

1975 ANNUAL REPORT OF THE BOARD OF  
TRUSTEES OF THE FEDERAL OLD-AGE  
AND SURVIVORS INSURANCE AND  
DISABILITY INSURANCE  
TRUST FUNDS

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COMMUNICATION

FROM

BOARD OF TRUSTEES  
FEDERAL OLD-AGE AND SURVIVORS  
INSURANCE AND DISABILITY INSURANCE  
TRUST FUNDS

TRANSMITTING

THE 1975 ANNUAL REPORT OF THE BOARD, PURSUANT TO  
SECTION 201(c) OF THE SOCIAL SECURITY ACT, AS  
AMENDED



MAY 6, 1975.—Referred to the Committee on Ways and Means  
and ordered to be printed

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1975 ANNUAL REPORT OF THE BOARD OF  
TRUSTEES OF THE FEDERAL OLD-AGE  
AND SURVIVORS INSURANCE AND  
DISABILITY INSURANCE  
TRUST FUNDS

LETTER

FROM

BOARD OF TRUSTEES  
FEDERAL OLD-AGE AND SURVIVORS INSURANCE  
AND DISABILITY INSURANCE TRUST FUNDS

TRANSMITTING

The 1975 Annual Report of the Board (35th Report),  
Pursuant to the Provisions of Section 201(c)  
of the Social Security Act, as Amended



## LETTER OF TRANSMITTAL

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BOARD OF TRUSTEES OF THE  
FEDERAL OLD-AGE AND SURVIVORS INSURANCE  
AND DISABILITY INSURANCE TRUST FUNDS,  
*Washington, D.C., May 2, 1975.*

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES,  
*Washington, D.C.*

SIR: We have the honor to transmit to you the 1975 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (the 35th such report), in compliance with the provisions of section 201(c) of the Social Security Act.

Respectfully,

WILLIAM E. SIMON,  
*Secretary of the Treasury,*  
*and Managing Trustee of the Trust.*

JOHN T. DUNLOP,  
*Secretary of Labor.*

CASPAR W. WEINBERGER,  
*Secretary of Health,*  
*Education, and Welfare.*

JAMES B. CARDWELL,  
*Commissioner of Social Security.*



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# 1975 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND

## THE BOARD OF TRUSTEES

The Federal Old-Age and Survivors Insurance Trust Fund, established on January 1, 1940, and the Federal Disability Insurance Trust Fund, established on August 1, 1956, are held by the Board of Trustees under the authority of section 201(c) of the Social Security Act. The Board is comprised of three members who serve in an *ex officio* capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the Managing Trustee. The Commissioner of Social Security is Secretary of the Board. The Board of Trustees reports to the Congress once each year, in compliance with section 201(c)(2) of the Social Security Act. This report is the annual report for 1975, the 35th such report.

## HIGHLIGHTS

The more important developments since the 1974 annual report, discussed in more detail in later sections, are indicated below:

(a) The growth of the old-age, survivors, and disability insurance system during fiscal year 1974 was close to that predicted in the 1974 annual report. Income in fiscal 1974 amounted to \$57.7 billion, up by 16 percent over fiscal 1973. Outgo totaled \$55.9 billion, 14 percent more than in fiscal 1973. The funds increased by \$1.8 billion in fiscal 1974, to a level of \$46.1 billion on June 30, 1974.

(b) Several changes affecting the operations of the trust funds occurred during fiscal year 1974. A general benefit increase of 11 percent became effective in two steps—the first, an interim increase of 7 percent effective for the 3 months March–May 1974, followed by the full 11-percent increase effective for June 1974. The amount that a beneficiary may earn in a year, and still receive all of his benefits under the retirement test (i.e., the annual exempt amount) increased from \$2,100 to \$2,400 effective January 1, 1974. The contribution rate for old-age, survivors, and disability insurance increased from 4.85 percent each, for employees and their employers, to 4.95 percent each, effective January 1, 1974. The contribution and benefit base also increased, from \$10,800 to \$13,200, effective January 1, 1974. The comparison of trust-fund operations in fiscal year 1974 with operations in fiscal year 1973 is also affected by a 20-percent general benefit increase effective with benefits for September 1972, provided under Public Law 92-336, and by other provisions of Public Laws 92-336 and 92-603, most of which became effective January 1, 1973.

(c) The number of persons receiving monthly benefits under the old-age, survivors, and disability insurance program totaled 30.2 million by the end of June 1974. An estimated 101 million workers had earnings in calendar year 1974 that were taxable and creditable toward benefits under the program.

(d) The trust funds earned interest of \$2.5 billion during the fiscal year, equivalent to an effective annual rate of 6.0 percent on the total assets of the trust funds.

(e) The first automatic increases in the contribution and benefit base and in the annual exempt amount under the retirement test were determined under the automatic increase provisions in the law. The new amounts, effective for January 1, 1975, are \$14,100 and \$2,520, respectively. The published statement announcing the determination of these amounts is shown in Appendix B.

(f) The first automatic cost-of-living benefit increase was determined to be 8.0 percent, effective for June 1975.

