

THE 1966 ANNUAL REPORT OF THE BOARD
OF TRUSTEES OF THE FEDERAL OLD-AGE
AND SURVIVORS INSURANCE AND
DISABILITY INSURANCE
TRUST FUNDS

LETTER

FROM

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

TRANSMITTING

THE 1966 ANNUAL REPORT OF THE BOARD OF TRUSTEES,
PURSUANT TO THE PROVISIONS OF SECTION 201(c) OF
THE SOCIAL SECURITY ACT, AS AMENDED



FEBRUARY 28, 1966.—Referred to the Committee on Ways and Means
and ordered to be printed

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE
AND DISABILITY INSURANCE TRUST FUNDS,
Washington, D.C., February 28, 1966.

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

SIR: We have the honor to transmit to you the 1966 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, in compliance with the provisions of section 201(c) of the Social Security Act, as amended, which is the 26th such report.

Respectfully,

HENRY H. FOWLER,
*Secretary of the Treasury and
Managing Trustee of the Trust Fund.*

W. WILLARD WIRTZ,
Secretary of Labor.

JOHN W. GARDNER,
Secretary of Health, Education, and Welfare.

ROBERT M. BALL,
*Commissioner of Social Security
and Secretary, Board of Trustees.*

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THE 1966 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, as amended. 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.

FISCAL YEAR HIGHLIGHTS

Both benefit payments and tax contributions for the old-age and survivors insurance trust fund and the disability insurance trust fund continued to rise during fiscal year 1965, reaching higher levels in that year than in any previous year. The number of persons receiving monthly benefits under the old-age, survivors, and disability insurance program increased to 20.2 million by the end of June 1965. There were an estimated 78 million workers with taxable earnings under the program in calendar year 1964, another record high.

For the old-age and survivors insurance trust fund, total receipts in fiscal year 1965 amounted to \$16,443 million, an increase of about 2 percent over fiscal year 1964. Total disbursements of \$15,962 million were about 4 percent greater than in the preceding fiscal year. The excess of total income over total outgo, amounting to \$482 million, increased the total assets of the old-age and survivors insurance trust fund from \$19,699 million on June 30, 1964 to \$20,180 million on June 30, 1965.

Receipts of the old-age and survivors insurance trust fund consisted of \$15,857 million in tax contributions and \$586 million in interest. Of the total disbursements, \$15,226 million was paid out for benefits, \$436 million was transferred to the railroad retirement account under the financial interchange provisions, and \$300 million was spent for administrative expenses.

The number of persons receiving monthly benefits from the old-age and survivors insurance trust fund at the end of the fiscal year was 18,509,000, about 3 percent more than at the beginning of the year. Some 13,874,000 of these persons were retired workers and their dependents, and 4,635,000 were survivors of deceased workers.

For the disability insurance trust fund, total receipts in fiscal year 1965 amounted to \$1,237 million, or about 2 percent higher than in fiscal year 1964. Total disbursements, amounting to \$1,495 million, were about 12 percent higher than in the previous year. Part of this increase consisted of additional benefit payments resulting from the enactment of Public Law 88-650 on October 13, 1964. This amendment to the Social Security Act restored eligibility for benefits to some persons, and increased benefit amounts for others, by removing the 18-month limitation on the retroactivity of disability applications filed after June 30, 1962, so that a period of disability could begin as early as actual disablement. Since disbursements exceeded receipts by \$257 million, total assets of this fund decreased from \$2,264 million at the beginning of fiscal year 1965 to \$2,007 million at the end of the year.

Receipts of the disability insurance trust fund consisted of \$1,175 million in tax contributions and \$62 million in interest. Total disbursements were composed of \$1,392 million for benefit payments, \$79 million for administrative expenses, and \$24 million transferred to the railroad retirement account.

The number of disabled workers and their dependents receiving monthly benefits from the disability insurance trust fund increased to 1,648,000 by the end of fiscal year 1965, about 9 percent more than at the beginning of the year.

Shortly after the close of fiscal year 1965, Congress made extensive amendments to the Social Security Act and related sections of the Internal Revenue Code directly affecting the old-age, survivors, and disability insurance program. These amendments included an across-the-board increase in benefit amounts, benefits to certain new classes of beneficiaries, and a liberalization of the earnings test. Coverage was extended to include the self-employment income of doctors of medicine and to include certain cash tips as wages. The maximum amount of earnings taxable and creditable toward benefits was raised to \$6,600, beginning January 1966. The schedule of contribution rates for old-age, survivors, and disability insurance was revised to continue to reflect the intent of Congress that the program be self-supporting on a long-range basis. These and other provisions of the 1965 amendments are described more fully in another section of this report, and their effects are taken into account in the actuarial cost estimates presented in this report.

Provisions for two related health insurance programs for persons aged 65 and over were added to the Act. The hospital insurance program provides protection against the costs of hospital and related care. The voluntary supplementary medical insurance program provides protection against the costs of certain medical and other health services (including physicians' services). Summary descriptions of the provisions of, as well as the actuarial cost estimates for, these two programs are contained in separate reports of the Board of Trustees of the Federal hospital insurance trust fund and of the Federal supplementary medical insurance trust fund.

For the old-age and survivors insurance trust fund, estimates for the 5 fiscal years 1966-70 show that although both receipts and disbursements will increase steadily, the receipts will rise more rapidly, due to the increase in the maximum taxable earnings base in calendar year 1966 and to the scheduled rises in contribution rates in the law.

Consequently, at the end of fiscal year 1970, this trust fund will amount to an estimated \$29.0 billion, or an increase of \$8.8 billion in the 5-year period. Receipts during fiscal year 1970 are estimated to total \$27.4 billion, and disbursements, \$22.5 billion. Medium-range estimates, based on the assumption that economic activity will continue to expand throughout the period 1966-85, show continued increases in receipts, disbursements, and assets of the old-age and survivors insurance trust fund. According to these estimates, if the provisions of present law, as modified by the 1965 amendments, are assumed to remain unchanged, the assets of the trust fund will rise rapidly, reaching a total of \$205 billion at the end of calendar year 1985. On the other hand, if the maximum taxable earnings base and the benefit provisions of present law are assumed to be amended periodically so as to keep the program in line with changes in levels of average earnings, the assets of the trust fund will rise less rapidly, reaching a total of \$109 billion by 1985.

Long-range cost estimates for the old-age and survivors insurance program indicate that the program is in close actuarial balance. The level-cost of benefit payments and administrative expenses combined, estimated over a period of 75 years, ranges from 7.74 to 10.23 percent of taxable payroll. The intermediate-cost estimate is 8.82 percent of taxable payroll, as compared with the level-equivalent of the graded schedule of contributions of 8.72 percent of taxable payroll.

According to estimates for the 5 fiscal years 1966-70, income of the disability insurance trust fund will rise more rapidly than disbursements due to the increases, effective in calendar year 1966, in the maximum taxable earnings base and in the contribution rate allocated to the fund. Consequently, this trust fund will amount to an estimated \$2.3 billion by the end of fiscal year 1970, an increase of \$0.3 billion in the 5-year period. According to the medium-range estimates, the assets of the trust fund will reach \$12.8 billion by the end of calendar year 1985, if provisions of present law are assumed to remain unchanged. If, on the other hand, the maximum taxable earnings base and the benefit provisions of present law are amended periodically to keep pace with average earnings, the medium-range estimates indicate that the assets of the fund will reach \$7.6 billion by 1985.

Long-range estimates for the disability insurance trust fund show that the fund is in close actuarial balance. Estimates of the level-cost, calculated over a 75-year period, range from 0.60 percent to 0.78 percent of taxable payroll. The intermediate-cost estimate is 0.67 percent of taxable payroll, as compared with the level contribution rate of 0.70 percent of taxable payroll.

SOCIAL SECURITY AMENDMENTS OF 1965

The 1965 amendments to the Social Security Act and related sections of the Internal Revenue Code (Public Law 89-97, approved July 30, 1965) will have significant effects on both the immediate and long-range future levels of income and disbursements under the old-age, survivors, and disability insurance program. Benefit amounts were increased. Eligibility requirements for the payment of benefits were liberalized. Coverage was extended. The schedule of contribution rates was revised to continue to reflect the intent that the program be self-supporting.

The more important changes, significant from an actuarial standpoint, are presented below:

1. Coverage was extended to self-employed doctors of medicine (previously the only group of significant size whose self-employment income was excluded from coverage) for taxable years ending on or after December 31, 1965. Coverage was also extended, beginning on January 1, 1966, to medical and dental interns on the same basis as other employees working for the same employers. For self-employed farm operators, revisions were made in the computation methods for reporting net earnings, effective with taxable years beginning after December 31, 1965. Beginning on January 1, 1966, coverage was extended to include cash tips of \$20 or more per month, received by an employee, as wages, with only the employee's share of the tax contributions payable (the employer is exempted from paying his usual share of the tax contributions on cash tips). The major groups of workers that continue to be excluded from coverage are (a) practically all Federal civilian employees who are under staff retirement systems; (b) those self-employed persons, farm workers, and domestic workers whose earnings are less than the amounts required for the coverage of these particular groups; and (c) except in certain States, policemen and firemen covered by a State or local government retirement system.

2. Larger benefits were made payable to future beneficiaries as well as to persons on the rolls:

(a) The maximum amount of earnings taxable and creditable toward benefits was raised to \$6,600 a year, beginning with 1966.

(b) Effective retroactively beginning with January 1965, benefit amounts were increased by 7 percent, with a minimum increase of \$4 in the primary insurance amount. As a result, the minimum primary insurance amount was increased from \$40 to \$44 per month, and, for beneficiaries already on the rolls, the maximum primary insurance amount was increased from \$127 to \$135.90 per month. For workers coming on the rolls in the future, benefits will range as high as \$168 per month, because of the higher earnings base. However, the maximum benefit of \$168, based on the maximum possible average monthly earnings of \$550, will not become generally payable for some years to come.

(c) The minimum benefit for a family containing only one survivor beneficiary is \$44 per month.

(d) The maximum amount of benefits payable to a family on the basis of a single earnings record is now related to the worker's average monthly earnings at all earnings levels. Previously, there was a limit of \$254 per month on family benefits which operated over a wide range of average monthly earnings. The maximum family benefit that will be payable on the basis of average monthly earnings of \$550 is \$368 per month.

3. The conditions under which persons may become eligible for benefits were liberalized (additional changes in eligibility requirements for benefits payable under the disability insurance program are described in item 4):

(a) Effective retroactively beginning with January 1965, child's benefits may be paid beyond age 18 and up to age 22 provided the child is regularly attending school (but mother's

benefits are not payable solely because she has such a child in her care). Also, the definition of "child" was broadened.

(b) Effective September 1965, the minimum age at which women may qualify for widow's benefits was reduced from 62 to 60. Women who elect to receive a widow's benefit before age 62 will receive reduced benefits (both before and after age 62) which are, on an actuarial basis, virtually equivalent to the full-rate benefits that they would have received if they were aged 62 at the time they applied for benefits.

(c) Effective September 1965, special benefits are payable under a "transitional insured status" provision to certain persons aged 72 and over—workers who have been in covered employment for only limited periods and therefore cannot meet the fully insured status requirements, and the wives and widows of such workers. Under this provision, monthly benefits of \$35 are payable to workers and widows; wives receive \$17.50.

(d) Effective September 1965, benefits are payable to widows (and widowers) even though they have remarried if the remarriage occurred after they reached age 60 (age 62 for widowers). The amount of the benefit equals 50 percent of the primary insurance amount of the deceased spouse rather than 82½ percent of that amount, which was payable to such widows and widowers before they married.

(e) Wife's benefits are payable to the divorced wife, aged 62 or over, of a retired or disabled worker, if she had been married to the worker for at least 20 years before the date of the divorce and if her divorced husband was making (or was obligated by a court order to make) a substantial contribution to her support when he became entitled to old-age insurance benefits or became disabled. Similarly, widow's benefits are payable to the surviving divorced wife, aged 60 or over, of a deceased worker. Provision is also made for the reestablishment of benefit rights for a divorced wife, a widow, a surviving divorced mother, or a surviving divorced wife who has remarried if the subsequent marriage has ended. These changes became effective with benefits for September 1965.

4. The amendments made several changes in benefits payable under the disability insurance program:

(a) Effective with benefits for September 1965, the definition of disability was changed. Under the definition, as modified, a disability must be expected to result in death, or to have lasted or be expected to last for a continuous period of not less than 12 months. Under the former definition, it was required that the disability be expected to result in death or to be of long-continued and indefinite duration.

(b) Effective September 1965, a person who becomes entitled before age 65 to a benefit payable on account of old age may later become entitled to disability insurance benefits. Where the prior benefit was actuarially reduced, the disability insurance benefit must also be reduced according to the number of months for which the prior benefit was paid.

(c) Effective September 1965, the disability provisions with respect to the blind were modified in two respects. First, the definition of disability was changed to provide that an individual

is disabled for purposes of entitlement to disability benefits if he is between the ages of 55 and 65, meets the definition of "blindness" (as provided for purposes of the provision for maintaining the insured status and benefit amount of disabled workers) and is unable, because of such blindness, to engage in substantial gainful activity requiring skills or abilities comparable to those required in his past occupation or occupations. He will receive no payment, however, for any month in which he engages in substantial gainful activity. Second, an alternative insured-status requirement for disability benefits was provided for persons who become disabled before age 31 because of "blindness". Under this provision, if the disability occurs after age 23, then at least half the quarters in the period beginning with the calendar quarter following attainment of age 21 and ending with the calendar quarter in which the disability occurs must be quarters of coverage. (If the number of quarters in this period is an odd number, then it is reduced by one.) If the disability occurs before age 24, then at least 6 of the quarters in the 12-quarter period ending with the quarter in which the disability occurred must be quarters of coverage.

(d) Effective January 1966, benefits payable to a disabled worker under age 62 and his dependents will be reduced for any month for which the worker also receives a periodic workmen's compensation benefit, in the event that the combined benefits exceed a specified limitation. Under this provision, the monthly benefits payable to the family from the disability insurance trust fund are reduced so that the total amount payable under both programs does not exceed the higher of (1) 80 percent of the worker's "average current earnings", or (2) the total benefits payable to the family from the disability insurance trust fund before reduction because of workmen's compensation. The worker's "average current earnings" is defined as the higher of (1) the average monthly earnings on which his disability insurance benefit is based, or (2) his average monthly earnings in covered employment during the 5 consecutive years after 1950 in which his covered earnings were highest. Provision is made for periodic adjustments in the amount of the worker's "average current earnings" to take account of changes in the national level of average earnings. These changes apply to benefits payable with respect to workers who become disabled after June 1, 1965.

(e) Provision was made for reimbursement from the trust funds for the cost of vocational rehabilitation services furnished to disability beneficiaries and disabled child beneficiaries aged 18 and over. The total amount of funds that may be made available for purposes of reimbursement for these services may not, in any fiscal year, exceed 1 percent of the disability insurance benefits and the disabled child's benefits certified for payment in the preceding year.

5. The earnings (retirement) test was amended, effective for taxable years ending after December 31, 1965. The provision for withholding benefits from beneficiaries whose earnings exceed \$1,200 a year was changed so that benefits are withheld only when earnings exceed \$1,500 a year. Also, \$1 in benefits will be withheld for each \$2 of earnings between \$1,500 and \$2,700, rather than between \$1,200

and \$1,700 as under the law in effect before the 1965 amendments (\$1 in benefits will be withheld for each \$1 of earnings above \$2,700 instead of above \$1,700). The maximum amount of wages that a beneficiary may earn in a month and still receive all of his benefit for that month regardless of his annual earnings was raised from \$100 to \$125.

6. A change was made in the basis of reimbursement to the old-age and survivors insurance trust fund and, where appropriate, to the disability insurance trust fund from general revenues for expenditures after August 1950 resulting from the amendments made in previous years that provided noncontributory \$160 monthly wage credits for active military service from September 16, 1940 through December 31, 1956, and from the provisions enacted in 1946 that granted survivor protection to certain World War II veterans for a period of 3 years after leaving service. Under the new basis, annual appropriations to the trust funds from general revenues are authorized, beginning in fiscal year 1966, that will amortize, over a 50-year period, both the accumulated backlog of expenditures resulting from such military service and the additional amounts that will accrue through fiscal year 2015. After then, annual appropriations are authorized to meet the currently accruing additional costs of subsequent benefit payments.

7. Changes relating to the financing of the old-age, survivors, and disability insurance program were made with the intent of assuring that it will continue to be self-supporting.

Under the new contribution rate schedule, the employee and employer rates each increased from the 3.625 percent of taxable earnings applicable in 1966 to 3.85 percent as of January 1, 1966. Future increases are scheduled to occur in 1967, 1969, and 1973, when the ultimate rate of 4.85 percent is reached. There are corresponding increases in the self-employed contribution rate. Under the schedule as in effect before the 1965 amendments, the employee and employer rates would have increased to 4.125 percent on January 1, 1966, with a final increase to 4.625 percent on January 1, 1968.

The amendments increased the portion of the contribution rate allocated to finance benefits from the disability insurance trust fund. Effective January 1, 1966, the allocated rate was increased from 0.25 percent to 0.35 percent each for employees and employers. For the self-employed, the allocated rate was increased from 0.375 percent to 0.525 percent.

Table 1 presents an estimate of the effect, expressed as level-costs in percent of taxable earnings, of the changes in the old-age, survivors, and disability insurance program in 1965.

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TABLE 1.—Changes in estimated level-costs as percent of taxable earnings, by type of change, intermediate-cost estimate, 3.5 percent interest

Item	Old-age and survivors insurance	Disability insurance
Benefit cost of program in effect before 1965 amendments ¹	8.49	0.63
Effect of changes:		
Additional income, less additional benefits, resulting from higher earnings base.....	-.51	-.04
Increase in level of benefits.....	.59	.05
Benefits for children to age 22 if in school.....	.10	.02
Broadened definition of child.....	.01	(?)
Reduced benefits for widows at age 60 ²	(?)	-----
Benefits to persons aged 72 and over who qualify under the "transitional insured status" provision.....	.01	-----
Modifications in disability provisions ⁴	(?)	.01
Liberalization of earnings (retirement) test.....	.14	(?)
Extensions of coverage.....	-.01	(?)
Benefit cost after enactment of 1965 amendments ¹	8.82	.67
Level-equivalent of graded tax schedule before 1965 amendments ³	8.63	.50
Effect of changes in tax schedule.....	.09	.20
Level-equivalent of graded tax schedule after enactment of 1965 amendments.....	8.72	.70

¹ Based on valuation date of Jan. 1, 1965. Taking into account (a) lower contribution rate for the self-employed as compared with combined employer-employee rate, (b) administrative expenses, and (c) interest on trust funds on hand as of Dec. 31, 1964.

² Between -0.005 and 0.095 percent.

³ Includes also the costs of benefits to widows aged 60 or over who remarry and to certain divorced women.

⁴ Includes (a) the cost of the modification in the definition of disability, (b) the cost of the provision which permits the payment of disability benefits after entitlement, on account of old age, to some other benefit, (c) the cost of the liberalized eligibility requirements for blind workers, and (d) the savings arising from reduction of benefits when workmen's compensation is also payable.

⁵ Based on taxable earnings, adjusted to reflect lower contribution rate for the self-employed as compared with combined employer-employee rate.

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 U.S. 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 financial 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 tax 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, beginning with calendar year 1966, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a maximum of \$6,600, with the contributions being determined first on the wages and then on any self-employment income necessary to make up the \$6,600.

Under the Internal Revenue Code, as amended, the contribution rate for old-age, survivors, and disability insurance for employees and their employers of 3.625 percent each that was in effect in calendar years 1963-65 increased to 3.85 percent each on January 1, 1966; the contribution rate for the self-employed rose from 5.4 to 5.8 percent. The following table shows the scheduled increases in tax rates in the present law:

Calendar years	Percentage of taxable earnings	
	Employees and employers, each ¹	Self-employed
1963-65.....	3.625	5.4
1966.....	3.850	5.8
1967-68.....	3.900	5.9
1969-72.....	4.400	6.6
1973 and after.....	4.850	7.0

¹ Only the employee tax is paid on tips that are taxable as wages (coverage of tips is effective beginning in 1966).

The Social Security Act as amended in 1956 provided that beginning January 1, 1957, from the total contribution income based on these rates, contributions at the rate of 0.25 percent each for employees and employers, and 0.375 percent for the self-employed, shall be allocated to the disability insurance trust fund. Under the Act as amended in 1965 this allocation increased to 0.35 percent each for employees and employers on January 1, 1966; for the self-employed, the allocation rate increased to 0.525 percent.

