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19TH ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND

LETTER

FROM

SECRETARY OF THE TREASURY, AND MANAGING TRUSTEE, BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

TRANSMITTING

THE 19TH ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND FOR THE FISCAL YEAR ENDING JUNE 30, 1958, PURSUANT TO SECTION 201(C) OF THE SOCIAL SECURITY ACT, AS AMENDED

JUNE 22, 1959.—Referred to the Committee on Ways and Means and ordered to be printed

84011°—59——1

LETTER OF TRANSMITTAL

Board of Trustees of the Federal
Old-Age and Survivors Insurance and
Disability Insurance Trust Funds,
Washington, D.C., March 1, 1959.

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 19th 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,

Robert B. Anderson,
Secretary of the Treasury, and Managing Trustee of the Trust Funds.

James P. Mitchell,
Secretary of Labor.

Arthur S. Flemming
Secretary of Health, Education, and Welfare.

W. L. Mitchell,
Commissioner of Social Security and Secretary, Board of Trustees.

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19TH 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, 1958

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

Disability benefits were paid from the Federal disability insurance trust fund for the first time in August 1957. Total payments of disability benefits in the fiscal year amounted to $168 million, and at the end of the fiscal year benefits were being paid to 200,000 beneficiaries.

Shortly after the close of fiscal year 1958, Congress made extensive amendments to the Social Security Act and related sections of the Internal Revenue Code. Monthly benefit amounts under old-age, survivors, and disability insurance were increased, eligibility requirements for the payment of benefits to certain classes of beneficiaries were liberalized, and monthly benefits for dependents of disabled workers were provided. The maximum amount of earnings taxable and creditable toward benefits was raised to $4,800 a year beginning January 1959. The schedule of contribution rates was revised to provide an increase of one-fourth of 1 percent each for employees and employers beginning January 1, 1959. Further increases in contribution rates under the revised schedule will occur in 1960 and at 3-year (instead of 5-year) intervals thereafter until 1969. Several technical amendments, including changes in the retirement test provisions, were adopted. These amendments are described more fully in another section of this report, and their effects are taken into account in the actuarial cost estimates presented in this report.

In June 1958, the total number of old-age and survivors insurance beneficiaries was 11,705,000, or 13 percent more than in June 1957. There were 8,785,000 retirement beneficiaries (old-age beneficiaries and their entitled wives, dependent husbands, and young children), an increase of 14 percent, and 2,920,000 survivor beneficiaries, an increase of 11 percent, over a year earlier. The estimated number of persons with taxable earnings under old-age, survivors, and disability insurance in calendar year 1958 was about 75 million.

Benefit payments under the old-age, survivors, and disability insurance program were a material factor helping to maintain personal incomes and consumer purchasing power during the business recession that occurred in fiscal 1958. Disbursements of the old-age and survivors insurance trust fund in fiscal year 1958 were $8,041 million, not including $75 million representing overpayments of employee contributions subject to refund. Receipts net of these refunds were $7,824 million. The excess of outgo over income, amounting to $216 million, decreased the total assets of the trust fund from $23,029 million on June 30, 1957, to $22,813 million on June 30, 1958. The disbursements in fiscal year 1958 included $7,875 million for benefits and $166 million for administrative expenses. The receipts included $7,267 million in net contributions and $557 million in interest on investments.

Both disbursements and receipts of the old-age and survivors insurance trust fund showed an increase over fiscal year 1957. Disbursements rose $1,376 million or 21 percent, and receipts rose $724 million or 11 percent. The increase in disbursements was the combined result of the coverage extensions and liberalized eligibility and benefit provisions included in the amendments adopted during 1950–56 and the long-term growth of the aged population and the proportion of the aged eligible for benefits. The rise in receipts is accounted for chiefly by a rise in the amount of employment and earnings covered under the program.

Estimates for the 5 fiscal years 1959–63 show a further increase in the receipts and disbursements of the old-age and survivors insurance trust fund. The estimates indicate that during fiscal 1959 total outgo of the fund will exceed its total income, and during fiscal 1960 the income and outgo of the fund will be almost equal. The fund's assets will increase during the remainder of the 5-year period.

According to these estimates, at the end of fiscal year 1963 the old-age and survivors insurance trust fund will amount to $23.9 billion, with income of $13.2 billion and outgo of $12.0 billion in that fiscal year. During the 5 fiscal years 1959–63, it is estimated that the trust fund will not exceed two times the highest expected annual outgo during the 5-year period.

Long-range cost estimates for the old-age and survivors insurance program, as amended in 1958, indicate that for practical purposes the program is in approximate actuarial balance. Under high employment assumptions, the level-premium cost of the benefit payments and administrative expenses, at 3-percent interest, ranges from 7.29 to 9.42 percent of payroll, depending on the combination of cost assumptions selected. On an intermediate basis, such level-premium cost is 8.27 percent of payroll as compared with the level-premium equivalent of the contributions of 8.02 percent of payroll.

Disbursements of the disability insurance trust fund in fiscal year 1958 were $181 million, consisting of $168 million for benefits and $12 million for administrative expenses. Receipts were $942 million, consisting of $926 million in net contributions and $16 million in interest on investments. The net addition of $762 million raised the total assets of the trust fund to $1,099 million on June 30, 1958.

Estimates of the expected operations of the disability insurance trust fund during the 5 fiscal years 1959–63 show that this trust fund at the end of fiscal year 1963 will amount to $3.8 billion, with receipts of $1.2 billion and disbursements of $630 million in that fiscal year. On June 30, 1963, the trust fund will amount to about six times the highest expected annual disbursements during the 5-year period 1959–63.

The long-range cost estimates for the disability insurance program show that under high employment assumptions the level-premium cost of the benefit payments and administrative expenses, at 3-percent interest, ranges from 0.33 to 0.67 percent of payroll, depending on the combination of assumptions used. The intermediate-cost estimate is 0.49 percent of payroll, as compared with the level-premium equivalent of the contributions of 0.50 percent of payroll.

The Advisory Council on Social Security Financing, appointed by the Secretary of Health, Education, and Welfare on October 24, 1957, submitted its report in December 1958. In accordance with the law providing for its appointment, the Council's findings, recommendations, and conclusions, which were unanimous, are included in this report as appendix IV.

SOCIAL SECURITY AMENDMENTS IN 1958

Amendments to the Social Security Act and related sections of the Internal Revenue Code enacted shortly after the end of fiscal year 1958 (Public Law 85–840, approved August 28, 1958 [1]) will have significant effects on both the immediate and long-range future levels of income and disbursements under the system. Benefit amounts were increased. Provision was made for the payment of monthly benefits to the dependents of disabled workers. Eligibility requirements for the payment of benefits to certain classes of beneficiaries were liberalized. The schedule of contribution rates was substantially revised to continue to reflect the intent that the program be self-supporting.

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

1. Larger benefits were made payable to future beneficiaries as well as to persons on the rolls. The primary insurance amounts on which the new benefit rates are based are shown in a benefit table which replaces the benefit formulas and conversion table of prior law.

(*a*) The maximum amount of earnings taxable and creditable toward benefits was raised to $4,800 a year, beginning with 1959.

(*b*) Benefit amounts were increased, beginning January 1959, by about 7 percent. The minimum primary insurance amount is $33 and the maximum primary insurance amount for beneficiaries on the rolls in January 1959 is $116. For workers coming on the rolls in the future, benefits will range as high as $127, because of the higher earnings base. However, the maximum benefit of $127, based on the maximum possible average monthly wage of $400, will not become generally payable until many years have elapsed.

[1] Several other laws enacted since June 30, 1957, make minor changes in the Social Security Act which would have no measurable cost effects.

(*c*) The minimum benefit for a family containing only one survivor beneficiary is $33.

(*d*) The maximum monthly amount of family benefits payable with respect to each amount of average monthly earnings is set forth in the benefit table. In general, as in prior law, family benefits are limited to the larger of 1½ times the primary insurance amount and 80 percent of average monthly earnings. The dollar maximum on family benefits is raised from $200 to $254.

2. Beginning October 1958, benefits are provided for wives, dependent husbands, and children of disability insurance beneficiaries similar to those previously provided only for dependents of old-age insurance beneficiaries. These benefits are payable from the Federal disability insurance trust fund.

3. The disability benefits offset provision was repealed effective with disability insurance benefits and childhood disability benefits payable for August 1958. This provision had required that the monthly social security benefits payable to disabled workers (and those payable to persons disabled in childhood) be reduced by the amount of any periodic benefit payable on account of disability under other Federal programs (other than veteran's compensation) or a State workmen's compensation system.

4. The requirement of currently insured status for the disability "freeze" or for disability insurance benefits is removed. Fully insured status was added as a requirement for the freeze, so that work requirements for the freeze and for cash benefits are alike.

5. Disability insurance benefits may be paid for as many as 12 months before the month in which the application is filed if all other requirements have been met for such prior months.

6. The June 30, 1958, deadline for filing fully retroactive disability freeze applications is postponed through June 30, 1961. Disability freeze applicants who file after June 30, 1961, may establish a freeze period beginning as early as 18 months before the month of filing application.

7. Dependent parents of a deceased worker can become eligible for benefits even though a widow, a dependent widower, or a dependent child survives the worker.

8. Disabled children, aged 18 or over, are now presumed dependent on their parents under the same rules as younger children. Under previous law, a disabled child who was 18 or over at the time he applied for a child's insurance benefit or at the time his parent died, was required to show that he had been receiving at least one-half of his support from his parent.

9. Retirement test provisions are amended to raise from $80 to $100 the amount of wages a beneficiary may have in a month without losing benefits for that month even though during the year he earns above $1,200, the annual exempt amount.

10. Changes relating to the financing of the system are made with the intent of assuring that it will continue to be self-supporting.

The employee and employer contribution rates for old-age and survivors insurance are each increased, as of January 1, 1959, by one-fourth of 1 percent above the previously scheduled rates, with a corresponding increase for the self-employed. Future increases in tax rates are scheduled at 3-year intervals (rather than at 5-year intervals) beginning with 1960. The new schedule is as follows: 1959, 2½ percent each for employees and employers; 1960–62, 3 percent; 1963–65, 3½ percent; 1966–68, 4 percent; 1969 and thereafter, 4½ percent each. The scheduled rates include the employee and employer contribution rate of one-fourth of 1 percent each for disability insurance. The contribution rates on self-employment income continue to equal 1½ times the employee rates.

Table 1 presents an estimate of the effect, expressed as a level-premium percent of payroll, of the changes in the program in 1958.

TABLE 1.—*Changes in estimated level-premium costs as percent of taxable payroll, by type of change, intermediate cost estimate, 3 percent interest*

[In percent]

Item	Old-age and survivors insurance	Disability insurance
Benefit cost under 1956 amendments [1]	7.90	0.35
Effect of changes:		
Additional income, less additional benefits, resulting from higher earnings base	−.22	−.01
Increase in level of benefits	.57	.03
Liberalization of retirement test	.01	
Liberalization of eligibility requirements for parent's benefits	.01	
Benefits to dependents of disability beneficiaries		.06
Elimination of disability benefit offset provision		.03
Modification of disability insured status requirements		.03
Benefit cost under 1958 amendments [1]	8.27	.49
Level premium equivalent of graded tax schedule under 1956 amendments	7.33	.50
Effect of changes:		
Increase of ½ percent in tax schedule	.50	
Future increases in rates scheduled at 3-year, rather than 5-year, intervals	.19	
Level premium equivalent of graded tax schedule under 1958 amendments	8.02	.50

[1] Taking into account (*a*) lower contribution rate for the self-employed as compared with employer-employee rate, (*b*) interest on the trust fund on Dec. 31, 1957, and (*c*) 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 U.S. 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 are handled all financial operations in connection with the system of monthly disability benefits payable to insured workers aged 50 to 64 and to their dependents. The financial operations of the old-age, survivors, and disability insurance program which relate to the system of old-age and survivors insurance benefits 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, beginning with calendar year 1959, 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 $4,800, with the contributions being determined first on the wages and then on any self-employment income necessary to make up the $4,800.

The Internal Revenue Code, as amended, provides that the contribution rate for employees and their employers shall be 2½ percent each for the calendar year 1959, and that the rates shall rise to 3 percent each on January 1, 1960, to 3½ percent each on January 1, 1963, to 4 percent each on January 1, 1966, and to 4½ percent each on January 1, 1969. The contribution rates on self-employment income are equal to 1½ times the corresponding employee rate. 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.

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. The exact amount is not known since old-age, survivors, and disability insurance and income taxes withheld are not separately identified in tax collection reports received by the Treasury Department. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

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

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 and the disability insurance programs. A description of the legislative provisions governing the allocation of costs between the two programs appears in appendix II.

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

Under Public Law 85–840 approved August 28, 1958, the Secretary of Health, Education, and Welfare is authorized to charge for providing certain services not directly related to the old-age, survivors, and disability insurance programs. The Bureau of Old-Age and Survivors Insurance has accumulated a unique body of information in the course of the administration of the program. Situations arise when it is in the public interest to utilize this information to perform certain services, such as forwarding letters for health research purposes to holders of social security account numbers, when such services can be performed without interfering unduly with the administration of the program. Such services could not properly be provided at the expense of the trust funds. Receipts derived from performance of these services are credited to and form a part of the trust funds.

Public Law 719, approved August 10, 1946, provided noncontributory survivor protection to certain veterans of World War II. The legislation provided, and the old-age and survivors insurance trust fund received, reimbursement from the general fund of the Treasury for the additional costs arising from these provisions. Under Public Law 734, approved August 28, 1950, these additional costs arising after August 31, 1950, were borne by the trust fund. Public Law 881, approved August 1, 1956, 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. Public Law 85–840 broadened the provisions of prior law dealing with noncontributory wage credits of $160 for each month of active military service for the United States to provide such credits for certain American citizens who served in the armed forces of our allies during World War II. As in the case of the other noncontributory credit for military service, the trust funds will be reimbursed for the additional costs arising from the new provisions. A summary of the legislative history of the financing of credit for military service appears in appendix II.

Expenditures for benefit payments and administrative expenses under the old-age, survivors, and disability insurance program are paid out of the trust funds. All expenses incurred by the Department of Health, Education, and Welfare and by the Treasury Department in carrying out the provision 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 U.S. Government or to obligations guaranteed as to both principal and interest by the United States. Obligations of these types may be acquired on original issue at par or by purchase of outstanding obligations at their market price. In addition, the Social Security Act authorizes the issuance of public-debt obligations for purchase by the trust funds. 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 funds is received by the funds at the time the interest is paid on the particular issues held. Interest on public-debt obligations issued specifically for purchase by the trust funds is payable semiannually or at redemption.

Public issues acquired by the funds may be sold at any time by the managing trustee at their market price. Public-debt obligations issued for purchase by the trust funds may be redeemed at par plus accrued interest. Interest receipts and proceeds from the sale or redemption of obligations held in the trust funds are available for investment in the same manner as other receipts of the funds. Interest earned by the invested assets of the trust funds will provide income to meet a portion of future benefit disburesments. The role of interest in meeting future benefit payments is indicated in tables 17 and 18.

