preference for current versus future consumption).⁹ The individual chooses the appropriate savings rate required to make available after the earning period the funds desired for retirement living. The individual is assumed to be rational, assumed to choose the appropriate P/E ratio in line with his preferences, and then assumed to save the necessary amounts. Survey data show, however, that large proportions of the U.S. population in the past have either been unwilling and/or unable to provide for old age. Possible explanations for this are (a) the difficulty of retirement planning, given the vicissitudes of the economy affecting income, employment, and prices; (b) a myopic outlook of many individuals regarding current versus future consumption needs; and/or (c) a failure by individuals to take into account in retirement planning longer years of retirement living due to declining mortality and earlier retirement.

Those who develop social policy, therefore, have had to face the fact that "aged poverty" does exist¹⁰ and that there are increasing political pressures for its eradication. One result has been the expansion of compulsory insurance programs (both public and private).

Kenneth Boulding has succinctly summarized one important rationale for establishing such compulsory programs:

It is argued * * * that under a purely voluntary system some will insure and some will not. This means, however, that those who do not insure will have to be supported anyway—perhaps as at lower levels and in humiliating and respect-destroying ways—when they are in the nonproductive phase of life, but that they will escape the burden of paying premiums when they are in the productive phase.

⁸ Lenore A. Epstein and Janet H. Murray, *The Aged Population of the United States—The 1963 Social Security Survey of the Aged*, Social Security Administration, Research Rept. No. 19 (Washington: GPO, 1967), p. 36.

⁹ See, for example, Paul A. Samuelson, "A Note on Measurement of Utility," Joseph E. Stiglitz, ed., *The Collected Scientific Papers of Paul A. Samuelson*, vol. 1 (Cambridge: MIT Press, 1966), pp. 212-17.

¹⁰ A conclusion reached by researchers using the criteria described at the beginning of this article.

In fairness to those who insure voluntarily, and in order to maintain the self-respect of those who would not otherwise insure, insurance should be compulsory.¹¹

There has been a growing acceptance of collective decisionmaking in the area of retirement security. This is true not only in this country but also in almost all countries of the world. Table 1 shows, for example, the large number of countries with various types of public social security programs.

Given, therefore, the increased use of public and private programs to supplement individual retirement planning, the need for policy guidelines is apparent. The remainder of the discussion deals with the question of formulating an appropriate or target level P/E ratio for evaluating and guiding general pension policy.¹²

Data available to measure retirement income adequacy in the United States based on preretirement income are rather sparse and, consequently, existing empirical measures of this type leave much to be desired. The next few sections look at the available empirical information regarding the relationship between retirement income and preretirement earnings. Then, in the section following, projections of pension income-earnings ratios for aged units retiring between 1960 and 1980 are presented.

TABLE 1.—NUMBERS OF COUNTRIES WITH VARIOUS TYPES OF SOCIAL SECURITY PROGRAMS

Program	Number of countries
Any type of program.....	120
Old-age, invalidity, survivor.....	92
Sickness and maternity.....	65
Work and injury.....	117
Unemployment.....	34
Family allowances.....	62

Source: U.S. Social Security Administration, "Social Security Throughout the World—1967." Washington: U.S. Government Printing Office, 1967, p. xi.

D. U.S. PENSION SYSTEMS

Most public and private pension systems in the United States (and in many other countries) relate retirement benefits in some way to prior earnings. The old-age survivors, disability and health insurance system (OASDHI) in the United States, for example, bases social security pension payments on credited earnings. Computation of these benefits has been affected over the history of the system by changes in the benefit formula, changes in the maximum taxable (creditable) earnings ceiling, and changes in the period of average earnings upon which benefits are based.

Currently, to calculate benefits (under the most common social security law option) earnings for all years after 1950 are averaged

¹¹ Kenneth Boulding, "Principles of Economic Policy" (Englewood Cliffs, N.J.: Prentice Hall, 1958), p. 239. See also, Paul A. Samuelson, "An Exact Consumption Loan Model of Interest With or Without the Social Contrivance of Money," *The Journal of Political Economy*, vol. 66 (December 1958), pp. 467-82, for a different and more theoretical discussion of this question.

¹² Consideration of the important question of appropriate pension "minimums" is not included.

after dropping the 5 years of lowest earnings. The credited or recorded earnings are limited to the amount upon which social security taxes are paid—the present tax being imposed on earnings up to \$6,600.¹³ Under the 1965 amendments to the social security law, a basic benefit is paid upon retirement at age 65 equal to (2.97 percent of the first \$110 of average creditable monthly earnings, 22.9 percent of the next \$290, and 21.4 percent of the remainder.¹⁴

Using this formula, the 1965 amendments to the social security law provide a pension equal to 35 percent of average earnings since 1950 for a single worker who retired in 1964 and earned the social security taxable maximum each year prior to his retirement.¹⁵ If the worker is married, his spouse receives a benefit equal to one-half the basic benefit, and the resulting benefit, for the above example, increases to 52 percent of the worker's average earnings.

Table 2 shows hypothetical social security P/E ratios for workers, with and without inclusion of the supplemental spouse benefit. The usefulness of this table is limited by the fact that the ratios assume "normal" retirement and take no account of earnings over the taxable limit.

D-1. U.S. PRIVATE PENSION SYSTEMS

Private pension plan data are available from a Bureau of Labor statistics study of 15,818 plans covering 15.6 million active workers during the winter of 1962-63.¹⁶ Using a set of highly idealized assumptions, Donald Staats has calculated illustrative P/E ratios for these plans, based upon benefit provisions existing at that time. Staats summarizes the limitations of his estimates as follows:

TABLE 2.—SOCIAL SECURITY P/E RATIOS¹ (1965 LAW)

Average monthly taxable earnings ²	Ratio	
	Excluding supplemental	Including supplemental
\$100.....	0.63	0.95
200.....	.45	.68
300.....	.37	.56
400.....	.34	.51
500 ³.....	.31	.47

¹ Source: Robert M. Ball testimony before the Committee on Ways and Means, Hearings on H.R. 57 0, pt. 1. Washington: Government Printing Office, 1967, pp. 223-224.

² Average monthly taxable earnings depend upon the social security taxable wage ceiling existing during the relevant years.

³ Not achievable for persons retiring currently. See (b) above.

Such computations do not reveal the actual benefits of retiring workers. They are modified [overestimated] to the extent that private retirement benefits are determined in part by past and intermediate service formulas, that plans have not been in existence long enough for any worker to accumulate long

¹³ The taxable maximum was \$3,000 (from each employer) from 1938-39, \$3,000 from 1940-50, \$3,600 from 1951-54, \$4,200 from 1955-58, \$4,800 from 1959-65, and \$6,600 from 1966.

¹⁴ For details of the law, see U.S. Social Security Administration, "Social Security Handbook," 3d ed. (Washington: GPO, October 1966).

¹⁵ Workers receiving earnings greater or less than the taxable maximum receive, respectively, a lower or higher percentage at retirement. For example, a worker earning each year \$500 more than the taxable maximum would receive 31 percent (instead of the 35 percent received in the example above).

¹⁶ Donald J. Staats, "Normal Benefits Under Private Pension Plans," Monthly Labor Review, vol. 88 (July 1965), pp. 857-63.

years of service, and that public benefits [social security] fall short of the assumed amounts.¹⁷

In addition, "early retirement" was assumed away and differences between plans using career earnings versus average terminal earnings were not taken into account.

The resulting P/E ratios are shown in table 3. Clearly, private pensions currently do a poor job of income replacement for the middle income groups. Only at the lower earning levels (together with long years of coverage) are P/E ratios greater than 0.50 achieved when the hypothetical private pension benefits are added to social security.¹⁸

For a worker with annual earnings of \$8,400 and 20 years of private pension coverage, the P/E ratio falls to as low as 0.30, even under the idealized conditions assumed. In the case of the married man in the \$8,400 and 20 years category, the supplement increases the P/E ratio from 0.30 to 0.40.

TABLE 3.—RATIO OF MEDIAN NORMAL RETIREMENT BENEFITS PLUS SOCIAL SECURITY TO PRERETIREMENT EARNINGS, WINTER 1962-63

Item	Annual earnings and service periods							
	\$3,600		\$4,800		\$6,000		\$8,400	
	20 years	30 years	20 years	30 years	20 years	30 years	20 years	30 years
Excluding social security.....	17.3	25	13.5	19.5	12	17.2	10.9	18.6
Including social security.....	55.0	63	48.0	54.0	39	44.0	40.0	38.0

Source: Based on Donald J. Staats, "Normal Benefits Under Private Pension Plans," Monthly Labor Review, vol. 88 (July 1965), table 4.

D-2. EUROPEAN PUBLIC PENSION SYSTEMS

The P/E ratio for the U.S. social security system can be contrasted with similar ratios for public pension systems in other industrialized countries. P/E ratios are calculated for the public pension systems of 16 industrialized countries and presented in table 4. The ratios are calculated using information on each system obtained in "U.S. Social Security Administration, Social Security Throughout the World, 1964."¹⁹

In order to calculate the ratios on a comparable basis, the following assumptions are used for each country:

1. The pension is calculated for a single male worker.
2. The worker is assumed to work 30 years before retiring.
3. The worker is assumed to retire at the normal retirement age of the system (that is, the age at which he first becomes eligible for a pension without reduction).
4. The worker's earnings each year are assumed equal to the average nonagricultural earnings for the country in 1964.²⁰

¹⁷ Ibid., p. 861.

¹⁸ Social security benefits (based on the 1965 amendments) of \$113 per month for \$3,600 average earnings and \$136 per month for \$4,800 or more were assumed. This excludes any supplementary spouse benefit. However, because benefits are usually based upon taxable earnings since 1951 and the taxable ceiling was \$4,200 (or less) before 1959, few workers currently qualify for the maximum benefit.

¹⁹ (GPO, Washington: May 1964.)

²⁰ As reported in International Labor Organization, "Yearbook of Labour Statistics" (Geneva: 1965), and United Nations, "Statistical Yearbook" (New York: 1965). Average nonagricultural earnings data are not published for all the countries; in countries where they are not available, average earnings in manufacturing are used.

- 5. No payments are included which are subject to a means test.
- 6. The pension system is assumed not to change over the 30-year period.

Table 4 indicates great variability among the nations surveyed. Austria, Belgium, and Sweden are the countries with the highest P/E ratio. Most other countries' pension systems have P/E ratios well below 0.50. Six of the nations, however, did not have wage-related pension systems in 1964. And most of the countries, especially those with low P/E ratios, made provision for a supplemental pension for the spouse.

TABLE 4.—INTERNATIONAL P/E RATIOS, 1964¹

Country	Ratio	Spouse supplement	Country	Ratio	Spouse supplement
Australia.....	(²)	Yes.	Italy.....	0.48	No.
Austria.....	0.57	No.	Luxembourg.....	.41	No.
Belgium.....	.60	Yes.	Netherlands.....	\$.24	Yes.
Denmark.....	(²)	Yes.	New Zealand.....	\$.28	Yes.
Finland.....	\$.06	Yes.	Norway.....	\$.22	Yes.
France.....	\$.20	Yes.	Sweden.....	\$.58	Yes.
West Germany.....	.45	No.	Switzerland.....	.17	Yes.
Ireland.....	\$.21	Yes.	United Kingdom.....	.37	Yes.
Israel.....	\$.18	Yes.	United States.....	.32	Yes.

¹ See text for data sources and assumptions used.

² Not calculated due means test.

³ Benefit not wage-related but same for all.

⁴ Benefit only partly wage-related.

⁵ Eligibility based on age and income tests.

⁶ Subject to a maximum benefit provision.

E. SIMULATION PROJECTIONS OF THE P/E RATIO

It is possible to estimate what the P/E ratio will be for future retired workers by using simulation techniques and an electronic computer. The simulation model used to make the projections presented here was developed to investigate the economic circumstances of future retired persons by projecting 1980 pension income and asset distributions for them. A brief summary of the simulation methods is given below. The results of prior findings and details of the model and methodology have been reported upon elsewhere.²¹

The simulation takes into account important factors affecting pension incomes which were omitted from the estimates presented above. It takes into account unemployment, job change and vesting, trends in pension coverage, variable earning levels, early retirement, and rising pension benefits.

E-1. THE SIMULATION PROCESS

The basic data for the simulation are from a sample of the U.S. population in 1960. This sample, called the "one-in-a-thousand sample," is on a set of tapes produced by the U.S. Bureau of the Census and contains separate records of characteristics of a 0.1-percent sample

²¹ See James H. Schulz, "The Future Economic Circumstances of the Aged: A Simulation Projection, 1980," Yale Economic Essays, vol. 7 (spring 1967), 145-212 and James H. Schulz (social security monograph scheduled for publication).

of the U.S. population as recorded in the 1960 census.²² Each record contains 40 coded characteristics about an individual—including certain demographic, work force, income, and family characteristic information.

From this sample are taken: (a) all married couples where the husband is between 45 and 60 years of age (inclusive), and (b) all unmarried individuals where the individual is between 45 and 60 (inclusive).²³ These persons constitute the basic population which is "aged" into retirement.

In order to project pension income and assets of the retired aged, it is necessary to construct a "life process" model which will permit those activities of individuals to be simulated which have an important influence on pensions and assets. These activities can be divided into the following four categories: (a) demographic, (b) work force and earnings, (c) pension status, and (d) asset accumulation.

For example, not everyone in 1960 between 45 and 60 can be expected to live at least 20 years. Hence the first life process activity considered in the simulation model is death. A probability of death for each particular year is specified for individuals based on their sex, race, and age. A random drawing from the associated probability distribution is used to determine whether an individual will die or live that year. Similarly, probabilities are specified for other possible occurrences built into the model: labor force exit and entry, job change, pension coverage, vesting and unemployment.²⁴

Each possible "occurrence" specified in the model is treated in a manner similar to the live-die occurrence—each person being considered in turn. By sequential handling of the various occurrences it is possible to make the consideration of any one occurrence dependent upon occurrences which were handled before it. For example, one possible occurrence for a person in the work force is a change of job. The consideration of this occurrence in the computer for a particular individual is made conditional on the outcome of the "leave work force" occurrence considered before it. If the individual "left" the work force, obviously there is no need to consider whether he has changed jobs.

Once 1 year's simulation is completed, the individual, if he survives, is aged another year and the process immediately repeated. This continues until the year 1980 is reached (that is, completion of 20 "passes" in the computer). Another individual is then considered, and the whole simulation process repeated. After all individuals are processed, the resulting sample population represents most of the future aged population, since the surviving individuals are now 65 to 85 years of age.

²² Details about the sample are given in: U.S. Bureau of the Census, "One-In-a-Thousand Sample Description and Technical Documentation," U.S. Census of Population and Housing: 1960 (Washington: undated).

²³ Inmates of institutions are excluded.

²⁴ For example, the probability that a nonwhite female of age 50 would die in the year 1961 is specified as 0.011. A random number generator is used to generate a number between one and one thousand. If the number generated is greater than 11, the individual is considered to live through the year. Conversely, if the random number generated is 11 or less, the individual is considered to die in that particular year. The various probabilities are estimated from available demographic, labor force, and pension data.

E-2. EARNINGS AND PENSION PROJECTS ²⁵

During the simulation, earnings histories are kept for each individual. Individuals in the simulation who work full-time during a particular year and do not change jobs are given an employment income equal to their "wage level." Females who work part time receive earnings equal to 50 percent of their "wage level."²⁶

Individuals (full or part time) in the simulation who change jobs in any particular year are subject to a reduction of earning because of possible time lost between jobs. In the simulation a random number is generated each time a worker changes jobs. The probabilities of losing (a) no time, (b) 1 to 4 weeks, (c) 5 to 10 weeks, (d) 11 to 26 weeks, or (e) more than 26 weeks are estimated using data from the "1961 Job Survey."²⁷ Using the earnings histories generated by the simulation process described above, pension benefits are then calculated. Account is taken of trends in pension coverage, private pension vesting, and public and private pension levels.

In general, social security benefits are assumed to increase, beginning in 1968, at an average annual rate of 4 percent above their 1965 levels and private pensions are assumed to increase at 3 percent annually. The assumption regarding increases in social security retirement benefits is quite liberal. It is a higher rate of increase than has been voted by the Congress in the past. Due to lack of data the assumption regarding changes in private benefit levels is essentially arbitrary. It is felt, however, that the magnitude of private pension benefit increase is related to increases in social security and that given large increases in the latter, private pension increases will not be larger.²⁸

E-3. P/E RATIOS AT RETIREMENT

Table 5 shows the projected P/E ratios for males and females using an average of earnings five years prior to retirement as the measure of "preretirement earnings"; projections for married females are not included because of the sporadic nature of their activity in the labor force.

Approximately three-fourths of the males and one-half of the unmarried females are found to have projected P/E ratios that are less than 0.50—one of the lowest P/E ratios publicly proposed as a policy "target level."²⁹ In fact, nearly one-quarter of the married males have a projected P/E ratio which is less than 0.20.

²⁵ The reader is reminded that a more detailed description may be found in the studies cited in footnote 17.

²⁶ The wages and salary incomes of persons in the work force in 1959 are part of the information reported for persons in the 1/1000 census sample. This information is used as a basis for assigning "wage levels" to these individuals. For those persons not in the work force in 1959, however, wage assignments are made on the basis of race, age group, education, and regional location for males and race, age group, and education for females. A wage level is assigned to these individuals equal to the mean earnings of persons working in 1959 with similar demographic characteristics. Wage levels are adjusted each year to take account of general increases in the wage level and a so to reflect changes in earnings associated with age (lengthening service, promotion, changing skills, etc.).

²⁷ U.S. Bureau of Labor Statistics, "Job Mobility in 1961," Special Labor Force Report No. 35 (Washington: GPO, 1963). No individual remaining in the work force is simulated unemployed for longer than 1 year.

²⁸ In the earlier studies, projections are presented using alternative assumed rates of private pension benefit increase.

²⁹ See the next section's discussion regarding the appropriate target level for private and public pension planning purposes.

TABLE 5.—PROJECTED¹ RATIO AT RETIREMENT OF TOTAL PENSION INCOME² TO PRERETIREMENT EARNINGS³ FOR NONAGRICULTURAL UNITS

[Percentage distribution]			
Ratio	Married males	Unmarried males ⁴	Unmarried females ⁵
Less than 0.20 ⁶	24	20	18
0.20 to 0.29.....	20	16	7
0.30 to 0.39.....	22	21	13
0.40 to 0.49.....	12	14	15
0.50 to 0.59.....	9	10	11
0.60 to 0.69.....	5	7	8
0.70 to 0.79.....	4	5	7
0.80 to 0.89.....	1	2	6
1 or more.....	3	6	15
Total.....	100	100	100

¹ Source: Simulation model. (See text.)

² Social security, private, and/or Government employee pensions.

³ Average of 5 years prior to retirement.

⁴ Widowed or never married.

⁵ Never married only.

⁶ Includes persons receiving no pension but with some earnings.

⁷ Totals may not sum to 100 percent due rounding.

A small proportion of workers have P/E ratios close to or greater than 1. These high ratios are, for the most part, explained by the existence of minimum benefit provisions for low-wage earners in almost all U.S. public and private pension systems. For example, the minimum social security benefits for an eligible single worker under the 1965 amendment to the Social Security laws was \$528.

If the projected P/E ratios are tabulated by the preretirement earnings group of the pension recipients, the effect of these minimum benefit provisions can be shown. Tables 6 and 7 show tabulations of the distribution of P/E ratios for married males and unmarried females by eight preretirement earnings groups. Once again the average earnings for 5 years prior to retirement is used as a measure of preretirement earnings.³⁰

Very high ratios are projected for a large proportion of workers with low earnings. The proportion of projected retirees with P/E ratios under 0.50 rises sharply for income groups above \$4,000. For example, 79 percent of married males in the \$4,000 to \$4,999 earnings group are projected to have a P/E ratio under 0.50. For married males in the \$8,000 to \$8,999 group, the percentage under 0.50 increases to 88 percent.³¹

The ratios presented for married males in tables 5, 6, and 7 exclude the social security spouse supplement. The supplemental benefit is equal to one-half the primary benefit and inclusion of this benefit in pension income raises the P/E ratios. Table 8 presents ratios which incorporate both the supplemental social security pension of the spouse in total pension income and any preretirement earnings of the wife (which lower the P/E ratio) in total preretirement average earnings. The net result is an improvement in the P/E ratios.

³⁰ Units with average earnings over \$15,999 for the preretirement period are not included. This is because "executive" pension plans, which can produce higher P/E ratios for management personnel were not included in the simulation model.

³¹ For low income groups the P/E ratio is not the best measure of retirement income adequacy and, in part, accounts for the widespread use of poverty indexes in current policy discussions.

TABLE 6.—PROJECTED ¹ RATIO AT RETIREMENT OF TOTAL PENSION INCOME ² TO PRERETIREMENT EARNINGS ³ FOR NONAGRICULTURE MARRIED MALES BY PRERETIREMENT EARNINGS GROUP

[Percentage distribution]

Ratio	Average preretirement earnings							
	Less than \$3,000	\$3,000 to \$3,999	\$4,000 to \$4,999	\$5,000 to \$5,999	\$6,000 to \$7,999	\$8,000 to \$9,999	\$10,000 to \$11,999	\$12,000 to \$15,999
Less than 0.20 ⁴	0	9	15	13	15	28	29	43
0.20 to 0.29.....	9	14	21	17	16	31	28	25
0.30 to 0.39.....	9	21	23	35	29	18	21	19
0.40 to 0.49.....	16	18	20	14	13	11	11	8
0.50 to 0.69.....	30	20	14	17	19	7	9	3
0.70 to 0.99.....	11	12	5	3	6	3	3	1
1 or more.....	23	6	3	1	1	0	0	0
Total.....	100	100	100	100	100	100	100	100

¹ Source: Simulation model. (See text.)
² Social security, private, and/or Government employee pensions.
³ Average of 5 years prior to retirement.
⁴ Includes persons receiving no pension but with some earnings.
⁵ Less than 1 percent.
⁶ Totals may not sum to 100 percent due to rounding.

TABLE 7.—PROJECTED ¹ RATIO AT RETIREMENT OF TOTAL PENSION INCOME ² TO PRERETIREMENT EARNINGS ³ FOR NONAGRICULTURE UNMARRIED FEMALES BY PRERETIREMENT EARNINGS GROUP

[Percentage distribution]

Ratio	Average preretirement earnings							
	Less than \$3,000	\$3,000 to \$3,999	\$4,000 to \$4,999	\$5,000 to \$5,999	\$6,000 to \$7,999	\$8,000 to \$9,999	\$10,000 to \$11,999	\$12,000 to \$15,999
Less than 0.20 ⁴	23	5	5	5	9	9	22	17
0.20 to 0.29.....	4	7	6	22	21	29	39	25
0.30 to 0.39.....	8	17	15	19	21	31	17	33
0.40 to 0.49.....	10	20	23	18	20	17	17	8
0.50 to 0.69.....	18	37	31	27	25	10	4	8
0.70 to 0.99.....	17	11	11	7	5	5	0	4
1 or more.....	22	4	8	2	0	0	0	4
Total.....	100	100	100	100	100	100	100	100

¹ Source: Simulation model. (See text.)
² Social security, private, and/or Government employee pensions.
³ Average of 5 years prior to retirement.
⁴ Includes persons receiving no pension income but with some earnings.
Totals may not sum to 100 percent due to rounding.

It is now easy to see how deceptive P/E ratio calculations; similar to those shown earlier in tables 1 and 2 can be. The hypothetical social security P/E ratio for a couple where the worker's average monthly taxable earnings are \$400 per year (\$4,800 per year) is calculated to be 0.50.

In contrast, table 8 shows P/E ratio estimates for actual aged couples retiring in the next two decades, almost all of whom are covered by social security. Looking at couples whose average earnings for 5 years prior to retirement were between \$4,000 and \$5,000, table 8 shows that over half are projected to have a P/E ratio (based on all pensions) of less than 0.50. These lower P/E ratios are due principally to two factors not taken into account in the calculations of table 2: (a) Large numbers of workers retire early with reduced pension bene-

fits and (b) workers' average taxable earnings for social security benefit purposes are always lower than average preretirement earnings as defined in this study.³²

The influence of the first factor is demonstrated in table 9, which shows the P/E ratio distributions for married males by age at retirement. Finally, table 10 contrasts P/E ratios for all males using alternative definitions of preretirement earnings—a 10-year average of wages before retirement, a 5-year average, and the final year before retirement.

TABLE 8.—PROJECTED ¹ RATIO AT RETIREMENT OF TOTAL PENSION INCOME ² TO TOTAL PRERETIREMENT EARNINGS ³ FOR NONAGRICULTURE COUPLES BY PRERETIREMENT EARNINGS GROUP

[Percentage distribution]

Ratio	Average preretirement earnings							
	Less than \$3,000	\$3,000 to \$3,999	\$4,000 to \$4,999	\$5,000 to \$5,999	\$6,000 to \$7,999	\$8,000 to \$9,999	\$10,000 to \$11,999	\$12,000 to \$15,999
Less than 0.20 ⁴	0	3	10	4	9	16	12	20
0.20 to 0.29.....	2	6	14	9	16	19	23	28
0.30 to 0.39.....	8	19	18	28	19	22	24	22
0.40 to 0.49.....	15	9	12	16	16	20	21	15
0.50 to 0.69.....	21	38	28	31	25	20	14	14
0.70 to 0.99.....	13	8	11	8	12	4	4	1
1 or more.....	40	17	7	3	2	1	1	0
Total.....	⁵ 100	100	100	100	100	100	100	100

¹ Source: Simulation model. (See text.)

² Social security (primary and supplemental), private, and/or Government employee pensions.

³ Average of 5 years prior to retirement.

⁴ Includes couples receiving no pension income but with some earnings.

⁵ Totals may not sum to 100 percent due to rounding.

TABLE 9.—PROJECTED ¹ RATIO OF TOTAL PENSION INCOME ² TO PRERETIREMENT EARNINGS ³ FOR RETIRED NONAGRICULTURAL MALES ⁴

[Percentage distribution]

Ratio	Age at retirement		
	Less than 60	60 to 64	65 or over
Less than 0.10.....	16	6	3
0.10 to 0.19.....	50	19	10
0.20 to 0.29.....	23	27	16
0.30 to 0.39.....	5	21	26
0.40 to 0.49.....	3	11	15
0.50 to 0.59.....	1	5	12
0.60 to 0.69.....	1	4	7
0.70 to 0.79.....	0	3	5
0.80 to 0.89.....	0	1	2
1.0 or more.....	1	1	4
Total.....	⁵ 100	100	100

¹ Source: Simulation model (see text).

² Social security, private pension, and/or Government employee pension.

³ Average of 5 years prior to retirement.

⁴ Married males only.

⁵ May not sum to 100 percent due to rounding.

³² Average taxable earnings are based on taxable earnings since 1950 instead of just the last 5 years.

TABLE 10.—PROJECTED ¹ P/E RATIOS FOR NONAGRICULTURE MALES, USING ALTERNATIVE MEASURES OF PRERETIREMENT EARNINGS

[Percentage distribution]

Ratio	Earnings prior to retirement		
	1 year before	5-year average	10-year average
Less than 0.20 ²	29	24	20
0.20 to 0.29.....	20	20	19
0.30 to 0.39.....	19	22	22
0.40 to 0.49.....	12	12	13
0.50 to 0.69.....	13	14	15
0.70 to 0.99.....	4	5	7
1 or more.....	3	3	4
Total.....	³ 190	190	100

¹ Source: Simulation model (see text).

² Includes persons receiving no pension income but with some earnings.

³ Totals may not sum to 100 percent due to rounding.

F. INTERNATIONAL STANDARDS

The International Labor Organization (which in 1966 had 115 countries, including the United States, as members) adopted Convention No. 102 in 1952. This convention set “minimum standards of social security” and “has become the touchstone of international action in the field.” ³³

Convention No. 102, in general, specifies that the minimum pension rate for standard old-age beneficiaries should be 40 percent of their average earnings (in systems where benefits are computed on the basis of prior earnings) ³⁴ or 40 percent of the wage of an ordinary adult laborer in the country (in systems where benefits are not related to prior earnings). In interpreting these specifications, the “standard old-age beneficiary” is a man with a wife, both of pensionable age, and an “ordinary adult male laborer” is defined as (a) a person typical of unskilled labor in the manufacture of nonelectrical machinery or (b) one employed in the country’s major group of economic activities. ³⁵ Prior earnings are not defined by the convention but are to “be calculated according to prescribed rules” of the various countries. ³⁶

Convention No. 102 has been in existence about a decade and a half. In this time there have been 16 countries who have formally ratified the convention. ³⁷ Many more countries have, however, been influenced by its provisions.

In 1967, the 51st International Labor Conference discussed, as one of its agenda items, proposed revisions of convention 102. ³⁸ This conference subsequently adopted “convention 128,” concerning invalidity,

³³ Robert J. Myers and William M. Yoffee, “Social Security Issues: Fiftieth International Labor Conference,” *Social Security Bulletin*, vol. 29 (November 1966), p. 22.

³⁴ Average earnings, however, are subject to a maximum not less than the wage of a skilled manual male employee.

³⁵ *Ibid.*, p. 29. A third alternative specified in the convention deals with systems where all residents who meet a means test are protected.

³⁶ ILO Conference, Convention 102: Convention Concerning Minimum Standards of Social Security (Geneva: June 1945), art. 65.

³⁷ Myers and Yoffee, *op cit.*, p. 23. Myers and Yoffee explain that the United States has not ratified because of noncompliance on provisions other than old-age insurance and survivors insurance.

³⁸ ILO procedures require that new conventions and recommendations be discussed at two conferences before adoption. The conference in 1966 had also adopted proposals for updating convention 102.

old age, and survivors' benefits. Among other things, convention 128 raised the P/E standard for old age from 0.40 to 0.45.

In addition, the conference adopted "recommendation 131," which specified that the minimum P/E ratio standard "be increased by at least 10 points" over the amount specified in convention 128. A recommendation, unlike a convention, is not submitted for ratification to member countries. In the United States, for example, ILO conventions follow the treaty ratification process.

Myers and Yoffe summarize the process :

When action on a particular convention is deemed appropriate it is referred with or without recommendation for ratification by the President to the Senate for its advice and consent. Recommendations are merely referred to appropriate authorities (e.g., Cabinet officers, or State Governors) for appropriate action, as required by the ILO constitution.³⁹

Thus, convention 128 raises the international standard 5 percentage points and recommendation 131 suggests or advises countries, as their particular circumstances permit, to maintain a standard at least 10 percentage points higher (a P/E of at least 0.55).

G. U.S. GUIDELINES

Determination of a recommended target P/E ratio for the United States must take into account the following considerations:

1. The wealth position of aged units.
2. Elimination in retirement of expenditures associated with employment—transportation, work tools, clothes, and so forth.
3. Rising illness incidence due to age but declining medical expenditures due to medicare and related health programs.
4. Declining aged tax liabilities and elimination of fringe benefit payroll deductions in retirement.⁴⁰
5. Elimination of household expenses (for education, housing, etc.) associated with child rearing.
6. Possible declining physical activity and associated expenditures or rising recreational expenditures due to increased leisure time.

Various organizations and individuals in the United States have discussed or suggested what the appropriate P/E ratio should be.⁴¹ The P/E ratios that have been recommended range between 0.05 and 0.75 and are, therefore, somewhat higher than the ILO international guidelines. This is understandable since ILO guidelines are set for countries at various stages of economic development.

H. CONCLUSIONS

A prior study by the Bureau of Labor Statistics of the earnings replacement potential of U.S. private pensions and the social insurance

³⁹ Myers and Yoffe, *op. cit.*, p. 21.

⁴⁰ Currently, social security income is exempt from Federal income tax liability. Social security tax payments end upon retirement, Federal (and often State) personal exemptions for income tax purposes increase, and—in some States—exemption or reduction in local property taxes occur.

⁴¹ Some of the written discussions on this question are found in the following: Richard Shoemaker, *Pension Plans Under Collective Bargaining*, AFL-CIO Publication No. 132 (Washington: 1964), p. 55; Lenore Epstein, *Income Security Standards in Old Age*, Research Report No. 3, Social Security Administration (Washington: GPO, undated); Francis P. King, "Trends in Retirement Planning TIAA—CREF: 1940 to 1964," *AAUP Bulletin* (winter 1964), p. 342.

system was based upon hypothetical calculations using rather unrealistic assumptions. This paper reports the results of a simulation study which attempts to project pension-earnings ratios for a future retired population using more realistic assumptions. It also attempts to take into account some of the characteristics of prevailing pension systems; which influence this ratio.

The simulation projects pension-earnings ratios for persons retiring in the United States between 1960 and 1980. The projections indicate that U.S. pension systems, as they are presently developing, are failing to generate for large numbers of aged persons retirement income sufficient to meet generally accepted international and national standards of pension-earnings ratio adequacy. Hypothetical calculations, such as those described in section D, make our pension system appear adequate; but as soon as reality is introduced into the analysis, that conclusion is negated.

There is a crucial need, therefore, for additional research and analysis regarding (1) the expenditure requirements of the aged relative to the nonaged and (2) the opportunities open to the aged for consuming capital.⁴² For only by obtaining additional information in answer to these two basic questions can we properly evaluate the adequacy of pension systems in maintaining living standards in retirement.

⁴² I am indebted to Dr. Nelson McClung for his formulation of these questions.

LIFETIME EARNINGS AND INCOME IN OLD AGE

BY JUANITA M. KREPS* and DONALD E. PURSELL**

I. INTRODUCTION

In recent studies of low-income families, a great deal of use has been made of cross sectional data; the numbers and characteristics of families with incomes below a specified level are repeatedly cited. By contrast, analysis of the variation in the annual income of a particular family as it moves through the life cycle is meager, limited by lack of data and by the time and expense involved in longitudinal research. Information on variations in the family's needs at different stages is similarly scant. Yet the central question involved is one of our major transfers of income—the social security benefit—has to do with the extent to which we wish to smooth the income between age groups by raising benefits for retired families via taxes on the young and the middle aged.

In general, the average earnings of different age cohorts observe the same pattern for most occupations. Immediately after entry into the labor force annual earnings are low, the income of each successive cohort rising until peak earnings are realized by the age group 45-54. The 55- to 64-year-old workers, the oldest cohorts who are full-time participants in the labor force, have incomes significantly lower than the previous group. Retirement income is typically less than a third of peak annual earnings. Variations in family needs, however measured, are dependent primarily on family size and age composition, and there is no necessary correlation of these needs with earnings at different stages of the family cycle. Even for the family whose lifetime earnings are adequate to meet a specified standard (e.g., the poverty level, or the "modest but adequate" standard), a substantial amount of temporal reallocation may therefore be necessary.

Without reference to the question of how this redistribution is achieved, this study examines, first, the available data on income and expenditures for several occupations at different ages of the family head, noting particularly the excess of income over spending (or vice versa) in each stage. Since the amount of this excess or deficit is estimated from cross sectional data it does not of course reveal the financial picture of a particular family as it progresses through work-life. To show a typical family's income-expenditure relationship through time, it is necessary to project earnings through the worklife

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span, taking into account the increase due to experience and seniority as well as the rise attributable to economic growth; and to estimate the increase in expenditures that may be expected to accompany the increase in income. Such a projection of the income and spending patterns of families through their working years provides some estimate of the discretionary range of income available either for financing higher consumption during worklife or for transferring additional income claims to retirees.

II. INCOME-EXPENDITURE PATTERNS AT DIFFERENT AGES¹

Estimates of the 1960-61 average annual money incomes (after taxes) in six occupations are shown in table 1. These incomes are primarily earnings; income derived from rents, interest, dividends, etc., averages about 5 percent of total money income.²

TABLE 1.—AVERAGE ANNUAL MONEY INCOME AFTER TAXES, BY AGE AND OCCUPATION, 1960-61

Age	Self-employed	Professional	Clerical	Skilled	Semiskilled	Unskilled
Under 25.....	\$4,528	\$4,990	\$4,459	\$4,676	\$4,602	\$3,246
25 to 34.....	7,645	7,240	5,704	5,993	5,351	4,495
35 to 44.....	9,466	9,159	6,675	6,993	6,042	4,882
45 to 54.....	9,429	10,722	6,804	7,232	6,136	4,521
55 to 64.....	8,100	9,156	5,851	6,730	5,760	4,180

Source: Bureau of Labor Statistics, "Consumer Expenditures and Income," supp. 2, pt. A to Report 237-238, pp. 30-34.