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 are paid into the Treasury as internal revenue collections. However, sums equivalent to 100 percent of these taxes are transferred to the trust funds from time to time. Such transfers are first made on the basis of estimated tax receipts. The exact amount is not known since old-age, survivors, and disability insurance taxes and income taxes withheld are not separately identified in tax-collection reports received by the Treasury Department from the district offices of the Internal Revenue Service. 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.

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 taxes he paid on such excess wages. The amount of taxes 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 Public Law 234, approved October 30, 1951, which amended the Railroad Retirement Act to provide a system of coordination and financial interchange between the railroad retirement and old-age and survivors insurance programs. Public Law 880, approved August 1, 1956, amended Public Law 234 to include financial interchanges between the railroad retirement and the disability insurance programs. A description of the legislative provisions governing the allocation of costs between the two programs appears in appendix II.

Under a decision of the Comptroller General of the United States (B-4906) dated October 11, 1951, receipts derived from the sale of miscellaneous supplies and reimbursable services are credited to and form a part of the trust funds, where the initial outlays therefore were paid from the trust funds. Formerly, these moneys were credited to the general fund of the Treasury as miscellaneous receipts.

Under Public Law 85-840 approved August 28, 1958, the Secretary of Health, Education, and Welfare is authorized to charge for providing certain services not directly related to the old-age, survivors, and disability insurance program. The Social Security Administration has accumulated a unique body of information in the course of the administration of the program. Situations arise when it is in the public interest to use this information to perform certain services, such as the preparation of statistical tabulations for research purposes, when such services can be performed without interfering unduly with the administration of the program. Such services could not properly be provided at the expense of the trust funds. Receipts derived from performance of these services are credited to and form a part of the trust funds.

Public Law 719, approved August 10, 1946, provided noncontributory survivor protection to certain veterans of World War II. The legislation provided, and until August 31, 1950 the old-age and survivors insurance trust fund received, reimbursement from the general fund of the Treasury for the additional costs arising from these provisions. Under Public Law 734, approved August 28, 1950, these additional costs arising after August 31, 1950, were borne by the trust fund. Public Law 881, approved August 1, 1956, provided that the old-age and survivors insurance trust fund would be reimbursed for all additional costs arising after August 31, 1950, from the 1946 provisions. Public Law 881 also provided that (1) the old-age and survivors insurance trust fund would be reimbursed for all past and future additional expenditures resulting from the provisions that granted noncontributory \$160 monthly wage credits to persons who served in the Armed Forces from September 16, 1940 through December 31, 1956; and (2) the disability insurance trust fund would be reimbursed for all additional expenditures after July 31, 1956, resulting from these provisions. Public Law 85-840 broadened the provisions of prior law dealing with noncontributory wage credits of \$160 for each month of active military service for the United States to provide such credits for certain American citizens who served in the

Armed Forces of our allies during World War II. As in the case of the other noncontributory credit for military service, the trust funds will be reimbursed for the additional costs arising from the new provisions. A summary of the legislative history of the financing of credit for military service appears in appendix II.

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, as amended, and of the Internal Revenue Code relating to the collection of insurance 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.

Public Law 89-97 (the 1965 amendments) provides for reimbursement from the trust funds for the cost of vocational rehabilitation services furnished to disability insurance beneficiaries and to disabled child beneficiaries aged 18 and over. The total amount of funds that may be made available for purposes of reimbursement for these services may not, in any fiscal year, exceed 1 percent of the disability insurance benefits and the disabled child's benefits certified for payment in the preceding year.

Congress has authorized expenditures from the trust funds for construction of office buildings and related facilities for the Social Security Administration.

The managing trustee invests that portion of each trust fund which, in his judgment, is not required to meet current expenditures for benefits and administration. The Social Security Act restricts permissible investments of the trust funds to interest-bearing obligations of the U.S. Government or to obligations guaranteed as to both principal and interest by the United States. Obligations of these types may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price. In addition, the Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust funds. The law requires that such special public-debt obligations shall have maturities fixed with due regard for the needs of the trust funds and 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 forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such calendar month. Where such average market yield is a multiple of one-eighth of 1 percent, this is taken as the rate of interest on such special obligations; otherwise such rate is the multiple of one-eighth of 1 percent nearest such market yield.

Interest on public issues held by the trust funds is received by the funds at the time the interest is paid on the particular issues held. Interest on special public-debt obligations issued specifically for purchase by the trust funds is payable semiannually or at redemption.

Public issues acquired by the funds may be sold at any time by the managing trustee at their market price. Special public-debt obliga-

tions issued for purchase by the trust funds may be redeemed at par plus accrued interest. Interest receipts and proceeds from the sale or redemption of obligations held in the trust funds are available for investment in the same manner as other receipts of the funds. Interest earned by the invested assets of the trust funds will provide income to meet a portion of future benefit disbursements. The role of interest in meeting future benefit payments is indicated in tables 21 and 22.

In addition to serving as a source of income, the assets of the trust funds assure the continued payment of benefits without sharp changes in contribution rates during periods of short-run fluctuations in total income and expenditures.

SUMMARY OF THE OPERATIONS OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, FISCAL YEAR 1965

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, 1964, and ended on June 30, 1965, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2.

The total assets of the old-age and survivors insurance trust fund amounted to \$19,699 million on June 30, 1964. These assets increased to \$20,180 million by the end of the fiscal year 1965, an increase of \$482 million.

tions issued for purchase by the trust funds may be redeemed at par plus accrued interest. Interest receipts and proceeds from the sale or redemption of obligations held in the trust funds are available for investment in the same manner as other receipts of the funds. Interest earned by the invested assets of the trust funds will provide income to meet a portion of future benefit disbursements. The role of interest in meeting future benefit payments is indicated in tables 21 and 22.

In addition to serving as a source of income, the assets of the trust funds assure the continued payment of benefits without sharp changes in contribution rates during periods of short-run fluctuations in total income and expenditures.

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The total assets of the old-age and survivors insurance trust fund amounted to \$19,699 million on June 30, 1964. These assets increased to \$20,180 million by the end of the fiscal year 1965, an increase of \$482 million.

TABLE 2.—Statement of operations of the old-age and survivors insurance trust fund during the fiscal year 1965

Total assets of the trust fund, June 30, 1964.....		\$19, 698, 850, 787. 50
Receipts, fiscal year 1965:		
Tax contributions:		
Appropriations.....	\$14, 777, 984, 820. 93	
Deposits arising from State agreements.....	1, 257, 853, 080. 87	
Gross tax contributions.....	16, 035, 837, 901. 80	
Less payment into the Treasury for taxes subject to refund.....	178, 625, 500. 00	
Net tax contributions.....	15, 857, 212, 401. 80	
Interest:		
On investments.....	583, 124, 534. 10	
On administrative expenses reimbursed by disability insurance trust fund.....	3, 112, 262. 00	
Total interest.....	586, 236, 796. 10	
Total receipts.....	16, 443, 449, 197. 90	
Disbursements, fiscal year 1965:		
Benefit payments.....	15, 225, 894, 365. 63	
Transfers to railroad retirement account.....	435, 638, 000. 00	
Administrative expenses:		
Department of Health, Education, and Welfare.....	325, 453, 831. 11	
Treasury Department.....	49, 712, 198. 83	
Construction of facilities for Social Security Administration.....	305, 245. 52	
Gross administrative expenses.....	375, 471, 275. 46	
Less receipts from sale of surplus materials, supplies, etc.....	77, 629. 22	
Less reimbursement for administrative expenses by disability insurance trust fund.....	74, 289, 728. 00	
Less reimbursement for construction by disability insurance trust fund.....	821, 231. 00	
Net administrative expenses.....	300, 282, 687. 24	
Total disbursements.....	15, 961, 815, 052. 87	
Net addition to the trust fund.....		481, 634, 145. 03
Total assets of the trust fund, June 30, 1965.....		20, 180, 484, 932. 53

Net receipts of the trust fund during the fiscal year 1965 amounted to \$16,443 million. Of this total, \$14,778 million represented tax collections appropriated to the fund and \$1,258 million represented 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, \$179 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. Net contributions amounted to \$15,857 million, representing an increase of 2 percent over the amount for the preceding fiscal year. The remaining \$586 million of receipts consisted of interest on the investments of the fund and on amounts transferred from the disability insurance trust fund for reimbursement of administrative expenses.

Disbursements from the trust fund during the fiscal year 1965 totaled \$15,962 million. Of this total, \$15,226 million was for benefit payments, an increase of 4 percent over the corresponding amount paid in the fiscal year 1964. This increase was due principally to the growth in the number of beneficiaries, which is to be expected as the program gradually matures.

Public Law 234, approved October 30, 1951, amended the Railroad Retirement Act to provide a base of coordinating the railroad retirement program with old-age and survivors insurance. A description of the legislative provisions governing the financial interchanges arising from the allocation of costs between the two systems is contained in appendix II. In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of \$420,600,000 to the railroad retirement account from the old-age and survivors insurance trust fund would place this fund in the same position as of June 30, 1964, as it would have been if railroad employment had always been covered under the Social Security Act. This amount, together with interest thereon for fiscal year 1965 amounting to \$15,038,000, was transferred to the railroad retirement account in June 1965.

The remaining \$300 million of disbursements from the old-age and survivors insurance trust fund was for administrative expenses. Net administrative expenses charged to both the old-age and survivors insurance trust fund and the disability insurance trust fund totaled \$379 million and represented 2.2 percent of contribution income and 2.3 percent of benefit payments during fiscal year 1965. The relationship of administrative expenses to contribution income and to benefit payments for each of the last 5 years is shown in table 3 for the system as a whole, as well as for each trust fund separately.

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 1961-65.*

Fiscal year	Total		Old-age and survivors insurance trust fund		Disability insurance trust fund	
	Total administrative expenses as a percentage of—		Administrative expenses as a percentage of—		Administrative expenses as a percentage of—	
	Total contribution income	Total benefit payments	Contribution income	Benefit payments	Contribution income	Benefit payments
1961.....	2.2	2.3	2.1	2.1	3.6	5.2
1962.....	2.5	2.3	2.2	2.0	6.3	6.3
1963.....	2.3	2.2	2.0	1.9	6.2	5.7
1964.....	2.2	2.3	2.0	2.1	5.9	5.4
1965.....	2.2	2.3	1.9	2.0	6.7	5.7

NOTE.—Expenses incurred by the Department of Health, Education, and Welfare under the disability insurance program are initially charged to the old-age and survivors insurance trust fund; reimbursements are then made from the disability insurance trust fund in the following fiscal year.

In table 4, the experience with respect to actual amounts of tax contributions and benefit payments in fiscal year 1965 and trust fund assets at the end of the year is compared with the estimates for fiscal year 1965 which appeared in the 23d, 24th, and 25th Annual Reports of the Board of Trustees. The only amendments significant from a cost standpoint which were enacted during the period covered by these three reports were those contained in Public Law 88-650. These amendments were enacted in October 1964, between the time of publication of the 24th and the 25th reports. The effect of these amendments on the operations of the old-age and survivors insurance trust fund was not significant. Enactment of Public Law 88-650 did, however, result in a moderate increase in benefit payments from the disability insurance trust fund in fiscal year 1965. Taking into account the legislative changes affecting the disability insurance trust fund in fiscal year 1965, the estimates for each fund were quite close, relatively, to the actual experience.

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TABLE 4.—Comparison of actual and estimated operations of the old-age and survivors insurance and disability insurance trust funds, fiscal year 1965

[Amounts in millions]

	Actual amount	Comparison of actual experience with estimates for fiscal year 1965 published in—		
		25th report	24th report	23d report
Old-age and survivors insurance trust fund				
Net tax contributions:				
Amount.....	\$15,857	\$15,620	\$15,659	\$15,449
Estimate as percentage of actual.....		99	99	97
Benefit payments:				
Amount.....	\$15,226	\$15,253	\$15,376	\$15,332
Estimate as percentage of actual.....		100	101	101
Assets, end of year:				
Amount.....	\$20,180	\$19,922	\$19,607	\$19,199
Estimate as percentage of actual.....		99	97	95
Disability insurance trust fund				
Net tax contributions:				
Amount.....	\$1,175	\$1,158	\$1,159	\$1,145
Estimate as percentage of actual.....		99	99	97
Benefit payments:				
Amount.....	\$1,392	\$1,416	\$1,324	\$1,276
Estimate as percentage of actual.....		102	95	92
Assets, end of year:				
Amount.....	\$2,007	\$1,968	\$2,047	\$2,099
Estimate as percentage of actual.....		98	102	105

The distribution of benefit payments in fiscal years 1964 and 1965, by type of benefit, is shown in table 5. Approximately 87 percent of the total benefit payments from the old-age and survivors insurance trust fund in the fiscal year 1965 was accounted for by monthly benefits to persons aged 62 or over—retired workers and their wives (including a relatively small number of wives under age 62 with entitled children in their care) or dependent husbands, and aged widows, dependent widowers, and dependent parents of deceased workers. Approximately 12 percent of the benefit payments represented monthly benefits on behalf of children of deceased or retired workers and monthly benefits to mothers—practically all of them under age 62—who had children of deceased workers in their care. The balance of the benefits paid consisted of lump-sum death payments.

TABLE 5.—Estimated distribution of benefit payments from the old-age and survivors insurance trust fund, by type of benefit, fiscal years 1964 and 1965

[Amounts in millions]

Type of benefit	1964		1965	
	Amount	Percent of total	Amount	Percent of total
Total.....	\$14,579.2	100	\$15,226.1	100
Monthly benefits.....	14,364.6	99	15,008.0	99
Old-age (retired workers).....	9,632.9	66	10,062.0	66
Wife's or husband's (wives or dependent husbands of old-age beneficiaries).....	1,269.3	9	1,283.6	8
Widow's or widower's (aged widows or aged dependent widowers of deceased workers).....	1,681.6	12	1,825.3	12
Parent's (aged dependent parents of deceased workers).....	33.5	(1)	33.0	(1)
Child's (children, under age 18 or disabled, of old-age beneficiaries).....	148.3	1	151.0	1
Child's (children, under age 18 or disabled, of deceased workers).....	1,248.0	9	1,296.7	9
Mother's (widows or dependent divorced wives of deceased workers caring for child beneficiaries).....	351.1	2	356.4	2
Lump-sum death payments.....	214.6	1	218.1	1

¹ Less than 0.5 percent.

On June 30, 1965, about 20.2 million persons in some 15.0 million families were receiving monthly benefits under the old-age, survivors, and disability insurance program (table 6). About 18.5 million persons in 14.1 million of these families were receiving monthly benefits from the old-age and survivors insurance trust fund.° Generally, average monthly family benefits on that date showed moderate increases over the corresponding averages a year earlier. The higher averages reflected, in part, the greater proportion of benefits computed on the basis of earnings after 1950.

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TABLE 6.—Estimated number of families and beneficiaries receiving benefits under the old-age, survivors, and disability insurance program, and average family amount, by family group, end of fiscal years 1964 and 1965

[Numbers in thousands]

Family classification of beneficiaries receiving benefits	June 30, 1964			June 30, 1965		
	Number of families	Number of beneficiaries	Average monthly amount per family	Number of families	Number of beneficiaries	Average monthly amount per family
Total.....	14, 442. 9	19, 470. 3	-----	15, 042. 2	20, 156. 9	-----
Retired-worker families.....	10, 481. 8	13, 501. 6	-----	10, 842. 6	13, 873. 8	-----
Worker only.....	7, 807. 4	7, 807. 4	\$73. 60	8, 157. 3	8, 157. 3	\$74. 40
Male.....	3, 946. 3	3, 946. 3	83. 20	4, 060. 1	4, 060. 1	84. 10
Old-age benefit not actuarially reduced.....	3, 173. 6	3, 173. 6	86. 00	3, 124. 7	3, 124. 7	87. 60
Old-age benefit actuarially reduced.....	772. 7	772. 7	71. 70	935. 4	935. 4	72. 30
Female.....	3, 861. 0	3, 861. 0	63. 90	4, 097. 2	4, 097. 2	64. 80
Old-age benefit not actuarially reduced.....	2, 107. 7	2, 107. 7	68. 20	2, 130. 6	2, 130. 6	69. 80
Old-age benefit actuarially reduced.....	1, 753. 3	1, 753. 3	58. 60	1, 966. 6	1, 966. 6	59. 30
Worker and wife (aged 62 and over 1).....	2, 380. 7	4, 761. 4	130. 10	2, 388. 8	4, 777. 6	131. 40
Old-age benefit not actuarially reduced.....	2, 166. 0	4, 332. 0	131. 50	2, 108. 8	4, 217. 6	133. 40
Old-age benefit actuarially reduced.....	214. 7	429. 4	116. 40	280. 0	560. 0	116. 80
Worker and wife (under age 65 2)3.....	1. 7	3. 4	110. 40	1. 8	3. 5	110. 40
Worker and aged dependent husband.....	12. 4	24. 9	111. 20	11. 7	23. 4	112. 70
Worker and 1 or more children.....	79. 1	179. 5	120. 50	84. 2	191. 0	120. 10
Worker, wife (aged 62 and over 1), and 1 or more children.....	29. 7	91. 7	161. 40	30. 3	93. 8	162. 80
Worker, wife (under age 65 2), and 1 or more children.....	170. 7	633. 1	149. 50	168. 5	626. 8	149. 50
Worker, husband, and 1 or more children.....	. 1	. 3	112. 70	. 1	. 4	113. 50
Survivor families.....	3, 099. 2	4, 452. 5	-----	3, 255. 9	4, 634. 9	-----
Aged widow only.....	2, 057. 9	2, 057. 9	67. 40	2, 195. 7	2, 195. 7	68. 40
Aged widow and 1 or more children.....	25. 4	52. 1	125. 90	28. 5	58. 3	127. 00
Aged widow and 1 aged dependent parent.....	. 5	1. 0	171. 00	. 5	1. 0	177. 00
Aged widow, 1 or more children and 1 aged dependent parent.....	(4)	(4)	245. 00	(4)	(4)	245. 00
Aged dependent widower.....	2. 6	2. 6	63. 60	2. 7	2. 7	64. 60
Widower and 1 or more children.....	. 1	. 2	115. 90	. 1	. 2	117. 80
Widowed mother only 3.....	2. 3	2. 3	61. 50	2. 7	2. 7	61. 50
Widowed mother and 1 child.....	190. 9	381. 8	140. 40	191. 4	382. 8	142. 60
Widowed mother and 2 children.....	132. 8	308. 4	192. 80	134. 2	402. 6	194. 10
Widowed mother and 3 or more children.....	140. 4	685. 1	191. 10	142. 8	698. 3	193. 10
Widowed mother, 1 or more children, and 1 or 2 aged dependent parents.....	. 4	1. 5	216. 00	. 4	1. 4	226. 00
Divorced wife and 1 or more children.....	. 5	1. 3	174. 00	. 5	1. 3	174. 20
1 child only.....	319. 6	319. 6	63. 90	327. 3	327. 3	64. 80
2 children.....	112. 7	225. 4	130. 00	113. 8	227. 6	131. 60
3 children.....	47. 8	143. 4	175. 10	49. 4	148. 2	181. 00
4 or more children.....	30. 8	143. 1	170. 20	32. 2	149. 3	173. 20
1 or more children and 1 aged dependent parent.....	. 7	1. 7	160. 40	. 6	1. 3	161. 00
1 aged dependent parent.....	32. 6	32. 6	70. 40	31. 9	31. 9	70. 90
2 aged dependent parents.....	1. 2	2. 4	113. 40	1. 2	2. 4	115. 60

See footnotes at end of table, p. 19.

THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND 19

TABLE 6.—*Estimated number of families and beneficiaries receiving benefits under the old-age, survivors, and disability insurance program, and average family amount, by family group, end of fiscal years 1964 and 1965—Continued*

[Numbers in thousands]

Family classification of beneficiaries receiving benefits	June 30, 1964			June 30, 1965		
	Number of families	Number of beneficiaries	Average monthly amount per family	Number of families	Number of beneficiaries	Average monthly amount per family
Disabled-worker families.....	861.9	1,516.2	-----	943.7	1,648.2	-----
Worker only.....	623.9	623.9	88.00	688.1	688.1	89.30
Male.....	430.9	430.9	93.40	468.5	468.5	94.00
Female.....	193.0	193.0	79.00	219.6	219.6	79.40
Worker and wife (aged 62 and over ¹).....	27.2	54.5	138.20	28.7	57.4	138.50
Worker and wife (under age 65 ²).....	.6	1.1	141.00	.7	1.5	138.00
Worker and aged dependent husband.....	.5	1.0	122.00	.5	1.0	122.50
Worker and 1 or more children.....	63.2	172.2	155.80	69.0	188.1	155.50
Worker, wife (aged 62 and over ¹), and 1 or more children.....	.4	1.4	165.00	.5	1.6	160.00
Worker, wife (under age 65 ²), and 1 or more children.....	146.1	662.2	193.40	156.2	710.5	194.30

¹ Excludes wife aged 62 to 64 with entitled children in her care.

