

OASDI Benefits, Prices, and Wages: 1966 Experience

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THE MONTHLY BENEFIT amount under the old-age, survivors, disability, and health insurance program has been raised five times since benefits were first paid in 1940, yet the increases have not been sufficient to keep pace with the rapid rise in prices. As a consequence, for all but a relatively small number of long-term beneficiaries, some of the original purchasing power of their benefits has been lost.

The 1966 rise of 3.3 percent in the consumer price index of the Bureau of Labor Statistics was the largest in 15 years and further lowered the value of OASDI benefits. The purpose of this article is to update the most recent study of the benefit-wage-price relationship, which appeared in an earlier BULLETIN issue.¹ Historical comparisons of this type are intended to provide background information for use by those considering the problems of benefit adequacy. A comparison of benefits with prices measures the changes in the purchasing power of benefits over a period of time. A comparison with wage levels provides an indication of the extent to which retirees have participated in the rising living standards of the working population.

The data in table 1 indicate, for workers retiring in specified years, the average monthly benefit amount awarded and the amount later payable as a result of general benefit increases. These data on benefit awards are also adjusted to indicate the amount that would be required to maintain parity between benefit amounts and price and wage levels. The adjustments for prices are based on the BLS consumer price index (CPI); for wages, the adjustments are based on BLS data on average annual spendable weekly wages for production workers (with no dependents) in manufacturing industries. The illustrations selected refer to persons who retired in December of 1950, 1954, and 1959—years in which general benefit in-

creases became effective. The 1959 example relates to workers retiring at age 65 or later, none of whom had his benefits actuarially reduced because of early retirement.

MAINTAINING THE VALUE OF BENEFITS

Of the five general increases in benefit amounts that have gone into effect since 1940, three provided an "across-the-board" percentage increase applicable to most beneficiaries. The other two (those of 1950 and 1954) provided, in effect, variable percentage increases at different benefit levels. All the amendments included special provisions—a minimum increase, for example—applicable to certain categories of beneficiaries, such as those receiving a minimum or low benefit or a reduced amount. The 1950 amendments provided by far the largest general increase—50–100 percent. This rise, the first since the program began, returned purchasing power to the 1940 level. The inflation of the war and postwar period had robbed benefits of nearly half their original value.

The tabulation below, which shows the percentage increases for the retirees whose experience is detailed in table 1 and for the 1940 retiree with an average benefit, applies generally to the increases in the intermediate ranges of the benefit distribution.

<i>Effective date</i>	<i>Percentage increase</i>
1950 (1940 retiree) -----	83
1952 -----	12½
1954 (1950 retiree) -----	9
1959 -----	7
1965 -----	7

Comparison With Prices

Neither of the two most recent benefit increases (those of 1959 and 1965) fully compensated for the loss of purchasing power caused by price rises since the previous benefit increase. This fact is particularly significant because nine-tenths of

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¹ Saul Waldman, "OASDI Benefits, Prices, and Wages: A Comparison," *Social Security Bulletin*, August 1966, pages 19–23.

TABLE 1.—Benefits for worker retiring in specified years: Average monthly benefit amount awarded, amount payable after general benefit increases, and amount needed to maintain parity with prices and wages, 1950–66

