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

LETTER

FROM

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

TRANSMITTING

812. A LETTER FROM THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, TRANSMITTING THE 17TH ANNUAL REPORT, PURSUANT TO SECTION 201 (c) OF THE SOCIAL SECURITY ACT, AS AMENDED; TO THE COMMITTEE ON WAYS AND MEANS

APRIL 30, 1957.—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., March 1, 1957.

The President of the Senate,
The Speaker of the House of Representatives,
Washington, D. C.

Sirs: We have the honor to transmit to you the 17th 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.

Respectfully,

George M. Humphrey,
Secretary of the Treasury, and
Managing Trustee of the Trust Funds.

James P. Mitchell,
Secretary of Labor.

Marion B. Folsom,
Secretary of Health, Education, and Welfare.

Charles I. Schottland,
Commissioner of Social Security
and Secretary, Board of Trustees.

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

Fiscal Year Ending June 30, 1956

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

Shortly after the close of fiscal year 1956, Congress amended the Social Security Act to provide for the payment of benefits to eligible workers who are permanently and totally disabled. To finance these benefits, contributions were levied at the rate of one-fourth of 1 percent each on covered employers and employees and three-eighths of 1 percent on covered self-employed persons beginning January 1, 1957, and a disability insurance trust fund was created. Although these provisions do not go into effect until after the end of the fiscal year for which this report is submitted, estimates are included showing the expected financial operations of both the old-age and survivors insurance trust fund and the disability insurance trust fund.

Amendments to the Social Security Act in 1956 also further extended the coverage of the program, lowered to 62 the retirement age at which women may become eligible for benefits, provided for the payment of benefits to disabled children aged 18 and over, altered the basis for computing the rate of interest payable on certain investments of the trust fund, and provided for reimbursement of the trust fund for the cost of gratuitous military wage credits and benefit rights granted to veterans under earlier legislation. The effects of the amendments of 1956 are taken into account in the estimates presented in this report.

The total number of old-age and survivors insurance beneficiaries in June 1956 was 8,374,000 or 11 percent more than in June 1955. There were 6,114,000 retirement beneficiaries (old-age beneficiaries and their entitled wives, dependent husbands, and young children), an increase of 12 percent, and 2,260,000 survivor beneficiaries, an increase of 7.6 percent, over 1 year earlier. The estimated number of persons with taxable earnings under old-age and survivors insurance in calendar year 1956 was about 69 million.

Disbursements of the old-age and survivors insurance trust fund in fiscal year 1956 were $5,485 million, not including $66 million representing refunds of overpayments of employee contributions. Receipts net of these refunds were $6,937 million. The net addition of $1,452 million raised the total assets of the trust fund to $22,593 million on June 30, 1956.

The disbursements of the fund in fiscal year 1956 included $5,361 million for benefits and $124 million for administrative expenses. The receipts included $6,442 million in net contributions and $495 million in interest.

Both disbursements and receipts showed an increase over fiscal year 1955. Disbursements rose $1,049 million or 24 percent, and receipts rose $1,403 million or 25 percent. The increase in disbursements was the combined result of the coverage extension and liberalized eligibility and benefit provisions included in the amendments adopted during 1950–54 and the long-term growth of the aged population and the proportion of the aged eligible for benefits. The rise in trust-fund receipts is accounted for chiefly by the extended coverage provisions and the increase in the taxable earnings maximum, both effective on January 1, 1955, and by a rise in the general level of employment and earnings.

Estimates for the 5 fiscal years 1957–61 show a further increase in the receipts and disbursements of the old-age and survivors insurance trust fund. According to these estimates, at the end of fiscal year 1961 this trust fund will amount to $21.6 to $25.5 billion, depending on the economic assumptions used, with receipts of $9.1 to $10.5 billion and disbursements of $9.1 to $9.6 billion in that fiscal year. During the 5 fiscal years 1957–61, the trust fund will not exceed about 2.8 times the highest expected annual disbursements during the 5-year period.

Long-range cost estimates for the old-age and survivors insurance program as amended in 1956 show that under high employment assumptions the level-premium cost, at 2.6 percent interest, ranges from 6.59 to 8.40 percent of payroll, depending on the combination of cost assumptions selected.

Estimates of the expected operations of the disability insurance trust fund during the 5 fiscal years 1957–61 show that this trust fund at the end of fiscal year 1961 will amount to $2.4 to $2.7 billion depending on the economic assumptions used, with receipts of $0.9 to $1.0 billion and disbursements of $0.4 billion in that fiscal year. During the 5 fiscal years 1957–61, the trust fund will amount to about 5.4 to 6.1 times the highest expected annual disbursements during the 5-year period. The long-range cost estimates for the disability insurance program show that under high employment assumptions the level-premium cost, at 2.6 percent interest, ranges from 0.29 to 0.58 percent of payroll, depending on the combination of assumptions used.

SOCIAL SECURITY AMENDMENTS IN 1956

Amendments to the Social Security Act in 1956 (Public Laws 880 and 881, both approved August 1, 1956) will have significant effects on both the immediate and long-range future levels of income and disbursements under the system. Coverage was extended on a contributory basis to nearly 4 million persons. Provision was made for the payment of monthly benefits to disabled workers, with a financing arrangement that is separate from the old-age and survivors insurance system. Eligibility requirements for the payment of benefits to certain classes of beneficiaries were liberalized. 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 acturial standpoint, are presented below.

1. Coverage was extended on a contributory basis to nearly 3 million members of the uniformed services, effective January 1, 1957. Coverage was also extended to additional civilian jobs in which about 900,000 persons are employed in the course of a year—principally, additional farm owners and operators, all previously excluded self-employed professional persons except doctors of medicine, certain Federal civilian employees, and certain additional State and local government employees in specified States. Beginning with 1957, slightly more than 9 out of 10 gainfully employed persons are covered or eligible for coverage. Major groups that continue to be excluded are practically all Federal civilian employees who are under staff retirement systems; those self-employed persons, farm workers, and domestic workers whose earnings are less than the amounts required for the coverage of these particular groups; self-employed doctors of medicine; and, in general, policemen and firemen covered by a State or local government retirement system.

2. Monthly benefits were provided, beginning July 1957, for insured workers between the ages of 50 and 65 who are totally and permanently disabled after a waiting period of 6 consecutive months of disability. The amount of the monthly disability benefit is the same as the primary insurance amount, computed as though the worker became entitled to old-age benefits in the first month of his waiting period. These benefits are payable from a fund that is separate from the old-age and survivors insurance trust fund (see items 5 (*a*) and (*b*), below). Benefits are not payable to dependents of a worker who is entitled to disability benefits.

3. The conditions under which persons may become eligible for benefits were liberalized.

(*a*) Monthly benefits were provided, beginning January 1957, for a dependent, disabled, unmarried child aged 18 or over of a retired or deceased insured worker if the child was totally disabled before attaining age 18 and the disability has continued uninterruptedly since age 18. Benefits are also payable to a mother having such a child in her care. Benefits to both child and mother are payable from the old-age and survivors insurance trust fund.

(*b*) The minimum retirement age at which women may qualify for benefits was reduced from 65 to 62. Full-rate benefits are payable at age 62 to widows and to dependent mothers of deceased insured workers. Women who elect to receive a retired worker's or wife's benefit when they are between age 62 and age 65 will receive reduced benefits (both before and after age 65) which are, on an actuarial basis, virtually equivalent to their full-rate benefits.

(*c*) For women workers with dates of birth from July 2, 1889, to January 1, 1909, the eligibility provisions were liberalized by terminating at age 62 instead of age 65 the elapsed period which fixes the number of quarters of coverage required to be eligible for old-age insurance benefits.

(*d*) Persons who cannot meet the requirements of the 1950 or 1954 amendments for fully insured status will nevertheless be fully insured if they have quarters of coverage in all but 4 of the quarters elapsing after 1954 and before (1) July 1957, or (2) if later, the quarter of death or attainment of retirement age. This transitional provision, intended principally for persons newly covered in 1956, will cease to be effective for persons who die or attain retirement age after the third quarter of 1960, when the normal requirements become easier to meet than this alternative.

4. Larger benefits were made payable in the future to certain beneficiaries.

(*a*) In computing the average monthly wage of an insured person, 5 years of lowest earnings may be dropped, regardless of the number of quarters of coverage he has.

(*b*) With the lowering of the minimum retirement age from 65 to 62, the average monthly wage of a female insured worker is computed on the basis of the earnings up to the year of attainment of age 62 or, if it would result in a higher benefit, up to the year of retirement if later. In effect, the lowering of the minimum retirement age from 65 to 62 makes a dropout of 3 additional years of lowest earnings possible for many women workers.

5. Changes relating to the financing of the system were made to assure that it will continue to be self-supporting.

(*a*) A disability insurance trust fund was created which is entirely separate from the old-age and survivors insurance trust fund and from which monthly benefits will be paid to disabled workers. Beginning in 1957, contributions at the rate of one-fourth of 1 percent each for employees and employers, and three-eighths of 1 percent for the self-employed, will be paid into this new fund to finance these benefits and related administrative expenses.

(*b*) Contribution rates were increased in recognition of the increased costs resulting from the provision for the payment of monthly benefits to disabled workers. The revised schedule of contribution rates for employees and employers, including contributions for disability insurance benefits at the rates described in the preceding paragraph, is as follows: 2¼ percent each on taxable wages for calendar years 1957–59; 2¾ percent each for 1960–64; 3¼ percent each for 1965–69; 3¾ percent each for 1970–74; and 4¼ percent each thereafter. The contribution rates on self-employment income are equal to 1½ times the corresponding employee rates.

(*c*) Before each scheduled increase in the contribution rate, an Advisory Council on Social Security Financing is to be appointed by the Secretary of Health, Education, and Welfare to review the status of the old-age and survivors insurance trust fund and the disability insurance trust fund in relation to the long-term commitments of the program. The first such council is required to submit its report to the Board of Trustees not later than January 1, 1959.

(*d*) The old-age and survivors insurance trust fund, and where appropriate the disability insurance trust fund, will 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 from September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 that granted survivorship protection to certain World War II veterans for a period of 3 years after leaving service.

(*e*) The basis for determining the interest rate on public-debt obligations to be purchased by the trust funds was changed. These investments will bear a rate of interest equal to the average rate of interest borne by all marketable Government obligations with maturity dates exceeding 5 years from date of issue, the average rate being rounded to the nearest one-eighth of 1 percent.

Table 1 presents, on a level-premium basis, an estimate of the increase in costs of benefit payments, expressed as a percent of payroll, arising from the changes in the program in 1956.

TABLE 1.—*Changes in estimated level-premium costs*[1] *of benefit payments as percent of payroll, by type of change, intermediate-cost estimate, high-employment assumptions*

Item	*Level premium cost (percent)*
Cost of program under 1954 amendments (2.4 percent interest)	7.45
Effect of changes in old-age and survivor benefits (2.4 percent interest except last item):	
Reducing minimum eligibility age for widows and dependent mothers to 62	+.19
Reducing minimum eligibility age for women workers and wives to 62	+.03
Disabled adult child's benefits	+.01
Extension of coverage	−.11
Revised interest basis for trust-fund investments[2]	−.14
Effect of addition of monthly disability benefits after age 50[3] (2.6 percent interest)	+.42
Cost of program as amended in 1956 (2.6 percent interest):	
Old-age and survivor benefits	7.43
Disability benefits	.42

[1] Level-premium contribution rate for benefit payments after 1955 and in perpetuity, taking into account (*a*) lower contribution rate for self-employed as compared with employer-employee rate, (*b*) interest on the trust fund on Dec. 31, 1955, and (*c*) administrative expenses.

[2] Reflecting the use of 2.6 percent instead of 2.4 percent as the valuation rate of interest.

[3] Including administrative expenses.

NATURE OF THE TRUST FUNDS

The Federal old-age and survivors insurance trust fund was established on January 1, 1940, as a separate account in the United States Treasury to hold the amounts accumulated under the old-age and survivors insurance program. All the financial operations of the program through July 31, 1956, were 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 will be handled all financial operations in connection with the newly established system of monthly disability benefits payable to insured workers between the ages of 50 and 65. The financial operations of the old-age, survivors, and disability insurance program which relate to the system of old-age and survivors insurance benefits will continue to be handled through the old-age and survivors insurance trust fund.

The primary source of receipts of the two funds is amounts deposited in or 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 employments covered by the old-age, survivors, and disability insurance program. All employees and their employers in employments covered by the program are required to pay contributions with respect to the wages of individual workers. All covered self-employed persons are required to pay contributions with respect to their self-employment income. In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a maximum of $4,200, with the contributions being determined first on the wages and then on any self-employment income necessary to make up the $4,200.

The Internal Revenue Code, as amended, provides that the contribution rate for employees and their employers shall be 2¼ percent each for the calendar years 1957 through 1959, and that the rates shall rise to 2¾ percent each on January 1, 1960, to 3¼ percent each on January 1, 1965, to 3¾ percent each on January 1, 1970, and to 4¼ percent each on January 1, 1975. The contribution rates on self-employment income are equal to 1½ times the corresponding employee rates. The Social Security Act, as amended in 1956, provides that beginning January 1, 1957, of the total contribution income based on these rates, contributions at the rate of one-fourth of 1 percent each for employees and employers, and three-eighths of 1 percent for the self-employed shall be allocated to the disability insurance trust fund through which is financed the separate system of disability insurance benefits.

Except for amounts received by the Secretary of the Treasury under State agreements 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. 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 may 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 such period.

The second 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 account and the disability insurance trust fund. 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 therefor were paid from the trust funds. Formerly, these moneys were credited to the general fund of the Treasury as miscellaneous receipts.

Public Law 719, approved August 10, 1946, provided noncontributory survivor protection to certain veterans of World War II. The legislation provided, and the old-age and survivors insurance trust fund received, reimbursement from the general fund 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, provides that the old-age and survivors insurance trust fund shall be reimbursed for all additional costs arising after August 31, 1950, from the 1946 provisions. Public Law 881 also provides that (1) the old-age and survivors insurance trust fund shall 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 shall be reimbursed for all additional expenditures after July 31, 1956, resulting from these 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 payments from the respective trust funds in accordance therewith.

Congress has authorized expenditures from the trust funds for construction of an office building and related facilities for the Bureau of Old-Age and Survivors Insurance.

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 United States 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 par or by purchase of outstanding obligations at their market price. In addition, the Social Security Act, as amended, authorizes the issuance of public-debt obligations for purchase by the trust funds. The law requires that such public-debt obligations shall have maturities fixed with due regard for the needs of the trust funds and 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 marketable interest-bearing obligations of the United States forming a part of the public debt that are not due or callable until after the expiration of 5 years from the date of original issue (where such average rate is not a multiple of one-eighth of 1 percent, the rate of interest on such special obligations is required to be the multiple of one-eighth of 1 percent nearest such average rate).