(g) In every calendar year beginning with 1975, the projected outlays of the combined old-age and survivors insurance and disability insurance systems are estimated to exceed the tax income according to the scheduled tax rates and estimated future increases in the contribution and benefit base. This annual deficit is estimated to be, on the average, 1.26 percent of taxable earnings over the next 25-year period (1975-1999). The average annual deficit over the second 25-year period (2000-2024) is estimated to be 4.10 percent, and over the third 25-year period (2025-2049) is estimated to be 10.19 percent.

The long-range average-cost when computed in the customary way over the entire 75-year period (1975-2049) exceeds the average tax rate scheduled in present law by 5.32 percent of taxable payroll.

(h) Assets of both the old-age and survivors insurance trust fund and the disability insurance trust fund are estimated to show substantial declines during the 5-year period 1975-79. The estimates indicate that, without legislation to provide additional financing, the assets of both trust funds will be exhausted soon after 1979.

(i) The reports of the 1975 Advisory Council on Social Security were received, and the recommendations that would have a significant impact on the financing of the old-age, survivors, and disability insurance program are being carefully evaluated.

## NATURE OF THE TRUST FUNDS

The Federal old-age and survivors insurance trust fund was established on January 1, 1940, as a separate account in the United States Treasury to hold the amounts accumulated under the old-age and survivors insurance program. All the financial operations which relate to the system of old-age and survivors insurance are handled through this fund. The Social Security Amendments of 1956, which became law August 1, 1956, provided for the creation of the Federal disability insurance trust fund—a fund entirely separate from the old-age and survivors insurance trust fund—through which are handled all finan-

cial operations in connection with the system of monthly disability benefits payable to insured workers and to their dependents.

The major sources of receipts of these two funds are (1) amounts appropriated to each of them under permanent appropriation on the basis of contributions paid by workers and their employers, and by individuals with self-employment income, in work covered by the old-age, survivors, and disability insurance program and (2) amounts deposited in each of them representing contributions paid by workers employed by State and local governments and by such employers with respect to work covered by the program. All employees, and their employers, in employment covered by the program are required to pay contributions with respect to the wages of individual workers (cash tips, covered as wages beginning in 1966 under the 1965 Amendments, are an exception to this; employees pay contributions with respect to cash tips, but employers do not). All covered self-employed persons are required to pay contributions with respect to their self-employment income.

In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount, with the contributions being determined first on the wages and then on any self-employment income necessary to make up the annual maximum amount.

The contribution rates applicable to taxable earnings in each of the calendar years 1937 and later, and the allocation of the rates to finance expenditures from each of the two trust funds, are shown in table 1. For 1976 and later, the contribution rates shown are the rates scheduled in the provisions of present law. The maximum amount of annual earnings taxable in each year, 1937-75, is also shown in table 1. Beginning with 1975, the maximum amount of earnings taxable in each year is determined in the preceding year under the automatic increase provisions in section 230 of the Social Security Act, unless modified by intervening Congressional action.

Except for amounts received by the Secretary of the Treasury under State agreements (to effectuate coverage under the program for State and local government employees) and deposited directly in the trust funds, all contributions are collected by the Internal Revenue Service and deposited in the general fund of the Treasury as internal revenue collections; then, on an estimated basis, the contributions received are immediately and automatically appropriated to the trust funds. The exact amount of contributions received is not known initially since old-age, survivors, disability, and hospital insurance contributions and individual income taxes are not separately identified in collection reports received by the Treasury Department. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

TABLE 1.—CONTRIBUTION RATES AND MAXIMUM TAXABLE AMOUNT OF ANNUAL EARNINGS

Calendar years	Maximum taxable amount of annual earnings	Contribution rates (percent of taxable earnings)					
		Employees and employers, each			Self-employed		
		OASDI	OASI	DI	OASDI	OASI	DI
<b>Past experience:</b>							
1937-49	\$3,000	1.000	1.000				
1950	3,000	1.500	1.500				
1951-53	3,600	1.500	1.500		2.2500	2.2500	
1954	3,600	2.000	2.000		3.0000	3.0000	
1955-56	4,200	2.000	2.000		3.0000	3.0000	
1957-58	4,200	2.250	2.000	0.250	3.3750	3.0000	0.3750
1959	4,800	2.500	2.250	.250	3.7500	3.3750	.3750
1960-61	4,800	3.000	2.750	.250	4.5000	4.1250	.3750
1962	4,800	3.125	2.875	.250	4.7000	4.3250	.3750
1963-65	4,800	3.625	3.375	.250	5.4000	5.0250	.3750
1966	6,600	3.850	3.500	.350	5.8000	5.2750	.5250
1967	6,600	3.900	3.550	.350	5.9000	5.3750	.5250
1968	7,800	3.800	3.325	.475	5.8000	5.0875	.7125
1969	7,800	4.200	3.725	.475	6.3000	5.5875	.7125
1970	7,800	4.200	3.650	.550	6.3000	5.4750	.8250
1971	7,800	4.600	4.050	.550	6.9000	6.0750	.8250
1972	9,000	4.600	4.050	.550	6.9000	6.0750	.8250
1973	10,800	4.850	4.300	.550	7.0000	6.2050	.7950
1974	13,200	4.950	4.375	.575	7.0000	6.1850	.8150
1975	14,100	4.950	4.375	.575	7.0000	6.1850	.8150
<b>Changes scheduled in present law:</b>							
1976-77	(1)	4.950	4.375	.575	7.0000	6.1850	.8150
1978-80	(1)	4.950	4.350	.600	7.0000	6.1500	.8500
1981-85	(1)	4.950	4.300	.650	7.0000	6.0800	.9200
1986-2010	(1)	4.950	4.250	.700	7.0000	6.0100	.9900
2011 plus	(1)	5.950	5.100	.850	7.0000	6.0000	1.0000

<sup>1</sup> Subject to automatic increase.