A. ANNUAL EARNINGS DURING WORKLIFE

The different occupations display similar patterns of income at various ages, as figure 1 reveals; in all occupations initial incomes, the annual changes in income, and maximum annual earnings, while varying in absolute amounts, are almost identical in structure.³

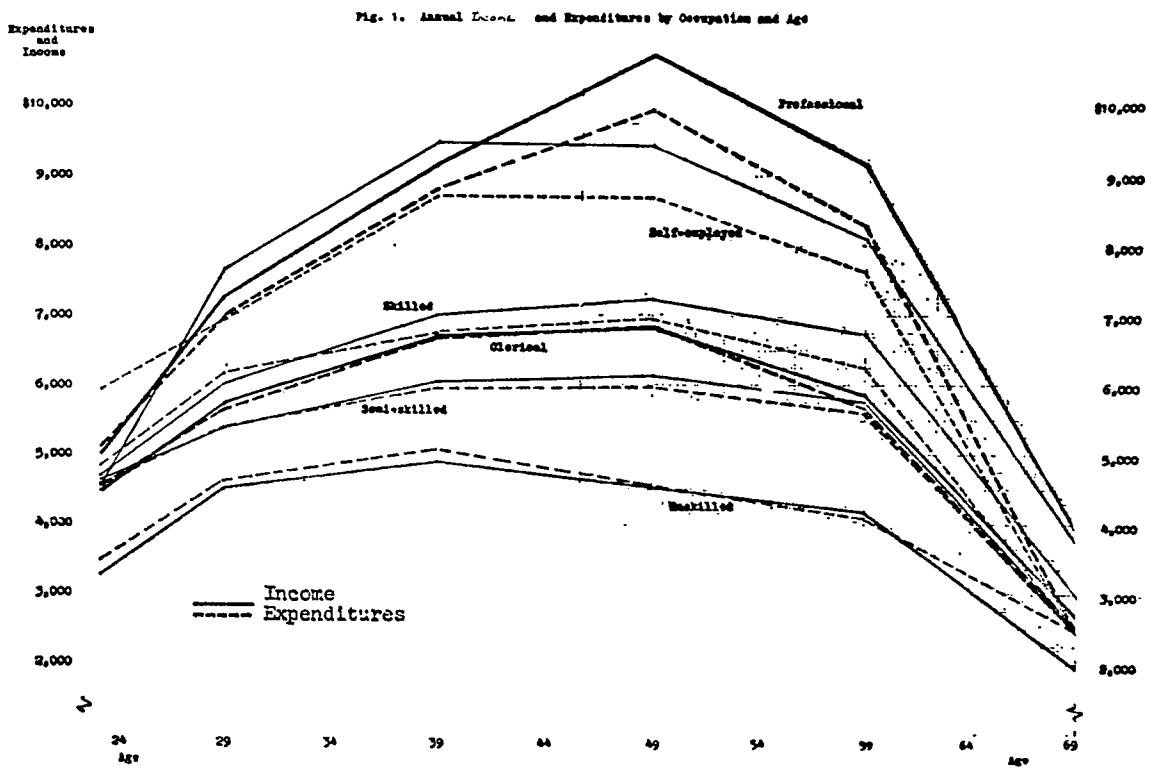
Consider, for example, the income-age pattern in two of the occupations. Professionals under the age of 25 receive an average of \$4,990 per year after taxes. During the age span 25 to 34 the average is much higher: \$7,240. The age group 35 to 44 again has higher incomes, although the differential over the preceding cohort is diminishing.⁴ From an average of \$9,159 for the 35 to 44 age group, earnings rise to a maximum of \$10,722 during ages 45 to 54. Average incomes are sig-

¹ Although age related income data are available from census reports, family expenditure data by occupation and age of family head may be drawn only from the survey of consumer expenditures conducted by the Bureau of Labor Statistics. Because of the need for consumer expenditure patterns at different stages of the family cycle, the BLS data are used for the discussion immediately following. However it should be noted that the BLS survey data are based on a restricted sample, which does not attempt to give adequate representation to the population of smaller cities or rural areas, or to upper income professionals. Estimates of lifetime earnings, which have just been published by the Bureau of the Census, are discussed later in the paper.

² This calculation is based on money income before taxes, for all urban families and single consumers. Data on earnings as a proportion of income, by age and occupation, are not available. In addition to these major sources—earnings and the ownership of assets—public and private transfers (pensions, welfare payments, unemployment insurance), military allotments, gifts of cash, etc. constitute about 9 percent of money income before taxes. Bureau of Labor Statistics, *Consumer Expenditure and Income*, Urban United States, report 237-238 (supplement 3, pt. A, p. 12).

³ Earnings from work are based on the average annual number of labor force participants per family, which differs by occupation. For the self-employed the average is 0.98; for professionals the average is 1.06; for clerical and skilled, 1.02; for semiskilled, 0.96; for unskilled, 0.80. *Ibid.*, pp. 30-34.

⁴ Earnings for college-trained personnel rise particularly rapidly between the ages of 25 and 44. See Dorothy S. Brady, *Age and Income Distribution*, U.S. Department of Health, Education, and Welfare, Social Security Administration, 1965, p. 33.



nificantly lower (\$9,156) for those persons in the 55 to 64 age group—the cohort that is in its last full decade of work. For clerical employees under age 25 the average income is \$4,459. This occupation, too, sees its fastest income growth (to \$5,704) in the 25 to 34 age span, although the annual growth in income is only about 2½ percent as compared with the 5½ percent for professionals. There are further increases to \$6,675 in the 35 to 44 and \$6,804 in the 45 to 54 age ranges. The very small rise in the latter period is followed by a decline of almost \$1,000 per year for the group in the last 10 years of working life. Roughly the same pattern holds for skilled and semi-skilled workers. In the case of the unskilled worker, highest earnings are received by the 35 to 44 age group; this is also true of the self-employed, although the average income is only slightly higher than in the subsequent age group.

The percentage rise in incomes of the self-employed and the professionals is more than twice the proportionate increase of other occupations. Peak annual earnings for professionals are 115 percent above initial earnings; for self-employed persons, the peak is 109 percent over starting incomes. For the other occupations, the increases over initial incomes are: skilled, 55 percent; clerical, 53 percent; unskilled, 50 percent; semi-skilled, 33 percent. For all occupations, the highest rate of increase in average annual earnings occurs between the initial and the second stage of the work cycle.

B. ANNUAL EXPENDITURES DURING WORKLIFE

The data reported in the Survey of Consumer Expenditures provide a rough picture of the consumption levels achieved by the families headed by persons of different occupations and ages. Although the level of expenditures is admittedly constrained by (among other things) income, age-related differences in income are not always paralleled by comparable differences in spending.⁵ In all occupations, income exceeds expenditures during some stage of the family's life cycle and, conversely, expenditures are greater at some stages for all occupational groups.

Expenditures⁶ at different ages of the family head are shown in table 2. Taking the clerical worker as an example, the data indicate that spending averages \$4,526 for the family whose head is under 25 years of age, \$5,632 for the family in the 25 to 34 age bracket, \$6,668 for the 35 to 44, \$6,815 for the 45 to 54, and \$5,672 for the 55 to 64 cohort. Expenditures in the family headed by the 25- to 34-year-old are thus about one-fourth again as high as the level for the preceding cohort; for the 35 to 44 age group consumption is higher still, by about one-fifth. Families with heads aged 45 to 54 spend only slightly more than the cohort preceding them, while average expenditures by the families of the 55- to 64-year-olds are about one-sixth lower than the level maintained by the 45 to 54 age group.⁷

⁵ See Sidney Goldstein, *Consumption Patterns of the Aged*. Philadelphia: University of Pennsylvania Press, 1960.

⁶ Expenditures are calculated as after-tax income, less the net change in assets. Thus, if after-tax income is \$5,000 and the net change in assets is +\$100, expenditures are taken as \$4,900. On the other hand, if after-tax income is \$5,000 and net change in assets is -\$100, then expenditures are taken as \$5,100. Expenditures include current consumption plus outlays for durables.

⁷ There is some evidence that surveys such as the BLS Survey of Consumer Expenditures and Income understate income and overstate expenditures. See Irwin Friend and Stanley Schor, "Who Saves?" *Review of Economics and Statistics*, 41 (May 1959), p. 221, and Bureau of Labor Statistics, *op. cit.*, pp. 6, 9.

TABLE 2.—AVERAGE ANNUAL EXPENDITURES BY AGE AND OCCUPATION 1960-61

Age	Self-employed	Professional	Clerical	Skilled	Semiskilled	Unskilled
Under 25.....	\$5,912	\$5,088	\$4,526	\$4,814	\$4,544	\$3,469
25 to 34.....	6,905	6,941	5,632	6,144	5,367	4,599
35 to 44.....	8,701	8,795	6,668	6,733	5,947	5,051
45 to 54.....	8,694	9,933	6,815	6,945	5,971	4,540
55 to 64.....	7,639	8,281	5,672	6,251	5,629	4,064

Source: BLS Report No. 237-238 pp. 30-34.

C. INCOME-EXPENDITURE DIFFERENCES BY AGE AND OCCUPATION

The relation between income and expenditure for families at different stages of the life cycle is depicted in figure 2.

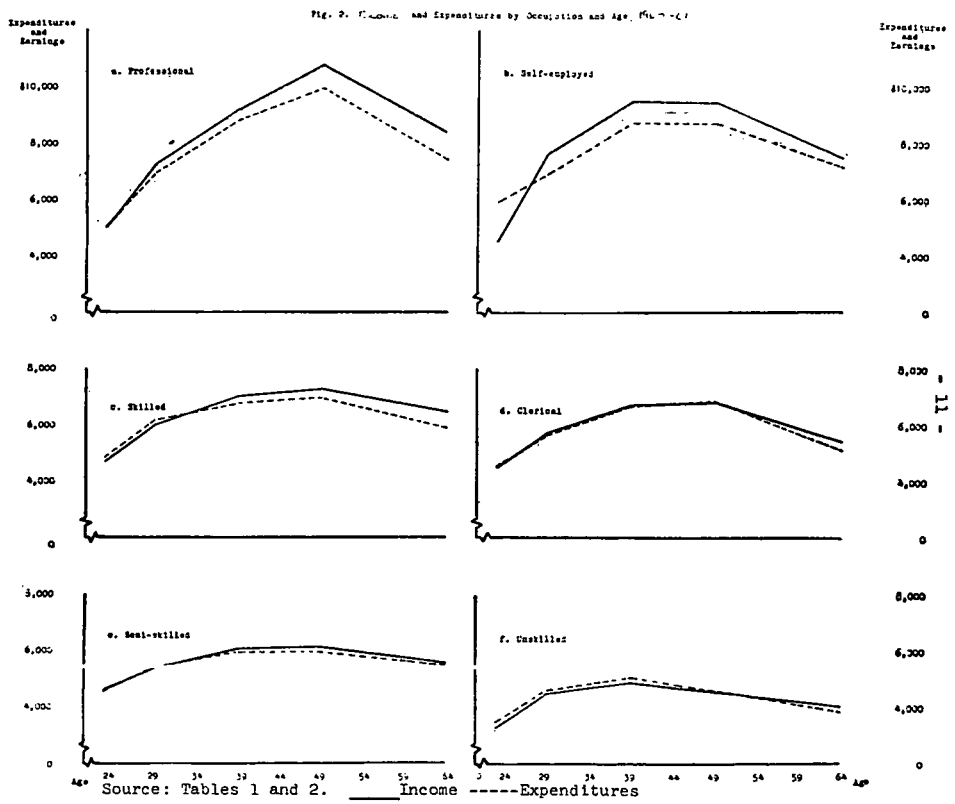
Self-employed and professional workers' incomes are well above expenditures for practically all age groups, as might easily have been predicted. Except for the early stages of worklife, after-tax incomes afford a wide margin for higher current consumption levels, or for savings and the purchase of future income claims. The amount of the excess of income over expenditures during a lifetime cannot, of course, be estimated from the cross sectional data—the family head aged 55-64 did not have in his younger working years the income now accruing to younger cohorts. However, it is clear that a perpetuation of the current incomes going to the different age groups would result in lifetime earnings sufficient to guarantee today's self-employed and professional employee substantial discretionary margins.

Clerical workers' earnings and expenditures are closely balanced for all age groups. In contrast to the margins available to self-employed and professional workers, the clerical worker, should he receive the average income accruing at the different ages, would have a net saving of only about \$3,300 (charging dissaving a 6-percent rate of interest and paying saving a 5-percent rate) by the time he reached retirement at age 65. For persons in this occupation, substantial saving for old age is thus possible only if consumption levels are reduced, or if incomes rise in the course of the coming decades.

Among skilled and semiskilled workers, spending exceeds income during the early labor force years; income is high enough to match the expenditure level only for those workers aged 35 and over. Cohorts aged 45-54 have incomes in excess of expenditures, some margin persisting through age 64. Although semiskilled employees earn less than skilled workers during their working years, expenditures also absorb proportionately less of their after-tax income. As a result, the semiskilled worker who received the present average income accruing at the different ages would have a worklife balance of about \$7,300, as compared with the skilled worker's \$3,800.

Unskilled workers do not receive enough income to cover their expenditures at any age except the 55-64 span, and even then there is no significant income margin. As in the case of the clerical workers, no saving appears possible unless the expenditures are cut substantially, or money incomes rise. Moreover, it is evident that this occupational group requires transfers of income, not only in the retirement years, but through most of worklife as well.

In summary, annual incomes exceed expenditures of the self-employed and professional workers' families for most of the age co-



horts, leaving sources of savings at practically all stages of worklife. Semiskilled workers, whose expenditures are held below income during the middle and later years, also have a small margin for saving. Clerical and skilled workers barely balance expenditures with income in total, with the years of slight deficits roughly offset by years of small savings. In the case of unskilled workers, no balance of income with expenditure is achieved except very briefly in the 55-64 age period.

III. LIFETIME EARNINGS AND LIFETIME NEEDS

Data on the incomes and expenditures of different age groups and occupations illuminate some facets of the poverty question that have been discussed during the past half a decade. It is important to note, for example, that, although relatively low incomes accrue to the youngest group in the labor force, the incomes going to the next two age groups are substantially increased in all occupations. Incomes of those persons in the last several years of worklife are also noteworthy. During this period financial preparations for retirement are normally made. However, since incomes of this age cohort are lower than those of the preceding groups, there may be some tendency for 55- to 64-year-olds to maintain levels of living higher than can be afforded, given the need for concentrated saving for the retirement period. Finally, the volume of expenditures at all age levels is obviously dependent primarily on income available. Increases in disposable income accruing during worklife are therefore likely to be accompanied by higher levels of living during worklife, rather than increased saving for old age.

Cross-sectional data do not, however, shed any light on the probable income-expenditure patterns of today's labor force entrant, nor do they provide an adequate basis for estimating his capacity for accumulating income for old age. In the course of his worklife, income at the various age levels will be rising in some rough accord with overall economic growth.⁸ By the same token, today's retiree did not receive the incomes during his worklife that the cross-sectional picture indicates. If he came up through the ranks of his occupation, his income at each stage was lower than the income now being paid; growth has raised the earnings of each of the occupational levels he once occupied. The income problems of many of the present retirees can be explained by reference to their relatively low earnings in an earlier, less productive economic era.

A. POSSIBLE GROWTH IN EARNINGS

Until longitudinal study affords data on lifetime earnings and consumption patterns of individual families, one may direct attention to the income of the future aged by making some assumptions regarding the earnings of today's labor force participant as he moves through the worklife cycle, and combining these projected lifetime earnings with probable expenditure patterns. On earnings, earlier work by

⁸ H. S. Houthakker has observed that "every individual may expect an upward trend in his own earnings superimposed on the cross-sectional pattern for a given year." See his "Education and Income," *Review of Economic Statistics* (February, 1959), p. 27. This growth factor is taken into account by Herman Miller in his estimates of lifetime earnings, which are indicated in section III, below. See the work by Miller and Richard A. Harnseth, "Present Value of Estimated Lifetime Earnings," Washington: Bureau of the Census, August 1967.

TABLE 3.—COMPONENTS OF CHANGE IN MEAN INCOME FOR SELECTED COHORTS OF MALES, 1949 AND 1959 (ALL UNITED STATES)

Years of education	ANNUAL RATE OF INCREASE IN INCOME								
	[In percent]								
	Between age 25 to 34 and age 35 to 44			Between age 35 to 44 and age 45 to 54			Between age 45 to 54 and age 55 to 64		
	Total	Experi- ence	Growth	Total	Experi- ence	Growth	Total	Experi- ence	Growth
Less than 8 years.....	5.5	1.8	3.7	3.3	0.8	2.5	1.1	-0.6	2.5
8 years.....	5.3	1.9	3.4	3.3	.7	2.6	1.1	-.7	2.5
1 to 3 years high school.....	5.9	2.1	3.8	3.7	.9	2.8	2.1	-.6	3.0
4 years high school.....	6.3	2.4	3.9	3.8	1.7	2.1	1.1	-.3	2.1
1 to 3 years college.....	9.1	4.6	4.5	4.4	1.4	3.0	2.1	-.9	3.8
4 plus years college.....	12.7	7.6	5.1	3.5	1.5	2.0	1.1	-.6	1.8

Source: Harman P. Miller, "Lifetime Income and Economic Growth," American Economic Review, LV (September 1965), pp. 842-843.

Herman P. Miller may serve as a guide to the kinds of changes occurring between cohorts.⁹ Table 3 reproduces his estimates of the changes in mean income between ages 30 and 40, 40 and 50, and 50 and 60.

Between 1949 and 1959, for example, he finds an annual increase of 12.7 percent in the income of the college graduate who moves from age 30 to age 40; an annual increase of 3.5 percent for the graduate who moves from 40 to 50; and a 1.2-percent increase for the one who goes from 50 to 60 years of age.

Miller's estimates are particularly relevant for two reasons. First, it is clear that the annual rise in income is much greater during the male's thirties than during subsequent decades. Moreover, the difference between income growth in the thirties and the forties is especially marked for the college graduate. Second, the components of the income rise are of some importance to discussions of the aging process. Distinguishing between that portion of the increase attributable to the worker's added experience,¹⁰ and that portion due to economic growth, the author finds that the relative significance of the two sources shifts through the decades. For college graduates, experience accounts for a yearly income increase of 7.6 percent in the male's 30-to-40 age span, while growth brings another 5.1 percent. In the 40-to-50 decade, however, experience gives rise to a 1.5-percent annual rise in income, and growth assumes the larger proportion of 2 percent. Finally, experience has a negative impact on income during the male's fifties, and this holds for college graduates as well as for workers with less education; except for the growth component, all incomes would drop during the last decade of work.

Increases in income during worklife are perhaps best viewed by classifying workers on the basis of educational level, rather than occupational category.¹¹ However, to give a rough income estimate for each of the occupations used in the earlier cross-sectional analysis, let us suppose that persons with 4 or more years of college enter the pro-

⁹ Herman P. Miller, "Lifetime Income and Economic Growth," American Economic Review LV (September 1965), pp. 834-844.

¹⁰ The difference between the mean income of a cohort and that of the cohort just preceding it (as of 1949) was assumed to be attributable to experience. The remainder of the income increase of the younger cohort as it moved from 1949 to 1959 was imputed to economic growth.

¹¹ See James N. Morgan's review of "Income Distribution in the United States," by Herman P. Miller, in American Economic Review LVII (June 1967), p. 626.

fessions;¹² those with 1 to 3 years of college are the self-employed; persons with high school diplomas become clerical workers; persons with 1 to 3 years of high school, skilled; those with 8 years of education, semiskilled; and persons with fewer than 8 years of school become unskilled workers. Suppose further that the 1949-59 trend in incomes continues; that economic growth raises income per year at the same rate during the male's twenties as during his thirties; that the average age of entry for persons entering professions is 22, rather than the 20 assumed for other occupations.

Under these assumptions, it is possible to illustrate the combined effects of economic growth and experience on worklife income. In the professional income profile shown in table 1, for example, the 1960-61 BLS data show an average annual income after taxes of approximately \$4,990 for the youngest age group and \$7,240 for the 25-34 cohort. To this difference of \$2,250, attributable to whatever experience, maturity, skill, etc., the older group has acquired, must be added a growth factor of 5.1 percent per year for 8 years, giving an average annual income of \$9,681 for the 30-year-old male.¹³ During the next decade growth again adds 5.1 percent per annum, which, when added to the experience differential of \$2,919, raises the average income of the 40-year-old to \$17,845.

TABLE 4.—ESTIMATED AVERAGE ANNUAL INCOMES THROUGH WORKLIFE, WITH ECONOMIC GROWTH COMPONENT INCLUDED FOR WORKERS AGED 25 AND UNDER IN 1960-61

Age	Self-employed	Professional	Clerical	Skilled	Semiskilled	Unskilled
Under 25.....	\$4, 528	\$4, 990	\$4, 459	\$4, 676	\$4, 602	\$3, 246
25 to 34.....	10, 149	9, 681	7, 785	8, 111	7, 179	5, 918
35 to 44.....	17, 582	17, 845	12, 388	12, 784	10, 722	8, 899
45 to 54.....	23, 591	23, 316	15, 385	17, 106	13, 956	11, 031
55 to 64.....	32, 946	26, 322	17, 994	22, 487	17, 489	13, 780

Source: Income data for workers under 25 taken from "Survey of Consumer Income and Expenditures," BLS Report 237-238, tables 15a-15e. Incomes for 25-34 and succeeding cohorts calculated by compounding the growth rates indicated in table 3, and adding the 1960-61 differences in incomes of age cohorts (table 1).

Both growth and experience add noticeably less to income for the 45- to 54-year-olds. The annual growth component is 2 percent, which raises average annual income (when the experience factor is added) to \$23,316 for the man aged 50. Since the experience factor is negative between 55 and 64, the effect of growth is only to offset this tendency and raise income slightly. By the time the workers reach retirement age, earnings average \$26,322 per year.

Similar computations yield the estimated incomes at various ages for the different occupations. At the time of retirement for most workers, average incomes in all occupations will be quite high by today's standards, once the impact of economic growth is taken into account (see fig. 3). Other growth assumptions could be made, yielding different future incomes for the various occupations; the assumption of no growth factor is, however, clearly invalid.

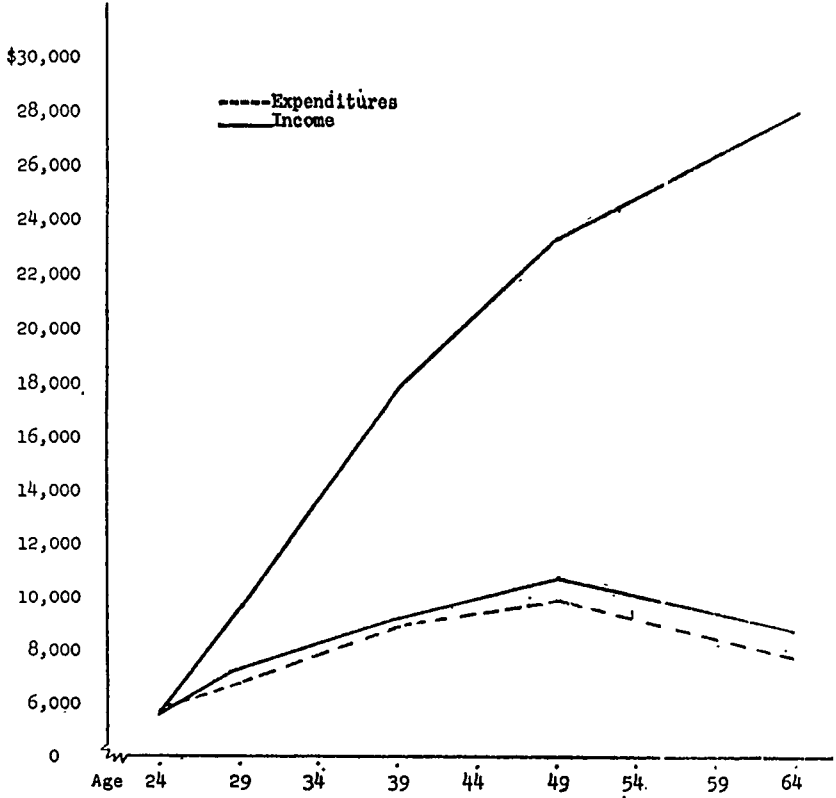
¹² It is interesting to note that the proportion of college-trained persons is increasing relative to those without college training, yet there is no indication that this relative increase has reduced the return on a college education. See Dorothy S. Brady, *op. cit.*, p. 4; Herman P. Miller, "Annual Lifetime Income in Relation to Education," *American Economic Review* L (December 1960), pp. 962-986; and *Income Distribution in the United States* (Washington: Bureau of the Census, 1966), p. 163.

¹³ Estimates of the contribution of economic growth are taken from Herman P. Miller, "Lifetime Income and Economic Growth," *op. cit.* Cross-sectional differences (\$2,250 in this instance), assumed to be due to experience, are taken from table 1.

Fig. 3. Income and Expenditures by Occupation and Age/ 1960-61, and
for
Projected Worklife Income

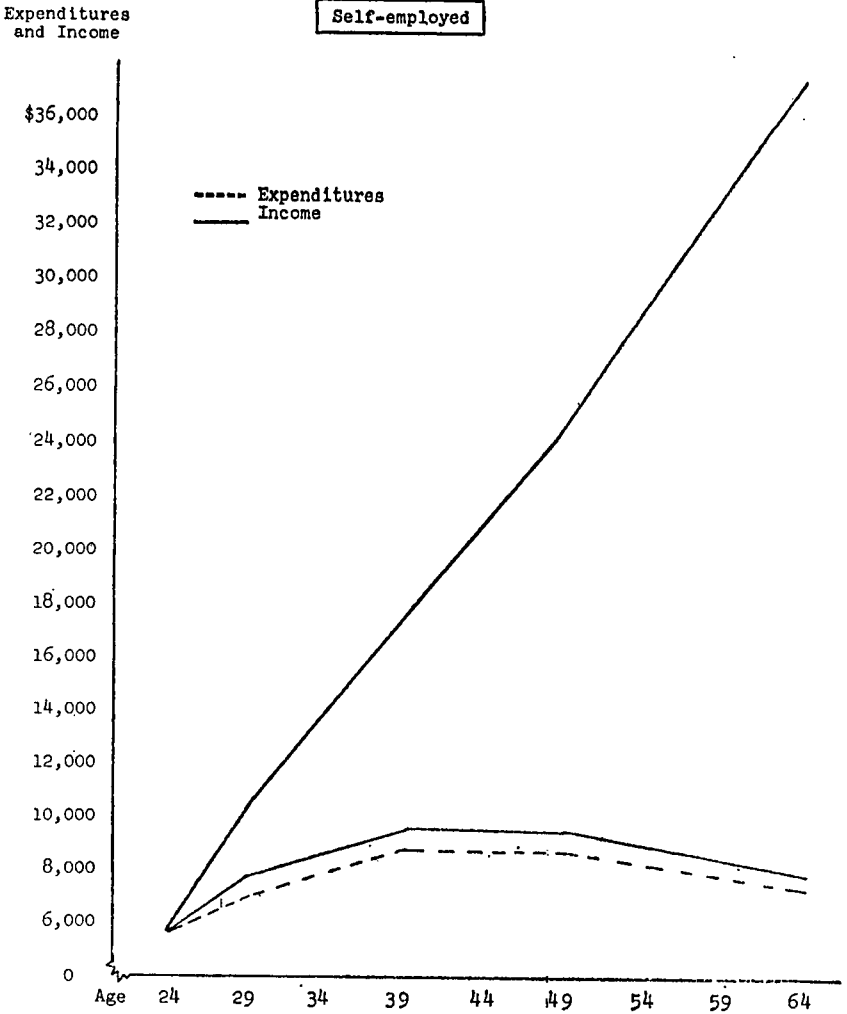
Professional

Expenditures
and Income



Source: Tables 1, 2, and 4.

Fig. 3. Income and Expenditures by Occupation and Age; ^{for} 1960-61, and Projected Worklife Income

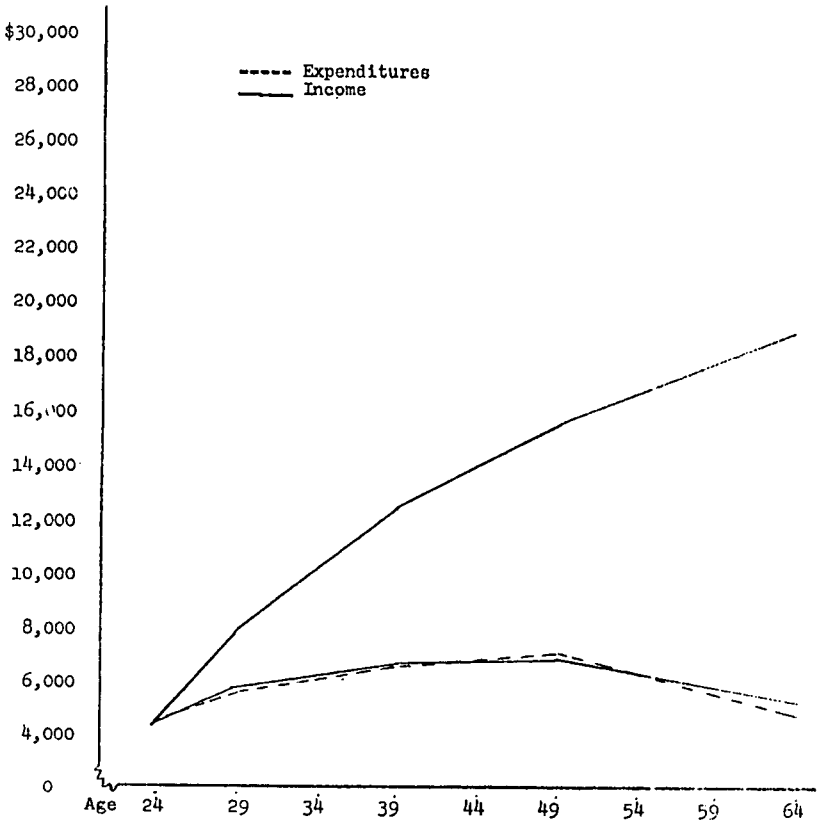


Source: Tables 1, 2, and 4.

Fig. 3. Income and Expenditures by Occupation and Age for 1950-61, and Projected Worklife Income

Clerical

Expenditures
and Income

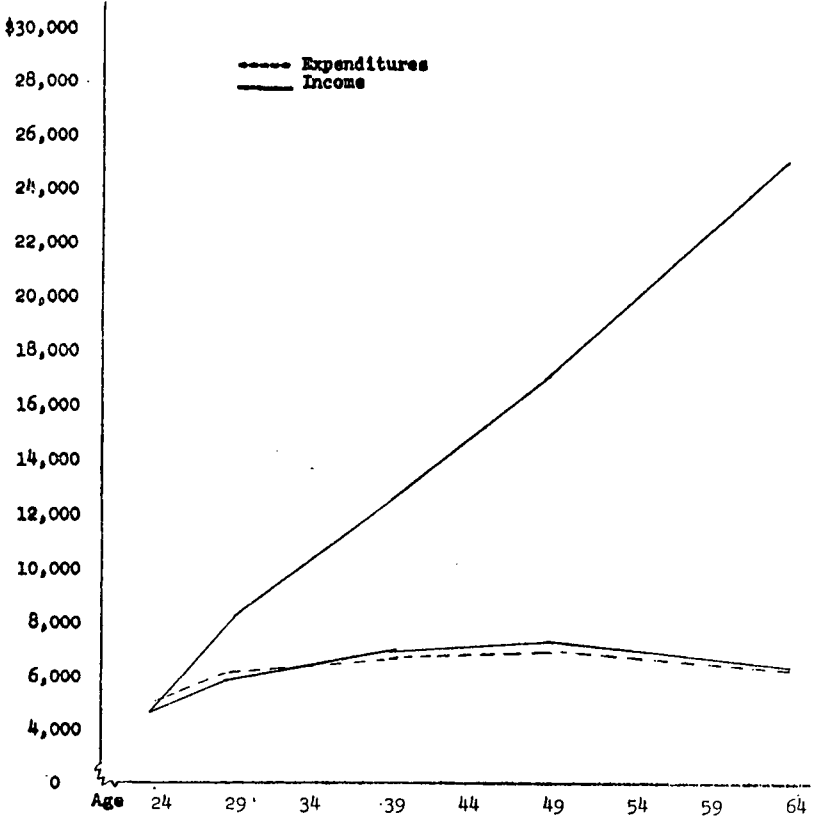


Source: Tables 1, 2, and 4.

Fig. 3. Income and Expenditures by Occupation and Age for 1960-61, and Projected Worklife Income

Skilled

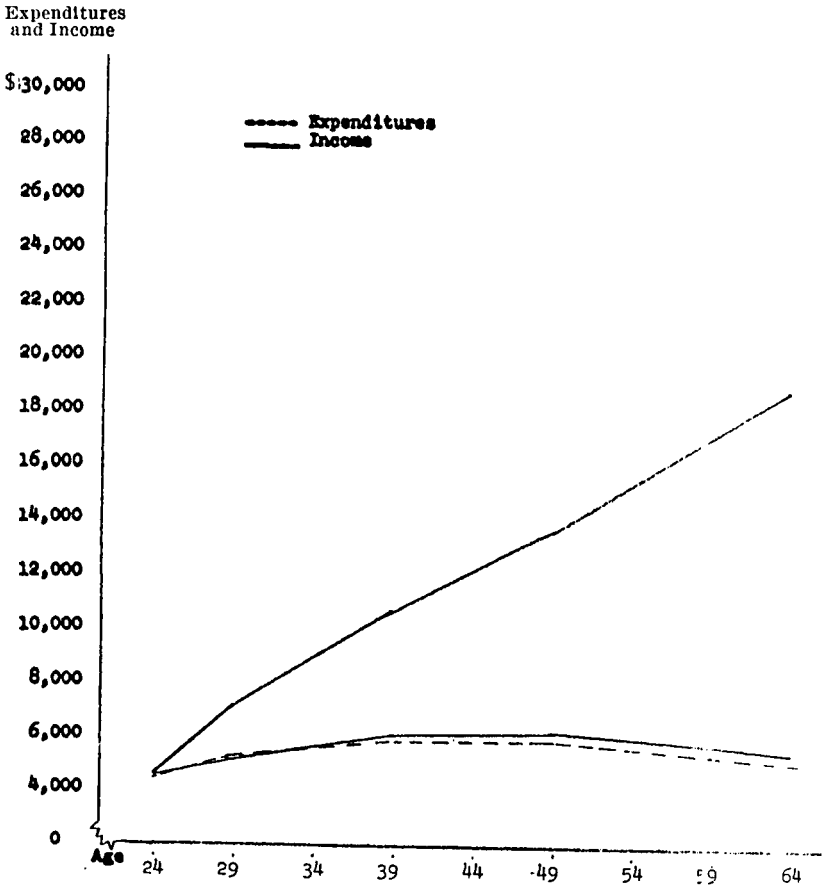
Expenditures and Income



Source: Tables 1, 2, and 4.

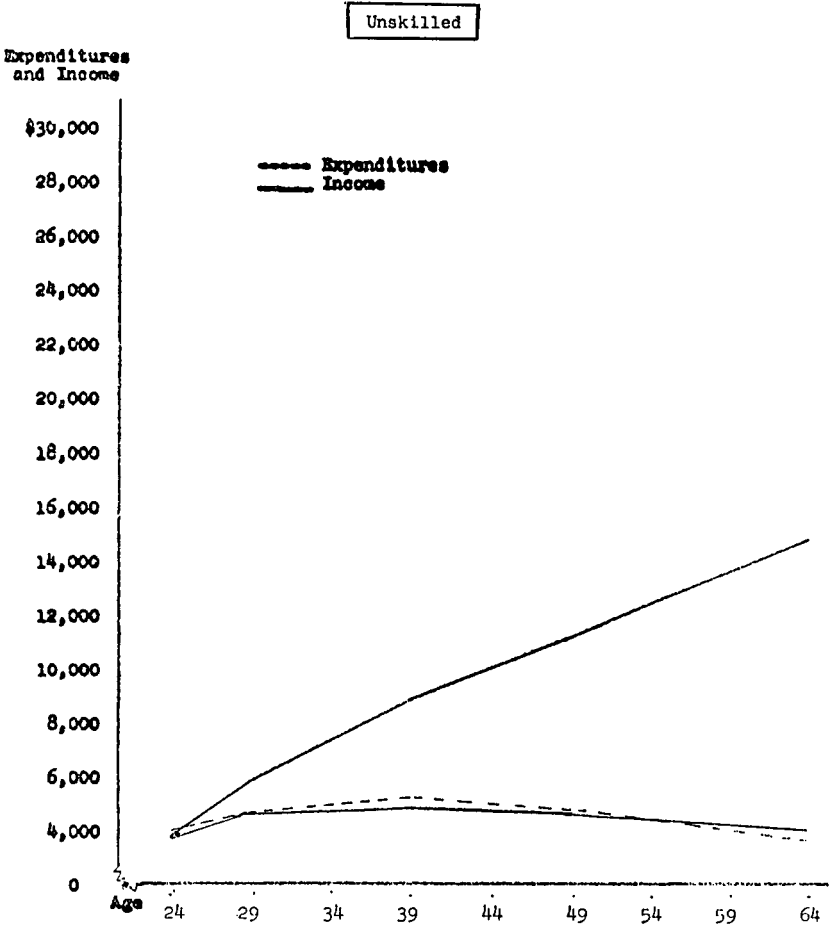
Fig. 3. Income and Expenditures by Occupation and Age / 1960-61, and
 for
 Projected Worklife Income

Semi-skilled



Source: Tables 1, 2, and 4.