December	BLS consumer price index (1957–59=100)	Wage index ¹ (1957–59=100)	Average monthly benefit amount for—								
			1950 retiree			1954 retiree			1959 retiree		
			Actual	Amount ² needed to maintain parity with—		Actual	Amount ² needed to maintain parity with—		Actual	Amount ² needed to maintain parity with—	
				Prices	Wages		Prices	Wages		Prices	Wages
1950	87.1	73.0	\$49.50	\$49.50	\$49.50						
1951	92.2	76.9	49.50	52.40	52.10						
1952 ⁴	93.0	79.9	55.70	52.85	54.20						
1953	93.6	83.6	55.70	53.20	56.70						
1954 ⁴	93.2	84.9	60.70	52.95	57.55	\$66.60	\$66.60	\$66.60			
1955	93.5	90.7	60.70	53.15	61.50	66.60	66.80	71.15			
1956	96.2	94.2	60.70	54.65	63.85	66.60	68.75	73.95			
1957	99.1	97.2	60.70	56.30	65.90	66.60	70.85	76.25			
1958 ⁵	101.0	98.5	60.70	57.40	66.80	66.60	72.15	77.25			
1959 ⁴	102.3	104.4	65.00	58.15	70.80	71.00	73.10	81.90	\$89.00	\$89.00	\$89.00
1960	103.9	105.4	65.00	59.05	71.50	71.00	74.25	82.65	89.00	90.40	89.90
1961	104.5	108.3	65.00	59.40	73.45	71.00	74.65	85.00	89.00	90.90	92.30
1962	105.8	113.0	65.00	60.15	76.65	71.00	75.60	88.65	89.00	92.05	96.30
1963	107.6	115.9	65.00	61.15	78.60	71.00	76.90	90.90	89.00	93.60	98.80
1964	108.8	122.5	65.00	61.85	83.05	71.00	77.75	96.10	89.00	94.65	104.40
1965 ⁴	111.0	129.3	69.60	63.10	87.65	76.00	79.30	101.45	95.30	96.55	110.25
1966	114.7	132.5	69.60	65.20	89.85	76.00	81.95	103.95	95.30	99.80	112.95

¹ Based on BLS data for annual average spendable weekly wages for production workers (no dependents) in manufacturing industries.

² Calculated by increasing the benefit awarded by the percentage rise in the price or wage index since the date of award.

³ Average monthly benefit amount for workers awarded benefits in

September–December 1950 who qualified under the insured-status provisions of the 1939 amendments.

⁴ Benefits increased under amendments to the Social Security Act.

⁵ November data.

⁶ Average monthly benefit amount for workers aged 65 and over.

those now receiving benefits retired after 1954 and continue to be adversely affected by the lag. Each of the earlier benefit increases (those of 1950, 1952, and 1954) raised benefit amounts to a greater extent than was required to offset the price rises that followed the previous hike in benefits. Since relatively few beneficiaries who were affected by the legislation of the early 50's remain on the rolls, those amendments are, of course, now mainly of historical interest.

Workers retiring since 1954.—The worker who retired in 1954 received an average monthly benefit of \$66.60 and increases in 1959 and 1965 that brought the amount to \$76.00. Neither of these increases, however, completely restored the purchasing power of the original award. By the end of 1966, a year in which prices rose 3.3 percent, the 1954 retiree would have required a monthly benefit of nearly \$82—8 percent greater than he was receiving—to purchase the same goods and services. Similarly, the 1959 retiree, who had his benefit increased from \$89.00 to \$95.30 by the 1965 legislation, needed nearly \$100 in December 1966 to maintain his original purchasing power.

Older retired workers.—Workers who retired before 1954 and were still receiving benefits in 1966 had greater purchasing power than that provided by their original benefits. The relatively few remaining 1940 retirees, for example, enjoyed an 11-percent improvement and the 1950 retirees a 6-percent improvement—a lingering effect of the large benefit increases of 1950, 1952, and 1954. The actual benefit amounts received by this older group, after as many as five benefit increases, averaged only \$60–70 monthly. Their benefits remain significantly lower than the benefits of later retirees, because the amount of the benefit is based on average covered earnings and the wage levels that prevailed during the working years of the older beneficiaries were substantially below those in recent years.

Price index for the aged.—Using the CPI to measure price changes that affect aged retired persons is sometimes questioned because (1) the index is based on the spending patterns of families of urban wage earners and clerical workers and (2) because health insurance for the aged (Medicare), first effective mid-1966, reduces the relative importance of medical costs in the spend-

ing of the aged. Some experimental calculations suggest, however, that the effect of these factors is not of great importance.

To adjust for the first problem, price indexes for the eight major groups of goods and services were reweighted by the actual expenditures of the aged (urban two-person families with a head aged 65 or over and persons aged 65 or over living alone) as reported in the 1960-61 consumer expenditure survey of the BLS. This procedure does not yield results as precise as would be obtained if individual items were reweighted and prices collected for the specific goods and services bought by the aged. Earlier analyses suggest, however, that there are major differences in the level of the index only when the difference in weights of individual items are very great and are also correlated with differential price movements.