In addition, the assets of the trust funds assure the continued payment of benefits without sharp changes in contribution rates during periods of shortrun fluctuations in total income and expenditures.

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 is important to correct any misapprehensions that may exist 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 total disability.

The board therefore is pleased to note that in its findings the Advisory Council on Social Security Financing states that—

> The investment of the trust funds in U.S. Government obligations is a proper use of the excess of income over outgo for the benefit of the contributors to the funds. The trust funds are properly kept separate from the general funds of the Treasury and have the same lender status as other investors in Federal securities.

The council states further that its members are in unanimous agreement with the advisory councils of 1938 and 1948—

> that the present provisions regarding the investment of the moneys in these trust funds do not involve any misuse of these moneys or endanger the funds in any way, nor is there any "double taxation" for social security purposes by reason of the investment of these funds in Government obligations.

Through the investment of their assets in interest-bearing obligations of the United States, the trust funds constitute a source of income which helps reduce the contribution rates required to finance the program as compared with what they would have to be if there were no such income. In this respect, 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 interest earnings that will help meet the future costs of the insurance and thus reduce the premiums the policyholders would otherwise have to pay.

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. 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.

SUMMARY OF THE OPERATIONS OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, FISCAL YEAR 1958

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, 1957, and ended on June 30, 1958, 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 1958*

Total assets of the trust fund, June 30, 1957			$23,028,877,904.19
Receipts, fiscal year 1958:			
Insurance contributions:			
Appropriations	$6,870,361,660.00		
Deposits arising from State agreements	472,088,770.96		
Gross insurance contributions	7,342,450,430.96		
Less payment into the Treasury for taxes subject to refund	75,465,000.00		
Net insurance contributions		$7,266,985,430.96	
Interest and profit:			
On investments	$555,397,668.48		
On amount held in railroad retirement account to credit of trust fund	1,588,000.00		
On administrative expenses reimbursed by disability insurance trust fund	287,882.00		
Total interest		557,273,550.48	
Total receipts		7,824,258,981.44	
Disbursements, fiscal year 1958:			
Benefit payments		7,874,932,413.01	
Administrative expenses:			
Department of Health, Education, and Welfare	$140,604,244.50		
Treasury Department	32,731,315.83		
Preparation and construction of building for Bureau of Old-Age and Survivors Insurance	1,586,697.01		
Gross administrative expenses	174,922,257.34		
Less receipts for sale of surplus material, supplies, etc.	169,275.42		
Less reimbursement for administrative expenses by disability insurance trust fund	9,148,680.00		
Net administrative expenses		165,604,301.92	
Total disbursements		8,040,536,714.93	
Net addition to trust fund			−216,277,733.49
Total assets of the trust fund, June 30, 1958			22,812,600,170.70

The total assets of the old-age and survivors insurance trust fund amounted to $23,029 million on June 30, 1957. These assets decreased to $22,813 million by the end of the fiscal year 1958, as a result of an excess of disbursements over receipts amounting to $216 million.

Net receipts of the trust fund during the fiscal year 1958 amounted to $7,824.3 million. Of this total, $6,870.4 million represented tax collections appropriated to the fund and $472.1 million represented amounts received by the Secretary of the Treasury in accordance with State agreements and deposited in the trust fund. However, $75.5 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum. Net contributions amounted to $7,267 million and represented an increase of 11 percent over the amount for the preceding fiscal year, as a result of a rise in the amount of employment and earnings covered under the program and adjustments of estimated tax receipts appropriated in prior years. The other $557.3 million of receipts consisted of $555.4 million interest and profit on the investments of the fund, $0.3 million interest on administrative expenses reimbursed by the disability insurance trust fund, and $1.6 million 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. These provisions are described in appendix II.

Disbursements from the trust fund during the fiscal year 1958 totaled $8,040.5 million, of which $7,874.9 million was for benefit payments, and $165.6 million was for net administrative expenses. The total amount of benefits paid during the fiscal year exceeded benefits paid in the fiscal year 1957 by 21 percent. This increase was due in part to the expected increase in the number of beneficiaries as the program matures, and also to the fact that a substantial number of persons who qualified for benefits in fiscal year 1957 solely as a result of the amendments in 1954 and 1956 received benefits during the entire fiscal year 1958 but during only part of fiscal year 1957.

Administrative expenses of the fund were 2.3 percent of contribution income and 2.1 percent of benefit payments during fiscal year 1958. Figures for each of the last 10 fiscal years are shown in table 3:

TABLE 3.—*Relationship of net administrative charges [1] against old-age and survivors insurance trust fund to old-age and survivors insurance contribution income and benefit payments, fiscal years 1949–58*

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
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
1952	2.4	4.3	1957	2.3	2.3
1953	2.2	3.4	1958	2.3	2.1

[1] Include administrative expenses, less receipts for sale of surplus material, services, etc. For fiscal years 1954–58, include cost of construction of an office building for the Bureau of Old-Age and Survivors Insurance. Beginning fiscal year 1957, expenses incurred by the Department of Health, Education, and Welfare under the disability insurance program are initially charged to the old-age and survivors insurance trust fund. Reimbursements are then made from the disability insurance trust fund in the following fiscal year.

The distribution of benefit payments in fiscal years 1957 and 1958, by type of benefit, is shown in table 4. Approximately 86 percent of the total benefit payments from the old-age and survivors insurance trust fund in the fiscal year 1958 was accounted for by monthly benefits to aged persons—retired workers and their wives (including a relatively small number of wives under age 62) or dependent husbands, and aged widows, dependent widowers, and dependent parents of deceased workers. Approximately 12 percent of the benefit payments represented monthly benefits on behalf of children of deceased or retired workers and to mothers—practically all of them under age 65—who had children of deceased workers in their care. The balance of the benefits paid consisted of lump-sum death payments.

TABLE 4.—*Estimated distribution of benefit payments under the old-age and survivors insurance program, by type of benefit, fiscal years 1957 and 1958*

[Amounts in millions]

Type of benefit	1957		1958	
	Amount	Percent of total	Amount	Percent of total
Total	$6,514.6	100	$7,874.9	100
Monthly benefits [1]	6,391.7	[2] 98	7,732.2	[2] 98
Old-age (aged retired workers)	4,340.3	67	5,245.8	67
Wife's or husband's (aged wives or dependent husbands, of old-age beneficiaries, or their young wives if caring for child beneficiary)	643.3	10	810.0	10
Widow's or dependent widower's (aged widows or aged dependent widowers of workers)	557.6	9	706.2	9
Parent's (aged dependent parents of deceased workers)	17.9	(3)	19.6	(3)
Child's (children, under age 18 or disabled, of old-age beneficiaries)	36.0	1	50.5	1
Child's (children, under age 18 or disabled, of deceased workers)	610.1	9	689.1	9
Mother's (widows or dependent divorced wives of deceased workers caring for child beneficiaries)	186.5	3	211.0	3
Lump-sum benefits	122.9	2	142.7	2

[1] Under the Social Security Amendments of 1956, (1) effective November 1956, the minimum retirement age for women was reduced from 65 to 62, and (2) effective January 1957, benefits became payable to disabled children age 18 or over whose disability began before they reached age 18.
[2] Total does not necessarily equal the sum of rounded components.
[3] Less than 0.5 percent.

At the end of fiscal year 1958, approximately 11.7 million old-age and survivors insurance beneficiaries in about 8.6 million families were receiving monthly benefits—exclusive of about 200,000 disabled workers under the disability insurance program (table 5). At the end of the preceding fiscal year, the monthly old-age and survivors insurance benefit rolls included 10.3 million beneficiaries in about 7.6 million families. Average monthly family benefits at the end of June 1958 showed moderate increases over the corresponding averages a year earlier. The higher averages reflected in part the greater proportion of benefits computed on the basis of earnings after 1950. Another factor increasing the average payments was the growth in the proportion of beneficiaries whose benefits were computed under the provision that permits up to 5 years of lowest earnings to be excluded in calculating the average monthly wage.

TABLE 5. *Estimated number of families and beneficiaries receiving benefits under the old-age, survivors, and disability insurance program, and average family amount, by family group, end of fiscal years 1957 and 1958*

Family classification of beneficiaries receiving benefits	June 30, 1957			June 30, 1958		
	Number of families	Number of beneficiaries	Average monthly amount per family	Number of families	Number of beneficiaries	Average monthly amount per family
	Thousands	*Thousands*		*Thousands*	*Thousands*	
Total	7,580.8	10,342.1		8,794.4	11,905.3	
Retired worker families	5,832.3	7,710.1		6,638.5	8,785.1	
Worker only	4,092.2	4,092.2	$60.30	4,661.2	4,661.2	$61.80
Male	2,273.0	2,273.0	67.10	2,498.9	2,498.9	69.50
Female	1,819.2	1,819.2	51.70	2,162.3	2,162.3	53.00
Worker and aged wife	1,628.4	3,256.8	107.70	1,835.4	3,670.8	109.90
Worker and young wife [1]	.7	1.4	100.00	1.0	2.0	107.00
Worker and aged dependent husband	12.8	25.6	91.80	13.7	27.4	94.00
Worker and 1 or more children	21.1	52.9	101.00	29.9	70.8	104.00
Worker, wife aged 65 or over, and 1 or more children	3.0	9.2	135.50	7.8	23.8	138.00
Worker, young wife, and 1 or more children	74.1	272.0	125.30	89.4	328.8	128.00
Worker, husband, and 1 or more children	0	0	0	.1	.3	132.00
Survivor families	1,748.5	2,632.0		1,955.5	2,919.8	
Aged widow	1,017.7	1,017.7	50.70	1,165.5	1,165.5	51.60
Aged dependent widower	1.3	1.3	47.30	1.5	1.5	48.50
Widowed mother only [1]	1.5	1.5	49.00	1.0	1.0	49.00
Widowed mother and 1 child	134.6	269.2	111.70	149.6	299.2	116.60
Widowed mother and 2 children	92.6	277.7	143.70	102.6	307.8	148.70
Widowed mother and 3 or more children	87.4	414.6	141.70	97.2	461.4	147.90
Divorced wife and 1 or more children	.3	.7	135.00	.3	.7	133.00
1 child only	237.6	237.6	49.80	254.9	254.9	51.20
2 children	94.3	188.6	85.80	98.9	197.8	87.90
3 children	33.8	101.4	109.20	34.7	104.1	113.80
4 or more children	21.0	93.6	117.30	21.6	96.5	125.10
1 aged dependent parent	24.7	24.7	51.60	26.0	26.0	52.70
2 aged dependent parents	1.7	3.4	98.60	1.7	3.4	99.60
Disabled worker families [2]				200.4	200.4	74.40
Male				158.8	158.8	75.50
Female				41.6	41.6	70.10

[1] Benefits of children were being withheld.
[2] Benefits to disabled insured workers aged 50 to 64 began July 1957.

During the fiscal year, a period of disability, i.e., a disability freeze, was established for almost 207,000 workers. By the end of December 1957, there were almost 51,000 persons receiving old-age benefits that had been increased, on the average, by $9.54 a month by the disability freeze. About 16,800 wives and young children of retired workers and about 11,100 widows, children, and dependent parents of workers who had established a period of disability before death were also receiving larger monthly benefits because of the freeze. For the same reason, during the calendar year 1957, lump-sum death payments based on the earnings records of 10,800 deceased workers were increased by an average amount of $24.90 per worker.

The assets of the trust fund at the end of fiscal year 1958 totaled $22,813 million, consisting of $21,764 million in the form of obligations of the U.S. Government, and $1,048 million in undisbursed balances. Table 6 shows a comparison of the total assets of the fund and their distribution at the end of the fiscal years 1957 and 1958.

The net decrease in the par value of the investments owned by the fund during the fiscal year 1958 amounted to $498 million. New securities at a total par value of $22,013 million were acquired through the investment of receipts of the fund, through the reinvestment of funds made available from the maturity or sale of securities during the year, and through the exchange of securities. The par value of securities redeemed or exchanged during the fiscal year was $22,393 million. In addition, $118 million of public issues were sold, providing additional income to the fund in the form of a profit amounting to $1,323,000. This profit represents the difference between proceeds received at time of sale, after deduction for accrued interest and investment expense, and the book value at time of sale.

TABLE 6.—*Assets of Federal old-age and survivors insurance trust fund, by type, at end of fiscal years 1957 and 1958*

	June 30, 1957		June 30, 1958	
	Par value	Book value [1]	Par value	Book value [1]
Investments:				
Public issues:				
Certificates of indebtedness: 3¼-percent series D 1957	$49,000,000.00	$48,996,875.00		
Treasury notes:				
2⅝-percent series A 1963			$30,000,000.00	$30,000,000.00
2⅞-percent series A 1958	131,000,000.00	130,988,984.38		
3½-percent series A 1960	54,100,000.00	54,095,453.12	47,500,000.00	47,405,203.22
3⅝-percent series A 1962	174,000,000.00	173,981,406.27	176,000,000.00	175,958,906.27
3¾-percent series C 1962			20,000,000.00	20,000,000.00
4-percent series A 1961			119,100,000.00	119,102,017.81
4-percent series B 1962			15,000,000.00	15,000,000.00
Treasury bonds:				
2¼-percent bonds of 1959–62	4,205,000.00	4,208,609.73	4,205,000.00	4,207,097.61
2⅜-percent bonds of 1958	500,000.00	493,437.50		
2½-percent bonds of 1961	4,950,000.00	4,793,312.50	10,450,000.00	9,960,343.75
2½-percent bonds of 1962–67	58,650,000.00	58,739,334.59	58,650,000.00	58,721,467.67
2½-percent bonds of 1963	500,000.00	485,000.00	4,500,000.00	4,155,625.00
2½-percent bonds of 1963–68	116,480,000.00	116,601,797.43	116,480,000.00	116,583,059.39
2½-percent bonds of 1964–69	96,004,000.00	95,288,058.52	96,004,000.00	95,260,209.28
2½-percent bonds of 1965–70	456,547,500.00	456,739,040.66	456,547,500.00	456,703,664.50
2½-percent bonds of 1966–71	308,077,500.00	307,964,965.26	308,077,500.00	307,955,448.28
2½-percent bonds of 1967–72	150,593,250.00	150,658,854.48	150,593,250.00	150,613,203.36
2⅝-percent bonds of 1965			211,900,000.00	211,584,140.63

See footnotes at end of table, p. 15.