Interest on public issues held by the trust fund is received by the fund at the time the interest is paid on the particular issues held. Interest on public-debt obligations issued for purchase by the trust fund will be payable semiannually.

Public issues acquired by the funds may be sold at any time by the managing trustee at their market price. Public-debt obligations issued for purchase by the trust fund 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 12 and 13.

The assets of the trust funds serve in part as a reserve against short-run fluctuations in total contributions and benefit amounts, providing a margin of safety against relatively short-term contingencies to ensure the payment of benefits without sharp changes in rates paid by contributors.

REALITY OF THE TRUST FUNDS

Public discussion of the investment aspects of the old-age and survivors insurance program has sometimes revealed a serious misunderstanding of the nature and significance of the trust fund operations. The Board of Trustees believes that it has a responsibility to correct any misapprehensions among persons who look to the old-age and survivors insurance and disability insurance programs for basic protection against income loss because of retirement, death, or prolonged disability.

The charge has been made that the requirement of existing law that the receipts of the trust funds which are not currently needed for program disbursements shall be invested in Government securities constitutes a misuse of the funds. It is suggested that this type of investment permits the Government to use social security tax collections to finance ordinary Government expenditures, and that hence such collections will not be available to pay social security benefits in future years. It is said that the securities represent IOU's issued by the Government to itself and that the Government will have to tax people a second time for social security to redeem these IOU's.

The investment of the assets of the trust funds in Federal obligations, as required by law, is not a misuse of the money contributed under the insurance programs by covered employees, employers, and self-employed persons. These contributions are permanently appropriated by law to the old-age and survivors insurance and disability insurance trust funds which are accounted for separately from the general funds of the United States Treasury. All the assets of these funds are kept available and may be used only for the payment of the benefits and administrative expenses of the insurance programs.

When the Treasury pays back money borrowed from the trust funds, the public will not be taxed a second time for social security. If taxes are levied to redeem the securities held by the trust funds, these taxes will not be levied for the purpose of paying social security benefits. Rather, they will be levied for the purposes for which the money was originally borrowed, such as the costs arising out of World War II, the national defense program, and other activities of the Government. Taxes would have to be raised to pay back the money borrowed to cover these costs whether the obligations were held by the trust funds or by other investors. The fact that the trust funds, rather than other possible investors, hold part of the Federal debt does not change the purpose for which these taxes must be levied.

The operation of trust-fund investment is similar to the investment of premiums collected by a private insurance company. A private company uses part of its current premium receipts for payments to beneficiaries and for operating expenses. The balance of its receipts is invested in income-producing assets. Such investments are commonly limited by State law to the safest forms of investment so that policyholders will be assured that their claims against the company will be satisfied when they become due. Government securities ordinarily represent a significant portion of these investments. The purpose of investing these receipts is, of course, to obtain earnings that will help meet the future costs of the insurance and thus reduce the premiums the policyholders would otherwise have to pay for their insurance.

Social security tax collections are handled in much the same way. Investments of the trust funds, however, are limited by law to only one type—securities issued by, or guaranteed as to principal and interest by, the Federal Government. There are two principal reasons for such a restriction. One is similar to the motivation of State legislation dealing with investments of private insurance companies; it is designed to insure the safety of the funds. Government securities constitute the safest form of investment. The second reason is that it keeps these publicly operated programs from investing reserve funds in competitive business ventures. Such investments by the trust funds would be completely out of harmony with accepted concepts of the proper scope of a governmental activity. The securities held by the trust funds perform the same function as those held by a private insurance company. They can be readily converted into cash when needed to meet disbursements, and the earnings on these investments make possible lower rates of contributions than would otherwise be required.

In investing their receipts in Government securities the trust funds, as separate entities, are lenders and the United States Treasury is a borrower. The trustees of the funds receive and hold securities issued by the Treasury as evidence of these loans. These Government obligations are assets of the funds and liabilities of the United States Treasury which must pay interest on the borrowed money and repay the principal when the securities mature.

In other words, the Treasury borrows from a number of sources. It borrows from individuals, mutual saving banks, insurance companies, and various other classes of investors; and it borrows from the old-age and survivors insurance and disability insurance trust funds. The securities held by the funds are backed by the full faith and credit of the United States, as are all public debt securities; they are just as good as the public debt securities held by other investors.

The purchase of Federal obligations by the trust funds from the Treasury does not increase the national debt. The national debt is increased only when and to the extent to which the Federal Government's expenditures exceed receipts from taxes levied to meet those expenditures. When such a deficit occurs, the Treasury must borrow sufficient money to meet the deficit by selling Federal securities. The volume of the securities sold to meet a deficit is not increased by the purchase of such obligations by the trust funds. The purchase of Federal obligations by the trust funds in a period when the Treasury has no deficit to meet would result only in a direct or indirect transfer of Federal debt from other investors to the trust funds. The total amount of the public debt would remain unchanged.

SUMMARY OF THE OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, FISCAL YEAR 1956

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, 1955, and ended on June 30, 1956, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2.

TABLE 2.—*Statement of operations of the Federal old-age and survivors insurance trust fund during the fiscal year 1956*

Total assets of the trust fund, June 30, 1955			$21, 141, 001, 461. 71
Receipts, fiscal year 1956:			
Insurance contributions:			
Appropriations	$6, 336, 804, 603. 39		
Deposits arising from State agreements	171, 565, 577. 42		
Gross insurance contributions	6, 508, 370, 180. 81		
Less payment into the Treasury for taxes subject to refund	66, 000, 000. 00		
Net insurance contributions		$6, 442, 370, 180. 81	
Interest and profit:			
On investments	$487, 450, 075. 05		
On amount held in railroad retirement account to credit of trust fund	7, 439, 000. 00		
Total interest		494, 889, 075. 05	
Total receipts		6, 937, 259, 255. 86	
Disbursements, fiscal year 1956:			
Benefit payments		5, 360, 813, 247. 00	
Administrative expenses:			
Department of Health, Education, and Welfare	$94, 892, 621. 97		
Treasury Department	29, 516, 077. 17		
Preparation for construction of building for Bureau of Old-Age and Survivors Insurance	61, 876. 35		
Gross administrative expenses	124, 470, 575. 49		
Less receipts for sale of surplus material, supplies, etc	131, 867. 92		
Net administrative expenses		124, 338, 707. 57	
Total disbursements		5, 485, 151, 954. 57	
Net addition to trust fund			1, 452, 107, 301. 29
Total assets of the trust fund, June 30, 1956			22, 593, 108, 763. 00

The total assets of the old-age and survivors insurance trust fund amounted to $21,141 million on June 30, 1955. These assets increased to $22,593 million by the end of the fiscal year 1956, as a result of an excess of receipts over disbursements amounting to $1,452 million.

The total receipts of the trust fund during the fiscal year 1956 amounted to $6,937.3 million. Of this total, $6,336.8 million represented tax collections appropriated to the fund and $171.6 million represented amounts received by the Secretary of the Treasury in accordance with State agreements and deposited in the trust fund. The amount of contributions subject to refund to employees who worked for more than 1 employer during 1954 and paid contributions on 1954 wages in excess of $3,600 was estimated at $66 million. This amount was transferred from the trust fund as repayment into the Treasury. The net amount of $6,442.4 million represented a 27-percent increase over the amount for the preceding fiscal year. This large increase can be attributed mainly to the provisions of the 1954 amendments which increased the number of persons in covered employment and which increased the maximum amount of annual taxable earnings from $3,600 to $4,200. Although these provisions became effective in 1955, fiscal year 1956 was the first full year during which they operated. The other $494.9 million of receipts consisted of $487.5 million of interest and profit on investments of the fund and of $7.4 million of interest on the amount held in the railroad retirement account to the credit of the trust fund under the financial interchange provisions of the Railroad Retirement Act, as amended in 1951. These provisions are described in appendix II.

Disbursements from the trust fund during the fiscal year 1956 totaled $5,485.2 million, of which $5,360.8 million were for benefit payments, and $124.3 million were for administrative expenses. The total amount of benefits paid during the fiscal year exceeded benefits paid in the fiscal year 1955 by 24 percent. This increase resulted chiefly from (1) the increase in the number of beneficiaries and (2) the fact that the higher benefit provisions of the 1954 amendments were effective during the entire fiscal year 1956 but during only part of fiscal year 1955.

Administrative expenditures of the fund were 1.9 percent of contribution income and 2.3 percent of benefit payments during fiscal year 1956. Figures for each of the last 10 fiscal years are shown in table 3.

TABLE 3.—*Relationship of administrative charges against old-age and survivors insurance trust fund to old-age and survivors insurance contribution income and benefit payments, fiscal years 1947–56*

Fiscal year	Administrative charges against the OASI trust fund as a percentage of—		Fiscal year	Administrative charges against the OASI trust fund as a percentage of—	
	Contribution income	Benefit payments		Contribution income	Benefit payments
1947	2.8	9.6	1952	2.4	4.3
1948	2.9	9.3	1953	2.2	3.4
1949	3.2	8.8	1954	1.9	2.7
1950	2.7	7.8	1955	2.0	2.4
1951	2.3	4.7	1956	1.9	2.3

TABLE 4.—*Estimated distribution of benefit payments under the old-age and survivors insurance program, by type of benefit, fiscal years 1955 and 1956*

[Amounts in millions]

Type of benefit	1955		1956	
	Amount	Percent of total	Amount	Percent of total
Total	$4,333.1	100	$5,360.8	100
Monthly benefits	4,232.6	[1] 98	5,245.5	[1] 98
Old-age (retired workers 65 or over)	2,803.0	65	3,532.9	66
Wife's or husband's (wives or dependent husbands, 65 or over, of old-age beneficiaries, or their wives regardless of age if caring for child beneficiary)	404.1	9	500.4	9
Widow's or widower's (widows or dependent widowers 65 or over of workers)	353.3	8	430.2	8
Parent's (dependent parents 65 or over of deceased workers)	14.7	(2)	16.5	(2)
Child's (children under 18 of old-age beneficiaries)	24.7	1	31.4	1
Child's (children under 18 of deceased workers)	484.2	11	562.6	10
Mother's (widows or dependent divorced wives of deceased workers caring for child beneficiaries)	148.6	3	171.4	3
Lump-sum benefits (wage earner died after August 1950, or before September 1950 with no survivor immediately eligible for monthly benefits)	100.5	2	115.3	2

[1] Total does not represent the sum of rounded components.
[2] Less than 0.5 percent.

The distribution of benefit payments in fiscal years 1955 and 1956, by type of benefit, is shown in table 4. Approximately 84 percent of the total benefit payments from the fund in the fiscal year 1956 were accounted for by monthly benefits to aged persons—retired wage earners and their wives (including a relatively small number of wives under age 65) or dependent husbands, and aged widows, dependent widowers, and dependent parents of deceased wage earners. Approximately 14 percent of the 1956 benefit payments represented monthly benefits on behalf of children of deceased or retired workers and payments to mothers—practically all of them under age 65—who had children of deceased wage earners in their care. The balance of the benefits paid in the fiscal year 1956 consisted of lump-sum death payments.

At the end of the fiscal year 1956, approximately 8.4 million beneficiaries in about 6.2 million families were receiving nomthly benefits at an annual rate of $5,273 million. At the end of the preceding fiscal year, the monthly benefit rolls included 7.6 million beneficiaries in about 5.5 million families to whom monthly benefits were being paid at an annual rate of $4,608 million. Average monthly family benefits at the end of June 1956 showed moderate increases over the corresponding averages a year earlier (table 5). Payments to retired workers with no dependents receiving benefits averaged $60, an increase of $1.90. The average for a retired worker and aged wife, both of whom were drawing benefits, was $104.80, $2.60 greater than a year earlier. For survivor families, payments to aged widows averaged $49; families made up of a widowed mother and 1 child averaged $108.50; widowed mothers and 2 children averaged $137.80.

TABLE 5.—*Estimated number of families and beneficiaries receiving benefits and average family amount, by family group, end of fiscal years 1955 and 1956*

Family classification of beneficiaries receiving benefits	June 30, 1955			June 30, 1956		
	Number of families	Number of beneficiaries	Average monthly amount per family	Number of families	Number of beneficiaries	Average monthly amount per family
	Thous.	*Thous.*		*Thous.*	*Thous.*	
Total	5,539.7	7,563.5		6,160.2	8,374.5	
Retired worker families	4,214.8	5,462.3		4,731.9	6,114.4	
Worker only	3,067.7	3,067.7	$58.10	3,460.3	3,460.3	$60.00
Male	1,962.3	1,962.3	63.50	2,148.4	2,148.4	65.60
Female	1,105.4	1,105.4	48.40	1,311.8	1,311.8	50.70
Worker and wife aged 65 or over	1,066.4	2,132.8	102.20	1,182.6	2,365.2	104.80
Worker and wife under age 65 [1]	.4	.8	102.50	.3	.6	113.30
Worker and aged dependent husband	9.2	18.5	87.00	10.7	21.4	88.20
Worker and 1 or more children	15.8	41.1	98.10	16.6	42.7	101.00
Worker, wife aged 65 or over, and 1 or more children	1.2	3.6	123.30	1.3	4.0	132.30
Worker, wife under age 65, and 1 or more children	54.0	197.7	117.00	60.1	220.1	121.10
Survivor families	1,324.9	2,101.2		1,428.3	2,260.1	
Aged widow	688.3	688.3	46.60	746.3	746.3	49.00
Aged dependent widower	1.2	1.2	40.90	1.1	1.1	48.20
Widowed mother only [1]	1.4	1.4	48.60	.8	.8	51.20
Widowed mother and 1 child	120.8	241.6	105.10	128.4	256.8	108.50
Widowed mother and 2 children	83.6	250.7	132.60	85.7	257.2	137.80
Widowed mother and 3 or more children	75.6	356.1	129.90	82.4	389.8	136.40
Divorced wife and 1 or more children	.2	.6	130.00	.3	.7	135.70
1 child only	200.3	200.3	47.80	217.0	217.0	48.50
2 children	80.9	161.9	81.60	90.0	179.9	83.80
3 children	29.1	87.2	101.00	31.8	95.3	105.20
4 or more children	19.6	86.3	105.60	20.2	89.3	112.20
1 aged dependent parent	22.2	22.2	48.10	22.8	22.8	50.50
2 aged dependent parents	1.7	3.3	92.90	1.5	2.9	95.30

[1] Benefits of children were being withheld.

NOTE.—Estimates were prepared November 1956.

The disability freeze provision of the 1954 amendments became effective at the beginning of fiscal year 1956, although applications could be filed at any time after December 31, 1954. By the end of fiscal year 1956 a period of disability had been established for 134,000 disabled workers. About 110,000 applications for a disability freeze were denied. By the end of the fiscal year, about 36,100 old-age beneficiaries had their benefits increased as a result of the freeze; the average increase was $9.93 a month. About 13,100 monthly benefits payable to dependents of these retired workers and to survivors of workers who had established a period of disability before death were also increased because of the freeze. For the same reason, lump-sum death benefits payable on the earnings records of almost 4,500 deceased workers were increased by an average amount of about $21.50 per worker.

