C. ARTHUR WILLIAMS, JR.
JOHN G. TURNBULL
EARL F. CHEIT

5th EDITION

ECONOMIC AND SOCIAL SECURITY

SOCIAL INSURANCE AND OTHER APPROACHES

Economic and Social Security
Social Insurance and Other Approaches

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Preface

Like its predecessors, this fifth edition of *Economic and Social Security* deals with the nature of economic insecurity and the system our society has developed to deal with these insecurities. This system includes social security programs plus legislation designed to correct substandard working conditions, wage rates, hours of employment, and child labor. Social security programs are defined broadly so as to include all public and private programs dealing with (1) the financial losses caused by death, old age, poor health, and unemployment and (2) poverty. Social security programs may, through loss control, attempt to reduce (1) the likelihood of loss or (2) the seriousness of the loss, should it occur. Other programs, through alleviation, help finance the losses that do occur.

Also like its predecessors, this fifth edition emphasizes public alleviative programs, which include (1) social insurance and related public programs and (2) the welfare system. This book, however, again includes two chapters on private employee-benefit plans and individual life and health insurance. Indeed the thesis of this book is that only by studying both public and private programs can one understand and intelligently evaluate the performance of plans in either sector.

Since the first edition of this book in 1957, the United States has dramatically expanded its economic security system. New programs have been added, old programs have been modified in significant ways. Most programs cover a much larger share of the population. For most individuals the system's benefits and costs play a far more important role in their economic lives. The system deserves closer study and evaluation than ever before.

How does this fifth edition differ from its predecessor? First, the material has been updated to include the many important changes that have occurred in the system in recent years. These changes by themselves justified a new edition. The publication date is also fortunate in that it has permitted us to discuss the thought-provoking 1981 reports of several national commissions plus the views of the Reagan Administration. Second, because of the increasing significance and complexity of Old-Age, Survivors, Disability, and Health Insurance (OASDHI), popularly called "Social Security," two chapters are now devoted to the Old Age and Survivors Insurance component of that program: the first deals with coverage and benefits, the second with financing and administration. Third, this edition has fewer chapters. The chapters in the fourth edition that have been omitted here are those formerly entitled "The Problems of Occupational Illness," "Private Approaches to Unemployment," "Fair Labor Standards Act," and "Conclusions and New Directions." Instead of two separate chapters on the problems of occupational and nonoccupational illness, this material has, in our opinion, been more effectively and efficiently presented in one chapter entitled "The Problems of Poor Health." Because private approaches to handling unemployment problems are neither as important nor complex as private approaches to handling the problems associated with death, old age, or poor health, the discussion of these approaches has been condensed into a separate section in the chapter entitled "The Problems of Unemployment." The separate chapter on the Fair Employment Standards Act has become part of an abbreviated, but still comprehensive, one-chapter discussion of "The Problems and Treatment of Substandard Conditions." Most of the concluding observations in the final chapter have been incorporated in other parts of the book. In our opinion, the result of these chapter changes is a more compact, better organized presentation. Fourth, in the previous edition the problems of death and old age, unemployment, and poor health were discussed in that order. Poor health is now discussed prior to unemployment for two reasons: poor health is more closely related to death and old age than is unemployment, and OASDHI, the nation's major social insurance program, covers death, old age, and poor health. Finally, a major portion of the book has been rewritten to make it a more readable and effective learning aid.

Professor Williams assumed primary responsibility for this edition. Professor Turnbull, who was primarily responsible for earlier editions, prepared Chapters 11, 14, and 16. Because of other demanding responsibilities, Dean Cheit did not participate in this revision, but many parts of the book still reflect his contributions to past editions.

As in the past, many persons have responded to our requests for information concerning the present economic security system. We are deeply indebted to them for their help, without which this edition would not have been possible. We also thank those individuals who contributed to earlier editions. David Beech, a graduate student at the University of Minnesota, read the entire manuscript and made several valuable suggestions. Finally, for typing the manuscript from what at times was an almost illegible handwritten copy we thank Pam Jonckowski, Allison Rice, and Lu Anne Moe.