To take account of health insurance for the aged, the index for aged persons was further adjusted to reduce the weight for medical care by 40 percent, the estimated average proportion of the medical costs covered by that program. The results of the two adjustments are illustrated by the data below:

Period	Consumer price index	Estimated index for the aged	
		All items	Adjusted for Medicare
Percentage increase, January 1967 from—			
January 1965.....	5.3	5.8	5.6
January 1959.....	13.7	14.7	14.1
September 1954.....	22.7	24.4	23.3

As the data indicate, the estimated price index for the aged for all items rose some 7-9 percent faster than the CPI during each of the periods shown. The further adjustment for health insurance for the aged, however, reduces the difference by roughly one-half, with the adjusted index for the aged rising from 3 percent to 6 percent faster than the CPI.

Comparison With Wages

Gross wages rose moderately during 1966, but spendable wages failed to increase proportionately, rising by only 2.4 percent, partly because of higher social security taxes and accelerated income-tax withholding. Prices rose faster than

spendable wages, causing a decline in real wages—a phenomenon that has occurred only rarely since World War II. Over the longer term, however, the increase in spendable wages has outpaced substantially the rise in price levels. In the last decade, for example, spendable wages have registered a 41-percent gain, compared with 19 percent for prices.

Shown below are the benefit amounts paid in 1966 to workers who retired in specified years and the amounts that would have been required to maintain parity with the level of spendable wages.

Year of award	Amount payable	Amount needed to maintain parity with wages	Percentage difference
1940.....	\$59.00	\$85.00	-44
1950.....	69.60	89.85	-29
1954.....	76.00	103.95	-37
1959.....	95.30	112.95	-19

As the data show, the benefits of the 1954 and 1959 retirees lagged behind wages by 37 percent and 19 percent, respectively, in contrast to lags of 8 percent and 5 percent when the benefit amounts are compared with prices. Even for the older beneficiaries, who have some relative advantage in terms of purchasing power, benefits have fallen far behind the increases in spendable wages over the relatively long period they have been on the rolls. Retired workers have therefore not shared to any appreciable extent in the increasing standard of living enjoyed by the working population.

BENEFITS IN CURRENT-PAYMENT STATUS

The annual benefit experience of the average worker who retired in 1950, 1954, and 1959 is traced in table 1. By contrast, table 2 shows the average monthly benefit amount for all beneficiaries of selected types—retired workers, aged widows, and widows with dependent children—who received payments in December of 1940 and subsequent years. The averages in this table relate to amounts being paid to beneficiaries who entered the rolls at any time in the past, as well as to those to whom benefits were awarded during the year.

TABLE 2.—Average monthly benefit amount in current-payment status for selected types of beneficiaries, in actual and constant (1966) dollars,¹ December 1940-66