The assets of the fund at the end of the fiscal year 1956 totaled $22,593 million, consisting of $22,043 million in the form of obligations of the United States Government, and $550 million is undisbursed balances. Table 6 shows a comparison of the total assets of the trust fund and their distribution at the end of the fiscal years 1955 and 1956.

TABLE 6.—*Assets of Federal old-age and survivors insurance trust fund, by type, at end of fiscal years 1955 and 1956*

	June 30, 1955		June 30 1956	
	Par value	Book value [1]	Par value	Book value [1]
Investments:				
Public issues:				
Certificates of indebtedness:				
2⅝-percent series D 1956	------------	------------	$34,000,000	$33,996,875.00
2⅝-percent series A 1957	------------	------------	34,100,000	34,095,453.12
Treasury notes: 2⅞-percent series A 1958	------------	------------	115,500,000	115,495,546.88
Treasury bonds:				
2¼-percent bonds of 1959–62	$4,205,000	$4,211,633.97	4,205,000	4,210,121.85
2⅜-percent bonds of 1958	------------	------------	500,000	493,437.50
2½-percent bonds of 1961	------------	------------	4,500,000	4,359,906.25
2½-percent bonds of 1962–67	58,650,000	58,775,068.43	58,650,000	58,757,201.51
2½-percent bonds of 1963	------------	------------	500,000	485,000.00
2½-percent bonds of 1963–68	116,480,000	116,639,273.51	116,480,000	116,620,535.47
2½-percent bonds of 1964–69	93,704,000	93,147,975.75	96,004,000	95,315,907.76
2½-percent bonds of 1965–70	456,547,500	456,809,792.98	456,547,500	456,774,416.82
2½ percent bonds of 1966–71	308,077,500	307,983,999.22	308,077,500	307,974,482.24
2½-percent bonds of 1967–72	150,593,250	150,796,849.48	150,593,250	150,726,736.52
2¾-percent bonds, investment series B–1975–80	1,081,902,000	1,083,367,535.46	1,081,902,000	1,083,250,495.76
3-percent bonds of 1995	25,000,000	25,056,171.90	68,170,000	68,220,893.37
3¼-percent bonds of 1978–83	45,100,000	44,910,656.26	45,100,000	44,910,656.26
Total public issues	2,340,259,250	2,341,698,956.96	2,574,829,250	2,575,687,666.31
Special issues:				
Certificates of indebtedness:				
2¼-percent maturing June 30, 1956	18,238,792,000	18,238,792,000.00	------------	------------
2½-percent maturing June 30, 1957	------------	------------	19,466,609,000	19,466,609,000.00
Total special issues	18,238,792,000	18,238,792,000.00	19,466,609,000	19,466,609,000.00
Accrued interest purchased	------------	------------	------------	733,974.37
Total investments	20,579,051,250	20,580,490,956.96	22,041,438,250	22,043,030,640.68
Undisbursed balances	------------	560,510,504.75	------------	[2] 550,078,122.32
Total assets	------------	21,141,001,461.71	------------	22,593,108,763.00

[1] Par value plus unamortized premium less discount outstanding.
[2] Includes $44,306.36 unappropriated receipts.

The assets of the trust fund may be invested only in direct obligations of the United States Government and in obligations guaranteed as to both principal and interest by the United States. These obligations may be acquired in the open market or on original issue at par. The investments of the trust fund consist of certificates issued directly to the fund at par and public issues of Treasury securities. The asset value of the certificates is their par value. As carried on the books of the Treasury Department, the asset value of public issues (exclusive of accrued interest purchased) is the book value, i. e., par value plus unamortized premium less discount outstanding.

The net increase in the par value of the investments owned by the fund during the fiscal year 1956 amounted to $1,462 million. New securities at a total par value of $26,508 million were acquired through the investment of receipts of the fund and the reinvestment of funds made available from the maturity of securities during the year. The par value of securities redeemed during the fiscal year was $25,025 million. In addition, $20 million of public issues were sold, providing an additional source of income to the fund in the form of a profit amounting to $50,781. This profit represents the difference between proceeds received at time of sale, after deduction for accrued interest and investment expenses, and the book value at time of sale.

Of the new securities acquired, \$26,253 million were certificates of indebtedness issued exclusively to the trust fund, \$6,787 million of which were redeemed during the year and \$19,467 million of which mature on June 30, 1957. These certificates were acquired at par, \$1,116 million at 2¼ percent, \$3,759 million at 2⅜ percent, and \$21,378 million at 2½ percent, this rate having been determined by the average rate of interest on the interest-bearing public debt which prevailed at the end of the month preceding the date of issue of these securities. The remaining \$255 million of securities acquired during the year were public issues at interest rates ranging from 2⅜ percent to 3 percent.

The average rate of interest on the interest-bearing public debt at the end of the month varies with changes in the composition of the public debt and with changes in the particular rates of interest on different classes of securities. During the fiscal year 1956 the average rate of interest on the public debt rose from 2.351 percent on June 30, 1955, to 2.546 percent on May 31, 1956, with the result that special certificates acquired during the July–August period were at 2¼ percent, during the September–March period at 2⅜ percent, and during the remaining period of the fiscal year at 2½ percent.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING FISCAL YEARS 1957–61

In the following statement of the expected operations and status of the trust funds during the next 5 fiscal years, it is assumed that the present statutory provisions relating to the old-age, survivors, and disability insurance program remain unchanged throughout the period under consideration. The income and disbursements of the program, however, not only depend on the legislative provisions but they are also affected by general economic conditions. Because it is difficult to foresee economic developments, the assumptions on which the estimates here presented are based are subject to many uncertainties. This statement of the expected operations of the trust funds should therefore be read with full recognition of the difficulties of estimated future trust fund income and disbursements under changing economic conditions.

Single sets of estimates are here presented to show the expected operations of the trust funds in fiscal years 1957 and 1958, but for fiscal years 1959–61 two sets of estimates are given based on two different assumptions as to economic development in those years. In assumption I the entire period 1957–61 is characterized by a continued rise in employment and earnings reflecting chiefly long-term trends. Unemployment remains at a low level. The other set of estimates for fiscal years 1959–61, based on assumption II, shows the effects that would result in the unlikely event that there were a sharp contraction in industrial activities beginning in the latter half of calendar year 1958 with a slow recovery not beginning until the first half of calendar year 1961.

The expected operations and status of the old-age and survivors insurance trust fund during the next 5 fiscal years are presented in summary in table 7, together with the figures on the actual experience in earlier fiscal years. The increase in estimated income from contributions in fiscal year 1958 as compared with fiscal year 1957 reflects

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Single sets of estimates are here presented to show the expected operations of the trust funds in fiscal years 1957 and 1958, but for fiscal years 1959–61 two sets of estimates are given based on two different assumptions as to economic development in those years. In assumption I the entire period 1957–61 is characterized by a continued rise in employment and earnings reflecting chiefly long-term trends. Unemployment remains at a low level. The other set of estimates for fiscal years 1959–61, based on assumption II, shows the effects that would result in the unlikely event that there were a sharp contraction in industrial activities beginning in the latter half of calendar year 1958 with a slow recovery not beginning until the first half of calendar year 1961.

The expected operations and status of the old-age and survivors insurance trust fund during the next 5 fiscal years are presented in summary in table 7, together with the figures on the actual experience in earlier fiscal years. The increase in estimated income from contributions in fiscal year 1958 as compared with fiscal year 1957 reflects the extension of coverage to additional employments, including the Armed Forces, beginning January 1, 1957, and also the uptrend in the levels of employment and earnings. Estimates of contribution income in fiscal years 1959–61 based on assumption I show the effect of an assumed rise in employment and earnings during these years as well as the scheduled increase in contribution rates on January 1, 1960. Benefit disbursements increase substantially primarily because of the 1954 and 1956 amendments, and partly because of the long-range upward trend in the number of beneficiaries under the program. Under assumption II, estimated contributions in fiscal years 1959–61 are lower than under assumption I because of the effects of the assumed economic recession on the levels of covered employment and taxable earnings in the periods affecting tax collections during those years. Estimated benefit disbursements, on the other hand, are higher under assumption II than assumption I because a larger number of older workers leave employment or are unable to find jobs.

TABLE 7.—*Operations of the Federal old-age and survivors insurance trust fund, fiscal years 1937–61, subject to the assumptions and limitations stated in the text* [1]

[In millions]

Fiscal year	Transactions during period: Income: Appropriations [2]	Transactions during period: Income: Interest on investments [3]	Transactions during period: Disbursements: Benefit payments	Transactions during period: Disbursements: Administrative expenses [4]	Transactions during period: Net increase in fund [5]	Fund at end of period [5]
Past experience:						
1937–56	$42,078	$3,918	$22,453	$950	$22,593	$22,593
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	27	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	451	3,276	89	[6] 1,675	20,043
1955	5,087	448	4,333	103	1,098	21,141
1956	6,442	495	5,361	124	1,452	22,593
Estimated futnre experience:						
1957	6,740	567	6,300	135	872	23,465
1958	7,315	578	7,386	141	366	23,831
1959—Assumption I	7,527	582	7,952	156	1	23,832
Assumption II	7,023	575	8,148	160	−710	23,121
1960—Assnmption I	8,425	580	8,488	155	362	24,194
Assumption II	7,537	550	8,876	154	−943	22,178
1961—Assumption I	9,864	603	8,995	149	1,323	25,517
Assumption II	8,527	532	9,449	145	−535	21,643

[1] In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared February 1957.

[2] Inclnde insurance contributions, adjusted for refunds, and transfers from general funds equivalent to additional payments arising from the extension of survivors insurance protection to certain veterans of World War II (Social Security Act Amendments of 1946).

[3] Includes (1) profits on marketable investments amonnting to $183,668 in 1949, $8,934 in 1950, and $50,781 in 1956; and (2) beginning in fiscal year 1954, interest transferred from the Railroad Retirement Account.

[4] Include administrative expenses, less receipts for sale of surplus material, services, etc. For fiscal years 1944 and 1945, represent charges against trust fund; administrative expenses, after adjustment for bookkeeping transfers, were about $30 million in fiscal year 1944 and $29 million in fiscal year 1945. For fiscal years 1954–60, inclnde cost of construction of an office building for the Bureau of Old-Age and Survivors Insurance.

[5] Totals do not necessarily equal the sum of rounded components.

[6] Excludes nct adjustment of approximately $0.8 million which was allocable to prior years.

Under assumption I, income of the old-age and survivors insurance trust fund is expected to exceed disbursements in each of the 5 fiscal years 1957–61. Under assumption II, income is estimated to exceed disbursements during the 2 years 1957–58; during the years 1959–61, disbursements are estimated to exceed income. During the 5-year period, there is an estimated net increase in the trust fund of about $2.9 billion under assumption I, and an estimated net decrease in the fund of about $1 billion under assumption II. During the 5 fiscal years 1957–61 the old-age and survivors insurance trust fund will not exceed 2.8 times the highest expected annual disbursements during the 5-year period under either assumption I or assumption II.

As indicated in an earlier section of the report, the 1956 amendments contain provisions which will cause disbursements for old-age and survivor benefits during the 5 fiscal years 1957–61 to be on a higher level than the disbursements made under the old law. Moreover, these benefit disbursements during the next 5 years, like contributions, will be dependent to a considerable extent upon economic developments and so will have a considerable range of possible variation. The number of workers in covered employment, their distribution among different classes of workers (e. g., older workers, very young workers, women workers not previously engaged in covered employment, etc.), and the level of earnings will all have a decided effect upon the amount of benefit payments to be anticipated. However, under both assumptions benefit payments as a percentage of taxable earnings will continue to rise. Benefit payments were 3.26 percent of taxable earnings for calendar year 1955. It is estimated that by 1961 benefit expenditures from the old-age and survivors insurance trust fund under assumption I will be 4.65 percent, and under assumption II, 5.72 percent, of taxable earnings. Figures for each of the calendar years 1940–61 are shown in table 8.

TABLE 8.—*Old-age and survivors' insurance benefit payments as percentage of taxable earnings, calendar year 1940–61, subject to the assumptions and limitations stated in the text* [1]

Calendar year	Benefit payments as percentage of taxable earnings	Calendar year	Benefit payments as percentage of taxable earnings
Past experience:		Estimated future experience:	
1940	.11	1956	3.43
1941	.21	1957	3.86
1942	.25	1958—Assumption I	4.12
1943	.27	Assumption II	4.30
1944	.32	1959—Assumption I	4.33
1945	.44	Assumption II	4.91
1946	.55	1960—Assumption I	4.46
1947	.59	Assumption II	5.38
1948	.66	1961—Assumption I	4.65
1949	.82	Assumption II	5.72
1950	1.10		
1951	1.61		
1952	[2] 1.76		
1953	[2] 2.28		
1954	[2] 2.84		
1955	[2] 3.26		

[1] In interpreting the estimates in this table reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared February 1957. For years 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] Preliminary, subject to revision based on complete tabulation of taxable self-employment earnings for 1952–55 and of taxable wages for 1955.

In general, the larger the volume of employment the larger will be the number of workers who are insured under the program, and therefore the larger will be the number of deaths which will give rise to valid claims for survivors' benefits. However, over the short range the amount paid out for survivors' benefits will not be affected significantly by variations in economic conditions. While favorable opportunities for employment will operate to increase the number of insured persons, and hence increase the number of new death claims, such a high employment situation will tend to have counterbalancing effects such as that of inducing many of the widows and older children eligible for survivors' benefits to forego them by working. On balance, the amount paid out for survivors' benefits over the next few years will differ so little whether the economic conditions of assumption I or assumption II are assumed that a single set of estimates is deemed appropriate for both assumptions (table 9).