Fig. 3. Income and Expenditures by Occupation and Age/ 1960-61, and Projected Worklife Income ^{for}



Source: Tables 1, 2, and 4.

B. EXPENDITURES: HOW FAST WILL THEY RISE?

The 1960-61 data on income and expenditures at different ages give a rough indication of the extent to which income constrains spending. Figure 2 shows the close correlation of expenditures with current aftertax incomes at most stages of the family cycle, and for most of the occupations. In order to gage the income potential for the retirement period, however, it is necessary to determine the probable pattern of consumer expenditure through the lifespan, given the much higher real incomes that are likely to be forthcoming. How will the families' consumption patterns be affected by the rise in incomes that will accompany continued economic growth? More specifically, what

portion of the higher incomes will be preempted for consumption during worklife and what portion will be available for savings or transfers?

If economic growth should raise future incomes well above present expenditure levels, and if levels of living were to remain fixed through even a decade of such growth, the greater margin of income over consumption would make possible expanded investment (including investment in the education of the young) or increased consumption by other groups (for example, retirees). The supposition that workers' expenditures will remain at something close to their present level is unwarranted, however, on the basis of past experience; nor would such a freezing of living levels be necessarily desirable.

Perhaps the most reasonable assumption as to future expenditures is to suppose that their increase will be proportional to the rise in income. Goldsmith found that the personal rate of saving "failed to show a marked upward or downward trend during the past half century."¹⁴ Modigliani and Brumberg have hypothesized a constant-saving ratio.¹⁵ They argue that households wish to maintain a certain level of saving to provide for emergencies, retirement, etc. Thus, a 10-percent increase in income would be matched by a 10-percent rise in expenditures.¹⁶ Any departure in this proportional relationship is due to short term or unanticipated fluctuations in income, and is not typical of the usual relationship between incomes and expenditures.¹⁷

If consumer expenditures continue to absorb the proportions of income used for that purpose in 1960-61, the bulk of the gradually rising incomes of labor force participants will be absorbed by their rising consumption, but the residual will nevertheless be significant for men in many occupations. For the professional and self-employed persons, the worklife totals would, of course, be quite high; skilled and semiskilled would also have substantial balances, and the clerical workers somewhat less. Since expenditures exceed income for the unskilled workers at most ages, a portion of the projected rise in incomes would need to be used to equate expenditures and income. Some net saving could result in the last 10 years of worklife, should the projected expenditures-income ratio be the same as that observed in the cross-sectional data.

C. A LIFETIME INCOME STATEMENT

Attempts to place a dollar value on human life have led to a series of estimates of expected lifetime earnings for males in the labor force. Assuming discount rates of 0 to 5 percent and economic growth rates of 0 to 4 percent, the present value of expected earnings for the remainder of worklife are calculated, by 2-year intervals, for different occupational groups and educational levels. The estimates indicate that the lifetime earnings of a male service worker aged 18 and with 8

¹⁴ Raymond W. Goldsmith, "A Study of Saving in the United States," volume 1. National Bureau of Economic Research (Princeton: Princeton University Press, 1955), p. 7.

¹⁵ Franco Modigliani and Richard Brumberg, "Utility Analysis and the Consumption Function: An Interpretation of Cross-Sectional Data," in Kenneth K. Kurihara, *Post Keynesian Economics* (New Brunswick, N.J.: Rutgers University Press, 1954), p. 430.

¹⁶ *Ibid.*, p. 419.

¹⁷ *Ibid.*, p. 430. On the possible inaccuracies associated with data collected over a relatively short period, see Harold Lydall, "The Life Cycle in Income, Saving, and Asset Ownership," *Econometrica* 23 (April 1955), p. 145 and Ralph B. Bristol, "Factors Associated With Income Variability," *American Economic Review* XLVI:1 (May 1958), pp. 279-280.

years of school are \$143,000 when discounted at 4 percent, assuming also a 4-percent rate of economic growth. Similarly, the professional worker at age 22, with 4 or more years of college, has a presently valued earnings expectancy of \$400,000 under the same growth and discount assumptions.¹⁸

The data underlying these estimates can be used as the basis for a lifetime earnings profile for each occupation. Average annual earnings for each year of the worklife can be calculated, assuming, for example, a 3-percent growth rate, and taking into account the intra-occupational differences in annual earnings attributable to age, seniority, and so forth. Since the earnings accrue when actually earned, rather than at the present, no discount is necessary. When lifetime earnings are totaled but not discounted, the figures are, of course, much greater: the male service worker of age 18, who has 8 years of school, will earn a total of \$423,000 during his worklife; the 22-year-old professional worker with 4 or more years of college will earn \$1,121,000.

Table 5 shows the earnings of male clerical workers through their worklives, assuming economic growth rates of 2, 3, and 4 percent. Similar projections of average annual incomes can be made for males, white and nonwhite, by occupation and educational level. These estimates indicate in very rough terms the expanding income horizons of the male whose worklife is largely ahead of him. It is obvious that such increases in earnings can accommodate higher levels of expenditures than have heretofore been possible. For a large number of the future aged, the question of income maintenance would thus appear to be largely a matter of income allocation through the family's life cycle. Increased willingness to forgo some larger portion of earnings during worklife, in return for a higher level of income in old age, is crucial to the longrun solution of the problem.

The methods by which earnings are reapportioned somewhat more evenly over the lifespan are, of course, well known. Private savings provide the simplest and most direct means of smoothing lifetime income; higher annual earnings, particularly if they are accompanied by stability of employment, will surely result in the accumulation of larger volumes of privately held assets. One recent set of projections supports the thesis that the asset position of the future aged will be enhanced, barring severe inflations or depressions.¹⁹

Projections of pension incomes to 1980, on the other hand, even under assumptions of fairly liberal increases in social security benefits, indicate that more than 70 percent of the retired couples can be expected to receive \$2,000 or more from this source in 1980; less than one-third can be expected to receive more than \$3,000. This study found further that private pension income could make a substantial contribution only if a large increase in benefit levels occurs, and even then many retired persons would not be covered. The author concludes that—

If pension systems are to be used to eliminate poverty among retired families and individuals and also to improve the relative economic status of the retired population, significant changes in present U.S. pension systems must take place.²⁰

¹⁸ Herman P. Miller and Richard A. Hornseth, *op. cit.*

¹⁹ James H. Schulz, "The Future Economic Circumstances of the Aged: A Simulation Projection, 1980," *Yale Economic Essays*, 7 (spring 1967), pp. 145-212.

²⁰ *Ibid.*, p. 212.

TABLE 5.—1959 AVERAGE EARNINGS AND PROJECTED ANNUAL EARNINGS OF MALE CLERICAL WORKERS AGED 18 IN 1959 (HIGH SCHOOL GRADUATES)

Age	Annual income			
	Income in 1959	Projected at different rates of economic growth ¹		
		2 percent	3 percent	4 percent
18.....	\$1,910	\$1,910	\$1,910	\$1,610
19.....	2,270	2,315	2,338	2,361
20.....	2,629	2,727	2,778	2,829
21.....	2,951	3,110	3,193	3,277
22.....	3,273	3,501	3,620	3,743
23.....	3,557	3,861	4,021	4,188
24.....	3,841	4,145	4,434	4,651
25.....	4,087	4,479	4,820	5,093
26.....	4,333	4,820	5,218	5,553
27.....	4,542	5,130	5,590	5,992
28.....	4,750	5,445	5,972	6,448
29.....	4,920	5,727	6,326	6,883
30.....	5,089	6,014	6,690	7,334
31.....	5,208	6,256	7,013	7,751
32.....	5,326	6,501	7,345	8,184
33.....	5,400	6,706	7,642	8,588
34.....	5,473	6,915	7,946	9,007
35.....	5,518	7,099	8,231	9,414
36.....	5,564	7,288	8,525	9,838
37.....	5,596	7,466	8,814	10,265
38.....	5,628	7,648	9,111	10,709
39.....	5,662	7,836	9,419	11,173
40.....	5,695	8,026	9,736	11,654
41.....	5,719	8,211	10,053	12,145
42.....	5,742	8,399	10,378	12,655
43.....	5,752	8,577	10,700	13,172
44.....	5,762	8,759	11,031	13,709
45.....	5,763	8,935	11,363	14,258
46.....	5,764	9,115	11,705	14,829
47.....	5,760	9,293	12,052	15,418
48.....	5,756	9,475	12,409	16,031
49.....	5,752	9,660	12,777	16,668
50.....	5,749	9,850	13,157	17,332
51.....	5,743	10,041	13,546	18,019
52.....	5,737	10,236	13,946	18,711
53.....	5,726	10,427	14,351	19,414
54.....	5,716	10,622	14,768	20,127
55.....	5,702	10,820	15,197	21,230
56.....	5,688	11,022	15,638	22,065
57.....	5,670	11,224	16,089	22,929
58.....	5,651	11,429	16,552	23,826
59.....	5,629	11,635	17,026	24,756
60.....	5,607	11,845	17,514	25,723
61.....	5,580	12,054	18,012	26,724
62.....	5,553	12,268	18,525	27,765
63.....	5,522	12,482	19,049	28,843
64.....	5,492	12,701	19,590	29,966

¹ Calculated as follows: Annual incomes for odd-numbered years by interpolation. Estimates of annual earnings for ages 20 and beyond calculated as 102, 103, and 104 percent of previous year's earnings, including the increment associated with age.

Source: Data on present incomes for even-numbered years from Herman P. Miller and Richard A. Hornsath, "Present Value of Estimated Lifetime Earnings." Washington: Bureau of the Census, August 1967.

IV. INCOME CLAIMS THROUGH THE LIFETIME

Schulz' projections indicate only moderate improvements in the economic position of future retirees,²¹ despite rapid increases in earnings throughout the past three decades and the expectation that this trend will continue. He concludes that retirees a decade and a half

²¹ For summary and analysis of money incomes of the present aged, see Herman B. Brotman, "Counting the Aged Poor, 1965." Administration on Aging, Department of Health, Education, and Welfare, February 1967; a series of articles by Lenore A. Epstein reporting the findings of the 1963 Survey of the Aged, published in Social Security Bulletin, 1965-66; discussions of the low-income and poverty level populations by Mollie Orshansky, published also in Social Security Bulletin, 1964-67; Lenore A. Epstein and Janet H. Murray, "The Aged Population in the United States," Social Security Administration, Research Report No. 19, 1967.

from now will be only slightly better off from increases in social security benefits. Private savings will provide some additional income, but the expected gain from this source will hardly bring retirement income into line with earnings, given the increases that will probably accrue to workers. Even if the increase in earnings is only 3 percent per year as illustrated in table 5, annual incomes at the time of retirement could be several times the maximum social security benefit in another two decades.

If it could be supposed that retirement would be only partial, and retirees could earn substantial amounts after age 65, income prospects would be much improved. But the downward drift of retirement age and the persistence of compulsory retirement plans reflect a shortening of job opportunities for the elderly, and this trend is likely to be reversed only in extremely tight labor markets. In any event, there would remain the problem of adequate retirement income for those men who are too old to work, and for aged widows. It is important, therefore, to recognize the necessity for relying on retirement income altogether for perhaps a decade of the male's life,²² and a somewhat longer period for the female.

The composition of the aged's incomes has changed markedly during the past 20 years, with earnings coming to be a smaller, and pension incomes a much larger, proportion of the total. Up to now, private savings have been only a minor source of income for most retirees; in most cases, equity in a home has been the major asset held at the time of retirement. The failure of present retirees to accumulate savings is understandable. Their earnings were low during worklife, and periods of unemployment were frequent. Even now, average earnings in some occupations are too low to support a family without the acquisition of debt, and the earnings of today's retirees were even lower.

But the earnings of most future retirees—particularly those retiring after 1980, who entered the labor force after the depression of the 1930's—have been increasing steadily. Their capacity for saving will be much greater than that of any previous generation. The important question is whether savings will in fact be accumulated, and in what volume. If current consumption absorbs most of their disposable incomes, regardless of income level, the gap between earnings and retirement income will widen further. Schulz' estimates point up this potential development; the magnitude of the possible divergence is seen when his projected retirement incomes are compared with future earnings.

If, on the other hand, the projected rise in earnings is accompanied by a willingness to save for the retirement years, a smoother distribution of income through the life cycle will be achieved. Although it can be demonstrated that higher disposable income has usually been accompanied by an increased consumption rather than increased savings, it can also be argued that previous generations of workers have not had sufficiently high and stable incomes to permit lifetime savings of any magnitude. A continuation of present rates of growth, plus an increased awareness of retirement as a lifestage, may combine to produce better financial preparation through savings.

²² See F. LeGros Clark, "Work, Age, and Leisure" (London: Michael Joseph, 1966).

Alternatively, an increase in the volume of income transferred from workers to retirees via social security benefits (and through private pensions) would achieve the purpose of evening out lifetime income. Clearly, today's earnings can support a much higher retirement income than the low wages of the past allowed; future earnings, being higher, can carry an even higher tax rate. For the worker, the method by which he "saves" for old age is perhaps less important than the amount saved as a proportion of his earnings. Both private saving for retirement and public transfers to retirees have the effect of reducing the consumption of workers and increasing the consumption of retired persons. The private method has the advantage of allowing a family to do its own lifetime budgeting and saving for old age, and the disadvantage of permitting it to do neither.

The earnings projections made here and elsewhere may prove to be optimistic. Moreover, since they are estimates of future average earnings, they are of limited usefulness in considerations of the lowest wage earners within any occupation, those workers who suffer handicaps of low education and skill, physical disabilities, and so forth. The income maintenance problems of these marginally employed persons are magnified by old age, but they exist in some measure throughout worklife as well. It is important to view their income problem as one that pervades their entire lifespan, requiring manpower and educational programs, as well as income supplements, at most stages of their lives. The broader issue of incomes of those persons who in the future retire from a lifetime of productive labor can then be considered within the context of their ever-rising earning capacities. These higher lifetime earnings can obviously support much higher levels of living in old age, if we choose to view man's income claims as accruing through his lifetime rather than through his worklife. Needless to say, the shorter the worklife relative to the total lifespan, the more important becomes the lifetime-income view.

THE ECONOMIC IMPACT OF OASDHI ON THE AGED

BY LOWELL E. GALLAWAY*

Some 30 years ago the United States embarked on the creation of a comprehensive system of social insurance designed to solve the problems of income maintenance for the aged members of the society. Presumably, the great expectation of the Congress in creating this system was to free the elderly from the uncertainty implicit in depending for their livelihood upon some combination of work-related income plus income derived from public and/or private charity.¹ Such an objective is certainly commendable and if it has been achieved we can take pride in having made a significant stride toward attaining a greater degree of economic justice in our society. This is particularly true given the great increase in the numbers of the elderly in the population of the United States. Since 1900 the total number of citizens aged 65 or older has increased by a multiple of about four as the result of (1) a doubling of the total population and (2) a marked increase in the proportion of the population which is elderly (from 4.1 to 9.1 percent).² As a consequence, the elderly now constitute about one-tenth of the total population of the United States. This is simply to say that they are a sufficiently large portion of the population to make their economic status a major concern in our society.

The basic question raised by our commitment to a large scale program for maintaining income of the aged is whether that program has accomplished its basic objective of improving the economic lot of the elderly in the United States. A cursory examination of certain aggregative statistics would seem to suggest that substantial strides have been made in the direction of providing the elderly with a more ample and satisfactory level of money income. Table I summarizes the growth since 1940 in the level of certain major sources of non-work-related income for the aged, viz, old-age benefits under the Old-Age Survivors Disability and Health Insurance (OASDHI) system and old-age assistance payments dispensed by the various States. The information in that table indicates that the sum of both types of payments has increased from about one-half billion dollars in 1940 to well over \$13 billion in 1964. Thus, income payments of these types were 26 times greater in 1964 than in 1940.

Admittedly, a large part of the observed increase in the amount of income being made available to the elderly on a non-work-related basis is due to a combination of expanding levels of real income and rising

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¹ An additional motive for establishing systems such as social security was undoubtedly a desire to reduce unemployment by removing the aged from the labor force. However, in the long run this has not been a primary objective of these programs.

² Decennial census of population, 1900-1960.

TABLE I.—OASDHI OLD AGE BENEFITS (OAB), OLD AGE ASSISTANCE PAYMENTS (OAA), / ND PERSONAL INCOME, CURRENT PRICES, SELECTED YEARS, 1940-64

[Dollars in thousands]

Year	Old age benefits	Old age assistance	Sum of old age benefits and old age assistance	Personal income	Old age benefits and old age assistance as percent of personal income
1940.....	\$17.2	\$475.0	\$492.2	\$78,255	0.63
1945.....	148.1	726.6	874.7	171,113	.51
1950.....	651.4	1,469.9	2,121.3	227,639	.93
1955.....	3,747.7	1,608.1	5,355.8	310,839	1.72
1960.....	8,196.1	1,927.8	10,123.9	400,953	2.52
1961.....	9,031.9	1,890.5	10,922.4	416,814	2.62
1962.....	10,161.9	1,961.5	12,123.4	442,617	2.74
1963.....	10,794.6	2,028.7	12,823.3	464,752	2.76
1964.....	11,281.5	2,044.8	13,326.3	494,936	2.69

Source: Social Security Bulletin, "Statistical Supplement," 1964.

price levels. However, even after adjusting for these factors the increase in the amount of income for the elderly generated by these sources is impressive. Expressed as a percentage of personal income the amount of such payments has risen from 0.63 percent in 1940 to 2.69 percent in 1964. Interestingly, the distribution of the payments between old age benefits and old age assistance has changed dramatically over this period. In 1940 old age assistance payments accounted for 96.5 percent of the income sources described in table I while in 1964 they amounted to only 15.4 percent.

The general impression generated by these data is that significant progress has been made in improving both the quantity and quality of income levels for the elderly. Clearly, the quantity of non-work-related income emanating from public programs has increased. In and of itself this would seem to be indicative of an improvement in the quality of the income of the elderly in that no work effort is required in order to receive the income. Further, the changing composition of this income would seem to imply an increase in its quality in that its receipt is less dependent on the application of a "needs" criterion by a public agency. Consequently, the non-work-related income received by today's elderly smacks much less of being public charity and, consequently, suggests that today's aged are able to maintain a much greater degree of personal dignity than was possible 30 years ago.

So much for the favorable evidence with respect to whether the economic status of the aged has been significantly improved by our experiments in income maintenance for the elderly. While these are encouraging they by no means tell the full story of what has happened to the income of the aged over this time period. In fact, there is disturbing evidence which indicates that the relative income position of the elderly in our society may be worsening rather than improving. The strongest evidence on this point has been developed by W. H. Locke Anderson and it shows that in the interval 1947-60 median income levels of families whose head is aged 65 or over have been quite unresponsive to increases in overall levels of income in the society.³

³ W. H. Locke Anderson, "Trickling Down: The Relationship Between Economic Growth and the Extent of Poverty Among American Families," Quarterly Journal of Economics, November 1964, pp. 511-524.

Expressed in terms of 1959 dollars median income of these families increased from \$2,398 in 1947 to \$2,862 in 1960 (19.3 percent) while median income for families with a head less than age 65 rose from \$4,110 to \$5,784 (40.4 percent).⁴ Consequently, it is not surprising to find relatively high levels of poverty (as measured by conventional standards) among aged families.⁵

Data such as these raise some perplexing questions. Between 1947 and 1960 transfer payments to the aged from our income maintenance systems have increased tremendously and yet the relative income position of the aged seems to have worsened.⁶ How can this be explained? Further, what significance does it hold for the question of whether we have been successful in developing an adequate program of income maintenance for the aged?

To answer these questions it is necessary to consider changes in the magnitude of income received by the aged other than the transfer payment income which has been described to this point. In particular, shifts in the amount of work related income accruing to the aged are quite important. These shifts take two forms: (1) reductions in the labor force participation rate among elderly workers and (2) decreases in the intensity of labor force participation among those aged who remain in the labor force. Due to changes of these types the composition of the income of the aged changed substantially between 1947 and 1960 (the period covered by Anderson's analysis) with a much greater proportion of their income in 1960 being derived from the transfer payment sources alluded to earlier. Specifically, between 1947 and 1960 the labor force participation rate among aged males declined from 47.8 to 33.1 percent.⁷ Further, among those aged males who remained in the labor force annual earnings in 1960 were only about one-third of those for the age group 40 to 49 as compared to 63 percent in 1951.⁸ Collectively, these changes would indicate that work related income of the aged relative to work related income of the entire society declined by about 60 percent in the period 1947 to 1960.⁹ Such a dramatic shift in the amount of work related income being received by the aged undoubtedly accounts for the apparent deterioration in the relative income position of the aged which is reflected in Anderson's findings.

While this is an enlightening conclusion it does not shed much light on the basic issues raised by the apparent worsening of the relative income position of the aged. If this has been brought about by a decline in the amount of work related income being received (as seems to be the case), either (1) the amount of work opportunity available

⁴ Anderson, *op. cit.*, p. 522.

⁵ Anderson's data show that the incidence of poverty among families with a head aged 65 or over was 52.5 percent in 1960 as compared to 18.2 percent among families whose head is less than age 65. This is based on the \$3,000 of annual income definition for determining poverty status.

⁶ It should also be kept in mind that the extent of private pension programs expanded quite rapidly in the period which Anderson analyzed. For example, between 1950 and 1961 the number of beneficiaries of private pension plans increased from 450,000 to 1,900,000. A. M. Skolnik, "Growth of Employee-Benefit Plans, 1954-61," *Social Security Bulletin*, April 1963, p. 12.

⁷ U.S. Department of Labor, "Manpower Report of the President," March 1966.

⁸ Social Security Administration, "Quarterly Summary of Earnings, Employment, and Benefit Data," June 1963.

⁹ This estimate is derived by multiplying the ratio of the 1960 aged male labor force participation rate to the 1947 rate by the ratio of 1960 relative earnings to 1951 earnings. Such a calculation shows that work related income of the aged relative to other workers in 1960 is about 35 to 40 percent of what it was in the late 1940's.

to the aged has been progressively declining in post-World War II America or (2) the aged have been systematically reducing their labor force activity in response to the increased availability of transfer payment income such as OASDHI benefits, old age assistance, and private pension programs. At first glance, the difference between these two explanations may seem to be only a semantic one. After all, the effect is the same—the aged have less work related income and, consequently, their money income position relative to the remainder of the economy has deteriorated. However, there are differences that are more than mere semantics. In a free society it is one thing to be denied work related income because of a lack of job opportunity and quite something else to relinquish work related income in exchange for increased leisure. Essentially, the difference is one of whether the changes in labor force activity among the aged have been “involuntary” or “voluntary” in character. Presumably, an “involuntary” change in work patterns of the aged (that is, one due to a lack of job opportunity) that results in a relative reduction of their levels of income is indicative of a worsening of their general welfare. Such a situation raises the possibility of the aged become progressively more and more relatively impoverished in our society.

On the other hand, if the changes in work habits are “voluntary” in character, the individuals who have made these decisions presumably feel that their welfare is enhanced by their “new” behavioral pattern. In short, if they elect one combination of income and leisure over another, they reveal a preference for that combination and indicate that they are happier or more satisfied with it. In this instance the fact that they elect a lower level of income does not indicate a decline in their welfare—quite the contrary; it would seem to indicate an improvement in welfare. Consequently, whether the declining labor force activity of the aged is voluntary or involuntary in character is crucial to evaluating how successful we have been in developing not only an income maintenance but a welfare maintenance system for the aged. If the observed decline in labor force activity is involuntary in character, our attempts at providing income for the aged have been for the most part frustrated and all that has been accomplished by the tremendous increase in the quantity of transfer payment income made available to the aged is a staving off of utter economic deprivation. In short, if this is the case, our massive social insurance system has acted as nothing more than a less than perfect substitute for other forms of welfare payments. In fact, it may have actually discouraged welfare programs of the old age assistance type by creating the illusion of income maintenance where none existed and thereby contributed to the apparent relative deterioration of the income position of the aged.

By contrast, if the labor force changes in question are essentially voluntary in character, it can be argued that the creation of a systematic program for providing the elderly with transfer payment income has provided them with an additional degree of freedom—freedom to alter their basic living pattern to include greater quantities of leisure than would otherwise be possible. Of course, such an alteration in the style of living of the aged leads to a reduction in money income in that leisure has no money price attached to it in our society

and, therefore, its presence is not reflected in money income statistics. However, as already noted, the reduction in money income implicit in a voluntary increase in the amount of leisure by the elderly does not necessarily imply a deterioration in the social welfare position of the aged but may be indicative of an improvement in it which would suggest that the creation of a large scale system for maintaining the income of the elderly has made a significant contribution to improving the economic status of the aged.

It should be clear from the discussion to this point that any determination of the success or failure of our experiment in income maintenance for the aged must turn on whether the changes in their labor force behavior over the past quarter century have been essentially voluntary or involuntary in nature. In the parlance of the economist this comes down to deciding whether the observed changes in labor force behavior arise out of shifts in the demand for the labor services of the aged (which would reduce job opportunity) or from negative shifts in the supply of aged labor (due to their decision to voluntarily reduce their labor force activity).

The first of these possibilities can be formally analyzed with the assistance of the theory of economic discrimination.¹⁰ That analysis suggests two possible end results of the relative demand for older workers being less than that for younger workers: either (1) unemployment among older workers or (2) a wage differential which is unfavorable to older workers.¹¹ In turn, this argues that if there has been a change between two points in time which has adversely affected the demand for older workers, this change will be accompanied by either (1) a worsening of unemployment among the aged relative to younger workers or (2) a worsening of the relative wage position of older workers vis-a-vis younger workers. Elsewhere, I have presented evidence which indicates that neither of these conditions has been satisfied in the post-World War II period in the United States.¹² Consequently, there is little support for the negative demand shift explanation for the changes in labor force patterns of the aged.

Rejection of the demand shift thesis does not automatically imply acceptance of the proposition that the observed declines in labor force activity among the aged are the result of their electing to enjoy more leisure due to the availability of greater quantities of transfer payment income. Some positive evidence to support a relationship between the presence of transfer payment income and labor force patterns of the aged is required before it can be accepted. Data supporting the presence of such a relationship is available and they indicate that providing the aged with transfer payment income of the OASDHI old age benefit type significantly reduces their labor force activity.¹³ In short, there is empirical support for the belief that the elderly have voluntarily elected increased leisure at the expense of higher levels of work related income.

The significance of such conclusions has already been discussed. Essentially, they imply that the observed relative deterioration of the

¹⁰ For a discussion of the economic theory of discrimination see Gary S. Becker, "The Economics of Discrimination," University of Chicago Press, Chicago, Ill., 1957.

¹¹ This analysis is presented in app. B of my "The Retirement Decision: An Exploratory Essay," Research Report No. 9, Social Security Administration, 1965.

¹² "The Retirement Decision," *op. cit.*, and "The Aged and the Extent of Poverty in the United States," *Southern Economic Journal*, October 1966, pp. 212-222.

¹³ "The Retirement Decision," *op. cit.*, ch. V.

income position of the aged in post-World War II United States is in large part due to their substituting leisure activities for other types of consumption goods. If this is the case, a very strong argument can be made to the effect that the social welfare position of the aged has been substantially improved by the experiments in income maintenance that were launched in the 1930's. In fact, if such a position is not accepted, a very pessimistic view must be taken of the contribution that income maintenance systems have made to social welfare. At best, they might be viewed as having staved off the economic disaster implicit in a negative shift in the demand for aged labor of the magnitude required to explain the observed decline in elderly labor force activity. This assumes, of course, that in the absence of the income maintenance systems that have been devised there would have been no alternative source of transfer payment income. In all likelihood there would have been and, consequently, the most favorable evaluation of present income maintenance that can be made if the demand shift thesis is accepted is to view it as merely a substitute for other types of programs—probably of a general assistance or welfare payment type. In such a case, the impact of income maintenance systems on the social welfare position of the aged is fairly neutral, except for the favorable aspect of eliminating the requirement of satisfying a "needs" criterion in order to qualify for receipt of income.

At worst, the demand shift thesis opens up the possibility that contemporary income maintenance programs have produced a substantial part of the demand shift that would be required to account for the changes in elderly labor force activity by making employers more willing to involuntarily displace older workers. If this has happened, our attempts at income maintenance for the aged have been singularly unsuccessful and have undoubtedly produced a worsening of the social welfare position of the elderly.

To sum up, the historical record shows that despite a massive increase over the past 25 years in the amount of transfer payment income generated by our systems of income maintenance for the aged, their relative income position has been progressively deteriorating. This deterioration is clearly the product of a marked decline in the level of labor force activity of the aged which, in turn, may be the result of either (1) a negative shift in the demand for the labor of the aged or (2) decisions by the aged members of the society to increase the amount of their leisure time. If the former is the case, the contribution of our system for maintaining income levels for the elderly is not impressive—in fact, it may have actually produced negative results in a social welfare sense. However, if the decline in labor force activity among the aged is essentially voluntary in character, a strong case can be made to the effect that our attempts at guaranteeing income for the aged have produced a substantial improvement in their social welfare position. On the basis of the available empirical evidence my own view is that the changes in elderly labor force activity have been primarily voluntary in character and, consequently, that the experiments in income maintenance for the aged which were inaugurated in the 1930's have led to significant improvements in the economic position of the elderly.

So much for the historical side of the economic impact of programs such as OASDHI upon the economic status of the aged. What about

the future, though? What are the prospects for the aged in the years to come? Of particular concern in this respect is whether the relative income position of the aged will continue to decline as it has done over the past 20 years. In some respects it might be expected that such a decline will not continue permanently. For one thing, extrapolating from past evidence it appears that there will be some limit to the decline in labor force participation among elderly males. I have estimated elsewhere that this limit is about 25 percent, a level which is now being approached.¹⁴ In 1965 the labor force participation rate for males aged 65 and over was 27.9 percent and there are signs of some slowing in the rate of decrease in this percentage although the evidence on this score must be interpreted cautiously.¹⁵ Of course, if there is a limit to this decline in aged labor force activity, once it is reached its impact in producing a deterioration in the relative income position of the aged will disappear. In effect, at that point the adjustment of aged money income levels required to finance increased amounts of leisure will have been completed.

On the negative side, though, there seem to be factors at work which may produce a further worsening of the relative income position of the aged. In particular, the impact of recent changes in the OASDHI system which have opened up additional options to the aged in terms of altering the timing of the receipt of retirement benefits may be expected to produce such an impact. I have reference here to the options permitting males approaching age 65 to elect receipt of OASDHI benefits as early as age 62 with an appropriate actuarial reduction in their benefits. The response to this option has been substantial—so substantial that projecting the present rates at which the elderly are electing early receipt of benefits at the expense of actuarial reduction into the future suggests that eventually approximately one-half of old-age beneficiaries will be receiving actuarially reduced benefits. The impact of decisions of this type on the relative income position of the aged will quite obviously be negative, for the amount of transfer payment income they receive will be appropriately reduced. Consequently, it would not be surprising to observe a further worsening in the money income position of the aged in future years.

The fundamental question raised by the prospect of a future worsening of the relative money income position of the aged is the same one that we have previously discussed in evaluating the historical impact of OASDHI benefits on the economic position of the aged, viz, whether the relative decline in money income means a corresponding decline in social welfare among this group. The answer to that question would seem to be a clear no. What is happening in the case of elderly individuals electing to receive old-age benefits prior to age 65 is simply an expression on their part of a time preference for present consumption of leisure at the expense of higher levels of future retirement benefits. By the act of making such a choice individuals are presumably indicating that they experience a higher level of personal welfare by receiving

¹⁴ *Ibid.*, pp. 44–45. The precise estimate of 25 percent will not be found at this point but it is implicit in the estimates of the extent to which the economy has adjusted to the presence of a fully mature social security system which are presented at that point.

¹⁵ The reason for caution is that some of the slowing in the decline in aged labor force participation may reflect cyclical variations in labor supply rather than a secular trend. This is merely the impact of the well-documented “discouragement” effect which is quite strong among the aged.

their retirement benefits (and leisure) at an earlier age. This would certainly be the case if all those who are electing to receive old-age benefits prior to age 65 are presently employed and are truly choosing early retirement. However, the possibility that those who are electing "early retirement" are for the most part not actively engaged in labor force activity at the time of their choice must be considered.

Included among such individuals could be those who because of health, involuntary displacement from jobs, and the like have already withdrawn from the labor force. To the extent that the "early retirement" group is composed of individuals who fall in these categories, the early receipt of OASDHI old-age benefits may simply be a substitute for other forms of welfare payments. Under these circumstances making the option of early receipt of benefits available to individuals will still produce an improvement in their social welfare unless the agencies which dispense the welfare payments for which the old-age benefits substitute pressure individuals to make this choice in order to clear them from their rolls. While this possibility cannot be ignored, there are signs which indicate that a substantial portion of the individuals who are electing actuarially reduced benefits are actively engaged in the labor force and thus are truly opting for "early retirement."¹⁶ Consequently, overall it is probably true that the provision of the early retirement options has produced an increase in the social welfare of the aged even though it may lead to further deterioration in the relative money income position of the aged.

The conclusion that the early retirement options lead to an increase in social welfare among the aged has some very interesting implications from the standpoint of developing a more optimal system for dispensing old-age benefits under the OASDHI system. If we define optimality in terms of maximizing the social welfare of the recipients of old-age benefits, the previous argument suggests that providing the aged with the additional options that have been discussed has the effect of producing a more optimal old-age benefit system. Moreover, given the substantial demand among the elderly for these options (about one-half of present old-age benefit awards are actuarially reduced) it would not be surprising to find that if the options were extended to, say, age 60 (with appropriate actuarial reductions) substantial numbers of individuals would elect to receive their old-age benefits at this earlier age. Further, our earlier argument would indicate that such an extension of the early retirement option would produce a more optimal old-age benefit system. Pushing such a line of reasoning to its logical conclusion leads to extending the early retirement options to younger and younger ages until virtually no one is willing to exercise the option. At such a point all that can be done to achieve an optimal (from the social welfare standpoint) old-age benefit system through early retirement options will have been accomplished. Of course, this presumes that the appropriate actuarial reductions are made throughout.

The argument that a more optimal old-age benefit system can be achieved by extending the early retirement options to younger ages also

¹⁶ Data series relating to this matter are not yet available for public use but it is my understanding that the preliminary series show this type of relationship. However, caution is in order when accepting this conclusion.

has implications for the sometimes made proposal to provide actuarial increments to retirement benefits for those who postpone retirement beyond age 65. If we are interested in developing an optimal old-age benefit system, it would seem that it is possible to increase the social welfare generated by the present system by offering elderly individuals a range of options beyond age 65 in place of the flat rate benefit system employed for all beneficiaries who elect retirement at age 65 or older. In effect, providing actuarial increments for postponed retirement produces higher levels of social welfare by allowing individuals to more accurately express their time preferences for present leisure as opposed to future income. Further, adopting a benefit system which provides a range of retirement options from, say, age 55 to age 75 would move us away from the rather arbitrary practice of selecting a given age (65, for example) and regarding it as the "retirement" age. This much more flexible approach to retirement would provide individuals with a much greater range of choice, allow them to more accurately indulge their time preferences, and eliminate the concept of a "fixed" retirement age. The net effect of such a system would undoubtedly be a significant increase in the social welfare position of the aged.

