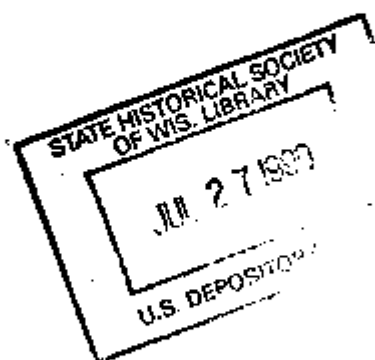


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SOCIAL SECURITY BOARD
WASHINGTON

A BRIEF EXPLANATION
OF THE
Social Security Act



APRIL • 1936

INFORMATIONAL SERVICE

CIRCULAR NO. 1

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*See back cover for sources of information on the
Social Security Act*

Explanation of the Provisions *of the* SOCIAL SECURITY ACT

THE SOCIAL SECURITY ACT, approved on August 14, 1935, represents a major advance in the attainment of economic security for the individual and for his family. The President outlined the entire program in his messages of June 8, 1934, and January 4, 1935. He stated that:

Among our objectives I place the security of the men, women, and children of the Nation first.

He further said that security for the individual and for the family concerns itself with three factors: (1) Decent homes to live in; (2) development of the natural resources of the country so as to afford the fullest opportunity to engage in productive work; and (3) safeguards against the major misfortunes of life. The Social Security Act is concerned with the third of these factors—"safeguards against misfortunes which cannot be wholly eliminated in this man-made world of ours."

The act was devised to provide some safeguard against the insecurity of modern life through co-operative action by the Federal and State governments, thus making possible fullest consideration of the local economic and social problems existing within States while maintaining a national unity of program and purpose.

The provisions of the act deal with a number of distinct though related measures for social security which may be grouped under the following headings:

Unemployment Compensation,
Old-Age Assistance and Old-Age Benefits,
Security for Children.

Aid to the Blind.

Extension of Public-Health Services.

Vocational Rehabilitation.

The explanation of the provisions of the Social Security Act as set forth below does not pretend to be exhaustive and complete. Persons interested in the legislation should consult the act itself, copies of which are available upon application to the Social Security Board.

UNEMPLOYMENT COMPENSATION

THE Social Security Act does not establish any unemployment compensation systems. The States are invited to enact laws for the compensation of their unemployed. The Federal Government does not require or seek to force them to enact laws of any particular type. Their freedom to pass those laws best suited to their local conditions and problems is protected.

The provisions of the Social Security Act relating to unemployment compensation are very simple. A pay-roll tax amounting to 1 percent of pay roll in 1936, 2 percent in 1937, and 3 percent in 1938 and thereafter, is levied on all employers of eight or more persons for 20 weeks or more. Agricultural labor, domestic service in a private home, certain maritime employment, service in the employ of the United States Government or State governments, or their instrumentalities or political subdivisions, service performed for certain very close relatives, and for religious, charitable, scientific, literary, and educational institutions of a nonprofit nature are excepted from this tax. Each employer may credit against this tax, up to 90 percent thereof, his contributions to a State unemployment compensation fund established in accordance with a State unemployment compensation law which has been approved by the Social Security Board. The Federal tax will bring money into the General Treasury, for the general purposes of the Federal Government.

This means that a State which passes an unemployment compensation law will be able to withdraw nine-tenths of this pay-roll tax for its own unemployed, by collecting it as contributions under

its own law, rather than letting the Federal Government collect it as a tax. The administration of the State law will not cost the State anything, if such administration is efficient, for under the Social Security Act the Federal Government stands ready to grant to the States sufficient amounts to pay all proper administrative expenses. Nor will the State which acts promptly be at any competitive disadvantage with other States, for the pay rolls of employers in States which do not act will be subject to the full Federal tax.

The difference between a State which passes an approved unemployment compensation law and those which do not, then, is that the State with such a law will enable its employers to get the benefit of the credit against the Federal tax.

On March 31, 1936, eight States and the District of Columbia, whose employers provide a third of the entire taxable pay roll of the country, had unemployment compensation laws which had been approved by the Social Security Board. In several other States, bills proposing such laws are being introduced in the legislatures now convening. The success of the Federal Social Security Act as a means of reducing the economic and social disturbances of unemployment will be dependent on the States. No unemployment compensation will be assured to the commercial or industrial worker until his State has an approved law.