TABLE 9.—*Treasury disbursements for old-age and survivors insurance benefit payments, distributed by classification of beneficiaries, fiscal years 1941–61, subject to the assumptions and limitations stated in the text* [1]

[In millions]

Fiscal year	Total benefit disbursements [2]	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 [2]	Aged widows, dependent widowers, and dependent parents	Widowed mothers, dependent divorced wives, and children	
Past disbursements: [3]							
1941	$64.3	$31.1	$5.3	$15.3	$1.5	$13.8	$12.7
1942	110.3	54.9	9.6	31.6	4.1	27.5	14.1
1943	149.3	72.4	12.7	47.5	7.9	39.6	16.7
1944	184.6	86.8	15.2	63.6	12.1	51.5	19.0
1945	239.8	109.1	19.2	85.8	17.7	68.1	25.7
1946	320.5	153.9	27,2	113.4	24.7	88.7	26.0
1947	425.6	218.6	38.4	139.4	33.8	105.6	29.2
1948	511.7	272.4	47.5	160.5	43.7	116.8	31.3
1949	607.0	333.0	57.7	184.0	55.6	128.4	32.2
1950	727.3	412.6	71.2	209.4	69.3	140.2	34.0
1951	1,498.1	891.1	148.0	413.5	134.3	279.2	45.5
1952	1,982.4	1,191.4	193.5	539.2	179.2	360.0	58.3
1953	2,627.5	1,624.6	253.0	673.6	232.7	441.0	76.3
1954	3,275.6	2,068.5	318.6	798.3	283.0	515.3	90.2
1955	4,233.1	2,803.0	428.8	1,000.8	367.9	632.9	100.5
1956	5,360.8	3,532.9	531.8	1,180.7	446.7	734.0	115.3
Estimated future disbursements:							
1957	6,300.0	4,166.0	668.0	1,353.0	565.0	788.0	113.0
1958	7,386.0	4,899.0	812.0	1,545.0	705.0	840.0	130.0
1959—Assumption I	7,952.0	5,290.0	857.0	1,674.0	787.0	887.0	131.0
Assumption II	8,148.0	5,459.0	884.0				
1960—Assumption I	8,488.0	5,652.0	896.0	1,804.0	874.0	930.0	136.0
Assumption II	8,876.0	5,988.0	947.0				
1961—Assumption I	8,995.0	5,990.0	931.0	1,934.0	962.0	972.0	140.0
Assumption II	9,449.0	6,381.0	994.0				

[1] In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared February 1957.
[2] Totals do not necessarily equal the sum of rounded components.
[3] Partly estimated.

On the other hand, the lower the level of employment during the next 5 years, the larger will be the volume of benefit payments to retired workers and to their eligible dependents. As is indicated in table 10, a considerable proportion of the workers aged 65 and over who were eligible for old-age (primary) benefits in the past remained in covered employment (or, if they left covered employment, later returned to it) and did not receive benefits. Since January 1, 1945, however, the proportion of eligible workers receiving retirement benefits has been increasing. This proportion would not have declined from 1950 to 1951 (table 10) but for the fact that, for a large number of workers newly eligible as a result of the liberalized insured-status provisions of the 1950 amendments, claims for benefits had been received but had not yet been completely processed.

TABLE 10.—*Workers aged 65 and over eligible for and receiving old-age (primary) benefits, by attained age, fiscal years, 1941–61, subject to the assumptions and limitations stated in the text* [1]

[Number in thousands]

Middle of fiscal year (Jan. 1)	All workers aged 65 and over			Workers aged 65 to 69			Workers aged 70 and over		
	Number eligible for benefits [2]	Persons receiving benefits: Number	Persons receiving benefits: Percent of number eligible	Number eligible for benefits [2]	Persons receiving benefits: Number	Persons receiving benefits: Percent of number eligible	Number eligible for benefits [2]	Persons receiving benefits: Number	Persons receiving benefits: Percent of number eligible
Past experience:									
1941	548	112	20	376	85	23	172	28	16
1942	680	200	29	445	134	30	235	66	28
1943	831	260	31	522	153	29	309	107	35
1944	1,016	306	30	608	156	26	408	151	37
1945	1,244	378	30	708	167	24	536	211	39
1946	1,469	518	35	805	212	26	664	306	46
1947	1,637	702	43	868	271	31	769	430	56
1948	1,813	875	48	930	325	35	883	550	62
1949	1,990	1,048	53	1,000	380	38	990	668	67
1950	2,164	1,286	59	1,069	474	44	1,095	812	74
1951	3,139	1,771	56	1,663	721	43	1,476	1,050	71
1952	3,504	2,278	65	1,825	942	52	1,679	1,337	80
1953	4,366	2,644	61	2,260	1,055	47	2,106	1,589	75
1954	4,797	3,222	67	2,429	1,300	54	2,368	1,922	81
1955	5,209	3,775	72	2,569	1,518	59	2,640	2,257	85
1956	5,686	4,474	79	2,685	1,744	65	3,001	2,729	91
Estimated future experience:									
1957	6,433	4,997	78	2,937	1,848	63	3,496	3,149	90
1958	7,012	5,736	82	3,109	2,115	68	3,903	3,621	93
1959—Assumption I	7,440	6,153	83	3,198	2,184	68	4,242	3,969	94
Assumption II	7,434	6,270	84	3,194	2,277	71	4,240	3,993	94
1960—Assumption I	7,858	6,546	83	3,286	2,249	68	4,572	4,297	94
Assumption II	7,809	6,786	87	3,253	2,444	75	4,556	4,342	95
1961—Assumption I	8,255	6,917	84	3,384	2,323	69	4,871	4,594	94
Assumption II	8,142	7,189	88	3,302	2,549	77	4,840	4,640	96

[1] In interpreting the estimates in this table reference should be made to the accompanying text which describes the underlying assumptions. Females aged 62 to 64 eligible for old-age benefits are excluded from the table. No adjustments have been made to reflect changes arising from (1) provisions that coordinate the old-age and survivors and railroad retirement programs, and (2) noncontributory wage credits for military service. Estimates were prepared February 1957.

[2] Figures for 1941–56 are partly estimated.

The drop in the proportion of eligible workers receiving benefits from 1952 to 1953 was caused by the fact that many persons in occupations newly covered by the 1950 amendments became fully insured for the first time in 1952. Since these newly insured persons were fairly regularly employed, relatively few filed applications for old-age (primary) benefits. This depressed to a lower level the proportion of all eligible persons in receipt of such benefits on January 1, 1953. A similar situation is expected on January 1, 1957, when many persons fairly regularly employed in occupations newly covered by the 1954 amendments will be insured. In general, however, due to the increasing percentage of eligibles who are 72 or over and therefore receive benefits regardless of earnings, the past upward trend in this proportion is expected to continue even under the favorable employment conditions assumed in assumption I.

As indicated in an earlier section of this report, an insured woman worker between age 62 and age 65 may elect to receive an actuarially reduced retirement benefit. (Table 10 excludes data relating to women aged 62–64.) On January 1, 1957, there were an estimated 665,000 women workers aged 62–64 eligible for old-age benefits, of whom 115,000, or 17 percent, were drawing such benefits. This relatively low percentage results from the fact that a significant number of claims for benefits had been received but had not yet been completely processed. On January 1, 1961, under assumption I, 41 percent of the 890,000 women workers aged 62–64 eligible for old-age benefits are expected to be receiving such benefits.

If the lower employment conditions assumed in assumption II should materialize, it is expected that larger proportions of eligible workers will be obliged to leave employment, especially at ages 65–69. Hence, despite a slightly smaller number of eligible workers, the number receiving old-age (primary) benefits under assumption II would considerably exceed that under assumption I. Moreover, it is expected that the average old-age (primary) benefit amount payable under assumption II would exceed the average under assumption I, inasmuch as many of the more steadily employed, and therefore higher paid, older workers who would not withdraw from employment under the conditions of assumption I would not be employed under the conditions of assumption II. The foregoing analysis also applies to insured women workers aged 62–64; under assumption II, on January 1, 1961, about 52 percent of the 885,000 eligible women aged 62–64 are expected to be receiving old-age benefits. In consequence, assumption II would result in a substantially higher volume of benefit payments to old-age (primary) beneficiaries and their dependents.

Table 10 contains an analysis of workers aged 65 and over eligible for old-age (primary) benefits by age attained as of the middle (January 1) of each of the fiscal years 1941 through 1961. The growth in the number of eligible workers aged 65–69 was gradual but uninterrupted during the calendar years 1941 to 1949, inclusive. This growth resulted partly from the increase in the population at these attained ages, but primarily from the fact that each passing year a larger proportion of the persons attaining age 65 had fully insured status. A worker attaining age 65 in the first quarter of 1940 would not have been fully insured if he had left covered employment before the quarter in which he attained age 63—for example due to a permanent disability. A worker attaining age 65 in the first quarter of 1949, however, could have been fully insured even though he had left covered employment as early as the quarter in which he attained age 58.

The marked increase in the number of workers eligible for benefits in 1951 is due to the liberalized insured-status provisions of the 1950 amendments to the Social Security Act. The number of quarters of coverage needed to be eligible for old-age benefits just prior to the passage of these amendments ranged from 27 for persons then attaining age 65 down to 6 for persons then aged 76 and over. As a result of the 1950 amendments all persons who attained age 65 before July 1954 are fully insured if they have the minimum number of 6 quarters of coverage. Consequently, the increase in the number of eligible persons on January 1, 1951, was greatest for the persons in the 65–69 age group. Although the same factors which before 1951 contributed to the growth in the number of eligible persons aged 65 and over will continue to be operative after 1950, the amendments in 1950, 1954, and 1956 which liberalized the insured-status provisions and extended coverage to new areas of employment will have an even greater effect.

The expected operations and status of the disability insurance trust fund during the next 5 fiscal years are presented in summary in table 11. The sharp rise in estimated income from contributions in fiscal year 1958 as compared with fiscal year 1957 reflects primarily the fact that the program will be in effect during the entire fiscal year 1958, but during only part of fiscal year 1957. As in the case of the old-age and survivors insurance trust fund, estimates for fiscal years 1959–61 are presented on the basis of the 2 assumptions previously described. Contribution income of the disability insurance trust fund will be influenced significantly by economic developments and so will have a considerable range of possible variation. On the other hand, the amount of benefit payments over the short range will not differ significantly under the two sets of assumptions. The assumed decrease in the level of employment under assumption II would probably result in a larger number of claims for disability insurance benefits. Most of these claims would be denied, since the determination of disability, while considering such factors as age, prior work experience, education and training, rests primarily on a medical determination of limitation in functional capacity rather than on the availability of gainful employment. A small number of these claims for benefits, however, would be allowed. Such claims would come from persons whose impairments are so severe that it would be unreasonable to expect them to engage in any substantial gainful employment but who, by reason of extraordinary circumstances, do obtain, or continue in, remunerative employment during the prevalence of the favorable economic conditions underlying assumption I. In some cases of course the circumstances under which they obtain or continue in employment will not exist under unfavorable economic conditions. In these instances, they would apply for and be found entitled to benefits. While the lack of employment opportunities will operate to increase to some extent the number of allowed claims, there will tend to be counterbalancing effects, such as the progressively increasing number of persons who would fail to meet the insured-status requirements, especially the requirement that the individual have 6 quarters of coverage in the 13 calendar quarters ending with the quarter of his disability. On balance, disbursements for disability benefits over the next few years would differ so little under assumption I or assumption II that a single set of estimates is presented.

TABLE 11.—*Estimated future operations of the Federal disability insurance trust fund, fiscal years 1957–61, subject to the assumptions and limitations stated in the text* [1]

[In millions]

Fiscal year	Transactions during period: Income: Appropriations [2]	Transactions during period: Income: Interest on investments	Transactions during period: Disbursements: Benefit payments	Transactions during period: Disbursements: Administrative expenses	Transactions during period: Net increase in fund	Fund at end of period
1957	$340	$1		$19	$322	$322
1958	922	16	$290	23	625	947
1959—Assumption I	939	31	355	26	589	1,536
Assumption II	875	30	355	26	524	1,471
1960—Assumption I	962	46	390	23	595	2,131
Assumption II	863	43	390	24	492	1,963
1961—Assumption I	988	61	425	22	602	2,733
Assumption II	855	55	425	23	462	2,425

[1] In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared February 1957.
[2] Include insurance contributions, adjusted for refunds.

Income of the disability insurance trust fund is expected to exceed disbursements in each of the five fiscal years 1957–61 under both assumption I and assumption II. During this 5-year period, it is estimated that the disability insurance trust fund will reach a level 5.4 to 6.1 times the highest expected annual disbursements during 1957–61.

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. 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 the addition of $208.8 million to the old-age and survivors insurance trust fund would place it in the same position as of June 30, 1955, as it would have been if railroad employment had always been covered under the Social Security Act. There is no authority in the law to transfer the amount held in the railroad retirement account to the credit of the trust fund, but interest thereon is payable annually. For the fiscal year ending June 30, 1956, interest amounting to $5.2 million was transferred to the old-age and survivors insurance trust fund in September 1956. Except for interest, the estimates shown in table 7 have not been adjusted to reflect the effect of future interchanges between the railroad retirement account and the old-age and survivors insurance trust fund.

Public Law 880, approved August 1, 1956, provides for similar annual determinations and for financial interchanges between the railroad retirement account and the disability insurance trust fund beginning with the fiscal year ending June 30, 1958. The estimates shown in table 11 have not been adjusted to reflect the effect of future interchanges between the railroad retirement account and the disability insurance trust fund.

Public Law 881, approved August 1, 1956, provides that the old-age and survivors insurance trust fund, and where appropriate 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 from September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 that granted survivorship 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 is contained in appendix II. Estimates of the amounts of these reimbursements have not yet been completed. Accordingly, the estimates shown in tables 7 and 11 have not been adjusted to reflect the effect of these reimbursements.

ACTUARIAL STATUS OF THE TRUST FUNDS

On June 30, 1956, there were about 14,600,000 persons aged 65 and over in the United States, a number equivalent to 8.5 percent of the total population. It is estimated that by the year 2000 the number of persons aged 65 and over may be nearly double that on June 30, 1956, and represent from 10 to 13 percent of the population. The effect on the finances of the old-age and survivors insurance system of this expected change in the number of aged persons will be even greater than may at first appear, because at the end of the century a much larger proportion of aged persons is expected to be eligible to receive benefits under the program than at present. The future financial soundness of this system, with its rising rate of disbursements, is of the utmost importance to the millions of persons who are already within its scope and to the Nation as a whole.

Survivor benefits, although not as important costwise as old-age benefits, nonetheless play a very important role in the old-age and survivors insurance system. One way of measuring the significance of survivor benefits is through the volume of "life insurance" afforded by the program. This term is interpreted as meaning the present value of the prospective benefit payments to the surviving dependents of each worker in the event of his death, taking into account the possible termination of benefits through death, remarriage of widow, marriage of child, child's attainment of age 18, etc. It is estimated that at the beginning of the calendar year 1957, the program provided about $425 to $450 billion of such "life insurance" protection for survivors.

Table 12 shows the estimated cost of old-age and survivor benefits and monthly disability benefits as a percentage of payroll through the year 2050 and also the level-premium cost of the two programs—that is, the level percentage of payroll which, in perpetuity, would be sufficient to meet the cost of the benefits. These level-premium costs at a 2.6 percent interest assumption, range from 6.59 to 8.40 percent of payroll for the old-age and survivor benefits and from 0.29 to 0.58 percent of payroll for the monthly disability benefits, depending upon the combination of assumptions selected. Tables 13 and 14 show the estimated contributions, benefit payments, administrative expenses, interest accumulations, and assets of the two trust funds through the year 2000, under alternative combinations of assumptions with respect to benefit costs.