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Minneapolis, Minnesota
Berkeley, California
January 1982

Contents

Chapter One

Economic Security in Our Society

CHARACTERISTICS AND CAUSES OF ECONOMIC INSECURITY

What is economic insecurity?

A primary breadwinner dies at age 35, leaving a spouse and four children, with food and clothing still to be bought, mortgage payments to be made, medical expenses to be paid.

Compulsory retirement or poor health causes a worker to stop working for pay at age 70.

A worker is laid off because of a downturn in the level of economic activity.

An employee is injured on the job and is out of work for two months; not only is there a loss of earnings, but the worker incurs medical expenses.

Two members of a family become seriously ill and have to be hospitalized for a long period of time.

An individual finds it difficult to get a job because of employer discrimination or finds it possible to secure employment only at substandard wages.

A father deserts a family with three small children; the mother cannot look for work because of the family responsibility.

These examples highlight the two basic characteristics of economic insecurity: (1) a loss of income, in whole or in part; and (2) additional expenses such as high medical bills. In essence, income is insufficient to meet some minimal budget or to cover extra costs.

What "causes" these insecurities? At the proximate level, rather than in some ultimate philosophical sphere, the answers can be specified as follows:

1 A loss of income that results from job separation, which may occur from premature death, old age, economic layoff, an accident, or sickness.

2 Extra—and sometimes costly—expenses incurred when members of a family become ill.
3 The inability or incapability of an individual to get a job that provides more than substandard wages—a mother with small children, or a member of a minority group.

Behind these "causes" are other "causes," and yet other "causes," and so on. For example, when a person is laid off because of a downturn in economic activity, what "causes" the downturn? An individual is injured on the job. What "caused" the accident? Behind the proximate "cause," can it be shown that the injured employee was accident prone? If so, what is the "cause" of this?

In our discussion we shall focus upon proximate causes, going behind the scene only when the analysis calls for it. To seek ultimate causes is beyond not only the scope of this book but the competence of the authors.

THE PLURALISTIC APPROACH TO ECONOMIC INSECURITY

If a society is not to sit by idly in cases of economic insecurity, what choices are open to it? In the United States, as well as in many other Western countries, a pluralistic approach has evolved—pluralistic not only as to what is done, but as to who does it and how it is done.

Let us first make an important distinction, since the structure and presentation in this volume are contingent upon it:

1 One broad and comprehensive set of programs designed to combat economic insecurity is labor-market oriented. Protection is provided at the workplace for those normally employed. Social insurance and employee-benefit plans are examples.
2 But what of the mother with small children when the father has left the family? Workplace-oriented economic security programs would not be applicable in such a case. How could the mother collect unemployment insurance benefits if she has never been employed or has not worked in years? Programs designed to aid these persons must be of a quite different nature than those with a labor-market focus. Public assistance illustrates this approach.

Economic security programs can also be classified according to whether they use (1) the loss control approach or (2) the alleviative approach.

The Loss Control Approach

One way of combating economic insecurity is through loss control, that is, attempting to reduce the likelihood of loss or to minimize the severity of the losses that do occur. Whether loss control can ever be completely effective is a matter of conjecture. However, loss control is a widely used and useful technique, irrespective of whether it is completely successful.

What does one seek to control? The cause or causes giving rise to the economic insecurity. An example or two may prove to be useful.

A high level of economic activity makes for less unemployment and hence reduces the aggregate insecurity arising from job separation due to economic causes. A government may use monetary and fiscal policies, for example, to seek to maintain a strong economy; a business enterprise with a highly seasonal operation (and layoffs during part of the year) may seek to diversify so as to reduce seasonal unemployment.