² With entitled children in her care.

³ Benefits of children being withheld.

⁴ Less than 50.

The assets of the old-age and survivors insurance trust fund at the end of fiscal year 1965 totaled \$20,180 million, consisting of \$18,766 million in the form of obligations of the U.S. Government, and \$1,415 million in undisbursed balances. Table 7 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1964 and 1965.

The net increase in the par value of the investments owned by the fund during the fiscal year 1965 amounted to \$458 million. New securities at a total par value of \$18,940 million were acquired during the fiscal year through the investment of receipts, the reinvestment of funds made available from the maturity or sale of securities, and the exchange of securities. The par value of securities redeemed, exchanged, or sold during the fiscal year was \$18,482 million. A summary of transactions for the fiscal year, by type of security, is presented in table 8.

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 this provision, the special issues held by the old-age and survivors insurance trust fund on June 30, 1965, were distributed in equal amounts of \$1,080 million among maturities ranging from 2 to 15 years and in a smaller amount maturing at the end of the 1st year (table 7).

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TABLE 7.—Assets of the old-age and survivors insurance trust fund, by type, at end of fiscal years 1964 and 1965

	June 30, 1964		June 30, 1965	
	Par value	Book value ¹	Par value	Book value ¹
Investments in public-debt obligations:				
Public issues:				
Treasury notes:				
4½-percent, series A, 1965	\$6,352,000	\$6,352,000.00		
5-percent, series B, 1964	4,125,000	4,125,000.00		
Treasury bonds:				
2½-percent, 1964-69	55,180,000	51,968,134.80	\$55,180,000	\$52,584,741.24
2½-percent, 1967-72	250	250.00	250	250.00
2¾-percent, investment series B, 1975-80	1,064,902,000	1,065,288,584.28	1,064,902,000	1,085,169,635.24
3-percent, 1995	85,170,000	85,131,990.57	70,170,000	70,139,708.68
3¼-percent, 1978-83	60,200,000	59,080,412.72	60,200,000	59,139,597.92
3¼-percent, 1985	25,700,000	23,888,810.51	25,700,000	23,975,747.63
3½-percent, 1980	449,450,000	456,574,629.87	449,450,000	456,138,428.07
3½-percent, 1980	556,250,000	545,394,375.06	556,250,000	545,818,699.26
3½-percent, 1998	552,037,000	541,401,354.12	552,037,000	541,746,831.40
3¾-percent, 1967	34,205,000	34,209,900.60		
3¾-percent, 1966	27,729,000	27,739,629.15		
3¾-percent, 1968	7,000,000	7,000,000.00	7,000,000	7,000,000.00
3¾-percent, 1968	17,450,000	17,450,000.00	17,450,000	17,450,000.00
3¾-percent, 1974	32,500,000	32,413,664.08	24,500,000	24,474,006.41
4-percent, 1969	77,500,000	77,475,202.73	62,500,000	62,479,926.05
4-percent, 1970			15,000,000	14,987,695.30
4-percent, 1971	100,000,000	101,288,915.53	100,000,000	101,106,951.01
4-percent, 1973	38,000,000	37,671,643.30	38,000,000	37,707,792.70
4-percent, 1980	153,100,000	153,024,210.04	153,100,000	153,029,073.64
4½-percent, 1974			61,934,000	61,881,931.91
4½-percent, 1980-84	91,300,000	90,398,251.62	91,300,000	90,428,477.82
4½-percent, 1974			6,352,000	6,367,585.92
4½-percent, 1975-85	78,023,000	77,585,848.55	78,023,000	77,606,831.87
4½-percent, 1987-92	10,000,000	10,092,333.34	33,000,000	35,350,616.73
Total public issues	3,526,173,250	3,505,555,140.87	3,522,048,250	3,504,534,528.80
Accrued interest purchased				15,756.96
Total investments in public issues	3,526,173,250	3,505,555,140.87	3,522,048,250	3,504,550,285.76
Obligations sold only to this fund (special issues):				
Certificates of indebtedness:				
4½-percent, 1966			141,020,000	141,020,000.00
Notes:				
4½-percent, 1966	597,887,000	597,887,000.00		
4½-percent, 1967			1,032,019,000	1,032,019,000.00
Bonds:				
2½-percent, 1967	912,011,000	912,011,000.00		
2½-percent, 1968	412,011,000	412,011,000.00	412,011,000	412,011,000.00
2½-percent, 1966	161,284,000	161,284,000.00		
2½-percent, 1967	168,000,000	168,000,000.00	47,992,000	47,992,000.00
2½-percent, 1968	668,000,000	668,000,000.00	668,000,000	668,000,000.00
2½-percent, 1969	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2½-percent, 1970	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2½-percent, 1971	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2½-percent, 1972	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2½-percent, 1973	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2½-percent, 1974	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2½-percent, 1975	919,934,000	919,934,000.00	919,934,000	919,934,000.00
3¼-percent, 1975	160,077,000	160,077,000.00	160,077,000	160,077,000.00
3¼-percent, 1976	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
3¼-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
Total obligations sold only to this fund (special issues)	14,799,314,000	14,799,314,000.00	15,261,174,000	15,261,174,000.00
Total investments in public-debt obligations	18,325,487,250	18,304,869,140.87	18,783,222,250	18,765,724,285.76
Undisbursed balances		1,393,981,646.63		1,414,760,646.77
Total assets		19,698,850,787.50		20,180,484,932.53

¹ Par value, plus unamortized premium, less discount outstanding.

THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND 21

TABLE 8.—*Statement of transactions in public-debt securities for the old-age and survivors insurance trust fund during the fiscal year 1965*

[All amounts represent par values]

	Acquisitions	Dispositions
Public issues:		
Treasury notes:		
4½-percent, series A, 1965.....	0	\$6,352,000
5-percent, series B, 1964.....	0	4,125,000
Treasury bonds:		
3-percent, 1995.....	0	15,000,000
3½-percent, 1967.....	0	34,205,000
3¾-percent, 1966.....	0	27,729,000
3½-percent, 1974.....	0	8,000,000
4-percent, 1969.....	0	15,000,000
4-percent, 1970.....	\$15,000,000	0
4½-percent, 1974.....	61,934,000	0
4¼-percent, 1974.....	6,352,000	0
4¼-percent, 1987-92.....	23,000,000	0
Total public issues.....	106,286,000	110,411,000
Obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
4½-percent, 1965.....	16,580,565,000	16,580,565,000
4½-percent, 1966.....	141,020,000	0
Notes:		
4½-percent, 1966.....	0	597,887,000
4½-percent, 1967.....	1,032,019,000	0
Bonds:		
2½-percent, 1967.....	0	912,011,000
2½-percent, 1966.....	0	161,284,000
2½-percent, 1967.....	0	120,008,000
4½-percent, 1980.....	1,080,011,000	0
Total obligations sold only to this fund (special issues).....	18,833,615,000	18,371,755,000
Total transactions.....	18,939,901,000	18,482,166,000

SUMMARY OF THE OPERATIONS OF THE FEDERAL DISABILITY INSURANCE TRUST FUND, FISCAL YEAR 1965

A statement of the income and disbursements of the Federal disability insurance trust fund during fiscal year 1965 and of the assets of the fund at the beginning and end of the fiscal year is presented in table 9.

The total assets of the disability insurance trust fund amounted to \$2,264 million on June 30, 1964. These assets decreased by \$257 million during the fiscal year, to \$2,007 million at the end of the year.

Net receipts of the fund amounted to \$1,237 million. Of this total, \$1,095 million represented tax collections appropriated to the fund, and \$93 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. As an offset, \$13 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. An additional \$62 million of receipts consisted of net interest on the investments of the fund.

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TABLE 9.—Statement of operations of the disability insurance trust fund during the fiscal year 1965

Total assets of the trust fund, June 30, 1964.....		\$2, 263, 987, 484. 48
Receipts, fiscal year 1965:		
Tax contributions:		
Appropriations.....	\$1, 095, 087, 773. 24	
Deposits arising from State agreements.....	93, 220, 620. 11	
Gross tax contributions.....	1, 188, 308, 393. 35	
Less payment into the Treasury for taxes subject to refund.....	13, 064, 500. 00	
Net tax contributions.....	1, 175, 243, 893. 35	
Interest:		
On investments.....	65, 247, 217. 77	
Less interest on amounts transferred to old-age and survivors insurance trust fund for reimbursed administrative expenses.....	3, 112, 262. 00	
Net interest.....	62, 134, 955. 77	
Total receipts.....	1, 237, 378, 849. 12	
Disbursements, fiscal year 1965:		
Benefit payments.....	1, 392, 190, 264. 93	
Transfers to railroad retirement account.....	23, 615, 000. 00	
Administrative expenses:		
Reimbursement to the old-age and survivors insurance trust fund:		
For administrative expenses of the Department of Health, Education, and Welfare.....	74, 289, 728. 00	
For construction of facilities for Social Security Administration.....	821, 231. 00	
Treasury Department..	3, 767, 958. 52	
Gross administrative expenses.....	78, 878, 917. 52	
Less receipts from sales of surplus materials, supplies, etc.....	16, 970. 23	
Net administrative expenses.....	78, 861, 947. 29	
Total disbursements.....	1, 494, 667, 212. 22	
Net addition to the trust fund.....		-257, 288, 363. 10
Total assets of the trust fund, June 30, 1965.....		2, 006, 699, 121. 38

Disbursements from the fund during the fiscal year 1965 totaled \$1,495 million. Of this total, \$1,392 million was for benefit payments, an increase of 11 percent over the corresponding amount paid in the fiscal year 1964. This increase was due to the maturing of the disability program and to the enactment of Public Law 88-650 in October 1964.

Public Law 880, approved August 1, 1956, provided for financial interchanges between the railroad retirement account and the disability insurance trust fund similar to those described in the preceding section relating to the old-age and survivors insurance trust fund. The determination made as of June 30, 1964, required that a transfer of \$22,800,000 be made from the disability insurance trust fund to the railroad retirement account. This amount, together with interest thereon for fiscal year 1965, amounting to \$815,000, was transferred to the railroad retirement account in June 1965. The remaining \$79 million of disbursements was for administrative expenses.

At the end of fiscal year 1965, some 1,648,000 persons in 944,000 families were receiving monthly benefits from the disability insurance trust fund (table 6). The distribution of benefit payments in fiscal years 1964 and 1965, by type of benefit, is shown in table 10.

The assets of this fund at the end of fiscal year 1965 totaled \$2,007 million, consisting of \$1,876 million in the form of obligations of the U.S. Government, and \$131 million in undisbursed balances. Table 11 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1964 and 1965.

TABLE 10.—*Estimated distribution of benefit payments from the disability insurance trust fund, by type of benefit, fiscal years 1964 and 1965*

[Amounts in millions]

Type of benefit	1964		1965	
	Amount	Percent of total	Amount	Percent of total
Total.....	\$1,251.2	100	\$1,392.2	100
Disability (disabled workers).....	997.7	80	1,111.2	80
Wife's or husband's (wives or dependent husbands of disability beneficiaries).....	75.3	6	84.0	6
Child's (children, under age 18 or disabled, of disability beneficiaries).....	178.2	14	197.1	14

The net decrease in the par value of the investments owned by the fund during the fiscal year amounted to \$263 million. New securities at a total par value of \$1,548 million were acquired during the fiscal year through the investment of receipts of the fund, the reinvestment of funds made available from the maturity or sale of securities, and the exchange of securities. The par value of securities redeemed or exchanged during the year was \$1,801 million. In addition, \$10 million of public issues were sold on the open market (at a profit of \$741). A summary of transactions for the fiscal year, by type of security, is presented in table 12.

As indicated in the preceding section of this report, the law provides that the special issues held by the trust funds shall have maturities fixed with due regard for the needs of the funds. On June 30, 1965, these holdings of the disability insurance trust fund were distributed

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in equal amounts of \$154 million among maturities ranging from 6 to 14 years and in smaller amounts maturing at the end of the 5th and 15th years (table 11).

TABLE 11.—Assets of the disability insurance trust fund, by type, at end of fiscal years 1964 and 1965

	June 30, 1964		June 30, 1965	
	Par value	Book value ¹	Par value	Book value ¹
Investments in public-debt obligations:				
Public issues:				
Treasury notes:				
5-percent, series B, 1964	\$825,000	\$825,000.00		
Treasury bonds:				
3½-percent, 1990	10,500,000	9,792,172.82	\$10,500,000	\$9,819,840.38
3½-percent, 1998	5,000,000	4,642,692.80	5,000,000	4,653,099.80
3½-percent, 1967	10,000,000	10,000,000.00		
3½-percent, 1968	5,000,000	5,000,000.00	5,000,000	5,000,000.00
3½-percent, 1968	8,750,000	8,713,437.46	8,750,000	8,721,874.90
3½-percent, 1974	5,000,000	5,000,000.00	5,000,000	5,000,000.00
4-percent, 1969	36,000,000	35,973,543.92	26,000,000	25,985,068.39
4-percent, 1970	14,000,000	13,899,565.74	24,000,000	23,868,809.81
4-percent, 1972	4,000,000	3,960,548.52	4,000,000	3,965,604.84
4-percent, 1973	16,500,000	16,282,971.00	16,500,000	16,306,864.08
4-percent, 1980	30,250,000	30,237,003.65	30,250,000	30,237,837.53
4½-percent, 1974			10,000,000	10,023,623.84
4½-percent, 1989-94	68,400,000	67,406,344.44	68,400,000	67,439,651.28
4½-percent, 1975-85	19,045,000	19,019,990.94	20,795,000	20,772,955.90
4½-percent, 1987-92	5,000,000	5,046,166.66	80,800,000	80,999,357.80
Total public issues	238,270,000	235,799,437.95	314,995,000	312,794,588.55
Accrued interest purchases		54,615.38		7,608.70
Total investments in public issues	238,270,000	235,854,053.33	314,995,000	312,802,197.25
Obligations sold only to this fund (special issues):				
Notes:				
3½-percent, 1967	1,349,000	1,349,000.00		
Bonds:				
2½-percent, 1968	30,000,000	30,000,000.00		
2½-percent, 1967	58,792,000	58,792,000.00		
2½-percent, 1968	102,894,000	102,894,000.00		
2½-percent, 1969	132,894,000	132,894,000.00		
2½-percent, 1970	132,894,000	132,894,000.00	33,732,000	33,732,000.00
2½-percent, 1971	132,894,000	132,894,000.00	132,894,000	132,894,000.00
2½-percent, 1972	132,894,000	132,894,000.00	132,894,000	132,894,000.00
2½-percent, 1973	132,894,000	132,894,000.00	132,894,000	132,894,000.00
2½-percent, 1974	132,894,000	132,894,000.00	132,894,000	132,894,000.00
2½-percent, 1975	132,894,000	132,894,000.00	132,894,000	132,894,000.00
3½-percent, 1967	19,389,000	19,389,000.00		
3½-percent, 1968	20,738,000	20,738,000.00		
3½-percent, 1969	20,738,000	20,738,000.00		
3½-percent, 1970	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3½-percent, 1971	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3½-percent, 1972	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3½-percent, 1973	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3½-percent, 1974	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3½-percent, 1975	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3½-percent, 1976	153,632,000	153,632,000.00	153,632,000	153,632,000.00
3½-percent, 1977	153,632,000	153,632,000.00	153,632,000	153,632,000.00
3½-percent, 1978	153,632,000	153,632,000.00	153,632,000	153,632,000.00
4½-percent, 1979	133,173,000	133,173,000.00	153,632,000	153,632,000.00
4½-percent, 1980			125,606,000	125,606,000.00
Total obligations sold only to this fund (special issues)	1,902,655,000	1,902,655,000.00	1,562,764,000	1,562,764,000.00
Total investments in public-debt obligations	2,140,925,000	2,138,509,053.33	1,877,759,000	1,875,566,197.25
Undisbursed balances		125,478,431.15		131,132,924.13
Total assets		2,263,987,484.48		2,006,699,121.38

¹ Par value, plus unamortized premium, less discount outstanding.

TABLE 12.—Statement of transactions in public-debt securities for the disability insurance trust fund during the fiscal year 1965

[All amounts represent par values]

	Acquisitions	Dispositions
Public issues:		
Treasury notes:		
5-percent, series B, 1964.....	0	\$825,000
Treasury bonds:		
3½-percent, 1967.....	0	10,000,000
4-percent, 1969.....	0	10,000,000
4-percent, 1970.....	\$10,000,000	0
4½-percent, 1974.....	10,000,000	0
4½-percent, 1975-85.....	1,750,000	0
4½-percent, 1987-92.....	75,800,000	0
Total public issues.....	97,550,000	20,825,000
Obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
4½-percent, 1965.....	1,304,523,000	1,304,523,000
Notes:		
3¾-percent, 1967.....	0	1,349,000
Bonds:		
2½-percent, 1968.....	0	30,000,000
2¾-percent, 1967.....	0	58,792,000
2¾-percent, 1968.....	0	102,894,000
2¾-percent, 1969.....	0	132,894,000
2¾-percent, 1970.....	0	99,162,000
3¾-percent, 1967.....	0	19,389,000
3¾-percent, 1968.....	0	20,738,000
3¾-percent, 1969.....	0	20,738,000
4½-percent, 1979.....	20,459,000	0
4½-percent, 1980.....	125,606,000	0
Total obligations sold only to this fund (special issues).....	1,450,588,000	1,790,479,000
Total transactions.....	1,548,138,000	1,811,304,000

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING THE PERIOD JULY 1, 1965 TO DECEMBER 31, 1970

In the following statement of the expected operations and status of the trust funds during the period July 1, 1965 to December 31, 1970, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program remain unchanged throughout the period. The estimates shown in the various tables in this section reflect the effect of the 1965 amendments to the Social Security Act, as described in a previous section. The income and disbursements of the program, however, are affected by general economic conditions as well as by legislative provisions. Because it is difficult to foresee economic developments, the assumptions and the resulting estimates here presented are subject to some uncertainty. This statement of the expected operations of the trust funds should therefore be read with full recognition of the difficulties of estimating future trust fund income and disbursements under changing economic conditions.

Estimates are presented in table 13 to show the expected operations of the old-age and survivors insurance trust fund in fiscal years 1966-70. They are based on the assumption that economic activity will expand throughout the period, with employment and earnings increasing steadily through 1970. Under this assumption the estimated number of persons with taxable earnings under the old-age, survivors, and disability insurance program is expected to increase from 79.5 million during calendar year 1965 to 89.2 million during calendar year 1970; their taxable earnings are estimated to increase from \$247 billion in 1965 to \$343 billion in 1970. The increase in estimated income from contributions in fiscal years 1966-70 reflects

the assumed upward trend in the levels of employment and earnings as well as the effect of the provisions of the 1965 amendments under which (1) coverage is extended, (2) increases in contribution rates are scheduled, effective on January 1 of 1966, 1967, and 1969 and (3) the maximum amount of earnings taxable and creditable under the program is increased effective January 1, 1966. Benefit disbursements increase primarily because of the recent amendments and partly because of the long-range upward trend in the number of beneficiaries under the program. Aggregate income of the old-age and survivors insurance trust fund is expected to exceed aggregate outgo in the 5-year period covering fiscal years 1966-70. During this period, there is an estimated net increase in the trust fund of \$8.8 billion.