TABLE 12.—*Estimated costs of old-age, survivors, and disability insurance system as percent of payroll,*[1] *1965–2050*

[In percent]

Calendar year	Low-cost estimate	High-cost estimate	Intermediate-cost estimate [2]
	Old-age and survivors benefits		
1965	4.94	5.69	5.31
1970	5.62	6.42	6.01
1980	6.88	7.95	7.40
1990	7.63	9.24	8.41
2000	7.31	9.42	8.31
2025	8.14	12.41	9.99
2050	8.01	12.06	9.62
Level-premium cost [3]	6.59	8.40	7.43
	Monthly disability benefits		
1965	0.24	0.51	0.37
1970	.27	.54	.41
1980	.29	.57	.43
1990	.26	.53	.39
2000	.27	.60	.43
2025	.28	.60	.42
2050	.29	.63	.43
Level-premium cost [3]	.29	.58	.42

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

[2] Based on the average of the dollar costs under the low-cost and high-cost estimates.

[3] Level-premium contribution rate, at 2.6 percent interest rate, for benefits after 1955, taking into account interest on the trust fund on Dec. 31, 1955, future administrative expenses, and the lower contribution rates payable by the self-employed.

NOTE.—The figures in this table are based on high-employment assumptions.

TABLE 13.—*Estimated progress of old-age and survivors insurance trust fund, 2.6 percent interest*

[In millions]

Calendar year	Contributions [1]	Benefit payments	Administrative expenses	Interest on fund	Fund at end of year
	Actual data (excluding effect of railroad coverage)				
1953	$3,945	$3,006	$88	$414	$18,707
1954	5,163	3,670	92	[3] 468	20,576
1955	5,713	4,968	119	[3] 461	21,663
1956	6,172	5,715	132	[3] 531	22,519
	Actual data (including effect of railroad coverage)				
1953	$4,099	$3,246	$91	$424	$19,084
1954 [2]	5,336	3,940	96	[3] 476	20,860
1955 [2]	5,913	5,290	123	[3] 466	21,826
	Low-cost estimate				
1965	$11,571	$9,797	$140	$901	$36,373
1970	14,389	11,867	157	1,227	49,594
1980	18,614	15,987	186	2,368	94,667
1990	20,278	19,322	215	3,508	138,818
2000	22,519	20,550	232	4,850	192,242
	High-cost estimate				
1965	$11,434	$11,150	$184	$659	$26,053
1970	14,241	13,418	206	728	29,030
1980	18,138	18,017	248	1,109	43,692
1990	19,027	21,978	285	952	35,942
2000	20,299	23,906	308	134	3,346
	Intermediate-cost estimate				
1965	$11,503	$10,465	$170	$780	$31,216
1970	14,315	12,642	182	977	39,317
1980	18,376	17,002	217	1,739	69,184
1990	19,652	20,650	250	2,230	87,387
2000	21,409	22,228	270	2,492	97,802

[1] Combined employer, employee and self-employed contributions. The combined employer-employee rate is 4 percent for 1955–59, 5 percent for 1960–64, 6 percent for 1965–69, 7 percent for 1970–74, and 8 percent for 1975 and after. The self-employed pay ¾ of these rates.
[2] Preliminary; partially estimated.
[3] Includes interest transfer from Railroad Retirement Account to OASI trust fund ($21.1 million in 1954, $7.4 million in 1955, and $5.2 million in 1956).

NOTE.—The estimated figures in this table are based on high-employment assumptions.

TABLE 14.—*Estimated progress of disability insurance trust fund, 2.6 percent interest*

[In millions]

Calendar year	Contributions [1]	Benefit payments	Administrative expenses	Interest on fund	Fund at end of year
	Low-cost estimate				
1965	$972	$483	$19	$133	$5,468
1970	1,036	572	23	213	8,633
1980	1,163	671	26	405	16,225
1990	1,267	650	25	675	26,946
2000	1,407	773	29	1,055	41,920
	High-cost estimate				
1965	$959	$989	$39	$33	$1,278
1970	1,023	1,136	46	22	804
1980	1,134	1,303	49	(2)	(2)
1990	1,189	1,273	48	(2)	(2)
2000	1,269	1,515	57	(2)	(2)
	Intermediate-cost estimate				
1965	$966	$735	$29	$83	$3,380
1970	1,030	854	34	118	4,729
1980	1,148	988	37	188	7,468
1990	1,228	962	36	291	11,581
2000	1,338	1,144	43	442	17,502

[1] Combined employer, employee and self-employed contributions. The combined employer-employee rate is ½ percent for 1957 and after. The self-employed pay ¾ of this rate.
[2] Fund exhausted in 1975.

NOTE.—The estimated figures in this table are based on high-employment assumptions.

The difference between the level-premium cost of benefits and administrative expenses and the level-premium contribution rate equivalent to the graded schedule in the law is used to indicate the actuarial balance of the system. The following table shows these figures for the old-age and survivors insurance program and disability insurance program:

[Percent]

Level-premium equivalent	Low cost	High cost	Intermediate cost
	Old-age and survivors insurance		
Contributions	7.27	7.17	7.23
Benefit costs [1]	6.59	8.40	7.43
Net difference [2]	.68	−1.23	−.20
	Disability insurance		
Contributions	0.49	0.49	0.49
Benefit costs [1]	.29	.58	.42
Net difference [2]	.20	−.09	.07

[1] Including adjustments (*a*) to reflect lower contribution rate for self-employed as compared with employer-employee rate, (*b*) interest on the existing trust fund on Dec. 31, 1955, and (*c*) for administrative expenses.
[2] A negative figure indicates the extent of lack of actuarial balance. A positive figure indicates more than sufficient financing.

These figures indicate that the old-age and survivors insurance system has a small financial "deficit" and is thus not quite self-supporting; this deficiency, however, is relatively small so that for all practical purposes it may be said that the system is in actuarial balance. On the other hand, the disability insurance program shows a small "surplus" according to the intermediate cost estimates and so is indicated as being slightly more than self-supporting. However, considering the variability of cost estimates for disability benefits, this small actuarial excess is certainly no more than a moderate safety factor.

A discussion of the assumptions upon which these tables have been calculated is presented in appendix I.

CONCLUSION

During the past 5 fiscal years, the contribution income of the old-age and survivors insurance trust fund has increased substantially for a number of reasons. In addition to a rise in earnings levels and the normal uptrend in the labor force, contribution rates increased in 1954; moreover, coverage was extended to additional employments and the maximum limit on taxable earnings was raised in 1951 and 1955. With the growth of the trust fund, interest received on investments has also increased.

Trust-fund disbursements have risen even more sharply than contribution income. Basic factors in this increase are the long-term growth in the aged population and, more significantly, the lengthening period during which workers have had an opportunity to earn the quarters of coverage required to be insured. More immediate causes have been the amendments to the Social Security Act during 1950–54, which have extended the program's coverage; lowered the requirements for eligibility to benefits for persons who retire and for the survivors of individuals who die in the early years of the program; increased benefits payable; and liberalized the retirement test.

It is estimated that under continued favorable economic conditions, aggregate income of the old-age and survivors insurance and disability insurance trust funds from contributions and interest will be wholly sufficient during the 5-year period immediately ahead to meet aggregate disbursements of the programs during this period. Long-range actuarial studies show that, on the basis of high employment assumptions, the level-premium cost of the old-age and survivors insurance program at 2.6-percent interest ranges from 6.59 to 8.40 percent of payroll, depending on the combination of cost assumptions selected. The corresponding level-premium cost of the disability insurance program ranges from 0.29 to 0.58 percent of payroll.

With more than 90 percent of all paid employment now covered or eligible for coverage under old-age, survivors, and disability insurance, this program now provides basic security to almost all workers and their families in the event of retirement, prolonged disability, or death. Its continued financial soundness is a major concern both to the contributors and to the Nation as a whole.

APPENDIXES

Appendix I. Detailed Long-Range Cost Estimates

The estimates presented in the previous report of the Board of Trustees related to the program as it was after the 1954 amendments. Since the date of the last report, the 1956 amendments have been enacted and the earnings assumptions have been revised to reflect approximately the 1955 experience. Thus the differences in the assumptions underlying the cost estimates in last year's report and this one are in respect to the provisions of the act and in respect to covered earnings.

The estimates are based on level earnings assumptions. If earnings levels in the future should be considerably above that which now prevails, and if at the same time the benefits for those on the roll are adjusted upward so that annual costs in relation to payroll remain the same, then the resulting increased dollar outgo will offset the increased dollar income. This is an important reason for considering costs relative to payroll rather than in dollars.

The cost estimates have not taken into account the possibility of a rise in earnings levels, although such rises have characterized the past history of this country. If such an assumption were used in the cost estimates and if the benefit formula nevertheless were not changed, the cost relative to payroll would, of course, be lower. If benefits are adjusted continuously and without any time-lag to keep pace with rising earnings trends, the year-by-year costs as a percentage of payroll would be unaffected. Such an adjustment, however, would raise the level-premium cost, since under these circumstances the relative value of the interest earnings on the trust fund would diminish with the passage of time.

A useful concept of long-range cost is the level-premium contribution rate required to support the system in perpetuity. This is obtained by discounting future benefits and assumed contributions at compound interest and assuming that benefit payments and taxable payrolls remain level after the year 2050 (actually the relationship between benefits and payroll is assumed virtually constant after about 2020). If such a level rate were adopted, relatively large accumulations in the trust fund would result, and in consequence there would also be sizeable eventual income from interest. Even though such a method of financing is not followed, this concept provides a useful measure of long-range costs which takes into account the heavy deferred load.

There are a number of basic factors, both demographic and economic, which must be continually reexamined in estimating the cost of this program. As a result of this continual reexamination, there is now in process a complete revision of the long-range cost estimates. It is expected that this revision will result in a slight increase in the estimated cost of the program for the immediate future. This is due in part to the fact that population assumptions have been in need of change and also because the participation in the system in recent years has been somewhat more extensive than had been previously estimated. It is not yet possible to state what the effect will be on overall long-range costs. Upon the completion of these revisions there will be available a more up-to-date analysis of the long-range costs of the old-age, survivors, and disability insurance program.

(a) *Population growth.*—The future trend of the population depends on the size and age distribution of the existing population, on future births and immigration, and on future deaths and emigration. In making use of the extensive census and vital statistics data available, one must be aware of the various types of error and bias (fully recognized and analyzed in their publications by the Bureau of the Census and the National Office of Vital Statistics) which are present.

Crude birth rates declined for many years until about 1935, due in part to the increasing proportion of the female population past the childbearing ages, and in part to a decline in age-specific birth rates. However, since 1937 the long decline of the birth rate has been reversed. During the war years, high birth rates were reported, the wartime peak being reached in 1943. Although there was some decline in 1944–45, the birth rate remained higher than at any time during the thirties, despite the fact that the war removed many potential fathers from the country. Beginning in 1946, a very rapid rise occurred, and the birth rate for the 12-month period ending June 1947 was higher than at any time since the beginning of World War I. The peak was followed by some decline and a subsequent rise in 1951–55, which did not quite reach the 1947 level.

Net immigration had been very heavy prior to 1915 and moderate in the early twenties, but was quite negligible thereafter. Most population forecasts have assumed that no return to high net immigration rates may be expected.

As a basis for the cost estimates, two population projections have been developed. These do not reflect the maximum possible range in population which might develop in the future, but rather embody combinations of factors which produce either low costs or high costs in regard to old-age and survivors insurance; for example, unfavorable mortality assumptions versus favorable ones. These population projections are presented in detail in Actuarial Study No. 33 of the Social Security Administration (Illustrative United States Population Projections, 1952).

Table 15 indicates the alternative trends of population growth resulting for the total population, for the population aged 20–64, and for the population aged 65 and over. The high-cost projection shows a larger aged population than the low-cost projection because of the assumed lower mortality, but a somewhat smaller population in age groups under 65 because of the assumed lower fertility, which more than offsets the lower mortality.

TABLE 15.—*Actual and estimated population of the United States,*[1] *1920–2000*

[In millions]

Calendar year	All ages			Aged 20 to 64			Aged 65 and over		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
	Actual data								
1920 (April)	108	55	53	58	30	28	5.0	2.5	2.5
1930 (April)	125	64	62	69	35	34	6.7	3.4	3.3
1940 (April)	135	68	67	79	39	39	9.0	4.4	4.6
1950 (April)	155	77	78	89	44	45	12.3	5.8	6.5
1956 (July)	172	83	87	93	46	47	14.6	6.7	7.8
	Projection for low-cost assumptions								
1965	181	90	91	99	49	50	16.9	7.6	9.3
1980	209	103	106	117	58	59	22.0	9.4	12.6
2000	248	123	125	139	70	69	25.8	11.0	14.8
	Projection for high-cost assumptions								
1965	178	88	90	99	49	50	17.1	7.7	9.4
1980	197	97	100	116	58	58	22.8	9.9	12.9
2000	216	108	108	128	64	64	28.0	12.2	15.8

[1] Includes—in addition to the continental United States—Alaska, Canal Zone, Hawaii, Puerto Rico, and Virgin Islands, and for 1950 and after, Armed Forces and Government employees overseas and their families. For 1940 and later, data for ages 55 to 69 adjusted for age biases in nonwhite population as enumerated.

(*b*) *Mortality.*—Mortality rates by age have been decreasing steadily since the turn of the century for both sexes and for virtually all ages up to age 60. Although there was relatively little change above that age during the first four decades, significant improvement has occurred during the past decade and a half.

In both the low-cost and high-cost assumptions, continued improvement in mortality rates at all ages is postulated. However, the degree of improvement embodied in the high-cost assumptions is substantially greater. While both sets of assumptions are necessarily arbitrary, they may reasonably be taken as delineating, for the purposes of this report, the range within which mortality rates will fall. If this range seems wide, it should be noted that no allowance has been made for the effects of such diverse factors as reduction in mortality through the application of new discoveries to the prevention of disease and to the impairments caused by disease and, on the other hand, the possibility that mortality rates at older ages might actually increase because more persons with serious impairments, such as diabetes, are enabled to survive to older ages.

(*c*) *Amount of covered employment.*—In estimating the number of covered persons, percentages of men and women in each age group who are in covered employment are developed through analysis of past wage data for the groups already covered, along with such data relating to the newly covered groups as can be obtained from censuses and other sources. The level of employment assumed is slightly below that currently prevailing.

It is assumed that about 95 percent of all males in the country aged 25–34 have covered earnings in the course of a year, the ratio decreasing to about 75 percent for ages 60–64. For women the corresponding proportions are 45 percent for ages 25–34 and 25 percent for ages 60–64. Further, about 85 percent of covered men are assumed to work in all 4 quarters, with somewhat lower proportions at the youngest and oldest ages. For women, the proportions used were about 55 percent for ages 20–35 and about 65 percent for ages 40 and over. It is assumed that in the future the proportion of women who will be in covered employment will gradually rise for each age group, since in recent years they have been participating more and more in covered employment.