Some concluding remarks:

It is perhaps appropriate at this time to summarize the arguments that have been set forth in this discussion. Essentially, we have attempted two things: (1) an evaluation of how well the income maintenance systems that were inaugurated in the 1930's have performed from the standpoint of improving the social welfare of the aged and (2) an assessment of what the future holds with respect to the economic impact of income maintenance systems on the social welfare of the aged. On the first count, the result is optimistic with the basic conclusion being that income maintenance systems such as OASDHI have made a fundamental contribution to improving the social welfare position of the aged. Such a conclusion depends primarily on the proposition that the declines in labor force activity which have been characteristic of the elderly in the post-World War II period are essentially the result of the aged having voluntarily chosen to substitute leisure for work related income in response to the presence of additional amounts of transfer payment income of the retirement benefit type. If such a conclusion is not accepted, (i.e., if the declines in elderly labor force activity are viewed as being basically involuntary in character) it is difficult to view the historical performance of our income maintenance systems in an optimistic fashion. Rather, the strong evidence which is indicative of a consistent deterioration in the relative money income position of the aged over the past 20 years must be viewed as being symptomatic of a decline in social welfare among the aged—a decline which has not been mitigated by our income maintenance systems and may, in fact, have been worsened by them. However, there is convincing evidence to support the thesis that the changes in aged labor force activity have been primarily voluntary in character.

The assessment of the future prospects of income maintenance among the aged suggests on the one hand that the relative deterioration in the money income position of the aged will be slowed by a lessening of the decline in elderly labor force activity but will probably

be reinforced by the impact of early retirement options on the labor force activity of the aged. However, the latter may be interpreted in the same fashion as the declines in labor force activity previously discussed. In fact, they may be viewed as indicative of an improvement in social welfare among those exercising the early retirement options. Further, it can be argued that by extending these options to younger ages than 62 and providing actuarial increments for postponing retirement beyond age 65 substantial increases can be had in the amount of social welfare produced by the old age benefits originating under OASDHI.

These conclusions permit us to close on an exceedingly positive note. The historical record of income maintenance is one which indicates a substantial improvement in social welfare among the elderly while the future would seem to be just as favorable. How favorable it is depends in part on ourselves but the prospects are certainly promising.

MINIMUM INCOME AS A RETIREMENT POLICY OBJECTIVE

BY RAYMOND MUNTS*

Income, employment, and retirement problems of older workers and the aged have been the subject of many informative studies. Current interest in problems of poverty has caused some investigators to concentrate on the aged poor as a special problem. This focus of attention raises several questions: To what extent is the objective of eliminating poverty among the aged consonant with society's aspirations for all the aged? Are our retirement institutions and social arrangements neglecting the aged poor? Do the choices for resource allocation to the aged poor conflict or compete either with retirement objectives for the aged as a whole, or with public efforts on behalf of younger poor persons?

Because evidence for answering these questions is fragmentary or just becoming available, this inquiry is exploratory. It will examine a few of the issues relevant to determining whether the objective of eliminating aged poverty is consistent with our other social goals. The last section deals particularly with the potential role of old age insurance under social security.

MEANING OF "RETIREMENT"

The opportunity to retire and the conditions surrounding the retirement decision are important measures of a society's valuation of the aged. Some economies simply cannot afford a retired population (the Eskimos, for example), while others reserve for the aged the highest positions of prestige and honor. Western industrial societies fall somewhere in between.

In agrarian societies, "retirement," if it means anything, can only refer to the discontinuance of work, or at least heavier duties, by an older person, either because of physical inability to continue with the more demanding labor, or because he and his family feel that the time has come when he is entitled to some leisure. Since income is largely not money income and since it is more likely to be based on the farm or family as a unit than on the individual, such a retirement does not have assigned to it any specific income or pension.

As a society industrializes, the meaning of work and of retirement changes. Work comes to mean individual participation in a money economy. Members of the family work independently of each other and retirement may be an individual decision. The retiree may live independently of and even apart from the family, though his ability

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to do so depends on his savings and on the money income from retirement institutions that society has established. An industrial society that is uncertain of its capacity to provide jobs for all will have a mixed interest in its pension plans, seeing them in part as a device for taking older workers off the labor market. This was, for example, an acknowledged objective of our own social security system, established in 1935. A major purpose of many of our private plans today is to get "dead wood" out of positions of responsibility. Nevertheless, at this stage "retirement" is still conceived as ceasing to work for pay, but with the important difference from an agrarian setting that income is assigned to the retiree.

In an advanced industrial economy where the relative affluence of the society permits more opportunities for older as well as for young workers, there is yet a third meaning of the term "retirement." Receipt of pension income is no longer conditioned on withdrawal from the work force. Social security itself has evolved in this direction by extending the work test until an individual now can earn as much as \$2,700 without losing all benefits. Private pension plans frequently compel employees to quit at a given age, without requiring them to leave the work force.¹ Paradoxically, private pension plans have weakened the nexus between leisure time and pension income despite compulsory retirement provisions. Retirement now means withdrawal from the current employer only; if other opportunities are available the individual may well choose to try something new, either because he feels challenged by a different kind of work or because he prefers the additional income to the leisure time. The insurance pension or private annuity carries this meaning of retirement as income supplementation as far as possible, since there are no constraints at all on labor force participation as a condition for receiving payments. Thus, a person's pension or "retirement" status no longer is a reliable indicator of his labor market status.

The directions in pensions is toward wider latitude in the expression of individual preferences about the timing of retirement and the mixture of leisure and work. A person approaching his sixties is aware that he has less and less time. The value of time increases and he wishes to spend what is left in ways most satisfying to him—whether it be by travel and leisure, or by trading remunerative for voluntary or harder for easier employment. Retirement in an affluent society, for those whose income permits them to exercise the option, can be defined as adding a new dimension to one's life and achieving psychic satisfaction through variety of experience.

THE POOR AND "RETIREMENT"

Retirement in this sense is not reachable by all. Many persons are compelled to stop doing something they like because their employer is concerned with organizational efficiency and equally satisfying opportunities are not available. Among them are people in all ranges of skill. But if there is any single identifiable group in this society who

¹ An exception here is the early retirement provisions in some auto contracts that provide a bonus for early retirement. If the worker earns more than \$1,500 a year he loses his bonus but continues to draw his basic auto pension.

are furthest from achieving retirement in this new sense of range of opportunity, it is the poor.

The economic model of the retirement decision involves rational choice between alternatives. This is appropriate to understanding retirement that is voluntary, that is undertaken from a posture of some bargaining position with life. When a professional person considers retirement he calculates his income from pensions and assets and what he wants to do with his remaining time and what standard of living he needs. He may have choices to make between retiring at 62 or waiting until 65. But for understanding public policy toward retirement it is necessary to distinguish this kind of decision from the kind of choice an unemployed packinghouse worker or miner with no prospects has to make on reaching 62. Should he apply for social security? Surely he is not facing a decision in the same sense as the professional because he really has no choice. The decision to apply for social security is made for him by a complete absence of opportunities. We can even define retirement for the poor as a poverty of choices. If the modern meaning of retirement is a range of choices in income and work opportunities, then by definition the poor cannot make a retirement decision. A narrow economic logic to the contrary can produce much mischief for public policy.²

A large number of persons among the aged are poor. In 1965 there were 13 million persons in families headed by an aged individual and 2.5 million of these were in poor families. Of the 4.6 million unrelated individuals over 65, 2.6 million were poor. And 0.7 million poor aged are in institutions. Of all persons over 65 or dependent on them, almost one out of three was poor.

A general idea of the choices available to the aged of different income classes can be seen by comparing their income from different sources. Using the SSA poverty index, table I distinguishes sources of income and mean amounts for those above and below the index.

As might be expected, fewer aged poor persons have income from assets and when they do it is smaller in amount. Similarly with pen-

TABLE I.—MEAN INCOME OF THE AGED FROM MAJOR SOURCE, 1965, BY INCOME LEVEL

	Above poverty level		Below poverty level	
	Mean for those receiving income this source	Mean for all in this income level	Mean for those receiving income this source	Mean for all in this income level
Income from assets:				
Families headed by aged person.....	\$1,316	\$858	\$232	\$75
Aged unrelated individuals.....	1,143	786	245	84
Income from earnings:				
Families headed by aged person.....	5,282	3,385	574	211
Aged unrelated individuals.....	2,765	1,033	392	44
Pensions and social security:				
Families headed by aged person.....	2,177	1,875	1,205	897
Aged unrelated individuals.....	1,526	1,289	843	611
Welfare, public and private:				
Families headed by aged person.....	1,093	45	809	176
Aged unrelated individuals.....	1,147	81	741	158

Source: Preliminary tables, CPS Survey of Economic Opportunity, 1966.

² For a different view see Lowell E. Gallaway, "The Aged and the Extent of Poverty," *Southern Economic Journal*, vol. 33, No. 5 (October 1966), pp. 212-222.

sion income, fewer among the aged poor have pensions and benefits are substantially lower. On the other hand, fewer welfare payments go to the aged nonpoor than to those below the poverty level, but, as we shall note later, not as much less as might be expected. Moreover, it is striking that in the typical case the benefit payments are higher to the nonpoor aged. The meaning and significance of these assistance payments is discussed below.

The largest variable in the difference between income of the aged poor and nonpoor is earnings. At present levels of pension income, earnings figure prominently in the income of the aged and make an important difference in their income status.

Preliminary census data for 1965 show more part-year and part-time employment among the poor and more full-year, full-time employment among the nonpoor. No work at all in 1965 was more frequent for the poor than the nonpoor, and the reasons given tended to be illness or disability in a greater proportion of cases among the fully unemployed poor than nonpoor. Inability to find work does not appear to figure prominently in 1965 among reasons given by either poor or nonpoor among the fully unemployed, although it is possible that responses by those who had given up looking could be tabulated under "keeping house" or "other."

The less attractive choices open to the poor result in a mean income of \$1,106 per household compared with \$5,350 for the nonpoor. It would take another \$3 billion of income to close the poverty deficit of the poor, and the urgent questions of public policy are directed to this end.

Although one out of three persons in a household headed by an aged person is poor, we do not know how many of the aged poor were not poor when they retired. There is a need for longitudinal studies that will develop the distinction between voluntary retirement and labor force withdrawal over the lifetime of the retiree. The prospective retiree is rarely able to predict the value of postretirement income under inflation effects. He may, after being out of the work force voluntarily for some time, find his dwindling (in value) retirement income insufficient, but may also find himself unable to get a job. Our social attitudes toward the retired may have an effect of "putting them on the shelf" whether they want to be there or not.

But we do know that impoverishment either before or during retirement can lead to bitterness, alienation, or dependence which is reason enough that the matter is of public concern. The greater significance, however, may be intergenerational effects. Poverty begets poverty in its wake. Schorr has illustrated the interrelationships of income and the kinds of family decisions—work, education, marriage, children—that effect socioeconomic position.³ An aged parent who becomes dependent contributes to "the life cycle squeeze" and the gap between aspiration and attainment. Longevity patterns today are such that an aged parent may become a dependent burden at the very time when the claims of one's own children are greatest, particularly in embarking on expensive education or career training. A parent's capacity to help structure the important life decisions of his children can be restricted

³ Alvin L. Schorr, "The Family Cycle and Income Development," *Social Security Bulletin*, February 1966, pp. 14-25.

by obligations to his own parents. Close observers of the political support for medicare noted that it seemed to come not only from the aged but also from middle-aged persons with both parents and children of their own. In order that retirement not contribute to perpetuating poverty, real income must be predictable as well as adequate when the retirement decision is made so the grandchildren can be helped in making the right career and life decisions.

ENDS AND MEANS OF PUBLIC POLICY

Since the depression this country has moved toward greater social recognition of the aged and their problems. Old-age insurance, federally supported old age assistance, and income tax favoritism for the aged are supplemented in the private sector by insurance, industrial pensions, and annuities. The antipoverty focus now brings us back to original principles for a reevaluation.

If I am right about what retirement is coming to mean for Americans, then it is possible to summarize our objectives for the aged in terms that are manifest if not widely attained. We can recognize the range of shared values by distinguishing four levels of equity. First, we want everyone to live at least at a minimum level that it not poverty. Second, we desire a higher modest level for those who have contributed through work some of their lifetime, even poorly paid work. Third, we wish to make employment opportunities available for the aged, so that those who are able and desirous of doing so can supplement their incomes beyond a minimum or modest amount. And last, we also wish to encourage savings and private pensions so that those most productive and prudent can retire without severe contraction in their personal standards of consumption.

These goals of public policy take into account a person's previous relationship to the labor force, but do not make retirement either synonymous with leisure or dependent on work income. They acknowledge the economic values so prominent in this society, but also recognize the ultimate worth of each member irrespective of whether he is in the productive stream.

Merely stating these goals does not decide how they can best be achieved. It is a recurring question how strictly the priority suggested in the foregoing list should govern every decision. But there can be no doubt that conclusions must be drawn in a total context. All four objectives are interrelated and form a collective social aspiration.

Given our aspirations for the aged and the enormous gap to their realization particularly by the poor, what can government do?

Eliminating poverty among people in their active years will solve many problems for the aged. The poor are usually separated from the opportunity choices of the society long before they reach their sixties. The pattern of income distribution that is fashioned by education and work skills continues into old age. More opportunities for training and retraining, positive labor market policies for upgrading skills, some consideration of social costs in the location of industry, and assistance in the relocation and settlement of workers moving to new employment can each make a contribution in this direction. The

educational gap between young and old will probably diminish in future generations but the rate of change in our economy will require imaginative manpower policies. Better jobs will in turn bring higher pension benefits and more savings with which to enter old age.

Not all the problems of the aged poor can be solved by attending to the earlier ages. Age brings its own peculiar contribution to poverty. Work loss from disability is correlated positively with age and inversely with income level.⁴ The "entrapment effect" caused by the declining real value of pension income requires either pension policies that cope effectively with inflation or full employment achieved without sacrificing price stability.

A wide range of programs for the aged have been suggested by social security officials and scholars.⁵ Should existing retirement support programs be further extended? New ones added? A simulation study by Schultz gives us little to be complacent about, even as far away as 1980 when, he concludes, there will be little real improvement for the aged poor from the additional asset accumulation and pension resources that we might expect at that time under current rates of development. From various points of view it appears that aged poverty will not disappear unless made to by substantial changes.⁶

TABLE II.—MAJOR CASH PROGRAMS OF SUPPORT TO THE AGED, BY AMOUNT AND SHARE TO THE AGED AND TO THE AGED POOR, 1965

[Amounts in millions]

Program	Total cash benefits ¹	Benefits going to aged		Benefits going to aged poor	
		Amount	As share of total program ² (percent)	Amount	As share of amount going to aged ² (percent)
Retirement programs:					
Social security and railroad retirement.....	\$19,226	\$14,420	75	\$3,172	22
Government employee retirement plans.....	4,689	2,110	45	106	5
Veterans' pensions and compensation.....	4,196	1,762	42	247	14
Private pensions.....	3,180	2,321	73	70	3
Welfare: Public assistance.....	3,993	1,477	37	901	61
Unemployment compensation.....	2,343	187	8	26	14
Workmen's compensation.....	1,202	121	10	8	7

¹ From Social Security Bulletin, April 1967, except private welfare.

² As reported in CPS Survey of Economic Opportunity, 1966.

Table II lists the major programs, both public and private, and shows the extent to which their resources go to the aged and to the aged poor. These estimates were made from data collected under special CPS survey in 1966, the "Survey of Economic Opportunity," and may be com-

⁴ "Family Income in Relation to Selected Health Characteristics," series 10, No. 2, vital and health statistics data from the National Health Survey, Department of Health, Education, and Welfare, Public Health Service (Washington, D.C.: Government Printing Office, 1963), pp. 3-12.

⁵ Among these are Wilbur J. Cohen, "Improving the Status of the Aged," Social Security Bulletin, December 1966; and "Employment, Income and Retirement Problems of the Aged," edited by Juanita M. Kreps (Durham: Duke University Press, 1963).

⁶ James H. Schultz, "The Future Economic Circumstances of the Aged: A Simulation Projection of Aged Pension Income and Asset Distribution in 1980," Ph. D. dissertation, Graduate School of Yale University, unpublished.

pared with similar estimates made by others.⁷ The right-hand column in the table applies to the posttransfer poor only and does not properly show the supportive role of a program. The share going to the pre-transfer poor would be required for that purpose. But here we are interested in what incremental role might effectively be played in diminishing the remaining poverty gap (close to 3 billion for the aged in 1965), and benefits going to the posttransfer poor is a better sign of additional capacity.

Clearly the social security program is the big contender for an incremental role. This is the subject of the next section below. Following social security at some distance is public assistance. The smallest shares going to the aged poor are shown by the Government employee retirement programs and private pensions. Those connected with the kinds of employments likely to have pension plans are not likely to be poor in their old age.

The most striking figures from this data are the relatively unexpected amounts of public assistance going to the nonpoor, in this case 61 cents of the welfare dollar for the aged going to the poor and 39 to the nonpoor. (Most of this is old age assistance but a small amount comes from aid to the blind and aid to the permanently and totally disabled.) The same survey shows that of all welfare payments at all ages, 57 percent goes to the poor and 43 percent to the nonpoor. Since the survey definition of poverty is based on annual income, a likely hypothesis is that welfare plays much more of an emergency role and less of a continuously supportive income maintenance than is commonly supposed. If the emergency role for public assistance turns out to be the right explanation, then it may well be true that even in a universal income maintenance system aimed at eliminating poverty as now defined, there will be a substantial role for the emergency-type program.

In the next section we will analyze what additional contribution OASDHI could make to the aged, but here we must note the actual and potential dangers created by its early retirement provisions. Early retirement benefits are actuarially reduced. The retiree is stuck with a reduced benefit the rest of his life or until retiree benefits are liberalized. In this sense early retirement can be a kind of engine of poverty and it is of increasing concern that over half of male retirees are retiring early on reduced benefits. There is evidence that many of them are motivated by the very absence of alternative opportunities that typifies the aging poor, no job or jobs at such low wages that the reduced benefit is the preferable alternative.⁸

Perhaps old-age insurance is here attempting to do what other instruments should be doing. Somewhat unrealistically, unemployment insurance requires the same tests of attachment for older workers as for younger, limits the duration of benefits by the same provisions as for younger workers, and disqualifies for the same infractions. There is no programmatic recognition that aging work-

⁷ See Robert J. Lampman, "How Much Does the American System of Transfers Benefit the Poor?" in *Economic Progress and Social Welfare*, Leonard H. Goodman, editor, published for the 93d Annual Forum of the National Conference on Social Welfare (New York and London: Columbia University Press, 1966), reprinted by the Institute for Research on Poverty, University of Wisconsin. Also, see Neil S. Weiner, "The Poverty Impact of Federal Welfare/Income Maintenance Programs," Poverty Research Project Working Paper No. 7, Oct. 1, 1965.

⁸ Lenore A. Epstein, "Early Retirement and Work-Life Experience," *Social Security Bulletin*, March 1966.

ers are gradually excluded from successive labor markets, that the duration of their spells of unemployment are bound to be longer, and that their capacity to meet the test of "able and available to work" may be positive but not the same as for younger workers. Senator Javits has expressed interest in extended benefits to those age 60 or over who are unemployed because their jobs have become technologically obsolescent. Other approaches permitting extended duration of benefits under certain job market conditions or to persons of strong demonstrated attachment (as in recent administration proposals) might have taken up some of the burden now being assumed by old-age insurance. However, there are real problems about different eligibility or disqualification standards for older workers, not the least of which is experience rating and the danger of adding costs to the hiring of older workers. At any rate there exists a "fault line" between unemployment insurance as a labor market program and social security as a retirement program.

If social security is entering a dubious area in early retirement, unemployment insurance is withdrawing from an area that it should insure—the wages and salaries of aged workers. Some States deny or reduce benefits because of pension income even where the individual continues to demonstrate work force attachment. These States are mistakenly assuming that pension income proves withdrawal or retirement in the old sense. This presumption is maintained even in the face of evidence to the contrary, such as compulsory retirement contract clauses, active search for work after such retirement, or taking another job after retirement. Thus the "fault line" is aggravated both by the absence of differential treatment for older workers prior to "retirement" and by disqualification for receipt of pension income.

It is doubtful that unemployment insurance alone can solve the problems in the troubled area of ages 55–65 or 60–65 for the chronically unemployed. But the high cost of larger early retirement benefits or of lowering the normal retirement age below 65 makes a satisfactory solution beyond the capacity of old-age insurance. Perhaps the "fault line" is the kind of deficiency in the social insurance system that can best be handled through a generalized income maintenance program.

INCREMENTAL CONTRIBUTION OF OASDHI

OASDHI was enacted to take the wind out of the Townsendites, to take older people out of the labor market, to make the improvident provide for their old age so that the provident wouldn't have to care for them later,⁹ to give all persons—including the provident—some protection against the risks to savings inherent in the private economy, and to serve as a buffer to poverty in old age.

All of these functions have been or are being served. As for the last, preventing poverty, the Social Security Administration has estimated that 58 percent of OASDHI payments go to the pretransfer poor, that

⁹ For an interesting recent statement of this view, see R. A. Musgrave, "The Role of Social Insurance in an Overall Program for Social Welfare," Princeton Symposium on the American System of Social Insurance, June 1–2, 1967, to be published.

30 percent are actually kept above the poverty threshold by their benefit, and that 28 percent are still poor even with their benefit (post-transfer poor).¹⁰ This is a substantial contribution to the war on poverty. The question remains, How much more of a contribution should be expected of social security?

It is our contention that substantial improvements should be made in social security because its benefit levels fall far short of retirement objectives for all covered persons, and that if the necessary increases were made there would be a significant further reduction in the aged poor. This can be shown by appraising the benefit structure according to a number of criteria, including that of poverty.¹¹

How can the adequacy of social security be measured? There are the different ways, all of which singly are unsatisfactory and yet all of which are necessary to the final decision. Estimates of minimal budget needs, while not precluding subjective judgments about what are necessities, are useful in thinking about minimum benefit levels. Minimum benefits could be set as close as possible to the old-age assistance standards or payments but there is wide variation. Average OAA payments vary from \$40 per recipient in Mississippi to \$123 in Wisconsin, and average \$80 nationwide. Another measure might be the SSA poverty index. This poverty threshold is \$155 a month for a couple. While this is fairly close to what a worker and his wife making the minimum wage would receive were he to retire now, it is far more than the present \$66 minimum for a couple.

The constraint in any such minimum budget approach lies in the wage-related nature of a social insurance system. Minimum benefits should not squeeze too much the range in which the benefit schedule can be related to earnings; thus upward movement of the minimum depends to some extent on upward movement of the maximum, and the latter should probably be at least four times the former.

These considerations give no final answer but together suggest that a \$70 minimum primary insurance amount is not unreasonable and that even \$85 would be possible with \$15,000 creditable earnings.

An important criterion of adequacy in a retirement program is the ratio of benefits to previous earnings. Wages and salaries mirror both individual variations in standards of living and changes in these standards over time. This must be a consideration where there is a wide range in wages and salaries. Unless the retired pay is a reasonable portion of the active pay at the time of retirement, persons covered by a pension plan will, in time, become discontented under its operation. This is a consideration in social security even when it is compromised with a presumed needs principle so that the ratio of benefits to preretirement earnings is higher for the lower paid and for those with dependents. A social security benefit of half his preretirement earnings for the middle level wage earner and his wife would approximate a modest budget level (\$250 a month or \$3,000 a year).

The ratio of benefits to preretirement income has not varied greatly since 1950, but it does not follow that the program should continue to

¹⁰ Ida C. Merriam and Rena Kling, "Social Security Benefits and Poverty," Research and Statistics Note, No. 6, Feb. 24, 1967, Office of Research and Statistics, Social Security Administration.

¹¹ Unless otherwise indicated, data and estimates in this section are from published and unpublished sources in operating agencies of the Department of Health, Education, and Welfare.

be frozen at such a level. A low-paid worker earning about half the manufacturing wage will receive a benefit of 40 percent (60 percent for a couple) of his preretirement earnings, an average paid manufacturing worker about 25 percent (37 percent for a couple). (This latter example could vary depending on how he has been affected by successive increases in maximum creditable earnings.) The difference in benefits of these two workers is due to the weighting of the benefit schedule in the interest of the lower paid. Not only are these ratios low, but the absolute amounts leave the lower paid worker and his wife on the basis of their benefit alone well below a poverty level while the average manufacturing worker is far below a modest budget level.

Table III summarized this situation and shows how it could be improved by amendments raising benefits by 35 or 50 percent. These two amendment alternatives are different in degree but both peg the minimum at \$70 and both change the benefit formula to avoid excessive redistribution effects when creditable earnings are raised to \$15,000. Even though the 50-percent increment brings the low-paid earner's benefits for a couple close to his actual earnings, this is not objectionable in a retirement program where work incentive is not a primary concern. When one is already at a rockbottom consumption level, retirement need not drag him lower. And the replacement ratio for higher paid persons is improved over the present ratio but still relatively low in keeping with the probability that such persons will have supplemental pension incomes.

TABLE III.—BENEFITS FOR INDIVIDUALS AND COUPLES RETIRING IN 1972 UNDER PRESENT LAW AND ALTERNATIVE INCREASES, ACCORDING TO INCOME LEVEL

Income classes according to average earnings in period 1951-71	Annual benefit			Benefit as percent of recent (1968-71) earnings		
	Now	35-percent increment ¹	50-percent increment ²	Now	35-percent increment ¹	50-percent increment ²
Low wage earner, \$2,600:						
Individual.....	\$1,124	\$1,626	\$1,824	40	58	65
Worker and wife.....	1,686	2,439	2,736	60	87	93
Medium wage earner, \$6,000:						
Individual.....	1,779	2,381	2,695	25	33	39
Worker and wife.....	2,668	3,572	4,042	37	50	56
Salaried employee, \$15,000:						
Individual.....	2,013	2,851	3,208	10	14	16
Worker and wife.....	3,020	4,276	4,812	15	21	24

¹ This 35-percent increment includes a \$70 minimum with a new benefit formula as follows: 70 percent of the 1st \$180, 26 percent of the next \$190, and 21.4 percent of the next \$320 of average monthly earnings with \$15,000 annual creditable earnings and tax base.

² The 50-percent increment includes \$70 minimum with following benefit formula: 73.5 percent of the 1st \$200, 30 percent of the next \$150, and 21.4 percent of the next \$350 of average monthly earnings with \$15,000 annual creditable earnings and tax base.

Next we consider benefits in years succeeding retirement when upward movements in prices and standards of living occur. Congress has not uniformly updated the benefits of retirees even in line with price increases. A 1954 retiree with the average benefit at the time would be receiving \$76 today, whereas parity with price movements would require \$81.95 and parity with wages on per capita disposable income would require over \$100. A standard of living parity for the 1954 retiree would require about a 37 percent improvement in his current benefit.

The evidence, then, for future and former retirees points to the wisdom of benefit increases of 35 to 50 percent, with at least a \$70 minimum benefit. How can such improvements be financed? A 35-percent increase with a \$70 minimum would increase annual payments by \$9.6 billion; a 50-percent increment with a \$70 minimum would add \$13 billion a year in payments. The payroll tax is burdened with pension survivors, disability and medicare benefits. It may be bad policy to reduce any further the ratio of taxes to benefits.¹² The alternative is to introduce some amount of general revenue financing. Actuarially this is justified on the grounds that new groups have been covered without any funding of their accrued or past-service liabilities. Provided that the necessary protections to the financial integrity of the system are assured, general revenue financing need not mark any change in the objectives of the social security system. Table IV suggests alternative base, rate, and general revenue combinations for a 35-percent and a 50-percent increase in benefit levels.

TABLE IV.—FINANCING INCREASES IN SOCIAL SECURITY

Combination of rate and base	General revenue requirements ¹	
	35 percent Δ	50 percent Δ
\$15,000 tax base:		
4-percent rate.....	+1.9	+5.4
5-percent rate.....	-5.6	-2.1
\$9,000 tax base:		
4-percent rate.....	+4.0	+7.5
5-percent rate.....	-3.0	-1.5

¹ (-) surplus, no general revenues required; (+) deficit, amount of general revenues required.

The final question is what would be the incremental poverty-reducing effect of increases in social security benefits of the dimensions that appear to be warranted?

In table V we estimated the effects for the aged poor of three kinds of amendments to OASDHI. Two main assumptions have been made. The poverty gap for the aged poor in 1968 is assumed to have declined to 2.5 billion. It is also assumed that public assistance payments would not have changed as a result of the OASDHI benefit increases, or that public assistance would have improved, so that payments would continue at present levels.

Our 50-percent increase in benefit levels would raise 43 percent of the current posttransfer aged poor out of poverty and eliminate over half the aged poverty gap. Total benefit payments would have to increase \$13 billion to accomplish this. Only at this magnitude can the increment to old age income be called the key to the aged poverty problem.

The efficiency of the benefit liberalization insofar as closing the poverty gap is concerned is not strong. One dollar in 10 actually goes to reduce the aged poverty deficit and one in six the general poverty deficit. But since benefit increases are justifiable for all the aged, there is some degree of common interest among the poor generally and the aged generally.

¹² Otto Eckstein, "Financing the System of Social Insurance," Princeton Symposium on the American System of Social Insurance, June 1-2, 1967, to be published.

TABLE V.—PAYMENT EFFECTIVENESS OF 1968 OF ALTERNATIVE AMENDMENTS TO OASDHI WITH REGARD TO AGED POOR

Effects of amendments	H.R. 5710	35 percent increase and new formula and \$70 minimum ¹	50 percent increase and new formula and \$70 minimum ¹
Decrease in number of noninstitutional aged poor (in millions).....	1.4	1.8	2.3
Percent of noninstitutional aged poor brought above property level.....	27	35	43
Decrease in income deficit of the poor (billions).....	\$1.4	\$1.7	\$2.1
Aged.....	.9	1.1	1.4
Nonaged.....	.5	.6	.7
Percent of total income deficit of the aged poor filled by changes ²	36	44	56
Remaining poverty income deficit of the aged (billions).....	\$1.6	\$1.4	\$1.1
Increment in annual benefit payments to poor and nonpoor (billions).....	4.5	9.6	13.0
Decreased deficit of aged poor as percent of increment in payments.....	20	11	11
Decreased deficit of aged and nonaged poor as percent of increment in payments.....	31	18	16

¹ See notes to table III for the composition of these formulas.
² Assumes an income deficit for the aged poor of \$2,500,000,000 in 1968.

The 35-percent increase would make a smaller contribution at about the same payment effectiveness. H.R. 5710, with its 15-percent increase in the benefit schedule and a \$70 minimum, would make a contribution and at greater payment effectiveness.

It appears then that there are not irreconcilable differences between the interests of the poor and of the aged. Unfortunately there has been a polarizing of opinion with regard to the role of OASDHI. Those who give first priority on all issues to the war on poverty feel that OASDHI, with only a fraction of additional revenue going to the poor, is too inefficient a use of funds for antipoverty purposes. There are others, more concerned with the aged generally or identified with the history of OASDHI, who fear any further bending of OASDHI from its earnings-related benefit schedule; they feel that its success and broad support are largely due to social insurance principles which make any poverty criterion irrelevant. A third view, sometimes appearing as a revision of the second, acknowledges that OASDHI is the key to eliminating poverty, but fails to be explicit about the magnitude of change required before a substantial cut in the aged poverty deficit can be achieved through social security.

Our findings suggest that each of these viewpoints involves some distortion. The antipoverty first before all viewpoint seems unnecessarily hostile. The competition for general revenues goes on within the whole range of government activity, and there is no reason to think that the tradeoffs are defined between the interests of the aged generally and the aged poor specifically or the aged generally and the poor generally. Our national goals in a wide variety of fields have to be brought into line with our capacities to pay for them and there are many kinds of choices to be made.¹³ The case for both OASDHI and for the poor is certainly stronger than some other goals on which

¹³ See "Goals, Priorities, and Dollars," ed. by Leonard Lecht, National Planning Association (New York: Free Press, 1966).

we may spend a great deal of money. Social welfare programs should not have to eat away at each other to stay alive.

It appears possible to extend social insurance principles and at the same time to reduce poverty. The benefit formula in our example is actually adjusted slightly away from a too-steep favoring of the low income group in order to avoid devaluation of the tax-benefit ratio for middle-income groups; and the \$70 minimum may even be low for a general 50-percent increase. Although it would be necessary to achieve some degree of general revenue financing, this can be begun in ways that will continue both the popularity and the integrity of the system. A substantially expanded OASDHI program with 35- to 50-percent higher benefits than at present can serve the multiple objectives of the aged, including the aged poor, and reduce the residual poverty gap to about \$1 billion.

How the residual aged poverty gap can be eliminated is beyond our scope here, but two postscripts are in order. The first is in the form of a warning. Any plan to make up income deficiency should be scaled so as not to eclipse OASDHI which will be destroyed from without if many of its beneficiaries have no preference between it and an alternative source of income. For example, if any aged household can draw \$1,800 a year from OASDHI but can also draw \$1,800 a year from a negative income tax, then interest and support for OASDHI is weakened to this extent, including its antipoverty functions.

The second idea derives from our tentative finding that public assistance including old age assistance may be serving now primarily as an emergency program for poor and nonpoor alike. Even with a greatly expanded OASDHI system in tandem with a guaranteed income or negative income tax plan, there will still be need for an emergency relief system.

POTENTIAL INCOME FROM HOMEOWNERSHIP: AN ACTUARIAL MORTGAGE PLAN

BY YUNG-PING CHEN*

Despite the proliferation of public and private measures for income maintenance, anxiety about income insecurity in old age still persists. This anxiety in part reflects desires for ever larger income in retirement as the cost of living rises and the standard of living in the economy improves. It also reflects limitations of the existing measures in providing adequate income for old age.

Although the aggregate money income of the aged (65 years of age or over) consists of several components, many still receive low and sometimes inadequate incomes. While the current income position of the aged may be low, their economic position is improved when ownership of assets, including homeownership, is taken into consideration. If the assets of the aged could be converted to income prorated over the remaining life of the holder, their income positions would be significantly improved in some cases, and still noticeably bettered in many others. In other words, even though the actual money income of the aged may be low, their potential income from assets may be quite high.

Since homeownership represents a highly significant portion of the asset holdings of the aged, this paper deals with the potential income from that source. It is suggested that an actuarial mortgage plan could be devised to liquidate home equity, viewed as a type of savings, in an orderly and systematic manner to help meet recurrent needs for currently spendable income. Although there are other methods of turning home equity into current income, such as sales and loan approaches, this paper introduces a housing annuity which would pay the homeowner monthly income with guarantee of lifetime tenure in his own home. The actuarial mortgage plan, if implemented, would mean a new source of income for those older homeowners who are willing to use the home equity to raise their income in old age. The proposed plan would be a completely voluntary measure, which is in full accord

*Professor, Department of Economics, University of California at Los Angeles. The author is on the faculty of the Department of Economics, University of California, Los Angeles. This is a summary of 1 phase of an ongoing research project on income maintenance in old age. The general idea of actuarial mortgage was conceived during the author's tenure as Brookings Research Professor, Brookings Institution, in residence at the University of Wisconsin. The project has been further supported by the Bureau of Business and Economic Research, and the Institute of Industrial Relations, both at UCLA. He has benefited from discussions with bankers, actuaries, attorneys as well as economists in and out of the academic community. A full acknowledgment of the encouragement and assistance from many individuals will be made later in a fuller presentation of the project. The actuarial mortgage plan has been mentioned in other papers of the author, including Yung-Ping Chen, "Taxation of the Aged: Some Issues and Possible Solutions," *Proceeding of the 58th Annual Conference, National Tax Association*, 1965, pp. 206-225, and pp. 246-256 for discussions.

with the freedom of consumer choice, and which serves to widen the range of choices to older persons when their income from conventional sources becomes low and/or inadequate.

After a brief review of the income, asset, and homeownership circumstances of the aged in section I, the potential income concept is introduced in section II. Then, a housing-annuity approach to the actuarial mortgage plan is outlined in section III. Finally, certain advantages and disadvantages of the actuarial mortgage plan are indicated in section IV.

I. INCOME, ASSET, AND HOMEOWNERSHIP OF THE AGED : SOME HIGHLIGHTS

Aged persons receive income from several sources, such as old-age, survivors, and disability insurance, employee pension plans, veterans benefits, privately purchased annuities, and income from assets such as stocks and bonds, contributions from relatives and friends, in addition to earnings from employment. According to the 1963 Survey of the Aged, the most comprehensive study to date, the bulk of the income of the aged in 1962, aside from employment earnings, came from public retirement benefits, with income from assets accounting for some 15 percent of their aggregate income.¹

In 1962, the median income for married couples was \$2,875. The median income for single men and women was \$1,365 and \$1,015 respectively.² However, in the same year, among asset holders, married couples had median total assets of \$13,000; single men and women had median total assets of \$6,920 and \$6,820 respectively.³

Nonfarm homeownership occupies a highly significant place in the asset position of the aged.⁴ Two-thirds of the aged couples and one-third of the aged single men and women were nonfarm homeowners in 1962. The median home equity of married owners was \$10,100; for single men owning homes it was \$7,270, and for single women, \$9,070. If nonfarm home equity were excluded, the median total asset for those couples holding assets would become \$6,180; for those single men and women with assets, \$4,270, and \$2,950, respectively.⁵

Equity in nonfarm homes is the most common asset of couples in the lower one-third of the income range in 1962 (less than \$2,202). Among these couples, more than half owned nonfarm homes with a median

¹ Lenore A. Epstein, "Income of the Aged in 1962: First Findings of the 1963 Survey of the Aged," *Social Security Bulletin*, March 1964, p. 3.