December	BLS consumer price index (1957-59=100)	Average monthly benefit amount in current-payment status									
		Retired worker						Aged widow		Widowed mother and 2 children	
		Total		Without reduction for early retirement		With reduction for early retirement					
		Actual	In constant (1966) dollars	Actual	In constant (1966) dollars	Actual	In constant (1966) dollars	Actual	In constant (1966) dollars	Actual	In constant (1966) dollars
1940	49.1	\$22.60	\$52.79					\$20.28	\$47.37	\$47.10	\$110.02
1941	53.9	22.70	48.31					20.22	43.03	46.60	99.17
1942	58.8	23.02	44.91					20.15	39.31	46.50	90.71
1943	60.7	23.42	44.26					20.15	38.08	46.90	88.62
1944	62.0	23.73	43.90					20.17	37.32	47.30	87.51
1945	63.4	24.19	43.77					20.19	36.53	47.70	86.30
1946	74.9	24.55	37.60					20.22	30.96	48.20	73.81
1947	81.7	24.90	34.96					20.40	28.64	48.80	68.51
1948	83.9	25.35	34.65					20.60	28.16	49.80	68.08
1949	82.3	26.00	36.24					20.82	29.02	50.40	70.24
1950 ²	87.1	43.86	57.76					36.54	48.12	93.90	123.65
1951	92.2	42.14	52.43					36.04	44.84	93.80	116.70
1952 ²	93.0	49.25	60.74					40.66	50.15	106.00	130.74
1953	93.6	51.10	62.62					40.87	50.09	111.00	136.03
1954 ²	93.2	59.14	72.78					46.27	56.94	130.50	160.60
1955	93.5	61.90	75.93					48.69	59.73	135.40	166.09
1956	96.2	63.09	75.22	\$63.43	\$75.63	\$48.17	\$57.43	50.14	59.78	141.00	168.12
1957	99.1	64.58	74.75	65.61	75.94	49.08	56.81	51.09	59.13	146.30	169.33
1958 ²	100.8	66.35	75.50	67.79	77.14	50.27	57.20	51.90	59.05	151.70	172.62
1959 ²	102.3	72.78	81.60	74.78	83.84	55.16	61.85	56.70	63.57	170.70	191.39
1960	103.9	74.04	81.74	76.47	84.42	55.78	61.58	57.68	63.68	188.00	207.55
1961	104.5	75.65	83.04	78.81	86.50	59.42	65.22	64.91	71.24	189.30	207.77
1962	105.8	76.19	82.60	80.10	86.84	61.88	67.09	65.88	71.42	190.70	206.74
1963	107.6	76.88	81.95	81.49	86.87	63.31	67.49	66.84	71.25	192.50	205.20
1964	108.8	77.57	81.77	82.92	87.41	64.32	67.81	67.85	71.53	193.40	203.88
1965 ²	111.0	83.92	86.72	90.10	93.11	70.60	72.96	73.75	76.21	209.00	215.98
1966	114.7	84.35	84.35	91.10	91.10	71.60	71.60	74.10	74.10	(⁴)	(⁴)

¹ Calculated by dividing the benefit amount by the consumer price index (December 1966=100).

² Benefits increased under amendments to the Social Security Act.

³ November data.

⁴ Not available.

The benefit data reflect the many economic and legislative factors that influence the program. Since benefit amounts are based on the average monthly covered earnings of workers, awards to new beneficiaries tend to reflect the rising wage levels that have characterized the economy. The extent of this built-in adjustment is limited, however, by the earnings base—that is, the maximum amount of annual earnings creditable toward benefits. They also reflect periodic legislative revisions of the mathematical formulas used to figure the basic benefit amount (related to average earnings) and the size of the minimum and maximum benefits payable.

The current-payment data for retired workers are also affected by recent provisions permitting the payment of reduced benefits to persons who retire before the normal retirement age. This option was made available to women in November 1956 and to men in August 1961. Separate data are provided in table 2 for benefits in current-payment status under the reduction provision. Other

revisions of the program, such as changes in coverage and requirements for benefit eligibility, have also had indirect but significant effects on benefit amounts. The current-payment data reflect, of course, the general benefit increases granted to persons already on the rolls.

The 1965 amendments to the Social Security Act included, in addition to the 7-percent benefit increase, several provisions—generally effective in 1965—that affect the data for December 1965 and December 1966. These amendments raised the minimum and maximum amount of benefits payable and, effective for 1966, the creditable earnings base. The retirement test was also modified, with a resultant effect on the number of beneficiaries on the rolls and on the amount of their benefits.

Among the other changes that affected retired workers and aged widows was the extension of insured status, on a transitional basis, to persons aged 72 and over with limited periods in covered

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TABLE M-13.—OASDHI cash benefits: Estimated number of beneficiaries with monthly benefits in current-payment status, by age group and type of benefit, 1940-67

[In thousands. Adjusted to exclude duplication arising from dual entitlement; see the 1964 Annual Statistical Supplement, p. 22]