(*d*) *Proportion of time in covered employment prior to qualification for benefits.*—The number of persons who gain protection through becoming either "fully insured" or "currently insured" under old-age and survivors insurance depends upon the volume and pattern of their work in covered employment and upon the amount of taxable earnings from such work. A discussion of the latter factor is presented subsequently in item (i).

Table 16 shows, at certain future dates, the estimated percentages of the population insured by reason of current or previous work experience, subdivided by sex and by age groups above and below 65. The percentages for age 65 and over include old-age beneficiaries (i. e., retired workers). Table 17 relates the old-age beneficiaries, and the total beneficiaries aged 65 and over actually drawing benefits, to the total aged population.

TABLE 16.—*Estimated proportion of the population insured*[1] *under old-age and survivors' insurance, 1965–2000*

[In percent]

Calendar year	Low-cost estimate		High-cost estimate	
	Ages 20 to 64	Ages 65 and over	Ages 20 to 64	Ages 65 and over
	Men			
1965	85	74	89	79
1980	88	87	92	91
2000	88	92	93	96
	Women[2]			
1965	48	27	53	30
1980	52	40	58	46
2000	53	50	59	60

[1] Including old-age beneficiaries.
[2] Excludes wives and widows of fully insured men except such wives and widows who are insured on the basis of their own employment.

NOTE.—The figures in this table are based on high-employment assumptions.

TABLE 17.—*Estimated proportion of population aged 65 and over receiving old-age and survivors insurance benefits, 1965–2000*

[In percent]

Calendar year	Men receiving benefits [1]	Women receiving benefits: Old-age benefits [2]	Women receiving benefits: Other benefits [3]	Women receiving benefits: Total
	Low-cost estimate			
1965	55	22	35	57
1980	68	34	38	72
2000	76	45	37	82
	High-cost estimate			
1965	65	27	37	64
1980	76	42	38	80
2000	85	56	34	90

[1] Consists almost entirely of old-age beneficiaries (retired insured workers).
[2] Old-age beneficiaries are retired insured workers. Women qualified both for old-age and wife's, widow's, or parent's benefits are considered as old-age beneficiaries.
[3] Wives of old-age beneficiaries, and widows and dependent mothers of deceased insured workers, excluding women qualifying as old-age beneficiaries.

NOTE.—The figures in this table are based on high-employment assumptions.

(*e*) *Marital status and family composition.*—Marital relationships by age have great significance for old-age and survivors insurance costs because the system provides benefits for aged wives and widows (and also for aged dependent husbands and widowers). A woman 62 or over cannot draw both the old-age benefit based on her own earnings and a full wife's, widow's, or parent's benefit based on her husband's or child's earnings. Hence, it is necessary to consider both the marital status of the female covered workers and also the exits from this group because of marriage. A relatively large cost offset occurs on account of the provision which prohibits duplication of benefits. The experience to date is still extremely limited in this respect (in December 1955 about 108,500 such dual beneficiaries had smaller old-age benefits, and an unknown number had larger old-age benefits and thus did not receive the supplementary or survivor benefit). This factor will not reach its full magnitude until some 30 or 40 years hence when current female workers in their twenties and thirties have attained the minimum retirement age.

Family composition data, indicating the proportion of individuals with children and the average number of children per family, also have great significance, because the system provides benefits for orphaned children and their widowed mothers. The future birth rate has an important role in this connection since it determines not only the total number of children, but also how they are divided up into families. The actual claims experience, too, is valuable as a guide.

There must also be considered the factors resulting in termination of married status, divorce, and mortality. The distribution of ages of husbands and wives also affects the cost estimates. Various studies have indicated that at almost all ages women have lower mortality rates than men and that the mortality rates of married persons are lower than those for all persons combined. In the cost estimates differential mortality by marital status has been considered in determining costs for the various types of benefits.

Aged beneficiaries and their dependents are composed of a number of different categories. Table 18 shows the projected trends in the number of beneficiaries, distinguishing between old-age beneficiaries (retired workers), wives and dependent husbands of old-age beneficiaries, children of old-age beneficiaries, aged widows and dependent widowers of deceased insured individuals, and dependent parents of deceased insured workers who left no widows or eligible children. It has been assumed that all retired persons eligible to receive old-age benefits based on their own earnings would apply for and receive these benefits even though they might be entitled to larger wife's, husband's, widow's, widower's or parent's benefits (which instead would be paid as reduced supplementary amounts). This assumption is made because it is rarely to the individual's disadvantage, and may be to his advantage, to receive old-age benefits and reduced supplementary benefits of another category, rather than to receive solely the full benefits of the supplementary category.

TABLE 18.—*Estimated monthly aged beneficiaries,[1] males aged 65 and over, females aged 62 and over, and children of old-age beneficiaries, in current-payment status, 1965–2000*

[In thousands]

Calendar year	Old-age beneficiaries [2]	Wives of old-age beneficiaries [3]	Children of old-age beneficiaries	Aged widows [4]	Dependent parents
	Actual data for December				
1950	1,771	508	46	314	15
1951	2,278	647	68	384	19
1952	2,644	738	75	455	21
1953	3,222	888	90	541	24
1954	3,775	1,016	107	638	25
1955	4,474	1,192	122	701	25
1956	5,112	1,434	131	913	27
	Low-cost estimate				
1965	6,891	1,569	111	2,351	29
1980	11,604	2,015	178	3,763	36
2000	15,854	2,224	198	4,252	44
	High-cost estimate				
1965	8,149	1,816	134	2,412	36
1980	13,799	2,189	183	3,809	48
2000	20,205	2,374	190	4,019	64

[1] For future estimates, persons qualifying both for old-age benefits and for wife's, widow's, husband's, widower's, or parent's benefits are shown as old-age beneficiaries. For actual data before 1955, such dual beneficiaries are shown under both categories (as of December 1954, about 77,000 such individuals). For actual data after 1954, old-age beneficiaries and wife and husband beneficiaries only are shown under both categories (as of December 1955, about 48,000 such beneficiaries).

[2] I. e., retired insured workers.

[3] Including dependent husbands and also a small number of wives, irrespective of age, with child beneficiaries in their care.

[4] Including dependent widowers.

NOTE: The estimated figures in this table are based on high-employment assumptions.

Although aged persons make up the bulk of the prospective beneficiaries under the program, the young survivors, composed of orphaned children and widowed mothers, will receive a considerable amount of benefits. Table 19 lists these two groups separately.

TABLE 19.—*Estimated younger survivor monthly beneficiaries in current payment status, 1965–2000*

[In thousands]

Calendar year	Orphaned children	Widowed mothers
	Actual data for December	
1950	653	169
1951	778	204
1952	864	229
1953	963	254
1954	1,054	272
1955	1,154	292
1956	1,210	301
	Low-cost estimate	
1965	1,470	464
1980	1,598	514
2000	1,831	580
	High-cost estimate	
1965	1,501	562
1980	1,478	578
2000	1,380	551

NOTE.—The estimated figures in this table are based on high-employment assumptions.

The high-cost assumptions show, as expected, a larger number of old-age beneficiaries, and dependents thereof, than the low-cost assumptions (table 18). This is in part because of the assumed lower mortality rates which result in a greater number and proportion of aged persons, and in part because of the higher retirement rates assumed and the greater proportion of the population assumed to be insured as a result of the in-and-out movement between covered employment and noncovered employment or nonemployment. On the other hand, the lower mortality tends to have the opposite effect in regard to widows (table 17) and, despite the somewhat higher birth rates, in regard to young survivors (table 18); thus a smaller number of survivor beneficiaries is indicated under the high-cost assumptions than under the low-cost assumptions.

Table 20 summarizes the previous discussion by showing illustrative numbers of aged and survivor beneficiaries as well as monthly disability beneficiaries and lump-sum death payments. Widows, widowers, and parents who are at or beyond the minimum retirement age (65 for men and 62 for women) are included under the aged category, as are also spouses and dependent children of old-age beneficiaries.

TABLE 20.—*Estimated old-age, survivors, and disability insurance beneficiaries in current-payment status, 1965–2000*

[In thousands]

Calendar year	Aged beneficiaries [1]	Younger survivors	Monthly disability [2]	Lump-sum death payments [3]
	Actual data for December			
1950	2,654	823		200
1951	3,397	982		414
1952	3,933	1,093		438
1953	4,764	1,217		512
1954	5,561	1,326		516
1955	6,515	1,446		567
1956	7,617	1,511		547
	Low-cost estimate [4]			
1965	10,951	1,934	477	936
1980	17,596	2,112	703	1,328
2000	22,572	2,411	813	1,743
	High-cost estimate [4]			
1965	12,547	2,063	1,026	967
1980	20,028	2,056	1,438	1,361
2000	26,852	1,931	1,683	1,795

[1] Including children of old-age beneficiaries and wives under age 65 having such children in their care. For actual data, before 1955, figures are somewhat overstated because of persons receiving both old-age benefits and wife's, widow's, or parent's benefits (about 77,000 individuals as of December 1954) and after 1954 because of persons receiving both old-age benefits and wife's benefits (about 48,000 as of December 1955).
[2] When disability beneficiaries attain age 65, they are reclassified as old-age beneficiaries.
[3] Number of deaths resulting in lump-sum payments during the year.
[4] Average number of beneficiaries on the roll during the year (except as to lump-sum death payments; see footnote 3).

NOTE.—The estimated figures in this table are based on high-employment assumptions.

In tables 16 to 20, only potential long-range trends have been set down, without recognition of cyclical or periodic fluctuations. Bearing this in mind, certain trends may be observed in these illustrative tables of number of beneficiaries:

(1) An overall uptrend in beneficiaries under all types of benefits payable to aged persons and their dependents;

(2) After 1960, a relatively small increase under the low-cost assumptions and a leveling off under the high-cost assumptions in the number of orphan-child and widowed-mother beneficiaries.

(3) A relatively small, and increasingly smaller, proportion of all benefits represented by younger survivor benefits;

(4) A relatively rapid advance in the proportion of fully insured persons aged 65 and over (including those drawing benefits) as compared with the rise in the proportion fully insured at ages 20–64; and

(5) A rapid rise in the percent of aged persons receiving old-age benefits.

(*f*) *Remarriage rates.*—Remarriage of "young widows" is an important cost factor since it results in termination of mother's insurance benefits and also of rights to deferred widow's benefits at age 62. The greatest potential duration of benefits occurs among the younger widows, who can receive benefits for many years as mothers of young children and later as aged widows. These, however, are also the women with the greatest chance of remarriage. Among the older mothers with fewer prospective years of benefit receipt (their youngest child being nearer age 18), the probability of remarriage is smaller. Remarriage rates vary both by age of the widow and by duration of widowhood.

(*g*) *Disability benefits.*—In making the estimates for monthly disability benefits, which were added by the 1956 amendments, the following assumptions were used:

(1) Low cost: Disability rates for men are about 45 percent of class 3 rates (experience of life insurance companies under disability income policies for the early 1920's, modified for a 6-month waiting period). Incidence rates for women are 50 percent higher. Termination rates for German social insurance experience for 1924–27, which is the best available experience as to relatively low disability termination rates.

(2) High cost: Disability incidence rates for men are 90 percent of the so-called 165 percent modification of class 3 rates (which includes increasingly higher percentages for ages above 45); this modification corresponds roughly to insurance company experience during the early 1930's. Incidence rates for women are 100 percent higher. Termination rates are class 3 rates.

The incidence rates used for both estimates were reduced 10 percent because, 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 but rather must be so proven then.

It will be noted that the low-cost estimate includes low incidence rates (which taken by themselves produce low costs) and also low termination rates (which taken by themselves produce higher costs, but which are believed to be necessary since, with low incidence rates—meaning only severely disabled beneficiaries—there would tend to be low termination rates, because there would be few recoveries). On the other hand, the high-cost estimate contains high incidence rates, but these are somewhat offset by high termination rates. When disability beneficiaries attain age 65, they are reclassified as old-age beneficiaries.

It is believed that these cost estimates for the monthly disability benefits are as good an indication of such costs as is now possible. Nonetheless, it is recognized that in a new field such as this, more valid estimates are possible only after operating experience has developed from the provisions being in effect for several years. As indicated above, disability incidence and termination rates can vary widely—much more so than mortality rates, which are basic insofar as retirement and survivor benefit costs are concerned.

Benefits as percentages of payroll for selected years are contained in table 12, while table 20 contains the estimated number of beneficiaries in current payment status for selected years.

(*h*) *Employment of beneficiaries.*—Since monthly benefits for all categories of beneficiaries are, in effect, suspended in any month in which the beneficiary is under age 72 and has more earnings than are permitted without suspension of the benefits under the retirement test, assumptions as to the employment of beneficiaries rank high in importance among the various cost elements. In December 1955, 79 percent of those aged 65 and over who were fully insured were actually receiving benefits. The proportion in the age group 65–71 is influenced to some extent by the favorable work opportunities for the aged now prevailing. In the future, this proportion will probably increase somewhat, if for no other reason than the aging of the insured population.

Then, too, a large demand for labor draws into employment and away from benefit receipt many widowed mothers and older children. There is assumed to be more employment of beneficiaries, and thus savings in cost, in the low-cost assumptions than in the high-cost ones.

(*i*) *Earnings in covered employment.*—One of the most striking changes in earned income on record has taken place since 1940. Not only have there been further rises in the hourly rate of earnings since the end of World War II, including a sharp rise following the outbreak of the Korean conflict, but also unemployment, including partial unemployment, has been relatively low so that most workers have had a full work-week (table 21).

