

Social Security Finance - Present Law and Wagner-Murray-Dingell Bill

SUMMARY

The present Social Security program is now financed by a 5 per cent payroll tax, 4 per cent on employers and 1 per cent on employees. Under the Act the tax rate is scheduled to increase January 1 to 7 per cent, 2 per cent on employees, 5 per cent on employers. Reserves for old age insurance are now around \$6 billion and will increase greatly in the future, to above \$100 billion in the course of about 50 years. Reserves for unemployment compensation are over \$6 billion and also are increasing.

The Wagner-Murray-Dingell bill contemplates expanding greatly the number of people covered, increasing the benefit rates and introducing new programs to cover risks not now covered. The bill calls for a payroll tax of 12 per cent, 6 per cent on employees, 6 per cent on employers. It is estimated that reserves under this bill would continue to increase until mid-1960's. Not until then would expenditures begin to exceed receipts.

Brief explanations of these things follow along with a table showing estimates to the year 2000 under the present program and under the Wagner-Murray-Dingell bill.

I. Present Law

1. Old Age and Survivors' Insurance

- a) Current contribution rates are 1 per cent to be paid by employers and employees each on the first \$3000 of wages. Increase to 1½ per cent was scheduled for 1940 but postponed. Increase to 2 per cent was scheduled for 1943 but was postponed twice, the second time to January 1, 1945. Under current law, the rate is to increase to 2 per cent on January 1, 1945; 2½% on January 1, 1946 and 3% on January 1, 1949.
- b) Expenditures and receipt estimates for the present program are shown in Table I. The estimates of future tax and benefit levels, prepared by actuaries of the Social Security Board are speculative because they involve assumptions for the years 1945 to 2000 with respect to labor force, employment, wage and price levels and so forth. These estimates are on the low side of the range. They show an excess of receipts over expenditures of about \$1,850 million per year from 1950 to the year 2000. On the receipt side, the table shows an increase in the relative importance of interest payments as a revenue source.

The table indicates that the benefits now provided for could be financed by a 2 per cent (1 per cent employer and employee each) rate until 1960; or 2.7 per cent rate until 1976 and a 4.6 per cent rate until the year 2000. Yet, an increase of the rate to 4 per cent is scheduled now, and to 6 per cent by 1949.

- c) The trust fund, as shown in Table I is estimated to increase from its present level of nearly \$6 billion to \$17 billion by 1950, \$36 billion by 1960, \$54 billion by 1970 and \$103 billion by the year 2000. Again, these figures are on the low side of the range. On the high side, the Social Security Board estimates a figure of \$142 billion for the year 2000.

2. Unemployment Insurance

- a) Unemployment insurance is financed by a 3 per cent contribution of the employer, reduced somewhat in most states by merit rating provisions. No further increase is scheduled.
- b) Receipts from the unemployment compensation tax are now about \$1.5 billion per annum. Benefit payments during the fiscal year 1944 were \$60 million.
- c) The Unemployment Trust fund now is over \$6 billion, credited to the different states. Assuming a smooth transition to peace time production and little unemployment, the fund will increase further.

3. Other Social Security Benefits

Other Social Security programs, such as old age assistance, aid to blind, and aid to dependent children, etc., are financed by matching Federal grants to State and Local governments. In the fiscal year 1944 total expenditures by State and Local governments for these purposes amounted to about \$900 million. Of this about one-half was contributed by the Federal government, this contribution being financed out of the general budget.

II. Wagner-Murray-Dingell Bill - (S. 1161)

The expanded social security program under the Wagner-Murray-Dingell bill proposes to (1) broaden coverage and increase benefits under the Old Age and Survivors' Insurance, add a permanent disability insurance; (2) federalize unemployment insurance, extend coverage, liberalize benefits and add temporary disability insurance including sickness, accident and maternity benefits; (3) provide medical and hospitalization insurance.

The expanded system is to be financed by a 12 per cent payroll tax (6 per cent contribution by employer and employees each). Of this, it is assumed about 4 per cent will pay for the old age, survivors and permanent disability insurance; the remaining 8 per cent for the other "current cost" programs, as follows: 4 per cent for unemployment insurance, 1 per cent for temporary disability insurance, 1 per cent for hospitalization and 2 per cent for medical care. Self-employed persons are to pay only 7 per cent and will be excluded from unemployment and temporary disability benefits.