² *Ibid.*

³ "Assets of the Aged in 1962: Findings of the 1963 Survey of the Aged," *Social Security Bulletin*, November 1964, p. 4.

⁴ Nonfarm housing refers to (1) all housing units in urban territory, and (2) housing units not on farms in rural territory. Specifically, (1) urban housing comprises all housing units in urbanized areas and in places of 2,500 inhabitants or more outside urbanized areas. An urbanized area contains at least one city, or "twin central cities," of 50,000 inhabitants or more in 1960, as well as the surrounding densely settled incorporated places and unincorporated areas. (2) In rural territory, nonfarm housing units consist of those residents not located on places of 10 or more acres from which sales of farm products amounted to \$50 or more in 1959, or not on places of less than 10 acres from which sales of farm products amounted to \$250 or more in 1959. For further details, see U.S. Bureau of the Census, "Housing of Senior Citizens," vol. 7 in U.S. Census of Housing, 1960 (Washington, D.C.: U.S. Government Printing Office, 1962), p. XXI.

In 1960, more than two-thirds of aged persons were heads of owner-occupied dwelling units. Nonfarm owner-occupied 1-unit dwellings with heads 65 years of age or over numbered approximately 4,700,000. *Ibid.*, Table A-7, n. 52.

⁵ "Assets of the Aged in 1962: Findings of the 1963 Survey of the Aged," *Social Security Bulletin*, November 1964, p. 4.

equity of \$6,120. The median equity of single men and women homeowners in the lower one-third of the income range (1962 income of less than \$1,023 for men and \$735 for women) was \$3,720 and \$6,480 respectively.⁶

The preceding brief review suggests that the evaluation of the economic circumstances of the aged is strongly influenced by the choice of yardsticks. If asset holdings of the aged are fully recognized, their economic status is considerably changed from the position based on current income alone. Homeownership is a very important component of the total assets of the aged.

II. POTENTIAL INCOME: THE CASE OF HOMEOWNERSHIP

Income is derived from assets in three ways: (1) Actual earnings from assets, (2) imputed income from assets, and (3) potential income from proration of assets (i.e., cash receipt is increased by depleting the capital). While the first two sources of income no doubt enhance somewhat the economic status of the aged, the major contribution of assets to their financial strength requires the liquidation of assets or the conversion of that potential income to an actual income.

Potential income is a measurement that combines data on the income and assets of the aged, taking into account their age, sex, and marital status. This statistical measure in effect assumes conversion of assets into life annuities and the exhaustion of asset holdings at life's end. Specifically, potential income is derived as the sum of current money income plus prorated assets with a 4-percent annual interest return less income actually received from these assets, over the average remaining years of life of the aged. Asset proration takes into account sex differentials in longevity, joint probability of the number of years remaining for couples living together, and the number of years either spouse might survive alone to draw two-thirds of asset holdings previously available to the couple.⁷

According to the 1963 Survey of the Aged, in 1962, the medium potential income of married couples excluding home equity was \$3,130, and their potential income including home equity was \$3,795, whereas their median actual income was, as cited earlier, \$2,875. In the same year, single men had a median actual income of \$1,365, but their potential income was \$1,560 without home equity, and \$1,845 with home equity. For single women, the actual median income was \$1,015, but their potential income was \$1,130 without home equity, and \$1,395 with it.⁸

It can be seen that the proration of assets over the remaining years of life of the aged improves their income position. However, if the assets, particularly homes, cannot or will not be converted into currently spendable income, these comparative figures will lose much of their meaning, for the contribution to the economic welfare of the aged by the assets will consist merely either of income actually earned

⁶ *Ibid.*, p. 10. Income figures for the low-income third are from Erdman Palmore, "Differences in Sources and Size of Income: Findings of the 1963 Survey of the Aged," *Social Security Bulletin*, May 1965, p. 3.

⁷ Janet Murray, "Potential Income From Assets: Findings of the 1963 Survey of the Aged," *Social Security Bulletin*, December 1964, pp. 3-4.

⁸ *Ibid.*, p. 5.

from stocks, bonds, and rental housing, or of income imputed from homes and farms.

In the following section, one of the possible financial arrangements in the form of a housing-annuity contract is outlined, illustrating the practical significance of potential income from homeownership for the aged.

III. AN ACTUARIAL MORTGAGE PLAN: A POSSIBLE HOUSING ANNUITY

It is possible that an aged homeowner could use his home equity to purchase an annuity contract with guarantee of lifetime retention of the home as his residence. In this case, the payment for the annuity would be made when the contract ends rather than when it begins, as is the usual practice of a single premium immediate or deferred annuity. Because of the waiting period involved for the insurance company, an equity of \$20,000, for example, would buy a smaller annuity than would a single premium of the same amount. However, this is offset by the lifetime tenure provision. It might be noted that by waiting till death to "sell," the homeowner would avoid the capital gains tax involved in converting his home into cash prior to death in case the home has appreciated in value.⁹ This tax consideration may be quite important.

Described below is a housing-annuity contract which may conceivably be offered by an insurance company. After outlining the mechanics of such a possible contract, several illustrations are provided on the amounts of annuity payments persons in different circumstances might expect.

MECHANICS

Based upon an aged person's or an aged couple's equity in their home and their life expectancy, a life annuity, or some type of refund annuity, could be paid by a life insurance company in exchange for a deferred title to their home. The insurance company would sell the home at the death of the last survivor.

The value of the house would first be appraised.¹⁰ Then the insurance company would set up a trust with a commercial bank for all the agreements. The trust would include a deed conveying title to the insurance company at the death of the owner or the last survivor. The conveyance of a deed would be necessary so that there would be an irrevocable escrow to prevent the owner from selling the home without clearance by the insurance company.

⁹ The Federal individual income tax provides for exclusion from taxable income any capital gains attributable to \$20,000 of sales price. This tax concession is available only to those 65 years of age or older once in a lifetime, and it requires ownership and use as a residence for at least 5 years. For this and other tax concessions to the aged, see Yung, Ping Chen, "Preferential Treatment of the Aged in Income and Property Taxation," *American Journal of Economics and Sociology*, vol. 25, No. 1, January 1966, pp. 27-38.

¹⁰ The question would arise as to who would establish the value of the house. A would-be annuitant might object to the insurance company's appraisal on the basis of which his annuity payments would be computed. If so, the appraisal could be done by an independent appraiser. The matter of anticipating future value of the home is a far more complex problem. Presumably, the appraisal should reflect depreciation of the house and appreciation of property value, including land. As a practical matter, however, uncertainty about the future makes prediction of future house value highly difficult. Even so, future house values under normal circumstances probably could be estimated. For property value declines resulting from unusual circumstances, some kind of government guarantee in the form of a self-sustaining insurance-type operation might prove useful and necessary.

However, provision would be made for the homeowner who wishes to change residence for any reasons. At that time, he could have the option to either allow the trust to convey title to the insurance company or to a third party. If he sold it to a third party, with the insurance company clearing the title, he would pay the insurance company the accumulated value with interest of the annuity payments he had received. If, on the other hand, the title were conveyed to the insurance company, his annuity payments would be increased. The single premium for the increase would be the interest on the appraised value of the home for a period equal to the couple's attained age life expectancy. To prevent frequent reappraisals, it might be reasonable to require the annuitant to pay the appraisal fee.

The insurance company would require fire insurance coverage similar to what is now required on mortgages. In order to be sure that this insurance premium as well as property taxes would be paid, the insurance company would deduct charges for these amounts from annuity payments.

There is the question as to what would be an appropriate mortality basis for the annuity payment under the contract proposed here. Since the proposed contract has no precedent whatsoever in practice, one would not expect at this point unanimous actuarial opinion as to whether a group annuity mortality or an individual annuity mortality assumption should be used. The following examples are based on the assumption of a group annuity mortality as used by one insurance company. However, some actuaries may prefer an individual annuity mortality assumption. If the latter assumption were used, annuity incomes would be reduced from those computed on the basis of group mortality. It is probably reasonable to expect that a basis somewhere between group and individual mortality assumptions would suffice. Another important consideration is the interest rate assumption which would claim differing opinions as well.

ILLUSTRATIONS

Annuity income that might be provided under a housing-annuity contract is illustrated in two different cases: (1) a mortgage-free house, and (2) a house with outstanding mortgage.

(1) If a couple, both 65 years of age, has a mortgage-free house worth \$20,000, the present value of their house, to the insurance company, discounted for mortality and interest, would probably be in the neighborhood of \$12,000, if the property is assumed to be worth \$20,000 when the insurance company has the title. With it they could purchase a joint-and-last survivor annuity of approximately \$72 a month plus lifetime tenure in the house.¹¹ If the owner were a single man aged 65, he could purchase a straight life annuity of approximately \$111 a month, or a 10-year certain and life annuity of about \$103 a month, both with tenure. If the owner were a single woman aged 65, she could expect \$92 a month from a straight life annuity, and \$89 a month from a 10-year certain and life annuity, again plus tenure.

The above annuity payments do not take into account property taxes and insurance costs for the house. These figures might therefore sug-

¹¹ The wife's age can of course be different from 65. Different ages, however will affect annuity payments.

gest that such a housing-annuity contract does not augment current cash receipts by large amounts. There are at least three points to keep in mind, however: (a) the homeowner is assured of lifetime tenure in the house, unless he prefers to move; (b) homeownership expenses exist whether or not a housing-annuity is arranged. Therefore, the "net" annuity figures understate the contribution to current income by a housing-annuity contract; (c) even an addition to income as little as several hundred dollars a year may keep some aged persons from becoming poor, or enable others to enjoy certain amenities of life which otherwise they would have to do without.

(2) If the house were mortgaged, the insurance company would pay off the mortgage and base the annuity on the net value.

If, for example, a couple, both aged 65, has a home worth \$20,000, with a 5-year outstanding mortgage, requiring a payment of \$127 per month (a 25-year mortgage at 6 percent interest rate), the present value of the house to the insurance company, as in the above example, would be approximately \$12,000, and the present value of the remaining mortgage would be about \$6,600, discounted at 6 percent interest. The net value of the house to the insurance company would therefore be about \$5,400. This amount could purchase a joint-and-last survivor annuity of \$36 a month.

The annuity payments would total \$432 a year. This seems a rather small sum, but one must not forget that the couple, with the housing annuity, need not pay \$1,524 a year for the mortgage. The total additional income to the couple would thus be about \$1,950. Part of this amount could be used to pay for the expenses of homeownership, including property taxes, for which the couple is responsible so long as they own the home.

If the home value, outstanding mortgage, and monthly payments were as described above and if the owner were a widow aged 65, the present value of the house would probably be approximately \$13,000 and the present value of the remaining mortgage would be the same, \$6,600. The net value of the house to the insurance company would be about \$6,400. This amount could purchase for this female homeowner a straight life annuity of about \$62 a month. Compared to the couple's total additional income of \$1,950 cited above, her total additional income would be nearly \$2,270. Naturally, the amount would be smaller if she prefers a 10-year certain and life annuity contract.

The above annuity incomes, it must be emphasized, are suggested as illustrations only.¹² They indicate the general magnitudes of payments associated with various contracts and ages at issue.

IV. THE ACTUARIAL MORTGAGE PLAN: ADVANTAGES AND DISADVANTAGES

The actuarial mortgage is based upon the premise that savings in the form of home equity could be liquidated with guarantee of lifetime retention of the house as residence. It is a voluntary plan and puts no pressure on the aged to divest themselves of their homes. With the

¹² As mentioned in the text, these annuity incomes are based on a group mortality table. If an individual mortality assumption were used, these annuities would be reduced by about 18 percent. The reduction would be less if the mortality assumption is somewhere between the group and the individual tables. For discounting for interest and survivorship, interested readers may consult "Actuarial Values for Estate and Gift Tax," Publication No. 11 (Rev. 5-59), U.S. Treasury Department (Washington, D.C.: U.S. Government Printing Office, 1959), pt. III.

assurance of life tenure in the house, the plan would enable a homeowner to increase his currently spendable income without the psychological adjustments associated with an outright sale of the home for cash. With the annuity approach, the plan would provide protection against loss of income due to excessive longevity, hedging against living "too long."

Such a dissaving measure would represent another source of current income in addition to social security, private pensions, and other forms of receipts. Individuals differ as to the desirable level of retirement income, but collective means of income support (private employee pensions or public retirement benefits) provide income without specific reference to individual needs and desires. As a supplementary source of income, the suggested plan offers a degree of flexibility in planning income for old age.

There is an additional advantage in that the plan stresses self-reliance. It would reduce the dependency on Government transfer payments by those older persons who, in the absence of a program of the sort suggested here, might require and actually receive such payments. Government transfers may mean direct provision of cash or service, or they may be in the form of tax exemptions or credits. In either case, they must be paid for by younger taxpayers.

Since the plan envisages liquidation of home equity, resistance may arise from the argument that it would rob homeowners of their right to bequeath and deprive their children of an inheritance. However the participation in this plan is wholly voluntary. Moreover, in addition to the desire to add to an estate, one saves in order to defer consumption to the future and to provide a cushion against variations in income and needs typically associated with the life cycle of one's household. It seems eminently advisable that savings in whatever form be drawn upon when income declines due to retirement, or when income becomes inadequate in light of budget requirements. These occasions to claim the use of savings, perhaps, should take precedence over the desire to bequeath, but it bears emphasis that the aged person is completely free to make decision for himself.

On the matter of bequest, it is of interest to note a survey study reported in 1963.¹³ Based on a random sample of consumer units living in the Philadelphia metropolitan area, Guthrie's study of the empirical evidence on the motives for saving used three kinds of data—description of past behavior, expectations, and attitudes as they are expressed in the respondents' description of social norms. He reported that no respondent mentioned a moral obligation to conserve inheritances for bequests, and about one-half of the respondents considered educational support as the best way of providing for the future of their children.

The fact that the annuity payments illustrated above appear small may form a basis for criticism of the proposed plan. However, a small sum of additional income may make the difference between adequacy and inadequacy of income. Moreover, additional income from the purchase of such annuities was small as a result of deductions for outstanding mortgages and for homeownership expenses including property taxes. It cannot be overemphasized that these obligated pay-

¹³ Harold W. Guthrie, "Intergenerational Transfers of Wealth and the Theory of Saving," the *Journal of Business* of the University of Chicago, vol. XXXVI, No. 1, January 1963, pp. 97-108.

ments exist whether or not an actuarial mortgage plan is available. The conversion of home equity to current receipt in whatever amount is an additional amount of actual income.

With reference to the cost of homeownership, property taxes loom large. They become especially large in the budget of an older homeowner at a time when his income is reduced due to retirement, and when this reduced income further declines with price inflation. To make matters worse, taxes, including property taxes, have been rising in recent years and are expected to rise in the foreseeable future. Legislative bodies have recognized the fact that property taxes bear heavily on aged persons as a group due to high incidence of homeownership among them. The generally low levels of current income among aged persons have given rise to a variety of tax concessions. Elsewhere, the author has argued that tax concessions are an ineffective means of public policy.¹⁴ Remission of taxes for the aged is a questionable method of assistance, especially when it occasions higher taxes on younger taxpayers who must make up the reduction in tax revenue resulting from such a differential tax treatment on the basis of age. However, if current incomes of the aged were augmented, it would be easier for them to meet tax payments.

The suggested housing annuity contract would purchase for the homeowner a series of guaranteed but fixed-income payments. Threat of price inflation may give rise to some reservation about the proposal. The reservation has to do not so much with the erosion of purchasing power of future annuity payments as with the appreciation of house value during periods of rising prices. By converting home equity into annuity checks, one would not reap the benefit of that portion of value appreciation which is unaccounted for in the appraisal by the insurance company. This is a legitimate concern, although depreciation of house value, to be discussed later, would also need to be considered.

In order to cope with this problem, it might be reasonable to incorporate a renegotiation clause in the annuity contract, possibly subject to certain conditions such as a minimum number of years before the first renegotiation of the agreement may take place or a minimum percentage increase in the home equity before adjustment of annuity incomes may be made. If such an adjustment mechanism were provided, the housing annuity contract would take on the feature of a variable annuity. In the case of existing variable annuities, premiums of the annuitants are invested in a variety of common stocks and their annuities are tied to the price movements of the stocks. In the case of the suggested housing annuity with renegotiation clause, it may be said that the premiums for the variable annuity are invested in the real estate market. It is also possible, of course, that a cost-of-living clause might be inserted in the contract. The Aetna Life Insurance Co. has recently initiated "cost-of-living group pension plans."¹⁵ There is at least one other insurance company, to the knowledge of the author, which is giving serious thought to a cost-of-living plan to be purchased by individuals.

¹⁴ Yung-Ping Chen, "Income Tax Exemptions for the Aged as a Policy Instrument," *National Tax Journal*, vol. XVI, No. 4, December 1963, pp. 329-331 in particular. Also, Yung-Ping Chen, "Property Tax Concessions to the Aged," *Property Taxation: USA*, ed. Richard W. Lindholm (Madison: University of Wisconsin Press, 1967), pp. 225-235.

¹⁵ Aetna Life & Casualty Co., "Cost-of-living pension plans," an interoffice communication, Hartford, Conn., Apr. 5, 1967.

There is also the possibility that property values may decline due to owner neglect and neighborhood changes such as rezoning, ordinances, freeway construction, and the like. The appraisal of the house value presumably would take into account the probabilities (under normal circumstances) of appreciation and depreciation of value of the home, including land. Owner neglect may be mitigated by the provision of a renegotiation clause for then the owner would have a stake in keeping up the value of his home. Insofar as neighborhood changes resulting in unexpected, substantial value depreciation are concerned, the insurance company, of course, would be faced with an important problem. To help meet this problem, a guarantee by Government similar to that on FHA and VA loans might be devised.

To meet the problems both of appreciation and depreciation of property values, it would appear possible to arrange a variable housing annuity contract. This arrangement would go beyond the feature of a variable annuity in the aforementioned renegotiation clause. Whereas under the renegotiation clause the homeowner's annuity payment would be increased when his house value goes up without the contingency of reduced annuity at a time of declining value, the variable housing-annuity protects the insurance company as well. Of course, a homeowner might hesitate to purchase such a policy because of the uncertainty of annuity income. However, the contract might stipulate, following the practice of the Teachers Insurance and Annuity Association of America, that no more than one-half of the premium could be in the variable portion of the annuity. Another obstacle is that this type of contract would require frequent, perhaps annual, reappraisal of the house value. But this problem could probably be overcome if price movements in the stock market and in the real estate market would generally parallel. Still another consideration is that not all insurance companies are now selling variable annuity contracts. Despite these difficulties, the idea of a variable housing annuity is worthy of note and further investigation.

Another source of possible objection to the plan may be based on the observation that the plan offers no assistance to those older low-income persons who do not own a home but who might be more needy, nor to those low-income homeowners who refuse to expend their home equity. It should be emphasized that the plan is not intended to be an antipoverty measure per se. Rather, it is a proposal for a systematic means of liquidating savings which would provide, for some persons, at least a partial solution to the problem of low income in old age. Moreover, as emphasized previously, the choice lies with the homeowner.

The suggestion of expending one's home equity is admittedly an idea outside the realm of conventional practice. However, one need not be bound by convention or orthodoxy, if new methods offer improvements over the old. Dissaving in old age is altogether sensible. When a young person builds up his home equity, he mortgages his future income to acquire the asset; when an old person uses up his home equity, he mortgages his asset to acquire a steady income. Herein lies the theoretical origin of the actuarial mortgage plan. It is hoped that this paper will stimulate further discussions to promote practical applications of the plan.

THE CASE FOR EARNINGS-RELATED SOCIAL SECURITY BENEFITS RESTATED

WITH A REVIEW OF FOREIGN TRENDS TOWARD DUAL INCOME MAINTENANCE APPROACHES

BY MARGARET S. GORDON*

INTRODUCTION

The U.S. social security system has been attacked by certain critics in the last few years on the ground that a large proportion of its benefits go to the nonpoor. This line of criticism is not dissimilar in nature from certain earlier attacks on the system but, whereas previous opposition was almost entirely from conservative circles, some of the recent critics of the system are liberal economists who are concerned about achieving a more effective attack on poverty. Their emphasis is on the alleged inefficiency of a system of income maintenance under which a large proportion of the poor go unaided, while a large proportion of the transfers of income involved go to the nonpoor. The unemployment insurance system is regarded as a more serious offender on this latter score than OASDHI.

Most of the social scientists who criticize the social security system support some version of a negative income tax or social dividend proposal, differing among themselves, however, as to whether the proposed scheme should replace, or merely supplement, the existing income maintenance system.¹

A somewhat similar debate is going on in Great Britain, where there appears to be a growing tendency to question the Labor Party's policy of increasing social insurance benefits and universal family allowances, as against expanding "discriminating," means-tested, income-maintenance payments and public service expenditures directed toward the poor.²

In this paper, I shall argue (1) that the efficiency of an income maintenance system in transferring income from the nonpoor to the poor at any given point in time should not be the sole criterion on which it is judged; (2) that existing social insurance systems are designed, instead, to bring about a greater degree of income stability over the life cycle by replacing part of the income lost by workers and

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¹ See Milton Friedman, "Capitalism and Freedom" (Chicago: University of Chicago Press, 1962); Christopher Green, "Negative Taxes and the Poverty Problem" (Washington, D.C.: The Brookings Institution, 1967); Robert J. Lampman, "How Much Does the American System of Transfers Benefit the Poor?" in Leonard H. Goodman, editor, *Economic Progress and Social Welfare* (New York and London: Columbia University Press, 1966); James Tobin, "Improving the Economic Status of the Negro," *Daedalus*, fall 1965, pp. 878-896; and "Symposium: The Negative Income Tax" (with articles by Green and Lampman, George H. Hildebrand, and Earl F. Rolph), *Industrial Relations*, VI (February 1967), pp. 121-165.

² See, particularly, "No Campaign Against Poverty," *the Economist*, June 24-30, 1967, pp. 1326-1331; and Douglas Houghton, "Paying for the Social Services" (London: Institute of Economic Affairs, 1967).

their families as a result of economic risks and contingencies such as unemployment, old age, disability, and death of the breadwinner; (3) that there is room in an affluent society, and need for, both in earnings-related social insurance system and some type of system aimed at guaranteeing a minimum floor of income, at least to those among the poor who are too young or too old or too disabled to work and to female family heads with young children; and (4) that there has been a decided tendency in other industrial countries toward dual systems of income maintenance for the aged, and in some cases, also, for the disabled and survivors—one providing a minimum pension and the other an earnings-related pension usually designed to supplement the minimum; and (5) that we should seriously consider a dual system at least for the aged and, indeed, have begun to take certain steps in that direction.

When I speak of a dual system of income maintenance, I do not mean to include public assistance as one of the two systems. Many industrial countries have some type of public assistance program to meet the needs of all or some of those among the poor who cannot qualify for social insurance or other types of income maintenance payments, as does this country. Were we to adopt what I have referred to as a dual system of income maintenance for the aged, for example, we might still need to retain a limited old-age assistance system to take care of those whose needs were not met adequately by the combination of the other two systems. In that case, we would actually have a triple system of income maintenance for the aged.

SOCIAL SECURITY BENEFITS AND POVERTY

In the current population survey of March 1965, and also of March 1966, data were collected on sources, as well as on amounts of income in the previous calendar year. The 1966 data are not yet available, but the 1965 data, which have been widely quoted, indicated that members of poor households received only a fourth of all benefits paid during the year under the OASDHI program and three-fifths of the combined total of public assistance and unemployment insurance payments.³ However, a substantial number of impoverished OASDHI beneficiaries live in households in which total household income exceeds the poverty level. Some very rough, unpublished estimates indicate that about one-third of all OASDHI benefits went to the poor of all ages in 1965.⁴

In addition, estimates have recently been developed relating to the numbers and proportions of OASDHI beneficiaries (individuals or couples) expected to be poor in July 1967.⁵ Among beneficiaries aged 65 and over, 28 percent were found to be poor on the basis of family income (not including persons in institutions), but if elderly, impoverished beneficiaries living in institutions or in families above the

³ Mollie Orshansky, "More About the Poor in 1964," *Social Security Bulletin*, XXIX (May 1966), pp. 3-38.

⁴ I am indebted to Lenore A. Epstein, Deputy Assistant Commissioner for Research and Statistics, Social Security Administration, for this information. It should be noted that the health insurance program for the elderly did not go into effect until 1966, and we should therefore properly speak of OASDI beneficiaries in 1964 and 1965 but, for the sake of uniformity, we shall refer to OASDHI beneficiaries throughout the paper.

⁵ "Social Security Benefits and Poverty," Research and Statistics Note No. 6 (Washington, D.C.: U.S. Social Security Administration, 1967).

poverty line were included, 39 percent of all aged beneficiary couples and individuals were found to be poor. Among beneficiaries under age 65—disabled workers and their dependents, widowed mothers and their children, beneficiaries aged 62 to 64, and certain other categories—32 percent were poor.

In judging the overall impact of the OASDHI program, we also need to inquire about the relative proportions of benefit payments going to various income classes above the poverty line. After all, the line dividing the poor from the nonpoor must always be somewhat arbitrary, and indeed, Orshansky's estimates, stated more precisely, indicate that 26.3 percent of aggregate OASDHI benefits in 1964 went to the poor, and another 14.8 percent went to the near poor.⁶ The income levels used in defining these groups, for selected types of family units, as of March 1965, are as follows:

	Weighted average of incomes at poverty level		Weighted average of incomes at low-income level	
	Nonfarm	Farm	Nonfarm	Farm
2 members, total.....	\$1,990	\$1,385	\$2,675	\$1,865
Head under age 65.....	2,050	1,440	2,760	1,940
Head aged 65 or over.....	1,850	1,295	2,500	1,755
4 members.....	3,130	2,195	4,075	2,865

The near poor, by these definitions, are those whose incomes are above the poverty level but do not exceed the low-income level.

Among elderly OASDHI beneficiaries (individuals or couples), 54 percent (including those living in institutions and in families above the low-income level) have been estimated to be poor or near poor as of July 1967.⁷ In other words, 15 percent were near poor, in addition to the previously mentioned 39 percent who were poor.

Clearly, it is pertinent also to ask what proportion of OASDHI and other income-maintenance payments is received by the pretransfer poor, i.e., all those households that would be poor in the absence of such payments, as well as those that are still poor after their receipt. No precise answer to this question can be developed, since we have no way of estimating the earnings or other income which retired or partially retired beneficiaries would be receiving if they had not applied for benefits, or the income which nonelderly recipients of various types of income-maintenance payments might be receiving in the absence of such payments. We can, however, develop estimates of income-maintenance payments received by households that would be poor in the absence of such payments, on the assumption that they would not otherwise be receiving some alternative source of income. Estimates developed by Lampman on the basis of 1960-61 Bureau of Labor Statistics consumer income data indicated that 39 percent of OASDHI benefits in 1961 went to households that were poor before but not after transfer, while 24 percent went to households that were still poor after transfer. This left 37 percent of the benefits going to households that were not poor before transfer. By contrast, 64 percent of unemployment insurance benefits went to households that were not poor before transfer, as

⁶ Orshansky, *op. cit.*, table 15.

⁷ Social Security Benefits and Poverty, table 1.

did 54 percent of veterans' pensions and compensation. On the other hand, as might be expected in view of the eligibility conditions involved, only 7 percent of public assistance and private relief payments went to households that were not poor before transfer.

More recent estimates indicate that in fiscal 1968, 27 percent of benefit payments to elderly OASDHI beneficiaries will go to individuals or couples that would be above the poverty line without benefits and 19 percent to individuals or couples that would be above the low-income level without transfer. Moreover, only a fourth of elderly beneficiaries (individuals or couples) were estimated to be above the poverty line without benefits and 16 percent above the low-income line without benefits as of July 1967.⁸

It is extremely important, also, to recognize that a substantial proportion of the nonpoor receiving OASDHI benefits are beneficiaries (and their spouses or other dependents) whose chief other source of income is earnings. In some cases, the earnings involved are those of a spouse, but to the extent that beneficiaries themselves have earnings, the amounts are limited by the provisions of the retirement test, which has been repeatedly liberalized. Under the 1965 amendments a beneficiary may have annual earnings of \$1,500 and still get all his benefits for a year; above \$1,500, \$1 in benefits will be withheld for each \$2 of annual earnings up to \$2,700 and for each \$1 of earnings thereafter. However, no benefit deduction will be made for any month in which he earns \$125 or less in wages and does not render substantial services in self-employment.

Orshansky's data show that 60 percent of OASDHI benefits in 1964, received by households that were neither poor nor near poor, went to families and unrelated individuals that had earnings but were not receiving public assistance or unemployment insurance. Unfortunately, there are no data that I know of which tell us just what proportion of the aggregate income of nonpoor households receiving OASDHI benefits comes from earnings that are subject to the retirement test, nor what proportion goes to such families without other appreciable sources of income.

We do know, however, that OASDHI benefits accounted for the largest share of the income of elderly beneficiaries in 1962 and that earnings were the next most important source (table 1). Despite the rapid spread of private pension plan coverage, such pensions were still a relatively unimportant source of income of aged beneficiaries in 1962, as they have been in earlier surveys. We also know that only a small proportion of elderly OASDHI beneficiaries in 1962 could be considered well off. Only 3 percent of the married couple beneficiaries aged 65 and over, for example, had incomes of \$10,000 and over in 1962 and only 15 percent had \$5,000 or more. Among the nonmarried male beneficiaries in this age bracket, only about 9 percent had incomes of \$3,000 or more, while only 10 percent of the elderly retired nonmarried female beneficiaries and only 6 percent of the elderly, widowed beneficiaries had that much income.⁹

⁸ *Ibid.*, tables 1 and 2.

⁹ Lenore A. Epstein, "Income of the Aged in 1962: First Findings of the 1963 Survey of the Aged," *Social Security Bulletin*, XXVII (March 1964), p. 9.

TABLE 1.—SOURCES OF MONEY INCOME OF OASDHI BENEFICIARY UNITS AGED 65 AND OVER, 1962¹

Source of money income	Married couples ²	Nonmarried men	Nonmarried women
Number (in thousands):			
Total.....	3,743	1,490	1,502
Reporting on income.....	3,289	1,384	1,325
Total, percent.....	100	100	100
Earnings.....	25	14	7
Retirement benefits.....	50	63	54
OASDHI.....	40	54	52
Other public.....	4	4	1
Private group pensions.....	6	6	1
Veterans' benefits.....	4	6	4
Interest, dividends, and rents.....	17	12	22
Public assistance.....	1	3	4
Contributions by relatives ³	(4)	(4)	1
Other.....	3	2	9

¹ Excludes beneficiaries who received their 1st benefit in February 1962 or later.

² With at least 1 member aged 65 or over.

³ Relatives or friends not in household.

⁴ Less than 0.5 percent.

Source: Lenore A. Epstein, "Income of the Aged in 1962: First Findings of the 1963 Survey of the Aged," Social Security Bulletin, XXVII (March 1964), 9.

Another large class of OASDHI beneficiaries consists of widows with children. Among this group, also, earnings were by far the most important source of income after OASDHI benefits in 1962. And, again, few of these families could be considered affluent. Only 2 percent had incomes of \$10,000 or more in 1962, while only a fourth of the families had incomes of \$5,000 or more.¹⁰

PROTECTION AGAINST INCOME LOSS

Social insurance programs, as indicated above, are designed to protect the worker and his family from income loss over the life cycle resulting from such contingencies as unemployment, disability, old age, and death of the breadwinner. They are based on the principle of presumptive need; that is, that families and individuals confronted by such contingencies will tend in the great majority of cases to be in need of income maintenance payments. Thus they are aimed at preventing such families and individuals from falling into poverty when these contingencies occur. Proof of poverty is not a condition of eligibility, however. Benefits are paid as a matter of right to those who meet specified eligibility conditions, which generally take the form of requirements that the individual must have worked a certain length of time and have received certain minimum earnings in covered employment before meeting the contingency of old age, disability, death of the family breadwinner, or unemployment. In country after country that adopted social insurance programs from the 1880's onward, this principle had great psychological appeal to the working classes, which had developed deep-seated feelings of resentment toward the demeaning aspects of the means tests on which older types of poor relief were based.

¹⁰ Erdman Palmore, Gertrude L. Stanley, and Robert H. Cormier, "Widows With Children Under Social Security: The 1963 National Survey of Widows With Children Under OASDHI," Research Report No. 16, Office of Research and Statistics, Social Security Administration (Washington, D.C.: U.S. Government Printing Office, 1966).

Workers also liked the feeling that, under the contributory system of financing which was generally adopted in social insurance programs they and/or their employers paid for the benefits they would ultimately receive. But perhaps even more important, as Musgrave has recently pointed out, in a society with humanitarian attitudes toward the relief of poverty, a contributory social insurance system in which benefit amounts are directly related to contributions protects the thrifty from the financial burden of providing for the thriftless in their old age, since the thriftless are compelled to contribute along with the thrifty.¹¹ The fact that benefit amounts are frequently only loosely related to contributions does not completely destroy the force of this argument.

Also highly significant from an economic point of view is the fact that the worker or his widow does not have to exhaust whatever meager savings may have been accumulated before being entitled to benefits. Payments of benefits can begin quite promptly after the occurrence of the contingency, with the result that the economy is spared the full impact of the loss of purchasing power associated with such contingencies. This is particularly important in the case of cyclical or seasonal unemployment, when a much sharper loss of purchasing power would occur in the absence of the cushioning, or automatic stabilizer, effect of unemployment insurance.

The OASDHI program also has significant countercyclical effects, since earnings opportunities of potential beneficiaries tend to fluctuate over the cycle, with the result that applications for benefits tend to be submitted at an accelerated rate in a recession, whereas in a period of expansion beneficiaries may lose greater amounts of benefits through the operation of the retirement test or go off the rolls entirely, while potential beneficiaries may file applications at a reduced rate. Moreover, Congress has displayed some tendency to speed up action on proposals for liberalizing the program in recessions.

As J. Douglas Brown has emphasized in his writings on social security, an important element in the American philosophy of social insurance has been the notion that, if benefits are related to previous earnings, the incentive of workers to strive for high and continuous earnings will be enhanced.¹² No doubt most workers seek high and continuous earnings primarily for their own sake, and only secondarily to build up rights to fringe benefits, but there are probably a good many marginal cases in which a worker will postpone retirement or avoid other types of interruptions in his work history in order to insure his eligibility for social security benefits.

At this point, it is important to recognize that various versions of negative income tax or social dividend proposals would have very different implications for existing social insurance programs, and would undoubtedly have different effects on incentives to work and to save. Very drastic changes, for example, would be brought about by proposals of the Friedman type, which would replace all other income maintenance systems by a negative income tax designed to restore

¹¹ See Richard A. Musgrave, "The Role of Social Insurance in an Overall Program for Social Welfare," paper prepared for the Princeton University Symposium on Social Insurance, June 1-2, 1967 (to be published).

¹² See, particularly, J. D. Brown, "The American Philosophy of Social Insurance," *Social Service Review*, XXX (March 1956), 1-8.

a given percentage of the poverty income gap—in Friedman's case, 50 percent. Such a scheme would offer no protection whatever to unemployed workers and their families unless the family income was below the poverty line to begin with or fell below the poverty line in a given calendar year as a result of unemployment. In view of the fact that the median wage or salary income of male year-round full-time workers in 1965 was \$6,375,¹³ and Friedman's poverty line for a family of four is \$3,000 (the sum of existing personal tax exemptions and the minimum standard deduction), it seems clear that the proportion of workers who would lose all their protection against the risk of income loss in case of unemployment—except for quite prolonged unemployment in the course of a year—would be very large. In the case of an unemployed family head whose wife happened to be working, the likelihood of any replacement of lost earnings of the family head would be particularly slight.

Among the adjustments that would probably be made by unemployed workers and their families, judging from existing data on the impact of unemployment, would be dipping into savings, borrowing money, piling up bills, getting help from relatives, moving to cheaper quarters, and other family members seeking work.¹⁴ The frequency and severity of such adjustments would clearly be substantially increased under Friedman's proposal. Clearly, also, his version of the negative income tax would have a substantially less potent automatic stabilizer effect in a recession than unemployment insurance. Moreover, its effects would almost certainly be less prompt, since, even if procedures could be worked out so that a worker could file a revised income estimate at the onset of unemployment, there would almost certainly have to be a considerable lag before he would actually receive a negative tax payment. And how would any individual worker know how long he was going to be unemployed? If he overestimated the duration of his unemployment, he might find himself having to make a rebate to the Federal Government the following April.