TABLE 13.—Operations of the old-age and survivors insurance trust fund, fiscal years 1937-70

[In millions]

Fiscal year	Transactions during period					Net increase in fund	Fund at end of period
	Income		Disbursements				
	Tax contributions ¹	Interest on investments ²	Benefit payments ³	Administrative expenses ⁴	Transfers to railroad retirement account		
Past experience:							
1937-65.....	\$140,728	\$8,776	\$123,653	\$3,027	\$2,643	\$20,180	\$20,180
1941.....	688	56	64	27	-----	653	2,398
1942.....	896	71	110	27	-----	830	3,227
1943.....	1,130	87	149	27	-----	1,041	4,268
1944.....	1,292	103	185	33	-----	1,178	5,446
1945.....	1,310	124	240	37	-----	1,167	6,613
1946.....	1,238	148	321	37	-----	1,028	7,641
1947.....	1,460	163	426	41	-----	1,157	8,798
1948.....	1,617	191	512	47	-----	1,248	10,047
1949.....	1,694	230	607	53	-----	1,263	11,310
1950.....	2,110	257	727	57	-----	1,583	12,893
1951.....	3,124	287	1,498	70	-----	1,843	14,736
1952.....	3,598	334	1,982	85	-----	1,864	16,600
1953.....	4,097	387	2,627	89	-----	1,766	18,366
1954.....	4,589	439	3,276	89	-12	1,676	20,043
1955.....	5,087	438	4,333	103	-10	1,098	21,141
1956.....	6,442	487	5,361	124	-7	1,452	22,593
1957.....	6,540	555	6,515	150	-5	436	23,029
1958.....	7,267	556	7,875	166	-2	-216	22,813
1959.....	7,565	543	9,049	206	124	-1,271	21,541
1960.....	9,843	517	10,270	202	600	-713	20,829
1961.....	11,293	531	11,185	236	332	72	20,900
1962.....	11,455	541	12,658	251	361	-1,274	19,626
1963.....	13,328	515	13,845	263	423	-687	18,939
1964.....	15,503	542	14,579	303	403	760	19,699
1965.....	15,857	586	15,226	300	436	482	20,180
Estimated future experience:							
1966.....	16,856	559	18,126	277	445	-1,433	18,748
1967.....	20,436	586	19,065	292	520	1,145	19,893
1968.....	21,611	646	19,890	359	474	1,534	21,427
1969.....	23,640	738	20,774	370	487	2,747	24,174
1970.....	26,436	919	21,657	380	478	4,840	29,014

¹ Includes reimbursement for additional cost of noncontributory credits for military service; beginning December 1952, adjusted to exclude refunds.

² Includes net profits on marketable investments and, for 1958-67, interest on administrative expenses reimbursed by other social security trust funds. (See footnote 4 below.)

³ Beginning in 1966, includes relatively small amounts of payments for vocational rehabilitation services for disabled beneficiaries aged 18 and over who are entitled to child's benefits.

⁴ Receipts from sale of surplus materials, services, etc., are deducted from gross administrative expenses. Beginning in 1954, includes cost of construction of office space for the Social Security Administration. For years 1957-65, expenses incurred by the Department of Health, Education, and Welfare under the disability insurance program have initially been charged to the old-age and survivors insurance trust fund; reimbursement, including interest, have then been made from the disability insurance trust fund in the following fiscal year. For 1966, expenses incurred under the hospital insurance program and under the supplementary medical insurance program are initially charged to the old-age and survivors insurance trust fund; reimbursement, including interest, is expected to be made from the hospital insurance trust fund before the end of fiscal year 1966, and from the supplementary medical insurance trust fund before the end of fiscal year 1967.

NOTE.—In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared in December 1965.

Estimates consistent with those shown on a fiscal-year basis in table 13 are presented in table 14 to show the progress of the old-age and survivors insurance trust fund on a calendar-year basis. The trust fund is expected to increase in each of the 5 calendar years 1966-70, reaching about \$30.8 billion on December 31, 1970.

TABLE 14.—Operations of the old-age and survivors insurance trust fund, calendar years 1937-70

(In millions)

Calendar year	Transactions during period					Net increase in fund	Fund at end of period
	Income		Disbursements				
	Tax contributions	Interest on investments	Benefit payments	Administrative expenses	Transfers to railroad retirement account		
Past experience:							
1937-65.....	\$147, 635	\$9, 080	\$132, 674	\$3, 163	\$2, 643	\$18, 235	\$18, 235
1941.....	789	56	88	26	-----	731	2, 762
1942.....	1, 012	72	131	28	-----	926	3, 688
1943.....	1, 239	88	166	29	-----	1, 132	4, 820
1944.....	1, 316	107	209	29	-----	1, 184	6, 005
1945.....	1, 285	134	274	30	-----	1, 116	7, 121
1946.....	1, 295	152	378	40	-----	1, 029	8, 150
1947.....	1, 558	164	466	46	-----	1, 210	9, 360
1948.....	1, 688	281	556	51	-----	1, 362	10, 722
1949.....	1, 670	146	667	54	-----	1, 094	11, 816
1950.....	2, 671	257	961	61	-----	1, 905	13, 721
1951.....	3, 367	417	1, 885	81	-----	1, 818	15, 540
1952.....	3, 819	365	2, 194	88	-----	1, 902	17, 442
1953.....	3, 945	414	3, 006	88	-----	1, 265	18, 707
1954.....	5, 163	447	3, 670	92	-21	1, 869	20, 576
1955.....	5, 713	454	4, 968	119	-7	1, 087	21, 663
1956.....	6, 172	526	5, 715	132	-5	856	22, 519
1957.....	6, 825	556	7, 347	162	-2	-126	22, 893
1958.....	7, 566	552	8, 327	194	124	-528	21, 864
1959.....	8, 052	532	9, 842	184	282	-1, 724	20, 141
1960.....	10, 866	516	10, 677	203	318	184	20, 324
1961.....	11, 285	548	11, 862	239	332	-599	19, 725
1962.....	12, 059	526	13, 356	256	361	-1, 388	18, 337
1963.....	14, 541	521	14, 217	281	423	143	18, 480
1964.....	15, 689	569	14, 914	296	403	645	19, 125
1965.....	16, 017	593	16, 737	328	436	-890	18, 235
Estimated future experience:							
1966.....	19, 215	572	18, 521	269	445	552	18, 787
1967.....	21, 061	616	19, 513	347	520	1, 297	20, 084
1968.....	21, 998	692	20, 335	364	474	1, 517	21, 601
1969.....	25, 479	828	21, 214	375	487	4, 231	25, 832
1970.....	26, 864	1, 036	22, 102	387	478	4, 933	30, 765

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 13.

Benefit disbursements from the old-age and survivors insurance trust fund will continue to increase over the next 5 calendar years as the number of beneficiaries under the program increases. Table 15 shows the annual amount of benefit payments distributed by classification of beneficiaries for each of the calendar years 1940-70.

TABLE 15.—Old-age and survivors insurance benefit payments, distributed by classification of beneficiaries, calendar years 1940-70

[In millions]

Calendar year	Total benefit disbursements	Disbursed to old-age beneficiaries	Disbursed to dependents of old-age beneficiaries	Disbursed to survivors of deceased insured workers			
				Monthly benefits			Lump-sum payments
				Total	Aged widows, dependent widowers, and dependent parents	Widowed mothers, dependent divorced wives, and dependent children	
Past experience: ¹							
1940	\$35	\$15	\$2	\$6	(²)	\$6	\$12
1941	88	44	8	24	\$3	21	13
1942	131	65	11	40	6	34	15
1943	166	79	14	55	10	45	18
1944	209	97	17	73	15	59	22
1945	274	126	22	100	21	79	26
1946	378	189	33	128	29	99	28
1947	466	245	43	149	38	111	29
1948	556	300	52	172	49	122	32
1949	667	373	64	197	62	134	35
1950	961	557	95	277	92	185	33
1951	1,885	1,135	186	507	165	342	57
1952	2,194	1,328	212	592	201	390	63
1953	3,006	1,884	291	744	260	483	87
1954	3,670	2,340	358	880	317	563	92
1955	4,968	3,253	495	1,108	412	695	113
1956	5,715	3,793	568	1,244	486	758	109
1957	7,347	4,888	799	1,521	672	849	139
1958	8,327	5,567	907	1,720	777	943	133
1959	9,842	6,548	1,059	2,063	946	1,117	171
1960	10,677	7,053	1,143	2,316	1,085	1,231	164
1961	11,862	7,802	1,230	2,659	1,262	1,396	171
1962	13,356	8,813	1,349	3,011	1,504	1,507	183
1963	14,217	9,391	1,403	3,216	1,645	1,571	206
1964	14,914	9,854	1,427	3,416	1,787	1,629	216
1965	16,737	10,984	1,558	3,979	2,076	1,903	217
Estimated future experience:							
1966	18,520	11,958	1,664	4,646	2,511	2,135	252
1967	19,512	12,603	1,726	4,920	2,688	2,232	263
1968	20,334	13,126	1,778	5,159	2,843	2,316	271
1969	21,213	13,682	1,836	5,417	3,012	2,405	278
1970	22,101	14,248	1,898	5,671	3,179	2,492	284

¹ Partly estimated.² Less than \$500,000.

Benefit payments were 7.03 percent of taxable earnings for calendar year 1965. It is expected that this percentage will decline to 6.41 percent in 1966 because total taxable earnings under the newly-increased earnings base will rise more rapidly than total benefit payments. Beginning in 1967, the upward trend will be resumed, and it is estimated that, in 1970, benefit expenditures will be 6.66 percent of taxable earnings. Figures for each of the calendar years 1940-70 are shown in table 16.

TABLE 16.—*Old-age and survivors insurance benefit payments as a percentage of taxable earnings,¹ calendar years, 1940-70*

Calendar year	Benefit payments as a percentage of taxable earnings ²	Calendar year	Benefit payments as a percentage of taxable earnings ²
Past experience:		Past experience—Continued	
1940.....	0. 11	1956.....	3. 48
1941.....	. 21	1957.....	4. 20
1942.....	. 25	1958.....	4. 77
1943.....	. 27	1959.....	5. 03
1944.....	. 32	1960.....	5. 33
1945.....	. 44	1961.....	5. 85
1946.....	. 55	1962.....	6. 31
1947.....	. 59	1963.....	6. 52
1948.....	. 66	1964.....	6. 54
1949.....	. 82	1965.....	7. 03
1950.....	1. 10	Estimated future experience:	
1951.....	1. 61	1966.....	6. 41
1952.....	1. 76	1967.....	6. 51
1953.....	2. 28	1968.....	6. 54
1954.....	2. 83	1969.....	6. 59
1955.....	3. 26	1970.....	6. 66

¹ For 1951 and later, percentage takes into account (1) lower contribution rate payable by the self-employed compared with combined employer-employee rate, and (2) employee contributions subject to refund.

² For 1962-65, percentages are preliminary and subject to revision when complete tabulation of taxable earnings is available. For 1966-70, percentages are based on sum of payments for benefits and for vocational rehabilitation services.

The growth in the number of beneficiaries in the past and the expected growth in the future are attributable in large measure to the rising number of workers aged 65 or over eligible for and receiving old-age (primary) benefits. The growth in the number of eligible workers aged 65 and over since 1940 has been uninterrupted. This growth results partly from the increase in the population at these ages, and partly from two other factors: (1) in each passing year a larger proportion of the persons attaining age 65 has had fully insured status and (2) the amendments during the period 1950-65 have liberalized the eligibility provisions and extended coverage to new categories of employment.

In addition, there has been a growth in the proportion of eligible workers who receive benefits. In the early years of the program, a considerable proportion of the workers aged 65 and over who were eligible for old-age (primary) benefits remained in covered employment (or, if they had left covered employment, later returned to it) and therefore did not receive benefits. Since 1945, however, the proportion of eligible workers receiving retirement benefits has been increasing, except for temporary halts due to special circumstances resulting from the amendments of 1950 and 1954. In general, due to the increasing percentage of eligibles aged 72 or over, who receive benefits regardless of earnings, the upward trend in this proportion is expected to continue, although at a slower rate than in the past.

The expected operations and status of the disability insurance trust fund during the next 5 fiscal years are presented in table 17, together with the figures on actual experience in earlier years. Aggregate income of the disability insurance trust fund is expected to exceed aggregate outgo in the 5-year period covering fiscal years 1966-70. During this period there is an estimated net increase in the trust fund of \$332 million.

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TABLE 17.—Operations of the disability insurance trust fund, fiscal years 1957-70

[In millions]

Fiscal year	Transactions during period						Fund at end of period	
	Income		Disbursements					
	Tax contributions ¹	Interest on investments ²	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses ³	Transfers to railroad retirement account		Net increase in fund
Past experience:								
1957-65.....	\$8,584	\$420	\$6,565		\$380	\$52	\$2,007	\$2,007
1957.....	337	1			1		337	337
1958.....	926	16	168		12		762	1,099
1959.....	895	33	339		21		568	1,667
1960.....	987	47	528		32	-27	501	2,167
1961.....	1,022	61	704		36	5	337	2,504
1962.....	1,021	68	1,011		64	11	2	2,507
1963.....	1,077	67	1,171		67	20	-113	2,394
1964.....	1,143	65	1,251		68	19	-130	2,264
1965.....	1,175	62	1,392		79	24	-257	2,007
Estimated future experience:								
1966.....	1,467	54	1,715	\$6	191	25	-416	1,591
1967.....	2,045	57	1,782	13	120	27	160	1,751
1968.....	2,138	63	1,862	14	128	21	176	1,927
1969.....	2,216	71	1,922	15	131	24	195	2,122
1970.....	2,290	80	1,977	15	135	26	217	2,339

¹ Includes reimbursement for additional cost of noncontributory credits for military service; adjusted to exclude refunds.

² Includes net profits on marketable investments and, for 1958-66, adjustment for interest on administrative expenses reimbursed to the old-age and survivors insurance trust fund.

³ For 1957-65, expenses of the Department of Health, Education, and Welfare under the disability insurance program have initially been charged to the old-age and survivors insurance trust fund; reimbursements, including interest, have then been made from the disability insurance trust fund in the following fiscal year.

NOTE.—Reference should be made to the text which describes the underlying assumptions and limitations. Estimates were prepared in December 1965.

Estimates consistent with those shown on a fiscal-year basis in table 17 are presented in table 18 to show the progress of the disability insurance trust fund on a calendar-year basis. The total amount of benefit payments will continue to increase over the next 5 calendar years primarily because of the recent amendments and partly because of the long-range upward trend in the number of beneficiaries.

TABLE 18.—Operations of the disability insurance trust fund, calendar years 1957-70

[In millions]

Calendar year	Transactions during period						Net increase in fund	Fund at end of period
	Income		Disbursements					
	Tax contributions	Interest on investments	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to railroad retirement account		
Past experience:								
1957-65.....	\$0, 093	\$448	\$7, 415		\$468	\$52	\$1, 606	\$1, 606
1957.....	702	7	57		3		649	649
1958.....	966	25	249		12		729	1, 379
1959.....	891	40	457		50	-22	447	1, 825
1960.....	1, 010	53	568		36	-5	464	2, 289
1961.....	1, 038	66	887		64	5	148	2, 437
1962.....	1, 046	68	1, 105		66	11	-69	2, 368
1963.....	1, 099	66	1, 210		68	20	-133	2, 235
1964.....	1, 154	64	1, 309		79	19	-188	2, 047
1965.....	1, 188	59	1, 573		90	24	-440	1, 606
Estimated future experience:								
1966.....	1, 884	56	1, 731	\$12	161	25	11	1, 617
1967.....	2, 095	60	1, 822	13	123	27	170	1, 787
1968.....	2, 177	67	1, 891	14	130	21	188	1, 975
1969.....	2, 251	76	1, 950	15	133	24	205	2, 180
1970.....	2, 327	85	2, 001	15	137	26	233	2, 413

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 17.

Benefit expenditures from the disability insurance trust fund were 0.66 percent of taxable earnings for calendar year 1965. It is estimated that in 1966, because of the increase in the taxable earnings base previously noted, benefit payments as a percent of taxable earnings will decline to 0.60 percent. A slow rise in this percentage will begin in 1967. Figures for each of the calendar years 1957-70 are shown in table 19.

TABLE 19.—Disability insurance benefit payments as a percentage of taxable earnings,¹ calendar years 1957-70

Calendar year	Benefit payments as a percentage of taxable earnings ²	Calendar year	Benefit payments as a percentage of taxable earnings ²
Past experience:		Estimated future experience:	
1957.....	0.03	1966.....	0.60
1958.....	.14	1967.....	.61
1959.....	.23	1968.....	.61
1960.....	.25	1969.....	.61
1961.....	.44	1970.....	.61
1962.....	.52		
1963.....	.55		
1964.....	.57		
1965.....	.66		

¹ Take into account (1) lower contribution rate payable by the self-employed compared with combined employer-employee rate, and (2) employee contributions subject to refund.

² For 1962-65, percentages are preliminary and subject to revision when complete tabulation of taxable earnings is available. For 1966-70, percentages are based on sum of payments for benefits and for vocational rehabilitation services.

Reference has been made in earlier sections to the financial interchanges between the railroad retirement account and the two trust funds under the provisions of the Railroad Retirement Act. The estimates shown in tables 13, 14, 17, and 18 reflect the effect of future financial interchanges.

Reference has also been made previously to the provision in the 1965 amendments authorizing expenditures from the old-age and survivors insurance and disability insurance trust funds for the cost of vocational rehabilitation services. The estimates in tables 13-19 reflect the effect of such future expenditures.

Section 217(g) of the Social Security Act, as amended by the 1965 amendments, provides that the old-age and survivors insurance trust fund and the disability insurance trust fund shall be reimbursed from general revenues for past and future expenditures resulting from the provisions that granted noncontributory \$160 monthly wage credits to persons who served in the Armed Forces at some time during the period September 16, 1940 through December 31, 1956, and from the provisions enacted in 1946 that granted survivor protection to certain World War II veterans for a period of 3 years after leaving service. A description of the legislative history of provisions relating to credit for military service, including the provisions for reimbursement for the additional costs arising from payments made before September 1950, is contained in appendix II.

The estimated total additional costs arising from payments that have been made after August 1950 and that will be made in future years are intended to be amortized by level annual appropriations to the trust funds over a 50-year period beginning in fiscal year 1966 according to a determination made by the Secretary of Health, Education, and Welfare in September 1965. (The annual amount of this determination for the old-age and survivors insurance trust fund was \$87.4 million, and for the disability insurance trust fund, \$18.4 million.) Periodically, the estimated amounts of annual payment will be refigured to reflect actual costs incurred and revision in the future estimates.

The Budget of the United States Government for the fiscal year 1967 makes provision for appropriations initiating these reimbursements (for both fiscal years 1966 and 1967, at \$78 million each year for the old-age and survivors insurance trust fund and \$16 million each year for the disability insurance trust fund). The estimates shown in the various tables in this section reflect the effect of these future annual reimbursements, beginning in fiscal year 1966.

ACTUARIAL STATUS OF THE TRUST FUNDS

Old-age, survivors, and disability insurance benefit payments will increase for many years—not only in dollars but also as a percentage of taxable payroll. Long-range estimates are needed, therefore, to show how much the cost is likely to increase and to indicate whether the scheduled tax rates are adequate.

The cost of benefits to aged persons, which constitute almost 85 percent of the total cost, will rise for several reasons. The U.S. population will, in the long run, almost certainly become relatively much older on the average. A relatively older population will tend to result from the fact that the present aged population is made up of

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ACTUARIAL STATUS OF THE TRUST FUNDS

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The cost of benefits to aged persons, which constitute almost 85 percent of the total cost, will rise for several reasons. The U.S. population will, in the long run, almost certainly become relatively much older on the average. A relatively older population will tend to result from the fact that the present aged population is made up of

the survivors from past periods when death rates were much higher than they are now. Another such factor is that, after the turn of the century, the larger birth cohorts of the 1940's, 1950's, and 1960's will be attaining retirement age. Thus, in the future, relatively more persons, both in total and in each cohort, will attain age 65 and older ages.

The cost of the program is closely related to the ratio of the population aged 65 and over (potential beneficiaries) to the population aged 20-64 (potential contributors). On June 30, 1965, this ratio was 18.2 percent. In a stationary population that would result if the death rates of the U.S. Life Tables for 1959-61 were applied to a constant annual number of births the ratio would be 25.4 percent, but such a situation is not likely to occur within the next century. Ultimately this ratio may become even greater than 25 percent because decreases in mortality below present rates would, in a stationary population, have the effect of increasing the proportion at the oldest ages.

Another reason for the increasing cost is that the proportion of the aged population eligible for and receiving benefits will increase. Some of the present persons aged 65 and over were not in covered employment long enough to obtain benefits, or, in the case of widows, their husbands were not sufficiently long in covered employment. Although the system began in 1937, many jobs were not covered until 1951 or 1955. It is estimated that the proportion of the aged population eligible for some type of benefit under the system will increase from the level of about 81 percent on June 30, 1965 to between 95 and 98 percent by the end of the century.

