

# Wages in Place of Benefits

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"CRITICAL LABOR SHORTAGES," "pirating of labor," "employment of minority groups," "priorities on skilled workers"—these are words that make the headlines today. Unemployment, except in the form of temporary "priority unemployment" occurring when civilian production is curtailed to make more materials available for war uses, is no longer a general problem. Under the impetus of wartime demand for labor, new workers are being trained for jobs, old workers are returning to employment. The War Manpower Commission reported that 12.5 million workers were directly engaged in war production on July 1, and that industry must now look to persons not normally in the labor force for many of the new recruits it still demands.

One part of that labor reserve consists of aged individuals who have retired from employment. Another includes housewives. Still another group is composed of boys and girls under 18 years of age who can work outside school hours or leave school to take jobs. Among these people are beneficiaries under the Social Security Act, aged men and their wives, young widows with children in their care, and children of retired workers or, more frequently, children of deceased insured workers. How large a factor are they in the labor reserve? To what extent can they become active participants in war production? How will their status as beneficiaries be affected if they take work, and will they be willing to work for wages when they have income from benefits now?

Many of the persons in the total labor reserve are answering the Nation's call for workers and are returning to work or entering employment for the first time. Indicative of first-time employment of persons who normally would not be in the labor force is the unusual volume of account numbers issued during 1941 and the first and second quarters of 1942<sup>1</sup> to persons under 18 years of age and to women between the ages of 20 and 44. In the second quarter of 1942, more persons 16 and 17 years of age applied for account numbers than had applied in any previous quarter. Nearly half of

all the applicants for account numbers were women, a higher proportion and a larger number than in the second quarter of any previous year.

The group of beneficiaries under old-age and survivors insurance is only a small part of the potential labor reserve. It included less than 600,000 persons at the end of May 1942. Although about half of these were retired wage earners, the number of war workers who may be drawn from this reserve, while indeterminable, must be relatively small.

It is estimated that approximately 70 percent of the wage earners who had become eligible for old-age benefits by the end of 1941 had not applied for benefits by the end of the year, presumably because they were still in covered employment. Among the 30 percent who did retire, many cannot find work that they are able to do. In most cases, the old-age benefits seem to serve primarily as disability or superannuation benefits for insured persons 65 years of age and over who are unable to hold jobs in covered employment.

## *The Work Clause*

Old-age and survivors insurance benefits are designed to compensate, in part, for the wage loss which occurs when a worker retires or dies leaving dependents. They are not intended for persons who are working. The act provides for the suspension of benefit payments for any month in which a beneficiary earns \$15 or more in wages in covered employment. For administrative reasons, work in noncovered occupations, for which the Social Security Board receives no wage reports, does not cause a suspension of benefits. If a primary beneficiary has a wife and child or children who are entitled to benefits on the basis of his wage record, his employment in covered industry results in the suspension of their benefits as well as his own. However, a widow entitled to benefits may take employment and, while her own benefits will be suspended for any month in which she earns \$15 or more, her children will continue to receive the benefits to which they are entitled.

It has been queried whether the "work clause" is preventing beneficiaries who otherwise could do

\*Bureau of Old-Age and Survivors Insurance, Analysis Division.  
<sup>1</sup> See tables 4-7, Old-Age and Survivors Insurance section, this issue.

useful work from taking jobs. Data on their employment do not reveal that any significant number of beneficiaries is restrained from working because of this provision. It would be a deterrent only if the benefits to which the beneficiary and his family were entitled were as large, or nearly as large, as the wages he could expect to earn. For the average beneficiary, the benefit amount is far below current wage levels, even below what he might expect for half-time work in many cases. Consequently, if he is physically able to work and can get a job, he is likely to continue working.