An employee who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum can receive a refund of the contributions he paid on such excess wages. The amount of contributions subject to refund for any period is a charge against each of the trust funds in the ratio in which the amount was appropriated to or deposited in such trust funds for that period.

Another source from which receipts of the trust funds are derived is interest received on investments held by the funds. The investment procedures of the funds are described later in this section.

The income and expenditures of the trust funds are also affected by the provisions of the Railroad Retirement Act which provide for a system of coordination and financial interchange between the railroad retirement program and the old-age, survivors, and disability insurance program.

Sections 217(g) and 229(b) of the Social Security Act authorize annual reimbursements from the general fund of the Treasury to the old-age and survivors insurance and disability insurance trust funds for any costs arising from the granting of noncontributory wage credits for military service, according to periodic determinations made by the Secretary of Health, Education, and Welfare.

Section 228 of the Social Security Act provides monthly cash benefits to certain persons aged 72 and over, almost all of whom are not eligible for cash benefits under other provisions of the old-age, survivors, and disability insurance program. Under section 228, all payments are made initially from the old-age and survivors insurance trust fund, with later reimbursement, with interest, from the general fund of the Treasury for the costs, including administrative expenses, of payments to persons who have less than 3 quarters of coverage. The

reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest allowances, as the actual experience develops and is analyzed.

Section 231 of the Social Security Act authorizes reimbursement from the general fund of the Treasury to the old-age and survivors insurance and disability insurance trust funds for any costs arising from the granting of noncontributory wage credits to individuals who were interned during World War II at a place within the United States operated by the Federal government for the internment of persons of Japanese ancestry.

Section 201(i) of the Social Security Act authorizes the Managing Trustee to accept and deposit in the trust funds unconditional money gifts or bequests made for the benefit of the trust funds or any activity financed through such funds.

Expenditures for benefit payments and administrative expenses under the old-age, survivors, and disability insurance program are paid out of the trust funds. All expenses incurred by the Department of Health, Education, and Welfare and by the Treasury Department in carrying out the provisions of Title II of the Social Security Act and of the Internal Revenue Code relating to the collection of contributions are charged to the trust funds. The Secretary of Health, Education, and Welfare certifies benefit payments to the Managing Trustee, who makes the payment from the respective trust funds in accordance therewith.

Section 222(d) of the Social Security Act provides for payments from the trust funds for the cost of vocational rehabilitation services furnished to disabled persons receiving benefits because of their disability. The total amount of funds that may be made available in a fiscal year for payments for the costs of such services, including applicable administrative expenses of State agencies, may not exceed a specified percentage of the benefits certified for payment to these types of beneficiaries in the preceding year. This limitation on the amount to be made available was 1 percent in each of the fiscal years 1966 (when such amounts were first made available) through 1972 and  $1\frac{1}{4}$  percent in fiscal year 1973. Under present law, the limitation is  $1\frac{1}{2}$  percent in fiscal years after 1973.

Congress has authorized expenditures from the trust funds for construction, rental, and lease or purchase contract of office buildings and related facilities for the Social Security Administration. Both the capital costs of construction financed directly from the trust funds and the rental, lease, or purchase contract costs of acquiring facilities are included in trust fund expenditures. In 1974, construction of several large facilities was begun under purchase contract authority, wherein initial capital costs are borne by the private sector. Under this method of facilities acquisition, trust fund expenditures for use and ultimate Government ownership of a facility are made over periods of from 10 to 30 years. Whatever the manner of acquisition, the net worth of facilities and other fixed capital assets is not carried in the statement of the operations of the trust funds presented in this report. This is because the value of fixed capital assets does not represent funds available for benefit or administrative expenditures, and therefore is not viewed as being a consideration in assessing the actuarial status of the funds.

That portion of each trust fund which, in the judgment of the Managing Trustee, is not required to meet current expenditures for benefits and administration is invested, on a daily basis, in interest-bearing obligations of the U.S. Government (including special public-debt obligations described below), in obligations guaranteed as to both principal and interest by the United States, or in certain federally-sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. These obligations may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust funds that shall bear interest at a rate based on the average market yield (computed by the Managing Trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States then forming a part of the public-debt which are not due or callable until after the expiration of four years from the end of such calendar month.

#### SUMMARY OF THE OPERATIONS OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, FISCAL YEAR 1974

A statement of the income and disbursements of the Federal old-age and survivors insurance trust fund in the fiscal year which began on July 1, 1973, and ended on June 30, 1974, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2. Comparable amounts for fiscal year 1973 are also shown in the table.

The total assets of the old-age and survivors insurance trust fund amounted to \$36.416 million on June 30, 1973. During fiscal year 1974, total receipts amounted to \$50.936 million and total disbursements were \$49.485 million. The assets of the trust fund amounted to \$37.867 million at the end of fiscal year 1974, or \$1,451 million more than at the beginning of the year.