OLD-AGE ASSISTANCE AND OLD-AGE BENEFITS

THE Social Security Act sets up two systems for aiding the aged. One is designed to help the States to give immediate assistance to aged individuals on a basis of need; the other to provide annuities in the future to persons over the age of 65, based upon their wage experience. The two plans are complementary and may be described briefly as follows:

(1) *Old-Age Assistance (Immediate payment plan).*—A State may submit to the Social Security Board for approval its plan for old-age assistance.

The Board is directed to approve such plans as conform to certain requirements as to eligibility, such as age, residence, and citizenship; and to requirements as to State operation and standards of administration, intended to assure proper and efficient State action by the enactment and administration of laws which may reasonably be expected to provide assistance to needy aged individuals without discrimination. After the plan is approved, the State receives from the Federal Government an amount equal to one-half the sum expended for old-age assistance by the State with respect to individuals 65 years or older who are not inmates of public institutions. The Federal Government matches on a 50-50 basis every dollar spent by the State for old-age assistance, but does not contribute more than \$15 per month for any individual. In addition the Federal Government pays for administrative expenses, an amount equal to 5 percent of the sum granted to the State.

On March 31, 1936, there were 27 States with old-age assistance plans approved by the Social Security Board. For the 5 months ending June 30, 1936, the sum of \$24,660,000 has been made available for allotment to States whose plans for old-age assistance have been approved. Thereafter sufficient funds are authorized to be appropriated to meet the needs of the States having approved plans.

(2) *Old-Age Benefits (Annuity plan).*—Under this plan regular benefits are paid to qualified individuals as a matter of right out of an "old-age reserve account" set up in the Federal Treasury. A qualified individual is one who is at least 65 years of age, who received total wages with respect to employment after December 31, 1936, and before attaining 65 years of age, of not less than \$2,000, and who has been employed in some 5 different calendar years after December 31, 1936, before attaining the age of 65 years.

The "wages" on which benefits are based do not include certain wages, for instance, wages received for agricultural labor; domestic service in a private home; casual labor; service on a vessel documented under the laws of the United States or any foreign country; service for Federal or State governments

or their political subdivisions or instrumentalities; and service for nonprofit literary, religious, scientific, charitable, and educational organizations. Service in the employment of a carrier as defined in the Railroad Retirement Act of 1935 (Public, No. 399, 74th Cong. [H. R. 8651]) is further excluded. That part of an individual's remuneration in excess of \$3,000 per year from each employer is not counted as such "wages."

A qualified individual is entitled to benefits from the day he reaches 65, or on January 1, 1942, whichever is later, and ending at his death. The benefits will be paid at regular stated intervals, at a rate computed as follows:

[Not counting wages from a single employer in excess of \$3,000 annually]	
<i>Total wages received after Dec. 31, 1936, and prior to age 65, in covered employments</i>	<i>Percent of total wages paid as monthly rate of benefit</i>
First \$3,000.....	$\frac{1}{4}$
Next \$42,000.....	$\frac{1}{12}$
All over \$45,000.....	$\frac{1}{4}$

The minimum monthly benefit payment will be \$10, and the maximum \$85. Table I illustrates the benefits payable for various amounts of total wages.

Hence, a man who has received a monthly salary of \$75 for 10 years subsequent to 1936 at which time he will attain the age of 65 years, will receive old-age benefits of \$20 each month. If he reaches the age of 65 in 15 years after 1936, he will receive a monthly benefit of \$23.75. These figures are merely illustrative; exact calculation of benefits can only be made on the basis of total wages earned. Even a month without employment would lessen slightly the amount of benefits payable after 30 years of employment.

Persons who leave included employment after having qualified as to number of days of employment and amount of wages received will become qualified individuals on attaining the age of 65.

That is, if a man works the requisite time and earns a total of \$2,000 or more in wages, he will be eligible for old-age benefits on reaching the age of 65, even though he may have worked in an excluded employment for 20 or 30 years.