Some insured workers continue in jobs after they reach age 65 even though their earnings may be falling off. To prevent the ultimate monthly benefit amount from being pulled down by this reduction in his average wage, an insured wage earner may file a claim at or after age 65 and "freeze" his average monthly wage as of that date. The amount of his monthly benefit which will become payable when he stops working will be the same as if he had stopped work at the time he filed his claim. So long as his wages are higher than the amount of his benefits, he is likely to continue to work. Only if he loses his job or becomes incapable of regular work will he retire. The payment status of workers who have frozen their bene-

fits is similar to that of persons whose benefits are in suspension because they are earning monthly wages in covered employment. Workers with frozen benefits—8,675 at the end of May 1942—are only a small part of eligible aged wage earners who are holding on to their jobs. To avoid any misrepresentation in the extent of employment among beneficiaries, frozen benefits have been eliminated from all data discussed here.

#### Monthly Rate of Suspensions and Reinstatements

Ever since monthly benefits were first payable, retired wage earners have been going back to work, some from necessity, others because of high wages offered, and still others because of the desire to be productively active. Some of these older workers find that they cannot stand the work pace, or that their earnings do not compensate for the loss of benefits plus the effort or the extra expense entailed by the return to a job. Others took jobs which they knew would be temporary. As a consequence, each month the Social Security Board reinstates to current-payment status a considerable number of workers whose benefits had been suspended previously because of employment.

In spite of the accelerated pace of industry in

Table 1.—Number of monthly benefits suspended because of employment of beneficiary with corresponding rates of suspension, and number of monthly benefits reinstated because of termination of employment of beneficiary with corresponding rates of reinstatement, by type of benefit and by month, January 1941–April 1942<sup>1</sup>

Year and month	Monthly benefits suspended				Rate of suspension <sup>2</sup> (per 100)				Monthly benefits reinstated				Rate of reinstatement <sup>3</sup> (per 100)			
	Total	Primary	Wid-ow's current	Other	Total	Primary	Wid-ow's current	Other	Total	Primary	Wid-ow's current	Other	Total	Primary	Wid-ow's current	Other
<b>1941</b>																
January.....	2,336	1,909	209	126	0.99	1.61	1.38	0.13	(0)							
February.....	2,635	1,710	250	75	.70	1.33	1.05	.07	(0)							
March.....	3,046	2,663	291	92	1.09	1.93	1.11	.08	(0)							
April.....	3,642	3,212	327	103	1.22	2.20	1.16	.08	1,754	1,648	85	21				
May.....	4,670	4,008	423	148	1.45	2.62	1.41	.11	2,255	2,102	122	31				
June.....	4,258	3,554	375	329	1.28	2.23	1.19	.23	2,234	2,062	140	32				
July.....	5,347	3,776	519	1,052	1.54	2.27	1.56	.71	2,246	2,037	148	61				
August.....	5,188	3,915	487	786	1.42	2.26	1.39	.50	2,731	2,306	202	223				
September.....	4,997	3,889	543	565	1.31	2.17	1.47	.34	3,360	2,431	230	690				
October.....	4,716	3,738	566	412	1.19	2.02	1.47	.24	3,351	2,780	264	307				
November.....	3,863	3,124	482	257	.94	1.62	1.20	.14	3,017	2,677	195	145				
December.....	4,203	3,426	522	255	.98	1.72	1.25	.13	3,543	3,170	238	126				
<b>1942</b>																
January.....	4,700	3,609	655	436	1.05	1.74	1.51	.22	4,010	4,142	483	285	10.51	20.04	12.91	17.29
February.....	4,091	3,181	623	287	.88	1.48	1.38	.14	3,100	2,738	284	168	12.63	13.93	7.21	10.18
March.....	5,439	4,362	750	327	1.13	1.96	1.60	.16	3,199	2,767	270	153	12.04	13.43	6.52	9.16
April.....	6,993	5,594	897	502	1.40	2.46	1.85	.23	3,333	2,841	329	163	11.30	12.50	6.94	9.09

<sup>1</sup> Excludes all "frozen" benefits; excludes also wife's or child's benefits suspended or reinstated because of employment status of primary beneficiary.

<sup>2</sup> Only benefits in current and deferred-payment status are exposed to suspension. Rate of suspension computed by dividing number of benefits suspended each month by average number of comparable benefits in current and deferred-payment status each month. Thus suspensions, which occur continuously throughout month, are related to average representing number of benefits cumulatively in force during month.