Included in total receipts during fiscal year 1974 were \$43,858 million representing contributions appropriated to the fund, and \$4,989 million representing amounts received by the Secretary of the Treasury in accordance with State agreements for coverage of State and local government employees and deposited in the trust fund. As an offset, \$393 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base.

TABLE 2.—STATEMENT OF OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING FISCAL YEARS 1973 AND 1974

[In thousands]

	Fiscal year	
	1973	1974
Total assets of the trust fund, beginning of year.....	\$36,399,058	\$36,415,896
Receipts:		
Contributions:		
Appropriations.....	37,560,472	43,857,792
Deposits arising from State agreements.....	4,130,891	4,989,458
Gross contributions.....	41,691,363	48,847,250
Less payment into the Treasury for contributions subject to refund.....	373,186	392,557
Net contributions.....	41,318,177	48,454,693
Reimbursement from general fund of the Treasury for costs of:		
Noncontributory credits for military service.....	138,000	139,000
Payments to noninsured persons aged 72 and over:		
Benefit payments.....	292,965	265,890
Administrative expenses.....	3,624	3,173
Interest.....	40,057	33,724
Total reimbursement for payments to noninsured persons aged 72 and over.....	336,645	302,788
Interest:		
Interest on investments.....	1,848,393	2,039,660
Interest on amounts transferred between the old-age and survivors insurance and the disability insurance trust funds due to adjustment in allocation of the costs of vocational rehabilitation services <sup>1</sup> .....	16	-20
Interest received from general fund of the Treasury on funds advanced in fiscal year 1973 from the old-age and survivors insurance trust fund to finance administrative expenses of the supplemental security income program.....		656
Gross interest.....	1,848,409	2,040,297
Less interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs.....	1,891	1,054
Net interest.....	1,846,518	2,039,243
Total receipts <sup>2</sup> .....	43,639,340	50,935,724
Disbursements:		
Benefit payments.....	42,169,744	47,848,838
Transfer to railroad retirement account.....	782,954	908,585
Payment for cost of vocational rehabilitation services for disabled beneficiaries:		
For the current fiscal year.....	2,510	3,534
Transfer between the old-age and survivors insurance and the disability insurance trust funds due to adjustment in allocation of cost for prior fiscal year <sup>3</sup> .....	-40	340
Net payment for cost of vocational rehabilitation services.....	2,470	3,873
Administrative expenses:		
Department of Health, Education, and Welfare.....	611,374	618,506
Treasury Department.....	78,020	87,571
Construction of facilities for Social Security Administration.....	7,446	4,954
Expenses of the Department of Health, Education, and Welfare for administration of vocational rehabilitation program for disabled beneficiaries.....	36	40
Interfund transfers due to adjustment in allocation of:		
Administrative expenses <sup>3</sup> .....	10,874	12,645
Costs of construction <sup>3</sup> .....	609	-353
Gross administrative expenses.....	708,359	723,362
Less receipts from sale of supplies, materials, etc.....	24	47
Less reimbursement from general fund of the Treasury for funds advanced in fiscal year 1973 from the old-age and survivors insurance trust fund to finance administrative expenses of the supplemental security income program.....	41,000	
Net administrative expenses.....	667,335	723,315
Total disbursements.....	43,622,503	49,484,611
Net addition to the trust fund.....	16,837	1,451,113
Total assets of the trust fund, end of year.....	36,415,896	37,867,008

<sup>1</sup> A positive figure represents a transfer of interest to the old-age and survivors insurance trust fund from the other social security trust funds. A negative figure represents a transfer of interest from the old-age and survivors insurance trust fund to the other social security trust funds.

<sup>2</sup> Includes gifts totaling \$174.73.

<sup>3</sup> A positive figure represents a transfer from the old-age and survivors insurance trust fund to the other social security trust funds. A negative figure represents a transfer to the old-age and survivors insurance trust fund from the other social security trust funds.

Net contributions amounted to \$48,455 million, an increase of 17.3 percent over the amount for the preceding fiscal year. Growth in contribution income resulted primarily from (1) the higher level of employment and taxable earnings, (2) the two increases in the maximum annual amount of earnings taxable—from \$9,000 to \$10,800 and from \$10,800 to \$13,200—that became effective on January 1, 1973, and January 1, 1974, respectively, and (3) the two increases in the combined employer-employee contribution rate allocated to finance the old-age and survivors insurance program—from 8.1 percent to 8.6 percent and from 8.6 percent to 8.75 percent—that became effective on January 1, 1973, and January 1, 1974, respectively. Although the first increase in the maximum annual amount of earnings taxable, from \$9,000 to \$10,800, became effective in 1973, the first full fiscal year during which earnings between \$9,000 and \$10,800 were taxable was 1974. Similarly, although the first increase in the combined employer-employee contribution rate allocated to finance the old-age and survivors insurance program, from 8.1 percent to 8.6 percent, became effective in 1973, the first full fiscal year during which the higher rate was operative was 1974.