Since the long-term future cost of the old-age, survivors, and disability insurance program will be affected by many factors that are difficult to determine, the assumptions used in the actuarial cost estimates may differ widely and yet be reasonable. The long-term cost estimates for the program (shown for 1980 and thereafter) are presented here on a range basis to indicate the plausible variation in future costs depending on the actual trends that develop for the various cost factors. Both the low- and high-cost estimates are based on assumptions that represent close to full employment, with the average annual earnings remaining at about the level that prevailed in 1963. Each estimate provides data on taxable payroll and contributions and on beneficiaries and benefit payments for every future year. The data are presented here for selected future years.

It is considered likely, although by no means certain, that actual costs as a percentage of taxable payroll will lie between the low-cost and high-cost figures. Also, a single estimate of costs is needed as a guide in considering proposed legislation and developing tax schedules intended to make the system self-supporting. For these reasons, an intermediate-cost estimate is prepared, in which numbers of beneficiaries, amount of benefit payments, and taxable payrolls are taken halfway between the low-cost and high-cost figures. The intermediate percentage-of-payroll figures are obtained by dividing total benefit payments by taxable payroll, each on the intermediate basis, and are therefore not exactly equal to the average of low-cost and high-cost percentage-of-payroll figures.

Table 20 shows benefit-payment costs for selected years and the corresponding level-costs over the next 75 years, expressed as per-

centages of taxable payroll, under each of the three estimates. The level-cost of the program on this basis is the constant combined employer-employee tax rate that, together with a tax on the self-employed of about 75 percent of such combined rate (in the 1965 Act a maximum self-employed tax rate of 7.0 percent was established), would exactly pay for future benefits and administrative expenses, after making allowance for the effect of the future interest earnings of the existing trust fund and for all other future interest earnings. All percentage-of-payroll figures are adjusted so that they represent the tax rate that employees and employers combined, and the self-employed at three-quarters of the combined rate, would have to pay in any given year to meet exactly the disbursements in that year.

TABLE 20.—Estimated costs of old-age, survivors, and disability insurance system as percent of payroll,¹ 1963 level-earnings assumptions, 1980-2040

[In percent]

Calendar year	Low-cost estimate	High-cost estimate	Intermediate-cost estimate ²
OLD-AGE AND SURVIVORS INSURANCE BENEFITS			
1980	7.85	8.88	8.36
1985	8.17	9.72	8.91
1990	8.28	10.42	9.28
2000	7.64	10.51	8.94
2025	8.77	13.97	10.91
2040	9.95	15.01	11.95
Level-cost ³	7.74	10.23	8.82
DISABILITY INSURANCE BENEFITS			
1980	0.57	0.71	0.64
1985 .....	.56	.73	.64
1990 .....	.54	.72	.62
2000 .....	.54	.74	.63
2025 .....	.61	.81	.70
2040 .....	.65	.86	.73
Level-cost ³ .....	.60	.78	.67

¹ Taking into account the lower contribution rate for the self-employed, as compared with the combined employer-employee rate.

² Based on the averages of the dollar contributions and dollar costs under the low-cost and high-cost estimates.

³ Level contribution rate, at an interest rate of 3.25 percent for high-cost, 3.50 percent for intermediate-cost, and 3.75 percent for low-cost, for benefits after 1964, taking into account interest on the trust fund on Dec. 31, 1964, future administrative expenses, the railroad retirement financial interchange provisions, reimbursement for additional cost of noncontributory credit for military service, and the lower contribution rates payable by the self-employed.

Tables 21 and 22 show, for each set of estimates, the contributions, benefit payments, administrative expenses, amount paid to or received from the railroad retirement system, and the balance in the trust funds for selected years.

THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND 35

TABLE 21.—Estimated progress of old-age and survivors insurance trust fund, 1963 level earnings assumption ¹

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Financial inter-change ²	Interest on fund	Fund at end of year ³
ACTUAL DATA						
1955.....	\$5,713	\$4,968	\$119	\$7	\$454	\$21,663
1956.....	6,172	5,715	132	5	526	22,519
1957.....	6,825	7,347	162	2	556	22,893
1958.....	7,896	8,327	194	-124	552	21,864
1959.....	8,062	9,842	184	-282	532	20,141
1960.....	10,896	10,677	203	-318	516	20,324
1961.....	11,285	11,862	239	-332	548	19,725
1962.....	12,069	13,356	256	-361	526	18,337
1963.....	14,541	14,217	281	-423	521	18,480
1964.....	15,689	14,914	296	-403	569	19,125
1965.....	16,017	16,737	328	-436	593	18,235
LOW-COST ESTIMATE						
1980.....	\$32,080	\$27,996	\$398	-\$105	\$2,767	\$81,283
1985.....	34,834	31,559	434	4	3,909	114,398
1990.....	37,965	34,882	469	52	5,316	151,886
2000.....	45,265	38,365	515	112	9,525	270,603
2025.....	60,287	58,766	731	147	34,610	963,886
HIGH-COST ESTIMATE						
1980.....	\$30,129	\$29,661	\$464	-\$155	\$1,212	\$40,370
1985.....	31,623	34,063	507	-46	1,124	37,080
1990.....	33,235	38,376	550	-7	537	18,064
2000.....	37,320	43,487	603	42	(⁴)	(⁴)
2025.....	42,190	65,470	807	67	(⁴)	(⁴)
INTERMEDIATE-COST ESTIMATE						
1980.....	\$31,105	\$28,828	\$431	-\$130	\$1,895	\$59,891
1985.....	33,228	32,811	470	-21	2,399	74,184
1990.....	35,600	36,629	510	23	2,689	82,433
2000.....	41,293	40,926	569	77	3,287	101,233
2025.....	51,238	62,118	799	107	4,476	182,792

¹ Interest rates of 3.25 percent for high-cost, 3.50 percent for intermediate-cost, and 3.75 percent for low-cost, were used in determining the level-cost, but in developing the progress of the trust fund, varying rates in the early years were used, which—when averaged over a long period of time—are equivalent to such fixed rates.

² A positive figure indicates payment to the trust fund from the railroad retirement account; a negative figure indicates the reverse.

³ Not including amounts in the railroad retirement account to the credit of the old-age and survivors insurance trust fund. In millions of dollars, these amounted to \$377 for 1953, \$284 for 1954, \$163 for 1955, \$60 for 1956, and nothing for 1957 and thereafter.

⁴ These figures are artificially high because of the method of reimbursements between this trust fund and the disability insurance trust fund (and, likewise, the figure for 1959 is too low).

⁵ Fund exhausted in 1993.

NOTE.—Contributions include reimbursement for additional cost of noncontributory credit for military service.

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TABLE 22.—Estimated progress of disability insurance trust fund, 1963 level earnings assumption ¹

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Financial inter-change ²	Interest on fund	Fund at end of year
ACTUAL DATA						
1957.....	\$702	\$57	\$3		\$7	\$649
1958.....	966	249	³ 12		25	1,379
1959.....	891	457	50	\$22	40	1,825
1960.....	1,010	568	36	5	53	2,289
1961.....	1,038	887	64	-5	66	2,437
1962.....	1,046	1,105	66	-11	68	2,368
1963.....	1,099	1,210	68	-20	66	2,235
1964.....	1,164	1,309	79	-19	64	2,047
1965.....	1,188	1,573	90	-24	59	1,606
LOW-COST ESTIMATE						
1980.....	\$2,501	\$2,050	\$95	\$15	\$311	\$8,986
1985.....	2,716	2,182	94	18	456	13,076
1990.....	2,960	2,283	94	18	655	18,647
2000.....	3,529	2,723	103	18	1,252	35,287
2025.....	4,702	4,126	146	18	3,917	109,004
HIGH-COST ESTIMATE						
1980.....	\$2,250	\$2,372	\$117	\$7	\$36	\$1,217
1985.....	2,466	2,558	120	8	2	330
1990.....	2,592	2,661	120	8	(4)	(4)
2000.....	2,911	3,091	137	8	(4)	(4)
2025.....	3,291	3,815	166	8	(4)	(4)
INTERMEDIATE-COST ESTIMATE						
1980.....	\$2,425	\$2,211	\$106	\$11	\$166	\$5,177
1985.....	2,591	2,370	107	13	219	6,780
1990.....	2,776	2,472	107	13	291	8,966
2000.....	3,220	2,907	120	13	509	15,443
2025.....	3,996	3,970	156	13	1,113	33,264

¹ Interest rates of 3.25 percent for high-cost, 3.50 percent for intermediate-cost, and 3.75 percent for low-cost were used in determining the level-cost, but in developing the progress of the trust fund, varying rates in the early years were used, which—when averaged over a long period of time—are equivalent to such fixed rates.

² A positive figure indicates payment to the trust fund from the railroad retirement account; a negative figure indicates the reverse.

³ These figures are artificially low because of the method of reimbursements between the trust fund and the old-age and survivors insurance trust fund (and, likewise, the figure for 1959 is too high).

⁴ Fund exhausted in 1986.

NOTE.—Contributions include reimbursement for additional cost of noncontributory credit for military service.

It should be emphasized that dollar figures projected for so many years into the future have only limited significance because of changes that are likely to occur in the general economy, as well as in the system itself. What is really the most significant are relative figures such as those in table 20, showing the benefit costs as a percentage of taxable payroll.

For old-age and survivors insurance, annual benefit payments as a percentage of payroll are less than or close to the scheduled tax rates in the early future years, but they eventually rise well above the ultimate combined employer-employee rate of 9.0 percent. For disability insurance the benefit payments are lower than the present combined employer-employee tax rate of 0.7 percent in the next 40 to 50 years.

To measure the extent to which the financing arrangements of the system result in a surplus or deficiency, a level rate equivalent to the actual increasing contribution rates has been computed, taking into account future interest. The level-equivalent rate of contributions minus the level-cost of benefit payments and administrative costs expressed as a percentage of taxable payroll (after making allowance for the interest-earning effect of the existing trust fund), gives the amount by which the contribution rate in all years would have to be changed to put the system in exact long-range balance according to the estimate. A negative figure would indicate that an increase in the tax rate is needed to make the system self-supporting.

The long-range balance of the system is shown by the following level-equivalent costs and contributions, expressed in percentages of taxable payroll, which are computed as of the beginning of calendar year 1965, at interest rates of 3.25 percent for high-cost, 3.50 percent for intermediate-cost, and 3.75 percent for low-cost:

[In percent]

Item	OASI	DI	Total
LOW-COST ESTIMATE			
Contributions ¹	8.72	0.70	9.42
Benefits ²	7.74	.60	8.34
Actuarial balance.....	.98	.10	1.08
HIGH-COST ESTIMATE			
Contributions ¹	8.72	0.70	9.42
Benefits ²	10.23	.78	11.01
Actuarial balance.....	-1.51	-.06	-1.59
INTERMEDIATE-COST ESTIMATE			
Contributions ¹	8.72	0.70	9.42
Benefits ²	8.82	.67	9.49
Actuarial balance.....	-.10	.03	-.07

¹ Based on adjusted payroll that reflects the lower contribution rate for the self-employed as compared with the combined employer-employee rate.

² Including adjustments (a) to reflect the lower contribution rate for the self-employed as compared with the combined employer-employee rate, (b) for interest on the existing trust fund, (c) for administrative expenses, (d) for the railroad retirement financial interchange provisions, and (e) for reimbursement of military-wage-credits cost.

The lack of actuarial balance of the old-age, survivors, and disability insurance program (0.07 percent of taxable payroll on the intermediate-cost basis) is within the acceptable limit of variation of 0.10 percent of taxable payroll that has been used in the past by the congressional committees which deal with this program. The disability insurance program is overfinanced by 0.03 percent of taxable payroll, while the old-age and survivors program has an actuarial imbalance of 0.10 percent of taxable payroll.

If the intermediate-cost estimate had been based on higher interest rate than 3.50 percent (which is somewhat above the current average being earned by the total investments of the trust funds, although considerably below the prevailing market rate of interest on long-term Government obligations, which is currently slightly above 4¼ percent),

the actuarial balance of the total program would have been considerably improved and in fact, if an interest rate of 4 percent had been assumed, the total program would have been overfinanced by 0.12 percent of taxable payroll.

If the experience exactly follows the assumptions, future computations would show a gradual increase in the actuarial balance (or lack of balance) under the intermediate-cost estimate for both the old-age and survivors insurance system and the disability insurance system. The reason for this is that interest accumulations increase any surplus in the system, but the failure to accumulate all interest income that would have been earned in an exactly-balanced system increases any deficit. In the case of a surplus, the excess contributions actually earn interest, while a deficit grows because of the absence of the annual interest that would have been earned if the contributions required for balance had been paid.

Continuing study of the emerging experience under the program provides a basis for prompt changes in the tax rate or other changes that may be necessary to keep the system from growing excessively out of actuarial balance in either direction.

It is important to note that these estimates are made on the assumption that earnings will remain at about the level prevailing in 1963. If earnings levels rise, as they have in the past, the benefits and the taxable earnings base under the program will undoubtedly be modified. If such changes are made concurrently and proportionately with changes in general earnings levels, and if the experience follows all the other assumptions, the future year-by-year costs of the system as a percentage of taxable payroll would be the same as those shown. However, the existing trust fund accumulated in the past, and its interest earnings, will represent a smaller proportion of the future taxable payrolls than if earnings were not to increase in future years. As a result, since interest earnings of the trust fund will play a relatively smaller role in the financing of the system, the "net" level-cost—taking into account benefit payments, administrative expenses, and interest on the existing trust fund—would be somewhat higher. However, the level-cost might not rise this much, or might even decline, if benefit adjustments do not fully reflect rising earnings. Again, the effect of such events can be observed in ample time to make any needed changes in the contribution schedule or any other appropriate changes in the system.

This analysis includes the benefits and contributions in respect to all persons anticipated to be covered in the future under present statutory provisions and not merely (a) the benefits to be paid to workers who have been covered by the system in the past and to their dependents and survivors, (b) the future taxes to be paid by such workers, and (c) the existing trust funds. An insurance company must set up reserves equal to all currently accrued liabilities, since it cannot compel individuals to become new policyholders and must be in a position at any time so that in the future it can pay all benefits that will become due with respect to its present and past policyholders, using only its present assets and the future premiums to be paid by present policyholders. In analyzing the actuarial condition of a compulsory social insurance system that will continue indefinitely, the income and outgo with respect to new entrants should properly

be included, thus obviating the need to set up reserves for all currently accrued liabilities.

A discussion of the assumptions under which these estimates have been made is presented in appendix I.

MEDIUM-RANGE COST ESTIMATES

The preceding sections have presented both short-range cost estimates (for the next 5 years) and long-range cost estimates (for many decades into the future) for the old-age, survivors, and disability insurance system. This section presents medium-range cost estimates covering a period of 15 to 20 years that take into account possible variations in economic factors, such as level of earnings and level of employment, as well as variations in demographic factors.

Tables 23 and 24 present two medium-range projections based on different assumptions. For both projections, it is assumed that economic activity will have normal expansion throughout the period, with employment increasing steadily and with the average total earnings of covered workers increasing at an annual rate of 3 percent. In the first one (table 23), the maximum taxable earnings base is assumed to remain at the 1966 level of \$6,600 per year, while for the second one (table 24), the base is assumed to be kept up-to-date, i.e., it is assumed that the base is changed periodically so as to cover about the same proportion of total earnings that was covered in 1966 by the \$6,600 base. These assumptions imply that for the first projection, of the estimated 75 percent increase in average earnings that will occur in the 1966-85 period, only 27 percent or 36 percent relatively, will be taxable under the program, due to the dampening effect of the fixed maximum taxable earnings base. For the second projection, the entire 75-percent increase will be taxable because of the constant updating of the earnings base.

TABLE 23.—Estimated progress of trust funds, increasing earnings assumption, fixed earnings base and equivalent 3.5 percent interest rate basis ¹

[In millions]

Calendar year	Contributions ²	Benefit payments	Administrative expenses	Financial inter-change ³	Interest on fund	Fund at year end
OLD-AGE AND SURVIVORS INSURANCE TRUST FUND						
1975.....	\$36, 210	\$26, 036	\$472	-\$262	\$2, 127	\$69, 821
1980.....	40, 031	30, 413	549	-35	4, 170	130, 444
1985.....	44, 748	34, 868	627	102	6, 648	204, 748
DISABILITY INSURANCE TRUST FUND						
1975.....	\$2, 711	\$2, 223	\$152	\$7	\$132	\$4, 270
1980.....	3, 102	2, 399	164	19	239	7, 582
1985.....	3, 488	2, 529	175	23	411	12, 800

¹ On the same basis as used to develop the trust funds for the long-range intermediate-cost estimates in tables 21 and 22.

² Includes reimbursement for additional cost of noncontributory credits for military service.

³ A positive figure indicates payment to the trust funds from the railroad retirement account; a negative figure indicates the reverse.

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TABLE 24.—*Estimated progress of trust funds, increasing earnings and benefits assumptions, variable earnings base and equivalent 3.50 percent interest rate basis*¹

[In millions]

Calendar year	Contributions ²	Benefit payments	Administrative expenses	Financial interchange ³	Interest on fund	Fund at year end
OLD-AGE AND SURVIVORS INSURANCE TRUST FUND						
1975.....	\$39,802	\$33,997	\$536	—\$390	\$1,710	\$56,482
1980.....	49,818	45,956	688	—188	2,542	87,177
1985.....	61,712	60,941	873	—35	3,498	109,473
DISABILITY INSURANCE TRUST FUND						
1975.....	\$3,097	\$2,787	\$163	\$4	\$120	\$3,895
1980.....	3,876	3,534	181	15	170	5,470
1985.....	4,802	4,392	198	22	237	7,560

¹ On the same basis as used to develop the trust funds for the long-range intermediate-cost estimates in tables 21 and 22.

² Includes reimbursement for additional cost of noncontributory credits for military service.

³ A positive figure indicates payment to the trust funds from the railroad retirement account; a negative figure indicates the reverse.

It is assumed for the first projection that all provisions of the law would remain as they were after the 1965 Amendments. This projection is based on dynamic earnings-level assumptions and static benefit-provision assumptions. However, over the 20-year period covered by the estimates, changes will undoubtedly be made. The purpose of this estimate is to indicate the size of the financial commitments of present law even though it is recognized that the law itself would undoubtedly be changed during the period. The extent and timing of these changes are, of course, unpredictable.

It is assumed for the second projection that the maximum taxable earnings base and the benefit provisions of the law are amended periodically so that the relationships among total earnings, taxable earnings, and benefit expenditures during each of the years 1966–85 under the amended law are the same as those shown in the long-range intermediate-cost estimates prepared on level-earnings assumptions. The cost estimate shown in table 24 is, therefore, very similar to the long-range cost estimate if costs are considered in terms of percentages of taxable payroll, but it has the advantage of presenting dollar figures of a more realistic magnitude. This projection, accordingly, is based on dynamic earnings-level assumptions, combined with an assumption that the law is frequently amended to keep the system fully up-to-date.

As shown in tables 23 and 24, according to the medium-range estimates, the old-age and survivors insurance trust fund grows more or less steadily through the period up to 1985—reaching in 1980 about \$130 billion in the first projection and about \$87 billion in the second one. For 1985, the corresponding figures for the balance in the trust fund are \$205 billion and \$109 billion. In 1985, estimated contribution income exceeds benefit outgo by about 28 percent under the assumptions of dynamic earnings-level conditions and static benefit provisions, but by only 1 percent under the “double dynamic” assumptions basis.

The disability insurance trust fund, according to the medium-range estimates, increases continuously reaching a level at the end of the

projected period of \$12.8 billion under the static benefit provisions, and \$7.6 billion under the "double dynamic" basis.

CONCLUSION

The current long-range actuarial cost estimates for the old-age, survivors, and disability insurance program indicate that the program is in close actuarial balance. The program as a whole has a small actuarial imbalance of 0.07 percent of taxable payroll, which is within what the Congress has considered as an acceptable margin of variation for the intermediate-cost estimate, 0.10 percent of taxable payroll.

Before the 1965 amendments, although the program as a whole was in close actuarial balance, the disability insurance portion was underfinanced. The increased allocation of contributions to the disability insurance trust fund provided in the 1965 amendments has placed this part of the program in close actuarial balance. The estimates are made for a period of 75 years. Both the old-age and survivors insurance and the disability insurance programs will have sufficient income from contributions (based on the tax schedule and taxable earnings base now in the law) and from investments to meet the cost of benefit payments and administrative expenses during this period.

APPENDIXES

APPENDIX I. ASSUMPTIONS, METHODOLOGY, AND DETAILS OF LONG-RANGE COST ESTIMATES

The basic assumptions used in the long-range estimates for the old-age, survivors, and disability insurance system are described in this appendix.¹ Also given are more detailed data in connection with the results of these estimates.