Quite apart from these objections, if we consider the problem from the point of view of stabilization of income over the life cycle, is it in society's interest to force workers to draw down savings and go into debt, on a considerably greater scale than would be necessary under unemployment insurance, when they experience a spell of unemployment? The result would be that many workers would approach old age with even less likelihood of any appreciable financial assets than is the case at present.

These considerations also apply in part to social insurance provisions for partial replacement of income loss attributable to temporary or permanent disability, whether of an occupational or non-occupational character. Again, it would appear to be to the advantage of society to protect such workers from the necessity of drawing down

¹³ "Current Population Reports: Consumer Income," U.S. Bureau of the Census, Series P-60, No. 51, Jan. 12, 1967 (Washington, D.C.: Government Printing Office, 1967), table 32.

¹⁴ See, particularly, W. J. Cohen, William Haber, and Eva Mueller, "The Impact of Unemployment in the 1958 Recession" (Ann Arbor: Institute of Labor and Industrial Relations, University of Michigan and Wayne State University, 1960), especially the table on p. 40. The adjustments mentioned above are listed in order of frequency with which they were mentioned by families in which the head had experienced unemployment in 1968.

savings and going into debt during periods of disability. However, since the incidence of disability does not fluctuate the countercyclical function of unemployment insurance is absent in the case of disability insurance.

Social insurance also has many advantages as a method of providing for partial replacement of income loss attributable to old age or the death of the breadwinner. Under proposals of the Friedman type, most workers who were not adequately protected by a private pension would sustain a severe loss of income at the time of retirement. Let us assume (although Friedman does not spell this out) that the present personal tax exemption of \$1,200 for individuals aged 65 and older, plus their minimum standard deduction of \$600, would be the basis for determination of eligibility for a negative income tax payment for those in the 65 and older bracket. In that case, an elderly retired couple with no other source of income would be entitled to a negative tax payment of \$1,500, or 50 percent of \$3,000. If the wife had not been employed in the years preceding the husband's retirement, and the husband's earnings had been at an average level of around \$6,000, the income loss would amount to 75 percent, and the required readjustment in the couple's level of living would be drastic (even though there would be certain minor budgetary savings resulting from his retirement, e.g., in his expenditures for clothes and transportation and in deductions from his gross pay for taxes and employee contributions). Their income would be well below Orshansky's poverty line of \$1,850 for a two-member nonfarm family unit with head aged 65 and over and very much below her low-income level of \$2,500 for such a couple (p. 314 above).

Under existing social security provisions, a husband's and wife's benefit in the case of a retired worker whose earnings had averaged \$6,000 for some years would amount to approximately \$2,450 to \$2,820, depending on how many years elapsed between the effective date of the present earnings ceiling (\$6,600) for his date of retirement.

If a retired couple had some accumulated savings or rights to a private pension, its position under Friedman's scheme would be somewhat improved. Let us assume that ownership of a home and of other assets, at least up to a certain maximum value or total amount, would be permitted under the negative income tax scheme, and that the income from assets other than an owned home would be taken into consideration in determining the amount of the negative income tax payment.

However, as we have seen, among elderly OASDHI beneficiaries, neither private pensions nor asset income contributed large proportions of aggregate income in 1962 (table 1). Moreover, only about a fifth of the married beneficiaries received some income from private pensions in 1962 and considerably smaller percentages of non-married male and female beneficiaries.¹⁵ Most beneficiaries reported some asset income, but asset holdings other than an owned home tended to be too small to represent a significant source of income—median holdings of assets less equity in a home amounted to \$2,935

¹⁵ Epstein, *op. cit.*, p. 10.

for married couple beneficiaries, \$995 for nonmarried male beneficiaries and \$975 for nonmarried female beneficiaries.¹⁶

Many of today's retired aged, of course, accumulated their savings in a period when real earnings were well below recent levels, and it was correspondingly more difficult to save. Moreover, in many cases they have had to dissave, particularly to meet heavy medical expenses. This should be less of a problem in the future under medicare.¹⁷ Data recently published by the Board of Governors of the Federal Reserve System indicate that the average earner who is approaching retirement age has substantially greater asset holdings than did typical aged beneficiaries in 1962. At the end of 1962, consumer units with heads aged 55 to 64 and 1962 incomes of \$5,000 to \$7,499 had mean wealth holdings other than an owned home and automobile of about \$13,000.¹⁸ Omitting, also, median business or professional assets (farm or non-farm), on the ground that we are particularly interested in the position of the average employee, the figure is reduced to about \$9,600, enough to make a modest contribution of perhaps some \$400 to \$700 of annual retirement income, depending on how it is invested and whether or not the principal is left intact.

The impact of an income-maintenance proposal of the Tobin-type on existing social insurance programs would be very different. Tobin proposes a basic allowance, e.g., \$400 per person a year, to families or individuals with no other source of income.¹⁹ The allowance would be reduced by 33⅓ percent of any earnings or other income up to the point at which earnings and other income amounted to three times the basic family allowance, the "break-even" point. From that point on, the family would pay a positive tax. Tobin further stipulates that OASDHI beneficiaries would not be affected by his scheme, since they would not be eligible for allowances, while other social insurance beneficiaries would have to count their benefits as income in determining the amount of the allowance.

Nevertheless, it is doubtful that a plan of the Tobin-type would have a neutral effect on OASDHI and other social insurance programs, since legislators would probably be less inclined to look favorably on increasing benefits or otherwise liberalizing social insurance programs once large sums were being expended on a negative income tax scheme.

SOCIAL INSURANCE VERSUS PRIVATE PENSIONS

In practice, it is inconceivable that the OASDHI program could be abolished. Millions of beneficiaries and nonbeneficiaries have vested interests in the program as a result of their own and their employers' contributions. Even a move to phase out the program would probably be out of the question politically, in view of the widespread evidence that it is strongly supported by the great majority of the American

¹⁶ "Assets of the Aged in 1962: Findings of the 1963 Survey of the Aged." *Social Security Bulletin*, XXVII (November 1964), p. 4.

¹⁷ However, since we are discussing the impact of the abolition of social security, we should presumably assume, also, that there would be no Medicare.

¹⁸ Dorothy S. Projector and Gertrude S. Weiss, "Survey of Financial Characteristics of Consumers" (Washington, D.C.: Board of Governors of the Federal Reserve System, 1966), p. 111.

¹⁹ Tobin, *op. cit.*, pp. 891-895.

people. Abolition of other existing social insurance programs would also meet strong opposition.

A more likely result of increased criticism of the OASDHI system might be weakened support for increases in benefit levels. This could lead to gradual erosion of benefit amounts in relation to rising price and wage levels. The practical result of any such development would be an expansion in the relative role of private pension plans and public employees' retirement systems, for there is little question that employee groups in the United States, and throughout the Western World, have become accustomed to relying on contributory pension plans as their preferred means of guarding against a drastic reduction in income at the time of retirement.

In other words, it is important to recognize that those who believe in confining the social security system to the single goal of providing a minimum floor of income are actually expressing a preference for a greatly increased role for private and public employee benefit plans, although the issue is seldom put in this way. Thus the real question becomes one of a choice between strengthening the social security system versus permitting private and public pension plans to absorb a considerably larger proportion of total contributions to retirement systems than they do at present.

Although progress has been made toward improving the protection offered by private pension plans since the early 1930's, not only as a result of rapid expansion in the proportion of workers covered, but also through liberalization of benefit formulas and of vesting provisions, there are many remaining problems that would have to be faced if public policy were to move in the direction of relying relatively more heavily on private pension plans as a means of providing for retirement income. Since these problems are extensively discussed in a Joint Economic Committee staff background paper²⁰ and numerous other recent publications, there is no need to consider them here. Rather, let us turn to a consideration of recent tendencies in the old-age pension legislation in other industrial countries for indications of a decided trend toward dual or triple systems of income maintenance.

RECENT TRENDS IN NATIONAL OLD-AGE PENSION LEGISLATION ABROAD

There is little evidence in other industrial countries of a any tendency to turn away from earnings-related old-age insurance systems in favor of means-tested or income-tested old-age pension systems. In fact, a predominant tendency since the early decades of national old-age pension systems in the latter part of the 19th century has been away from systems basing all pensions on an income or means test. By the middle 1950's the basic national old-age pension system in the majority of industrial countries was a contributory, earnings-related old-age insurance system, while a few countries had contributory systems providing flat benefits. A sizable minority of countries in Scandinavia and the British Empire, however, had old-age pensions systems providing a uniform flat benefit to persons above a given age, and in some cases,

²⁰ "Old Age Income Assurance: An Outline of Issues and Alternatives," materials prepared by the committee staff for the Subcommittee on Fiscal Policy of the Joint Economic Committee, U.S. Congress (Washington, D.C.: U.S. Government Printing Office, 1966).

also, to the disabled and survivors. Some of these systems called for an income test as a condition for receiving a pension, while others had various combinations of income-conditioned and universal pensions.

Since the midfifties, there has been a decided tendency for countries with flat benefit systems to adopt supplementary earnings-related systems, while, on the other hand, a number of countries with conventional old-age insurance systems have moved to provide a more effective floor of income for the aged (and, in some cases, invalids and survivors as well) through some type of income-conditioned pension. Finally, earnings-related old-age insurance systems have been strengthened in a substantial number of countries through liberalization of benefit formulas and through the adoption of policies providing for the automatic adjustment of pensions to changes in consumer prices or wage levels.

In order to trace the changes that have occurred abroad somewhat more fully, let us consider briefly how the types of national old-age pension systems in industrial countries have changed since the early 1930's; that is, since the years immediately preceding the adoption of the U.S. Social Security Act of 1935. The analysis will be confined to countries with at least 50 percent of their workers engaged in non-agricultural occupations according to censuses conducted in the early 1960's, excluding a few very small countries such as Iceland and Luxembourg.

Historical development.—Historically, there have been two main lines of development of income-maintenance programs for the aged, disabled, and survivors.

The predominant line of development was the adoption of contributory earnings-related pension systems patterned after the pioneering German law of 1889, which had been adopted as part of Bismarck's social insurance program. By the early 1930's, 10 of the European countries and one Latin American country included in this analysis had adopted legislation of this type, although there was a good deal of variation in coverage, financing, eligibility, and benefit provisions (table 2).

The Scandinavian and British countries, on the other hand, tended to follow the pattern established by another early old-age pension law, that adopted by Denmark in 1891, under which pensions were provided for the needy, aged poor on the basis of an income test. Although no fixed pension amount was established under the original Danish law (the amounts were left to the communes), a number of later laws and a subsequent Danish amendment did establish a uniform pension amount for all aged persons with incomes below a certain level. In most cases, moreover, there was a provision for the reduction of the pension per specified unit of income between this level and a somewhat higher level. These pensions also tended to be subject to a means test; that is, a maximum amount of permissible property ownership. In fact, particularly in their early stages, they represented only slightly modified versions of older poor relief provisions, designed to provide the needy aged with public aid on somewhat less demeaning and more liberal terms than would have been possible under poor relief. By the early 1930's, eight of our countries—all in the British Empire or Scandinavia—had flat pension systems, and in most cases the pensions were

of the income-conditioned type. Sweden had a contributory earnings-related pension system with an income-conditioned supplement, but there was a good deal of dissatisfaction over the inadequacy of the pensions and the fact that a large number of elderly and disabled persons had to apply for poor relief.²¹

TABLE 2.—TYPES OF NATIONAL OLD-AGE, SURVIVORS, AND INVALIDITY PENSION SYSTEMS, 20 COUNTRIES, 1932

Contributory earnings-related pensions	Flat pensions or old-age assistance	Combination
Old-age, survivors, and invalidity: Austria. Belgium. Czechoslovakia. France. Germany. Hungary. Netherlands.	Income-conditioned pension or assistance payment: Old-age, survivors, and invalidity: Australia. Denmark. Old-age and survivors: New Zealand. Old-age: ¹ Canada. Norway. South Africa.	Contributory earnings-related pension and income-conditioned supplement: Old-age and invalidity: Sweden.
Old-age and invalidity: Chile. Italy. Portugal.	Contributory pension and noncontributory income-conditioned pension: Old-age, invalidity, and survivors: Great Britain.	
Old-age: Spain.	Income-conditioned old-age pension and contributory invalidity insurance: Ireland.	

¹ 18 States in the United States had old-age assistance programs but many of these were optional for the counties.

Source: Barbara N. Armstrong, *Insuring the Essentials* (New York: Macmillan, 1932), p. 611-632.

Toward the end of World War II, and in the decade thereafter, there was a widespread tendency for industrial countries to plan and adopt liberalized social security systems. The report prepared for the British Government by Sir William Beveridge in 1942, with its recommendations for "cradle to grave" social security, was widely influential in stimulating the adoption of more comprehensive income-maintenance systems in other countries, although few countries followed the British example of flat contributions and benefits in social insurance systems.²² Contributory earnings-related systems continued to represent the predominant pattern and to be more frequently selected by countries adopting new systems.

In 1954, 16 of our countries had contributory earnings-related pension systems, with 14 of these countries providing pensions for all three types of risks—old age, survivorship, and invalidity (table 3). There had also, however, been a slight increase in the number of our countries with flat pension systems of various types, but something of a movement in the Scandinavian and British countries away from income-conditioned pension systems toward universal pensions payable without an income test, contributory flat pension systems, or various combinations of universal, income-conditioned, and contributory flat pensions.

Since the midfifties, as suggested earlier, there has been a decided tendency toward the adoption of various combinations of flat and earnings-related pension systems. In 1967, only nine of our countries

²¹ See Helen F. Hohman, "Old Age in Sweden" (Washington, D.C.: U.S. Social Security Board, 1940).

²² "Social Insurance and Allied Services," report by Sir William Beveridge (U.S. edition; New York: Macmillan, 1942).

TABLE 3.—TYPES OF NATIONAL OLD-AGE, SURVIVORS, AND INVALIDITY PENSION SYSTEMS, 27 COUNTRIES, 1954

Contributory earnings-related pensions	Flat pensions or old-age assistance
Old-age, survivors, and invalidity: Argentina ¹ Austria ¹ Belgium Chile Czechoslovakia ¹ France ¹ Germany (Federal Republic) Hungary Italy Japan ¹ Netherlands ¹ Poland Portugal Switzerland ¹ Old-age and invalidity: Finland ^{1,2} Old-age and survivors: United States ¹	Income-conditioned pension or assistance payment: Old-age, invalidity, and survivors: Australia Old-age and invalidity: Denmark South Africa Old-age and survivors: Norway Contributory pension: Old-age, invalidity, and survivors: Great Britain ¹ Spain Old-age and survivors: Israel Combination: Old-age, invalidity, and survivors: Canada ¹ Ireland ¹ New Zealand Sweden

¹ These countries also had old-age assistance programs and, in some cases, assistance programs for invalidity and survivors.

² In Finland, the survivors benefit was a lump sum.

Source: Old-Age, Survivors, and Invalidity Programs Throughout the World, 1954, U.S. Social Security Administration (Washington, D.C.: U.S. Government Printing Office, 1954).

were in the group which lacked any type of flat pension system and relied on a contributory earnings-related system, supplemented, if at all, by a traditional public assistance system (table 4).²³ The national pensions systems in six of our countries provided exclusively for flat benefits, but there were only two of these countries—Australia and South Africa—in which all pensions continued to be income conditioned. The basic pension system was a contributory system providing flat benefits in Ireland and the Netherlands. New Zealand continued to combine a universal (“superannuation”) pension system for all persons aged 65 and over with an income-conditioned system for persons aged 60 to 64, as well as specified categories of invalids and survivors.²⁴ Denmark’s system had become quite complex, consisting of three different types of flat pensions. A universal, “minimum” pension, amounting to 6.7 percent of average wages for a single person and 10 percent for a couple, was payable to all persons aged 67 and over. Persons in this age bracket were also eligible for an income-conditioned “national” pension up to a maximum (for a single person—more for a couple) amounting to about 5½ times the minimum pension, as were women from age 62 on (or from age 60 if in failing health or unusual circumstances) and specified categories of invalids and survivors. Dating from 1964 is the third feature, a contributory supplementary pension system with a benefit formula providing essentially for a flat amount varying with years of contributions but not with earnings.²⁵

²³ The distinction between a traditional old-age assistance system and an income-conditioned pension system tends to be somewhat blurred. For purposes of table 4, I have accepted the characterization of the systems of various countries used in “Social Security Programs Throughout the World, 1967,” U.S. Social Security Administration (Washington, D.C.: U.S. Government Printing Office, 1967).

²⁴ Unmarried women who were unable to work were also eligible for the income-conditioned pension beginning at age 55.

²⁵ The proposal for a national supplementary pension scheme grew out of collective bargaining sessions in the spring of 1963, apparently as a means of attempting to hold down wage increases. See “Denmark: Creation of a National Supplementary Pensions Scheme,” Bulletin of the International Social Security Association, XVII (January–February 1964), pp. 36–37; and “Denmark: New Supplementary Pension Scheme,” *ibid.*, XVII (August–September 1964), pp. 275–277.

TABLE 4.—TYPES OF NATIONAL OLD-AGE, SURVIVORS, AND INVALIDITY PENSION SYSTEMS, 28 INDUSTRIAL COUNTRIES, 1967

Contributory earnings-related pensions	Combination
Argentina ¹	Contributory earnings-related pension and income-conditioned minimum pension guarantee: Austria Contributory earnings-related pension and income-conditioned pension: Czechoslovakia France Italy Switzerland ² Universal pension and contributory earnings-related supplement: Finland ¹ Norway Sweden Universal pension, income-conditioned supplement, and contributory earnings-related supplement: Canada Contributory flat pension, contributory earnings-related supplement, and income-conditioned pension: United Kingdom Contributory flat pension and income-conditioned supplement: Israel Two contributory systems: Japan ¹ Contributory, earnings-related pension and flat noncontributory pension: United States ¹
Belgium	
Chile	
Germany (Federal Republic)	
Hungary	
Poland	
Portugal	
Spain	
Venezuela	
Flat pensions:	
Income-conditioned pension:	
Australia	
South Africa	
Contributory pension	
Ireland ¹	
Netherlands	
Combination of flat pensions	
Denmark ³	
New Zealand ¹	

¹ These countries had old-age assistance programs and, in many cases, assistance programs for invalids and survivors.

² Switzerland also has an income-conditioned minimum pension guarantee for beneficiaries of its contributory system.

³ Under a new supplementary pension system, adopted in 1963, the pension varies with years of contributions but not with earnings.

Source: "Social Security Programs Throughout the World, 1967," U.S. Social Security Administration (Washington, D.C.: U.S. Government Printing Office, 1967).

However, there were 13 countries with combinations of earnings-related and flat benefit systems by 1967. Clearly, there was increased pressure in a number of countries for a combination of approaches which would provide both an effective minimum floor of income to pensioners, especially the aged, and adequate earnings-related benefits to retired workers who had been covered by a contributory earnings-related pension system for a considerable period of years.

Even in Great Britain, with its long tradition of flat, egalitarian benefits, earnings-related supplements have recently been adopted for all its short-term social insurance programs, while an earnings-related supplementary pension scheme dates back to legislation enacted in 1959. In Britain, as elsewhere, it has been primarily the postwar experience of steadily rising earnings, in contrast with the stagnating or declining wage levels of the twenties and thirties, which has built up pressure for earnings-related supplementary social insurance programs that would prevent workers from a severe drop in income at the time of retirement, or when beset by unemployment, illness, or long-term disability. But the pressure for change also reflected recognition of the fact that a system financed by flat contributions, which had to be geared to the wages of the lowest earners, encountered great difficulty, despite periodic parliamentary action to increase contribution and benefit levels, in providing benefits which would meet reasonable standards of adequacy. Moreover, the goal of minimizing the extent to which needy individuals would have to turn to public assistance had not been achieved, since, particularly in the case of the aged, social insurance benefits were so inadequate that large numbers of elderly pensioners turned to the national assistance system for aid, while a

great many others could have qualified for assistance payments but refrained from applying.²⁶

In 1957, the British Labor Party adopted a policy statement which reflected a decisive move away from the egalitarian, minimum income approach of the Webbs, and later of the Beveridge report.²⁷ It called for a combined flat-rate and graduated earnings-related pension system, under which the earnings-related benefits would be based on lifetime earnings but would be automatically adjusted at the time of the pension award to reflect earnings levels prevailing in the 3 years preceding the award and, after the award, would be automatically adjusted for changes in the cost of living. The proposal was clearly modeled to a considerable extent on pension legislation then being adopted in West Germany. However, the supplementary earnings-related pension system which was adopted by the Conservative government in 1959 fell far short of the Labor Party's aims, providing for graduated supplementary pension benefits financed by percentage contributions based on earnings between £9 and £15 a week, but lacking the automatic adjustment feature and resulting in supplementary pension rights which would build up only very slowly over the years.²⁸

In 1963, the Labor Party adopted a policy statement calling for much more sweeping changes in Britain's entire social security system, including supplementary earnings-related contributions and benefits in all social insurance schemes, a guaranteed minimum income for retired persons and recipients of widows' benefits, and a modified national assistance system in which assistance rates would be automatically adjusted to changes in national average earnings.²⁹ Legislation adopted in 1966 incorporated many of these changes, but did not modify the supplementary earnings-related pension scheme and did not include the automatic adjustment feature for national assistance rates.³⁰ However, the National Assistance Board was abolished and the National Assistance Scheme replaced by a system of noncontributory benefits based on need and administered by a new Ministry of Social Security, which replaced the former Ministry of Pensions and National Insurance. These changes were in large part designed to overcome the reluctance of persons over pensionable age and others to apply for assistance to which they would have been entitled. Moreover, abolition of the absolute upper limit on capital holdings and other changes in eligibility conditions tended to result in a system based on an income test rather than a combined income and means test. Elderly persons living alone were to receive a guaranteed income of £4 10s. a week, in addition to weekly housing costs, and married couples £7 2s. a week, as compared with former national assistance rates of £3 16s. and £6 5s.

Thus, although the Labor Government was aiming at a system giving considerably more emphasis to earnings-related benefits, it was at

²⁶ See Eveline M. Burns, "Social Security in Britain—20 Years After Beveridge," *Industrial Relations*, II (February 1963), pp. 15–32; and Dorothy Cole with John Utting, "Economic Circumstances of Old People," *Occasional Papers on Social Administration*, No. 4 (Welwyn: Codicote Press, 1961).

²⁷ "National Superannuation: Labour's Policy for Security in Old Age" (London: The Labour Party, 1957).

²⁸ See "New Graduated Retirement Benefits in Great Britain," *Social Security Bulletin*, XXII (September 1959), pp. 4–9.

²⁹ "New Frontiers for Social Security" (London: The Labour Party, 1963).

³⁰ "Changes in Social Security in the United Kingdom," *International Labour Review*, LXXXV (May 1967), 487–491.

the same time moving toward a more effective minimum income guarantee. Meantime, as indicated earlier, it was coming under attack by certain critics for not gearing its income maintenance payments primarily to need.³¹

We have considered changes in Britain at some length because of the influence which British debates over social security issues have tended to have in other countries. Rather than consider in comparable detail the changes in social security policy occurring in other industrial countries, let us consider various alternative ways in which the United States might move toward a dual system of income maintenance for the elderly, disabled, and survivors.

TOWARD A DUAL SYSTEM

There is widespread recognition of the fact that the present \$44 minimum monthly OASDHI benefit for a individual and \$66 for a couple falls far short of providing even a subsistence level of living. Moreover, a large proportion of retired workers whose benefits are based on the minimum primary insurance amount actually receives less, since they are persons who have been awarded reduced early retirement benefits. At the end of 1965, 6.8 percent of retired worker beneficiaries were receiving less than \$44 a month, while 9.4 percent were receiving the \$44 minimum.³²

Analysis of benefits awarded in 1964 indicated that nearly two-thirds of those qualifying for minimum benefits in 1964 were women, and nearly three-fourths of these women received reduced early retirement benefits.³³ Among the men, about 70 percent received reduced early retirement benefits, and about 50 percent had earned insured status at least in part from farm employment. Ill health and involuntary unemployment are the most important factors accounting for early retirement on the part of male beneficiaries.³⁴ Significantly, also, about a fourth of the beneficiary couples and individuals aged 65 and over receiving minimum OASDHI benefits in 1962 were also receiving public assistance, while this proportion declined steadily with rising monthly benefit amounts.³⁵ Clearly, a substantial increase in the minimum benefit amount would result in a significant reduction in old-age assistance payments.

Administration proposals.—In the light of these facts, it is scarcely surprising that the administration proposals for increases in social security benefits submitted to Congress early in 1967 placed a good deal of emphasis on increases in minimum benefits.³⁶ Whereas benefit increases recommended averaged 15 percent, the minimum benefit was to be raised from \$44 to \$70 a month for individuals and from \$66 to \$105 for couples, or 59 percent. Moreover, a special minimum benefit

³¹ See p. 312, above.

³² Social Security Bulletin: Annual Statistical Supplement, 1965, p. 74.

³³ See Lenore A. Epstein, "Workers Entitled to Minimum Retirement Benefits Under OASDHI," Social Security Bulletin, XXX (March 1967), 3-13.

³⁴ See Erdman Palmore, "Retirement Patterns Among Aged Men: Findings of the 1963 Survey of the Aged," Social Security Bulletin, XXVII (August 1964), 9.

³⁵ Epstein, "Workers Entitled to Minimum Retirement Benefits," p. 13.

³⁶ See "Message on Older Americans," submitted to Congress by President Lyndon B. Johnson, Jan. 23, 1967; and "Section-by-Section Analysis of Provisions of H.R. 5710," Committee on Ways and Means, House of Representatives (Washington, D.C.: U.S. Government Printing Office, 1967).

would be provided for workers with long years of coverage, rising from \$72 for a person with 18 years of coverage to \$100 with 25 years of coverage, or \$108 to \$150 for couples. Also contributing to the building of a more effective minimum floor of income was the proposal for increasing the benefits paid to persons aged 72 and over who were blanketed in to the OASDHI system on a transitional basis in 1965 and 1966 from \$35 to \$50 for an individual and from \$52.50 to \$75 for a couple, or 43 percent. The cost of payments under these provisions to persons who never worked in covered employment or had less than a half year's contributions to their credit is met out of general revenues, while the cost of benefits paid to persons with more than a half year of contributions but not enough to meet the usual qualifying conditions is met by the OASI trust fund. About 1.2 million persons would qualify for some payments or for higher payments under this proposal.

Early in August, the House Ways and Means Committee approved a much more modest set of amendments than the administration had proposed, recommending an across-the-board increase in benefits of 12.5 percent. The monthly minimum benefit was to be raised to only \$50 for an individual and \$75 for a couple, while the proposal for higher minimum benefits for persons with long years of coverage was eliminated.³⁷ If, as seems likely, the final amendments are closer to the Ways and Means Committee recommendations than to the administration proposals, the issue of how to achieve a more adequate minimum floor of income for the aged, disabled, and survivors will remain basically unresolved, since \$50 for an individual and \$75 for a couple will still fall far short of a subsistence level of living.

The administration proposals represent only one combination among a number of possible approaches to achieving a more adequate minimum, and not necessarily the most desirable combination. Perhaps the most serious objection to them relates to the distribution of the financial burden. Except for the special provisions applicable to persons aged 72 and over with little or no insured coverage, the added financial burden would be met entirely through the contributory OASDHI taxes, which are quite regressive, because of the fact that they do not apply to earnings exceeding the restrictive earnings base. It is true that the administration proposals called for raising the earnings base from the present annual amount of \$6,600 to \$7,800 in 1968, \$9,000 in 1971, and \$10,800 in 1974. Even so, the \$10,800 base contemplated for 1974 would be more restrictive than the original \$3,000 base adopted in 1935. Whereas the \$3,000 base covered the full earnings of 97 percent of all workers when it was adopted, a \$10,800 base would cover the full earnings of an estimated 87 percent of all workers in 1974. It would continue to be largely true, as it has been for many years, that the income redistribution that takes place through the OASDHI system would mainly consist of transfers from average income families to low income families.³⁸ Moreover, the tax burden on covered earnings would be increased, since the OASDI portion of the employee contributory tax (not including the health insurance contribution) would rise from 3.9

³⁷ The New York Times, Aug. 2, 1967, and Aug. 3, 1967.

³⁸ For further discussion of the income redistributive effects of the system, see Margaret S. Gordon, "The Economics of Welfare Policies" (New York and London: Columbia University Press, 1963), pp. 43-44.

percent in 1967 to 5 percent in 1974. The employer contributory tax, which would also rise in the same manner, also tends to be borne in large part by persons of low to moderate incomes, since it probably is chiefly shifted to consumers.³⁹

To finance these higher minimum benefits almost entirely through contributory taxes seems particularly questionable, in view of the fact that the contributory taxes must also bear the very substantial costs of benefits paid to persons who have been able to qualify under transitional provisions requiring minimal quarters of coverage and whose contributions (plus those of their employers) fall far short of the full cost of their benefits. The transitional provisions have made it possible to provide benefits for many elderly people much more rapidly than would have been possible had the full 40 quarters of coverage been required for all retired beneficiaries; but, as has frequently been pointed out, there would have been a strong case for meeting all or part of the costs involved from general revenues.⁴⁰

There has been a great deal of resistance to financing the OASDHI system in part from General Government revenues in the United States, largely on the ground that, as long as the system is financed entirely by contributory taxes, it is self-supporting, and its integrity cannot be threatened by failure of Congress to appropriate adequate amounts from general revenues. Moreover, beneficiaries will have "earned" their benefits through their own contributions and those of their employers. This argument is seriously weakened, however, when large numbers of beneficiaries have earned only a small fraction of their benefits. Moreover, as political support for the OASDHI system has grown over the years, it has become less relevant, since in practice it would be politically almost impossible for Congress to refuse to adopt adequate appropriations to meet benefit standards in effect under previous legislation.

Certainly the United States is out of step with other industrial countries, many of which have had a tripartite system of financing under old-age insurance systems for decades. Among the 24 countries represented in table 4 with contributory insurance-type pension systems, 17 had provisions for a contribution to the system from General Government revenues, and in many of these the contribution represented from a fifth to two-fifths of the total annual cost of the system. Three of the countries which lacked a government contribution—Canada, Denmark, and Sweden—had relatively recently adopted contributory systems which were supplementary to universal pension systems, and in Denmark and Sweden a large proportion of the cost of the basic universal system was financed from General Government revenues.

Foreign experience does not suggest that there are serious dangers in financing a modest proportion of the cost of an old-age insurance system from General Government revenues. In general, European

³⁹ On the impact of OASDHI taxes on the economy, see Nancy H. Teete's, "Some Fiscal Implications of Expansion of the Social Security System" (Washington, D.C.: Board of Governors of the Federal Reserve System, 1966).

⁴⁰ Cf. Eveline M. Burns, "Issues in Social Security Financing," in *Social Security in the United States* (Berkeley, Calif.: Institute of Industrial Relations, University of California, 1961). For a recent argument in favor of a limited degree of general revenue financing, see Otto Eckstein, "Financing the System of Social Insurance," paper prepared for the Princeton University Symposium on Social Insurance, June 1-2, 1967 (to be published).

countries with long-established tripartite systems of social insurance financing have kept their benefits in line with rising wage levels, and in a number of cases now have systems with automatic adjustment features.

Thus there would seem to be a strong case for a contribution from general Federal Government revenues in the United States, particularly in connection with any proposal to raise minimum benefits sharply. Upper- middle- and high-income receivers would then bear a larger proportion of the financial burden of providing a more adequate minimum, but at the same time would be relieved of part of the burden of public assistance expenditures. The estimated annual reduction in public assistance expenditures as a result of the increases in cash OASDHI benefits incorporated in the administration proposals would amount to \$356 million, of which \$225 million would come from Federal funds and \$131 million from State and local funds.⁴¹ Moreover, this approach would have the advantage of shifting a larger proportion of the burden of providing a minimum floor of income from State and local taxes to Federal taxes—a shift generally favored by many economists because of the more equitable distribution of the burden of Federal taxes. The provision of more adequate OASDHI benefits, particularly at the minimum level, would also have the advantage, of course, of relieving many of the needy aged from the demeaning procedure of applying for public assistance and from the necessity of exhausting any savings above the amounts excused under State public assistance provisions.

On the other hand, it may be asked whether it is logical to achieve the goal of a more adequate minimum within the OASDHI system if the link between contributions and benefits is to be further attenuated in the process. Other approaches to a minimum floor of income for the aged, disabled, and survivors might well be considered.

Universal pensions.—One of the possible alternative approaches is the provision of a uniform flat pension without an income test to all residents in certain age, disability, or survivorship categories. Like family allowances that are not subject to an income test, such universal pension payments represent an example of the so-called demogrant type of income maintenance payment that is based neither on need nor on prior contributions, but purely on demographic characteristics or a physically disabled condition.⁴² The concept of presumptive need is clearly involved, as in social insurance programs.

Universal pension systems are found in Canada, Denmark, Finland, New Zealand, Norway, and Sweden, in varying combinations with supplementary pension systems or income-conditioned pensions, as we have seen (table 4). In Canada, Denmark, and New Zealand, the universal pensions are available only for elderly persons, while in Norway and Sweden they are paid also to specified categories of invalids and survivors and in Finland to the aged and invalids but not to survivors. The systems vary also in their financing methods, with earmarked

⁴¹ "President's Proposals for Revision in Social Security System," hearings before the Committee on Ways and Means, House of Representatives, on H.R. 5710 (Washington, D.C.: U.S. Government Printing Office, 1967), part 1, p. 347.

⁴² Cf. Eveline M. Burns, "Social Security in Evolution: Towards What," Proceedings of the 17th Annual Meeting of the Industrial Relations Research Association (1964), pp. 56-66.

personal and corporation income tax revenues playing a role in a number of these countries, and general government revenue contributing the greater part of the cost in Denmark and Sweden.

Probably of greatest interest are the universal pension systems in Canada and Sweden, which differ in detail but represent significant examples of universal flat pensions supplemented by contributory earnings-related pension benefits. Norway and Finland have recently adopted systems modeled to some extent after that of Sweden.

The Canadian universal pension system is financed entirely by the Federal Government. Dating from 1951, it originally provided \$40 a month to all persons aged 70 and over who had been residents of Canada for 20 years.⁴³ For those in this age bracket, it replaced a Federal-Provincial old-age assistance which was modified to become applicable to needy persons aged 65 to 69. There was no national old-age insurance system in Canada at the time and, although the joint parliamentary committee which recommended the universal pension scheme considered the possibility of recommending an insurance system, they decided that a universal pension system would accomplish the goal of providing a minimum floor of income for the aged much more quickly than an insurance system, under which "those entering the scheme late in life would earn only comparatively small benefits, which would have to be supplemented by assistance programs."⁴⁴ Retirement was not required for receipt of the pension and, in the case of a couple both of whom were aged 70 or more, the monthly payment would be \$80.

As a method of financing, the committee favored an approach requiring a "direct and conscious payment by the largest possible number of those who will benefit from the program."⁴⁵ Although departing in some respects from the committee's specific financing recommendations, the Government adopted a combination of taxes which would be borne in considerable part by low- to middle-income receivers—a 2-percent personal income tax on taxable income up to \$3,000 a year, a 2-percent manufacturers' sales tax, and a 2-percent corporate income tax. Revenues from these taxes would be earmarked to meet the costs of the program on a pay-as-you-go basis.

The monthly pensions were increased on several occasions and, since 1963, have amounted to \$75, while the residence requirement was reduced to 10 years in 1957. The tax rates have also been raised and are currently 4 percent on taxable personal income up to \$3,000, 3 percent on manufacturers' sales, and 3 percent on corporate income. It should be noted that earnings levels are lower in Canada than in the United States. As an indication of the difference, average annual earnings per employee were \$4,188 (Canadian dollars) in Canada and \$5,594 (U.S. dollars) in the United States in 1964.⁴⁶

⁴³ For a detailed account of the history of this legislation, see Robert M. Clark, "Economic Security for the Aged in the United States and Canada," a report prepared for the Government of Canada (Ottawa: The Queen's Printer, 1960), vol. I, ch. XI.

⁴⁴ *Ibid.*, vol. I, p. 234.

⁴⁵ Report, "Joint Committee on Old Age Security," J. H. King and Jean Lesage, Chairmen, Senate and House of Commons, Parliament, Canada (Ottawa: King's Printer, 1950), p. 110, par. 65, as quoted by Clark, *op. cit.*, vol. I, p. 246.

