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Social Security

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SOCIAL SECURITY

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Accountants are, I know, both interested in and aware of our social security program. You are also aware of the problems of the aged population. We read and are told constantly in our daily papers about the many programs which deal with problems of older persons. Social Security takes its place among these programs by replacing part of the income lost from retirement. Today, one person in twelve is over 65 years, while in 1900 it was one in twenty-five. Social Security also makes survivors payments to certain groups when a wage earner dies.

What is Social Security or Old Age and Survivors Insurance? Old Age and Survivors Insurance is government insurance which provides a monthly income to a worker when he retires after 65, or insurance payments to his family when a worker dies. It is a federal program administered by the Bureau of Old Age and Survivors Insurance in cooperation with Internal Revenue where Social Security taxes are paid.

Coverage, benefits, and provisions have changed radically since it began on January 1, 1937. At that time we made lump sum payments upon the death of a wage earner and the law provided we would pay a monthly benefit only to the wage earner after 1939. Beginning in January 1940, because of the 1939 amendments, we began paying other members of a wage earner's family and survivor benefits. In 1950, we brought in ten million more people—farmers, domestics, self-employed, non-profit, etc. We raised the benefits about 77% and the work clause jumped from $14.99 a month to $50.00. The tax base increased from $3,000 to $3,600. Some new payments were added—mothers with children, divorced wives, dependent husbands and dependent widowers.

1952 brought more changes, but not so wide-spread. Benefits were raised $5 a month. A new formula was used for those coming on the rolls in 1952. The work clause changed from $50 to $75 a month (self-employed, $900 a year). Extension of credit was given for military service and some technical changes were made.

August, 1954, brought other changes. The wage base was raised to $4,200, benefits were increased more than a cost-of-living increase, another new formula was brought in, drop-out provisions were added and a disability freeze provision was made. The work clause was raised to $1,200 a year. Additional groups brought in brings nine out of ten people under Social Security coverage. The majority of those not covered are lawyers, doctors, dentists and other medical practitioners.

You are in one of the newly covered groups; accountants, engineers, architects, funeral directors and ministers. The tax you pay is 2% on wages up to $4,200. The employer matches this and both payments are sent to Internal Revenue. The self-employed pay 3%.

Here we are in 1955. All of you have a personal stake in this insurance system which provides retirement and survivors payments. Let us consider the major provisions.

Benefits—

Retirement benefits to:

Wage earner 65 or over who stops work.

Wife of a retired worker if she is over 65.

Wife at any age if she has a child 18 years or under in her care.

Dependent husband—proof of dependency must be given.

Children under 18 years of age.

Each one in the above group receives 50% of the amount paid to the retired wage earner.

Survivors payments to:

Widow or dependent widower 65 years or over of a deceased wage earner.

Children under 18 years and to their mother.

Divorced wife with minor children in her care. (Must have been receiving 50% support from wage earner and there was a court order for such support).

Dependent parents 65 years or over if there is no surviving widow, widower, or child eligible to receive benefits. Each one in the above group receives 75% of the amount which would have been paid to the wage earner.

Lump Sum payments:

Lump Sum is also paid upon the death of an insured worker to the widow, widower, or to whomever paid the funeral expenses. This amount is three times that which would have been paid to the wage earner—maximum payment, $255.

Insured Status—

To receive payments one must be fully insured. Since the 1950 amendments it is easier to qualify for insurance payments. A new start date was made so that now one must work one-half the time from January 1951, up to the 65th birthday or date of death. Forty quarters or ten years give a permanent insured status.

Work Limitation—

Originally one could only earn $14.99 a month and still draw benefits in covered employment. In 1951, this was raised to $50 a month; in 1952, to $75 a month; and now (1955) it is on a yearly basis of $1,200 a year, and includes all employment, covered and non-covered. The age at which a person may earn any amount has been lowered from 75 to 72.

Drop-Out—

We now have a drop-out procedure which I want to explain. Many wage earners have periods of low earnings or are ill and do not draw any wages. We look over the wage record and are permitted to drop out up to five years. We take the remaining wages, divide by the number of months in those years left and obtain the average monthly wage—then apply the formula. This naturally will give a higher benefit. This can be done for any years back to 1937 and up to the time of filing or date of death.

Disability Freeze—

If a person has worked five years out of ten preceding his disability and one and one-half years immediately preceding his disability he can file a disability freeze. This means that in figuring a benefit at 65 or death we no longer have to use the months in which a wage earner had no earnings because of disability. For instance, if the person had maximum earnings up to age 45 and became disabled, never worked again and if he filed an application for a disability freeze, the years between 45 and 65 would not be considered in figuring his benefit. At age 65 he would receive the maximum benefit. We can go back to October 1941 for this freeze (first month he could have had twenty quarters). After June 30, 1957, a period of disability can be established no further back than a year prior to the date of application.