Population

Projections were made of the United States population (including overseas areas covered by the old-age, survivors, and disability insurance program) for future quinquennial years, by 5-year age groups and by sex. The starting point was the population on July 1, 1955, as estimated by the Bureau of the Census from the 1950 census and from births, deaths, and migration in 1950-55. This population estimate was increased to allow for probable under-enumeration in the 1950 census. The projections used were developed before the results of the 1960 census became available; the long-range cost estimates were not revised because the effect is negligible.²

In the projections for both cost estimates it is assumed that mortality rates will decline until the year 2000. In the high-cost estimates, mortality rates for the year 2000 are about 50 to 55 percent of the 1953 level up to age 70, with the rates at the older ages showing somewhat smaller improvements. The low-cost estimate assumes roughly half of the improvement in mortality used in the high-cost estimate.

In the low-cost estimate, fertility rates are assumed to remain at about the level of recent years until 1975 and then decrease slowly through 2040 until ultimately they reach about the level required to maintain a stationary population. The high-cost fertility rates begin decreasing at once and in 2005-10 reach about the level required to maintain a stationary population. Both estimates assume a small amount of net immigration.

The low-cost estimate is based on high fertility and high mortality, while the high-cost estimate assumes low fertility and low mortality. This makes the high-cost population relatively much older than the low-cost population, which is reasonable in view of the fact that benefits to aged persons account for nearly 85 percent of the cost of the system. Complete details about the population projections are given in *Actuarial Study No. 46*, Social Security Administration.

Employment

Assumptions as to the percentage of the population who have covered employment during a year were made for each age group by sex for each quinquennial year. The estimated percentages for 1960 were projected to decrease in the younger ages for males to allow for a greater utilization of schools. For males aged 25 and over, the proportions were assumed to increase slightly except for the older ages where they were assumed to decrease for both the low-cost and high-cost assumptions (thus recognizing the possibility of higher retirement rates). An increase was assumed for females, except for the very young and very old ages; these increases are higher in the middle ages and are a continuation of trends in the past. Assumptions were also made about the percentage of covered workers in each age group who have 4 quarters of coverage during the year.

¹ For more details as to the procedures followed in making the long-range cost estimates, see *Actuarial Study No. 49*, Social Security Administration, May 1959, which deals with the 1956 Act but also indicates the modified procedures that were used in connection with estimates for the 1958 and 1960 Acts. A detailed discussion of the cost estimates for the 1961 Act can be found in *Actuarial Study No. 58*.

² The 1960 census revealed a greater number of persons aged 65 and over than earlier estimates had indicated, with most of this excess at ages 65-74. However, since people in these age groups are subject to high mortality and will thus not survive for many years, this discrepancy will have little effect on the long-range population projections. The 1960 census reported 16,560,000 persons aged 65 and over, as compared with the 1960 estimates of 16,413,000 in the high-cost projection and 16,319,000 in the low-cost projection. (For comparability, the projection figures should be reduced by about 200,000 because they are as of July 1 instead of April 1, and they include Puerto Rico and several other geographic areas.)

All the foregoing assumptions may be characterized as representing moderately full employment. A depression could substantially increase the cost, but it is believed that any periods of low employment would be of short duration and would not have a significant long-range effect.

Earnings

Level average earnings at about the 1963 level were assumed for each sex. This assumption implies that within each sex group the earnings level would not rise on account of changes in the distribution of covered workers by occupation or industry.

In the past, average earnings have increased greatly, partly because of inflation, partly because of increased productivity, and partly because of the changed occupational composition of the labor force and related factors. If this trend continues and if the benefit formula is not changed the cost relative to payroll would be less than the estimates show because the formula provides a benefit that is a decreasing percentage of average wage as the average wage increases.

It is likely, however, that if average earnings increase, the benefit formula and the earnings base used for contributions will be modified.

If benefit payments are increased in exactly the same ratio as the increase in average earnings, the year-by-year cost estimates of benefit payments expressed as a percentage of payroll would be unchanged. There would, however, be some increase in the level-premium cost because of the diminished relative value of interest earnings on the trust funds.

Insured Population

The term "insured" is used as meaning either fully or currently insured. Separate estimates of fully insured, currently insured, and both fully and currently insured have not been made, because almost all aged insured persons and almost all younger male insured persons are fully insured, and also because either fully or currently insured status generally gives eligibility to all young survivor benefits.

The percentages of insured persons by age and sex in various future years are estimated from the percentages of persons covered. It is evident that eventually almost all males in the country will be insured for old-age and survivor benefits; the ultimate percentage for aged males is estimated at 95 percent in the low-cost estimate and 98 percent in the high-cost estimate. For females there is much greater uncertainty; it is estimated that the corresponding proportions for aged females will eventually be 67 percent in the low-cost estimate and 73 percent in the high-cost estimate (the differential reflecting the range possible because of women moving in and out of the labor market and whether thereby they do or do not obtain insured status).

The estimated numbers of persons insured for disability benefits are lower than those insured for old-age and survivor benefits because of the more restrictive insured status provisions for disability benefits.

Aged Beneficiaries

Old-age beneficiaries are estimated from the aged insured population. The proportions, by age and sex, of the insured population that were receiving benefits at the beginning of 1963 were projected to increase slightly, following the trends in the past—thus, reflecting the assumed gradual increase in retirement rates.

Wives aged 62 and over of male old-age beneficiaries were estimated by using census data and mortality projections. These potential wife beneficiaries, after adjustment for eligibility to benefits on their own account, were assumed to claim benefits as soon as they are eligible, even if this occurred at ages 62-64, when they would have to take reduced benefits. The experience to date indicates that in the vast majority of the cases such immediate claiming of wife's benefits does occur.

To estimate widow beneficiaries the proportions of widows in the female aged population were projected according to mortality assumptions and adjusted for both eligibility to benefits on their own account and for the insured status of their deceased husbands. These uninsured eligible widows were assumed to claim benefits as soon as available.

It can be observed that the assumed wife and widow beneficiaries consist of the uninsured potential beneficiaries. In actual practice, some of the insured potential beneficiaries also receive a residual benefit consisting of the excess of the potential wife's or widow's benefit over their own old-age benefit. These residual benefits, although not giving rise to additional aged beneficiaries, were considered in the cost of the particular type of dependent or survivor benefit concerned.

The minor category of parent beneficiaries is estimated as a constant proportion of aged persons not eligible for any other benefit. The insignificant effect of the retirement test as it applies to wife's, widow's, and parent's benefits was ignored. No estimates were made for benefits to dependent husbands and widowers since their cost is relatively negligible.

Appendix table 1 shows the estimated numbers of aged beneficiaries.

Beneficiaries Under Retirement Age

Young wives and children of retired workers were estimated by reference to their ratios to male old-age beneficiaries, as derived from recent actual data and projected according to the population fertility assumptions.

Child survivor beneficiaries were obtained from estimates of total paternal orphans in the country in future years. The projected child population by age groups was multiplied by the probability of being a paternal orphan. These probabilities were derived by using distributions of age of fathers at birth of child and death rates consistent with the population projections. The number of paternal orphans was then adjusted to eliminate orphans of uninsured men, to add the small numbers of orphans of insured women and to include the eligible disabled orphans aged 18 and over. For the non-disabled children aged 18-21, a further reduction was made to exclude those not attending school. Mother survivor beneficiaries are estimated by assuming a constant ratio of mothers to children. The numbers of lump-sum death payments were estimated by multiplying the insured population by death rates consistent with the survival rates used in the population projections.

Disabled Beneficiaries and Their Dependents

Future numbers of persons receiving monthly disability benefits based on their own earnings records are estimated by applying disability prevalence rates (by age and sex) to the population insured for disability benefits. Prevalence rates may be defined as the proportion of the relevant population (population insured for disability in this case) that has a specific characteristic (receiving disability benefits in this case).

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APPENDIX TABLE 1.—*Monthly retirement beneficiaries in current-payment status,¹ 1955-2025*

[In thousands]

Calendar year	Old-age beneficiaries		Wives of old-age beneficiaries ²	Aged widows ³	Dependent parents	Total
	Male	Female				
ACTUAL DATA						
1955.....	3,252	1,222	1,144	701	25	6,344
1956.....	3,572	1,540	1,376	913	27	7,428
1957.....	4,198	1,999	1,779	1,095	29	9,101
1958.....	4,617	2,303	1,979	1,233	30	10,162
1959.....	4,937	2,689	2,123	1,394	35	11,077
1960.....	5,217	2,845	2,236	1,544	36	11,877
1961.....	5,765	3,160	2,368	1,697	37	13,027
1962.....	6,244	3,494	2,510	1,859	37	14,145
1963.....	6,497	3,766	2,561	2,011	37	14,872
1964.....	6,657	4,011	2,587	2,159	36	15,451
LOW-COST ESTIMATE						
1980.....	9,211	7,441	3,052	3,461	34	23,199
1985.....	10,006	8,568	3,131	3,607	33	25,345
1990.....	10,709	9,564	3,176	3,845	32	27,326
2000.....	11,177	10,682	2,913	3,862	28	28,662
2025.....	17,391	17,681	3,603	5,021	33	43,729
HIGH-COST ESTIMATE						
1980.....	10,828	9,368	3,251	2,991	34	26,472
1985.....	12,219	10,972	3,436	3,136	34	29,797
1990.....	13,584	12,405	3,662	3,263	32	32,966
2000.....	15,134	14,010	3,573	3,326	28	36,071
2025.....	23,009	21,521	4,013	4,272	29	52,844

¹ Persons qualifying both for old-age benefits and for wife's, widow's, husband's, widower's, and parent's benefits are shown only as old-age beneficiaries. Minimum retirement age was 65 until November 1956, when it was lowered to 62 for women, and until August 1961, when it was also reduced to 62 for men. Actual data as of the end of the year (except for 1958—November); estimated data as of the middle of the year. Excluding effect of railroad financial interchange provisions.

² Including dependent husbands and including wives of any age with child beneficiaries in their care (both relatively small categories).

³ Including dependent widowers.

The prevalence rates were developed from assumed disability incidence and termination rates. The incidence rates were based on the so-called 165 percent modification of class 3 rates (which includes increasingly higher percentages for ages above 45). This 165 percent modification corresponds roughly to life insurance company experience during the early 1930's. These rates were reduced by 10 percent to account for the fact that unlike the general definition in insurance company policies, disability is not presumed to be total and of expected long-continued duration after 6 months' duration. Rather, the likelihood of the disability being of a long-continued and indefinite-nature condition must be proved at the time. To take into consideration the fact that according to the 1965 amendments the disability should be expected to last at least 12 months instead of being of a long-continued duration, the final prevalence rates were increased by 1.5 percent relatively.

The original estimates of the cost of the disability insurance system (prepared at the time of the 1956 amendments) assumed, for high cost, incidence rates based on the 165 percent modification of class 3 rates. For low cost, the rates were assumed to be 25% of those used in the high-cost estimate. These incidence rates are basically those in current use except for a narrowing of the range between low and high to reflect the operating experience analyzed up to now. This experience has shown the actual incidence rates to fall roughly mid-range between the high incidence and low incidence originally assumed.

Benefit termination rates because of death and recovery in current use are those used in the original disability insurance cost estimate—i.e., class 3 rates for high-cost and 1924-27 German social insurance experience for low-cost estimate.

The prevalence rates resulting from the above incidence and termination rates were adjusted to reflect current operating experience and the new definition in the 1965 amendments and then used to calculate the numbers of beneficiaries in the future. These future prevalence rates are thus based on the incidence and termination rates originally assumed, but they are adjusted to reflect the latest available experience. The modified methodology that has been followed allows for a prompt reflection, in the estimated cost, of any changes in the experience of the program.

In accordance with current experience the prevalence rates for females were assumed to be about 75 percent of those for male workers.

Appendix table 2 shows the estimates of number of beneficiaries under the minimum retirement age (including disability insurance beneficiaries and their dependents).

APPENDIX TABLE 2.—*Monthly beneficiaries under minimum retirement age in current-payment status*¹ and number of deaths resulting in lump-sum death payments, 1955-2025.

[In thousands]

Calendar year	Children ²	Widowed mothers	Disability beneficiaries			Total monthly beneficiaries	Lump-sum death cases
			Workers	Wives ³	Children ⁴		
ACTUAL DATA							
1955.....	1,276	292				1,568	567
1956.....	1,341	301				1,642	547
1957.....	1,502	328	150			1,980	689
1958.....	1,606	354	238	12	18	2,228	657
1959.....	1,754	376	334	48	78	2,590	822
1960.....	1,845	401	455	77	155	2,934	779
1961.....	1,989	428	618	118	291	3,444	813
1962.....	2,160	452	741	147	357	3,887	855
1963.....	2,230	462	827	168	457	4,144	969
1964.....	2,298	471	894	179	490	4,332	1,011
LOW-COST ESTIMATE							
1980.....	3,941	733	1,184	217	702	6,777	1,436
1985.....	4,226	795	1,247	222	721	7,211	1,557
1990.....	4,503	858	1,289	231	729	7,610	1,677
2000.....	4,796	939	1,543	271	808	8,357	1,930
2025.....	5,417	1,024	2,426	384	988	10,239	2,863
HIGH-COST ESTIMATE							
1980.....	2,712	461	1,451	238	642	5,504	1,400
1985.....	2,746	467	1,557	251	645	5,666	1,532
1990.....	2,770	468	1,607	253	637	5,735	1,680
2000.....	2,649	446	1,879	278	684	5,936	1,985
2025.....	2,930	444	2,369	326	754	6,823	2,769

¹ See footnote 1 of appendix table 1 for definition of minimum retirement age. Does not include wives under age 62 of old-age beneficiaries; includes disability beneficiaries aged 62-64, and spouses aged 62 and over of disability beneficiaries. For actual data, as of December (except for 1958—November); for estimated future data, as of middle of year. Excluding effect of railroad financial interchange provisions.

² Children of retired and deceased workers.

³ Spouses of disabled workers, including some such spouses aged 62 and over.

⁴ Children of disabled workers.

⁵ January through November 1958.

⁶ December 1958 through December 1959.

Average Benefits and Total Benefit Payments

Average benefits in the various benefit categories were interpolated between the sizes of current benefit awards, estimated from recent claims data, and the sizes of the ultimate benefits computed. The latter were determined as though the 1963 earnings level were in effect throughout the entire working life of all workers with respect to whom benefits are being paid. Total benefit payments are shown in dollar amounts, in tables 21 and 22, and as a percentage of payroll, in table 20.

The combined cost of old-age, survivors, and disability benefits (expressed as a percentage of taxable payroll) in 1965 as shown in tables 16 and 19 is projected to increase by about 40 percent in the low-cost estimate and by about 115 percent in the high-cost estimate, according to table 20. The significant upward cost trend is temporarily reversed around the year 2000, at which time a significant part of the aged population consists of survivors of persons born in the 1930's, when birth rates were low.

Administrative Expenses

Assumed administrative expenses for old-age, survivors, and disability insurance are based on two factors—the number of persons having any covered employment in the given year and the number of monthly beneficiaries.

Railroad Retirement Financial Interchange

A financial interchange between the old-age, survivors, and disability insurance system and the railroad retirement system is provided, as explained in Appendix II. The purpose of this interchange is to place the old-age and survivors insurance and the disability insurance trust funds in the same position they would have been in if railroad employment were, and always had been, covered employment.

Because of the relatively older age distribution of railroad workers, the transfer is currently in favor of the railroad retirement system. But it is estimated that eventually the low-cost factors in respect to railroad employment—higher average wage, lower percentage of females, and more wives and widows of railroad workers receiving old-age, survivors, and disability insurance benefits on their own earnings records, rather than on the record of the railroad worker—will shift the transfer the other way. The long-range effect is relatively insignificant insofar as old-age, survivors, and disability insurance costs are concerned, but the current estimates indicate a small "net gain" to the railroad retirement system over the entire period of these estimates.

Interest Rate

The 1960 amendments revised the basis for determining the interest rate on public-debt obligations issued for purchase by the trust funds (special issues), which constitute a major portion of the investments of the trust funds. Under previous law, the interest rate on special obligations was related to the average coupon rate on all outstanding marketable obligations of the United States not due or callable for at least 5 years from the original issue date. Under present law, this interest rate is based on the average market yield of all such marketable obligations not due or callable for 4 more years from the time of the issuance of the special obligations.

This change will have the immediate effect of gradually increasing the interest income of the trust funds as compared with the previous basis. The ultimate effect is expected to be only a slight increase in the interest income of the system since, over the long run, coupon rates on new long-term Government obligations tend to follow (both up and down) the average market yield on all outstanding long-term issues.

For the intermediate-cost estimate a level interest rate of 3.50 percent was assumed. This is somewhat above the average yield of the total investments of both trust funds as of January 1, 1966 (3.29 percent), but is below the rate applicable for new investments in January 1966 (4.625 percent). The interest rate for the low-cost and high-cost estimates was assumed at 3.75 percent and 3.25 percent, respectively.

APPENDIX II. LEGISLATIVE HISTORY AFFECTING THE TRUST FUNDS ¹

Board of Trustees.—From January 1, 1940, when the Federal old-age and survivors insurance trust fund was established, through July 15, 1946, the three members of the Board of Trustees, who served in an ex officio capacity, were the Secretary of the Treasury, the Secretary of Labor, and the Chairman of the Social Security Board. On July 16, 1946, under Reorganization Plan No. 2 of 1946, the

¹ Amendments to the Social Security Act and to related sections of the Internal Revenue Code were made during the period 1939-65. The more important changes made in 1950-58 that are significant from an actuarial standpoint are described in appendix II of the 21st Annual Report of the Board of Trustees. The more important changes contained in the 1960 and 1961 amendments are described in the main body of the 23d Annual Report, and the changes made in 1964 are described in the 25th Annual Report. The more important changes contained in the 1965 amendments are described in the main body of the present report.

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This change will have the immediate effect of gradually increasing the interest income of the trust funds as compared with the previous basis. The ultimate effect is expected to be only a slight increase in the interest income of the system since, over the long run, coupon rates on new long-term Government obligations tend to follow (both up and down) the average market yield on all outstanding long-term issues.

For the intermediate-cost estimate a level interest rate of 3.50 percent was assumed. This is somewhat above the average yield of the total investments of both trust funds as of January 1, 1966 (3.29 percent), but is below the rate applicable for new investments in January 1966 (4.625 percent). The interest rate for the low-cost and high-cost estimates was assumed at 3.75 percent and 3.25 percent, respectively.

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Federal Security Administrator became ex officio member of the Board of Trustees in place of the Chairman of the Social Security Board, which agency was abolished. On April 11, 1953, Reorganization Plan No. 1 of 1953, creating the Department of Health, Education, and Welfare, went into effect, and the office of Federal Security Administrator was abolished. The functions of the Administrator as ex officio member of the Board of Trustees were taken over by the Secretary of Health, Education, and Welfare. The remaining membership of the Board has not changed since it was first established. Since the establishment of the fund, the Secretary of the Treasury has been managing trustee. The Social Security Act Amendments of 1950 designated the Commissioner for Social Security—since April 11, 1953, the Commissioner of Social Security—as Secretary of the Board of Trustees.

Under the Social Security Amendments of 1956, the functions of the Board of Trustees have related to both the Federal old-age and survivors insurance trust fund and the Federal disability insurance trust fund. The Social Security Amendments of 1960 eliminated the so-called three-times rule (requiring the Board of Trustees to report to the Congress whenever it expects that in the course of the next 5 fiscal years either of the trust funds will exceed three times the highest annual expenditures from such fund anticipated during that 5-year period). The Social Security Amendments of 1965 provide that the Board of Trustees shall meet not less frequently than once each calendar year.