⁴⁶ Average annual employee earnings in 1964 have been computed by dividing total wages and salaries paid to employees by total number of employees. The wage and salary data are from National Accounts Statistics, 1955-64 (Paris: Organization for Economic Cooperation and Development, 1966), while the data on total number of employees are from Manpower Statistics, 1955-64 (Paris: Organization for Economic Cooperation and Development, 1965).

Meanwhile, after lengthy study and debate, legislation was enacted in 1965 providing for a contributory earnings-related, old-age, survivors, and disability insurance system. The scheme resembles our OASDHI system in some respects, but differs in others, such as, for example, the incorporation of automatic adjustment features.⁴⁷ Moreover, its benefits for the aged are designed to be supplementary to the universal pensions and will amount to 25 percent of average monthly earnings (up to an earnings base initially set at \$5,000 but subject to an automatic adjustment feature from 1968 on) after 10 years of coverage. Disability benefits and survivor benefits to widows under age 65 consist of a flat \$25 a month (adjustable for changes in the consumer price index) plus an earnings-related supplement and dependents' benefits. Widows aged 65 and over will receive an earnings-related supplement to the universal pension. Supplementary old-age benefits are payable at age 68 in 1967, the first year of the program, age 67 in 1968, age 66 in 1969, and age 65 from 1970 on. Similarly, the age of eligibility for universal pensions is subject to parallel reduction and will be 65 from 1970 on. Moreover, beginning in 1968, the monthly universal pension amount will be adjusted annually for changes in the Consumer Price Index.

Interestingly, also, an amendment to the Old-Age Security Act was enacted at the end of 1966 to provide a guaranteed income supplement to persons in receipt of the universal pension who were born in 1910 or earlier.⁴⁸ The purpose of the amendment is to augment the universal pension for needy elderly persons who, because of their age, will receive little or no benefit from the contributory earnings-related system. The guaranteed income supplement is \$30 a month in 1967 and 40 percent of the universal pension thereafter. It is reduced by \$1 for each full \$2 of the pensioner's income, not including the universal pension or social insurance payments (e.g., workmen's compensation) or public assistance payments. Also excluded from the definition of "income" are gifts and money drawn from savings or received from selling any possessions or investments. Thus, the reduction would appear to apply chiefly to earnings or private pension benefits and is equivalent to a 50-percent tax on such income.

The Swedish national pension system differs from the Canadian in many ways, but aims similarly at a minimum floor of income supplemented by a contributory earnings-related pension. The present Swedish system is the result of a prolonged political controversy during the 1950's, including a nationwide plebiscite in 1957.⁴⁹ The controversy revolved around the earnings-related supplementary system rather than the basic pension scheme, centering on the question as to whether the supplementary system should be compulsory or voluntary.

⁴⁷ See Daniel S. Gerig and Robert J. Myers, "Canada Pension Plan of 1965," *Social Security Bulletin*, XXVIII (November 1965), pp. 3-17.

⁴⁸ "Guaranteed Income Supplement for Canadian Old-Age Pensioners," *International Labour Review*, LXXXV (June 1967), pp. 576-577.

⁴⁹ See Åke Elmér, "Folkpensioneringen i Sverige" (Lund: CWK Gleerup, 1960); Sven Hydén, "The Pensions Scheme in Sweden," *Bulletin of the International Social Security Association*, XIX (September-October 1966), pp. 355-368; Ernst Michanek, "Sweden's New National Pension Insurance," *Bulletin of the International Social Security Association*, XIII (September 1960), pp. 413-423; Carl G. Uhr, "Sweden's Social Security System," U.S. Social Security Administration, Office of Research and Statistics, Research Report No. 14 (Washington, D.C.: U.S. Government Printing Office, 1966), chs. III and VI; "Reform of the Swedish National Pension System," *International Labour Review*, LIV (November-December 1946), pp. 394-397; and "New Graduated Pension System in Sweden," *Social Security Bulletin*, XXII (November 1959), pp. 13-17.

The Swedish prewar pension system was a contributory system which had to be extensively supplemented by public assistance.⁵⁰ Legislation adopted in 1946 established a scheme of universal flat pensions for the elderly, payable from age 67 on, but with various income-conditioned supplements for housing costs and for certain dependents. Retirement was not a condition of eligibility. Except for a small basic invalidity pension and allowances for the blind, invalidity and survivors pensions were subject to an income test. During the 1950's, the pension amounts were increased from time to time, and the system was liberalized in various ways, including the introduction of a provision calling for automatic adjustment of pensions to changes in a special cost of living index in 1950.⁵¹

Under a 10-year reform plan approved in 1958, and legislation adopted in 1962, the basic national pension system is now a true universal old-age, invalidity, and survivors pension system, with an income test applying only to the housing supplements and to allowances for wives aged 60 or more but under pensionable age. The basic old-age pension is set at 90 percent of the "base amount"; that is, the lower limit of earnings subject to the contributory tax which finances the supplementary earnings-related pensions. This base amount, which is automatically adjusted for changes in consumer prices, was 5,600 kr. a year early in 1967. Thus, the old-age pension was 5,040 kr. (about \$973) for a single elderly person, and 7,560 (about \$1,460) for an elderly couple, since an elderly spouse was entitled to 55 percent of the base amount. The regular age of eligibility for the pension was 67, but reduced pensions were available at ages 63 to 66 on the basis of an 0.6 percent reduction for each month under age 67, while equivalent increments were available for those deferring application for a pension beyond age 67 up to age 70. A supplement amounting to 25 percent of the base amount was also available for each child under age 16. Full invalidity pensions, provided for persons who had lost at least five-sixths of their earning capacity, were equivalent in amount to old-age pensions,⁵² while partial invalidity pensions were available for persons who had lost at least half, but less than five-sixths, of their earning capacity. Widows aged 50 or more were entitled to 90 percent of the base amount, while those with children under 16 were entitled to the 90 percent plus child's supplements. Childless widows aged 36 to 49 were eligible for reduced pensions. All pensioner families and individuals were also eligible for a housing supplement up to 175 kr. a month, or more in some municipalities, on the basis of an income test.

All resident citizens meeting the age or other requirements mentioned above are eligible for the universal pensions, which are financed by a 4-percent tax payable by all taxpayers aged 18 to 65 on taxable income, up to a maximum annual tax of 1,200 kr., as well as by a contribution from General Government revenue which provides about 70 percent of the total cost.

The supplementary earnings-related pension system, effective in 1960, is financed entirely by an employer contributory tax, currently

⁵⁰ See Michanek, *op. cit.*, p. 413; and Hohman, *op. cit.*, p. 23.

⁵¹ "Automatic Variation of National Pensions in Sweden," *Industry and Labour*, V (Feb. 15, 1951), pp. 146-147.

⁵² In addition, however, to the dependents' supplements available for the aged, there was also a constant attendance supplement of 30 percent of the base amount.

amounting to 8.5 percent on earnings from 5,600 kr. (the above-mentioned base amount) to 42,000 kr. a year. As indicated earlier, the base amount is automatically adjusted for changes in consumer prices, while the upper limit on covered earnings is set at $7\frac{1}{2}$ times the base amount. The supplementary pension amounts to 3 percent of these covered earnings per year of coverage up to a maximum of 60 percent of covered earnings, but with a qualifying period of at least 3 years of coverage for a partial pension and 20 years for a full pension.⁵³ Through a pension point system, the supplementary pension award will be automatically adjusted for changes in the base amount between the time when earnings are credited and the time of the award, and a full pension (not attainable until 1980) will be based on average pension points credited in the 15 years of highest covered earnings. The ages of eligibility for reduced, normal, and deferred supplementary pensions, as well as the provisions for actuarial reductions and deferment credits, are the same as in the basic pension system. No dependents' benefits are provided under the supplementary system for aged beneficiaries or for invalids, but the supplementary survivor system provides for pensions for both widows and children.

In 1964, the Swedish basic old-age pension for a single person (4,230 kr.) amounted to 25.7 percent of average annual employee earnings, while that for a couple (6,345 kr.) represented 38.5 percent. The Canadian basic old-age pension for a single person in the same year (\$900) was less liberal by the same criterion than the Swedish, amounting to 21.5 percent of average annual employee earnings, while that for an elderly couple (\$1,800) was somewhat more liberal, representing 43 percent.⁵⁴ However, when we consider the housing supplements received by the majority of Swedish pensioners, ranging in 1962 from 200 kr. in rural areas to 3,000 kr. a year in Stockholm,⁵⁵ as well as the earlier age of eligibility for an old-age pension, the provisions for wives' supplements, and the pensions for invalids and survivors, it is clear that the Swedish national pension system was considerably more liberal in 1964 than the Canadian universal old-age pension. The Canadian system will compare more favorably on this score when the cost-of-living adjustment has been effective for a time and the age of eligibility declines to 65.

Universal pensions represent an egalitarian approach to providing a minimum floor of income for the aged, disabled, and survivors and, as such, tend to be found in countries with strong egalitarian traditions. It can be argued that, at least as contrasted with income-conditioned pensions, universal pensions on the scale found in Canada and Sweden are unlikely to have a disincentive effect on saving or to provide an inducement for persons approaching retirement age to transfer assets to their adult children. Their effect on incentives to work is less easy to assess. Presumably the receipt of a modest pension payment that is subject neither to an income test nor a requirement to retire would not tend to induce withdrawal from the labor force on

⁵³ During the third decade of the system, the qualifying period for a full pension will gradually rise to 30 years, and the pension will amount to 2 percent of covered earnings per year of coverage.

⁵⁴ For method of computing average annual employee earnings and sources, see Footnote 46.

⁵⁵ See Ernst Michanek, "Old Age in Sweden" (Stockholm: The Swedish Institute, 1962), p. 7.

the part of persons capable of continuing to work, in the absence of other sources of retirement income. However, when the universal pension payment is supplemented by an appreciable earnings-related pension, as will be the case in Canada and Sweden when their supplementary pensions schemes reach maturity, or by a sizable private pension, the combined income-maintenance payment may in a good many cases be large enough in relation to earning capacity to provide a positive inducement to retire on the part of persons who would tend to postpone retirement if the universal pension alone were available.⁵⁶ The fact that universal pensions are paid to some persons who do not need them is not objectionable if they are largely financed through taxes borne by persons who will ultimately receive the pensions, as in Canada and to some extent in Sweden, and if the income tax structure is progressive, so that pensioners with sizable incomes are liable for taxpayments that exceed the pension.

A universal pension system on a very modest scale, as I have suggested elsewhere,⁵⁷ would provide a possible approach to a more effective minimum floor of income for the elderly in the United States. In a sense, a very limited step was taken in that direction under the Tax Adjustment Act of 1966, which included a transitional provision for OASDHI payments of \$35 a month for an individual and \$52.50 for a couple, financed through General Government revenues, for persons attaining age 72 before 1968, even though they have no quarters of coverage.⁵⁸ Payment of these benefits through the OASDHI system is a matter of administrative convenience, but the qualifying conditions are expressed purely in terms of age (along with certain residence and citizenship requirements), and the financing is not dependent on OASDHI contributory taxes. However, the benefits differ from a universal pension payment in that they are not payable to public assistance recipients and are subject to reduction for any governmental pensions that the individual or his spouse is receiving or is eligible to receive. The Senate version of the amendment, introduced by Senator Prouty, would have gone considerably farther in the direction of a universal pension by making the minimum OASDHI benefit of \$44 a month payable to all persons aged 70 or over meeting certain residence and citizenship requirements. The Senate version was also permanent, rather than transitional, and would have provided new or increased benefits to an estimated 2.15 million persons at a cost to the general fund of the Treasury of about \$800 million a year initially and somewhat less thereafter.⁵⁹ Under the version actually enacted, an estimated 370,000 persons were expected to receive the benefits in the first year of operation at an esti-

⁵⁶ On the relation of prospective retirement income to the propensity to retire, see Margaret S. Gordon, "Income Security Programs and the Propensity to Retire," in Richard H. Williams, Clark Tibbitts, and Wilma Donahue, editors, "Processes of Aging," vol. II (New York: Atherton Press, 1963).

⁵⁷ See my comments on the paper by Eveline M. Burns in "Proceedings of the 17th Annual Meeting of the Industrial Relations Research Association (1964)," pp. 49-52.

⁵⁸ See Wilbur J. Cohen, Robert M. Ball, and Robert J. Myers, "Social Security Payments to Noninsured Persons," Social Security Bulletin, XXIX (September 1966), 3-9. Persons who attain age 72 after 1967 can also qualify for these new benefits, but they must have certain numbers of quarters of earnings.

⁵⁹ The railroad retirement program would have been required to meet the cost of the transitional noninsured cash benefits payable to those of its beneficiaries who were not also receiving OASDHI benefits, at a cost of about \$140 million a year.

mated cost of \$125 million, with costs declining to less than \$50 million for the fiscal year 1975.

Suppose we were to consider a universal pension of \$50 a month for individuals and \$75 a month for couples both members of whom were aged 65 and over, financed, perhaps, in much the same manner as the Swedish universal pension. Under the proposal, OASDHI cash benefits would then become supplementary to this basic pension.

On the basis of such a proposal along with, let us say, the benefit increases recommended in August 1967 by the House Ways and Means Committee, total benefit payments received by those now getting minimum OASDHI benefits would go up from \$44 to \$100 a month for an individual and from \$66 to \$150 for a couple, or to \$1,200 for individuals and to \$1,800 for couples. These amounts would bring elderly individuals a great deal closer to Orshansky's nonfarm poverty line criterion of \$1,435, while couples would be brought virtually up to the \$1,850 criterion. Individuals currently receiving average OASDHI benefits of \$84 would receive total benefit payments of \$134.50, or \$1,614 a year, while couples receiving average benefits of \$142 would get \$235 a month or \$2,820 a year. These amounts may be compared with Orshansky's nonfarm low-income criterion of \$1,685 for an elderly individual and \$2,340 for an elderly couple. In short, such a universal pension would bring minimum beneficiaries aged 65 and over considerably closer to the poverty line and average beneficiaries almost to the low-income line, or well above, in the case of couples.

There are currently about 18.5 million persons aged 65 and over, of whom about 18 percent, or 3.1 million, are wives. Assuming that perhaps a half million would not meet reasonable residence and citizenship requirements, we may very roughly estimate the annual cost of the suggested universal pensions at \$9.9 billion. However, there would be certain offsetting savings. First, there should be a substantial saving in current expenditures for old-age assistance. Secondly, if this type of universal pension system were adopted, the case for modification of the present income tax advantages for the elderly, including exemption of OASDHI benefits, would be very strong, but there are numerous ways in which the provisions could be modified, and politically it might be very difficult to achieve much restoration of tax revenues lost as a result of these special provisions.⁶⁰

The major argument in favor of this approach, as opposed to increasing minimum OASDHI benefits sharply on the basis of general revenue financing, is that it would bring about a significant improvement in the income status of all those aged 65 and over, but would provide the largest proportionate increases in income for those who have little or no income, without disturbing the existing structure of OASDHI contributions and benefits. It would also, in my opinion, have the very great advantage of substantially improving the income status at age 65 of persons retiring on actuarially reduced OASDHI benefits before age 65. As matters stand now, these persons, many of whom apply for early

⁶⁰ The administration proposals for social security revision also included a set of recommendations for substantial modification of the special tax provisions relating to the elderly and to OASDHI benefits, with the net effect of reducing the tax burden on those with low to moderate incomes and increasing that on higher income older people, but with no net effect on tax revenue. See "President's Proposals for Revision in the Social Security System," pt. 1, pp. 195-216.

retirement benefits because of ill health or involuntary unemployment, as we have seen, receive reduced retirement benefits for the rest of their lives in most cases.

There seems little chance of serious consideration of this type of program in the near future. For one thing, there is still a strong tendency in the United States to regard any transfer payment, except on a contributory basis, to a person who does not need it as somehow exceedingly reprehensible. For another, many people are likely to attach higher priority for some time to come to the need for expanded expenditures to combat unemployment in urban slum areas. A more limited program of universal pensions for persons aged 70 and over might stand a considerably better chance. Such a program would be far less costly and could be quite effectively supported on the grounds that persons aged 70 and over tend to have considerably lower incomes than those aged 65 to 69, are more likely to be receiving old-age assistance, and are less likely to be capable of working.

Income-conditioned pensions.—Another possible means of achieving a more adequate minimum floor of income, beneath a contributory earnings-related pension system would involve adoption of an income-conditioned minimum pension, either within the framework of the contributory system or outside the system. Although the line between an income-conditioned pension and a traditional old-age assistance system cannot be sharply drawn, I would suggest that the term "income-conditioned pension," strictly speaking, should be reserved for systems which aim at providing a standard minimum level of income and which apply only an income test, without a means test as such, or else apply a means test which is related to the income test, this is, under which the ceiling on asset holdings is related to some reasonable level of income which the assets may be expected to yield. Or the basis of this latter criterion, our State old-age assistance laws, which tend to place a ceiling of \$5,000 or less on financial asset holdings, would clearly not qualify as income-conditioned pension systems.

Most income-conditioned pensions systems are separate from contributory pension systems, that is, an individual does not have to qualify for a contributory pension to be eligible for an income-conditioned pension. In fact, in a number of countries with contributory systems, income-conditioned pensions are primarily designed to meet the needs of elderly persons who do not qualify for a contributory pension.

Austria, Israel, and Switzerland, however, have recently adopted legislation providing special minimum pensions within their contributory systems, to be awarded on the basis of an income test.⁶¹ The Swiss provisions are particularly interesting, since they involve an approach similar to that of a negative income tax. Cantons which adopt the provisions will receive Federal grants varying from 30 to 70 percent of the cost, according to the financial capacity of the canton. The supplementary pensions will provide payments representing the differ-

⁶¹ See H. Creutz, "Social Security in Austria," *Bulletin of the International Social Security Association*, XIX (January-February, 1966), 29; "Israel: Amendments to the National Insurance Law," *ibid.*, XVIII (November-December, 1965), 548-549; and "Supplementary Benefits for Pensioners in Switzerland," *International Labour Review*, LXXXII (October, 1965), 332-333. Switzerland also has a program of extraordinary pensions paid to elderly persons with no pension or small pensions.

ence between annual income and Sw Fr3,000 (about \$696) for single persons, Sw Fr4,800 (about \$1,114) for married couples, and Sw Fr1,500 (about \$345) for orphans. However, in calculating annual income, no account will be taken of Sw Fr240 for a single person and Sw Fr400 for a married couple on income derived from a gainful activity, annuities, or pensions. Furthermore, on income remaining after these exclusions, only two-thirds will be taken into account. Property income will be disregarded except on property in excess of Sw Fr15,000 for a single person, Sw Fr25,000 for a married couple, and Sw Fr10,000 for orphans.⁶² These provisions are designed to avoid a disincentive effect on gainful activity and on individual or collective savings. The level of income which they guarantee is well above the full minimum pension of Sw Fr138 a month (or Sw Fr1,656 a year) for persons with continuous contributions since 1948.⁶³

In general, a serious question may be raised as to whether a minimum income guarantee based on an income test is compatible with a contributory national pension system, if it exists within the framework of that system. Depending on its precise provisions, it could well impair the incentive of covered workers with relatively low or irregular earnings to maintain continuous coverage under the system. It could also interfere with the inducement of unions representing workers in low-wage occupations to bargain for private pensions to supplement national pensions. The Swiss provisions partially get around these difficulties by excusing a small amount of income from earnings, annuities, and pensions, and by taking only two-thirds of remaining income from these sources into account.

In the more common type of situation, where an income-conditioned pension system exists along with, but independently of, a contributory earnings-related system, the income-conditioned scheme is usually intended as a way of providing needy elderly, disabled, or bereft persons with a source of income-maintenance involving less demeaning procedures than the traditional public assistance system. Liberalizing or eliminating a means test may also be expected to have the effect of greatly reducing any deterrent effect on individual saving.

A federally financed income-conditioned pension system might be considered in the United States as a way of liberalizing portions of our public assistance program and shifting more of the burden of financing such aid to the Federal Government. Given the growing interest in negative income tax proposals, such an approach might be advocated at some time in the future as part of a broader set of negative income tax proposals.⁶⁴ All things considered, it seems probable that we shall move toward the dual goal of an adequate minimum floor of income and an earnings-related pension system for the elderly, disabled, and survivors through some combination of a limited universal old-age

⁶² Heavy medical expenses and rent in excess of a certain ceiling may also be deducted from gross income.

⁶³ Persons lacking continuous contributions since 1948 are eligible for partial pensions.

⁶⁴ A much more radical type of change is embodied in bills introduced in the Senate by Senator Jennings Randolph, of West Virginia (S. 1056), and in the House of Representatives by Congressman Philip Burton of California (H.R. 335) early in 1967, providing for an income-conditioned pension system apparently designed to supplant all existing income-maintenance programs for the elderly, the blind, and the disabled. They would provide to all persons who were aged 62 or more, blind, or disabled a guaranteed income equal to earnings under the Federal minimum wage law (i.e., \$2.912 a year, on the basis of the 40-hour workweek).

pension (perhaps confined to those 70 and over), an income-conditioned pension system as a substitute for the existing old-age and disability assistance programs, and a much more adequate minimum benefit within the existing OASDHI system.

CONCLUSION

It is not the purpose of this paper to arrive at a set of policy recommendations, but rather to encourage more careful consideration of the choices available in improving the protection provided under our social security system through examination of a variety of approaches found in other industrial countries. Attention has been focused primarily on dual systems of income maintenance of the elderly, disabled, and survivors, which aim at both an adequate minimum floor of income and an earnings-related supplement. In discussing such dual approaches, we have referred only briefly to a number of other highly significant trends in foreign old-age, survivors, and disability pension systems, such as the tendency to introduce automatic adjustment features and to develop a more structured relationship between private pension plans and national pension systems. Moreover, because of our primary focus on income security for the aged, disabled, and survivors, we have not attempted to consider the family allowance systems which are found in virtually all other industrial countries.

In conclusion, perhaps the most important point to emphasize is that important innovations are being introduced in the social security systems of nearly all the industrial countries, and a great deal of discussion and debate over the adequacy of existing approaches is going on. There is no evidence of a trend away from earnings-related social insurance programs and, indeed, the predominant tendency is toward liberalization of such schemes. At the same time, there is increasing recognition of the fact that earnings-related systems need to be augmented by some type of approach to a minimum floor of income, either through universal pensions or income-conditioned pensions. And, finally, there are some indications that deep-seated prejudices of workers against needs-related elements in income maintenance systems may gradually be overcome as countries move away from old-fashioned means tests toward more modern and humane income tests.

THE CANADA PENSION PLAN: A SUPPLEMENTARY INSURANCE SYSTEM

BY DONALD F. BELLAMY*

I. SOME FACTORS IN THE DEVELOPMENT OF CANADIAN OLD-AGE PENSIONS

1. SOCIAL FORCES

From a historical view of social policy, it is correct to say that Canadian measures of social security for the aged originated because of a developing attitude of social responsibility toward the needy in the present century; this came about in concert with a rising proportion of old people and awareness of their economic problems. The development of Canada as an urban industrial nation only after the 20th century arrived, and a parallel persistent trend away from an agricultural economic base, partly account for delays, in comparisons with older nations, regarding the development of old-age security measures. The first major step taken was a voluntary government annuity system in 1908 which had limited use until the rapid expansion of industrial pensions starting in the 1940's. To this was eventually added, in 1927, an income-conditioned pension at age 70. This program, by 1950, supplied income benefits, under restrictive eligibility rules, to over 40 percent of Canadians over 70. A \$40 monthly universal transfer payment at age 70, or demogrant, under the Old Age Security Act came in 1951. The Canada pension plan passed in 1965, added a second supplementary layer to the basic demogrant system of 1951. This recent program came about in part because of stepped-up urbanization, general acceptance of the wage-related approach to old-age security, widespread sympathy for the aged, and much relative economic need among the elderly during the inflationary and otherwise affluent postwar period.

Alongside the foregoing trends, population statistics, examined from the perspective of the extent of their influence on the development of social policy regarding the aged, indicate that aging of Canada's population has proceeded to a more moderate degree than in many other industrial nations. The percentage distribution of people aged 65 and over moved upward from 5.0 percent of total population in 1901 to 6.7 percent in 1941 and 7.6 percent in 1961.¹ International comparisons of population structure suggest that Canada occupies a rather favored position—that is, viewing old people from the standpoint of being, by age 65, a relatively unproductive segment of the population. Thus, figures show that 7.6 percent of Canada's population were 65 and over in 1960, compared with 9.2 percent in the United

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¹Sylvia Ostry and Jenny Podoluk, "The Economic Status of the Aging." Ottawa: Dominion Bureau of Statistics (1966), p. 14.

States and substantially higher percentages in various of the Western European countries, including Great Britain.² What the figures here indicate is that, while aging of the population has taken place in Canada, to suggest that this has been preeminent in the creation of modern social security policies is something of an overstatement. The main thrust toward the second old-age benefit system in 1965 was rather the converging influence of a number of social, financial, and political forces in the 1950's, of which demographic factors were one aspect.

A general acknowledgement of incompleteness in Canada's assumption of social responsibility provided a seedbed for the development of a new system; from the inception of the demogrant in 1951 there was frank recognition among legislators that the brandnew program enacted was not the full answer to old-age security that some had thought. Close associations with English-speaking countries suggested their contributory systems as being possible models for adaptation. This possibility was brought into sharpened focus in 1959, by Prof. Robert Clark, in a study of the U.S. program which was commissioned by the Canadian Government.³ Clark's work exposed not only the complexities of a government contributory system but the impressive coverage and range of benefits achievable. In the ensuing gestation period of a developing Canadian program, the systems of a number of countries, Great Britain, the United States, Sweden, and the German Federal Republic notable among them, left their mark.

2. LIMITATIONS OF EXISTING PROVISIONS

Dissatisfaction with existing private retirement arrangements was an important contributing factor in the development of a second-layer compulsory contributory governmental program in Canada.

These shortcomings were expressed with clarity in several Government publications⁴ and by Professor Clark in his study of the applicability of the OASDI program to Canada. Clark dwelt at some length with the private pension field which, just as in the United States, exhibited rapid growth in the approximately 20 years between 1936 and 1957. According to data compiled in occasional surveys, one-third of Canadian employees worked in industrial firms in 1936 where pension plans were in operation; by 1957 in a survey covering 39 percent of nonagricultural workers, the fraction of employees had risen to three-quarters.⁵ The estimated actual coverage among these workers, however, was only 29 percent to 33 percent in the recent year given above, a figure quite similar to that for the United States in 1956.⁶ Seriously reducing the effectiveness of the private sector plans were limited, if any, vesting provisions and inability to transfer pension rights from job to job, along with restrictive qualifying conditions for the entry of contributors into plans on the grounds of age, length of service, and sex. A lack of regulation was long recognized, but apart

² *Ibid.*, p. 13.

³ Robert M. Clark, "Economic Security for the Aged in the United States and Canada." Two volumes, Ottawa: Queen's Printer, 1959 (mimeographed edition).

⁴ For example, Canada, Department of Labour, "Pension Plans and the Employment of Older Workers." Ottawa: Queen's Printer, 1957.

⁵ Clark, *op. cit.*, p. 544.

⁶ *Ibid.*, p. 552.

from the imposition of rules governing Federal income tax deductions for pension contributions for a time, the field was largely unsupervised. The main contribution of the Clark report in this connection was the support it gave to movement toward effective private pensions by means of Government regulation. But eventually, instead of becoming an integral part of a national contributory program with contracting-out arrangements, which was a possibility seriously considered by the Government in 1962, the private pension field became the preserve of the Provinces for both constitutional and otherwise practical reasons. At the time of writing, four of the 10 Canadian Provinces had such regulatory laws on their statute books.

In the public sector, the amount of benefit under the demogrant at age 70 and old-age assistance payable at 65 was placed at \$40 monthly in 1951; both benefits were adjusted to \$55 in 1957 as a result of sharply rising living costs prior to this year when two general elections were held. The lack of relationship of these payments to an acceptable level of adequacy was always admitted and this remained a thorny issue; the policy was clearly stated that the Federal universal flat rate benefit at 70 was never intended to be more than a floor beneath private pensions and other means. Substantial regional variations in incomes and costs of living were influential in maintaining the benefit below an adequate level, especially for those living in large urban centers. The social policy thus made it imperative that the Provinces, or failing that, the municipalities, should pay supplements subject to means testing. Because the administrative responsibility did not fall on the shoulders of one government but 10, many old people were accorded inequitable if not unfair treatment. Some Provinces, or some localities under permissive provincial legislation, did not pay adequate supplements, if any at all. This was perceived by the needy as a perpetuation of outdated relief policies—and a strange paradox they were when tied to the socially advanced demogrant payment. Further evidence of the residual nature of supplementary benefits was their use in meeting extraordinary needs for such items as shelter and health care costs; whereas what seemed more suitable to those who took the side of old people were social policies aimed directly at a short supply of decent housing and inadequate health care.

An issue which produced further argument and pressure for change in the 1950's and early 1960's, until corrected by an amendment contained at the end of the Canada pension plan, had to do with the qualifying age of 70 years under the demogrant system. The legislative dilemma was that universal payments at 70 were as much as the country believed could be afforded; yet the qualifying age was as high as in the pension program of any country in the world. This policy was responsible for much economic hardship among many who were no longer in the labor force after 65, not a few of them with insufficient resources to live at an adequate standard. The figure of 21 percent of all Canadians 65 to 69 years of age receiving old-age assistance on a means test basis (year ending Mar. 31, 1963) gives an indication of such need; the variation among the Provinces ranged from about 13.5 percent in British Columbia to 51.4 percent in Newfoundland.⁷ To

⁷ Canada, Dominion Bureau of Statistics, *Canada Year Book*, 1965. Ottawa: Queen's Printer, 1966, p. 323.

an extent use of the 70-year-age minimum was intended not to encourage early retirement, but it is not clear what sort of a delay was in fact produced. In practice, there seemed to be a doubtful or limited relationship between qualifying aged and delayed retirement. First of all the female working force aged 65 and over comprised a negligible proportion of the total number of working women; a small rise from 1951 to 1961 probably reflected the higher participation in employment of women at all ages.⁸ For men over age 65, labor force participation rates declined from about 40 percent in 1951 to 30 percent in 1951,⁹ suggesting that the tendency during the first decade of universal old-age security at 70 had been toward even earlier, and not delayed, retirement.

The same dissatisfaction with supplementary assistance payments for the aged was also evident in regard to public assistance programs, under which widows and their dependent children and other categories of the needy qualified when in financial distress. Inadequate or non-existent income benefits to surviving family members under private pensions or group insurance fringe benefits strengthened arguments favoring a contributory program as being the most appropriate method to fill these gaps. Current discussions of guaranteed annual income measures came too late to commend to Canadians the flat rate survivor benefit approach without the complexities of a modern contributory system. In any event, public support of the contributory principle was undoubtedly so strong that nothing but a graduated benefit system was acceptable.

3. ECONOMIC CONSIDERATIONS

Strong pressures for change in the Canadian approach to social security also came from those who cared about the high cost of financing the pay-as-you-go demogrant program, by the 1960's climbing relentlessly toward a cost of \$1 billion yearly. That pressure coincided with, and was compounded by, difficulties associated with national monetary problems. Total benefit payments under the Old Age Security Act in 1960 were \$575 million, or approximately 1.6 percent of the GNP of \$36.3 billion.¹⁰ As a consequence of past reluctance to increase contributions for the demogrant, the pay-out (absorbed by periodic Federal subsidies) exceeded revenues in the program by \$600 million for the years 1952 to 1959.¹¹ Contributing to this aggravation was the relatively low-income ceiling for individual taxpayers on which one of three earmarked taxes was calculated. Originally, 2 percent of taxable income to a maximum tax of \$60, the ceiling rose to yield a \$90 tax contribution when the benefit became \$55 monthly in 1957. An increase in the tax revenues if the demogrant were increased was certain. (The figure in 1967 became 4 percent up to a maximum of \$240 yearly.)

Of more profound significance in the directions to be taken in financing social security for the aged was a pressing need for investment capital as a prerequisite for implementing development policies,

⁸ Ostry and Podoluk, *op. cit.*, p. 27.

⁹ *Ibid.*, p. 23.

¹⁰ Canada Year Book, 1965, pp. 302 and 1009.

¹¹ Canada, House of Commons, Debates, 1959, p. 2416.

a quite recent manifestation of the interrelationship of economic and social policies.¹² A policy of encouraging private investments in conjunction with provision for old-age retirement was implemented in 1957 through a voluntary legislative savings measure under which income tax deductions for retirement savings were permitted. One of the announced aims was to make available to the corporate trustees or insurance companies concerned a reservoir of savings for productive investments.¹³ Nor was the potential of public pension fund investments unnoticed by governmental authorities. In an early version of the Canada pension plan, in 1963, a proposed pay-as-you-go method of financing was attacked by Quebec's political leaders, largely on the ground that an accumulation of reserves was essential for the development of that Province. In taking the unusual step of contracting-out of the Canada pension plan, and legislating its own Quebec pension plan, the Province intended to supply needed capital for economic development at interest rates commensurate with the risk taken.

Provincial government access to reserves of \$200 million or more a year could undoubtedly provide a useful instrument of competition for extending controls over investment policies in the Province.

II. THE CANADA PENSION PLAN

The Canada pension plan which came into effect on January 1, 1966, was intended to insure for substantially all members of the Canadian labor force the opportunity to accumulate the rights to an earnings-related, graduated benefit retirement pension with supplementary features. In doing so under Federal legislation, the elimination of problems associated with moving between firms in employment and between Provincial jurisdictions within the country were attractive features. The graduated benefits, as mentioned, were to constitute a second layer on top of the demogrant. The Province of Quebec produced a program in all essentials the same as the Federal system; arrangements were made for full transfer of benefit rights between the two plans.

1. COVERAGE

With a few exceptions, all persons between the ages of 18 and 70 years possessing work-related income of at least \$600 yearly as employees, or \$800 as self-employed persons, are required by law to contribute to the Canada pension plan. Although the objective is to produce maximum feasible coverage, as close as possible to universality, the indications from preparatory estimates in 1965 were that 92 percent of the Canadian labor force, or some 6.1 million persons, would be covered in the first year of the Canada pension plan, together with the Quebec plan.¹⁴ Despite what appears from these figures to be a fairly substantial gap in coverage in view of the expressed aim of comprehensiveness, relatively few types of employment are excluded from the plan. The criteria for exclusion are familiar in other such

¹² This concern is discussed in Royal Commission on Canada's Economic Prospects, final report. Ottawa: Queen's Printer, 1957, ch. 18.

¹³ Debates, 1957, pp. 2222 ff.

¹⁴ Canada, "The Canada Pension Plan and Changes in the Old Age Security Act." Ottawa: April 1965, p. 4.

programs: difficulty in reaching certain occupations, doubt that there is an employer-employee relationship, payment is not in cash, taxation of earnings could only produce financial hardship to the contributor, or legal factors.

The main administrative exclusions are certain types of family employment and work which does not produce a cash income. Certain employment with religious orders may remain outside the plan. Casual employment for other purpose than the employer's trade or business is not covered, nor is work by persons who are highly mobile in their attachments to the labor force. This last category includes migratory employees in such jobs as agriculture, fishing, trapping and lumbering, who in a year receive less than \$250 cash pay from any one employer or work for less than 25 working days for one employer.

Provincial government employees were initially excluded for constitutional reasons. Subsequent Federal provincial agreements, necessary because of the way in which responsibilities are divided and the fact that substantial powers are allocated to the provinces under the British North America Act of 1867, brought into the plan the main body of civil servants in all but one province. Without such agreements, legally the provincial governments could not be compelled to make the employer's contributions.

2. BENEFITS

The first 10 years of the operation of the Canada pension plan constitute a transitional period during which benefit rights are to be built up. In this time an automatically operating pension index adjusts benefits and the contributory earnings basis; thereafter an earnings index takes over in the adjustment of earnings calculations. These two important innovations to North America are discussed first.

RELATION OF BENEFITS TO PRICES AND WAGES

The plan established a permanent association between benefits and increasing prices and wages. The effort to reduce the vulnerability of beneficiaries to inflation and to give these people the advantage of rising incomes by reflecting in part increased productivity and rising wage rates was an unusual assumption of responsibility in social security programs. The mechanism referred to represents an important shift in Canada away from the use of ad hoc increases to social welfare benefits. In the course of time, one unfortunate result of the automatic feature could be gradual and excessive isolation of benefits from political debate; detection of any such trends will be impossible for a considerable period of years, however.

Automatic adjustment applies to both new pensions and those in pay if the indicated annual changes are sufficiently large in relation to the benefit structure to warrant interference. Reduction of benefits was regarded as so unrealistic for political reasons that this was not contemplated.

