

Social Security

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Robert J. Myers

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To my wife, Rudy

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The Pension Research Council of the Wharton School of the University of Pennsylvania was created in 1952 for the purpose of sponsoring objective research in the area of private pensions. It was formed in response to the urgent need for a better understanding of the private pension movement. Private pensions have experienced a phenomenal growth during the last three decades, but their economic, political, and social implications are yet to be explored. They seem destined to play a major role in the quest for old-age economic security, but the nature of that role can be ascertained only on the basis of more enlightened evaluation of the capabilities and limitations of the private pension mechanism. It was to conduct an impartial study into the facts and basic issues surrounding private pensions, under the auspices of an academic and professional group representing leadership in every phase of the field, that the Council was organized.

Projects undertaken by the Council are broad in scope and predominantly interpretive rather than technical in nature. In general, attention is concentrated on areas which are not the object of special investigation by other research groups. Its research studies are conducted by mature scholars drawn from both the academic and business spheres. Research results are published from time to time in a series of books and monographs.

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AALL	American Association for Labor Legislation
AB	Aid to the Blind
ACE	Average current earnings (OASDI)
AFDC	Aid to Families with Dependent Children
AHA	American Hospital Association
AIME	Average Indexed Monthly Earnings (OASDI)
AMA	American Medical Association
AMW	Average Monthly Wage (OASDI)
APTD	Aid to the Permanently and Totally Disabled
COES	Committee on Economic Security
COLA	Cost-of-living adjustment payment
CPI	Consumer Price Index
CRR	Commission on Railroad Retirement
CSR	Civil Service Retirement
DI	Disability Insurance
DIC	Dependency and Indemnity Compensation (military benefits)
DRC	Delayed-Retirement Credit
DRG	Diagnosis-Related Group
ECF	Extended Care Facility (now termed Skilled Nursing Facility)
ERISA	Employee Retirement Income Security Act
ESRD	End-Stage Renal Disease
FAP	Family Assistance Plan
FERS	Federal Employees' Retirement System
HCFA	Health Care Financing Administration
HEW	Health, Education, and Welfare (Department of)—also see HHS
HH	Home Health (services)
HHH	Home Health Agency

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HHS	Health and Human Services (Department of)— formerly HEW
HI	Hospital Insurance (Medicare Part A)
HIAA	Health Insurance Association of America
HMO	Health Maintenance Organization
MAA	Medical Assistance for the Aged
MCCA	Medicare Catastrophic Coverage Act
MFB	Maximum Family Benefit (OASDI)
NHI	National Health Insurance
NRA	Normal Retirement Age
OAA	Old-Age Assistance
OASDHI	Old-Age, Survivors, Disability, and Health Insurance
OASDI	Old-Age, Survivors, and Disability Insurance
OASDI-HI	Old-Age, Survivors, and Disability Insurance and Hospital Insurance
OASI	Old-Age and Survivors Insurance
OBRA	Omnibus Budget Reconciliation Act
PIA	Primary Insurance Amount (OASDI)
PSRO	Professional Standards Review Organization
QC	Quarter of Coverage (OASDI)
QMB	Qualified Medicare Beneficiary
RR	Railroad Retirement
RUI	Railroad Unemployment Insurance
SMI	Supplementary Medical Insurance (Medicare Part B)
SNF	Skilled Nursing Facility
SSA	Social Security Administration
SSI	Supplemental Security Income
TDI	Temporary Disability Insurance (cash sickness benefits)
UI	Unemployment Insurance
VA	Veterans Administration
WC	Workers' (Workmen's) Compensation
ZPG	Zero Population Growth

Foreword

The Social Security system of the United States influences in a direct or indirect manner about 235 million citizens and other residents. Some 95 million persons in the work force, and their employers, support the system through contributions (taxes). Some 41 million persons currently receive retirement, survivor, or disability benefit payments from the system. Almost all wives, husbands, widows, widowers, and children, whether paying taxes or not, are entitled to benefits based on certain contingencies or eventualities.

In 1991, about \$302 billion was paid into the system for Old-Age, Survivors, and Disability Insurance by employed individuals, employing organizations, and the self-employed. An additional \$75 billion was paid in for Hospital Insurance under the Medicare program and also \$12 billion in premium payments from enrollees under the Supplementary Medical Insurance program.

This volume is published 57 years after the Social Security system was established in the United States. In many respects the system is maturing, as suggested by its broad dimensions just described. In other ways, the system is changing, or is perceived to be changing, as demographic trends and economic problems have an impact on it. It seems reasonable to conclude that, more than ever in the past, there is broad public interest in how Social Security works and how well it will serve its present and future beneficiaries.