Contribution rates.—The Social Security Act of 1935 fixed the contribution rates for employees and their employers at 1 percent each on taxable wages for the calendar years 1937–39, and provided for higher rates thereafter. However subsequent acts of Congress extended the 1-percent rates through calendar year 1949. On January 1, 1950, the rates rose to 1½ percent each for employees and employers, as provided by the Social Security Act Amendments of 1947. In accordance with the Social Security Act Amendments of 1950, the 1½-percent rates remained in effect through calendar year 1953, and, on January 1, 1954, rose to 2 percent each for employees and employers. These rates remained in effect through December 31, 1956. In accordance with the Social Security Amendments of 1956, the 2-percent rates rose to 2¼ percent each on January 1, 1957, and remained in effect through calendar year 1958. On January 1, 1959, the rates rose to 2½ percent each, and on January 1, 1960, to 3 percent each, as provided by the Social Security Amendments of 1958. These rates remained in effect through December 31, 1961. In accordance with the Social Security Amendments of 1961, the 3-percent rates rose, on January 1, 1962, to 3½ percent each for employees and employers, and on January 1, 1963, to 3¾ percent each. Beginning January 1, 1951—the effective date of extension of coverage to self-employed persons—the rates of tax on self-employment income have been equal to 1½ times the corresponding employee rates, except that beginning in 1962 the resulting rates for the self-employed are rounded to the nearest tenth of 1 percent. The tax rates that have been in effect since 1937 and the maximum amount of annual earnings to which the rates applied are shown in the following table:

Calendar years	Maximum taxable amount of annual earnings	Percent of taxable earnings	
		Employees and employers, each	Self-employed
1937–49	\$3,000	1	-----
1950	3,000	1½	-----
1951–53	3,600	1½	2¼
1954	3,600	2	3
1955–56	4,200	2	3
1957–58	4,200	2¼	3¾
1959	4,800	2½	3¾
1960–61	4,800	3	4½
1962	4,800	3½	4.7
1963–65	4,800	3¾	5.4

Special refunds of employee contributions.—With respect to wages paid before 1951, refunds to employees who worked for more than one employer during the course of a year and paid contributions on such wages in excess of the statutory maximum were made from general revenues. With respect to wages paid after 1950, these refunds are paid from the Treasury account for refunding internal revenue collections. The Social Security Act Amendments of 1950 directed the

managing trustee to pay from time to time from the old-age and survivors insurance trust fund into the Treasury, as repayments to the account for refunding internal revenue collections, the amount of contributions which are subject to refund with respect to wages paid after 1950. The Social Security Amendments of 1956 provided for similar repayments from the disability insurance trust fund.

Credits for military service.—The Social Security Act Amendments of 1946 provided survivor-insurance protection to certain World War II veterans for a period of 3 years following their discharge from the Armed Forces. Federal appropriations were authorized to reimburse the Federal old-age and survivors insurance trust fund for such sums as were withdrawn to meet the additional cost (including administrative expenses) of such payments. The 1950 amendments, which provided noncontributory \$160 monthly wage credits to persons who served in the Armed Forces during World War II, and the 1952, 1953, 1955, and 1956 amendments, which provided similar noncontributory credits on account of active military or naval service from July 25, 1947 through December 31, 1956, charged to the old-age and survivors insurance trust fund not only the additional costs arising from these credits but also, beginning September 1950, those additional costs arising under the 1946 amendments. The 1956 amendments provided contributory coverage for military personnel beginning January 1, 1957. In addition, these amendments authorized that the old-age and survivors insurance trust fund and, where appropriate, the disability insurance trust fund be reimbursed from general revenues for expenditures after August 1950 resulting from the provisions that granted noncontributory \$160 monthly wage credits to persons who served in the Armed Forces from September 16, 1940 through December 31, 1956, and from the provisions enacted in 1946. The existing statutory provisions that authorize the granting of noncontributory credits for military service and the financing of these credits are set forth in appendix III.

Coordination of old-age, survivors, and disability insurance and railroad retirement program.—Public Law 234, approved October 30, 1951, amended the Railroad Retirement Act to provide a new basis of coordinating the railroad retirement program with old-age and survivors insurance. This legislation provides that the railroad wage credits of workers who die or retire with less than 10 years of railroad employment shall be transferred to the old-age and survivors insurance system. These amendments did not affect workers who acquire 10 years or more of railroad service. That is, the survivors of over-10-year railroad workers will, as under the 1946 amendments to the Railroad Retirement Act, receive benefits under one program or the other based on combined wage records, while retirement benefits will be payable under both systems to individuals with 10 or more years of railroad service who also qualify under old-age and survivors insurance.

With respect to the allocation of costs between the two systems, Public Law 234 required the Railroad Retirement Board and the Secretary of Health, Education, and Welfare to "determine, no later than January 1, 1954, the amount which would place the Federal old-age and survivors insurance trust fund in the same position in which it would have been at the close of the fiscal year ending June 30, 1952, if service as an employee after December 31, 1936, had been included in the term "employment" as defined in the Social Security Act and in the Federal Insurance Contributions Act."

The two agencies completed a series of joint actuarial studies and analyses required by this provision. The results show that the addition of \$488 million to the old-age and survivors insurance trust fund would place it in the same position as of June 30, 1952, as it would have been if railroad employment had always been covered under the Social Security Act.

There is no authority in the law that would have permitted the transfer of the \$488 million from the railroad retirement account to the trust fund, but the legislation provides that beginning with fiscal year 1953, and for each fiscal year thereafter, annual interest payments on this amount were to be transferred from the railroad retirement account to the trust fund.

The legislation further provides that at the close of the fiscal year 1953, and each fiscal year thereafter, annual reimbursements are to be effected between the railroad retirement account and the trust fund in such amounts as would, taking into consideration the amount determined for the period through June 30, 1952, place the trust fund at the end of the year in the same position in which it would have been if railroad employment were covered under the Social Security Act. If the reimbursement is from the trust fund to the railroad retirement account, the Secretary of Health, Education, and Welfare may offset the amount of such reimbursement against the amount determined for the period through June 30, 1952.

The Social Security Amendments of 1956 amended Public Law 234 to provide for similar annual determinations and financial interchanges between the railroad retirement account and the newly created disability insurance trust fund, beginning with the fiscal year ending June 30, 1958.

Investments.—Since the inception of the program, the Social Security Act has provided for the investment of funds which are not required to meet current disbursements. The funds may be invested only in interest-bearing obligations of the U.S. Government or in obligations guaranteed as to both principal and interest by 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. In addition, the Social Security Act authorizes the issuance of public-debt obligations for purchase by the trust funds. (These public-debt obligations, issued for purchase by the trust funds, have been referred to in the law in the past as "special obligations"; more popularly they are referred to as "special issues".)

The Social Security Act of 1935 specified that special issues should bear interest at the rate of 3 percent per annum, and that other obligations could be acquired only on such terms as to provide an investment yield of at least 3 percent per annum. The Social Security Act Amendments of 1939 provided that the special issues should bear interest at a rate equal to the average rate of interest, computed as of the end of the calendar month next preceding the date of their issue, borne by all interest bearing obligations of the United States forming a part of the public debt, such average rate, being rounded down to the next lower one-eighth of 1 percent. The 1939 amendments also eliminated the requirement that obligations other than special obligations could be acquired only on such terms as to provide an investment yield of at least 3 percent per annum.

In recognition of the long-term character of the commitments of the trust funds, the Social Security Amendments of 1956 provided that the special issues should have maturities fixed with due regard for the needs of the funds, and that they should bear interest at a rate equal to the average rate of interest borne by all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable for 5 or more years from the date of original issue, such average rate being rounded to the nearest one-eighth of 1 percent. For several years preceding the enactment of the 1956 amendments, the special issues had a maximum duration from issue to maturity of 1 year. As a result of the provisions of the 1956 amendments described above, the maximum duration to maturity of the special issues was lengthened to 15 years.

The Social Security Amendments of 1960 provided that special issues acquired after enactment should bear interest at a rate equal to the average market yield (computed on the basis of market quotations as of the end of the calendar month next preceding their issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable for 4 or more years from the time the special obligations are issued, such average market yield being rounded to the nearest one-eighth of 1 percent.

APPENDIX III. STATUTORY PROVISIONS, AS OF JUNE 30, 1965, CREATING THE TRUST FUNDS, DEFINING THE DUTIES OF THE BOARD OF TRUSTEES, GRANTING NONCONTRIBUTORY CREDITS FOR MILITARY SERVICE, AUTHORIZING PAYMENTS FOR VOCATIONAL REHABILITATION FROM THE TRUST FUNDS, AND PROVIDING FOR ADVISORY COUNCILS ON SOCIAL SECURITY

(*Sec. 201, sec. 217, sec. 218(e) (1), (h), and (j), sec. 222(d), and sec. 706 of the Social Security Act as amended*)

FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND FEDERAL DISABILITY INSURANCE TRUST FUND

Sec. 201. (a) There is hereby created on the books of the Treasury of the United States a trust fund to be known as the "Federal Old-Age and Survivors Insurance Trust Fund". The Federal Old-Age and Survivors Insurance Trust Fund shall consist of the securities held by the Secretary of the Treasury for the Old-Age Reserve Account and the amount standing to the credit of the Old-Age Reserve Account on the books of the Treasury on January 1, 1940, which securities and amount the Secretary of the Treasury is authorized and directed to transfer to the Federal Old-Age and Survivors Insurance Trust Fund, and, in addition, such amounts as may be appropriated to, or deposited in, the Federal Old-Age

and Survivors Insurance Trust Fund as hereinafter provided. There is hereby appropriated to the Federal Old-Age and Survivors Insurance Trust Fund for the fiscal year ending June 30, 1941, and for each fiscal year thereafter, out of any moneys in the Treasury not otherwise appropriated, amounts equivalent to 100 per centum of—

(1) the taxes (including interest, penalties, and additions to the taxes) received under subchapter A of chapter 9 of the Internal Revenue Code of 1939 (and covered into the Treasury) which are deposited into the Treasury by collectors of internal revenue before January 1, 1951; and

(2) the taxes certified each month by the Commissioner of Internal Revenue as taxes received under subchapter A of chapter 9 of such Code which are deposited into the Treasury by collectors of internal revenue after December 31, 1950, and before January 1, 1953, with respect to assessments of such taxes made before January 1, 1951; and

(3) the taxes imposed by subchapter A of chapter 9 of such Code with respect to wages (as defined in section 1426 of such Code), and by chapter 21 (other than sections 3101(b) and 3111(b)) of the Internal Revenue Code of 1954 with respect to wages (as defined in section 3121 of such Code) reported to the Commissioner of Internal Revenue pursuant to section 1420(c) of the Internal Revenue Code of 1939 after December 31, 1950, or to the Secretary of the Treasury or his delegates pursuant to subtitle F of the Internal Revenue Code of 1954 after December 31, 1954, as determined by the Secretary of the Treasury by applying the applicable rates of tax under such subchapter or chapter 21 (other than sections 3101(b) and 3111(b)) to such wages, which wages shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of wages established and maintained by such Secretary in accordance with such reports, less the amounts specified in clause (1) of subsection (b) of this section; and

(4) the taxes imposed by subchapter E of chapter 1 of the Internal Revenue Code of 1939, with respect to self-employment income (as defined in section 481 of such Code), and by chapter 2 (other than section 1401(b)) of the Internal Revenue Code of 1954 with respect to self-employment income (as defined in section 1402 of such Code) reported to the Commissioner of Internal Revenue on tax returns under such subchapter or to the Secretary of the Treasury, or his delegate on tax returns under subtitle F of such Code, as determined by the Secretary of the Treasury by applying the applicable rate of tax under such subchapter or chapter (other than section 1401(b)) to such self-employment income, which self-employment income shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of self-employment income established and maintained by the Secretary of Health, Education, and Welfare in accordance with such returns, less the amounts specified in clause (2) of subsection (b) of this section.

The amounts appropriated by clauses (3) and (4) shall be transferred from time to time from the general fund in the Treasury to the Federal Old-Age and Survivors Insurance Trust Fund, and the amounts appropriated by clauses (1) and (2) of subsection (b) shall be transferred from time to time from the general fund in the Treasury to the Federal Disability Insurance Trust Fund, such amounts to be determined on the basis of estimates by the Secretary of the Treasury of the taxes, specified in clauses (3) and (4) of this subsection, paid to or deposited into the Treasury; and proper adjustments shall be made in amounts subsequently transferred to the extent prior estimates were in excess of or were less than the taxes specified in such clauses (3) and (4) of this subsection.

(b) There is hereby created on the books of the Treasury of the United States a trust fund to be known as the "Federal Disability Insurance Trust Fund". The Federal Disability Insurance Trust Fund shall consist of such amounts as may be appropriated to, or deposited in, such fund as provided in this section. There is hereby appropriated to the Federal Disability Insurance Trust Fund for the fiscal year ending June 30, 1957, and for each fiscal year thereafter, out of any moneys in the Treasury not otherwise appropriated, amounts equivalent to 100 per centum of—

(1) $\frac{1}{2}$ of 1 per centum of the wages (as defined in section 3121 of the Internal Revenue Code of 1954) paid after December 31, 1956, and before January 1, 1966, and reported to the Secretary of the Treasury or his delegate pursuant to subtitle F of the Internal Revenue Code of 1954, and 0.70 of 1 per centum of the wages (as so defined) paid after December 31, 1965, and so reported, which wages shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of wages established and maintained by such Secretary in accordance with such reports; and

(2) $\frac{3}{8}$ of 1 per centum of the amount of self-employment income (as defined in section 1402 of the Internal Revenue Code of 1954) reported to the Secretary of the Treasury or his delegate on tax returns under subtitle F of the Internal Revenue Code of 1954 for any taxable year beginning after December 31, 1956, and before January 1, 1966, and 0.525 of 1 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1965, which self-employment income shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of self-employment income established and maintained by the Secretary of Health, Education, and Welfare in accordance with such returns.

(c) With respect to the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (hereinafter in this title called the "Trust Funds") there is hereby created a body to be known as the Board of Trustees of the Trust Funds (hereinafter in this title called the "Board of Trustees") which Board of Trustees shall be composed of the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare, all ex officio. The Secretary of the Treasury shall be the Managing Trustee of the Board of Trustees (hereinafter in this title called the "Managing Trustee"). The Commissioner of Social Security shall serve as Secretary of the Board of Trustees. The Board of Trustees shall meet not less frequently than once each calendar year. It shall be the duty of the Board of Trustees to—

- (1) Hold the Trust Funds;
- (2) Report to the Congress not later than the first day of March of each year on the operation and status of the Trust Funds during the preceding fiscal year and on their expected operation and status during the next ensuing five fiscal years;
- (3) Report immediately to the Congress whenever the Board of Trustees is of the opinion that the amount of either of the Trust Funds is unduly small;
- (4) Recommend improvements in administrative procedures and policies designed to effectuate the proper coordination of the old-age and survivors insurance and Federal-State unemployment compensation program; and
- (5) Review the general policies followed in managing the Trust Funds, and recommend changes in such policies, including necessary changes in the provisions of the law which govern the way in which the Trust Funds are to be managed.

The report provided for in paragraph (2) above shall include a statement of the assets of, and the disbursements made from, the Trust Funds during the preceding fiscal year, an estimate of the expected future income to, and disbursements to be made from, the Trust Funds during each of the next ensuing five fiscal years, and a statement of the actuarial status of the Trust Funds. Such report shall be printed as a House document of the session of the Congress to which the report is made.

(d) It shall be the duty of the Managing Trustee to invest such portion of the Trust Funds as is not, in his judgment, required to meet current withdrawals. Such investments may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purpose such obligations may be acquired (1) on original issue at the issue price, or (2) by purchase of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of public-debt obligations for purchase by the Trust Funds. Such obligations issued for purchase by the Trust Funds shall have maturities fixed with due regard for the needs of the Trust Funds and shall bear interest at a rate equal to 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; except that where such average market yield is not a multiple of one-eighth of 1 per centum, the rate of interest of such obligations shall be the multiple of one-eighth of 1 per centum nearest such market yield. The Managing Trustee may purchase other interest-bearing obligations of the United States or obligations guaranteed as to both principal and interest by the United States, on original issue or at the market price, only where he determines that the purchase of such other obligations is in the public interest.

(e) Any obligations acquired by the Trust Funds (except public-debt obligations issued exclusively to the Trust Funds) may be sold by the Managing Trustee

at the market price, and such public-debt obligations may be redeemed at par plus accrued interest.

(f) The interest on, and the proceeds from the sale or redemption of, any obligations held in the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund shall be credited to and form a part of the Federal Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund, respectively.

(g) (1) (A) There are authorized to be made available for expenditure, out of any or all of the Trust Funds (which for purposes of this paragraph shall include also the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund established by title XVIII), such amounts as the Congress may deem appropriate to pay the costs of the part of the administration of this title and title XVIII for which the Secretary of Health, Education, and Welfare is responsible. During each fiscal year or after the close of such fiscal year (or at both times), the Secretary of Health, Education, and Welfare shall analyze the costs of administration of this title and title XVIII during the appropriate part or all of such fiscal year in order to determine the portion of such costs which should be borne by each of the Trust Funds and shall certify to the Managing Trustee the amount, if any, which should be transferred among such Trust Funds in order to assure that each of the Trust Funds bears its proper share of the costs incurred during such fiscal year for the part of the administration of this title and title XVIII for which the Secretary of Health, Education, and Welfare is responsible. The Managing Trustee is authorized and directed to transfer any such amount (determined under the preceding sentence) among such Trust Funds in accordance with any certification so made.

(B) The Managing Trustee is directed to pay from the Trust Funds into the Treasury the amounts estimated by him which will be expended, out of moneys appropriated from the general funds in the Treasury, during each calendar quarter by the Treasury Department for the part of the administration of this title and title XVIII for which the Treasury Department is responsible and for the administration of chapters 2 and 21 of the Internal Revenue Code of 1954. Such payments shall be covered into the Treasury as repayment to the account for reimbursement of expenses incurred in connection with such administration of this title and title XVIII and chapters 2 and 21 of the Internal Revenue Code of 1954.

(2) The Managing Trustee is directed to pay from time to time from the Trust Funds into the Treasury the amount estimated by him as taxes imposed under section 3101(a) which are subject to refund under section 6413(c) of the Internal Revenue Code of 1954 with respect to wages (as defined in section 1426 of the Internal Revenue Code of 1939 and section 3121 of the Internal Revenue Code of 1954) paid after December 31, 1950. Such taxes shall be determined on the basis of the records of wages established and maintained by the Secretary of Health, Education, and Welfare in accordance with the wages reported to the Commissioner of Internal Revenue pursuant to section 1420(c) of the Internal Revenue Code of 1939 and to the Secretary of the Treasury or his delegate pursuant to subtitle F of the Internal Revenue Code of 1954, and the Secretary shall furnish the Managing Trustee such information as may be required by the Trustee for such purpose. The payments by the Managing Trustee shall be covered into the Treasury as repayments to the account for refunding internal revenue collections. Payments pursuant to the first sentence of this paragraph shall be made from the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund in the ratio in which amounts were appropriated to such Trust Funds under clause (3) of subsection (a) of this section and clause (1) of subsection (b) of this section.

(3) Repayments made under paragraph (1) or (2) shall not be available for expenditures but shall be carried to the surplus fund of the Treasury. If it subsequently appears that the estimates under either such paragraph in any particular period were too high or too low, appropriate adjustments shall be made by the Managing Trustee in future payments.

(h) Benefit payments required to be made under section 223, and benefit payments required to be made under subsection (b), (c), or (d) of section 202 to individuals entitled to benefits on the basis of the wages and self-employment income of an individual entitled to disability insurance benefits, shall be made only from the Federal Disability Insurance Trust Fund. All other benefit payments required to be made under this title (other than section 226) shall be made only from the Federal Old-Age and Survivors Insurance Trust Fund.

BENEFITS IN CASE OF VETERANS

SEC. 217. (a) (1) For purposes of determining entitlement to and the amount of any monthly benefit for any month after August 1950, or entitlement to and the amount of any lump-sum death payment in case of a death after such month, payable under this title on the basis of the wages and self-employment income of any World War II veteran, and for purposes of section 216(i) (3), such veteran shall be deemed to have been paid wages (in addition to the wages, if any, actually paid to him) of \$160 in each month during any part of which he served in the active military or naval service of the United States during World War II. This subsection shall not be applicable in the case of any monthly benefit or lump-sum death payment if—

(A) a larger such benefit or payment, as the case may be, would be payable without its application; or

(B) a benefit (other than a benefit payable in a lump sum unless it is a commutation of, or a substitute for, periodic payments) which is based, in whole or in part, upon the active military or naval service of such veteran during World War II is determined by any agency or wholly owned instrumentality of the United States (other than the Veterans' Administration) to be payable by it under any other law of the United States or under a system established by such agency or instrumentality. The provisions of clause (B) shall not apply in the case of any monthly benefit or lump-sum death payment under this title if its application would reduce by \$0.50 or less the primary insurance amount (as computed under section 215 prior to any recomputation thereof pursuant to subsection (f) of such section) of the individual on whose wages and self-employment income such benefit or payment is based. The provisions of clause (B) shall also not apply for purposes of section 216(i)(3).