A government enacts health and safety legislation designed to make workplaces safer. Business enterprises, on their own initiative, take steps in the same direction. All of this tends to reduce the possibility of occupational accidents and sickness and their severity.

The Alleviative Approach

The loss control approach may reduce economic insecurity, but it is not likely to eliminate it. Some losses are likely and do occur. Alleviative measures reduce the undesirable economic consequences of these potential losses by promising to provide and providing under certain conditions either a substitute or a supplemental income stream.

A single illustration may make this clear. Workers' compensation is an alleviative program designed to protect one from the consequences of occupational accidents and sickness. Assume that an accident occurs at the workplace. Workers' compensation provides (1) a substitute income stream by paying the worker weekly benefits in lieu of wages not earned and (2) supplemental income by covering the added medical expenses.

Some general comments should be made about alleviative programs. First, they customarily restore only a portion of the wages lost. The substitute income stream is only, say, one-half or two-thirds as high as the income the individual would have received had he or she continued at work. Less than full restoration is predicated on a number of factors: the costs of full restoration, tax savings, the supposed disincentive effects if a person were paid as much for not working as for working, and so on.

Second, alleviative programs have a quite different set of standards, depending on whether they are labor-market oriented or not. An injured worker covered under workers' compensation can collect benefits as a matter of right, without proving individual need; the system is labor-market related. The "welfare system" is different, however. The individual who would seek welfare "assistance" must exhibit need before being eligible for payments.[1]

[1]There are semantic difficulties in the use of the terms "need" and "right," but they should not get in the way of our understanding. An individual who is laid off is in "need"—he or she has lost wage

The Parties to Economic Security Programs

As noted above, the economic security system in the United States is pluralistic in the sense that more than one operational approach is used; both loss control and alleviation are important in the overall framework. The same pluralism is found in the different groups in society to whom the responsibility for economic security programming is entrusted.

Three groups can be identified:

1 *Governmental units* Considerable loss control activity, from quarantine rules designed to control the spread of infectious diseases, to monetary and fiscal policies aimed at reducing unemployment, is sponsored by governmental units. For more than a generation, government, particularly at the federal level, has also assumed the responsibility for providing basic protection to the individual through its alleviative programs. Old-Age, Survivors, Disability, and Health Insurance, unemployment insurance, and workers' compensation all exemplify this provision of underlying protection for covered employees.

2 *Business enterprises and unions* Employment stabilization and plant safety are among scores of loss control activities undertaken by private business and unions. They may also provide a first level of alleviation above the foundation of government programs. Thus, company retirement plans may supplement protection afforded under the federal old-age insurance system; employee-benefit plans may extend the benefits available in case of premature death or disability; supplemental unemployment benefits (SUB) are sometimes tied into unemployment insurance.

3 *The individual* Individuals may provide on their own a third level of protection beyond those afforded by the government, business enterprises, and unions. For example, they may watch their diets and exercise regularly in an attempt to extend their life expectancy. They may purchase individual life insurance, health insurance, and annuities.

The Plan of This Book

The remainder of this chapter focuses on additional introductory topics. Chapters 2 through 13 focus primarily on labor-market-oriented risks, for which protection is provided at the workplace. Persons covered by such programs are normally attached to the labor force, are employed, and tend to be the victims of "transitory" economic insecurity that arises "through no fault of their own." The protection provided is customarily through some form of "insurance." Discussion

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income. But he or she can collect unemployment insurance benefits, as a matter of right, to meet the need. A deserted family is also in "need," but it can collect welfare payments only if it demonstrates its needs to the proper administrative unit. If the family can prove this individual need, it has a legal "right" to welfare payments.

of the nature and dimensions of each risk is followed by analyses of public-sector programs and, to a lesser extent, private-sector plans. Alleviation will receive more attention than loss control.