The first adjustment mechanism to go into effect is a pension index. This index is based on the 12-month average of the national consumer

¹⁵ *Ibid.*, p. 6.

price index from July 1 of one year to the next June 30; the result is a figure for the pension index to be applied in calculating the benefits in the January next following the June date. When the pension index rises less than 1 percent above the pension index for the previous year, benefits remain the same. If the pension index rises more than 2 percent above the pension index for the previous year, benefits rise by 2 percent and the excess is disregarded.

All pensions in payment under the Canada pension plan are adjusted by means of the pension index. During the transitional period of the first 10 years, moreover, the same index is used to adjust the contributory earnings ceiling upwards as indicated; this is necessary in order to remove irregularities that are certain to arise between beneficiaries during this 10-year period owing to the adjustment of benefits in pay.¹⁶

The intentions behind the foregoing 1- and 2-percent limits are that where the price rise for a year is small no increase to the pension is at all necessary; in the event of large increases from year to year, it is undesirable to make full provision for these because short-lived peaks may appear. The potential effect of adjusting to price increases larger than 2 percent might also be considered as adding forth to an inflation. An additional steadying factor is the delay of up to 18 months in the upward adjustment against consumer price rises; should the rises be unusually high for a period of time it is assumed, however, that the Government must revert sooner or later to an ad hoc method of increasing the benefits. Although the index has not been tested, it would appear to provide for a substantial degree of moderation in the increase of benefits; the dollar increases should be far from negligible for persons living on modest or low incomes.

In order to take account of variations in productivity, to the extent these are partially reflected in earnings, the ceiling placed on contributory earnings (initially \$5,000) is to be varied by the use of an earnings index after the transitional period, in 1976. An additional use for this second measure is adjusting the contributor's earnings record at the time his benefit payments begin. By this means the worker's lifetime earnings levels are brought up to date upon retirement, thus maintaining a relationship between earnings in a year and the earnings ceiling for that same year.

The earnings index, described as a moving average, is calculated by dividing average earnings reported on all contributors' tax returns during the first 8 years of the most recent of the 10 calendar years by the average of all salaries and wages reported on tax returns during a fixed period. Specifically, the latter fixed period, the 8 years 1966 to 1973 inclusive. The use of the 8-year period should smooth the fluctuations which occur on a year-to-year basis. It should be noted that this index, unlike the pension index, may decline in value. In the enactment of the Canada pension plan, the initial pensionable earnings ceiling of \$5,000 was intended to be somewhat above average earnings, about \$4,000 a year, when the plan was under discussion. The effect of using the 8 years during the transitional stage is to maintain the

¹⁶ Canada, House of Commons, Special Joint Committee of the Senate and of the House of Commons, "Minutes of Proceedings and Evidence," No. 22, p. 1888.

relationship between the pensionable earnings ceiling and average earnings into the future. Another approach considered as a method which would produce a relationship between rising purchasing power and pension benefits was to base the calculation on the final earnings of the contributor.

This approach was rejected on the basis that many wage earners reach their peak earnings in their midforties and early fifties. The use of the earnings in the contributor's highest years would have provided another adjustment, yet this approach would not effectively take into account a rise in the general earnings level in subsequent years of the worker's employment.¹⁷ On the other hand, the effect of the index chosen was that equal weight is given to each year's earnings, thus maintaining the contributor's relative position in the general wage structure each year.

The earnings index in conjunction with the pension index give promise of moderating substantially the gap between retirement pension in pay and current wage and productivity levels.

RETIREMENT PENSIONS

The contributory old-age benefit payable from January 1, 1967, amounts to 25 percent of the average monthly earnings on which contributions were made. These average monthly pensionable earnings are calculated from the person's earnings during his working lifetime after the plan begins, or after he reaches age 18. In the detailed discussions during the committee stage of the Canada pension plan, interest was taken in persons who would be unable to benefit under the plan. The first group, chiefly those over age 70, most of whom would not become contributors to the scheme, numbered approximately 1 million people. The second group, those between 65 and 69 years of age, were either retired or soon to be; accordingly, their years of contributing, if any, would be few in number. A partial solution considered for these older people was an increase in the demogrant payment of \$75 monthly, to all above their 65th birthday, for the increase to be effective. Initially, although it was later amended, the proposal to the Government for the Canada pension plan was to pay actuarially reduced benefits to those who applied between the ages of 65 and 70 down to a minimum benefit of \$51 at 65. Figures on the decline in labor force participation of men after age 65 during the last four decades, however, suggested that actuarially reduced benefits would not do much to reduce the hardship of a substantial proportion of the age group 65 to 69. Employment for these men declined from approximately 60 percent in 1921 down to approximately 48 percent in 1941 and 30 percent in 1961. The forecast for 1970 was 25 percent. Although, undoubtedly, many such persons were receiving private pensions or had other means, these data had considerable bearing on the future benefit structure and related policies of the plan. The final enactment included the maintenance of the full demogrant below age 70 (reduced year by year until 1970, by which time 65-year-olds will qualify for the payment), with supplementation on the basis of individual need by the Provinces concerned.

¹⁷ *Ibid.*, p. 1887.

Full pensions under the Canada pension plan, as noted, become payable only after 10 years' operation of the program. During the 10-year transitional phase, the beneficiary receives up to 10 percent of the maximum benefit for each year in which he has made contributions to the plan. Without taking account of changes resulting from the use of the automatic adjustment, the maximum benefit payable after 10 years is \$104.17 monthly.

By 1970 the proportion of men age 65 to 69 in receipt of retirement payments under the plan is estimated at 27 percent, compared with 17 percent age 70 and over. By the year 1990, the estimates are for 51 percent of men 65 to 69 and 91 percent age 70 and over; for women the respective figures in the latter year are 41 and 39 percent.¹⁸

Government estimates of the combined benefits of the Canada pension plan and old-age security by 1976 ranged from a maximum of \$126 monthly for 65-year-old single men with a history of \$300 monthly earnings to \$236 for 70-year-old married men with \$400 monthly earnings. These figures were compared with U.S. figures based on the January 1965 administration bill in Congress which would pay benefits in 1976 amounting to \$113 for 65-year-old single men earning \$300 monthly on an average and \$204 monthly for 68-year-old married men with a \$400 earnings average.¹⁹ The proportion, however, who will reach these maximum payments is an open question.

No single official standard exists in Canada on the amount of cash income required either by a family or an unattached individual. Rather limited efforts have been made to define levels of living or to establish budgetary standards of need, a situation which contrasts sharply with the United States where the Bureau of Labor Statistics has put forth much effort, to the benefit of Canadians concerned with such problems. In part, this lack of Federal action has derived from the fact the primary constitutional responsibility for welfare resides with Provincial and local governments, and also, no doubt, from an unwillingness to become involved in the thorny problems connected with regional cost-of-living differences. The range of financial requirements estimated in the few budgetary studies done and by Federal inquiries of consumer spending, mostly for larger Canadian cities, seem to suggest that a single elderly person today requires somewhat in excess of the demogrant as a minimum, and similarly couples require double that sum. The indications from a number of local budgetary studies suggest that the demogrant provides a level of living substantially below a modest but adequate standard. The indications are strong that more than the universal payment is required in order to live in independence and self-respect, without, however, providing for special needs.

As for the resources of the aged, the 1961 Census of Canada indicated that virtually all men and women over age 70 received at least \$500, that is at least the amount of the universal old-age security benefit, but about 25 percent of women age 65 to 69 had an income below \$500, compared with approximately 7 percent of men. More than half of all men 65 and over and more than three-quarters of women possessed incomes under \$1,500 yearly or, in very rough terms, at not more than the above-mentioned level of minimum social adequacy. On behalf of such a

¹⁸ *Ibid.*, p. 1991.

¹⁹ *Ibid.*, p. 1961.

numerically large group of people, pressure was brought to bear for higher pension benefits by reasons of the virtual exclusion of these people as contributors under the Canada pension plan and the obvious fact that there was extensive need and unfair treatment of many people after they reached 65 years.

RETIREMENT TEST

Reference has been made to the fact that between ages 65 and 70, the elderly person must be retired from regular employment in order to qualify for the benefit. A retirement test is administered so as to relate payments to the degree of separation from paid work and to provide incentive where the elderly person displays extra initiative or has unusual financial needs. In computing pension benefits for those who retire before age 70, a two-step formula is used. The monthly exempt earnings permitted are 1.5 percent of pensionable earnings for the year; in the first 2 years before adjustment becomes applicable in the plan the pensioner suffers no penalty if he has earnings up to \$75 monthly, or \$900 yearly, based on the calculation of 1.5 percent times \$5,000. The first reduction in the benefit takes place on earnings between 12 and 20 times the \$75 monthly exempt figure; the result is that benefits are reduced by 50 cents for each dollar of earnings within the range \$900 to \$1,500. At the latter figure, and above it, there is a second reduction in the pension benefit of \$1 for each dollar of earnings. Once having reached the age of 70, however, the person is no longer subject to these benefit reductions.

The overall effect of the retirement age provisions was intended to be neutral insofar as they affect the decision whether to continue employment or to retire. For those able to earn at high rates, gains can probably be made under the dropout provision described below; casual workers at low rates are unaffected by the retirement income test; as with similar provisions in the systems of other countries, the major group probably affected negatively is comprised of those who perform highly paid services on a part-time basis. During the transitional period, however, the financial advantage to be gained ultimately from contributing additional years to the plan should be, if anything, an inducement to persons over age 65 for continued employment.

A final point may be obvious from what has already been discussed: Retirement from work before age 65 does not carry an actuarially reduced benefit as does the program in the United States, for instance. The effect of early retirement, except for reasons of disability covered by the plan, is to lose contributory years which has an effect on the amount of pension calculated at 65.

DROPOUT PROVISION

Most pension programs allow the contributor to eliminate from benefit calculations a number of years when his earnings were low or were nonexistent. In the determination of benefits for the Canadian program, each contributor may exclude 15 percent of the years since the inception of the plan, or since he became age 18, provided the number remaining does not fall below 10 years. This provides an opportunity

for those who have low or zero earnings by reason of education, illness, unemployment, or absence from the country to qualify for somewhat higher benefits than they would otherwise receive.

An additional dropout provision is for those who choose to work past age 65. This latter may give such persons the opportunity to build up larger pension benefits although there can be situations where this does not occur. In the transitional 10-year period the contributions during delayed retirement move the worker in the direction of full contributions and benefits that will ultimately be payable after the plan matures. Once the transitional period has passed, the contributor secures an additional dropout year for each year past the age of 65 in which he contributes. Although this ought generally to be advantageous, his eventual retirement pension may be reduced because of the manner in which the earnings index operates. On one hand, if his earnings after 65 are much above his lowest earnings in his contributory lifetime he can, by making use of the dropout provision, raise his average earnings. On the other hand, if he earns much less than he did in his earlier working life, his average lifetime earnings may not be raised. But even in the latter instance, exceptions may occur in calculating the retirement benefits because an increasing earnings index moves the earnings upward, thus counteracting the downward pull of the low earnings after 65. The complexity of the plan in its various details and the virtual impossibility the contributor will experience in computing his own benefits in relation to this or other provisions in the act, suggests the eventual necessity for a sizable clerical establishment for advising in such matters.

There is one aspect of the lifetime earnings notion with 15 percent dropout allowance in the retirement benefit formulation that does not lend itself to easy correction. According to the legislation, those who begin contributing after the inception of the plan in January 1966 or after age 18 years become eligible for less than maximum benefits upon retirement unless the number of years "lost" keeps him within the 15 percent dropout feature.

A group particularly affected by the implied limitations is married women who may leave and reenter the labor force several times during their working life, and in the event may stay out for an extended period. It might be argued that, generally speaking, these women in many cases are dependent on the earnings and ultimate graduated benefits of husbands. A contrary argument is that married women in paid employment are frequently supplementing the low or modest income of their husbands or work in order to supplement public assistance benefits which in some instances permit part-time work.²⁰

Those who immigrate to Canada may experience similar disadvantage by reason of the fact that they have not been in the country sufficiently long to have contributed to the full extent possible. The magnitude of the potential problem in coverage is suggested by the figure that between 1946 and 1961, the total net Canadian immigration was 1.5 million, of course not all of these workers.²¹ This seems particularly important as far as the pension plan is concerned because of

²⁰ See for example: Canada, Department of Labour. "Married Women Working for Pay in Eight Canadian Cities." Ottawa: Queen's Printer, 1958.

²¹ Canada Year Book, 1965, p. 206.

emphasis placed on immigration in social and economic development policies. According to the Canada pension plan, international agreements are to be negotiated whereby social security rights may be transferred between Canada and countries which reciprocate, but this has not yet been given public attention. Finally, attention is drawn to those who lose contributory years during their engagement in educational programs; in this regard future needs for periodic training and retraining of workers at all ages, in addition to regular educational attendance in the years immediately after age 18, suggest another possibility whereby the effectiveness of the plan may be reduced.

This discussion has ignored the better-off contributors, such as teachers and certain civil servants, who may retire at age 60; theirs seems more of a problem of integrating generally superior employee pensions with the Canada pension plan.

SUPPLEMENTARY BENEFITS

Lump-sum death benefits and income payments to widow, orphans, disabled widowers, and disabled persons make the benefits under the plan comprehensive in scope. Entitlement to supplementary income benefit is to be delayed for several years after the inception of the plan for administrative and financial reasons. For widows, orphans, and disabled widowers contributions are required for at least 3 years and the benefits therefore are not payable until 1968. The benefits are modest in size and have both flat rate and earnings-related features, the latter in response to strong criticism at the first stage of the legislation when only the flat rate benefit feature was included. Full widow's benefits are payable where the contributor's widow has reached 45 years of age at the time of widowhood. If there are no dependent children or the widow is disabled, benefits are payable at any age. This payment is the flat rate sum of \$25 plus a percentage amount; the latter is 37½ percent of the sum her husband would have received at age 65 calculated on the rate of his average earnings prior to death, in its effect a special type of dropout from the required contributory period. This allows for substantially higher benefits than would a computation based on actual years of contributions. For the average person the principle involved in the method of calculation described is as fair an arrangement as might be expected. Without allowing for automatic adjustments, the combined flat rate in percentage figures can reach a maximum of \$64.06 for the widow's benefit. The benefit for widowers previously dependent on their wives as a result of a disability is similar.

At the time of the 1961 census, out of the total female population between ages 45 and 64, 195,000 or 12½ percent were widows; this represented a decline of 1½ percent since 1941. These figures suggest that supplementary benefits to widows concern no insignificant number of people. The possibility of there being unmet financial need in the group exists because of difficulty in reentering the labor force and, at least among lower income families, the presence of other limited financial resources.

No benefits are payable to widows under age 35 who have no dependent children. Depending on one's particular view, early widowhood may suggest that a social security program which makes provisions

for benefits to such widows is not an urgent need below 45 where the risk is small, or that the cost of providing benefits to yet youthful widows would be a relatively inexpensive way of helping over a difficult period of readjustment. The decision to disregard the widow below age 35 without children was based on personal and economic factors including their age and likelihood of remarriage and presumed good prospects for entry into the labor force. It is noted that where widowhood occurs between 35 and 45 years, however, benefits are the previously described widow's benefits reduced by one-twentieth for each month that she is short of her 45th birthday. This appears to provide a thoroughly inconsequential benefit: The payment, without future adjustments, amounts to a maximum of \$6.41 monthly when widowhood occurs at age 36, rising by annual increments to \$64.06 where widowhood occurs at age 45. Similar reduced benefits pertain where a widow 36 to 45 years of age recovers from a pensionable disability or her children reach 18 years of age and are no longer dependent on her.

It has been indicated already that when women at any age become widowed while they have one or more dependent children, the full widow's benefits and orphan's benefits apply. These latter, paid on behalf of unmarried children under 18 or between 18 and 25 during continuance in school or university, are payable whether or not the mother's marital status changes. The benefit is \$25 monthly for each of the first four children and half that sum for each additional child with no maximum specified. According to the 1961 census²² there were about 200,000 widows of all ages heading families in Canada; only 8 percent were under 35; some 29 percent were between 35 and 44 years of age inclusive and the remainder were 45 and over. Almost 40 percent of the children concerned were between ages 6 and 14, equally distributed between the two groups of widows 35 to 45 and 45 and over. Relatively few children concerned were under age 6. Although figures are not available for the proportion of these families in receipt of public assistance benefits on the basis of need, it can be presumed that eventually the Canada pension plan will have an important effect on such programs through its supplementary benefits. It should be noted, however, that the latter will not by any means eliminate the necessity for supplementary aid according to need in individual circumstance.

An important aspect of the supplementary payments under the plan is the disability benefit for persons who become incapable of taking employment. The requirement is that on medical examination the difficulty must be considered sufficiently prolonged to be regarded as long continued and indefinite in duration or likely to result in death; the disability must also be regarded as of sufficient severity that the person is incapable of pursuing any substantially gainful occupation on a regular basis. The benefits for such persons are the flat-rate payment of \$25 monthly prior to adjustment, in addition to 75 percent of the retirement pension which would have become payable at 65 given a continuation of the same average earnings level by the contributor. The maximum unadjusted benefit, therefore, is short of the full \$104.17 retirement pension by a few cents; this is payable for the first time only in 1970. In order to qualify for payments, contributions have to be made

²² Canada. Census, 1961. Bulletin 21-7.

for 5 years and at least a third of the total number of years must be within the contributory period; for those becoming disabled after the transitional time, the recency of contributions is to be a determining factor in eligibility. This appears to be an attempt to limit the applicability of the measure. Once benefits start to become payable the Government has to decide what should be done to require rehabilitation; such procedures have not been made public because the question of disability benefits does not yet arise. According to the legislation, however, failure to undergo assessment of the disability or to undertake reasonable rehabilitation may be grounds for considering that the person is no longer disabled; this bears a similarity to the program in the United States. Determination of capacity for rehabilitation and even what constitute reasonable measures of the rehabilitation program are among questions yet to be answered. The size of the potential disabled group is not known with any exactness. The number of persons receiving disabled person's allowances in Canada provides only inadequate guidelines. During a recent year, the number of such recipients (excluding blind persons) was approximately 50,000 or 0.509 percent of the population between 20 and 69 years of age.²³ Prevalence according to events studied, however, may be substantially greater. In its actuarial report prepared for discussion of the legislation in November 1964, Government specialists based their estimates instead on OASDI experience in the United States. Prevalence rates at the end of the transitional period according to the calculations ranged from 0.05 percent in the age group 20 to 24 years up to 6.14 percent from age 60 to 64 in Canada.

III. FINANCING

Although it is not intended in this section to provide a technical statement on the financing of the Canada pension plan, certain general observations seem to be in order.

Commencing January 1, 1966, virtually all employees are required to contribute 1.8 percent of their earnings between the exempted amount of \$600 a year and the maximum of \$5,000 a year, with equal matching contributions by the employer. (Self-employed persons make both payments.) The maximum of \$5,000 on which calculations are made in the initial 2 years was selected because it stood somewhat above the average income level in Canada at the outset; one among a number of intended effects was to insure that a substantial proportion of the Canadian labor force would contribute at somewhat less than the full contributory maximum, leaving scope for private arrangements and, in addition, reducing the payout to upper income contributors.

The reserves over and above immediate requirements are to be made available by the Federal Government for the purchase of provincial securities in the same proportion as the funds are contributed by the people in the respective Provinces. (The exception is the Province of Quebec which, as noted, operates a plan comparable to the Canada pension plan, and in which reserves are provincially controlled.)

The chief actuary is required by law to make a quinquennial report to the Government on his actuarial examination of the act and into the state of the Canada pension plan account into which contributions

²³ Canada Year Book, 1965, p. 306.

are placed. It is his responsibility to provide estimates of revenues for 10 years and, in addition, he is required to estimate the percentage of earnings required to make all payments into the plan for each fifth year of the 30-year period. Furthermore, whenever an amendment of the act is to be introduced to Parliament, the Chief Actuary is required by law to report on the matter to the Minister of Finance.

Contributions to the Canada pension plan for the first 20 years are expected to provide a gradual accumulation of funds. Intermediate cost estimates, assuming, among other statistical measures, a 3-percent per annum average increase of earnings, indicate that by 1985 the fund will amount to \$7.1 billion. With a 4-percent increase per annum, the figure will be \$8 billion. Thereafter, the reserves are expected to decline and disappear by about the year 2000.²⁴ Thus, unless there are to be changes in the contribution rate, the Canada pension plan is to be placed on a pay-as-you-go basis at the end of approximately 20 years, depending on actual experience. Intermediate cost estimates, using a 3-percent per annum rate of increase in average earnings, show the contributions rising from 3.61 percent in 1980 up to 5.95 percent by 2050. At the rate of a 4-percent per annum increase in average earnings, figures comparable to the foregoing are 3.40 percent and 5.31 percent.²⁵ In permitting the allocation of reserves to the purchase of provincial securities, the expectation is that the funds will be used for provincial government investment in schools, hospitals, and other development projects. According to the actuarial projections referred to after the first 20 years, the funds should be withdrawn gradually from use by the Provinces. Analysis of the implications of this or other economic aspects cannot be undertaken here.

A final consideration has to do with the income level of those who are required to make the contributions. The indications are that the contributions bear most heavily on persons of moderate income, that is approaching \$5,000 per annum, beyond which point contributions decline as a percentage of earnings. The contribution structure under the plan is such that below the maximum earnings, the contributions are progressive in character; thus an employee with earnings of \$1,000 yearly contributes 0.72 percent of his total earnings on the basis of 1.8 percent of \$400 contributory earnings; at \$2,000 earnings the percentage is 1.26 percent and at the initial maximum level of \$5,000 earnings before contributions is \$79.20 or 1.58 percent of total earnings. When to these sums is added the 4-percent contribution since 1967 based on individual taxable income, payable up to a maximum of \$240 yearly the burden initially, without regard for passing on, falls heavily on those in low- and middle-income brackets. A related aspect which has not been given widespread attention stems from the fact that the supplementary benefits under the Canada pension plan will become, in the course of the maturation of the plan, a direct charge against the contributors. This represents a shift away from general revenue financing which has, until recently, been the basis for meeting the costs of the public assistance programs and in the present and future will be provided under the Canada assistance plan, a consolidating enactment (are to be substantially retired by the new contributory program over a period of years).

²⁴ Canada. Minutes of Proceedings and Evidence, p. 549.

²⁵ *Ibid.*, p. 503.

IV. INTEGRATION WITH OTHER PROGRAMS

Although the Canada pension plan was instituted in part to overcome inadequacies in the private pension field, the Government plan is not intended to replace or to hinder the development of private arrangements. On the other hand, the new Federal program is not neutral in its anticipated effects. One such, is encouragement of the spread of private pensions, in particular for higher income receivers, those who will not be satisfied with the level of benefits in the plan. Moreover, the benefits which become available under the plan will not promise a significant portion of retirement income, or survivor's benefits, for most potential beneficiaries for a good number of years. Upon the inception of the new plan, integration of existing private arrangements with the new program was the basis for heated arguments. Until the arguments were resolved by provincial legislative intervention, the main issue revolved around the question of whether the private components should be "stacked" on the two Government programs so as to form in effect, a third layer. No standard pattern resulted and all such plans integrated with the Federal program are plagued by the effects of the automatic escalation provisions.

During discussions on the Canada pension plan by Parliament, the initial intention was to legislate a complementary welfare act to be known as the Canada assistance plan. This would provide for Federal sharing of provincial public assistance benefits payable on grounds of individual need, and would represent a replacement under one act of several existing Federal and Provincial aid programs.

Supplementation on a means tested basis for the aged was to be one function of the new enactment. In essence, elderly persons would have had to obtain relief from individual need under procedures that had come to be regarded as invidiously testing means, while those concerned argued that the double decker program should void such a recourse. One solution proposed was an increase in the demogrant to \$100 monthly, a measure which would produce a one-third increase in expenditures under the program, a sum which would have resulted in a substantial reordering of Canada's other priorities in social and economic development. A second alternative was an income-conditioned supplement, which was soon enacted to come into effect at the start of 1967, for the express purpose of assisting every old age security recipient who possessed a limited taxable income. With the benefit amount tied to the demogrant in future years, it will, like the demogrant itself, be responsive to changes in the pension index.

The new guaranteed income supplement described is payable on submission of periodic income statements, with a system of sample checks; thereby there is assured an impersonal an administrative procedure as possible in such an approach. It is to be observed, however, that old people who experience serious need at a level untouched by the double decker system plus the Federal income supplement, will fall back on the Canada assistance plan.

V. CONCLUSION

Based on simple and quite imperfect criteria of potential need and levels of adequacy provided by the benefits in this paper, the conclusion is drawn that the Canada pension plan has both important limi-

tations and, as well, its own obvious advantages as a piece of social welfare legislation. The fact that the demogrant continues, and provides the basic old-age pension in the country, and that a simply administered and apparently acceptable guaranteed supplement are important features of old-age security during and beyond the transitional period of the Canada pension plan, leads one to wonder, aside from important political considerations, whether this obviates the necessity for having another supplementary benefit system on a contributory basis.

On economic grounds, the importance of the Canada pension plan appears substantial. Even so, its main objective, to provide investment capital is to disappear in perhaps 20 years, unless the contribution is increased to replenish the reserves. In the transitional phase, however, the provision of funds to support capital investment by the Provinces would seem to be the main justification for the fund. What will take place over the course of the next few years and in what way the emphasis will shift is impossible to consider with any degree of certainty.

SOCIAL INSURANCE AND ECONOMIC GROWTH: A MODEL OF THE GERMAN SYSTEM

BY GASTON RIMLINGER*

One of the basic decisions a country has to make in social insurance relates to the longrun adjustments of pensions: to changes in the income level of the economically active population. There are three main alternatives: (1) pensions may be left unchanged, or (2) they may be adjusted for changes in the cost of living, leaving their real level unchanged, or (3) they may be adjusted for changes in real per capita national income. The alternative adopted affects the income redistribution between those at work and those on retirement. This is a question of social policy which is normally determined in the political process.

If the objective is to allow retired persons to maintain their real income, it is necessary either to control the price level or to adjust pensions for changes in the cost of living. But in an economy with a rising per capita output this objective implies acceptance of a decrease in the standard of living of pensioners relative to that of the active work force. With current retirement ages and the trend toward longer life, the tendency of such a policy is to create large economically underprivileged minorities. The alternative objective is to maintain the relative standard of living of pensioners. If pension levels are to remain fixed, this requires a policy of falling prices; the cost of living should be allowed to drop in proportion to the rise in productivity.

Deflationary policies are not likely to be considered suitable for the purpose of allowing pensioners to share in a country's economic growth. Aside from the probable negative impact on the level of economic activity, the redistributive effects of a falling price level go far beyond those intended for the social insurance beneficiaries. The more direct method is, therefore, to adjust pensions for changes in per capita income, either in an ad hoc fashion or at regular intervals. A greater degree of equity can be achieved no doubt if adjustments are made systematically, rather than in response to the changing political winds.

In the United States adjustments have been irregular and not infrequently timed for their political effects. West Germany is one of the countries that has attempted to make adjustments on a

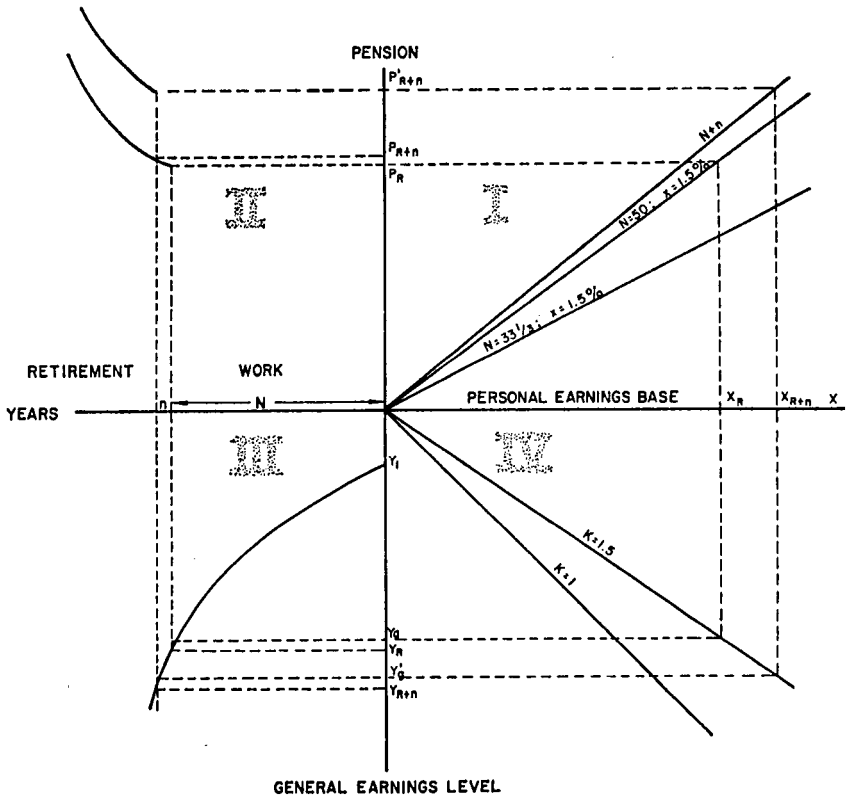
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more rational economic basis. The German social insurance system was reorganized in 1957 to link pension levels, at retirement and during subsequent years, to the growth of the national economy. Officially, the system attempts to maintain for the retired person the relative standard of living he achieved during his working life [1,5]. The pensions are designed to protect the income position of the individual pensioner in relation to other pensioners as well as the relative income of all pensioners vis-a-vis the active work force.

To achieve these objectives, German social insurance pensions are based on the following economic variables: (1) the ratio of the lifetime covered earnings of the individual to the covered earnings of all individuals during the same time period, (2) the individual's number of years of work in employment covered by social insurance, and (3) the average level of covered earnings of all individuals at the time of a particular person's retirement [3,p.61]. The pension at retirement is simply the product of these variables multiplied by a constant specified by law. Once in force, the pension becomes a function of the growth of the average earnings in the country. This relationship is not automatic but depends on annual reviews.

The manner in which the method of computing pensions reflects the stated policy objectives is illustrated geometrically in figure I, which

FIGURE I



depicts the determination of the pension for a particular individual. The pension is read off the vertical axis of quadrant I, but we shall begin our exposition in quadrant III. The horizontal axis of this quadrant indicates the years from the individual's entry into the work force until the end of his retirement. For the moment we are concerned only with the N years up to his retirement. The vertical axis of quadrant III measures the average earnings level of all persons in covered employment. The curve drawn in this quadrant represents the growth of the economy in terms of the growth of the average earnings level in covered employment. This level approximates the average of all wages and salaries in the country, since compulsory coverage is nearly universal for all who are not self-employed. When the person whose pension we are determining began to work, average annual earnings in covered employment was Y_1 , and when he retired, in year R , average earnings had risen to Y_R . This growth affects the pension in two ways: (1) It serves as a basis for computing the lifetime performance of the individual relative to all covered persons, and (2) the average earnings immediately preceding retirement is the absolute level against which the relative performance of the individual is compared.

To avoid the undue influence of annual fluctuations, the law does not use the average earnings of the last year preceding retirement but the average of the three preceding calendar years:

$$Y_g = \frac{Y_{R-1} + Y_{R-2} + Y_{R-3}}{3}.$$

Y_g is called the general earnings base (allgemeine Bemessungsgrundlage) and may be looked upon as the initial step in computing the pension. The function of the general earnings base is to tie the pension level to the wage and salary level at the time of retirement. It helps to maintain the relative position of all pensioners vis-a-vis the active work force.

For the next step we turn to quadrant IV. The purpose of this step is to transform the general earnings base into a personal earnings base (persönliche Bemessungsgrundlage). The function of this transformation is to determine the relative position of the individual pensioner. As stated above, he is supposed to maintain in retirement the relative income position he achieved during his working life. The transformation ratio is the ratio (K) of the lifetime covered earnings of the individual to the average covered earnings of all persons during the same period. For the person retiring in year R , this ratio is

$$K_R = \frac{\sum_{i=1}^R y_i}{\sum_{i=1}^R Y_i}$$

where y_i represents individual covered earnings in year i and Y_i the average of covered wages and salaries in year i . In quadrant IV this ratio is represented by lines from the origin, the ratio $K=1$ being a 45° line. For the man whose lifetime covered earnings were 150 percent of the average, $K=1.5$. With the aid of the K ratio we can thus translate Y_g into X_R , the personal earnings base: $X_R = K_R Y_g$. The values of X are read off the horizontal axis.

We turn now to quadrant I and the third step in the determination of the pension. German policy aims not only at rather high pension levels but tries also to build work incentives into the system. It is necessary therefore to take into account the length of the work record as well as relative earnings. Under the existing pension programs each year of covered employment entitles a person to a pension equal to x percent of his personal earnings base. For old-age and permanent total disability pension x equals 1.5 percent in the general schemes. Thus a person with 50 years of credited employment is entitled to an old-age pension at a level of 75 percent of his personal earnings base. The lines from the origin in quadrant I represent the relationship between the personal earnings base and the corresponding pension at retirement, for a given value of x and a given number of years of employment. The greater the value of x and the longer the employment record, the steeper the slope of these lines and the higher the pension for any given value of X . In our case, $P_R = 0.75X_R$, since the illustration assumes $N = 50$ and $x = 1.5$ percent. The values of P are read off the vertical axis.

The values determined in quadrant I represent only the pension levels at retirement. Each year since the 1957 reorganization, pensions in force have been adjusted to the growth in the national economy. These adjustments have been in the form of percentage increases in existing pensions. They have thus maintained both the relative positions of the individual and of all pensioners. The growth of the pension during retirement is represented in quadrant II by an upward sloping curve. The slope of this curve reflects the productivity adjustments. The value P_{R+n} is the level of the pension n years after retirement. We may ask also what the value of the pension would be if the individual had continued to work during these n years? As shown in figure I, if the individual retires in year $R+n$ his pension will be P'_{R+n} . Assuming that he maintained the same relative earning position he had before, the increase in his pension is now a function of the rise in the average earnings level, from Y_R to Y_{R+n} , the consequent rise in the general earnings base from Y_g to Y'_g and in the personal earnings base from X_R to X_{R+n} , and the lengthening of his work record to $N+n$.

An algebraic restatement of the basic relationships will be offered now as a summary and as a means of highlighting the effect of economic growth on the pensions. The value of the pension at retirement can be represented by

$$P_R = xY_g \left(\frac{y(1+r)^N}{Y(1+r')^N} \right) N \quad (1)$$

where r is taken to be the growth rate of the individual's earnings during his working life and r' the growth rate of the average earnings level. The value of the pension n years after retirement will be

$$P_{R+n} = xY_g \left(\frac{y(1+r)^N}{Y(1+r')^N} \right) N(1+r^*)^n \quad (2)$$

which is simply the value of (1) adjusted for the productivity growth rate r^* during the postretirement years. How much will it be worth

to the individual, in terms of pension, to continue to work n years? The value of the pension if he stays at work will be

$$P'_{R+n} = xY_g(1+r^n)^n \left(\frac{y(1+r)^{N1^n}}{Y(1+r')^{N1^n}} \right) N+n \quad (3)$$

where r^n is the growth rate of the general earnings base. The monetary pension value of the extra n years of work is the difference between the increase in pension attributable to work and the growth adjustment of the pension less the contributions paid during the n years

$$\Delta P_R = (P'_{R+n} - P_R) - (P_{R+n} - P_R) - ncy = P'_{R+n} - P_{R+n} - ncy \quad (4)$$

where c is the contribution rate as a percentage of income y . This assumes that all of the income is being taxed for social insurance purposes. Such an assumption would tend not to be valid in the American case, where the taxable earnings ceiling is fixed at \$4,800. In Germany, however, the taxable ceiling is equal to 2.5 times the average earnings of all covered employees in the general schemes for workers and salaried employees. In the miners' program it is equal to 3.5 times the average wage. If pensions are allowed to rise with national income, it is obviously necessary to let contributions rise in a similar fashion.

The German social insurance system clearly tends to bring about a significant redistribution of income between those on pensions and those still at work. (See 4, pp. 15-28.) If we assume that incentive is mainly a function of relative earnings, this is not likely to have adverse incentive effects, although the relatively high pension levels are bound to affect the pattern, if not the level, of consumption, saving, and capital formation [6]. The argument that may be advanced against the German system is that it does not redistribute income enough among individuals, that it extends into retirement the income inequalities that were generated by the market system during the working years. The validity of this argument, however, must be tested on social and political grounds rather than in the economic sphere. Actually, more redistribution takes place than is implied in the model, because of child supplements to the pension and because years of illness, training, and involuntary unemployment are counted as years of work.

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