(2) Upon application for benefits or a lump-sum death payment on the basis of the wages and self-employment income of any World War II veteran, the Secretary of Health, Education, and Welfare shall make a decision without regard to clause (B) of paragraph (1) of this subsection unless he has been notified by some other agency or instrumentality of the United States that, on the basis of the military or naval service of such veteran during World War II, a benefit described in clause (B) of paragraph (1) has been determined by such agency or instrumentality to be payable by it. If he has not been so notified, the Secretary of Health, Education, and Welfare shall then ascertain whether some other agency or wholly owned instrumentality of the United States has decided that a benefit described in clause (B) of paragraph (1) is payable by it. If any such agency or instrumentality has decided, or thereafter decides, that such a benefit is payable by it, it shall so notify the Secretary of Health, Education, and Welfare, and the Secretary shall certify no further benefits for payment or shall recompute the amount of any further benefits payable, as may be required by paragraph (1) of this subsection.

(3) Any agency or wholly owned instrumentality of the United States which is authorized by any law of the United States to pay benefits, or has a system of benefits which are based, in whole or in part, on military or naval service during World War II shall, at the request of the Secretary of Health, Education, and Welfare, certify to him, with respect to any veteran, such information as the Secretary deems necessary to carry out his functions under paragraph (2) of this subsection.

(b)(1) Any World War II veteran who died during the period of three years immediately following his separation from the active military or naval service of the United States shall be deemed to have died a fully insured individual whose primary insurance amount is the amount determined under section 215(c). Notwithstanding section 215(d), the primary insurance benefit (for purposes of section 215(c)) of such veteran shall be determined as provided in this title as in effect prior to the enactment of this section, except that the 1 per centum addition provided for in section 209(e)(2) of this Act as in effect prior to the enactment of this section shall be applicable only with respect to calendar years prior to 1951. This subsection shall not be applicable in the case of any monthly benefit or lump-sum death payment if—

(A) a larger such benefit or payment, as the case may be, would be payable without its application;

(B) any pension or compensation is determined by the Veterans' Administration to be payable by it on the basis of the death of such veteran;

(C) the death of the veteran occurred while he was in the active military or naval service of the United States; or

(D) such veteran has been discharged or released from the active military or naval service of the United States subsequent to July 26, 1951.

(2) Upon an application for benefits or a lump-sum death payment on the basis of the wages and self-employment income of any World War II veteran, the Secretary of Health, Education, and Welfare shall make a decision without regard to paragraph (1)(B) of this subsection unless he has been notified by the Veterans' Administration that pension or compensation is determined to be payable by the Veterans' Administration by reason of the death of such veteran. The Secretary of Health, Education, and Welfare shall thereupon report such decision to the Veterans' Administration. If the Veterans' Administration in any such case has made an adjudication or thereafter makes an adjudication that any pension or compensation is payable under any law administered by it, it shall notify the Secretary of Health, Education, and Welfare, and the Secretary shall certify no further benefits for payment, or shall recompute the amount of any further benefits payable, as may be required by paragraph (1) of this subsection to any individual, not exceeding the amount of any accrued pension or compensation payable to him by the Veterans' Administration, shall (notwithstanding the provisions of section 3101 of title 38, United States Code) be deemed to have been paid to him by such Administration on account of such accrued pension or compensation. No such payment certified by the Secretary of Health, Education, and Welfare, and no payment certified by him for any month prior to the first month for which any pension or compensation is paid by the Veterans' Administration shall be deemed by reason of this subsection to have been an erroneous payment.

(c) In the case of any World War II veteran to whom subsection (a) is applicable, proof of support required under section 202(h) may be filed by a parent at any period prior to July 1951 or prior to the expiration of two years after the date of the death of such veteran, whichever is the later.

(d) For the purposes of this section—

(1) The term "World War II" means the period beginning with September 16, 1940, and ending at the close of July 24, 1947.

(2) The term "World War II veteran" means any individual who served in the active military or naval service of the United States at any time during World War II and who, if discharged or released therefrom, was so discharged or released under conditions other than dishonorable after active service of ninety days or more or by reason of a disability or injury incurred or aggravated in service in line of duty; but such term shall not include any individual who died while in the active military or naval service of the United States if his death was inflicted (other than by an enemy of the United States) as lawful punishment for a military or naval offense.

(e) (1) For purposes of determining entitlement to and the amount of any monthly benefit or lump-sum death payment payable under this title on the basis of the wages and self-employment income of any veteran (as defined in paragraph (4)), and for purposes of section 216(i)(3), such veteran shall be deemed to have been paid wages (in addition to the wages, if any, actually paid to him) of \$160 in each month during any part of which he served in the active military or naval service of the United States on or after July 25, 1947, and prior to January 1, 1957. This subsection shall not be applicable in the case of any monthly benefit or lump-sum death payment if—

(A) a larger such benefit or payment, as the case may be, would be payable without its application; or

(B) a benefit (other than a benefit payable in a lump sum unless it is a commutation of, or a substitute for, periodic payments) which is based, in whole or in part, upon the active military or naval service of such veteran on or after July 25, 1947, and prior to January 1, 1957, is determined by any agency or wholly owned instrumentality of the United States (other than the Veterans' Administration) to be payable by it under any other law of the United States or under a system established by such agency or instrumentality.

The provisions of clause (B) shall not apply in the case of any monthly benefit or lump-sum death payment under this title if its application would reduce by \$0.50 or less the primary insurance amount (as computed under section 215 prior to any recomputation thereof pursuant to subsection (f) of such section) of the individual on whose wages and self-employment income such benefit or payment is based. The provisions of clause (B) shall also not apply for purposes of section 216(i)(3). In the case of monthly benefits under this title for months after December 1956 (and any lump-sum death payment under this title with respect to a

death occurring after December 1956) based on the wages and self-employment income of a veteran who performed service (as a member of a uniformed service) to which the provisions of section 210(l)(1) are applicable, wages which would, but for the provisions of clause (B), be deemed under this subsection to have been paid to such veteran with respect to his active military or naval service performed after December 1950 shall be deemed to have been paid to him with respect to such service notwithstanding the provisions of such clause, but only if the benefits referred to in such clause which are based (in whole or in part) on such service are payable solely by the Army, Navy, Air Force, Marine Corps, Coast Guard, Coast and Geodetic Survey, or Public Health Service.

(2) Upon application for benefits or a lump-sum death payment on the basis of the wages and self-employment income of any veteran, the Secretary of Health, Education, and Welfare shall make a decision without regard to clause (B) of paragraph (1) of this subsection unless he has been notified by some other agency or instrumentality of the United States that, on the basis of the military or naval service of such veteran on or after July 25, 1947, and prior to January 1, 1957, a benefit described in clause (B) of paragraph (1) has been determined by such agency or instrumentality to be payable by it. If he has not been so notified, the Secretary of Health, Education, and Welfare shall then ascertain whether some other agency or wholly owned instrumentality of the United States has decided that a benefit described in clause (B) of paragraph (1) is payable by it. If any such agency or instrumentality has decided, or thereafter decides, that such a benefit is payable by it, it shall so notify the Secretary of Health, Education, and Welfare, and the Secretary shall certify no further benefits for payment or shall recompute the amount of any further benefits payable, as may be required by paragraph (1) of this subsection.

(3) Any agency or wholly owned instrumentality of the United States which is authorized by any law of the United States to pay benefits, or has a system of benefits which are based, in whole or in part, on military or naval service on or after July 25, 1947, and prior to January 1, 1957, shall, at the request of the Secretary of Health, Education, and Welfare, certify to him, with respect to any veteran, such information as the Secretary deems necessary to carry out his functions under paragraph (2) of this subsection.

(4) For the purposes of this subsection, the term "veteran" means any individual who served in the active military or naval service of the United States at any time on or after July 25, 1947, and prior to January 1, 1957, and who, if discharged or released therefrom, was so discharged or released under conditions other than dishonorable after active service of ninety days or more or by reason of a disability or injury incurred or aggravated in service in line of duty; but such term shall not include any individual who died while in the active military or naval service of the United States if his death was inflicted (other than by an enemy of the United States) as lawful punishment for a military or naval offense.

(f) (1) In any case where a World War II veteran (as defined in subsection (d) (2)) or a veteran (as defined in subsection (e) (4)) has died or shall hereafter die, and his widow or child is entitled under the Civil Service Retirement Act of May 29, 1930, as amended, to an annuity in the computation of which his active military or naval service was included, clause (B) of subsection (a) (1) or clause (B) of subsection (e) (1) shall not operate (solely by reason of such annuity) to make such subsection inapplicable in the case of any monthly benefit under section 202 which is based on his wages and self-employment income; except that no such widow or child shall be entitled under section 202 to any monthly benefit in the computation of which such service is included by reason of this subsection (A) unless such widow or child after December 1956 waives his or her right to receive such annuity, or (B) for any month prior to the first month with respect to which the Civil Service Commission certifies to the Secretary of Health, Education, and Welfare that (by reason of such waiver) no further annuity will be paid to such widow or child under such Act of May 29, 1930, as amended, on the basis of such veteran's military or civilian service. Any such waiver shall be irrevocable.

(2) Whenever a widow waives her right to receive such annuity such waiver shall constitute a waiver on her own behalf; a waiver by a legal guardian or guardians, or, in the absence of a legal guardian, the person (or persons) who has the child in his care, of the child's right to receive such annuity shall constitute a waiver on behalf of such child. Such a waiver with respect to an annuity based on a veteran's service shall be valid only if the widow and all children, or, if there is no widow, all the children, waive their rights to receive annuities under the Civil Service Retirement Act of May 29, 1930, as amended, based on such veteran's military or civilian service.

(g) (1) In September 1965, and in every fifth September thereafter up to and including September 2010, the Secretary shall determine the amount which, if paid in equal installments at the beginning of each fiscal year in the period beginning—

(A) with the July 1, 1965, in the case of the first such determination, and

(B) with the July 1 following the determination in the case of all other such determinations, and ending with the close of June 30, 2015, would accumulate, with interest compounded annually, to an amount equal to the amount needed to place each of the Trust Funds and the Federal Hospital Insurance Trust Fund in the same position at the close of June 30, 2015, as he estimates they would otherwise be in at the close of that date if section 210 of this act as in effect prior to the Social Security Act Amendments of 1950, and this section, had not been enacted. The rate of interest to be used in determining such amount shall be the rate determined under section 201(d) for public-debt obligations which were or could have been issued for purchase by the Trust Funds in the June preceding the September in which such determination is made.

(2) There are authorized to be appropriated to the Trust Funds and the Federal Hospital Insurance Trust Fund—

(A) for the fiscal year ending June 30, 1966, an amount equal to the amount determined under paragraph (1) in September 1965, and

(B) for each fiscal year in the period beginning with July 1, 1966, and ending with the close of June 30, 2015, an amount equal to the annual installment for such fiscal year under the most recent determination under paragraph

(1) which precedes such fiscal year.

(3) For the fiscal year ending June 30, 2016, there is authorized to be appropriated to the Trust Funds and the Federal Hospital Insurance Trust Fund such sums as the Secretary determines would place the Trust Funds and the Federal Hospital Insurance Trust Fund in the same position in which they would have been at the close of June 30, 2015, if section 210 of this Act as in effect prior to the Social Security Act Amendments of 1950, and this section, had not been enacted.

(4) There are authorized to be appropriated to the Trust Funds and the Federal Hospital Insurance Trust Fund annually, as benefits under this title and part A of title XVIII are paid after June 30, 2015, such sums as the Secretary determines to be necessary to meet the additional costs, resulting from subsections (a), (b), and (e), of such benefits (including lump-sum death payments).

GRATUITOUS WAGE CREDITS FOR AMERICAN CITIZENS WHO SERVED IN THE ARMED FORCES OF ALLIED COUNTRIES

(h)(1) For the purposes of this section, any individual who the Secretary finds—

(A) served during World War II (as defined in subsection (d)(1)) in the active military or naval service of a country which was on September 16, 1940, at war with a country with which the United States was at war during World War II;

(B) entered into such active service on or before December 8, 1941;

(C) was a citizen of the United States throughout such period of service or lost his United States citizenship solely because of his entrance into such service;

(D) had resided in the United States for a period or periods aggregating four years during the five-year period ending on the day of, and was domiciled in the United States on the day of, such entrance into such active service; and

(E) (i) was discharged or released from such service under conditions other than dishonorable after active service of ninety days or more or by reason of a disability or injury incurred or aggravated in service in line of duty, or

(ii) died while in such service,

shall be considered a World War II veteran (as defined in subsection (d)(2)) and such service shall be considered to have been performed in the active military or naval service of the United States.

(2) In the case of any individual to whom paragraph (1) applies, proof of support required under section 202 (f) or (h) may be filed at any time prior to the expiration of two years after the date of such individual's death or the date of the enactment of this subsection, whichever is the later.

PAYMENTS AND REPORTS BY STATES

Sec. 218. (e)(1) Each agreement under this section shall provide—

(A) that the State will pay to the Secretary of the Treasury, at such time or times as the Secretary of Health, Education, and Welfare may by regulations prescribe, amounts equivalent to the sum of the taxes which would be imposed by sections 3101 and 3111 of the Internal Revenue Code of 1954 if the services of employees covered by the agreement constituted employment as defined in section 3121 of such Code; and

(B) that the State will comply with such regulations relating to payments and reports as the Secretary of Health, Education, and Welfare may prescribe to carry out the purposes of this section.

DEPOSITS IN TRUST FUND; ADJUSTMENTS

Sec. 218. (h)(1) All amounts received by the Secretary of the Treasury under an agreement made pursuant to this section shall be deposited in the Trust Funds and the Federal Hospital Insurance Trust Fund in the ratio in which amounts are appropriated to such Funds pursuant to subsection (a)(3) of section 201, subsection (b)(1) of such section, and subsection (a)(1) of section 1817, respectively.

(2) If more or less than the correct amount due under an agreement made pursuant to this section is paid with respect to any payment of remuneration, proper adjustments with respect to the amounts due under such agreement shall be made, without interest, in such manner and at such times as may be prescribed by regulations of the Secretary of Health, Education, and Welfare.

(3) If an overpayment cannot be adjusted under paragraph (2), the amount thereof and the time or times it is to be paid shall be certified by the Secretary of Health, Education, and Welfare to the Managing Trustee, and the Managing Trustee, through the Fiscal Service of the Treasury Department and prior to any action thereon by the General Accounting Office, shall make payment in accordance with such certification. The Managing Trustee shall not be held personally liable for any payment or payments made in accordance with a certification by the Secretary of Health, Education, and Welfare.

FAILURE TO MAKE PAYMENTS

Sec. 218. (j) In case any State does not make, at the time or times due, the payments provided for under an agreement pursuant to this section, there shall be added, as part of the amounts due, interest at the rate of 6 per centum per annum from the date due until paid, and the Secretary of Health, Education, and Welfare may, in his discretion deduct such amounts plus interest from any amounts certified by him to the Secretary of the Treasury for payment to such State under any other provision of this Act. Amounts so deducted shall be deemed to have been paid to the State under such other provision of this Act. Amounts equal to the amounts deducted under this subsection are hereby appropriated to the Trust Funds in the ratio in which amounts are deposited in such Funds pursuant to subsection (h)(1).

COSTS OF REHABILITATION SERVICES FROM TRUST FUNDS

Sec. 222. (d)(1) For the purpose of making vocational rehabilitation services more readily available to disabled individuals who are—

(A) entitled to disability insurance benefits under section 223, or

(B) entitled to child's insurance benefits under section 202(d) after having attained age 18 (and are under a disability), to the end that savings will result to the Trust Funds as a result of rehabilitating the maximum number of such individuals into productive activity, there are authorized to be transferred from the Trust Funds such sums as may be necessary to enable the Secretary to pay the costs of vocational rehabilitation services for such individuals (including (i) services during their waiting periods, and (ii) so much of the expenditures for the administration of any State plan as is attributable to carrying out this subsection); except that the total amount so made available pursuant to this subsection in any fiscal year may not exceed 1 percent of the total of the benefits under section 202(d) for children who have attained age 18 and are under a disability, and the benefits under section 223, which were certified for payment in the preceding year. The selection of individuals

(including the order in which they shall be selected) to receive such services shall be made in accordance with criteria formulated by the Secretary which are based upon the effect the provision of such services would have upon the Trust Funds.

(2) In the case of each State which is willing to do so, such vocational rehabilitation services shall be furnished under a State plan for vocational rehabilitation services which—

(A) has been approved under section 5 of the Vocational Rehabilitation Act,

(B) provides that, to the extent funds provided under this subsection are adequate for the purpose, such services will be furnished, to any individual in the State who meets the criteria prescribed by the Secretary pursuant to paragraph (1), with reasonable promptness and in accordance with the order of selection determined under such criteria, and

(C) provides that such services will be furnished to any individual without regard to (i) his citizenship or place of residence, (ii) his need for financial assistance except as provided in regulations of the Secretary in the case of maintenance during rehabilitation, or (iii) any order of selection which would otherwise be followed under the State plan pursuant to section 5(a)(4) of the Vocational Rehabilitation Act.

(3) In the case of any State which does not have a plan which meets the requirements of paragraph (2), the Secretary may provide such services by agreement or contract with other public or private agencies, organizations, institutions, or individuals.

(4) Payments under this subsection may be made in installments, and in advance or by way of reimbursement, with necessary adjustments on account of overpayments or underpayments.

(5) Money paid from the Trust Funds under this subsection to pay the costs of providing services to individuals who are entitled to benefits under section 223 (including services during their waiting periods), or who are entitled to benefits under section 202(d) on the basis of the wages and self-employment income of such individuals shall be charged to the Federal Disability Insurance Trust Fund, and all other money paid out from the Trust Funds under this subsection shall be charged to the Federal Old-Age and Survivors Insurance Trust Fund. The Secretary shall determine according to such methods and procedures as he may deem appropriate—

(A) the total cost of the services provided under this subsection, and

(B) subject to the provisions of the preceding sentence, the amount of such cost which should be charged to each of such Trust Funds.

(6) For the purposes of this subsection the term "vocational rehabilitation services" shall have the meaning assigned to it in the Vocational Rehabilitation Act, except that such services may be limited in type, scope, or amount in accordance with regulations of the Secretary designed to achieve the purposes of this subsection.

ADVISORY COUNCIL ON SOCIAL SECURITY

Sec. 706. (a) During 1968 and every fifth year thereafter, the Secretary shall appoint an Advisory Council on Social Security for the purpose of reviewing the status of the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, the Federal Hospital Insurance Trust Fund, and the Federal Supplementary Medical Insurance Trust Fund in relation to the long-term commitments of the old-age, survivors, and disability insurance program and the programs under parts A and B of title XVIII, and of reviewing the scope of coverage and the adequacy of benefits under, and all other aspects of, these programs, including their impact on the public assistance programs under this Act.

(b) Each such Council shall consist of the Commissioner of Social Security, as Chairman, and 12 other persons, appointed by the Secretary without regard to the civil service laws. The appointed members shall, to the extent possible, represent organizations of employers and employees in equal numbers, and represent self-employed persons and the public.

(c)(1) Any Council appointed hereunder is authorized to engage such technical assistance, including actuarial services, as may be required to carry out its functions, and the Secretary shall, in addition, make available to such Council such secretarial, clerical, and other assistance and such actuarial and other pertinent data prepared by the Department of Health, Education, and Welfare as it may require to carry out such functions.

(2) Appointed members of any such Council, while serving on business of the Council (inclusive of travel time), shall receive compensation at rates fixed by the Secretary, but not exceeding \$100 per day and, while so serving away from their homes or regular places of business, they may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by section 5 of the Administrative Expenses Act of 1946 (5 U.S.C. 73b-2) for persons in the Government employed intermittently.

(d) Each such Council shall submit reports of its findings and recommendations to the Secretary not later than January 1 of the second year after the year in which it is appointed, and such reports and recommendations shall thereupon be transmitted to the Congress and to the Board of Trustees of each of the Trust Funds. The reports required by this subsection shall include—

(1) a separate report with respect to the old-age, survivors, and disability insurance program under title II and of the taxes imposed under sections 1401(a), 3101(a), and 3111(a) of the Internal Revenue Code of 1954,

(2) a separate report with respect to the hospital insurance program under part A of title XVIII and of the taxes imposed by sections 1401(b), 3101(b), and 3111(b) of the Internal Revenue Code of 1954, and

(3) a separate report with respect to the supplementary medical insurance program established by part B of title XVIII and of the financing thereof. After the date of the transmittal to the Congress of the reports required by this subsection, the Council shall cease to exist.