Chapters 14 through 17 focus on a quite different set of problems and treat a quite different "population." These chapters address mainly the issues of poverty and the poor: their nature and numbers and the programs designed to cope with their problems. These programs are quite different from those analyzed in the earlier chapters. They tend to be non-labor-market oriented (or, if labor-market oriented, they are "regulatory" in nature, concerning such things as wage and hour laws). They are generally noninsurance in nature and focus on long-run rather than transitory economic insecurity.

ECONOMIC SECURITY APPROACHES: SOME IMPORTANT DISTINCTIONS

Let us examine in some detail three important distinctions in society's approaches to economic insecurity, namely, (1) service versus income payments, (2) social insurance versus public assistance, and (3) social insurance versus private insurance.

Service Versus Income Payments

Under a service program the recipient receives payments in kind instead of in cash, while under an unrestricted income program the recipient receives cash that may be used to purchase services needed or desired. Both service and income programs exist in the United States, although, as will be seen, the latter tend to predominate.

The recipient of service benefits must accept the program services, but the recipient of unrestricted income benefits can purchase those services that he or she deems most important. The recipient loses freedom of economic choice when a loss of income is replaced with specific services. For example, there is a loss of freedom if an individual is provided with free room and board instead of, say, an unrestricted cash payment of $400 a month. The loss of freedom is less, however, when the program provides specific services instead of reimbursing the individual in cash for expenses incurred in purchasing these same types of services. In fact, the loss of freedom may be very slight if the services under the service program may be obtained from all or most of the available providers of that service. For example, a medical expense program may provide service benefits or cash reimbursements for expenses incurred. In either case, the program is limited to medical services. The loss of freedom under the service program depends on the ability of the insured to choose his or her own doctors, hospitals, nurses, and other suppliers of medical service. If the service program makes available all or most of the medical facilities of the nation on equal terms, the relative loss of freedom of choice under the service program as compared with a cash reimbursement program is slight.

Various other considerations, some administrative and some economic, are relevant to the issue of service versus income payments. Among them are the following:

1 Service benefits make it possible for the sponsoring body to exercise more control over the quality and cost of the services.
2 An insured person may use unrestricted cash payments for purposes that are not socially or economically desirable; hence service programs provide more rigorous controls, not only in quality and cost, but also in use.
3 Service benefits may, however, be more costly to administer, for there may be many more administrative and other details to be considered.
4 Public service benefits may make it necessary for the government to enter an area that had been reserved for private enterprise in the past.
5 Promises to provide service benefits become more valuable to the promisee and more costly to the promisor when the cost of that service increases. A promise to provide a stated dollar income that can be used to purchase that same service becomes less valuable to the promisee. The cost to the promisor is not affected. For example, a promise to provide hospital care in a semiprivate room for 90 days is made more valuable to the promisee and more costly to the promisor by an increase in the cost of providing this service. A specific per-day allowance may be sufficient to pay all the cost when the promise is made, but only part of the cost later.
6 Service benefits replacing lost income may be less "popular" than income benefits because of some loss of freedom of economic choice. Therefore, some who are eligible may not apply for the benefits. This means that the program may not service some of the people for whom it was intended. As stated earlier, however, the relative loss of freedom under some service programs is slight.

Most of the alleviative payments under the U.S. economic security system are cash payments.[2] Certain service programs do, however, play a major role in the current economic security scene. Public housing is one example of a public system utilizing the service approach. A currently important private illustration is provided by medical expense associations known as Health Maintenance Organizations, in which alleviation is in the form of direct provision of the service rather than via cash payment.

[2]Eveline M. Burns, *Social Security and Public Policy* (New York: McGraw-Hill, 1956), pp. 5–9. This excellent book discusses in detail the major questions arising in connection with public social security programs. Although published some years back, this source, and the one given in footnote 4, still provide as good an analysis of the possible options as is currently available.

Public Assistance Versus Social Insurance[3]

Public assistance benefits customarily are paid only to those individuals who can demonstrate need, and the amount of the benefit is based on the extent of the demonstrated need. Final decisions on both eligibility and benefit amounts are made on a discretionary basis by the officials administering the public assistance programs.