Maximum and Minimum Benefits—

The minimum which anyone can receive has been raised from the original $10 to $30.

The maximum on a $3,000 wage base of $45 a month has become $88.50.

If a $3,600 or $4,200 base is used benefits will be greater. For instance, using $3,600 from 1951 to the time of filing, the benefit would be $98.50 a month, or using a $4,200 base it would be $108.50, but the latter cannot be paid before April 1956. (Six quarters must be earned after 1954.)

Benefits of a family group increased the same way—$150—$168.50—and now $200, which is maximum. If benefits figure higher than this we reduce them to $200 or 80% of the average monthly wage, whichever is the lesser.

Deemed Insured Status—

This applies to those who died before September 1950 (when we received the new start date) and were not fully insured at the time of death. Survivors may now be eligible for benefits if the wage earner had six quarters of coverage at the time of death. It would not apply to deaths occurring in 1937, 1938, 1939 as no survivors' benefits were paid during those years. These survivors must be eligible at the time of filing.

Work Clause—

If you plan to limit your earnings to $1,200 a year— no matter when you earn this money—you may receive all benefit checks.

If you are going to earn over $1,200 a year or over $100 a month, then we cannot pay for every multiple of $80 over $1,200. You can take what a person earns, subtract $1,200, divide by $80 and you will know how many months for which we cannot pay.

Regardless of a person's earnings, if there is any month in the year in which he has not earned $80 he can still receive a benefit for that month.

If a person is self-employed and does not render substantial services for any month, we can pay for that month—ill in Florida, etc.

A person reaching 72 years may receive his monthly benefit from the month he becomes 72 no matter what he is earning.

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even though such assets may have been contributed originally to the hospital and even though no cash or other funds are set aside to replace such assets."[8]

There are hospitals which have advanced to the point of departmentalizing depreciation expense as well as the regular operating expenses. This is very useful for cost and statistical purposes to determine the cost of an X-ray or a laboratory test. By distributing the non-service department costs to the service departments based on in-patient, ambulatory patient, and out-patient, costs per patient can be determined. These are valuable aids in determining whether rates should be increased in those revenue-producing departments low in income. Consistency in summarizing and recording data is important as it aids in making comparisons between years and to take such steps as necessary to improve the operating efficiency and income of low revenue-producing departments.

"Good financial records," says Rubenstein and Fabisak, "are becoming more and more significant in hospital administration. Many of the current financial problems have resulted from the wide variance in the accounting methods among hospitals. The lack of uniform statistical definitions, record keeping, cost distributions, and rate setting have brought considerable confusion in dealings with governmental agencies, Blue Cross and other third parties purchasing hospital care."[9]

Because of the increasing use of hospital facilities by agencies which should pay the full cost of services rendered and the uncertainty of the financial ability of future generations to provide fixed or capital assets, hospital accountants, consultants, administrators and trustees are being converted to the school of thought that depreciation is an expense of hospitals and, therefore, should be recorded.

REFERENCES

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4. Charles F. Coates, "Depreciation in Hospital Accounting," *Journal of Accountancy,* July 1954, p. 26.
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8. American Hospital Association, *Handbook on Accounting,* Statistics and Business Office Procedures for Hospitals; Section 1, Uniform Hospital Statistics and Classification of Accounts, Chicago, the Association, 1950, p. 106.
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Social Security Numbers—

All wage items are reported under Social Security numbers. Our records are kept in a central file in Baltimore, Maryland. We have issued over ninety million numbers. We receive some sixty-five million wage items a quarter. The Social Security number is most important. If there is no number or a wrong one it starts costing us money and makes much trouble for you.

Original numbers are issued at once by us.

Duplicate numbers can be issued at once if a stub is presented. Otherwise it takes ten days, as we must screen the application.

You or an employer can always have a supply of forms SS-5 or OAAN-7003.

An employer is contacted personally or by letter in three types of cases.

OAR-1094—Incomplete returns where an account number is missing.

OAR-5031—Where the number or name reported is different on our records (married women).

OAR-5032—Where an employer reports a wrong number on four consecutive returns.

Each employer has an obligation to get the Social Security number. If he cannot, the back side of the return gives instructions for him to attach a completed form SS-5.

Suggestions—

The tax deducted from the employees is sometimes more than 2% of the payroll, due to the fraction of a cent involved in making individual computations. These pennies should be included in the amount sent to Internal Revenue.

Form SS-4 for an employer's identification number may be obtained from one of our offices or from Internal Revenue.

We are glad and happy to be of assistance. Feel free to call upon us at any time.