Employees whose total wages or length of employment, as defined in the act, prior to their at-

TABLE I				
<i>Monthly Benefits Payable for Specified Total Wages as Defined for the Purposes of Title II of the Social Security Act</i>				
Total wages	Monthly rate of benefit			
	0.5 per- cent of \$3,000	1/2 per- cent of next \$42,000	1/4 per- cent of all over \$45,000	Total
\$2,000.....	\$10.00			\$10.00
\$2,500.....	12.50			12.50
\$3,000.....	15.00			15.00
\$3,500.....	15.00	\$0.42		15.42
\$4,000.....	15.00	.83		15.83
\$4,500.....	15.00	1.25		16.25
\$5,000.....	15.00	1.67		16.67
\$10,000.....	15.00	5.83		20.83
\$15,000.....	15.00	10.00		25.00
\$20,000.....	15.00	14.17		29.17
\$25,000.....	15.00	18.33		33.33
\$30,000.....	15.00	22.50		37.50
\$35,000.....	15.00	26.67		41.67
\$40,000.....	15.00	30.83		45.83
\$45,000.....	15.00	35.00		50.00
\$50,000.....	15.00	35.00	\$2.08	52.08
\$60,000.....	15.00	35.00	6.25	56.25
\$70,000.....	15.00	35.00	10.42	60.42
\$80,000.....	15.00	35.00	14.58	64.58
\$90,000.....	15.00	35.00	18.75	68.75
\$100,000.....	15.00	35.00	22.92	72.92
\$110,000.....	15.00	35.00	27.08	77.08
\$120,000.....	15.00	35.00	31.25	81.25
\$130,000.....	15.00	35.00	35.42	1 85.00

¹ Maximum monthly benefit.

taining the age of 65, are not sufficient to qualify them for benefits will be entitled to a lump-sum payment of 3½ percent of their wages as defined in the act upon reaching that age. Receipt of a lump-sum payment or annuity under Federal old-age benefits will not disqualify a person from receiving

aid under State old-age assistance plans as described on pages 3 and 4, if need for assistance can be established so as to qualify under the State law.

The act provides that the benefits received by any individual shall be reduced by the amount of 1 month's benefit for each calendar month in which the qualified individual receives wages for employment after reaching the age of 65.

The estates of individuals dying after attaining the age of 65 are entitled to 3½ percent of the total wages paid to such individual with respect to employment (as defined in the act) subsequent to December 31, 1936, less the amount of old-age benefits actually paid to the individual during his life. Death payments of 3½ percent of total wages (as defined) are made not only to the estates of qualified individuals, but to the estates of those who have earned some money in the included employments, but who have not worked long enough or earned enough to become "qualified."

SECURITY FOR CHILDREN

THE act makes provision for the protection of children who are in need of special assistance by:

- (1) Grants to States to assist in meeting the costs of aid to dependent children (mothers' aid).
- (2) Grants to States to assist in meeting the costs of maternal and child-health services.
- (3) Grants to States to assist in meeting the costs of services for crippled children.
- (4) Grants to States to assist in meeting the costs of child-welfare services.

Aid to Dependent Children.—The sum of \$5,000,000 has been appropriated for the last 5 months of the fiscal year ending June 30, 1936, and a sufficient sum has been authorized thereafter, for making payments to States which have submitted, and had approved by the Board, State plans for aid to dependent children. Seventeen States had approved plans on March 31, 1936. The Federal Government pays to each State an amount equal to one-third of the sums expended under such an approved plan, but payment in

excess of \$18 per month for the first child and \$12 for each additional child in the same family is not counted in determining Federal aid. A "dependent child" may be defined broadly as a child under the age of 16 who has been deprived of parental support through death, absence, or incapacity of a parent and who is living in a private home maintained by immediate relatives.

Maternal and Child Health Services.—A sum of \$1,580,000 for the fiscal year ending June 30, 1936, has been appropriated to the Children's Bureau of the United States Department of Labor for grants-in-aid to States for maternal and child health services, especially in rural areas and in areas suffering from severe economic distress. This entire appropriation will be used exclusively for carrying out State plans for furthering and strengthening State and local health services to mothers and children and extending maternal and child health services in rural areas.

Services to Crippled Children.—An appropriation of \$1,187,000 for the fiscal year ending June 30, 1936, has been made for grants-in-aid to States for medical care and other services for crippled children under the administration of the Children's Bureau. The amount of \$20,000 is to be allotted to each State, with the balance allocated to the States on the basis of need, taking into consideration the number of crippled children in need of such services and the cost of furnishing such services. Within the limits of these allotments, the Federal Government will pay to each State which has an approved plan for services to crippled children an amount, which shall be used exclusively for carrying out the State plan, equal to one-half of the total sum expended for carrying out such plan.

Child-Welfare Services.—Under the administration of the Children's Bureau an appropriation of \$625,000 for the fiscal year ending June 30, 1936, has been made for grants-in-aid to States toward welfare services for the protection and care of homeless, dependent, and neglected children, and children in danger of becoming delinquent. This amount is to be allotted by the Secretary of Labor

to the States primarily on the basis of rural population. The amount so allotted shall be expended for payment of part of the cost of district, county, or other local child-welfare services in areas predominantly rural, and for developing State services for the encouragement and assistance of adequate methods of community child-welfare organization in areas predominantly rural and other areas of special need.