<sup>3</sup> Only benefits in suspension because of employment are exposed to re-

instatement. Rate of reinstatement computed by dividing number of benefits reinstated each month by average number of benefits in suspension each month. Thus reinstatements, which occur continuously throughout month, are related to average representing number of suspensions cumulatively in force during month. Rates cannot be computed for 1941, because monthly data not available on number of suspensions because of employment.

\* Break-down by month not available. Total for 3 months gives following monthly averages: total, 1,361; primary, 1,269; widow's current, 111; other, 41.

the past 18 months, and in spite of the search for skilled and experienced workers among the ranks of the aged, the rate of benefit suspensions, indicative of the return of beneficiaries to work, varies only slightly from that of a year ago. Apparently, to a very large extent, the beneficiaries are actually unemployable, and most of those who were able to work had not left their jobs or applied for benefits before the war demand for workers began.

Of the primary beneficiaries, aged workers entitled to benefits on the basis of their own past wage record, 5,594 had their benefits suspended in April 1942 as compared with 3,212 in the same month of 1941 (table 1). Since the number of persons with benefits in force had also increased during the year, the rate of suspension was 2.46 percent in April 1942 as compared with 2.20 percent a year earlier. The average suspension rate<sup>2</sup> of primary beneficiaries for the first 4 months of 1941 was 1.71 percent and for the first 4 months of this year, 1.85 percent.

So far, the war demand for workers has not materially changed the number of children whose benefits have been suspended because they themselves got jobs. Since only children under age 18 are eligible for supplementary or survivor benefits, a large number of the child beneficiaries are too young to work. During the first 4 months of 1941, the average suspension rate for aged wives and widows, children, and aged parents together, counting only those suspensions arising from the employment of the beneficiary himself, was 0.09 percent. In the first 4 months of 1942 it was 0.18 percent. Although the employment of children was the cause of the largest proportion of these benefit suspensions, the absolute number of child beneficiaries who go into jobs is clearly an insignificant factor in the labor market.

Widows under age 65 who have in their care young children of a deceased wage earner may be another possible source of workers for war industries. They, too, have their benefits suspended for any month in which their wages in covered employment exceed \$14.99. In the first 4 months of 1941, the average suspension rate for this group was 1.16 percent. For the same period of 1942 it was 1.57 percent. For the month of April the rate was 1.85 percent in 1942, as compared with 1.16 percent in 1941. The suspension rate appears to be increasing slightly for widows in receipt of widow's

<sup>2</sup> Calculated as the harmonic mean of the monthly rate.

current benefits, and to be remaining nearly constant for primary beneficiaries. There is in this fact an indication, however slight, that the war industries may in time attract proportionately more young widows than retired workers.

Benefits in suspension are reinstated whenever a beneficiary notifies the Social Security Board that he is no longer working in covered employment. The rate of reinstatement was greater for the primary beneficiaries than for young widows and other beneficiaries in every month for which data are available. Despite the fact that primary beneficiaries have been more ready or able to take jobs than other beneficiaries since this country entered the war, their turn-over rate has also been larger. Although suspension and reinstatement data together give no indication of the average duration of employment among beneficiaries, they do support the belief that the aged workers who have retired and begun to draw benefits are, for the most part, incapable of holding regular jobs and can add little to the actual labor reserve available for war work.

#### *Employed Beneficiaries, Number and Percent*

Monthly rates of suspension and reinstatement of benefits through 1941 and the first part of 1942, which reflect in-and-out movement of beneficiaries to work, do not offer much encouragement to persons who have looked hopefully to the benefit rolls as the source of a considerable labor reserve. The number and proportion of beneficiaries who are actually at work presents a brighter picture, however. At the end of May 1942, monthly benefits were in force for some 564,892 persons. Of this number, 34,034 had their benefits in suspension because of covered employment (table 2). This employed group had more than doubled in size since the preceding June, the first month for which such a figure was available. Although the number of employed beneficiaries varies from one month to another, as some beneficiaries shift into employment status and others move back into active benefit-payment status, the rate of employment of beneficiaries has been slowly increasing. A more comprehensive picture of these changes and of the actual rate of employment may be derived from an examination of the extent to which various classes of beneficiaries can find and hold on to jobs which require the suspension of their monthly benefits.