Social insurance and related benefits are paid regardless of need to all persons who satisfy certain eligibility requirements. The benefit amounts are also determined on some basis other than actual need, although under many social insurance programs one of the factors affecting general benefit schedules is the presumed average need of the beneficiaries. The actual need may be more or less than the social insurance benefits. The officials administering the social insurance programs exercise little or no discretion in the determination of eligibility or benefit amounts.

Other differences between public assistance and social insurance programs may be summarized as follows:

1 The only direct participants under a public assistance program are recipients. The direct participants under a social insurance plan are the insureds, only a small fraction of whom are beneficiaries at any given time. Thus many more persons are directly concerned with social insurance programs.

2 Many persons who would otherwise be eligible for public assistance benefits do not apply because of the test of need. Participation in most social insurance programs is compulsory, but the participants need not claim their benefits. Of course, very few persons eligible for social insurance benefits refuse to make a claim, for there is no stigma attached to the receipt of the benefits.

3 Because of the character of public assistance programs, they are financed out of general revenues, which are usually derived from a highly progressive tax system, rather than earmarked revenues. Social insurance programs, on the other hand, are generally financed out of earmarked taxes, and there is usually some relationship between an individual's benefit and the contributions made by or in behalf of the individual. Generally it is held desirable to maintain some relationship between contributions and benefits because of the presumably favorable effect on economic incentives. This relationship, it is claimed, also encourages participants and their elected representatives to pay more attention to the cost of the program.

4 Public assistance programs are generally administered by state or local government units who are closer to the recipients. The amount of discretion involved in these programs is the principal reason advanced for the lack of

[3]For an extensive discussion see Eveline M. Burns, *The American Social Security System* (Boston, Mass.: Houghton Mifflin, 1951), pp. 28–39. As noted in Mrs. Burns' volume, some programs are "hybrids," such as "income-conditioned" systems.

direct federal administration. An exception is Supplemental Security Income, which is federally financed and administered.[4] Eligibility and benefits under SSI, however, are generally determined on the basis of criteria more objective than public assistance. Because the amount of discretion involved in social insurance programs is slight and because uniformity among the states is highly desirable, many of these programs are administered solely or in large part by the federal government.

5 Because most American families do not expect to be needy, they do not consider public assistance benefits to be part of their economic security plans (except as emergency measures). Social insurance benefits, on the other hand, do not depend on need. Furthermore, these benefits can be reasonably forecast. Therefore, social insurance benefits are and should be included in a family's economic security plans.

Social insurance programs are much more "popular" than public assistance programs because definite benefits payable as a matter of right are preferred to indefinite benefits payable on the basis of need. Therefore, as interest in more adequate public economic security schemes has increased, social insurance programs have gradually replaced public assistance programs as the basic approach to these financial problems. Public assistance programs today protect only those persons who are both needy and ineligible for adequate social insurance benefits. Public assistance programs also cover some economic insecurities such as desertion of a family by the husband that are not covered at all by social insurance.

Social Insurance Versus Private Insurance

Insurance may be defined as a social device that enables many persons to combine their exposure to loss through actual or promised contributions to a fund out of which those persons who suffer a loss receive benefits as a matter of right.[5] As the number of persons or objects independently exposed to the loss increases it becomes more likely, according to the law of large numbers, that the losses incurred by a group of insureds will be closer, in the short run, to their expected losses, defined as the losses those insureds would experience on the average in the long run. In other words, the group's insured losses become more predictable the larger the number of exposure units. Thus, by insuring a large group of persons,

[4]The Supplementary Security Income program is sometimes classified as a third approach—a universal benefit or demogrant system. Generally these programs cover the entire population, not just the employed population, and benefits are conditioned on such demographic characteristics as age, sex, residence, and family status. There may be an income test, but it can be mathematically administered. See Robert J. Myers, *Social Security* 2nd ed. (Homewood, Ill.: Richard D. Irwin, 1981), pp. 7–8.