Reference has been made in an earlier section to provisions of the Social Security Act under which the old-age and survivors insurance and disability insurance trust funds are to be reimbursed annually from the general fund of the Treasury for costs of granting non-contributory credits for military service. In accordance with Section 217(g), the Secretary of Health, Education, and Welfare made a determination in 1970 of the level annual appropriations to the trust funds necessary to amortize over a 44-year period, beginning in fiscal year 1972, the estimated total additional costs, for military service performed before 1957, arising from payments that have been made after August 1950 and that will be made in future years, taking into account the amounts of annual appropriations in fiscal years 1966–71 that have been deposited into the trust funds. The annual amounts resulting from this determination were \$136 million for the old-age and survivors insurance trust fund and \$49 million for the disability insurance trust fund. In accordance with Section 229(b), the Secretary determined that each of the two trust funds should receive reimbursement of \$3 million for additional costs attributable to non-contributory credit for military service performed after 1967. Thus, reimbursements amounting to \$139 million for the old-age and survivors insurance trust fund, and to \$52 million for the disability insurance trust fund, were received in December 1973.

Reference has also been made in an earlier section to provisions under which the old-age and survivors insurance trust fund is to be reimbursed annually from the general fund of the Treasury for costs of monthly payments to certain noninsured persons aged 72 and over who have less than three quarters of coverage. The reimbursement in fiscal year 1974 amounted to \$303 million.

Again, reference has been made in an earlier section to provisions under which money gifts or bequests may be deposited in the old-age and survivors insurance and disability insurance trust funds. In fiscal year 1974, the old-age and survivors insurance trust fund received gifts amounting to \$174.78.

The remaining \$2,039 million of receipts consisted of interest on the investments of the trust fund and net interest on amounts of interfund transfers arising out of adjustments in the allocation of administrative expenses, construction costs, and the cost of vocational rehabilitation services for the prior fiscal year, 1973.

Of the \$49,485 million in total disbursements, \$47,849 million was for benefit payments, an increase of 13.5 percent over the corresponding amount paid in fiscal year 1973. This increase was due to (1) the amendments enacted on July 1, 1972, which provided for a general increase in benefits of 20 percent effective for September 1972, (2) the amendments enacted on October 30, 1972, which provided higher benefit amounts for certain categories of beneficiaries and liberalized some of the conditions under which persons can qualify for benefits, (3) the amendments enacted on December 31, 1973, which provided for a general increase in benefits of 11 percent effective in two steps—an interim increase of 7 percent effective for the 3 months March–May 1974, followed by the full 11-percent increase effective for June 1974, and (4) the expected growth in the total number of beneficiaries and in average benefit amounts resulting from the rising level of earnings. Although the amendments enacted in 1972 became effective during fiscal year 1973, the first full fiscal year during which they were operative was 1974.

Reference has been made in an earlier section to provisions of the Railroad Retirement Act which coordinate the railroad retirement and the old-age and survivors insurance programs and which govern the financial interchanges arising from the allocation of costs between the two systems. In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of \$866,800,000 to the railroad retirement account from the old-age and survivors insurance trust fund would place this trust fund in the same position as of June 30, 1973, as it would have been if railroad employment had always been covered under the Social Security Act. This amount was transferred to the railroad retirement account in May 1974, together with interest to the date of transfer amounting to \$41,785,000.

Expenditures of the old-age and survivors insurance program for the cost of vocational rehabilitation services amounted to nearly \$3.9 million. These services were furnished to disabled adults—dependents of old-age beneficiaries and survivors of deceased insured workers—who were receiving monthly benefits from the old-age and survivors insurance trust fund because of their disability.

The remaining \$723 million of disbursements from the old-age and survivors insurance trust fund represents net administrative expenses. The expenses of administering the programs financed through the four trust funds—the old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance trust funds—are allocated and charged directly to each trust fund on the basis of provisional estimates. Beginning in fiscal year 1974, the expenses of administering the newly enacted Supplemental Security Income program are also allocated, on a provisional basis, and charged directly to the general fund of the Treasury. Periodically, as actual experience

develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for price periods are effected by interfund transfers, with appropriate interest allowances. (In fiscal year 1973, the administrative expenses of the new Supplemental Security Income program were initially charged to the old-age and survivors insurance trust fund because no money had yet been appropriated from the general fund of the Treasury. Reimbursement representing only the principal of \$41 million, but excluding interest, was received from the general fund at the end of fiscal year 1973. Interest on this amount was received from the general fund in fiscal year 1974.)

Net administrative expenses charged to the old-age and survivors insurance trust fund and to the disability insurance trust fund in fiscal year 1974 totaled \$878 million. This amount represented 1.6 percent of contribution income and 1.6 percent of expenditures for benefit payments and payments for the cost of vocational rehabilitation services during the fiscal year. Corresponding percentages for each of the last 5 years for the system as a whole and for each trust fund separately are shown in table 3.

In table 4, the experience with respect to actual amounts of contributions and benefit payments in fiscal year 1974 is compared with the estimates for fiscal year 1974 which appeared in the 1974 Annual Report of the Board of Trustees. Reference was made in an earlier section to the appropriation of contributions to the trust funds on an estimated basis, with subsequent periodic adjustments to account for differences from the amounts of contributions actually payable on the basis of reported earnings. In interpreting the figures in table 4, it should be noted that the "actual" amount of contributions in fiscal year 1974 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1974 does not reflect adjustments to contributions for fiscal year 1974 that were to be made after June 30, 1974. The actual experience for each trust fund was quite close, relatively, to the estimates.