At the end of June 1941, 8.0 percent of all primary beneficiaries were in covered employment. This proportion rose to 9.0 percent by the end of December, fell to 8.3 percent by the end of February, then rose to 10.0 percent by the end of May. The month-to-month variation during 1942 followed the trend in general employment—a downward swing in January followed by an upward turn in the spring. Apparently, seasonal variations in business activity and general employment conditions have had some effect on the reemployment of these older workers. It is possible, however, that some of them who were drawn back into employment during 1941 found it physically impossible to keep up with the accelerated tempo of production. They may have been forced back into retirement, some permanently, others until they could find work more suited to their abilities.

Almost all direct defense production, outside of Government navy yards and arsenals, is employment covered under the Social Security Act. Beneficiaries in such employment will not receive benefits. Some retired workers, however, have taken jobs not covered by the act—in agriculture, domestic service, or government employment. As defense industries pull young, vigorous workers from agriculture and nondefense work of various kinds, older workers may fill their places and so help relieve the labor shortage. Since work in non-covered employment does not result in a suspension of benefits, it is certain that a larger number of beneficiaries are at work than table 2 shows.

Women who were receiving widow's current benefits have also been seeking and getting jobs in

covered industry, some for the first time, others after a period out of employment. Although not enough of these widows have been hired to add substantially to the covered labor force, their number is expanding sufficiently to be an important factor in considering the effect of employment trends upon the benefit rolls. More than twice as many widows of insured wage earners who have in their care children entitled to benefits were employed in covered industry at the end of May 1942 as at the end of June 1941. The increase in employment among these widows has been steady and proportionately greater than the increase in reemployment of the retired worker.

During each month of 1942, more widow's current benefits were added to the number in suspension because of covered employment of the widow. Although the work and especially the wages offered may have seemed more attractive to many widows than the benefits they were receiving, they may not have been in a position to work because they had to care for young children. With the establishment of public nursery schools, strongly advocated but so far not created on a wide scale in areas needing them, many of these younger widows would be made available for war work. Although their number would be smaller, the percentage of young widows at work could easily exceed that of employed primary beneficiaries—10.0 percent for May.

Wage earners' children under age 18, and wives, widows, and parents 65 years of age or older, form a group of beneficiaries almost as large as that of retired wage earners. Employment in this group

Table 2.—Number of benefits in force in current, deferred, and suspended status<sup>1</sup> and number in suspension because of employment of the beneficiary,<sup>2</sup> by type of benefit, as of end of month, June 1941 and December 1941–May 1942

Date	Total			Primary			Widow's current			Other <sup>3</sup>		
	Benefits in current, deferred, and suspended status	Benefits in suspension because of employment of beneficiary		Benefits in current, deferred, and suspended status	Benefits in suspension because of employment of beneficiary		Benefits in current, deferred, and suspended status	Benefits in suspension because of employment of beneficiary		Benefits in current, deferred, and suspended status	Benefits in suspension because of employment of beneficiary	
		Number	Percent		Number	Percent		Number	Percent		Number	Percent
June 30, 1941.....	360,994	16,898	4.7	176,960	14,103	8.0	34,719	2,088	6.0	149,315	707	0.5
Dec. 31, 1941.....	470,071	25,407	5.4	222,817	20,084	9.0	40,354	3,682	7.9	209,900	1,641	.8
Jan. 31, 1942.....	489,470	24,930	5.1	231,227	19,472	8.4	48,260	3,803	7.9	209,990	1,655	.8
Feb. 28, 1942.....	509,140	25,565	5.0	239,510	19,839	8.3	50,355	4,078	8.1	219,269	1,648	.8
Mar. 31, 1942.....	529,579	27,555	5.2	249,397	21,374	8.7	52,293	4,487	8.6	227,889	1,694	.7
Apr. 30, 1942.....	547,190	30,900	5.7	255,010	24,069	9.4	54,525	4,697	9.2	237,640	1,894	.8
May 31, 1942.....	564,892	34,034	6.0	262,394	26,368	10.0	56,388	5,415	9.6	246,110	2,261	.9

<sup>1</sup> Represents total benefits awarded after adjustment for subsequent changes in number of benefits and terminations, cumulative from January 1940, when monthly benefits were first payable, less frozen benefits.