TABLE 21.—*Average earnings credits of workers under old-age and survivors insurance by years, 1937–55*

Calendar year	Workers with any earnings in year			Workers with earnings in all 4 calendar quarters		
	Total	Male	Female	Total	Male	Female
	$3,000 maximum earnings base					
1937	$899	$1,037	$539	(1)	(1)	(1)
1938	832	958	507	$1,211	$1,359	$783
1939	881	1,014	536	1,247	1,400	800
1940	926	1,070	553	1,305	1,465	831
1941	1,014	1,188	574	1,466	1,646	910
1942	1,127	1,364	609	1,703	1,939	1,047
1943	1,289	1,580	788	1,913	2,205	1,271
1944	1,369	1,681	887	1,996	2,301	1,402
1945	1,328	1,591	895	1,982	2,293	1,384
1946	1,394	1,635	929	2,031	2,269	1,480
1947	1,571	1,831	1,044	2,173	2,393	1,611
1948	1,677	1,939	1,138	2,281	2,493	1,733
1949	1,711	1,964	1,185	2,298	2,508	1,763
1950	1,769	2,026	1,232	2,376	2,579	1,852
	$3,600 maximum earnings base					
1951 total	$2,041	$2,398	$1,333	(1)	(1)	(1)
1951 wage employment	1,997	2,357	1,319	$2,665	$2,966	$1,945
1951 self-employment	2,278	2,356	1,745	(1)	(1)	(1)
1952 total [2]	2,110	2,470	1,430	(1)	(1)	(1)
1952 wage employment [2]	2,070	2,440	1,400	2,740	3,040	2,050
1952 self-employment [2]	2,330	2,450	1,740	(1)	(1)	(1)
1953 total [2]	2,180	2,550	1,500	(1)	(1)	(1)
1953 wage employment [2]	2,150	2,510	1,490	2,820	3,110	2,170
1953 self-employment [2]	2,350	2,450	1,800	(1)	(1)	(1)
1954 total [2]	2,190	2,530	1,520	(1)	(1)	(1)
1954 wage employment [2]	2,150	2,510	1,510	2,820	3,110	2,180
1954 self-employment [2]	2,350	2,450	1,750	(1)	(1)	(1)
	$4,200 maximum earnings base					
1955 total [2]	$2,330	$2,700	$1,570	(1)	(1)	(1)
1955 wage employment [2]	2,290	2,680	1,570	$3,100	$3,500	$2,300
1955 self-employment [2]	2,400	2,500	1,600	(1)	(1)	(1)

1 Data not available.
2 Preliminary.

The higher earnings rate gives workers relatively more chance of obtaining credit for quarters of coverage (at $50 of wages per quarter) now than in the prewar years, thus effecting an increase in number of persons with insured status and in the average wage used for benefit computations. These increases are assumed to be more or less permanent.

The cost assumptions involve average annual creditable earnings in perpetuity of $3,555 for men who work in all 4 quarters of a year and, correspondingly, $2,280 for women. For both men and women the average earnings used for 3-quarter workers is about 45 percent of that for 4-quarter workers (i. e., at a lower rate per quarter). Corresponding proportions for the 2-quarter and 1-quarter workers are about 22 and 9 percent, respectively. As used here, the reference to 4-quarter workers, 3-quarter workers, etc., relates only to the status in a particular year; the estimates allow for the fact that over the course of a working lifetime an individual may be in covered employment all 4 quarters of some years, fewer in other years, and perhaps not in covered employment at all in still other years. These ratios of the part-time average covered earnings to the 4-quarter average parallel very closely the actual ratios observed in the old-age and survivors earnings data.

The 4-quarter earnings assumptions may be compared with the actual experience for such workers in the past years as shown by the last two columns of table 21, but allowance must be made for the changes in the maximum wage base. The taxable (and creditable) earnings assumptions are based on about the level prevailing in 1955 and are about 12 percent above the 1951–52 level, used for the estimates for the 1954 amendments (after adjustment for change in the earnings base).

Development of the prospective cost of the program using the various elements discussed furnishes reasonable illustrations of the number of future beneficiaries and costs. The values derived are well within the outside boundaries of possibility, though by no means either the lowest or the highest conceivable. Experience to date is limited; the payment of monthly benefits began in 1940, and these benefits were revised drastically in 1950 and again moderately in 1952, 1954, and 1956. As payments got underway, limitations of coverage and the insured-status requirement excluded larger numbers of potential beneficiaries. In recent years, as the lag diminished and coverage expanded, payments have been limited by delayed claiming of benefits occasioned by favorable employment conditions during the war and postwar years. The long-range cost estimates look beyond these limitations and attempt to furnish some indication of the future trend in costs of the old-age and survivors insurance program.

It is to be noted that in addition to the assumptions already discussed, the long-range cost illustrations include assumptions relating to retirement rates, interest rate, and various miscellaneous administrative factors. Since the earlier cost estimates were developed, sufficient actual experience under the operation of the program is available to permit the introduction of various modifications to allow for such factors as the minimum and maximum provisions as to benefits, and the provision that the lump-sum death payment in certain instances may not exceed the actual burial expenses. Also taken into account are such miscellaneous factors as differential retirement rates by marital status and the effect of lowered earning capacity during the last illness on the size of survivor benefits.

An important element affecting old-age and survivors insurance costs arose through amendments made to the Railroad Retirement Act in 1951. These provide for a coordination of railroad retirement compensation and old-age and survivors insurance covered earnings in determining benefits for those with less than 10 years of railroad service. All future cases involving less than 10 years of railroad service are to be paid by the old-age and survivors insurance system.

Financial interchange provisions are established so that the old-age and survivors insurance trust fund and the disability insurance trust fund are to be placed in the same financial position as if there never had been a separate railroad retirement program. It is estimated that, over the long range, the net effect of these provisions will be a relatively small gain to the old-age, survivors, and disability insurance system since the reimbursements from the railroad retirement system will be somewhat larger than the net additional benefits paid on the basis of railroad earnings. The long-range costs developed here are for the operation of the trust funds on the basis, provided in current law, that all railroad employment will be (and beginning with 1937 has been) covered employment. The balance in the funds thus corresponds exactly to the actual situation. But the contribution income and benefit disbursement figures shown (as well as the number of beneficiaries) are roughly 5 percent higher than the payments which will actually be made directly to the trust funds from contributors and the payments which will actually be made from the trust funds to the individual beneficiaries. This is the case because the figures here include both the additional contributions which would have been collected if railroad employment had always been covered and the additional benefits that would have been paid under such circumstances. The balance for these two elements is to be accounted for in actual practice by the operation of the financial interchange provisions.

The long-range cost estimates of income and outgo were presented in the body of the report in tables 12, 13, and 14, the first showing the benefit costs relative to payroll and the latter two the progress of the trust funds. In addition to the figures for the low-cost and high-cost estimates, resulting from two carefully considered series of assumptions, intermediate-cost estimates have been developed. The latter are merely an average of the low-cost and high-cost estimates of beneficiaries, disbursements, and income of the trust funds; they are not intended to represent "most probable" figures. Rather, they have been set down as a convenient and readily available single set of figures to be used for comparative purposes.

Since the Congress has adopted the principle of establishing in the law a contribution schedule designed to make the system self-supporting, it was necessary at the time the legislation was enacted to select a single set of estimates as the basis for the contribution schedule. The intermediate-cost estimate was used for this purpose. Quite obviously any specific schedule may require modification in the light of future experience, but the establishment of the schedule in the law does make clear the congressional intent that the system be self-supporting. Exact self-support cannot be obtained from a specific set of integral or rounded fractional rates, but the intention to adhere as closely as possible to this principle of self-support was clearly expressed by the Congress in 1950 when it developed the tax schedule in the law, and again in 1952, 1954, and 1956 when further amendments were made.

The Congress considered the matter of costs in the legislative development of the 1956 amendments—especially in the light of the revised estimates for the 1954 act which, recognizing the increased earnings level in covered employment, showed somewhat lower costs as a percentage of payroll than previously estimated. These lower costs produced a decrease in the financial deficiency of the 1954 act, which reduced deficiency was approximately preserved in the 1956 act. Under the 1956 act, the disability insurance system showed a small surplus since the increase in the contribution rate which is to support monthly disability benefits is slightly more than sufficient to meet the cost of these benefits under current intermediate estimates. It might be said, in light of the previous paragraph, that for practical purposes the system on the intermediate-cost basis is in actuarial balance (i. e., the difference between the level-premium cost of benefits and the equivalent level contribution rate is negligible).

Tables 12, 13, and 14 show the steady rise in benefit payments under the widely different sets of conditions discussed earlier in this section, and demonstrate the large increases, relatively and in absolute quantities, which would occur even after 1980, particularly under the high-cost assumptions.

Because of the nature of the assumptions, the tables show only smooth trends, omitting the irregularities and periodic cyclical variations which may develop. These irregularities are expected to be far more pronounced in regard to contributions than benefits since, after the system is well established, the dollar amount of the benefit roll will contain a large proportion of fixed payments to permanently retired persons. However, the payroll of covered workers from which the contribution income is derived will react quite sensitively to increases or decreases in job opportunities, changes in the length of the workweek, and changes in unit rates of pay. For demographic reasons alone, as discussed earlier, it is unlikely that the system would level out, even eventually, to a completely fixed relationship between contributions and benefits.

Table 12 compares benefit costs related to payroll for the present estimates. The cost rises steadily under both estimates—leveling out somewhat between 1990 and 2000. The "ultimate" cost for the old-age and survivor benefits is reached some 20 or 25 years after the year 2000 at roughly 8 percent of payroll for the low-cost estimate, 12.5 percent for the high-cost estimate, and 10 percent for the intermediate-cost estimate. The "ultimate" cost for the disability benefits is reached considerably earlier—possibly in 15 or 20 years—at about 0.3 percent of payroll for the low-cost estimate, 0.6 percent for the high-cost estimate and 0.42 percent for the intermediate estimate.

The interest assumption used in determining level-premium costs is 2.6 percent. The average rate on investments of the trust fund is currently about 2.5 percent (as of the end of 1956). The intermediate-cost estimate for the old-age and survivor benefits shows a level-premium cost of 7.43 percent of payroll at 2.6 percent interest. This figure may be contrasted with the level rate equivalent to the total graded contribution schedule in the law assigned to these benefits (taking into account the lower contributions payable by the self-employed as compared with the combined employer-employee rate) which is 7.23 percent of payroll (see section on actuarial status of the trust funds). Thus, this comparison indicates that according to these intermediate-cost figures, the tax schedule in the law yields revenues not quite sufficient to finance these benefits on a self-supporting basis.

The level-premium cost for the monthly disability benefits is 0.42 percent of payroll on the intermediate basis, or slightly below the equivalent of the contributions for these benefits. Thus, based on this estimate, the tax is somewhat higher than is needed to finance these benefits on a self-supporting basis.

Table 13 shows the progress of the old-age and survivors insurance trust fund under the present estimates. In the low-cost estimate, contribution income exceeds benefit disbursements in all years. Accordingly, the trust fund builds up quite rapidly and even some 45 years hence is growing at the rate of almost $7 billion per year (and at that time is about $192 billion). On the other hand, under the corresponding high-cost estimate, benefit disbursements exceed contribution income in and after 1980, and the trust fund, after building up to a maximum of abour $45 billion in 1983, decreases thereafter until it becomes exhausted shortly after the year 2000.

These results for the low-cost and high-cost estimates are to be expected since the old-age and survivors insurance system on an intermediate-cost estimate is approximately self-supporting. Accordingly, a low-cost estimate should show that the system is more than self-supporting and a high-cost estimate should show that a deficiency will arise in later years. At any rate, it appears likely that there will be ample funds for several decades even with relatively unfavorable experience.

According to the intermediate-cost estimate, contribution income will exceed benefit disbursements in almost every year until 1986. After that, the excess of benefit disbursements and administrative expenses over contribution income is, for many years, met by interest earnings of the trust fund. Accordingly, the trust fund grows steadily, reaching a maximum of about $119 billion in 2014 and then declines slowly. This decrease is another indication that the tax schedule in the law is not quite self-supporting under the intermediate cost estimate.

Table 14 shows the progress of the disability insurance trust fund under the present estimates. In the low-cost estimate, contribution income exceeds benefit disbursements in all years. The fund would be about $42 billion in the year 2000 and would be growing at the rate of $1.5 billion a year. In the high-cost estimate, benefit disbursements exceed contribution income in and after 1963, and the trust fund, reaching a maximum of about $1.3 billion in 1963, would be exhausted in 1975. Under the intermediate-cost estimate contribution income exceeds benefit outgo in all years, and the trust fund in the year 2000 is growing at a rate of about $600 million a year.

These results for the low-cost and high-cost estimates are to be expected since the disability system on an intermediate estimate basis is self-supporting. Thus, under the assumptions, the low-cost estimate is more than self-supporting and the high-cost estimate shows a deficiency in the next 20 years or so.

A factor mentioned earlier, but not used in the actuarial projections, is the trend observed in the past, of an irregular but upward movement in earnings, both on a dollar basis and in the form of real wages. If this secular trend continues, then—other things being equal and with no changes in the present provisions of the law—the curves of both benefits and contributions would be more steeply ascending than shows. The upward changes in the contribution curves, however, would be far more accentuated than would be such changes in the benefit curves. There are several reasons for this effect, the important one being that the benefit increase would be dampened because—

(1) Benefits are determined by the average monthly wage up to the maximum of $350; 55 percent is applied to the first $110 thereof and 20 percent to the part above $110. As average earnings increase and more persons approach or reach the $350 maximum, a larger portion of such earnings falls in that bracket of the benefit formula to which the 20-percent rather than the 55-percent rate applies. Thus benefits are smaller in relation to earnings, and consequently in relation to contributions.

(2) Contributions in any year are based substantially on the covered earnings of that year. Benefits in force in any year are based on weighted composite earnings of all previous years in which the insured persons on whose account the benefits are paid worked in covered employment, and in far distant future years would include earnings of as much as 50 previous years.

The assumption of steadily rising earnings in conjunction with an unamended benefit formula would have an important bearing in considering the long-range cost of the program. With such an assumption, the future rise in earnings would seem to offer significant financial help in the financing of benefits because contributions at a fixed percentage rate would increase steadily relative to benefit disbursements. However, benefits paid would steadily diminish in relation to the current earnings level. As a result, offsetting this apparent savings in cost is the likelihood that from the long-range point of view the present benefit formula would not be maintained.

In revising the benefit schedule to conform with the altered earnings level, the changed cost and contribution picture would have to be considered. This is especially true for changes resulting from the fact that benefits would be based on earnings prevailing at the time of the revision and thereafter, while the accumulated trust fund at that time would have developed from contributions on the lower earnings levels of the past. The fund thus would play a less important role in financing the program than it would if the earnings level had not changed. If it is assumed that the benefit level in the future will be adjusted in proportion to the increase in average earnings, the level-premium cost of the program, expressed as a percentage of taxable earnings in perpetuity, would be increased because of the diminishing part played by the accumulated trust fund in financing the program. For small annual rates of increase in average earnings (i. e., for rates less than the assumed valuation interest rate) this increase in cost may be partially counterbalanced by the timelag which would undoubtedly occur between the rise in earnings level and the amendment of the benefit provisions. However, for larger rates of increase in average earnings the level-premium cost in perpetuity would be the ultimate cost, because the fund would ultimately play virtually no role in the financing of the benefits. Nevertheless, during the course of this century at least, the interest income from the fund would continue to be a significant amount in relation to total disbursements.

In addition to excluding the assumption of increasing wages in the future, the detailed cost estimates given have avoided dealing with various other important secular trends. These have diverse effects on costs which cannot be adequately extrapolated into the future. One illustration is the lengthening of the period of childhood or preparation for work. Another possibility is a drastic change in the average age of retirement, either to a considerably lower effective age so that practically all persons would retire at the minimum eligibility age, or conversely to a higher effective age, under circumstances of greatly improved health conditions combined with good employment opportunities, such that few would retire before age 72 (after which, in any event, benefits are paid regardless of employment).