[5]We define private insurance so as to include all types of definite benefit plans, because all such benefit plans of which we are aware can and usually do involve some pooling of the risks of many persons. Furthermore, under our definition, a "self-insured" employee-benefit plan is not insurance from the viewpoint of the employer, but it is insurance from the viewpoint of the employee.

an insurer can reduce its risk, which is defined as the relative variation in the short-run losses around their expected value.[6]

Insurance is beneficial *to insureds* because (1) they will be indemnified if a loss occurs and (2) even if no loss occurs, they can conduct their lives with less uncertainty because the insurer promises to bear any covered loss that might occur. The insurer assumes the risks of the individual insureds but, through the operation of the law of large numbers, the insurer converts these individual risks into a much smaller one. *Society* benefits from the existence of insurance because (1) the unfortunate insureds who suffer losses are indemnified, (2) the risk and uncertainty in society is reduced, and (3) insurance substitutes many small losses in the form of premiums for a few large losses, thus reducing the *real* economic burden on society. The economic burden is less because, according to the law of diminishing utility, the loss in utility is much less if $100 is taken from each of 1,000 families than if $10,000 is taken from each of 10 families.[7]

Not all potential losses are insurable. Ideally, an insurable exposure should possess the following characteristics. First, the number of insureds with such an exposure should be large and they should be independently exposed to the potential loss, otherwise the risk is not reduced sufficiently to permit the insurer to operate safely. Second, to facilitate loss adjustments the losses covered should be definite as to cause, time, place, and amount. Third, the expected losses for all insureds combined should be calculable, otherwise the insurer will be unable to determine an accurate premium for the coverage. Fourth, the loss should be accidental from the viewpoint of the insured; it is unwise to insure against losses that the insured can bring about or that are bound to happen. (Death is "bound to happen," but the date is uncertain.) In practice, exposures judged insurable by private or public insurers seldom, if ever, possess all these characteristics. In most cases the departures are small; in other cases they are significant, but there are compelling economic or social reasons to offer the protection.

For example, the exposures covered by life insurance come close to being ideally insurable. The number of insured exposures is extremely large; for practical purposes these exposures can be assumed to be independent. As Chapter 2 will indicate, estimating accurately enough for insurance payments the financial losses caused by death is impossible. Insurers avoid this problem by promising to make certain dollar payments if death occurs. On this basis the insurer can estimate quite accurately the expected losses for a large group of insureds. State laws

[6]Life is not as certain for insurers as this sentence implies. The Law of Large Numbers reduces the effects of chance fluctuations but not changes in the underlying environment that affect the expected losses as well as the actual losses. For example, in the short run there may be a significant increase in the frequency and severity of disability claims, which is tied to the liberality of the benefits or conditions in the workplace, and not to chance.

[7]See Paul Samuelson, *Economics,* 10th ed. (New York: McGraw-Hill Book, 1976), pp. 433–436; Allan H. Willett, *The Economic Theory of Risk and Insurance* (New York: Columbia University Press, 1901; reprinted, Philadelphia, Pa.: University of Pennsylvania Press, 1951); and Irving Pfeffer, *Insurance and Economic Theory* (Homewood, Ill.: Richard D. Irwin, 1956).

require private insurers to cover suicides one or two years after the contract is in force, but such an event is unlikely. On the other hand, many insurers refuse to write sickness insurance because, as Chapter 6 will suggest, it is difficult to determine whether a person is sick and, if so, how sick. Others write sickness insurance with various degrees of reluctance for various reasons. For example, they may believe that they are obligated to insure such an important exposure, that sickness insurance enables the insurer to sell more life insurance, or that private insurers should not surrender any field of insurance to the government. Some insurers, it should be noted, consider sickness insurance much less troublesome than this analysis would suggest.