Table 6.—*Assets of Federal old-age and survivors insurance trust fund, by type, at end of fiscal years 1957 and 1958*—Continued

	June 30, 1957		June 30, 1958	
	Par value	Book value [1]	Par value	Book value [1]
Investments—Continued				
Public issues—Continued				
Treasury bonds—Con.				
2¾-percent bonds of 1961			$2,000,000.00	$1,907,187.50
2¾-percent bonds, investment series B 1975–80	$1,081,902,000.00	$1,083,133,456.06	1,064,902,000.00	1,065,998,780.00
3-percent bonds of 1966			25,000,000.00	25,000,000.00
3-percent bonds of 1995	68,170,000.00	68,219,588.41	85,170,000.00	85,125,776.37
3¼-percent bonds of 1978–83	45,100,000.00	44,910,656.26	45,100,000.00	44,910,656.26
3½-percent bonds of 1990			56,500,000.00	56,683,705.32
3⅞-percent bonds of 1974			25,000,000.00	25,000,000.00
4-percent bonds of 1969			26,500,000.00	26,500,000.00
Total public issues	2,799,779,250.00	2,800,298,830.17	3,155,179,250.00	3,154,336,492.22
Accrued interest purchased		133,956.56		67,297.32
Total investments in public issues	2,799,779,250.00	2,800,432,786.73	3,155,179,250.00	3,154,403,789.54
Public-debt obligations (special issues):				
Certificates of indebtedness:				
2½-percent maturing June 30, 1958	14,962,885,000.00	14,962,885,000.00		
2½-percent maturing June 30, 1959			9,924,785,000.00	9,924,785,000.00
Notes:				
2½-percent maturing June 30, 1959	500,000,000.00	500,000,000.00	500,000,000.00	500,000,000.00
2½-percent maturing June 30, 1960	500,000,000.00	500,000,000.00	965,000,000.00	965,000,000.00
2½-percent maturing June 30, 1961	500,000,000.00	500,000,000.00	965,000,000.00	965,000,000.00
2½-percent maturing June 30, 1962	500,000,000.00	500,000,000.00	965,000,000.00	965,000,000.00
2½-percent maturing June 30, 1963			465,000,000.00	465,000,000.00
Bonds:				
2½-percent maturing June 30, 1963	500,000,000.00	500,000,000.00	500,000,000.00	500,000,000.00
2½-percent maturing June 30, 1964	500,000,000.00	500,000,000.00	965,000,000.00	965,000,000.00
2½-percent maturing June 30, 1965	500,000,000.00	500,000,000.00	965,000,000.00	965,000,000.00
2½-percent maturing June 30, 1966	500,000,000.00	500,000,000.00	965,000,000.00	965,000,0000.0
2½-percent maturing June 30, 1967	500,000,000.00	500,000,000.00	965,000,000.00	965,000,000.00
2½-percent maturing June 30, 1968			465,000,000.00	465,000,000.00
Total public-debt obligations	19,462,885,000.00	19,462,885,000.00	18,609,785,000.00	18,609,785,000.00
Total investments	22,262,664,250.00	22,263,317,786.73	21,764,964,250.00	21,764,188,789.54
Undisbursed balances		765,560,117.46		1,048,411,381.16
Total assets		23,028,877,904.19		22,812,600,170.70

[1] Par value plus unamortized premium less discount outstanding.

Of the new securities acquired, $21,182 million were 2½-percent public-debt obligations specially issued to the fund, $7,072 million of which were redeemed during the year. The remaining $832 million acquired were public issues—$34 million of Treasury bills, $135 million of certificates of indebtedness, $279 million of Treasury notes, and $384 million of Treasury bonds.

The 1956 amendments provided that the public-debt obligations issued for purchase by the old-age and survivors insurance and the disability insurance trust funds shall have maturities fixed with due regard for the needs of the funds. In recognition of the long-term character of the commitments of the trust funds, the maturities of the public-debt obligations issued for purchase by the funds are to be lengthened gradually over a period of several years. Thus, of the $14,110 million of public-debt obligations held by the old-age and survivors insurance trust fund that matured on June 30, 1958, and the proceeds of which were reinvested, approximately one-third was reinvested in public-debt obligations (special issue) distributed equally among maturities ranging from 1 year to 10 years. The remaining two-thirds was invested in issues maturing on June 30, 1959.

Since the average rate of interest, as of May 31, 1958, borne by all marketable Government obligations with maturity dates exceeding 5 years from date of issue was 2.555 percent, the rate of interest (rounded to the nearest one-eighth of 1 percent) on the public-debt obligations (special issues) acquired on June 30, 1958, was 2½ percent.

SUMMARY OF THE OPERATIONS OF THE FEDERAL DISABILITY INSURANCE TRUST FUND, FISCAL YEAR 1958

A statement of the income and disbursements of the Federal disability insurance trust fund for fiscal year 1958 and of the assets of the fund at the end of the fiscal year is presented in table 7.

TABLE 7.—*Statement of operations of the Federal disability insurance trust fund during the fiscal year 1958*

Total assets of the trust fund, June 30, 1957			$337,257,728.51
Receipts, fiscal year 1958:			
Insurance contributions:			
Appropriations	$862,861,610.23		
Deposits arising from State agreements	63,541,704.56		
Net insurance contributions		$926,403,314.79	
Interest and profit:			
On investments	$16,130,769.43		
Less transfer to old-age and survivors insurance trust fund with reimbursed administrative expenses	287,882.00		
Net interest		15,842,887.43	
Total receipts		942,246,202.22	
Disbursements, fiscal year 1958:			
Benefit payments		168,419,534.12	
Administrative expenses:			
Department of Health, Education, and Welfare	$9,148,680.00		
Treasury Department	2,962,897.09		
Total administrative expenses		12,111,577.09	
Total disbursements		180,531,111.21	
Net addition to trust fund			761,715,091.01
Total assets of the trust fund, June 30, 1958			1,098,972,819.52

The total receipts of the fund amounted to $942.2 million. Of this total, $862.9 million represented tax collections appropriated to the fund, and $63.5 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. The remaining $15.8 million of receipts consisted of interest on investments.

Disbursements from the fund totaled $180.5 million, of which $168.4 million was for benefit payments, which were first made in

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August 1957. The remaining $12.1 million of disbursements consisted of administrative expenses.

At the end of the fiscal year 1958, approximately 200,000 disabled workers were receiving monthly benefits under the program (table 5). Payments to male workers averaged $75.50, while those to female workers averaged $70.10.

The assets of this fund at the end of fiscal year 1958 totaled $1,099 million, consisting of $1,054 million in the form of obligations of the U.S. Government, and $45 million in undisbursed balances. Table 8 shows a comparison of the total assets of the fund and their distribution at the end of the fiscal years 1957 and 1958.

TABLE 8.—*Assets of the Federal disability insurance trust fund, by type, at end of fiscal years 1957 and 1958*

	June 30, 1957		June 30, 1958	
	Par value	Book value [1]	Par value	Book value [1]
Investments:				
Public issues:				
Treasury notes:				
2⅝-percent series A 1963			$10,000,000.00	$10,000,000.00
3¾-percent series C 1962			7,000,000.00	7,000,000.00
4-percent series B 1962			5,000,000.00	5,000,000.00
Treasury bonds:				
2⅝-percent bonds of 1965			16,750,000.00	16,643,750.00
3-percent bonds of 1966			10,000,000.00	10,000,000.00
3⅞-percent bonds of 1974			5,000,000.00	5,000,000.00
4-percent bonds of 1969			5,000,000.00	5,000,000.00
Total public issues			58,750,000.00	58,643,750.00
Accrued interest purchased				20,179.29
Total, investments in public issues			58,750,000.00	58,663,929.29
Public-debt obligations (special issues):				
Certificates of indebtedness:				
2½-percent maturing June 30, 1958	$257,863,000.00	$257,863,000.00		
2½-percent maturing June 30, 1959			658,294,000.00	658,294,000.00
Notes:				
2½-percent maturing June 30, 1959	7,500,000.00	7,500,000.00	7,500,000.00	7,500,000.00
2½-percent maturing June 30, 1960	7,500,000.00	7,500,000.00	37,500,000.00	37,500,000.00
2½-percent maturing June 30, 1961	7,500,000.00	7,500,000.00	37,500,000.00	37,500,000.00
2½-percent maturing June 30, 1962	7,500,000.00	7,500,000.00	37,500,000.00	37,500,000.00
2½-percent maturing June 30, 1963			30,000,000.00	30,000,000.00
Bonds:				
2½-percent maturing June 30, 1963	7,500,000.00	7,500,000.00	7,500,000.00	7,500,000.00
2½-percent maturing June 30, 1964	7,500,000.00	7,500,000.00	37,500,000.00	37,500,000.00
2½-percent maturing June 30, 1965	7,500,000.00	7,500,000.00	37,500,000.00	37,500,000.00
2½-percent maturing June 30, 1966	7,500,000.00	7,500,000.00	37,500,000.00	37,500,000.00
2½-percent maturing June 30, 1967	7,500,000.00	7,500,000.00	37,500,000.00	37,500,000.00
2½-percent maturing June 30, 1968			30,000,000.00	30,000,000.00
Total, public-debt obligations	325,363,000.00	325,363,000.00	995,794,000.00	995,794,000.00
Total investments	325,363,000.00	325,363,000.00	1,054,544,000.00	1,054,457,929.29
Undisbursed balances		11,894,728.51		44,514,890.23
Total assets		337,257,728.51		1,098,972,819.52

[1] 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 amounted to $729 million. New securities at a total par value of $1,880 million were acquired through the investment of receipts of the fund, and through the reinvestment of funds made available from the maturity or sale of securities during the year. The par value of securities redeemed during the year was $1,141 million. In addition, $10 million of public issues were sold at a profit of $72,500.

Of the new securities acquired, $1,811 million were 2½-percent public-debt obligations specially issued to the fund, $883 million of which were redeemed during the year. The remaining $69 million acquired were public issues—$10 million of certificates of indebtedness, $22 million of Treasury notes, and $37 million of Treasury bonds.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING FISCAL YEARS 1959–63

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 estimating future trust fund income and disbursements under changing economic conditions.

Estimates are presented in table 9 to show the expected operations of the old-age and survivors insurance trust fund in fiscal years 1959–63. They are based on the assumption that the upturn in business activity that began early in calendar year 1958 is continued, and there is a steady increase in employment and earnings through 1963. Figures on actual experience in earlier fiscal years are also presented. The increase in estimated income from contributions in fiscal years 1959–63 reflects the assumed uptrend in the levels of employment and earnings as well as the effect of the provisions of the 1958 amendments which increase the scheduled tax rates and the maximum annual earnings taxable and creditable under the program. Benefit disbursements increase substantially primarily because of the recent amendments, and partly because of the long-range upward trend in the number of beneficiaries under the program.

TABLE 9.—*Operations of the Federal old-age and survivors insurance trust fund, fiscal years 1937–63*

[In millions]

Fiscal year	Transactions during period						Fund at end of period [4]
	Income		Disbursements		Transfers to railroad retirement account	Net increase in fund [4]	
	Tax contributions [1]	Interest on investments [2]	Benefit payments	Administrative expenses [3]			
Past experience:							
1937–58	$55,885	$5,036	$36,842	$1,266		$22,813	$22,813
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		1,676	20,043
1955	5,087	448	4,333	103		1,098	21,141
1956	6,442	495	5,361	124		1,452	22,593
1957	6,540	561	6,515	150		436	23,029
1958	7,267	557	7,875	166		−216	22,813
Estimated future experience:							
1959	7,829	535	9,060	202	$344	−1,242	21,571
1960	9,860	525	10,025	207	240	−87	21,484
1961	11,243	532	10,628	190	235	722	22,206
1962	11,524	548	11,132	200	220	520	22,726
1963	12,587	569	11,568	203	240	1,145	23,871

[1] Include adjustments for (1) refunds of contributions beginning in 1953, and (2) transfers during fiscal years 1947–52 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).

[2] Includes (1) profits on marketable investments, and (2) for fiscal years 1954–58, interest transferred from the railroad retirement account.

[3] Include administrative expenses, less receipts for sale of surplus material, services, etc. For fiscal years 1954–60, include cost of construction of an office building for the Bureau of Old-Age and Survivors Insurance. Beginning fiscal year 1957, expenses incurred by the Department of Health, Education, and Welfare under the disability insurance program are initially charged to the old-age and survivors insurance trust fund. Reimbursements from the disability insurance trust fund are then made in the following fiscal year.

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

NOTE.—In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared January 1959.

Aggregate income of the old-age and survivors insurance trust fund is expected to exceed aggregate outgo over the period of the 5 fiscal years 1959–63. During this period, there is an estimated net increase in the trust fund of $1.1 billion. During the 5 fiscal years 1959–63, the old-age and survivors insurance trust fund will reach a level 2 times the highest expected annual outgo during the 5-year period.

Estimates consistent with those shown on a fiscal-year basis in table 9 are presented in table 10 to show the progress of the old-age and survivors insurance trust fund on a calendar year basis.

TABLE 10.—*Operations of the Federal old-age and survivors insurance trust fund, calendar years 1937–63*

[In millions]

Calendar year	Transactions during period						Fund at end of period
	Income		Disbursements		Transfers to railroad retirement account	Net increase in fund	
	Tax contributions	Interest on investments	Benefit payments	Administrative expenses			
Past experience:							
1937–57	$51,559	$4,758	$32,743	$1,182	----------	$22,393	$22,393
1941	789	56	88	26	----------	731	2,762
1942	1,012	72	131	28	----------	926	3,688
1943	1,239	88	166	29	----------	1,132	4,820
1944	1,316	107	209	29	----------	1,184	6,005
1945	1,285	134	274	30	----------	1,116	7,121
1946	1,295	152	378	40	----------	1,029	8,150
1947	1,558	164	466	46	----------	1,210	9,360
1948	1,688	281	556	51	----------	1,362	10,722
1949	1,670	146	667	54	----------	1,094	11,816
1950	2,671	257	961	61	----------	1,905	13,721
1951	3,367	417	1,885	81	----------	1,818	15,540
1952	3,819	365	2,194	88	----------	1,902	17,442
1953	3,945	414	3,006	88	----------	1,265	18,707
1954	5,163	468	3,670	92	----------	1,869	20,576
1955	5,713	461	4,968	119	----------	1,087	21,663
1956	6,172	531	5,715	132	----------	856	22,519
1957	6,825	557	7,347	162	----------	−126	22,393
Estimated future experience:							
1958	7,605	550	8,325	188	$124	−482	21,911
1959	8,573	530	9,698	214	220	−1,029	20,882
1960	10,786	527	10,348	200	240	525	21,407
1961	11,362	540	10,886	191	235	590	21,997
1962	11,647	557	11,366	201	220	417	22,414
1963	13,657	595	11,789	204	240	2,019	24,433

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 9.

Benefit disbursements will continue to increase over the next 5 calendar years as the number of beneficiaries under the program increases. Table 11 shows the annual amount of benefit payments distributed by classification of beneficiaries.