<sup>2</sup> Benefits which have previously been in current-payment or deferred-

payment status but for which payments have been discontinued because beneficiaries are earning \$15 or more during current month in covered employment.

<sup>3</sup> Includes wife's, child's, widow's, and parent's benefits.

is insignificant both in number and in proportion. Opportunities for employment are generally more limited for them than for primary beneficiaries, all of whom had at some time worked in covered employment. Children who leave school to take jobs, account for the greatest amount of employment among the group of "other" beneficiaries. However, many child beneficiaries are too young to work and others will be able to work only part time, out of school hours, or during vacations. Even in the present labor shortage there are few job opportunities for elderly persons who had been dependent on the wage earner before his death or retirement.

### *Little Prospect of Increasing Proportion of Employed Beneficiaries*

Although some of the persons receiving benefits under the old-age and survivors insurance program can be counted on to take war jobs, it is evident that most of the beneficiaries cannot be regarded as members of the available labor supply. A large proportion of the retired workers past age 65 and their wives, practically all of the aged widows and dependent parents, and a large percentage of the child beneficiaries are incapable of taking or holding full-time jobs. The young widows may be called to work in larger numbers if provision is made for training them and for caring for their young children while they are on the job. Such provision would be part of a broader program, designed to tap the much larger potential labor force composed of wives who have not been working outside their homes and who have children or invalids in their care.<sup>3</sup> According to estimates made by the Work Projects Administration in March of this year, there are between 13 and 14 million persons who could not take full-time jobs because they are caring for small children or other dependents.<sup>4</sup> The beneficiaries who are receiving widow's current insurance benefits are only a small part of this group which might be brought into active war service if there were proper day-nursery care for their dependents.

The fear that the suspension of benefits because of employment would discourage able workers from taking jobs is not justified by the facts. War

industries are offering wages so far in excess of the usual benefit amounts that the prospect of temporary loss of benefits is no deterrent to a worker able to take a job. The more skilled workers have remained in jobs even when they could qualify for benefits, or have returned to work. Older wage earners currently retiring from covered employment are undoubtedly those who, for physical or other personal reasons, are unable to continue working. It is unlikely, then, that the proportion of primary beneficiaries who will return to steady work in covered industry will grow much larger. Consequently, the supply of useful war workers would not be materially increased as a result of abolishing the work clause.

The chief effect of the increased demand for labor on the old-age and survivors insurance program is that the great majority of insured aged workers are staying on the job and deferring application for benefits. When the war is over, we may expect not only the reinstatement to active payment status of many workers who did get and hold jobs through the war period, but also a much larger load of new claims than would normally come in a year, as workers over age 65 are displaced in the reconversion of production to meet civilian demands.

Provision for more nearly adequate benefit amounts would facilitate retirement of older workers in the post-war period. At that time, when jobs will be hard to find, it is probable that permission to supplement their benefits by some earnings to an amount greater than the \$14.99 allowed under the present work clause would not help beneficiaries as much as an increase in the benefit amount. Only when both wages and benefits are low but at least part-time work is not difficult to get does the work clause seriously injure beneficiaries. Those conditions do not exist now, and probably will not in the post-war period. Suspending the work clause now would not materially increase the labor supply, and its permanent suspension would only encourage older workers to keep hunting jobs after the war, when a reduction in the size of the labor reserve will be imperative. Rather, the amount of the benefit payment should be increased and the insurance system should be ready to handle the rush of claims from older workers who served well throughout the war emergency and who have earned the right to retire.

<sup>3</sup> See Sanders, Barkev S., "Labor-Force Reserves," *Social Security Bulletin*, Vol. 5, No. 7 (July 1942), pp. 20-22.

<sup>4</sup> Federal Works Agency, Work Projects Administration, Release #A4313, April 22, 1942.