At the end of fiscal year 1974, about 30.2 million persons were receiving monthly benefits under the old-age, survivors, and disability insurance program. About 26.5 million of these persons were receiving monthly benefits from the old-age and survivors insurance trust fund. The distribution of benefit payments in fiscal years 1973 and 1974, by type of beneficiary, is shown in table 5. Approximately 72 percent of the total benefit payments from the old-age and survivors insurance trust fund in fiscal year 1974 was accounted for by monthly benefits to retired workers and their dependents and about 17 percent by monthly benefits to aged survivors and disabled widows or widowers of deceased workers. Approximately 10 percent of the benefit payments represented monthly benefits on behalf of children of deceased workers and monthly benefits to mothers who had children of deceased workers in their care.

TABLE 3.—RELATIONSHIP OF NET ADMINISTRATIVE EXPENSES OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM TO CONTRIBUTION INCOME AND BENEFIT PAYMENTS, BY TRUST FUND, FISCAL YEARS 1970-74

Fiscal year	Total administrative expenses as a percentage of—		Old-age and survivors insurance trust fund, administrative expenses as a percentage of—		Disability insurance trust fund, administrative expenses as a percentage of—	
	Total contribution income	Total benefit payments <sup>1</sup>	Contribution income	Benefit payments <sup>1</sup>	Contribution income	Benefit payments <sup>1</sup>
1970.....	1.8	2.1	1.6	1.8	3.0	5.3
1971.....	2.0	2.1	1.7	1.8	4.2	5.6
1972.....	2.0	2.1	1.6	1.7	4.4	5.2
1973.....	2.0	1.9	1.6	1.6	4.5	4.7
1974.....	1.6	1.6	1.5	1.5	2.5	2.5

<sup>1</sup> In determining the percentage shown, payments for the cost of vocational rehabilitation services are included with benefit payments.

Note: In interpreting the figures in the above table, reference should be made to the accompanying text.

TABLE 4.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, FISCAL YEAR 1974

[In millions]

	Actual amount	Estimated amount published in 1974 report	Actual as percentage of estimate
Old-age and survivors insurance trust fund:			
Net contributions.....	\$48,455	\$48,484	100
Benefit payments.....	47,849	48,118	99
Disability insurance trust fund:			
Net contributions.....	6,234	6,243	100
Benefit payments.....	6,159	6,180	100

Note: In interpreting the figures in the above table, reference should be made to the accompanying text.

TABLE 5.—ESTIMATED DISTRIBUTION OF BENEFIT PAYMENTS FROM THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE OF BENEFICIARY AND PAYMENT, FISCAL YEARS 1973 AND 1974

[In millions]

	1973		1974	
	Amount	Percent of total	Amount	Percent of total
Total.....	\$42,169.7	100	\$47,848.8	100
Monthly benefits.....	41,848.6	99	47,533.0	99
Retired workers and their dependents.....	30,511.4	72	34,350.5	72
Retired workers.....	27,261.6	65	30,793.1	64
Wives and husbands.....	2,821.8	7	3,112.9	7
Children.....	428.0	1	484.6	1
Survivors of deceased workers.....	11,066.5	26	12,891.8	27
Aged widows and widowers.....	6,359.0	15	7,764.4	16
Disabled widows and widowers.....	105.9	( <sup>1</sup> )	129.3	( <sup>1</sup> )
Parents.....	46.4	( <sup>1</sup> )	47.7	( <sup>1</sup> )
Children.....	3,807.6	9	4,167.7	9
Widowed mothers caring for child beneficiaries.....	747.6	2	842.9	2
Noninsured persons aged 72 and over <sup>2</sup> .....	270.8	1	250.7	1
Lump-sum death benefits.....	321.1	1	315.9	1

<sup>1</sup> Less than 0.5 percent.

<sup>2</sup> The trust fund is reimbursed from the general fund of the Treasury for the costs of payments to beneficiaries with less than 3 quarters of coverage.