TABLE 11.—*Treasury disbursements for old-age and survivors benefit payments, distributed by classification of beneficiaries, calendar years 1940–63*

[In millions]

Calendar year	Total benefit disbursements [1]	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 [1]	Aged widows, dependent widowers, and dependent parents	Widowed mothers, dependent divorced wives, and dependent children	
Past disbursements: [2]							
1940	$35.4	$14.8	$2.4	$6.4	$0.5	$5.9	$11.8
1941	88.1	43.6	7.6	23.6	2.7	20.9	13.3
1942	130.7	64.8	11.4	39.5	5.9	33.7	15.0
1943	165.9	79.1	13.9	55.2	9.9	45.2	17.8
1944	209.0	96.6	16.9	73.5	14.6	58.8	22.0
1945	273.9	125.8	22.3	99.6	21.0	78.6	26.1
1946	378.1	189.1	33.2	127.9	29.3	98.7	27.9
1947	466.2	244.7	42.9	149.1	38.3	110.8	29.5
1948	556.2	299.9	52.2	171.8	49.4	122.4	32.3
1949	667.2	372.9	64.5	196.6	62.2	134.3	33.2
1950	961.1	556.9	94.5	276.9	92.3	184.6	32.7
1951	1,885.2	1,134.9	186.1	506.8	164.5	342.3	57.3
1952	2,194.1	1,327.7	211.6	591.5	201.2	390.3	63.3
1953	3,006.3	1,884.2	291.1	743.5	260.2	483.4	87.5
1954	3,670.2	2,339.6	358.4	880.0	317.0	563.0	92.2
1955	4,968.2	3,252.9	494.9	1,107.5	412.2	695.4	112.9
1956	5,714.6	3,792.8	568.5	1,244.1	486.1	758.0	109.3
1957	7,347.3	4,888.4	799.4	1,520.7	671.7	849.0	138.8
Estimated future disbursements:							
1958	8,325	5,559	906	1,716	775	941	144
1959	9,698	6,485	1,054	2,000	923	1,077	159
1960	10,348	6,883	1,103	2,192	1,030	1,162	170
1961	10,886	7,191	1,144	2,370	1,138	1,232	181
1962	11,366	7,457	1,178	2,540	1,247	1,293	191
1963	11,789	7,676	1,210	2,704	1,360	1,344	199

[1] Totals do not necessarily equal the sum of rounded components.
[2] Partly estimated.

Benefit expenditures expressed as a percentage of payroll will also continue to increase. Benefit payments were 4.17 percent of taxable earnings for calendar year 1957. It is estimated that by 1963 benefit expenditures from the old-age and survivors insurance trust fund will be 5.45 percent of taxable earnings. Figures for each of the calendar years 1940–63 are shown in table 12.

TABLE 12.—*Old-age and survivors insurance benefit payments as percentage*[1] *of taxable earnings, calendar years 1940–63*

Calendar year	Benefit payments as percentage of taxable earnings	Calendar year	Benefit payments as percentage of taxable earnings
Past experience:		Past experience—Continued	
1940	0.11	1953	2.28
1941	.21	1954	2.83
1942	.25	1955	[2] 3.26
1943	.27	1956	[2] 3.50
1944	.32	1957	[2] 4.17
1945	.44	Estimated future experience:	
1946	.55	1958	4.67
1947	.59	1959	4.96
1948	.66	1960	5.13
1949	.82	1961	5.25
1950	1.10	1962	5.36
1951	1.60	1963	5.45
1952	1.76		

[1] 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 1955–57 and of taxable wages for 1956–57.

The growth in the number of beneficiaries in the past and the expected growth in the future is attributable in large measure to the rising number of aged workers eligible for and receiving old-age (primary) benefits. This is illustrated in table 13 which contains an analysis of workers aged 65 and over eligible for old-age (primary) benefits by age attained as of the beginning of each of the calendar years 1941 through 1963.

The growth in the number of eligible workers aged 65 and over 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 in each passing year a larger proportion of the persons attaining age 65 had fully insured status.

The marked increase in the number of workers eligible for benefits in 1951 was due to the liberalized insured-status provisions of the 1950 amendments to the Social Security Act. Although the same factors that contributed before 1951 to the growth in the number of eligible persons aged 65 and over have continued 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.

As is indicated in table 13, 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 except for temporary halts due to special circumstances resulting from the amendments of 1950 and 1954. In general, due to the increasing percentage of eligibles who are 72 or over and, therefore, receive benefits regardless of earnings, the past upward trend in this proportion is expected to continue.

TABLE 13.—*Workers aged 65 and over eligible for and receiving old-age (primary) benefits, by attained age, calendar years 1941–63*

[Numbers in thousands]

Beginning of calendar year	All workers aged 65 and over			Workers aged 65–69			Workers aged 70 and over		
	Number eligible for benefits [1]	Persons receiving benefits		Number eligible for benefits [1]	Persons receiving benefits		Number eligible for benefits [1]	Persons receiving benefits	
		Number	Percent of number eligible		Number	Percent of number eligible		Number	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	4,786	3,222	67	2,418	1,300	54	2,368	1,922	81
1955	5,190	3,775	73	2,541	1,518	60	2,649	2,257	85
1956	5,647	4,474	79	2,670	1,744	65	2,977	2,729	92
1957	6,622	4,999	75	3,102	1,876	60	3,520	3,123	89
1958	7,333	5,931	81	3,330	2,257	68	4,003	3,675	92
Estimated future experience:									
1959	7,859	6,601	84	3,443	2,413	70	4,416	4,188	95
1960	8,274	7,058	85	3,508	2,524	72	4,766	4,534	95
1961	8,620	7,398	86	3,546	2,559	72	5,074	4,839	95
1962	8,905	7,671	86	3,565	2,579	72	5,340	5,092	95
1963	9,135	7,897	86	3,571	2,588	72	5,564	5,309	95

[1] Figures for 1941–58 are partly estimated. Females aged 62–64 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.

As a result of the amendments in 1956, an insured woman worker aged 62–64 may elect to receive an actuarially reduced retirement benefit. (Table 13 excludes data relating to women aged 62–64.) On January 1, 1959, there were an estimated 754,000 women workers aged 62–64 eligible for old-age benefits, of whom about 300,000, or 40 percent, were drawing such benefits. It is estimated that on January 1, 1963, 45 percent of the 810,000 women workers aged 62–64 eligible for old-age benefits will be receiving such benefits.

The expected operations and status of the disability insurance trust fund during the next 5 fiscal years are presented in summary in table 14 together with the figures on actual experience in earlier years. Income of the disability insurance trust fund is expected to exceed disbursements in each of the 5 fiscal years 1959–63. During this 5-year period, it is estimated that the disability insurance trust fund will reach a level 6 times the highest expected annual outgo during fiscal years 1959–63.

TABLE 14.—*Operations of the Federal disability insurance trust fund, fiscal years 1957–63*

[In millions]

Fiscal year	Transactions during period: Income: Tax contributions[1]	Income: Interest on investments	Disbursements: Benefit payments	Disbursements: Administrative expenses[2]	Transfers to railroad retirement account	Net increase in fund	Fund at end of period
Past experience:							
1957	$337	$1		$1		$337	$337
1958	926	16	$168	12		762	1,099
Estimated future experience:							
1959	926	34	387	21	−$9	561	1,660
1960	998	48	485	30	3	528	2,188
1961	1,020	62	528	34	5	515	2,703
1962	1,048	75	561	28	7	527	3,230
1963	1,071	88	592	29	9	529	3,759

[1] Adjusted for refunds.
[2] Expenses of the Department of Health, Education, and Welfare under the disability insurance program are initially charged to the old-age and survivors insurance trust fund. Reimbursements from the disability insurance trust fund are then made in the following fiscal year.

NOTE.—Reference should be made to the text which describes the underlying assumptions and limitations. Estimates were prepared January 1959.

Estimates consistent with those shown on a fiscal year basis in table 14 are presented in table 15 to show the progress of the disability insurance trust fund on a calendar year basis.

TABLE 15.—*Operations of the Federal disability insurance trust fund, calendar years 1957–63*

[In millions]

Calendar year	Transactions during period: Income: Tax contributions[1]	Income: Interest on investments	Disbursements: Benefit payments	Disbursements: Administrative expenses[2]	Transfers to railroad retirement account	Net increase in fund	Fund at end of period
Past experience: 1957	$702	$7	$57	$3		$649	$649
Estimated future experience:							
1958	960	25	255	13		717	1,366
1959	975	41	465	21	−$9	539	1,905
1960	1,008	55	510	30	3	520	2,425
1961	1,033	68	545	34	5	517	2,942
1962	1,059	81	577	28	7	528	3,470
1963	1,079	94	607	29	9	528	3,998

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 14.

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 a transfer of $121.3 million to the railroad retirement account from the old-age and survivors insurance trust fund would place the old-age and survivors insurance trust fund in the same position as of June 30, 1957, as it would have been if railroad employment had always been covered under the Social Security Act. This amount together with interest thereon for fiscal year 1958, totaling $3.1 million, was transferred to the railroad retirement account in July 1958. The estimates shown in tables 9 and 10 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 tables 14 and 15 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 the various tables in this section of the report have not been adjusted to reflect the effect of these reimbursements.

As already indicated earlier in this section, forecasts of the income and disbursements of the trust funds involve many uncertainties. For that reason, estimates are presented in table 16 to show what the effects would be on the operations and status of the old-age and survivors insurance trust fund in the unlikely event that there would be a sharp reduction in the level of economic activity during calendar years 1959–63, with a relatively high rate of unemployment persisting for the entire period. Under this assumption, estimated contributions will be lower, and estimated benefit payments will be higher, than estimated above under high employment conditions.

TABLE 16.—*Illustration showing the operations and status of the Federal old-age and survivors insurance trust fund assuming the unlikely event of a sharply reduced level of economic activity, calendar years 1959–63*

[In millions]

Calendar year	Transactions during period						Fund at end of period
	Income		Disbursements		Transfers to railroad retirement account	Net increase in fund	
	Tax contributions	Interest on investments	Benefit payments	Administrative expenses			
1959	$8,103	$524	$9,949	$220	$220	−$1,762	$20,149
1960	9,480	496	10,786	206	240	−1,256	18,893
1961	9,540	455	11,519	194	260	−1,978	16,915
1962	9,526	401	11,841	203	275	−2,392	14,523
1963	11,009	352	12,093	205	300	−1,237	13,286

NOTE.—In interpreting the above estimates, reference should be made to the accompanying text which explains the underlying assumptions.

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. Under the hypothetical, lower employment conditions it is estimated that larger portions of eligible workers would 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 this assumption would considerably exceed that under high employment conditions. Moreover, it is expected that the average old-age (primary) benefit amount payable would be larger inasmuch as many of the more steadily employed, and therefore higher paid, older workers who would not withdraw from employment under the high employment conditions would not be employed under these assumed conditions. The foregoing analysis also applies to insured women workers aged 62–64.

On the other hand, 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 survivor benefits. While favorable opportunities for employment will operate to 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 survivor benefits to forego them by working. Therefore the amount paid out for survivor benefits over the short-range future will not be affected significantly by variations in economic conditions.

ACTUARIAL STATUS OF THE TRUST FUNDS

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

The reasons for the increasing cost are as follows (they apply to the cost of benefits to aged persons, which constitute almost 90 percent of the total cost). The U.S. population cannot continue to increase indefinitely, for births cannot continue indefinitely to exceed deaths. When a balance is reached or a reversal in the present trend occurs, the population as a whole will have become relatively much older. A relatively older population will also arise because the present aged population is made up of the survivors from past periods when death rates were much higher than they are now; thus, in the future, relatively more persons will attain age 65 and older ages. The ratio of the population aged 65 and over (potential beneficiaries) to the population aged 20–64 (potential contributors) is closely related to the cost as a percentage of payroll. At present this ratio is 16.1 percent, but in a level population with present death rates it would be 24.9 percent. It is expected that this ratio will eventually become even greater because of further decreases in mortality.

Another reason for increasing cost is that the proportion of the aged population receiving benefits will increase. Many of the present persons aged 65 and over have not worked long enough to obtain benefits, because the system began in 1937, but many jobs were not covered until 1951 or 1955. It is estimated that the proportion of the aged population eligible for some type of benefit will increase from the present level of about 67 percent to between 92 and 97 percent by the end of this century.

Because the actual cost could reasonably vary over a wide range, three complete sets of estimates are made—low-cost, intermediate-cost, and high-cost. Each provides an estimate of payroll and contributions, and of beneficiaries and benefit payments for every future year. All figures are assumed to remain constant after 2050. It is considered likely, although by no means certain, that actual costs as a percentage of payroll will lie between the low-cost and high-cost figures. The intermediate-cost estimates of beneficiaries, benefit payments, and payrolls is taken half-way between the low-cost and high-cost figures. The intermediate percentage-of-payroll figures are obtained by dividing total benefit payments by taxable payroll, each on the intermediate basis, and are therefore not exactly equal to the average of low-cost and high-cost percentages.

TABLE 17.—*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 insurance benefits		
1965	5.76	6.06	5.91
1970	6.47	6.84	6.66
1980	7.46	8.49	7.96
1990	7.83	9.91	8.82
2000	7.06	10.06	8.44
2025	7.96	13.23	10.15
2050	10.08	15.09	12.02
Level-premium cost[3]	7.29	9.42	8.27
	Disability insurance benefits		
1965	0.27	0.52	0.39
1970	.32	.63	.48
1980	.36	.72	.53
1990	.30	.64	.46
2000	.30	.68	.47
2025	.37	.81	.55
2050	.43	87	.60
Level-premium cost[3]	.33	.67	.49

[1] Taking into account the lower contribution rate for the self-employed, as compared with the 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 3 percent interest rate, for benefits after 1957, taking into account interest on the trust fund on December 31, 1957, 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 17 shows benefit payments for selected years and the level-premium cost, all expressed as percentages of payroll, under each of the three estimates. The level-premium cost is that constant combined employer-employee tax rate which would exactly pay for all future benefits. All percent-of-payroll figures are adjusted so that they represent the tax rate that employees and employers combined, and the self-employed at three-quarters of the combined rate, would have to pay in any given year to meet exactly the benefit disbursements in that year. Tables 18 and 19 show, for each set of estimates, the contributions, benefit payments, administrative expenses, amount paid to or received from the railroad retirement system, and the balance in the trust funds for selected years.

TABLE 18.—*Estimated progress of old-age and survivors insurance trust fund, high employment and 1956 level earnings assumptions, 3 percent interest basis* [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Financial interchange [2]	Interest on fund	Fund at end of year [3]
	Actual data					
1951	$3,367	$1,885	$81	------------	$417	$15,540
1952	3,819	2,194	88	------------	365	17,442
1953	3,945	3,006	88	------------	414	18,707
1954	5,163	3,670	92	------------	468	20,576
1955	5,713	4,968	119	------------	461	21,663
1956	6,172	5,715	132	------------	531	22,519
1957	6,826	7,347	162	------------	557	22,393
	Low-cost estimate					
1965	$13,866	$12,055	$167	−$145	$883	$31,076
1970	19,458	14,663	186	−49	1,542	55,226
1980	22,773	19,965	228	+39	3,328	115,570
1990	26,806	24,813	273	+148	5,189	179,085
2000	32,137	28,835	310	+218	8,071	279,701
2025	43,530	40,935	441	+218	24,077	827,816
	High-cost estimate					
1965	$13,794	$12,609	$195	−$176	$758	$26,447
1970	19,351	15,398	216	−91	1,270	45,434
1980	21,829	21,782	263	−14	2,385	81,786
1990	24,301	28,513	315	+94	2,406	80,392
2000	27,253	32,511	354	+167	1,454	47,194
2025	30,807	48,308	465	+167	(4)	(4)
	Intermediate-cost estimate					
1965	$13,830	$12,333	$181	−$160	$820	$28,762
1970	19,404	15,030	201	−70	1,406	50,330
1980	22,301	20,874	246	+12	2,856	98,678
1990	25,554	26,662	294	+121	3,798	129,738
2000	29,695	29,672	332	+192	4,762	163,448
2025	37,168	44,652	453	+192	8,719	295,467

[1] At 3 percent, except 2.6 percent in 1958, 2.7 percent in 1959, 2.8 percent in 1960, and 2.9 percent in 1961.
[2] A positive figure indicates payment to the trust fund from the railroad retirement account, and a negative figure indicates the reverse.
[3] Not including amounts in the railroad retirement account to the credit of the old-age and survivors insurance trust fund. In millions of dollars, these amounted to $377 for 1953, $284 for 1954, $163 for 1955, $60 for 1956, and nothing for 1957 and thereafter.
[4] Fund exhausted in 2010.

