

Old-Age, Survivors, and Disability Insurance: Administrative Expenses

by ROBERT J. MYERS*

THE cost of administering the old-age and survivors insurance program, including the expenses incurred by the Treasury Department in collecting contributions, amounted in 1957 to an estimated \$148 million, which represented 2.2 percent of contributions, 2.0 percent of benefit payments, and 0.09 percent of payroll. The remarkably low cost of administering the program has caused widespread interest. It therefore seems worthwhile to analyze in some detail the components of the administrative workload and the trends in administrative costs since the program first started paying monthly benefits.

A disability insurance trust fund, similar to but operated separately from the old-age and survivors insurance trust fund, was set up by the Social Security Amendments of 1956. Into it are paid the proceeds from the additional tax imposed by the 1956 amendments to meet the cost of the monthly disability benefits, established by the same legislation. The combined employer-employee contribution (on earnings up to \$4,200 a year) for this purpose is $\frac{1}{2}$ of 1 percent of earnings; the self-employed contribute at a rate of $\frac{3}{8}$ of 1 percent. Contributions for the old-age and survivors insurance aspects of the program are paid into the old-age and survivors insurance trust fund. The combined employer-employee rate for old-age and survivors insurance is currently 4 percent of earnings up to \$4,200 a year, and for the self-employed the rate is 3 percent; these rates are scheduled to rise to 5 percent and $3\frac{3}{4}$ percent respectively in 1960 and then at 5-year intervals to 8 percent and 6 percent, respectively, for 1975 and thereafter.

With the exception of the monthly disability benefits, all benefits—in-

cluding child's benefits to permanently and totally disabled children aged 18 or over whose disability began before they reached age 18 and any additional old-age and survivors insurance benefit amounts payable as a result of the disability freeze—are paid from the old-age and survivors insurance trust fund. Monthly disability benefits are paid from the disability insurance trust fund.

Administrative expenses are paid out of the trust funds. In some instances, such expenses are clearly allocable to only one trust fund, and they are so allocated; in most instances, however, allocation between the trust funds is made. The allocations with respect to the Treasury Department expenses are made currently, month by month, but provision is made for appropriate adjustment one way or the other between the two trust funds after the end of the fiscal year, when full analysis of the subdivision of administrative expenses is possible. The program expenses incurred by the Department of Health, Education, and Welfare, particularly those of the Bureau of Old-Age and Survivors Insurance, are not, however, pro-rated monthly but are paid entirely out of the old-age and survivors insurance trust fund, as they arise. Full adjustment is to be made after the end of each fiscal year, and at that time the old-age and survivors insurance trust fund will be compensated for any loss of interest. The following analysis will deal separately with the administrative expense of old-age and survivors insurance and of disability insurance.

Administrative Workload

A few figures indicate the magnitude of the record-keeping operations connected with the administration of the program. In 1956 about 245 million separate earnings items, reported for approximately 68 million different persons, were handled. The number will be even higher in 1957 and there-

after as a result of the extension of coverage effected by legislative changes in 1956. Each year about 4 million new account numbers are issued. Each year, also, about 3 million duplicate account-number cards are issued because the original has been lost or worn out, and about $2\frac{1}{4}$ million changes and corrections in the records of account numbers are made—most of them changes of name because of the account-number holder's marriage.

The payment of monthly benefits and lump-sum death payments also involves a considerable amount of administrative work. At the end of 1957, 11.0 million monthly benefits were in current-payment status, including about 150,000 disability benefits. During the year about 2,830,000 individuals were added to the rolls to receive monthly benefits, and the benefits of about 790,000 persons were terminated. In addition, about 720,000 lump-sum death payments were made during 1957.

Receipts and Expenditures

The provision that expenditures for both benefit payments and administrative costs under the program are to be paid out of the trust fund has been in effect since January 1, 1940. Before that date the administrative costs were paid from the General Treasury, which was, however, effectively reimbursed since the appropriations made to the old-age reserve account (predecessor of the old-age and survivors insurance trust fund) closely approximated the tax receipts less these administrative costs.¹

Included in the administrative expenses paid out of the trust funds are such direct expenses of the Bureau of Old-Age and Survivors Insurance as salaries, rentals of machinery and property, and purchase

* Chief Actuary, Social Security Administration.

¹ See Sophie R. Dales, "Payments Into OASI Trust Fund From Contributions," *Social Security Bulletin*, October 1957.

of supplies, as well as similar expenses of the Treasury Department in connection with collecting contributions and issuing benefit checks. Certain other apportioned administrative expenses of the Department of Health, Education, and Welfare, incurred in the operation of the old-age, survivors, and disability insurance program, are also properly paid from the trust funds. The expenses incurred by the various State agencies in connection with the determination of disability are likewise paid from the trust funds—the costs for the disability insurance benefits (for disabled workers aged 50–64) from the disability insurance trust fund and the costs for the disability freeze and for the child's benefits payable to disabled children over age 18 from the old-age and survivors insurance trust fund.