1. Old Age, Survivors' and Permanent Disability Insurance

- a) Estimated expenditures and receipts (4 per cent of the total of 12 per cent) under the expanded system are again shown in Table I. They show substantially larger receipts (up to, say 1950) than under the present system but also very much larger benefit payments. Thus payments for 1950 would be \$1,700 million or three times as large as under the present system. Receipts will exceed expenditures until about 1960, from then on they will be less and a subsidy will be needed. This deficiency of receipts could be made up by drawing on the fund until the mid-1970's.
- b) As shown in Table I the Trust fund will continue to increase until about 1960, at which time it is estimated to reach \$27 billion, as against \$36 billion under the present plan. For the first five years the rate of increase would be faster than under present law, but from then on at a considerably slower rate. Unlike the present plan the fund will decline from then on if the excess of benefits over receipts is financed by drawing on the fund.

2. Unemployment, Temporary Disability and Maternity Insurance

Estimated expenditures from 1945 on are \$2,200 million per annum through 1960, (depending of course on employment conditions), while estimated receipts are close to \$2,800 million - an excess of receipts over expenditures of about \$200 million per year. On these assumptions, the fund may be expected to increase from its present level of over \$6 billion to \$12 billion in 1960.

3. Hospitalization and Medical Care

The receipts from 3 per cent out of the total 12 per cent payroll taxes are estimated to finance these benefits on a pay-as-you-go basis.

III. Inflationary and Deflationary Impact of Present Social Security Plan and S1161 for the year 195K

Research people at the Social Security Board have estimated the impact of the two plans on consumer expenditures to be as follows:

<u>Level of National Income</u>	<u>Excess of benefit payments over payroll receipts</u>	<u>Excess of payroll receipts over benefit payments</u>	<u>Increase or Decrease in Consumption expenditures</u>
	(Millions of Dollars)		
	<u>Present Law</u>		
165,000	0	2,000	- 1,279
140,000	0	800	- 414
105,000	600	0	+ 692
	<u>Wagner-Murray-Dingell Bill</u>		
165,000	0	4,200	- 2,319
140,000	0	1,400	- 141
105,000	1,800	0	+ 2,575

The table indicates that under the new bill the contribution of Social Security to the level of consumer expenditures would be substantially greater at depression levels of income, than under present law. But, similarly, the reverse effect would be substantially larger at high levels of income. To improve the net result, the expanded benefit program must be combined not with the increased payroll taxes but an immediate and substantial contribution financed out of the government budget and paid for from a progressive tax structure. In the British and German Social Security systems such a contribution has been made for many years.

Table I
Old Age and Survivors Insurance
(In million dollars)

Calendar Year	Receipts			Benefit Payments	Excess over Benefits of:		Trust Fund
	Fayroll Tax	Interest	Total		Tax Receipts	Total Receipts	
<u>Present Program 1/</u>							
1945	\$ 1,336	\$ 152	\$1,488	\$ 233	\$ 1,103	\$ 1,255	\$ 8,200
1950	2,166	316	2,482	589	1,577	1,893	16,700
1960	2,448	696	3,144	1,252	1,196	1,892	35,800
1970	2,676	1,070	3,746	1,913	763	1,833	54,400
1980	2,892	1,406	4,298	2,734	158	1,564	71,100
2000	3,336	2,036	5,372	3,539	- 203	1,833	102,700
<u>Proposed Program - Wagner Bill 2/</u>							
45	2,700	136	2,836	320	2,380	2,516	8,457
1950	3,075	325	3,400	1,714	1,361	1,686	18,422
1960	3,516	504	4,020	3,876	- 360	114	27,226
1970	3,690	476	4,166	4,892	- 1,202	- 726	25,342
1980	3,823	358	4,181	5,943	- 2,120	- 1,762	18,622
2000	3,909	0	3,909	7,975	- 4,066	- 4,066	- 12,119

1/ Estimates prepared by Social Security Board, Office of the Actuary

2/ Includes Permanent Disability Insurance. Roughly comparable estimates, prepared by the Tax Foundation, New York City

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