TABLE 19.—*Estimated progress of disability insurance trust fund, high employment and 1956 level earnings assumptions, 3 percent interest basis* [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Financial interchange [2]	Interest on fund	Fund at end of year
	Actual data					
1957	$702	$57	$17		$7	$635
	Low-cost estimate					
1965	$1,063	$535	$22	−$32	$164	$5,876
1970	1,144	699	23	−32	259	9,099
1980	1,339	930	27	−20	474	16,449
1990	1,577	930	30	−7	796	27,663
2000	1,889	1,110	36	0	1,310	45,372
2025	2,560	1,891	53	+3	3,448	118,687
	High-cost estimate					
1965	$1,056	$1,059	$28	−$35	$88	$2,998
1970	1,138	1,407	30	−35	71	2,272
1980	1,283	1,828	35	−24	(3)	(3)
	Intermediate-cost estimate					
1965	$1,059	$796	$25	−$34	$126	$4,437
1970	1,141	1,052	27	−34	165	5,686
1980	1,311	1,380	30	−22	201	6,844
1990	1,503	1,372	34	−9	256	8,836
2000	1,745	1,649	40	−2	383	13,194
2025	2,186	2,412	53	+1	562	19,146

[1] At 3 percent, except 2.6 percent in 1958, 2.7 percent in 1959, 2.8 percent in 1960, and 2.9 percent in 1961.
[2] A positive figure indicates payment to the trust fund from the railroad retirement account, and a negative figure indicates the reverse.
[3] Fund exhausted in 1976.

Annual benefit payments as a percentage of payroll are less than the tax rate in the early years (with a few exceptions), but—except under the low-cost disability estimate—eventually rise well above the ultimate tax rates of 8½ percent for old-age and survivors insurance and one-half percent for disability insurance. To measure the extent to which the financing arrangements of the system result in a surplus or deficiency, a level rate equivalent to the actual increasing contribution rates is computed, as well as a level rate which together with the interest to be earned on the existing trust funds is exactly sufficient to pay for future benefits and administrative expenses. This level-premium equivalent of contributions less the level-premium equivalent of benefit and administrative cost gives the amount by which the contribution rate in all years should be changed to put the system in exact balance according to the estimate. A negative figure indicates that an increase is needed. The figures shown below are computed as of the beginning of calendar year 1958:

[Percent]

Item	Low cost	High cost	Intermediate cost
	Old-age and survivors insurance		
Contributions	8.05	7.98	8.02
Benefit cost [1]	7.29	9.42	8.27
Net difference	.76	-1.44	-.25
	Disability insurance		
Contributions	0.50	0.50	0.50
Benefit cost [1]	.33	.67	.49
Net difference	.17	-.17	.01

[1] Including adjustments (*a*) to reflect lower contribution rate for self-employed as compared with employer-employee rate, (*b*) for existing trust fund, and (*c*) for administrative expenses.

In view of the very long-range nature of these projections and the many variable factors involved, the deficiency for the old-age and survivors insurance system under the intermediate-cost estimate is so small that the system may be considered in approximate actuarial balance. The disability insurance system under the intermediate-cost estimate is in almost exact balance.

If experience exactly follows the assumptions, the deficiency would gradually increase under the high-cost or intermediate-cost estimate for old-age and survivors insurance and the high-cost estimate for disability insurance, while the surplus would increase under the low-cost estimate for old-age and survivors insurance and the low and intermediate estimates for disability insurance. The reason for this is that the excess of the benefit cost over the value of the contributions would be accumulating with interest. With continuing study of the emerging experience under the program, there would be ample time for any such changes in the tax rate to be made as would be required in the future to keep the system in actuarial balance.

In this analysis, all future benefits and contributions are included. There would be a large deficiency if account were taken only of the benefits to be paid to workers who have already been covered by the system and to their dependents and survivors, the future taxes to be paid by such workers, and the existing trust funds. In a private insurance company it is necessary to set up reserves equal to all currently accrued liabilities, since the company cannot compel individuals to become new policyholders and must be in a position at any time to pay all benefits which will become payable with respect to its present and past policyholders using only its present assets and the premiums to be paid by present policyholders. In a compulsory social insurance system which will continue indefinitely, however, the income and benefits with respect to new entrants should be included.

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

REPORT OF ADVISORY COUNCIL ON SOCIAL SECURITY FINANCING

In accordance with section 116 of the Social Security Amendments of 1956 (Public Law 880, 84th Cong.) the Secretary of Health, Education, and Welfare in October 1957 appointed an Advisory Council on Social Security Financing. The Council studied and reported on the method of financing old-age, survivors, and disability insurance, the long-range costs of the program, the sufficiency of the tax income provided by law (including the timing and the amounts of the scheduled increases), the base to which contribution rates apply, the management and investment of the trust funds, and similar matters. The law provides that the Council make a report of its findings and recommendations not later than January 1, 1959, and that this report shall be included in the annual report of the Board of Trustees that is due on or before March 1, 1959. The report of the Council was submitted to the Board of Trustees as provided by law and appears as appendix IV of this report.

The Board of Trustees is pleased to observe the major finding of the Council that the method of financing the program is sound and that, based on the best available cost estimates, the contribution schedule makes adequate provision for meeting both short-range and long-range costs. The Board of Trustees is in full agreement with this finding.

The Board concurs with the Council's recommendation that contribution rate increases should go into effect in 1959, 1960, and 1963 as now scheduled. It also is in agreement with the reasoning which led the Council to conclude that conditions will probably warrant the 1966 rate increase as well. As the Council points out, however, before the 1966 rate is scheduled to go into effect other advisory councils will have considered the timing of the introduction of this rate in the light of cost estimates and conditions current at that time. The Board of Trustees is pleased to note the Council's endorsement of the present practice of periodic reexamination of estimating techniques and assumptions to take account of emerging experience and changing conditions.

The Board of Trustees believes that one of the most important recommendations made by the Council is its proposal that "future decisions concerning the financing of the program should increasingly take into account estimates of trust fund income and outgo over the ensuing 15 or 20 years based on expected earnings and employment levels and on demographic developments." These estimates would, to some extent, be similar to the estimates presented in the annual reports of this Board covering the period of 5 future years and in contrast with the present long-range estimates, which assume level earnings and employment trends. The Council states its belief that such 15- or 20-year estimates should largely guide decisions about the imposition of further rate increases after 1966 when the contribution rate will probably approach the level of a reasonable minimum estimate of the costs of the program over many decades into the future. The Board of Trustees agrees with this proposal and will present such estimates in future annual reports.

The Board of Trustees is pleased to note that with respect to the role of the trust funds the Advisory Council "approves the accumulation of funds that are more than sufficient to meet all foreseeable short-range contingencies, and that will therefore earn interest in somewhat larger amounts than would be earned if the funds served only a contingency purpose." The Board agrees also with the Council's conclusion that a "full" reserve is nevertheless unnecessary and that interest earnings should not be counted on to meet a major part of the costs of the program in the far-distant future.

The Board of Trustees also agrees with and recommends the adoption of the following two recommendations made by the Council that would necessitate changes in the law:

(1) The so-called three times rule (requiring the Board of Trustees to report to the Congress whenever it expects that in the course of the next 5 fiscal years either of the trust funds will exceed three times the highest annual expenditures from such fund anticipated during that 5-year period) should be eliminated from the law;

(2) The law should be amended to state that the Board of Trustees as a whole has the responsibility for reviewing the general management policies for the trust funds and recommending any needed changes in the law in this respect; as a specific point, the law should provide that the Board of Trustees meet at intervals of not more than 6 months.

The Council recommended that the statute be amended to allow the purchase of marketable securities only when such purchase would be in the public interest *and* would provide currently a yield equal to or greater than would be obtained by investing in special issues (in contrast with the present provision that special obligations be issued for purchase by the funds only if it is not in the public interest to purchase marketable securities).

Although the practice of the Managing Trustee is entirely consistent with the spirit of this recommendation, the trustees believe that the language is too restrictive. Under such a provision, the Managing Trustee might be prohibited from purchasing issues in the market immediately prior to their maturity which could be exchanged for new marketable issues bearing rates of interest higher than the statutory formula, or might be prevented from exchanging a maturing marketable issue held by the funds for a new marketable issue. In order to permit the flexibility which occasional special circumstances might require, the trustees believe that the statute should be amended to allow the purchase of marketable securities only when such purchase would be in the public interest.

The Council made a further recommendation related to the investment of the trust funds that is of considerable importance and that would also necessitate changes in the law. This recommendation was that special obligations issued for purchase by the trust funds should carry an interest rate approximating the average market yield on long-term Government securities that are not due or callable for, say, at least 5 years from the time when the special obligation is issued (except for a minor portion of the trust funds that might be invested in short-term securities—bearing an appropriate interest rate—to meet current and short-range needs); this proposed provision would be in contrast with the present one, under which such interest rate is based on the coupon rate of marketable bonds with maturities exceeding 5 years from their dates of issue. The Council also recommended that before the proposed new formula becomes effective the present maturity distribution of the special obligations held in the trust funds be reviewed and, if need be, adjusted to effect a gradual and orderly transition over a period of several years.

The trustees agree that from the standpoint of the trust funds it would be desirable to change the present statutory rate formula to one that is related to current market yields rather than coupon rates. The Council, however, suggested two rates, a long-term rate to apply to the major part of the funds and a short-term rate to apply to a minor portion to meet current and short-range needs. The trustees feel there are several objections to this recommendation, one of which is that the short-term rate is subject to wide fluctuation, and another that because the short-range needs vary greatly from month to month and year to year the amount to be held in short-term securities would have to be determined arbitrarily and might be subject to criticism, particularly when short-term rates were low. The trustees believe that the short-term needs of the funds should be recognized, but that for reasons of simplicity, ease of administration and elimination of the necessity for arbitrary judgment, there should be one interest rate reflecting the short-term as well as the long-term requirements of the fund. The Board recommends that this rate should approximate the average market yield on Government securities that are not due or callable for less than 3 years from the time when the special obligation is issued.

The trustees are also in agreement with the principle of the Council's recommendation that the transition from the old to the new formula should be made gradually, and they have agreed that before the new formula becomes effective the present maturity distribution of the special obligations held in the trust funds be rearranged in accordance with the needs of the funds and the principles of sound debt management.

CONCLUSION

Both the contribution income and the disbursements of the old-age and survivors insurance trust fund have increased substantially during the past 5 fiscal years. The increase in the contribution income resulted partly from the rise in earnings levels and the normal growth of the labor force and partly from the increase in contribution rates in 1954, the extension of coverage to additional employments by the 1954 and 1956 amendments, and the increase in the maximum limit on taxable earnings in 1955.

Trust fund disbursements, however, 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 1950–56, which 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, reduced the retirement age of women from 65 to 62, increased the benefits payable, and liberalized the retirement test.

As a result of the rapid rise in disbursements, the outgo of the old-age and survivors insurance trust fund in fiscal year 1958 exceeded its income by $216 million. The assets of the trust fund were, of course, available to cover this excess of outgo over income. It is estimated that the disbursements will again exceed receipts in fiscal 1959. Under the contribution schedule as revised by the Social

Security Amendments of 1958, however, receipts will about equal disbursements in fiscal 1960; receipts are expected to exceed disbursements beginning in fiscal year 1961 and for many years thereafter.

Long-range cost estimates show that the financing of the old-age and survivors insurance program is in close actuarial balance. In other words, the system will have sufficient income from contributions based on the tax schedule now in the law and from interest earned on investments to meet payments for benefits and administrative expenses over the long-range future.

Aggregate income of the disability insurance trust fund during the period immediately ahead will continue to be wholly sufficient to meet aggregate disbursements and in fact will build up a substantial fund. Long-range cost estimates show that the financing of the disability insurance program is in actuarial balance.

APPENDIXES

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

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

POPULATION

A projection of the U.S. population (including overseas areas covered by the old-age, survivors, and disability insurance program) for every future quinquennial year by 5-year age groups and by sex, was made. The starting point was the July 1, 1955, population as estimated by the Bureau of the Census from the 1950 census and subsequent births, deaths, and migration. This population estimate was increased to allow for probable underenumeration in the 1950 census. In both cost estimates it is assumed that mortality rates will decline until the year 2000. In the high-cost estimate, mortality rates for the year 2000 are in the neighborhood of 50 percent of the 1953 level up to age 70, with less decrease at older ages. The low-cost estimate assumes less improvement. In the low-cost estimate, fertility rates are assumed to remain at about the level of recent years until 1975 and then decrease slowly until in 2045–50 they reach about the level required to maintain a stationary population. The high-cost fertility rates begin decreasing at once and reach about the level required to maintain a stationary population in 2005–10. Both estimates assume a small amount of immigration. The low-cost estimate is based on high fertility and high mortality, while the high-cost estimate assumes low fertility and low mortality. This makes the high-cost population relatively much older than the low-cost population, which is reasonable because benefits to aged persons account for nearly 90 percent of the cost of the system. Complete details about the population projections are given in Actuarial Study No. 46, Social Security Administration.

EMPLOYMENT

Assumptions as to the percentage of the population who have covered employment during a year were made for each age group by sex for each quinquennial year. For those under retirement age, the 1955 figures after being adjusted upward to allow for the extension of coverage under the 1956 amendments and the full potential coverage of the 1954 amendments were continued level into the future for

[1] For more details as to the general procedures followed in making the long-range cost estimates, see Actuarial Study No. 48, Social Security Administration, which deals with the 1956 act.

males, but for females an increase was assumed, especially at the middle ages, which continues the past trend. Beyond retirement age, an increase was assumed in the low-cost estimates, which implies an increasing proportion affected by the retirement test; conversely, in the high-cost estimate a decrease was assumed, of a somewhat larger size than the increase assumed in the low-cost estimate. Assumptions were also made as to the percentage of covered workers in each age group who have four quarters of coverage during the year. The employment assumptions were based on 1955 data and thus represent close to full employment. A depression could substantially increase the cost, as illustrated in table 16 of the main text. But it is believed that any periods of low employment would be of short duration and would not have a significant long-range effect.

EARNINGS

Level average earnings at about the 1956 level were assumed in each of the four groups: male four-quarter workers, male workers with less than four quarters of employment, female four-quarter workers, and female workers with less than four quarters of employment. Because of the varying distribution of workers among these four categories, there is a slight variation from year to year in the assumed average credited earnings for all workers combined, which is about $2,650 per year. In the past, average earnings have greatly increased, partly because of inflation and partly because of increased productivity. If this trend continues and the benefit formula is not changed, the cost relative to payroll would be less than the estimates show because the formula provides a benefit that is a decreasing percentage of the average wage as the average wage increases. It is likely, however, that if average earnings increase, the benefit formula would be modified accordingly. If benefit payments were increased in exactly the same ratio as the increase in average earnings, the year-by-year cost estimates of benefit payments expressed as a percentage of payroll would be unchanged. There would, however, be some increase in the level-premium cost because of the diminished relative value of interest earnings on the trust funds.