Robert J. Myers, a member of the statutory National Commission on Social Security of 1978–81, served as Chief Actuary of the Social Security Administration from 1947 to 1970, as Deputy Commissioner of Social Security in 1981–82, as Executive Director of the National Commission on Social Security Reform in 1982–83, as Chairman of the Railroad Unemployment Compensation Committee in 1983–84, and as Chairman of the Commission on Railroad Retirement Reform in 1989–90. He is acknowledged as one of the world's foremost authorities on social insurance and has served as consultant to many na-

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tions. He is a past president of the American Academy of Actuaries and the Society of Actuaries and is a distinguished Fellow of this latter body.

This volume is a revision and updating of the author's *Social Security*, first published in 1975 and extensively revised and reorganized in 1981 and in 1985 under the auspices of the McCahan Foundation, and of a previous volume published in 1965 by Richard D. Irwin, Inc. The current volume takes into account the massive restructuring of the program through the legislation enacted in April 1983 to resolve the short-term and long-range financial problems then facing the cash-benefits portion of the Social Security program. The Pension Research Council is privileged to make this publication available. In keeping with the council's publication policy, it should be noted that the findings and conclusions in this volume are those of the author and should not be attributed to the Pension Research Council.

Jerry S. Rosenbloom
Chairman
Pension Research Council

Preface

Since the dark days of the depression years of the 1930s, social security programs of many types have grown rapidly in the United States. Their effects have been very significant from social, economic, and political standpoints.

Before the 1930s, the only social insurance programs were the workers' compensation laws, which were primarily state legislation. Allied with social insurance are the state-operated public assistance programs—both being part of what is internationally known as “social security.” In one form or another, many of the public assistance plans were operative before the 1930s, but with the advent of federal financial participation, these programs too have grown rapidly. In their effects, the social insurance programs and the public assistance programs are not generally independent of each other or competitive, but rather the latter should complement the former.

This book has been written for the purpose of giving a thorough factual description of the various social insurance and allied programs now operating in the United States which deal with retirement, disability, survivor, and health benefits. The emphasis is both on the general principles underlying the development of the systems and their present status and on the general social and economic results developing from them. Necessarily, a certain amount of detail must be presented to indicate clearly the nature of the systems, but most of this has been placed in some 447 footnotes and 43 appendixes (at the ends of chapters, which constitute about 30 percent of the pages in the text). The reader who is interested in the broad general concepts of the various programs is advised to skip the footnotes and appendixes. Throughout the book, whenever legislative changes are discussed, besides telling what happened and when it happened, an effort is made to explain why it occurred in the way that it did.

The major emphasis is on the social insurance programs, rather than on public assistance. Furthermore, the greatest emphasis is on

the largest program and the one that affects the most people—Old-Age, Survivors, and Disability Insurance and Medicare, sometimes referred to in combination as “social security”; the latter term, however, is more often used only for OASDI.

It is important to note that this book deals only with statutory programs. In many areas, such as retirement pensions, health care for the aged and the long-term disabled, and survivor benefits, significant protection supplementing that under statutory programs is provided through private-sector organizations (insurance companies, Blue Cross–Blue Shield plans, trustee pension plans, and group-practice prepayment plans). In other areas, such as temporary sickness cash benefits, workers’ compensation (work-connected injury or disease) benefits, and health care for the younger, working population, the protection is furnished predominantly by private-sector organizations (although workers’ compensation is a statutory program).

Not included within the types of protection dealt with in this book are such closely related programs as unemployment insurance, cash-sickness (or temporary-disability) benefits, workers’ compensation, no-fault automobile insurance, and state crime compensation programs. Although these possess some of the characteristics of social insurance or other types of social benefit programs, they do not seem to be comparable to the broad government programs dealt with here.

All references to years are to calendar years, unless otherwise indicated. The fiscal year of the federal government was from the preceding July 1 through June 30 for all fiscal years up through the one ended June 30, 1976. Since then, the fiscal year runs from the preceding October 1 to September 30.

The author wishes to acknowledge the helpfulness of friends and colleagues who supplied needed data or reviewed and commented on one or more chapters of the final manuscript. These include Bruce D. Schobel, FSA, New York Life Insurance Company; Roland E. King, FSA, Health Care Financing Administration; and Kenneth J. Zoll, Railroad Retirement Board.

Any factual errors or misstatements contained in this book are the sole responsibility of the author.

Robert J. Myers