Another item consists of the costs incurred in the plans for the construction of the new central office building of the Bureau of Old-Age and Survivors Insurance in Baltimore, as well as the construction costs themselves. Because the actual work on the building began in November 1957, sizable items on this account will show up in the administrative expenses of the next few years. These construction costs, although charged as a current administrative expense, are really a capital item. As a result of this method of treatment, administrative expenses will be somewhat overstated in the near future. The overstatement will, however, be counterbalanced by lower reported expenses later, since the only charges then will be for maintenance; there will be no charges for rent or for interest on or amortization of the capital cost of the building.

The trust funds are credited with receipts derived from the sale of miscellaneous services and supplies for which the initial outlays have been made from the trust funds—for example, for preparation of tabulations for other Government agencies.

A few indirect expenses that probably are properly chargeable to the system are not paid out of the trust funds. The principal expenses of this type are the cost of certain employee benefits for employees whose salaries are paid out of the trust funds—specifically, the Government's accrued

liability cost (with respect to service in the past) of the civil-service retirement program² and the cost of the program of unemployment compensation for Federal workers and of the Federal employees' compensation program (workmen's compensation) for employees who are covered by these programs and whose salaries are paid out of the trust funds. The costs of certain other employee benefits are, however, met directly from the trust funds—(1) the employer contributions for the Federal employee group life insurance program, (2) the employee contributions for the old-age, survivors, and disability insurance program for employees not covered under the civil-service retirement program, and (3) the matching employer cost (6½ percent of payroll) of the civil-service retirement system for employees covered by that program. Other items not paid out of the trust fund—relatively small in amount—include space provided in Government buildings (rent is paid for the Baltimore central office and for most other office space throughout the country), personnel administration work done by the Civil Service Commission, and General Service Administration costs for the storage of records.

In old-age, survivors, and disability insurance, as in private pension plans and group insurance programs, some of the indirect cost of administration is met by employers. The chief item of this kind arises in connection with the employers' maintenance of individual wage records for the quarterly reports, from which individuals' earnings histories are developed. In any event, part of this work by employers would occur in connection with income-tax withholding.

Cost Allocation Between Funds

As indicated previously, the administrative expenses of the old-age, survivors, and disability insurance program must be allocated between the two trust funds in an equitable manner. There is no requirement

² Before the middle of 1957, none of the cost to the Government for this program was met from the trust funds. The accrued liability cost, incidentally, is estimated to be roughly equivalent to the matching employer cost for current service—that is, 6½ percent of payroll.

that this allocation be done on a current basis—even on an estimated basis. Thus, according to the law, it is possible for all expenses to be paid out of one trust fund currently but with the appropriate allocation and transfer made after the close of each fiscal year. In actual practice, during the calendar year 1957 the only administrative expenses that have been charged against the disability insurance trust fund are those of the Treasury Department, which are on an estimated basis and are subject to later analysis and adjustment.

According to the published figures in the *Daily Statement of the U. S. Treasury*, the administrative expenses of the old-age and survivors insurance trust fund during the calendar year 1957 amounted to \$161.5 million. The corresponding figure for the disability insurance trust fund is \$2.8 million. The latter figure should be increased—and the former figure correspondingly reduced—to allow for the expenses incurred by the Department of Health, Education, and Welfare in administering the disability insurance program. These are the expenses that were actually met from the old-age and survivors insurance trust fund but that will subsequently—upon cost-accounting analysis—be refunded to it from the disability insurance trust fund. It is estimated that the actual amounts for administrative expenses chargeable to the two trust funds for the calendar year 1957 are \$148 million for the old-age and survivors insurance trust fund and \$17 million for the disability insurance trust fund.

Measuring Costs

The best way to measure administrative costs is to relate them to an appropriate base. The question arises, however, as to what is the most appropriate base. Three possible bases exist—contribution income, benefit disbursements, and taxable payroll. The use of each of these three bases has certain advantages and certain disadvantages. Relating administrative costs to contribution income has the disadvantage that, as the tax rate is changed, the ratio fluctuates widely and therefore has limited significance. The ratio based on benefit

disbursements can be misleading, particularly for the early years of operation, when such disbursements were relatively low and when most of the administrative expenses were incurred in handling the wage records that would produce future benefits. Using the ratio of administrative costs to taxable payroll seems most meaningful, since it indicates what percentage of the taxable payroll is needed to pay for the operation of the system. This concept is perhaps the most difficult, however, of the three to understand. The administrative expense ratios for all three bases are examined below.