INSURED POPULATION

The term "insured" is used as meaning either fully or currently insured. Separate estimates of fully insured, currently insured, and both fully and currently insured have not been made, because almost all aged insured persons and almost all younger male insured are fully insured, and also because either fully or currently insured status generally gives eligibility to all young survivor benefits. The percentage of insured persons by age and sex were estimated from the percentages of persons covered. It is evident that almost all males will eventually be insured for old-age and survivors benefits; the ultimate percentage for aged males is estimated at 92 percent in the low-cost estimate and 97 percent in the high-cost estimate. For females there is much greater uncertainty, but it is estimated that the corresponding proportion for aged females would eventually be 60 percent in the low-cost estimate and 70 percent in the high-cost estimate. The estimates of the population insured for disability benefits are lower than those for the population insured for old-age and survivor benefits; the latter have been reduced to take into account the more restrictive insured status provisions for disability benefits.

AGED BENEFICIARIES

Old-age beneficiaries were estimated by subtracting from the total aged insured workers those aged 65 to 71 whose benefits are withheld because of failure to meet the retirement test. The number with benefits so withheld was assumed to be a constant percentage, based on recent actual data, of the aged covered population. To estimate potential wife beneficiaries, the percentages of men having wives aged 62 and over, by age of male, were obtained from census data. These figures were assumed to increase in the future so as to be consistent with the decreasing mortality assumption. It was assumed that no wives defer retirement to age 65 in order to avoid reduced benefits.

To estimate potential widow beneficiaries, the deaths of insured married men in each quinquennial year were computed using the same percentage of married men among the total deaths of insured male workers in the year as is found in recent operating data. The widows thus created were projected with mortality and remarriage rates. The death rates assumed are consistent with the survival rates used in the population projections; the remarriage rates are based on 1956 experience of mother beneficiaries.

It is assumed that the actual wife and widow beneficiaries consist of the uninsured among these potential beneficiaries. A fraction of the remainder receive a residual benefit—the amount by which the potential wife's or widow's benefit exceeds the old-age benefit. Ultimately, it is assumed that the percentage of potential wife or widow beneficiaries who are uninsured and thus receive a full benefit is 43.3 percent in the low-cost estimate and 32.3 percent in the high-cost estimate. These figures were arrived at by assuming that the percentage single and divorced in the aged female population would remain at the present level of about 10 percent, that 90 percent of the single and divorced would be insured, and that the chance of a wife or widow being insured would be the same regardless of whether she was a potential wife or widow beneficiary. The percentage uninsured was, in effect, graded from estimates of recent actual data to the ultimate figure; initially the figure is greater for wives than for widows since the former are less likely to have had recent employment. The number of widow beneficiaries was adjusted somewhat so as to yield a reasonable relationship between the total number of aged female beneficiaries and the total aged female population.

The minor category of parent beneficiaries is estimated as a constant proportion of aged persons not eligible for any other benefit. The insignificant effect of the retirement test for wives and widows is ignored, as are also benefits for dependent husbands and widowers. Appendix table 1 shows the estimated aged beneficiaries. By 2050, the low-cost beneficiaries slightly exceed those under the high-cost estimate; this is because the low-cost population—not only at the working ages but also at the older ages—is much larger.

BENEFICIARIES UNDER RETIREMENT AGE

Young wives and children of retired workers were estimated using pertinent ratios to male old-age beneficiaries based on recent actual data.

Child survivor beneficiares were obtained from estimates of total paternal orphans in the country in future years. The projected child population by age groups was multiplied by the probability of the father having died, using an average age for fathers at birth of child, and death rates consistent with the population projections. The paternal orphans were then adjusted to eliminate orphans of uninsured men and to include the small number of orphans of insured women. Mother survivor beneficiaries were estimated by assuming a constant ratio of mothers to children, a little below the recent actual ratio in the low-cost estimate, and a little above it in the high-cost estimate. The number of lump-sum death payments was estimated by multiplying the insured population by death rates consistent with the survival rate used in the population projections.

APPENDIX TABLE 1.—*Estimated monthly aged beneficiaries,*[1] *males aged 65 and over and females aged 62 and over, in current-payment status, 1965–2050*

[In thousands]

Calendar year	Old-age beneficiaries		Wives of old-age beneficiaries [2]	Aged widows [3]	Dependent parents	Total aged
	Male	Female				
	Actual data for December [4]					
1950	1,469	302	508	314	15	2,608
1951	1,819	459	647	384	19	3,328
1952	2,052	592	724	434	21	3,823
1953	2,438	784	864	511	22	4,619
1954	2,803	972	981	595	24	5,375
1955	3,252	1,222	1,141	701	25	6,341
1956	3,572	1,540	1,378	913	27	7,430
1957	4,198	1,999	1,784	1,095	29	9,105
	Low-cost estimate					
1965	5,347	3,040	2,173	2,046	56	12,662
1970	5,830	3,892	2,304	2,618	52	14,696
1980	7,329	5,996	2,716	3,421	46	19,508
2000	9,465	9,304	2,970	4,287	34	26,060
2050	20,989	24,751	5,497	8,554	50	59,841
	High-cost estimate					
1965	5,849	3,658	2,352	1,905	54	13,818
1970	6,572	4,763	2,561	2,392	50	16,338
1980	8,906	7,644	3,224	2,896	42	22,712
2000	13,543	12,604	3,871	3,684	24	33,726
2050	23,780	25,122	4,597	4,937	24	58,460

[1] Persons qualifying both for old-age benefits and for wife's, widow's, husband's, widower's, and parents benefits are shown only as old-age beneficiaries.

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

[3] Including dependent widowers.

[4] Excluding effect of railroad coverage under financial interchange provisions.

DISABILITY INCIDENCE AND TERMINATION RATES

Estimates of the future cost of the disability insurance program have been based on the same general assumptions that were used in the estimates prepared at the time of the 1956 amendments, because there are not yet sufficient data available from the actual operation of the program to suggest with any degree of certainty what changes should be made in these assumptions.

In the high-cost estimates, disability incidence rates for men are based on the so-called 165 percent modification of class 3 rates (which includes increasingly higher percentages for ages above 45). This 165 percent modification corresponds roughly to life insurance company experience during the early 1930's. Incidence rates assumed for women are 100 percent higher than for men. Termination rates are class 3 rates (relatively high—to be consistent with the high incidence rates assumed).

For the low-cost estimates, disability incidence rates for men have been taken at 25 percent of those used in the high-cost estimates, or in other words, on the average about 45 to 50 percent of the class 3 rates considering the larger adjustments above age 45. Incidence rates assumed for women are 50 percent higher than for men. Termination rates are based on German social security experience for 1924–27, which is the best available experience as to relatively low disability termination rates to be anticipated in conjunction with low incidence rates.

The incidence rates actually used for both estimates are 10 percent below the above rates 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 permanence must be proved at that time.

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 considered necessary since with low incidence rates there would tend to be few recoveries). On the other hand, the high-cost estimate contains high incidence rates that are somewhat offset by high termination rates.

It is believed that these cost estimates for the monthly disability benefits are as good an indication of these costs as it is now possible to achieve. Nevertheless, it is recognized that in a new field such as this, more valid estimates are possible only after several years of operating experience has developed. Disability incidence and termination rates can vary widely—much more so than the mortality rates which underlie retirement and survivor benefit cost calculations.

Persons who will receive benefits as dependents of disabled workers have been estimated by assuming a constant ratio to the number of disability insurance beneficiaries. This ratio is based on statistics recently developed concerning dependents of workers for whom a disability determination has been made.

Appendix table 2 shows the estimates of beneficiaries under retirement age.

APPENDIX TABLE 2.—*Estimated monthly beneficiaries under retirement age*[1] *in current-payment status, 1965–2050*

[In thousands]

Calendar year	Children	Widowed mothers	Disability			Total monthly beneficiaries	Lump-sum death payments
			Workers	Wives	Children		
	Actual data for December[2]						
1950	699	169				868	200
1951	846	204				1,050	414
1952	939	229				1,168	438
1953	1,053	254				1,307	512
1954	1,161	272				1,433	516
1955	1,276	292				1,568	567
1956	1,341	301				1,642	547
1957	1,502	328	150			1,980	689
	Low-cost estimate						
1965	1,956	402	508	71	142	3,079	997
1970	2,077	425	649	91	182	3,424	1,110
1980	2,296	462	824	115	231	3,928	1,348
2000	2,694	545	968	136	271	4,614	1,870
2050	3,267	592	2,119	297	593	6,868	4,121
	High-cost estimate						
1965	1,740	433	974	136	273	3,556	980
1970	1,692	406	1,282	179	359	3,918	1,066
1980	1,613	362	1,623	227	454	4,279	1,258
2000	1,585	328	1,951	273	546	4,683	1,822
2050	1,846	319	2,832	396	793	6,186	3,267

[1] Excludes wives of old-age beneficiaries under age 62. Includes female disability beneficiaries aged 62–64 and wives aged 62 and over of male disability beneficiaries.
[2] Excluding effect of railroad coverage under financial interchange provisions.

AVERAGE BENEFITS AND TOTAL BENEFIT PAYMENTS

Average benefits in the various benefit categories were interpolated between current sizes estimated from recent claims data and ultimate sizes computed on the basis of the 1956 earnings level, with $4,800 earnings base, being in effect throughout the entire working life of all workers with respect to whom benefits are being paid. Total benefit payments were shown in tables 18 and 19 and as a percentage of payroll in table 17 of the main text.

Even under the low-cost estimate the cost as a percentage of payroll is eventually more than double the 1957 figure. The upward trend is temporarily reversed around the year 2000, at which time an important part of the aged population consists of survivors of persons born in the 1930's, when birth rates were low. The cost of child's and mother's benefits first increases because of the high birth rates of recent years and then decreases below the current level as fertility decreases. The cost of old-age benefits for women shows the greatest relative increase because of the increasing employment of women, and the fact that there will be an increasingly longer time for women workers to have obtained the minimum 10 years of covered work required for fully insured status. Widow's benefits are second as to rate of increase because the husbands of many of the present-day widows died when the chance of being insured was much less.

The low-cost estimates for child's and mother's benefits are greater than the high-cost estimates. This is because the high fertility and high mortality assumptions which produced the low cost for benefits to aged persons have the opposite effect (relatively more children in the population and relatively more of their parents dying) for child's and mother's benefits. The low-cost estimate for lump-sum death payments is lower than the high-cost estimate because, although death rates by age are higher in the low-cost estimate, the population is relatively much younger and the crude death rate is lower. The low-cost estimate for widows is only slightly below the high-cost, and in fact is above it in the early years, despite the fact that aged widows are a smaller percentage of the low-cost population, because a greater percentage of the low-cost widows receive old-age benefits. The widest range between low-cost and high-cost figures is in the disability estimates, because of the relative uncertainty about the disability rates to be experienced.

ADMINISTRATIVE EXPENSES

Assumed administrative expenses for old-age and survivors insurance were based on two factors—the number of persons having any covered employment in the given year and the number of monthly beneficiaries. In the case of disability insurance expenses, a third factor—the number of persons becoming disabled during the year—was taken into account, since the cost of adjudication of disabilities represents a substantial part of the expenses.

RAILROAD RETIREMENT FINANCIAL INTERCHANGE

As explained in appendix II, there is a financial interchange between the old-age, survivors, and disability insurance and the railroad retirement systems the purpose of which is to place the old-age and survivors insurance and the disability insurance trust funds in the same position they would have been in if railroad employment were, and always had been, covered employment. The long-range estimates were first made as if railroad employment were covered directly, and all tables except tables 18 and 19 are on that basis. Then, estimates were made of the old-age, survivors, and disability insurance taxes payable by railroad workers (a level railroad payroll of $5.3 billion was assumed), and of the additional old-age, survivors, and disability insurance benefits payable if railroad employment were covered directly. Then the progress of the funds could be shown (tables 18 and 19), with contributions and benefit payments and administrative expenses exclusive of the amounts arising from the indirect coverage, and the amount transferred to or from the railroad system shown as a separate item. Because of the relatively older age distribution of railroad workers, the transfer is currently in favor of the railroad retirement system. But it is estimated that eventually the low-cost factors of railroad employment—higher average wage and lower percentage of females coupled with more women receiving old-age, survivors, and disability insurance benefits on their own earnings record—will shift the transfer the other way, with the long-range effect being insignificant.

INTEREST RATE

For both the low-cost and high-cost estimates, the eventual interest rate assumed was 3.0 percent. This rate is somewhat below the average market rate on long-term Government obligations that has prevailed in the past 2 years, which is an indication of what the average coupon rate of such obligations may eventually be. The assumed rate for the first few years was estimated by grading it up from the somewhat more than 2½ percent actually experienced in recent years.

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. In accordance with the Social Security Amendments of 1956 the 2 percent rates rose to 2¼ percent each on January 1, 1957, and remained in effect through calendar year 1958. 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.

Special refunds of employee contributions.—With respect to wages paid before 1951, refunds to employees who worked for more than one employer during the course of a year and paid contributions on such wages in excess of the statutory maximum were made from general revenues. With respect to wages paid after 1950, these refunds are paid from the Treasury account for refunding internal revenue collections. The Social Security Act Amendments of 1950 directed the managing trustee to pay from time to time from the old-age and survivors insurance trust fund into the Treasury, as repayments to the account for refunding internal-revenue collections, the amount estimated by him to be contributions which are subject to refund with respect to wages paid after 1950. The Social Security Amendments of 1956 provided for similar repayments from the disability insurance trust fund.

Credits for military service.—The Social Security Act Amendments of 1946 provided survivor-insurance protection to certain World War II veterans for a period of 3 years following their discharge from the Armed Forces. Federal appropriations were authorized to reimburse the Federal old-age and survivors insurance trust fund for such sums as were withdrawn to meet the additional cost (including administrative expenses) of such payments. The 1950 amendments, which provided noncontributory $160 monthly wage credits to persons who served in the Armed Forces during World War II, and the 1952, 1953, 1955, and 1956 amendments which provided similar noncontributory credits on account of active military or naval service from July 25, 1947, through December 31, 1956, charged to the old-age and survivors insurance trust fund not only the additional costs arising from these credits but also, beginning September 1950, those additional costs arising under the 1946 amendments. The 1956 amendments provided contributory coverage for military personnel beginning January 1, 1957.

Social Security Act Amendments of 1950.[1]—The 1950 amendments to the Social Security Act and related sections of the Internal Revenue Code, 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. Compulsory coverage was extended 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

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

receive retirement benefits. It also removed the disadvantage the newly covered groups would otherwise have faced in acquiring eligibility.

(*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 such individuals born after 1928, the 1950 starting date was required. 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.

(c) For persons whose average monthly wage was calculated on the basis of earnings after 1950, the monthly primary insurance amount was figured by taking 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 amendments. In the cases referred to in subparagraph (*b*) above, where the average monthly wage was computed over all years after 1936, 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 six times the primary insurance benefit to three times the primary insurance amount.