AID TO THE BLIND

THE sum of \$2,000,000 has been appropriated for the last 5 months of the fiscal year ending June 30, 1936, and a sufficient sum has been authorized thereafter, for the purpose of enabling each State to furnish financial assistance to needy individuals who are blind. This sum is made available for making payments to States which have submitted and had approved by the Social Security Board State plans for aid to the blind. Eighteen States had their plans approved by March 31, 1936. The Federal Government grants an amount equal to one-half the total sum expended under the State plan with respect to each individual who is blind and is not an inmate of a public institution. This Federal aid is limited to \$15 per month plus an additional 5 percent to the State for administrative purposes.

The State receives these grants if its plans comply with certain standards prescribed by the Social Security Act, such as provision for financial participation by the State, designation of a single State agency to administer the plan, adequate methods of administration, and provision that no aid shall be furnished a blind individual while in receipt of old-age assistance.

EXTENSION OF PUBLIC-HEALTH SERVICES

A SUM of \$3,300,000 has been appropriated for aid to State and local health services for the 5 months ending June 30, 1936, and \$8,000,000 authorized for each year thereafter. Allotments to the States are to be made by the Surgeon General

of the Public Health Service with the approval of the Secretary of the Treasury on the basis of the population, the special health problems, and the financial needs of the respective States. This money is to be used by the States for extending State health services and for assistance to counties and other governmental units in maintaining adequate public-health programs.

An additional \$375,000 has been appropriated for the last 5 months of the fiscal year ending June 30, 1936, to the Public Health Service for the investigation of diseases and related problems which are national or interstate in character.

This authorization is in line with well-established Federal policies, but represents a very great extension of Federal participation in preventive public-health services. The amount suggested to be appropriated is almost double the present total of all Federal expenditures for public health, and this entire amount is intended to be used for the prevention of preventable sickness.

VOCATIONAL REHABILITATION

IN ORDER to provide for the extending and strengthening of programs of vocational rehabilitation of the physically disabled, the Social Security Act also authorizes an appropriation of \$841,000 for the fiscal year 1937 and \$1,938,000 annually thereafter, to be distributed as grants-in-aid to the States for vocational rehabilitation purposes in addition to the appropriation available under provisions of the existing law; \$350,000 has been appropriated for the 5 months ending June 30, 1936, for this purpose. The existing Federal Vocational Rehabilitation Act is administered by the Office of Education in the Department of the Interior.

SOCIAL SECURITY BOARD

TITLE VII of the act establishes a Social Security Board composed of three members to be appointed by the President, by and with the advice and consent of the Senate. The term of office of

these members will be 6 years. Not more than two of the members of the Board shall be of the same political party and the chairman is to be designated by the President.

The Board is authorized to appoint and fix the compensation of such officers or employees as may be necessary for carrying out its functions under the act. All appointments, with the exception of attorneys and experts, must be made in accordance with the civil-service laws.

Those provisions of the act dealing with grants-in-aid to States for unemployment compensation, old-age assistance, aid to the blind, and aid to dependent children, and old-age benefits, are to be administered by and under the supervision of the Board. In addition, the act places upon the Board the duty of studying and making recommendations as to the most effective methods of providing economic security through social insurance, and as to legislation and matters of administrative policy concerning old-age pensions, unemployment compensation, accident compensation, and related subjects.

TAXES

THE Social Security Act imposes three separate and distinct taxes, the proceeds of which are paid into the General Treasury of the United States.

(1) Title IX imposes a tax on all employers who have had 8 or more individuals in their employ for at least some portion of the day, on each of some 20 days during the taxable year, each day being in a different calendar week. The tax is based upon the employer's pay roll. In determining the wages to be taken into consideration in computing such tax, certain service is excluded, for example, agricultural labor, domestic service in a private home, certain maritime employment, service in the employ of the United States Government or State governments, or their political subdivisions or instrumentalities, service performed for certain very close relatives, and service for religious, charitable, scientific, literary, and educational institutions of a non-profit nature.

Employers subject to the act are required to pay the following percentages of total wages paid by them with respect to employment not excepted by the provisions of the act:

- (1) For the calendar year 1936, 1 percent.
- (2) For the calendar year 1937, 2 percent.
- (3) For each calendar year thereafter, 3 percent.