Old-age and survivors insurance.—The administrative expenses of the old-age and survivors insurance program rose from \$26 million for 1940

Administrative expenses of the old-age and survivors insurance program in relation to contribution income, benefit payments, and taxable payroll, 1940-57

Calendar year	Administrative expenses			
	Total amount ¹ (in millions)	As percent of—		
		Contributions ¹	Benefit payments ¹	Taxable payroll
1940.....	\$26	4.1	74.3	0.08
1941.....	26	3.3	29.5	.06
1942.....	28	2.8	21.4	.05
1943.....	29	2.3	17.5	.05
1944.....	29	2.2	13.9	.04
1945.....	30	2.3	10.9	.05
1946.....	40	3.1	10.6	.06
1947.....	46	3.0	9.9	.06
1948.....	51	3.0	9.2	.06
1949.....	54	3.2	8.1	.07
1950.....	61	2.3	6.5	.07
1951.....	81	2.4	4.3	.07
1952.....	88	2.3	4.0	.07
1953.....	88	2.2	2.9	.06
1954.....	92	1.8	2.5	.07
1955.....	119	2.1	2.4	.08
1956.....	132	2.1	2.3	.08
1957.....	² 148	2.2	2.0	.08

¹ Based on trust fund transactions as reported in the *Daily Statement of the U.S. Treasury*.

² Preliminary.

to \$92 million for 1954; for 1957 they amounted to \$148 million—almost six times the 1940 figure. About \$29 million out of this \$148 million was reimbursed to the Treasury Department.

Several factors are involved in the large rise in administrative costs since 1940. One is the increase of roughly 100 percent in the number of earnings items processed—the result partly of the rise in the general

levels of employment and partly of the expanded coverage under the program. Other factors producing higher costs are the increase in the number of claims presented, the growth in the beneficiary rolls, and the advance in general wage and price levels that affected the costs of such items in operating the system.

The sharp rise from 1954 to 1957, amounting to 60 percent, resulted in large part from (1) the extension of coverage to self-employed farmers, since relatively larger administrative costs are incurred in dealing with individual reports from persons in all parts of the Nation than in handling the more highly concentrated reporting from large employers; (2) the establishment of the disability freeze; (3) the liberalization of the retirement test, which, although far more equitable than the former test, is also more complex to administer; and (4) the relatively large number of claims processed after the minimum retirement age for women had been lowered from 65 to 62 and after some of the newly covered groups first became eligible for benefits.

Although administrative costs expressed in terms of dollars have risen over the years, because of the reasons given above, unit costs such as the cost of establishing and maintaining an earnings record account or adjudicating a claim have decreased in terms of dollars of constant purchasing power. This lowered cost has resulted from improved administrative operating techniques, including the greater use of electronic data processing equipment.

Relating administrative expenses to contribution income shows that the ratio over the 18 years 1940-57 has—with few exceptions—fluctuated between 2 percent and 3 percent. The use of this ratio is not entirely satisfactory, as indicated previously, because of the considerable changes that occur in years when the contribution rate increases. Such increases occurred in 1950 and again in 1954, when the ratio reached the record low of 1.8 percent.

The ratio of administrative expenses to benefit payments was almost 75 percent in 1940, the first year that monthly benefits were paid. This ratio dropped sharply to 30 percent in 1941, and since then it has

declined continuously—dropping to 2.0 percent in 1957. Use of this ratio as a measure may be somewhat misleading because of (1) the gradual maturing of the system and (2) the effect of any sharp rise in benefit disbursements resulting from changes in the benefit provisions similar to those that took place in 1950, and again after the 1952 and 1954 amendments. Legislative changes increasing benefit disbursements have had only a partial effect on the ratio in the year of enactment; the full effect has first been felt in the succeeding year.

The ratio of administrative expenses to taxable payroll, unlike the other ratios, has been remarkably stable; it has averaged about 0.07 percent of payroll for the 18 years considered, although it was slightly higher in the most recent 3 years. This figure indicates clearly the relatively low cost of administering the old-age and survivors insurance program.

One other comparison may be of interest. During the 18 years the total administrative expenses for old-age and survivors insurance have amounted to \$1,168 million. The interest earnings of the trust fund over the same period have totaled \$4,758 million, or more than four times as much as administrative costs. In 1957 the administrative expenses of \$148 million represented only 27 percent of the interest receipts of the trust fund.

Disability insurance.—The administrative expenses of any social insurance program in its first year of operation are not typical of the long-run situation. Although the disability insurance trust fund began operations in 1957, contributions were received in only the last 11 months of the year, and benefit disbursements were made only during the last 5 months. Accordingly, the estimated administrative expenses of \$17 million represented a relatively high proportion of benefit payments (30 percent) but a low proportion of contributions (2.4 percent). When related to total taxable payroll, the administrative expenses for the disability insurance program amounted to only 0.01 percent. It should be noted, however, that these figures for administrative expenses are based on only

the preliminary allocation for the costs incurred by the Treasury Department and on an estimate for those of the Department of Health, Education, and Welfare. Accordingly there will be final adjustment between the two trust funds later.