(*f*) The maximum monthly amount of family benefits payable with respect to one wage record became 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 raised to 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 one 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.[2]—The 1954 amendments to the Social Security Act and related sections of the Internal Revenue Code became law, September 1, 1954. The important changes significant from an actuarial standpoint are presented below:

1. Compulsory coverage was extended 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

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

of foreign subsidiaries of American companies. Ministers and certain members of religious orders were permitted to participate in the program on the basis of the individual's irrevocable 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, 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 became as easy or easier to meet.

(*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 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 became 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 for persons with at least 20 quarters of coverage and up to 4 years for other persons. 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 became 55 percent of the first $110 of average monthly wage plus 20 percent of the next $240. The minimum primary insurance amount became $30.

(*e*) For persons already on the benefit rolls, and for future beneficiaries whose benefits are computed under the 1939 or 1952 benefit formulas, benefits were increased by use of a revised conversion table which provided 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 one survivor beneficiary became $30.

(*g*) The maximum monthly amount of family benefits payable with respect to one wage record was raised to 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 was increased to $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 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 were $1,200 or less, no benefits are withheld. Each $80 (or fraction thereof) in earnings above $1,200 might result in deduction of 1 month's benefits for the individual. Benefits were not to be 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 were to be taken into account in determining whether benefits should be withheld.

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

Social security amendments in 1956.[3]—The 1956 amendments to the Social Security Act and related sections of the Internal Revenue Code (Public Laws 880 and 881) became law on August 1, 1956.

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

1. Coverage was extended on a contributory basis to members of the uniformed services, effective January 1, 1957. Coverage was also extended to additional civilian jobs—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.

2. Monthly benefits were provided, beginning July 1957, for insured workers aged 50 to 64 with very severe long-term disabilities. Benefit payments begin 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.

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

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

(*a*) Monthly benefits were provided, beginning January 1957, for a dependent, unmarried, disabled child aged 18 or over of a retired-age worker or a deceased insured worker if the child was totally disabled before attaining age 18 and if 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 65 will receive reduced benefits (both before and after age 65) which are, on an actuarial basis, virtually equivalent to the full-rate benefits they would have received if they were aged 65 at the time they applied for benefits. One effect of reducing the minimum retirement age for women was a change in the basis for calculating a woman worker's average monthly wage (see item 4(b) below). Another effect was a liberalization in the insured status requirements. 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.

(*c*) 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 four 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 as easy or easier to meet.

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. For persons retiring in 1957 and 1958 this meant that the average could be computed on the highest 2 years of earnings since 1950.

(*b*) With the lowering of the minimum retirement age for women 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. 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 are payable to disabled workers. Beginning with 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, are payable into this new fund to finance these benefits and related administrative expenses.

6. 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 report of the first council appears as appendix IV.

7. The old-age and survivors insurance trust fund and, where appropriate, the disability insurance trust fund will be reimbursed from general revenues for expenditures after August 1950 resulting from the provisions that granted noncontributory $160 monthly wage credits to persons who served in the Armed Forces from September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 that granted survivorship protection to certain World War II veterans for a period of 3 years after leaving service.

8. The basis for determining the interest rate on public-debt obligations to be purchased by the trust funds was changed. Formerly these obligations were required to bear interest at a rate equal to the average rate of interest, computed as of the end of the calendar month next preceding the date of their issue, borne by all interest-bearing obligations of the United States forming a part of the public debt (where such average rate was not a multiple of one-eighth of 1 percent, the rate of interest on such obligations was required to be the multiple of one-eighth of 1 percent next lower than such average rate). Investments after July 31, 1956, 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 the date of issue, the average rate being rounded to the nearest one-eighth of 1 percent.

Social security amendments in 1958.—The more important changes, significant from an actuarial standpoint, are presented on pages 3–5.

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-years railroad workers will, as under the 1946 amendments to the Railroad Retirement Act, receive benefits under one program or the other based on combined wage records, while retirement benefits will be payable under both systems to individuals with 10 or more years of railroad service who also qualify under old-age and survivors insurance.

With respect to the allocation of costs between the two systems, Public Law 234 required the Railroad Retirement Board and the Secretary of Health, Education, and Welfare to—

> determine, no later than January 1, 1954, the amount which would place the Federal old-age and survivors insurance trust fund in the same position in which it would have been at the close of the fiscal year ending June 30, 1952, if service as an employee after December 31, 1936, had been included in the term "employment" as defined in the Social Security Act and in the Federal Insurance Contributions Act.

The two agencies completed a series of joint actuarial studies and analyses required by this provision. The results 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 that would have permitted the transfer of the $488 million from the railroad retirement account to the trust fund, but the legislation provides that beginning with fiscal year 1953, and for each fiscal year thereafter, annual interest payments on this amount (less any offsets described below) were to be transferred from the railroad retirement account to the trust fund.

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

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

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 85–67, approved June 29, 1957, Congress authorized expenditure from the trust fund of $31,080,000 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

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).

APPENDIX IV. FINANCING OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE. A REPORT OF THE ADVISORY COUNCIL ON SOCIAL SECURITY FINANCING

LETTER OF TRANSMITTAL

JANUARY 1, 1959.

THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, WASHINGTON 25, D.C.

GENTLEMEN: As required by section 116 of the Social Security amendments of 1956, there is transmitted herewith the report of the Advisory Council on Social Security Financing.

The Council has carefully studied the method of financing the old-age, survivors, and disability insurance program and the estimates of the costs of the program. We are pleased to report that the method is sound and that in our judgment, based on the best available estimates, the contribution schedule now in the law makes adequate provision for meeting both short-range and long-range costs.

The law provides for annual reports by the Board of Trustees and periodic reviews by an advisory council. The sound financing of the program will continue to require annual appraisals of operating results, periodic reexamination of the techniques and assumptions used in making the long-range forecasts of income and disbursements, and periodic reexamination of the adequacy of the contribution schedule in light of the most recent cost estimates. We endorse the statutory provisions that call for these reviews.

The Council wishes to express its appreciation of the assistance of the governmental staff assigned to work with the Council. The efficiency, knowledge, and helpfulness of the staff has greatly facilitated the Council's work.

Respectfully submitted.

CHARLES I. SCHOTTLAND,
Chairman, Advisory Council on Social Security Financing.

FOREWORD

The Advisory Council on Social Security Financing was appointed by the Secretary of Health, Education, and Welfare in accordance with section 116 of Public Law 880, 84th Congress. As provided in the statute, the Council consists of the Commissioner of Social Security as chairman and 12 persons who represent employers and employees in equal numbers and self-employed persons and the public. The members of the Council—three representing employers, three representing employees, and six representing the self-employed and the general public—were appointed early in the fall of 1957.

The Council held its first meeting in November 1957, and concluded its work with a sixth meeting in December 1958. Between meetings the Council members continued their study through analysis of extensive materials prepared at the request of the Council by the staffs of the Social Security Administration and the Department of the Treasury.

Much of the detailed work of the Council has been done by three subcommittees—one on the actuarial cost estimates, one on investment policy, and one on the drafting of the report. The Subcommittee on Investment Policy made a careful analysis of past and present trust fund investment policies and practices, and their effect on the interest income of the trust funds. The Subcommittee on Actuarial Cost Estimates made a thorough analysis of the method of financing and of the cost estimates.

The Council considered that its main responsibility under the statute was to study and report on the method of financing old-age and survivors insurance and disability insurance, the long-range costs of the programs, the sufficiency of the income provided by the law to meet those costs, the timing and the amounts of increases scheduled to be made in contribution rates, the base to which the contribution rates are applied, the statutory provisions and the policies relating to the management and investment of the trust funds, and similar matters directly related to the financing of the program.

Early in its deliberations the Council had come tentatively to the conclusion that there was need for improvement in the financing of the program. Action by the Congress in 1958 made changes in the financing along lines that the Council endorses, thus making the task of the Council considerably easier than it would otherwise have been. This report is concerned solely with the law as amended.

Although the Council made a detailed review of the financial provisions related to old-age and survivors insurance, we found that a comparable detailed study of the provisions related to disability insurance was not possible at this time because of the short period over which these provisions have been in operation and the resulting special problems in estimating the future costs of those provisions.

All findings, conclusions, and recommendations of the Council are unanimous.

Statutory Authority for Advisory Council on Social Security Financing

Public Law 880—84th Congress

SEC. 116. (a) There is hereby established an Advisory Council on Social Security Financing for the purpose of reviewing the status of the Federal Old-Age and Survivors Insurance Trust Fund and of the Federal Disability Insurance Trust Fund in relation to the long-term commitments of the old-age, survivors, and disability insurance program.

(b) The Council shall be appointed by the Secretary after February 1957 and before January 1958 without regard to the civil-service laws and shall consist of the Commissioner of Social Security, as chairman, and of twelve other persons who shall, to the extent possible, represent employers and employees in equal numbers, and self-employed persons and the public.

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

(2) Members of the Council, while serving on business of the Council (inclusive of travel time), shall receive compensation at rates fixed by the Secretary, but not exceeding $50 per day; and shall be entitled to receive actual and necessary traveling expenses and per diem in lieu of subsistence while so serving away from their places of residence.

(d) The Council shall make a report of its findings and recommendations (including recommendations for changes in the tax rates in sections 1401, 3101, and 3111 of the Internal Revenue Code of 1954) to the Secretary of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, such report to be submitted not later than January 1, 1959, after which date such Council shall cease to exist. Such findings and recommendations shall be included in the annual report of the Board of Trustees to be submitted to the Congress not later than March 1, 1959.

(e) Not earlier than three years and not later than two years prior to January 1 of the first year for which each ensuing scheduled increase (after 1960) in the tax rates is effective under the provisions of sections 3101 and 3111 of the Internal Revenue Code of 1954, the Secretary shall appoint an Advisory Council on Social Security Financing with the same functions, and constituted in the same manner, as prescribed in the preceding subsections of this section. Each such Council shall report its findings and recommendations, as prescribed in subsection (d), not later than January 1 of the year preceding the year in which such scheduled change in the tax rates occurs, after which date such Council shall cease to exist, and such report and recommendations shall be included in the annual report of the Board of Trustees to be submitted to the Congress not later than the March 1 following such January 1.

MEMBERSHIP OF THE ADVISORY COUNCIL

Charles I. Schottland, Commissioner of Social Security, Chairman of the Advisory Council.

Elliott V. Bell, chairman of the Executive Committee, McGraw-Hill Publishing Co., Inc.

J. Douglas Brown, dean of the faculty, Princeton University.

Malcolm Bryan, president, Federal Reserve Bank of Atlanta.

Arthur F. Burns, president, National Bureau of Economic Research, Inc.

Joseph W. Childs, vice president, United Rubber, Cork, Linoleum and Plastic Workers of America.

Nelson H. Cruikshank, director, Department of Social Security, American Federation of Labor and Congress of Industrial Organizations.

Carl H. Fischer, professor of actuarial mathematics and insurance, University of Michigan.

Reinhard A. Hohaus, vice president and chief actuary, Metropolitan Life Insurance Co.

Robert A. Hornby, president, Pacific Lighting Corp.

T. Norman Hurd, professor of agricultural economics, Cornell University.

R. McAllister Lloyd, chairman, Teachers Insurance and Annuity Association of America.

Eric Peterson, general secretary-treasurer, International Association of Machinists.

FINANCING OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE

I. Introduction

The old-age, survivors, and disability insurance program provides a continuing income for individuals and families who have lost income from work on account of death, retirement in old age, or permanent and total disability after age 50. Under the program, employees (with matching contributions from employers) and self-employed people, while they are working, pay a percentage of their earnings into a fund. Payments are made from the fund to the contributors and their families to replace a portion of the income lost when these risks materialize.

About 12½ million people are now drawing monthly benefits under the program, with payments for 1959 estimated at $10 billion; more than 72 million people are insured under the program; and some 75 million workers are currently contributing toward future benefits. About 9 out of 10 of the Nation's workers are covered, and about 9 out of 10 of its mothers and children can look to the program for continuing income if the family earner dies.

The financing of this program is the largest financial trusteeship in history. It involves in varying degree the personal security of practically all Americans—not only those who have retired or are nearing retirement age but those just starting to work, those who are children today, and the generations of the future. For millions of Americans the social security benefit will spell the difference between deprivation, on the one hand, and an assured income provided on a basis consistent with self-respect and dignity, on the other. Involving practically all the people, as old-age, survivors, and disability insurance does, the program's financial operations are large. It is very important that the program be adequately financed and that orderly provision be made to assure the discharge of its obligations.

The social security system has created for millions of Americans expectations regarding their future place in economic society. These expectations could be defeated by discharging the system's obligations in dollars having a substantially lesser command of goods and services than the beneficiaries have come to count upon in their personal planning. The Council believes that the trusteeship is so large and the number of people involved so great that the defeat of beneficiaries' expectations through inflation would gravely imperil the stability of our social, political, and economic institutions.

Although the security of the individual depends in part on programs such as old-age, survivors, and disability insurance that assure a source of income when earnings stop, security depends even more fundamentally on the continued ability of our society to produce a large volume of goods and services under conditions of economic stability. The Council has not considered it part of its task to evaluate in detail the effect of this system of social insurance on the stability and productivity of the economy. Our judgment is, however, that the program, if maintained on a sound basis, can be of great benefit to the economy as well as to the individual citizen. We believe that the almost universal acceptance of this program of social insurance is well deserved and that it is a permanent institution in American life.

II. THE MAJOR FINDING

The method of financing the old-age, survivors, and disability insurance program is sound, and, based on the best estimates available, the contribution schedule now in the law makes adequate provision for meeting both short-range and long-range costs.

The Council finds that the present method of financing the old-age, survivors, and disability insurance program is sound, practical, and appropriate for this program. It is our judgment, based on the best available cost estimates, that the contribution schedule enacted into law in the last session of Congress makes adequate provision for financing the program on a sound actuarial basis.

The Council has studied the estimates of the short-range and long-range costs of the old-age and survivors insurance program, the various demographic and other assumptions on which they are based, and the basic techniques used in deriving the estimates.[1] The Council believes that the assumptions are a reasonable basis for forecasts extending into the distant future, and that the estimating techniques are appropriate and sound. The Council endorses the present practice under which both the estimating techniques and the assumptions are reexamined periodically to take account of emerging experience and changing conditions.

It is our judgment that the program is in close actuarial balance since the level-premium equivalent of the contribution rates varies from the estimated level-premium cost by no more than one-quarter of 1 percent of covered payroll.[2] There is no advantage in trying to achieve a closer balance between estimated long-range income and outgo, especially since those estimates are subject to periodic review and such review encompasses the testing of the adequacy of the schedule of contribution rates. If earnings should continue to rise in the future as they have in the past, the level-premium cost of the present benefits, expressed as a percentage of payroll, would be lower than shown in the cost estimates we have used.

The Council is also pleased to report that under the new schedule of contributions and benefits not only is the system in close actuarial balance for the long run, but also after 1959 the income to the system is estimated to exceed the outgo in every year for many years into the future. We believe that it is important that income exceed outgo during the early years of development of the system as well as that the system be in close actuarial balance over the long range.