Appendix II. Legislative History Affecting the Trust Funds

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 serve 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 the Reorganization Plan No. 2 of 1946, the 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, the 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 Board of Trustees of the Federal old-age and survivors insurance trust fund was also made the Board of Trustees of the Federal disability insurance trust fund.

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. 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.

of this century at least, the interest income from the fund would continue to be a significant amount in relation to total disbursements.

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Special refunds of employees 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 estimated by him to be contributions which are subject to refund with respect to wages paid after 1950.

Credits for military service.—The Social Security Act Amendments of 1946 added section 210 to the Social Security Act. This section provided survivor-insurance protection to certain World War II veterans for a period of 3 years following their discharge from the Armed Forces. Section 210 (d) authorized Federal appropriations 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 the payments under this section. 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, and 1955 amendments which provided similar noncontributory credits on account of active military or naval service from July 25, 1947, through March 31, 1956, charged to the old-age and survivors insurance trust fund not only the additional costs arising from these credits but also those additional costs arising under the 1946 amendments (beginning September 1950).

Social Security Act Amendments of 1950.[1]—The 1950 amendments to the Social Security Act, which represented the first major legislative changes in the old-age and survivors insurance program since enactment of the 1939 amendments, became law August 28, 1950.

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

1. Coverage was extended compulsorily to regularly employed domestic and farm employees; most Federal employees not covered under the civil service retirement program; the nonfarm self-employed other than doctors, lawyers, engineers, and members of certain other professional groups; employees and the self-employed in Puerto Rico and the Virgin Islands; and a few other small occupational classes. In addition, two categories of employees were given the opportunity to be covered on a group voluntary basis—employees of nonprofit institutions and employees of State and local governments who are not under retirement systems.

2. Benefits were made payable in certain circumstances in which no benefits would formerly have been paid.

(*a*) The requirements for fully insured status were liberalized by introducing a new starting date for determining such status. This "new start" enabled many persons at least 65 years of age who did not meet the former requirements to become immediately eligible to receive retirement benefits. It also removed the disadvantage the newly covered groups would otherwise have faced in acquiring eligibility.

[1] Certain provisions in these amendments were further changed in subsequent legislation.

(*b*) Provisions defining dependency were modified to permit the payment of survivor benefits to all unmarried children under 18 years of age whose mothers were currently insured at time of death.

(*c*) Several new benefits for dependents and survivors of insured persons were added. Benefits equal to 50 percent of the primary insurance amount would be payable to a wife, under 65 years of age, of an old-age (primary) beneficiary as long as she had in her care a child entitled to benefits on her husband's earnings. In certain instances benefits would be payable to the dependent husband, aged 65 or over, of a retired female beneficiary, and also to the aged surviving dependent widower of a deceased woman worker. Husband's and widower's benefits are equal to 50 and 75 percent, respectively, of the primary insurance amount.

(*d*) The provisions governing the withholding of benefits because of work in covered employment were liberalized. Eligible persons at least 75 years of age could receive benefits regardless of the amount of their earnings in covered employment. Those under 75 years of age might earn as much as $50 a month in covered employment and still receive benefits.

(*e*) Lump-sum death payments were made available even though monthly benefits were payable to survivors for the month in which the wage earner died.

(*f*) Monthly benefits were made payable retroactively for a period up to 6 months prior to the month in which an application was filed provided the beneficiary was eligible therefor.

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

(*a*) The maximum amount of annual earnings taxable and creditable was raised to $3,600.

(*b*) For persons having at least six quarters of coverage after 1950, the average monthly wage might be calculated over all years after 1936 or after 1950, whichever yielded the larger primary insurance amount, except that in the case of individuals born after 1928, the 1950 starting date was required.

(*c*) For persons whose average monthly wage was calculated on the basis of earnings after 1950, the monthly primary insurance amount was 50 percent of the first $100 of average monthly wage, plus 15 percent of the next $200. The minimum primary insurance amount ranged from $25 for persons with average monthly wages between $35 and $50, down to $20 for persons with average monthly wages below $31.

(*d*) For persons already on the beneficiary rolls, benefits were increased by means of a conversion table contained in the new amendments. Where the wage earner lacked six quarters of coverage after 1950, benefits to future beneficiaries would be based on an average monthly wage computed over all years after 1936. In all cases where the average monthly wage was computed over all years after 1936, including cases referred to in subparagraph (b) above, benefits would be computed by the old formula, except that no 1-percent increment would be included for years after 1950. The amount so computed would then be increased by means of the conversion table.

(*e*) Parent's benefits were increased to 75 percent of the primary insurance amount. Child-survivor benefits were increased so as to pay to each child the sum of (1) 50 percent of the primary insurance amount, and (2) 25 percent of the primary insurance amount, divided by the number of child beneficiaries in the family. The amount of the lump-sum death payment was changed from 6 times the primary insurance benefit to 3 times the primary insurance amount.

(*f*) The maximum monthly amount of family benefits payable with respect to 1 wage record was the smaller of $150 or 80 percent of the average monthly wage, provided that the latter limit would not reduce benefits below $40.

4. The provision which was added to the Social Security Act in 1943 authorizing appropriations to the trust fund from general revenues when needed to meet costs was eliminated.

Social Security Act Amendments of 1952.[2]—The 1952 amendments to the Social Security Act became law July 18, 1952. The important changes significant from an actuarial standpoint are presented below:

1. Larger benefits were made payable to beneficiary families on the rolls as well as to virtually all future beneficiary families.

(*a*) For persons with an average monthly wage calculated on the basis of earnings after 1950, the monthly primary insurance amount was 55 percent of the first $100 of average monthly wage, plus 15 percent of the next $200. The minimum primary insurance amount was made $25 for persons whose average monthly wage was under $35, and $26 for persons with average monthly wages from $35 to $47.

(*b*) For persons already on the beneficiary rolls whose benefits were determined by the conversion table, benefits were increased by the use of a new conversion table in which all primary insurance amounts in the table of the 1950 law were increased by $5 or 12½ percent, whichever was larger. This new conversion table would be applicable in determining benefits for all future beneficiaries whose average monthly wage was computed over all years since 1936.

(*c*) The maximum monthly amount of family benefits payable with respect to 1 wage record was the smaller of $168.75 or 80 percent of the average monthly wage, provided that the latter limit would not reduce benefits below $45.

2. The provision governing the withholding of benefits because of work in covered employment was liberalized. The amount which eligible persons under age 75 might earn in covered employment and still receive benefits was increased to $75 a month.

Social Security Amendments of 1954.[3]—The 1954 amendments to the Social Security Act became law September 1, 1954. The important changes significant from an actuarial standpoint are presented below:

1. Coverage was extended compulsorily to self-employed farm operators; certain self-employed professional persons; additional farm, domestic, and Federal civilian employees; and some smaller groups. Coverage under the program was made possible on a group voluntary basis for State and local government employees who are members of retirement systems (except policemen and firemen) and for employees of foreign subsidiaries of American companies. Ministers and certain members of religious orders were permitted to participate in the program on the basis of individual election.

2. The conditions under which persons may become eligible for benefits were liberalized.

(*a*) Monthly benefits became payable to certain surviving dependents of individuals who died after 1939 and before September 1950

[2] Certain provisions in these amendments were further changed in subsequent legislation.
[3] Certain provisions in these amendments were further changed in subsequent legislation.

lacking fully insured status under the law then in effect, but who had at least six quarters of coverage.

(*b*) Persons who could not meet the requirements of the 1950 amendments for fully insured status would nevertheless be fully insured if all quarters elapsing after 1954 and before July 1956 as well as all quarters thereafter but before the quarter of death or attainment of age 65, whichever is earlier, were quarters of coverage. This transitional provision, intended principally for newly covered persons, would cease to be effective for persons who die or attain age 65 after the third quarter of 1958, when the normal requirements become easier to meet than the alternative.

(*c*) Periods of disability (see item 4, below) would not affect insured status.

(*d*) Monthly benefits were made payable retroactively for a period up to 12 months before the month in which an application was filed, provided the beneficiary was eligible therefor.

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

(*a*) The maximum amount of annual earnings taxable and creditable toward benefits was raised to $4,200.

(*b*) In computing the average monthly wage of persons who become eligible for retirement benefits or die after August 1954 before becoming eligible for retirement benefits, up to 5 years of lowest earnings may be dropped. This "dropout" computation may also be used for persons who were eligible for retirement benefits before September 1954 and who have at least six quarters of coverage after June 1953.

(*c*) Periods of disability (see item 4, below) would not reduce the average monthly wage for the purpose of benefit computation.

(*d*) For persons whose average monthly wage is calculated on the basis of earnings after 1950 and the "dropout," the primary insurance amount is 55 percent of the first $110 of average monthly wage plus 20 percent of the next $240. The minimum primary insurance amount is $30.

(*e*) For persons already on the benefit rolls, and for future beneficiaries whose benefits are computed through the 1939 or 1952 benefit formulas, benefits are increased by use of a revised conversion table which provides a guaranteed increase in primary insurance amount of at least $5 over the amount computed under the 1952 amendments.

(*f*) The minimum benefit for a family containing only 1 survivor beneficiary is $30.

(*g*) The maximum monthly amount of family benefits payable with respect to 1 wage record is the smaller of $200 or 80 percent of the average monthly wage provided that the latter limit may not reduce benefits below the larger of $50 or 1½ times the primary insurance amount. The maximum lump-sum death payment is $255.

4. Benefit rights of persons regularly covered by the program can be "frozen" during periods of prolonged total disability. In order to qualify for the "freeze," an individual must (1) be unable to engage in any substantial gainful activity by reason of an illness, injury, or other physical or mental impairment which can be expected to be of long-continued and indefinite duration or to result in death; or (2) the individual must be blind. He must also have at least 6 quarters of coverage during the 13-quarter period, and at least 20 quarters of coverage during the 40-quarter period, that ends with the quarter in

which the period of disability begins. If an individual qualifies for a disability "freeze" his period of disability will be disregarded in determining his insured status and in computing benefits due him or his family.

5. The provisions governing the withholding of benefits because of work were changed.

(*a*) The retirement test was placed on an annual basis for both wages and self-employment income. If an individual's annual earnings are $1,200 or less, no benefits are withheld. Each $80 (or fraction thereof) in earnings above $1,200 may result in deduction of 1 month's benefits for the individual. Benefits are not withheld for any month for which the individual had $80 or less in wages and did not engage in substantial self-employment.

(*b*) Earnings in noncovered as well as in covered employment are to be taken into account in determining if benefits shall be withheld.

(*c*) The age at which benefits are payable without regard to earnings was reduced to 72.

Social-security amendments in 1956.—A summary of the provisions affecting receipts and disbursements of the trust funds appears on pages 6–11.

Coordination of old-age, survivors, and disability insurance and railroad retirement programs.—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 1 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.

Both agencies completed a series of joint actuarial studies and analyses required by this provision. The results showed 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 to transfer 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 (less any offsets described below) are to be transferred from the railroad retirement account to the trust fund.

The legislation further provides that at the close of 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.

Change in definition of "employee."—Public Law 642, approved June 14, 1948, which amended the definition of the term "employee" as used in the Social Security Act, resulted in the exclusion from coverage of certain services previously held covered. While the amended definition was made retroactive to 1937, certain wage credits established under the former definition will remain credited to the individual's account. The law authorizes an appropriation to the trust fund from general revenues equal to the estimated total amount of benefits paid and to be paid that would not have been paid had the amended definition been in effect beginning in 1937.

Authorization for construction of office building.—With the passage of Public Law 195, approved August 1, 1955, Congress has authorized expenditure from the trust fund of $25,370,000 for construction of an office building and related facilities for the Bureau of Old-Age and Survivors Insurance.

Appendix III. Statutory Provisions Creating the Trust Funds and Defining the Duties of the Board of Trustees

(Secs. 201 and 218 (e), (h), and (j) 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 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 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 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 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) One-half 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 reported to the Secretary of the Treasury or his delegate pursuant to subtitle F of the Internal Revenue Code of 1954, 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) Three-eighths 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, 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. 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 during the ensuing five fiscal years either of the Trust Funds will exceed three times the highest annual expenditures from such Trust Fund anticipated during that five-fiscal-year period, and whenever the Board of Trustees is of the opinion that the amount of either of the Trust Funds is unduly small; and

(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.

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 par 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 bear interest at a rate equal to the average rate of interest, computed as to the end of the calendar month next preceding the date of such issue, borne by all marketable interest-bearing obligations of the United States then forming a part of the Public Debt that are not due or callable until after the expiration of five years from the date of original issue; except that where such average rate 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 average rate. Such obligations shall be issued for purchase by the Trust Funds only if the Managing Trustee determines that the purchase in the market of other interest-bearing obligations of the United States, or of obligations guaranteed as to both principal and interest by the United States on original issue or at the market price, is not in the public interest.

(e) Any obligations acquired by the Trust Funds (except special obligations issued exclusively to the Trust Funds) may be sold by the Managing Trustee at the market price, and such special 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) The Managing Trustee is directed to pay from the Trust Funds into the Treasury the amounts estimated by him and the Secretary of Health, Education, and Welfare which will be expended, out of moneys appropriated from the general funds in the Treasury, during a three-month period by the Department of Health, Education, and Welfare and the Treasury Department for the administration of titles II and VIII of this Act and subchapter E of chapter 1 and subchapter A of chapter 9 of the Internal Revenue Code of 1939, and chapters 2 and 21 of the Internal Revenue Code of 1954. Such payments shall be covered into the Treasury as repayments to the account for reimbursement of expenses incurred in connection with the administration of titles II and VIII of this Act and subchapter E of chapter 1 and subchapter A of chapter 9 of the Internal Revenue Code of 1939, and chapters 2 and 21 of the Internal Revenue Code of 1954. There are hereby authorized to be made available for expenditure, out of either or both of the Trust Funds, such amounts as the Congress may deem appropriate to pay the cost of administration of this title. After the close of each fiscal year, the Secretary of Health, Education, and Welfare shall analyze the cost of administration of this title incurred during such fiscal year in order to determine the portion of such costs which should have been borne by each of the Trust Funds and shall certify to the Managing Trustee the amount, if any, which should be transferred from one to the other of such Trust Funds in order to insure that each of the Trust Funds has borne its proper share of the costs of administration of this title incurred during such fiscal year. The Managing Trustee is authorized and directed to transfer any such amount from one to the other of such Trust Funds in accordance with any certification so made.

(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 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 shall be made only from the Federal Disability Insurance Trust Fund. All other benefit payments required to be made under this title shall be made only from the Federal Old-Age and Survivors Insurance Trust Fund.

PAYMENTS AND REPORTS BY STATES

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

(1) 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

(2) 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 FUNDS; 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 in the ratio in which amounts are appropriated to such funds pursuant to subsections (a) (3) and (b) (1) of section 201.

(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).

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