In future years, the administrative expenses for this program will probably grow as the number of persons becoming insured for benefits rises and as the number on the rolls increases. Part of the growth in the number on the rolls will come as

workers who had been disabled at an earlier age attain age 50.

General Conclusions

Any comparisons of the relative administrative expenses of the old-age, survivors, and disability insurance program with the corresponding cost of programs such as private pension plans or life insurance must be made with care because of the different natures of these programs. One difference, for example, is that some of the publicity essential to keeping

workers and their families informed about old-age, survivors, and disability insurance is provided as a public service by radio and television stations and by newspapers and magazines.

Whatever base is used, it is clear that the administrative expenses paid out of the trust funds, and thus out of the contributions of workers and employers, are relatively low, with the result that the bulk of such contributions is available for benefit payments.

Notes and Brief Reports

Proposed Social Security Budget, 1958-59*

On January 13, 1958, President Eisenhower transmitted to Congress the Budget of the United States Government for the fiscal year ending June 30, 1959. Of the \$73.9 billion proposed for expenditure in 1958-59, \$47.1 billion is for major national security and related programs. This sum makes up 63.7 percent of the total budget and is within 1 percent of the proportion allocated for the purpose in each of the last 2 fiscal years.

Estimated expenditures for the Social Security Administration are budgeted at \$1,852.3 million for 1958-59. This amount does not include the operations of the Bureau of Old-Age and Survivors Insurance or the Bureau of Federal Credit Unions, which are excluded from the Federal administrative budget totals. Expenditures for the Bureau of Old-Age and Survivors Insurance are made from the old-age and survivors insurance and the disability insurance trust funds, and those for the Bureau of Federal Credit Unions from the credit union public enterprise funds; their annual budgets are, however, subject to authorization by Congress. Table 1 shows the proposed allocation of the social security budget, together with comparable amounts for the last completed and the present

fiscal years. Appropriation requests are included for all programs now in operation.

The estimated expenditure data in the Budget reflect sums to be paid out by the Treasury in a given fiscal year rather than the total amount expended in the operation of any program for that year. Thus, total Social Security Administration expenditures proposed for 1958-59 are \$13.3 million less than the estimated total for 1957-58. This is a technical adjustment reflecting the fact that the Federal Government advances to the States their first-quarter requirements in the last quarter of the preceding year.

The appropriation request for pub-

lic assistance grants exceeds the 1957-58 appropriation plus an anticipated supplemental request of \$170.6 million by \$35.8 million, and estimated obligations for the programs in 1958-59 exceed funds expected to be obligated by the end of 1957-58 by \$47.2 million. The largest increase is \$24.2 million, for aid to dependent children; \$14.6 million more is requested for aid to the permanently and totally disabled, \$6.5 million more for old-age assistance, and \$1.9 million more for aid to the blind. For all four programs combined, a rise in average monthly payments will account for \$21.7 million of the increase; \$17.5 million is budgeted for an estimated increased number of recipients in all programs except old-age assistance, which is expected to continue its downward

Table 1.—Expenditures for the Social Security Administration from general funds, fiscal years 1956-57, 1957-58, and 1958-59

[In thousands]

Bureau and item	Actual, 1956-57	Estimated	
		1957-58	1958-59
Total, including supplemental appropriations under existing legislation.....	\$1,598,390	\$1,865,662	\$1,852,333
Total, excluding supplemental appropriations.....	1,598,390	1,695,062	1,852,333
Bureau of Public Assistance.....	1,558,141	1,821,961	1,808,400
Grants to States for public assistance.....	1,556,422	1,820,080	1,806,400
Annual appropriation.....	1,556,422	1,649,480	1,806,400
Supplemental appropriation.....		170,600	
Salaries and expenses.....	1,719	1,881	2,000
Children's Bureau.....	40,057	43,449	43,630
Grants to States for maternal and child health and child welfare.....	38,252	41,501	41,500
Salaries and expenses.....	1,805	1,948	1,995
Salaries and expenses, White House Conference on Children and Youth.....			135
Office of the Commissioner, salaries and expenses ²	192	252	303

* Prepared by Sophie R. Dales, Division of Program Research, Office of the Commissioner.

¹ Adjusted for appropriations for preceding year and subsequent year.

² Includes reimbursement from old-age and sur-

vivors insurance trust fund and disability insurance trust fund.

Source: *The Budget of the U. S. Government for the Fiscal Year Ending June 30, 1959.*