TABLE 6.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1973 AND 1974

	June 30, 1973		June 30, 1974	
	Par value	Book value <sup>1</sup>	Par value	Book value <sup>1</sup>
<b>Investments in public-debt obligations:</b>				
<b>Public issues:</b>				
<b>Treasury notes:</b>				
6 percent, 1975 .....	\$17,450,000	\$17,450,000.00	\$17,450,000	\$17,450,000.00
6½ percent, 1976 .....	5,000,000	4,995,386.97	5,000,000	4,997,172.69
6½ percent, 1976 .....	22,180,000	22,180,000.00	22,180,000	22,180,000.00
7 percent, 1975 .....	50,000,000	49,943,137.16	50,000,000	49,966,666.52
7½ percent, 1976 .....	90,500,000	90,260,384.50	90,500,000	90,338,097.70
8 percent, 1977 .....	15,000,000	15,000,000.00	15,000,000	15,000,000.00
<b>Treasury bonds:</b>				
2¾ percent, investment series B, 1975-80 .....	1,064,902,000	1,064,902,000.00	1,064,902,000	1,064,902,000.00
3 percent, 1995 .....	70,170,000	70,147,900.36	70,170,000	70,148,924.32
3¼ percent, 1978-83 .....	60,200,000	59,613,079.52	60,200,000	59,672,264.72
3¼ percent, 1985 .....	25,700,000	24,671,244.59	25,700,000	24,758,181.71
3½ percent, 1980 .....	449,450,000	452,648,813.67	449,450,000	452,212,611.87
3½ percent, 1990 .....	556,250,000	549,213,292.86	556,250,000	549,637,617.06
3½ percent, 1998 .....	552,037,000	544,216,472.68	552,037,000	544,525,177.84
4 percent, 1973 .....	38,000,000	37,996,987.90	-----	-----
4 percent, 1980 .....	153,100,000	153,067,982.44	153,100,000	153,072,846.04
4½ percent, 1974 .....	61,934,000	61,930,461.83	-----	-----
4½ percent, 1989-94 .....	91,300,000	90,670,287.42	91,300,000	90,700,513.62
4¾ percent, 1974 .....	6,352,000	6,353,470.08	-----	-----
4¾ percent, 1975-85 .....	78,023,000	77,774,698.43	78,023,000	77,795,681.75
4¾ percent, 1987-92 .....	33,000,000	34,499,072.43	33,000,000	34,392,629.43
6¾ percent, 1984 .....	31,500,000	32,007,081.30	31,500,000	31,961,671.02
7 percent, 1981 .....	50,000,000	49,673,333.26	50,000,000	49,713,333.22
7½ percent, 1988-93 .....	-----	-----	99,934,000	98,411,627.93
8½ percent, 1994-99 .....	-----	-----	6,352,000	6,531,829.12
<b>Total investments in public issues .....</b>	<b>3,522,048,000</b>	<b>3,509,215,087.40</b>	<b>3,522,048,000</b>	<b>3,508,368,846.56</b>
<b>Obligations sold only to this fund (special issues):</b>				
<b>Notes:</b>				
4¾ percent, 1974 .....	2,720,279,000	2,720,279,000.00	-----	-----
5½ percent, 1975 .....	2,460,795,000	2,460,795,000.00	2,460,795,000	2,460,795,000.00
5¾ percent, 1979 .....	3,102,896,000	3,102,896,000.00	3,102,896,000	3,102,896,000.00
6¼ percent, 1978 .....	3,468,850,000	3,468,850,000.00	3,468,850,000	3,468,850,000.00
6¼ percent, 1976 .....	3,844,864,000	3,844,864,000.00	3,844,864,000	3,844,864,000.00
6¾ percent, 1980 .....	4,547,285,000	4,547,285,000.00	4,547,285,000	4,547,285,000.00
7½ percent, 1977 .....	5,033,296,000	5,033,296,000.00	5,033,296,000	5,033,296,000.00
<b>Bonds:</b>				
2½ percent, 1975 .....	685,178,000	685,178,000.00	-----	-----
3½ percent, 1975 .....	160,077,000	160,077,000.00	-----	-----
3¾ percent, 1976 .....	1,080,011,000	1,080,011,000.00	760,998,000	760,998,000.00
3¾ percent, 1977 .....	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
3¾ percent, 1978 .....	658,444,000	658,444,000.00	658,444,000	658,444,000.00
4½ percent, 1978 .....	421,567,000	421,567,000.00	421,567,000	421,567,000.00
4½ percent, 1979 .....	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
4½ percent, 1980 .....	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
7½ percent, 1981 .....	-----	-----	677,910,000	677,910,000.00
7½ percent, 1982 .....	-----	-----	677,910,000	677,910,000.00
7½ percent, 1983 .....	-----	-----	677,910,000	677,910,000.00
7½ percent, 1984 .....	-----	-----	677,910,000	677,910,000.00
7½ percent, 1985 .....	-----	-----	677,910,000	677,910,000.00
7½ percent, 1986 .....	-----	-----	677,910,000	677,910,000.00
7½ percent, 1987 .....	-----	-----	677,910,000	677,910,000.00
7½ percent, 1988 .....	-----	-----	677,910,000	677,910,000.00
7½ percent, 1989 .....	-----	-----	677,909,000	677,909,000.00
<b>Total obligations sold only to this fund (special issues) .....</b>	<b>31,423,575,000</b>	<b>31,423,575,000.00</b>	<b>33,640,216,000</b>	<b>33,640,216,000.00</b>
<b>Total investments in public-debt obligations .....</b>	<b>34,945,623,000</b>	<b>34,932,790,087.40</b>	<b>37,162,264,000</b>	<b>37,148,584,846.56</b>

See footnote at end of table p. 13.

TABLE 6.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1973 AND 1974—Continued

	June 30, 1973		June 30, 1974	
	Par value	Book value <sup>1</sup>	Par value	Book value <sup>1</sup>
Investments in federally-sponsored agency obligations:				
Participation certificates:				
Federal Assets Liquidation Trust-Government National Mortgage Association:				
5.10 percent, 1987.....	50,000,000	50,000,000.00	50,000,000	50,000,000.00
5.20 percent, 1982.....	100,000,000	100,000,000.00	100,000,000	100,000,000.00
Federal Assets Financing Trust-Government National Mortgage Association:				
6.05 percent, 1988.....	65,000,000	64,822,265.95	65,000,000	64,834,453.51
6.20 percent, 1988.....	230,000,000	230,000,000.00	230,000,000	230,000,000.00
6.40 percent, 1987.....	75,000,000	75,000,000.00	75,000,000	75,000,000.00
6.45 percent, 1988.....	35,000,000	35,000,000.00	35,000,000	35,000,000.00
Total investments in federally-sponsored agency obligations.....	555,000,000	554,822,265.95	555,000,000	554,834,453.51
Total investments.....	35,500,623,000	35,487,612,353.35	37,717,264,000	37,703,419,300.07
Undisbursed balances.....		928,283,163.88		163,589,142.13
Total assets.....		36,415,895,517.23		37,867,008,442.20

<sup>1</sup> Par value, plus unamortized premium, less discount outstanding.