Against this tax, based on wages, the employer may credit the amount of contributions based on wages paid by him during the taxable year into a State unemployment fund under a State law approved by the Social Security Board. Credits, however, may not exceed 90 percent of the Federal tax.

(2) Title VIII imposes two taxes—an income tax on employees and an excise tax on employers.

The tax on employees does not apply to wages received for agricultural labor; domestic service in a private home; casual labor; service on a vessel documented under the laws of the United States or any foreign country; service for Federal or State governments, or their political subdivisions or instrumentalities; service for nonprofit literary, religious, scientific, charitable, and educational organizations; and wages received by an individual who has attained the age of 65. Public, No. 400 (74th Cong. [H. R. 8652]) further excludes wages in the employment of a carrier as therein defined.

The tax on employers applies to all employers (as distinguished from the tax under title IX which applies to employers of 8 or more) and is measured by the wages paid by them after December 31, 1936, with respect to employment that is subject to the income tax on employees mentioned above.

The act provides that the tax on employees is to be deducted by the employers from the wages when paid, and is to be turned over to the United States by the employer under rules and regulations of the Bureau of Internal Revenue. The tax is not to be allowed as a deduction in computing net income and the income tax of the employee.

The rate of tax on the wages of the employees not exempted from the act and on the pay rolls of the

employers with respect to employment not exempted from the act are as follows (excluding in both cases the wages of an individual in excess of \$3,000 from a single employer with respect to covered employment during a taxable year):

<i>Calendar years</i>	<i>Taxes</i>
	<i>Percent</i>
1937-38-39	1
1940-41-42	1½
1943-44-45	2
1946-47-48	2½
1949-thereafter	3

Rules and regulations for the collection of the taxes levied under titles VIII and IX of the Social Security Act will be issued from time to time by the Bureau of Internal Revenue. The first set of regulations relating to the excise tax on employers under title IX of the Social Security Act has already been issued by the Bureau of Internal Revenue of the Treasury Department and is available from the Government Printing Office in Washington. The exact title of these first regulations is: "Regulations 90, Relating to the Excise Tax on Employers under title IX of the Social Security Act."

*States With Public-Assistance Plans Approved by
the Social Security Board, Mar. 31, 1936*

<i>Old-age assistance</i>	<i>Aid to dependent children</i>	<i>Aid to the blind</i>
Alabama Arkansas Connecticut Delaware Idaho Iowa Maine Maryland Massachusetts Michigan Minnesota Mississippi Missouri Nebraska New Hampshire New Mexico North Dakota Ohio Oklahoma Oregon Rhode Island Utah Vermont Washington Wisconsin Wyoming District of Columbia	Alabama Arizona Arkansas Idaho Maine Maryland Mississippi Nebraska New Hampshire New Mexico Oklahoma Utah Vermont Washington Wisconsin Wyoming District of Columbia	Arizona Arkansas Connecticut Idaho Maine Mississippi Nebraska New Hampshire New Mexico North Carolina Oklahoma Oregon Pennsylvania Utah Vermont Wisconsin Wyoming District of Columbia

*States With Unemployment Compensation Laws
Approved by the Social Security Board,
Mar. 31, 1936*

Alabama California Massachusetts	New Hampshire New York Oregon	Washington Wisconsin District of Columbia
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Information

Information concerning the several sections of the Social Security Act may be obtained from the following Government agencies:

Old-age assistance, aid to dependent children, and aid to the blind; unemployment compensation; old-age benefits; Titles I, II, III, IV, VII, IX, X, of the Social Security Act.

INFORMATIONAL SERVICE, SOCIAL SECURITY BOARD, WASHINGTON, D. C.

Maternal and child health services, services for crippled children, and child-welfare services; Title V of the Social Security Act.

CHILDREN'S BUREAU, DEPARTMENT OF LABOR, WASHINGTON, D. C.

Public-health work; Title VI of the Social Security Act.

BUREAU OF PUBLIC HEALTH SERVICE, DEPARTMENT OF THE TREASURY, WASHINGTON, D. C.

Vocational rehabilitation; Title V, Part 4, of the Social Security Act.

OFFICE OF EDUCATION, DEPARTMENT OF THE INTERIOR, WASHINGTON, D. C.

All taxes levied under the Social Security Act; Titles VIII and IX.

BUREAU OF INTERNAL REVENUE, DEPARTMENT OF THE TREASURY, WASHINGTON, D. C.