Private insurance generally possesses the following characteristics, although from the viewpoint of the insured worker there are some important exceptions associated with employee-benefit plans:

1 The protection is voluntary. Insureds must be "sold" on the need for protection. As a result, some persons buy either no protection or inadequate protection. On the other hand, they do retain their freedom of economic choice.

2 The insurance contract is a legal instrument that cannot be changed without the consent of the insured except in unusual cases, and that can be enforced in court.

3 The cost of each individual's protection is determined on an actuarial basis. The benefit amount and loss and expense-producing potential are considered in determining the price, for the price of the protection should equal the expected cost. It is true that most insureds are not rated individually, for there is a desire to base rates on past experience, and the experience of a single insured is not usually credible. (This is obvious in the case of death.) Moreover, rating each person individually is a complicated procedure. Therefore, usually all insureds with *approximately* the same loss and expense characteristics are grouped together in a class and charged the same rate. For example, life insurance premiums vary with the amount and type of life insurance purchased, but for a given benefit the rates depend only on two factors—age and sex. There are undoubtedly differences among standard lives in the same age and sex groups, but these differences are assumed to be slight.[8] Insofar as practical considerations will permit, price equals expected cost for the group.

   Private insurers may become bankrupt if their premiums (plus assessments, if any) are consistently insufficient to pay their actual expenses and losses, which may differ considerably from their expected losses and expenses. Private insurer experience in this respect has, however, been excellent.

4 The protection is provided by many insurers of various types who compete with one another for insureds. There are stock insurers, mutual insurers,

[8]Substandard lives may pay a higher premium, but there are relatively few substandard lives. The use of sex as a rating variable in pricing life insurance and other types of insurance has been seriously questioned recently and prohibited in some cases.

self-insurers, medical service associations, and many others. Competition forces these insurers to reassess their contracts and prices periodically.

Social insurance includes a variety of insurance arrangements. Under one definition, social insurance includes all insurance arrangements in which the government acts as the insurer, subsidizes the operation, or requires insureds to purchase the protection. At one extreme this definition includes the type of private insurance required by law, such as workers' compensation insurance, and voluntary public insurance, such as government life insurance for veterans, which operate on essentially the same basis as private insurance. At the other extreme social insurance includes programs that differ from private insurance in many respects and which some persons believe should not be considered as insurance. However, these programs do satisfy the definition of insurance used in this book, in that they provide a mechanism for pooling exposures to accidental losses.

The most important social insurance program—Old-Age, Survivors, Disability, and Health Insurance—is the best example of this latter "extreme." This program carries out a social and economic public policy decision: it provides a floor of protection for all participants against financial losses caused by premature death, poor health, or old age.[9] It differs from the most common forms of private insurance in four important respects:

1 Participation is compulsory (with a few exceptions) for all eligible persons. Otherwise some individuals would elect not to be covered and the policy objective of a floor of protection for all members of a defined group would be thwarted.
2 The benefits are prescribed by law. There are no contracts, and it is possible (but highly improbable) that Congress will rescind the benefits in the future. Periodic changes in the benefit structure are very likely through changes in the law.
3 The system redistributes income in addition to providing protection through a pooling arrangement. Lower-income groups, insureds with many dependents, and participants who were elderly when the system was inaugurated receive more benefits for their contributions than most other participants. If this were not true, it would be impossible to achieve the public policy objective of a floor of protection for all participants, since some insureds would be unable to afford adequate protection. Old-age benefits during the early years of the system would also be limited. The benefits are not equitable in the private insurance sense, but they are not meant to be. Other standards of performance have been deemed more important. In short, the system stresses

[9]For a concise description of the principles underlying this program, see J. Douglas Brown, "Concepts in Old-Age and Survivors Insurance," *Proceedings of the First Annual Meeting of the Industrial Relations Research Association,* 1948, pp. 100–106. (We use the "complete" title here—OASDHI—even though different parts of the program are applicable to different parts of our discussion.)