At end of selected month	Total, all ages	Under age 62	Aged 62 and over										
			Total, aged 62 and over	Aged 62-64				Aged 65 and over					
				Total	Retired workers	Disabled workers	Dependents and survivors ¹	Total	Retired workers	Dependents and survivors ¹	Persons with special age-72 benefits ²		
December:													
1940	222	75	147	(*)			(*)	147	112	35			
1945	1,287	510	777	(*)			(*)	776	518	258			
1950	3,462	877	2,586	1			1	2,585	1,771	814			
1955	7,912	1,622	6,291	3			3	6,287	4,474	1,813			
1956	9,070	1,701	7,369	338	113		225	7,031	4,999	2,032			
1957	11,081	2,009	9,072	729	266	46	417	8,343	5,931	2,411			
1958	12,390	2,231	10,159	837	299	77	461	9,322	6,621	2,701			
1959	13,667	2,560	11,107	968	334	105	529	10,139	7,191	2,948			
1960	14,811	2,883	11,928	1,041	357	127	557	10,887	7,704	3,183			
1961	16,471	3,406	13,065	1,375	648	141	585	11,690	8,277	3,413			
1962	18,032	3,858	14,174	1,659	873	156	630	12,515	8,865	3,650			
1963	19,016	4,109	14,907	1,748	946	163	639	13,159	9,318	3,841			
1964	19,783	4,274	15,509	1,848	998	183	667	13,661	9,671	3,990			
1965	20,867	4,735	16,132	1,854	992	197	665	14,278	10,108	4,169			
1966	22,767	5,197	17,570	1,964	1,036	231	697	15,606	10,622	4,350			634
1966													
February	21,215	4,905	16,309	1,884	1,014	201	669	14,425	10,220	4,205			
March	21,348	4,981	16,367	1,903	1,027	204	672	14,463	10,247	4,216			
April	21,423	5,021	16,403	1,904	1,028	208	669	14,498	10,273	4,225			
May	21,633	5,096	16,537	1,959	1,061	213	685	14,578	10,333	4,245			
June	21,737	5,112	16,626	1,973	1,071	215	687	14,653	10,390	4,263			
July	21,823	5,126	16,697	1,980	1,072	217	691	14,717	10,438	4,279			
August	21,857	5,126	16,731	1,961	1,056	218	688	14,770	10,476	4,294			
September	21,919	5,140	16,779	1,964	1,053	221	690	14,816	10,510	4,305			
October	22,457	5,163	17,294	1,965	1,047	225	693	15,329	10,554	4,324			451
November	22,651	5,183	17,468	1,964	1,041	228	695	15,504	10,589	4,335			580
December	22,767	5,197	17,570	1,964	1,036	231	697	15,606	10,622	4,350			634
1967													
January	22,847	5,212	17,634	1,961	1,035	232	694	15,674	10,647	4,358			669
February	22,966	5,239	17,727	1,950	1,022	233	695	15,776	10,708	4,376			691

¹ Includes dependents of disabled workers.

² Authorized by 1966 legislation aged 72 and over not insured under the regular or transitional provisions of the Social Security Act.

³ Less than 500.

⁴ November data; December data not available.

BENEFITS, PRICES, AND WAGES

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work. Workers insured under this provision and their entitled widows receive a \$35 monthly benefit (with \$17.50 additional for a wife also aged 72 or over). The averages for widows' benefits were affected by the extension of optional reduced benefits to widows aged 60-61 without children. Benefits for widows with dependent children were affected by the higher family maximum and by the provision allowing the payment of benefits for children aged 18-21 who are full-time students.

Benefits in current-payment status tend to be larger year by year as new beneficiaries with relatively higher benefit amounts enter the rolls and older retirees, generally receiving lower bene-

fits, die. In 1966, however, the benefit amount for the retired worker rose by only 1/2 of 1 percent, a below-normal increase. This small rise reflects the continuing effect in 1966 of the 1965 provision that made \$35 benefits available to persons aged 72 and over with limited covered work. It also reflected the continuing trend toward early retirement at reduced rates. The benefit amount for retired workers, expressed in constant (1966) dollars, fell almost 3 percent during 1966.

Widows' benefits displayed a similar pattern, increasing in 1966 by only a small amount in actual dollars and falling in constant dollars. Again, the influence of certain provisions of the 1965 amendments (for example, the availability of reduced benefits to widows aged 60-61 and the payments to widows of persons with limited work) accounts in part for these results.