Benefit payments to noninsured persons aged 72 and over amounted to \$251 million, or slightly more than 1/2 percent of total benefit payments from the trust fund. Reference has been made in an earlier section to the legislative provisions governing reimbursement from the general fund of the Treasury for the costs of such payments to persons who have fewer than three quarters of coverage. About 98 percent of the total amount of the payments made in fiscal year 1974 to noninsured persons aged 72 and over went to persons with fewer than three quarters of coverage.

The balance of the benefits paid during fiscal year 1974 consisted of lump-sum death payments.

The assets of the old-age and survivors insurance trust fund at the end of fiscal year 1974 totaled \$37,867 million, consisting of \$37,703 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations, and an undisbursed balance of \$164 million. Table 6 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1973 and 1974.

The net increase in the par value of the investments owned by the fund during fiscal year 1974 amounted to \$2,217 million. New securities at a total par value of \$58,824 million were acquired during the fiscal year through the investment of receipts, and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was \$56,607 million. Included in these amounts is \$52,723 million in certificates of indebtedness that were acquired and redeemed within the fiscal year. In addition, \$38 million in 4-percent bonds maturing in August 1973 and \$62 million in 4½-percent bonds maturing in February 1974 were exchanged for \$100 million in 7½-percent bonds maturing in August of 1993, and \$6 million in 4¼-percent bonds maturing in May 1974 were exchanged for an equal amount of 8½-percent bonds maturing in May of 1999. Although the interest rate on bonds is generally limited to 4¼ percent by the provisions of 31 U.S.C. 752, amendments to these provisions

authorize the issuance of bonds at rates of interest exceeding  $4\frac{1}{4}$  percent, subject to certain restrictions. P.L. 92-5, enacted March 17, 1971, amended the provisions to authorize the issuance to the public and to Government accounts of up to a total of \$10 billion in bonds at rates of interest exceeding  $4\frac{1}{4}$  percent. P.L. 93-53, enacted July 1, 1973, further amended the provisions of 31 U.S.C. 752 by (1) removing the \$10 billion limitation on the aggregate face amount of such bonds that may be issued and (2) limiting the amount of such bonds that may be held by the public at any one time to \$10 billion.

The effective annual rate of interest earned by the assets of the old-age and survivors insurance trust fund during fiscal year 1974 was 5.9 percent. The interest rate on special issues purchased by the trust fund in June 1974 was  $7\frac{5}{8}$  percent, payable semiannually.

The 1956 amendments provided that the public-debt obligations issued for purchase by the old-age and survivors insurance trust fund and the disability insurance trust fund shall have maturities fixed with due regard for the needs of the funds. Under these amendments, the general practice in the past was to spread the maturity dates for the holdings of special issues as nearly as practicable in equal amounts over a 15-year period. As a result of this practice, the old-age and survivors insurance trust fund held (1) special issues, totaling \$5,081 million, that were acquired before 1966 and were distributed in equal amounts of about \$1,080 million maturing in each of the years 1977-80 and in a smaller amount maturing in 1976 (table 6).

However, the interest rate on special issues acquired in June of each year 1966-74, as determined under section 201(d) of the Social Security Act, was higher than the maximum rate of  $4\frac{1}{4}$  percent to which the interest rate on long-term issues (bonds) is generally limited. Thus, the former practice could not be followed until the enactment of P.L. 93-53 on July 1, 1973. Accordingly, the entire amounts available for investment in June of each year 1966-73 were invested in short-term issues (notes). As a result, the old-age and survivors insurance trust fund held \$22,458 million in special issues consisting of 7-year notes that were distributed in varying amounts maturing on June 30 of each year 1975-80 (table 6).

On June 30, 1974, the investment practice in effect before 1966 was reinstated, and the old-age and survivors insurance trust fund acquired \$6,101 million in special issues that were distributed in virtually equal amounts of about \$678 million maturing in each of the years 1981-1989 (table 6). The investment operations of the fund in fiscal years 1973 and earlier are described in the 1974, and earlier, annual reports.

#### SUMMARY OF THE OPERATIONS OF THE FEDERAL DISABILITY INSURANCE TRUST FUND, FISCAL YEAR 1974

A statement of the income and disbursements of the Federal disability insurance trust fund during fiscal year 1974, and of the assets of the fund at the beginning and end of the fiscal year is presented in table 7. Comparable amounts for fiscal year 1973 are also shown in the table.

The total assets of the disability insurance trust fund amounted to \$7,869 million on June 30, 1973. During fiscal year 1974, total receipts amounted to \$6,768 million and total disbursements were \$6,385 million. The assets of the trust fund thus increased \$383 million during the year to a total of \$8,253 million on June 30, 1974.