[1] See sec. VII B for a discussion of the estimates. The estimates referred to throughout this report are the official estimates of the Social Security Administration. The latest estimates are contained in "Actuarial Cost Estimates and Summary of Provisions of the Old-Age, Survivors, and Disability Insurance System as Modified by the Social Security Amendments of 1958." Washington: U.S. Government Printing Office, 1958. The report of the Board of Trustees for the fiscal year 1958 will be submitted to the Congress by March 1, 1959, and will contain both the detail of the cost estimates and a reprint of this report of the Advisory Council.

[2] The "level-premium cost" is the percent of covered payroll that, if charged from now on indefinitely into the future, would produce enough contribution and interest income to the fund to meet the cost of the benefit payments and administrative expenses. The "level-premium equivalent of the contribution rates" is the percent of covered payroll that, if charged from now on indefinitely into the future, would produce the same amount of income to the fund over the long-range future as will be produced by the graded schedule of contribution rates. The level-premium cost of the OASI part of the program is 8.27 percent of payroll on the basis of the intermediate cost estimates; the level-premium equivalent of the contributions is 8.02 percent of payroll. The level-premium cost of the disability insurance part of the program is 0.49 percent of payroll; the level premium equivalent of the contributions is 0.50 percent of payroll.

We have no suggestions for basic changes in the present plan of financing. We do, however, have certain specific recommendations which we believe will strengthen the plan.

III. SUMMARY OF OTHER FINDINGS AND CONCLUSIONS

The Council's recommendations are designed to supplement, not to alter, the basic provisions of the existing financing plan. Specifically, the Council endorses the countributory principle, an interest-earning fund on a limited basis, investment of the funds solely in U.S. Government obligations, and the other major features of the present financial arrangements.

The Council anticipates that further changes in the social security program will be needed as changes occur in the labor force, wage levels, and doubtless in other factors that in a dynamic economy will affect the appropriateness of the program. Because of these changes and such changes as may occur in the factors which enter into the actuarial cost estimates, we believe there is a need for periodic scrutiny of all factors which in any way affect the financing of the program. These factors include the maximum earnings base for determining benefits and contributions. This maximum determines the proportion of the Nation's payrolls available to finance the program and is a major factor in determining the extent to which the program pays benefits reasonably related to the past earnings of the individual. As a whole, our recommendations look toward a continuing review of the financial arrangements so that they, along with the other provisions of the program, can be kept sound and workable in a changing economy.

At this time we recommend no change in the contribution schedule. It is not certain, however, that the ultimate rate should go into effect in 1969, as provided in the present law. A sound decision on whether there should be a change in the amount or timing of the increase scheduled for 1969 can best be made in the period just before 1969 after the advisory council then serving has evaluated the question.

The Council suggests that greater emphasis be given in the future to estimates of the probable course of the income and outgo of the system over the then ensuing 15 or 20 years. As the program reaches a greater degree of maturity and the contribution rate approaches the level of a reasonable minimum estimate of the costs over a period of many decades into the future, it will be appropriate, as it has not been in the past, to base financial decisions largely on what may be expected to take place during the period of 15 to 20 years thereafter. Estimates showing the relationship of income and outgo over the very long-range future have been and will continue to be important as a guide to policy and necessary as a brake against making commitments which, though inexpensive today, may have substantially greater costs in the long-run future. As the system matures, however, forecasts of what will happen during the shorter run will become progressively more significant and useful.

The Council recommends certain changes in the provisions governing the interest rate on the special obligations issued for purchase by the trust funds, and also certain other changes in the management of the funds that are designed to bring their earnings more nearly into line with earnings of private investors in long-term Government bonds.

IV. THE PLAN OF FINANCING OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE

The plan of financing the old-age, survivors, and disability insurance program is as follows: Employees pay taxes on their annual earnings up to a maximum amount—$4,800 beginning in 1959. Each employer pays taxes at the same rate on the first $4,800 paid to each of his employees in the year. Year-by-year costs will grow for many years, and the law provides that tax rates will gradually increase from a combined employer and employee rate of 5 percent in 1959 to an ultimate rate of 9 percent, to be reached in 1969. The self-employed pay at a rate equal to 1½ times the rate paid by the employee.

The contribution rates now scheduled are intended to provide enough income to meet all of the costs of the system into the indefinite future. Funds collected in the early years of the program and not needed for immediate benefit payments are invested in U.S. Government obligations. The interest earnings on these obligations are available to help pay for the larger cost of the system in later years. The scheduled contribution rates include a fixed one-half of 1 percent combined employer-employee contribution for disability benefits for workers and their dependents (three-eighths of 1 percent for the self-employed) and the proceeds of this tax are held in a separate fund. The administrative expenses of the system, as well as the benefits, are paid from the taxes established to finance the system.

In the following pages the Council reports on each aspect of the financing plan described above: Contributions by employees, employers, and the self-employed; the earnings base for contributions and benefits; the schedule of contribution rates; the role of the trust funds; and the management and investment of the trust funds.

V. CONTRIBUTIONS BY EMPLOYEES, EMPLOYERS, AND THE SELF-EMPLOYED

A. The Council believes that, as provided in present law, a substantial part of the cost of this program should be borne directly by those who benefit from it.

The fact that the worker pays a substantial share of the cost of the benefits provided, in a way visible to all, is his assurance that he and his dependents will receive the scheduled benefits and that they will be paid as a matter of right without the necessity of establishing need. The contribution sets the tone of the program and its administration by making clear that this is not a program of government aid given to the individual, but rather a cooperative program in which the people use the instrument of government to provide protection for themselves and their families against loss of earnings resulting from old age, death and disability. The Council also believes that the direct earmarked tax on prospective beneficiaries promotes a sense of financial responsibility. It is very important that people see clearly that increases in protection necessarily involve increases in costs and contributions.

We believe that the experience of the last 22 years has shown the advantages of contributory social insurance over grants from general tax funds. It is true that, up to the present time, workers as a group have not contributed a large share of the cost of their own protection.

Most workers covered in the early years of the program will contribute during only a part of their working lifetime, and, under the graduated schedule in the law, contribution rates have been low relative to the value of the protection provided. But this situation is changing. Young workers starting out under the system in recent years will contribute a substantial part of the cost of their protection.

B. The Council believes that it is also appropriate for a substantial part of the cost of the program to be borne by an employer contribution and for the self-employed to pay a rate equal to 1½ times the employee rate.

Protecting the members of the labor force and their dependents against loss of income from the hazards of old-age retirement, permanent and total disability, and death is, at least in part, a proper charge on the cost of production. Moreover, business enterprises have a significant stake in assuring that orderly provision is made to meet the needs of their employees and their families for income when their working lives are over. The earmarked contribution for social security is a recognition of this stake. The direct contribution gives employers status in the program and a clear right to participate in the development of the program and in the formation of policy.

The rate for the self-employed—1½ times the rate paid by the employee—is a recognition of the fact that the self-employed person, in respect to his own employment, has some of the characteristics both of employee and employer. The Council has found no reason for a change in this rate.

VI. THE EARNINGS BASE FOR CONTRIBUTIONS AND BENEFITS

In an economy characterized by rising wages and salaries it is necessary to give periodic review to the maximum amount of earnings subject to contributions and credited toward benefits, since this maximum determines the proportion of the covered payrolls available to finance the program and is a major factor in determining the extent to which the program pays benefits reasonably related to the past earnings of the individual.

The Council believes that it is an essential part of the contributory concept to have the worker pay contributions on the same amount of earnings as the amount that is credited to him for benefit purposes. Since, under a plan designed for broad social protection, it has not been considered appropriate to cover the full earnings of very high-paid employees and self-employed persons and to pay correspondingly high benefits, there has always been a maximum on the amount of earnings subject to tax and creditable toward benefits. Exactly where this maximum should be set is a difficult question. It is complicated by the fact that over the years wages and living levels tend to rise, so that any particular maximum set in the law may be soon outdated.

When the old-age and survivors insurance program first went into operation in 1937 the maximum earnings base was $3,000, and it remained at that level until 1951. In 1938, the first year for which adequate data are available, the full earnings of 97 percent of all covered employees, and of 94 percent of regularly employed men, were included under that maximum. As wage levels rose, the percentage of workers who had all their wages credited under the program declined; thus, by 1950, instead of the highest paid 6 percent of regularly employed men having a part of their wages excluded, 57 percent had some of their wages excluded.

The maximum earnings base was raised to $3,600, effective in 1951; to $4,200, effective in 1955; and to $4,800, effective in 1959. In 1959, it is estimated, 75 percent of the workers covered under the program, and 50 percent of the regularly employed men, will have their full earnings covered for both contributions and benefits.

Insofar as the maximum contribution and benefit base is not increased as earnings rise, the proportion of payrolls in covered employment that is taxed declines. For example, between 1938 and 1950 the proportion dropped from 92 to 80 percent. The proportion taxed in 1951 after the increase in the maximum to $3,600 was 84 percent. It is estimated that the proportion taxed in 1959 will be about 83 percent.

Benefits are a higher proportion of earnings at lower earnings levels than at the higher levels. Hence, raising the maximum contribution and benefit base without change in the benefit formula results in a reduction in the percentage of covered payroll needed to meet the long-range cost of the system. The cost estimates underlying the contribution schedule can be interpreted to imply that if earnings rise there will be an upward adjustment of benefits and of the earnings base. However, the tax rates required for the support of the adjusted benefits would be higher than those in the present contribution schedule if the earnings base is not increased as earnings rise.

The Council is of the opinion that there should be a maximum on earnings taxed and credited toward benefits; that the contribution should be levied on the same amount of earnings as the amount that is credited for benefits; and that the maximum should be increased from time to time as wages rise.[3]

Although there is no definitive logic supporting $4,800 as the correct amount—i.e., neither too high nor too low—for the maximum contribution and benefit base, we do not recommend any further change in the base at this time, since the change to $4,800 is just going into effect in 1959. We assume that further consideration will be given to this maximum after the effect of the $4,800 figure has been evaluated.

VII. THE SCHEDULE OF CONTRIBUTION RATES

A. The Council endorses the contribution schedule in present law on the basis of the cost estimates we have reviewed. We believe that the 1959, 1960, and 1963 rate increases should go into effect as scheduled and that conditions will probably warrant the 1966 rate increase as well. The last increase—that scheduled for 1969—will need to be evaluated in the light of the conditions current at that time and in the light of the cost estimates then available.

As a result of the amendments of 1958, the contribution schedule in the law has been speeded up and the rates increased. The present schedule, covering both old-age and survivors insurance and disability insurance, is as follows:[4]

[3] The Council believes it desirable to call specific attention to the fact that in the relation between the tax on earnings and the benefits paid under the old-age, survivors, and disability insurance system there is an element of progressive income taxation. Covered workers who, together with their employers, pay taxes on the higher ranges of the creditable earnings base receive less than proportionate benefit rights. This serves to make possible more than proportionate benefits for those paying taxes on the lower range of the creditable earnings base.

[4] As indicated in the description of the financing plan, the scheduled contribution rates include a fixed one-half of 1 percent combined employer-employee contribution for disability benefits for workers and their dependents (three-eighths of 1 percent for the self-employed). The questions discussed in the next several pages relate largely to the old-age and survivors insurance program only and grow out of the gradual imposition of the ultimate rate for that program.

Year	Contribution rate		
	Employers	Employees	Self-employed
	Percent	*Percent*	*Percent*
1959	2½	2½	3¾
1960–62	3	3	4½
1963–65	3½	3½	5¼
1966–68	4	4	6
1969 and thereafter	4½	4½	6¾

The Council is agreed that a graded contribution schedule is sound policy. It is true that the ultimate rate is somewhat increased by the loss of interest on funds which would otherwise have been accumulated by the application of an earlier high, level rate. We believe, however, that this loss is of far less significance than would be the effect of the sudden imposition of the full rate necessary to support the program.

The Council is also agreed that the rates should be high enough in the early years of the program to cover at least year-by-year disbursements. Disbursements will ultimately be substantially greater than they are now, and we believe there is no justification for current contributors paying less than enough to cover current disbursements. Moreover, many people were disturbed to have the outgo from the old-age and survivors insurance trust fund greater than the income in 1957 and 1958, and in prospect in 1959. We are therefore in complete accord with the action taken by the Congress to increase the rates in 1959 and 1960. These changes are necessary to avoid an excess of outgo over income in 1960 and in the next several years.

The Council also believes that the rate increase provided by the new schedule for 1963 is justified by all the evidence now available. Although it might prove possible to postpone the 1963 increase for a year or two, it is nevertheless clear that a rate increase will be needed soon after 1963, if not in that year, to prevent outgo from again exceeding income. We believe that there is merit in maintaining the schedule in the law unless and until there is a strong case for change.

Probably the increase scheduled for 1966 will not be necessary at that time to provide income in excess of outgo. Its effect, unless significant changes occur, will be to increase fund accumulation.[5] Although the Council does not regard building of a large fund as a primary goal, we nevertheless believe that it will prove desirable to have the 1966 rate go into effect. It will further the objective that the person who gets the protection should pay a substantial part of the cost of the protection. It will hasten the approach to the payment of the full rate necessary to support the system and will increase public understanding of its costs. It will reduce the shifting of costs to future members of the system. Before the 1966 rate is scheduled to go into effect, however, other advisory councils will have the opportunity to consider the timing of the introduction of this rate in the light of cost estimates and conditions current at that time.

Under the set of cost estimates we used for evaluating the contribution rate schedule, if the employer-employee contribution rate of 8

[5] Some have argued that an excess of income over outgo may have bad economic effects. Whether the economic effects are good or bad will depend on the general economic situation at the time and on the fiscal policies of the Government. In any event, the amounts by which the fund is increased in any year would in all probability be too small to have any effects on the economy that would be serious or that could not be readily compensated through other governmental action.

percent for the combined old-age, survivors, and disability insurance system scheduled for 1966 goes into effect in that year the income to the old-age and survivors insurance trust fund will exceed outgo until 1982. Under other sets of estimates that we examined, such income will exceed outgo for a period of from 12 years after 1965 (under estimates showing high costs) to about 80 years (under estimates showing low costs). In view of the likelihood that an increase above the 1966 rate will not be needed to cover the year-by-year costs of the program for a considerable period of time, we are doubtful whether the 9-percent rate should go into effect, as scheduled, in 1969.[6] However, we are not recommending that any change be made now in the schedule of contribution rates in present law. Instead, we recommend that future Advisory Councils, in the light of conditions current at the time of their inquiries, give study to the timing and level of any contribution rate increase to be made after the one bringing the rate to 8 percent.

Once the rate currently charged approaches the level of a reasonable minimum estimate of the costs over a period of many decades into the future, decisions about the imposition of further rate increases should be guided, in our judgment, largely by conditions expected in the 15- or 20-year period immediately ahead, including the size of the trust fund. Under such a plan a judgment of whether the last step-up in the contribution schedule should go into effect in 1969 can be best made just prior to that time.

B. The Council believes that the establishment of a contribution schedule in the law based on the concept of long-range actuarial balance is sound policy and should be continued. However, future decisions concerning the financing of the program should increasingly take into account estimates of trust fund income and outgo over the ensuing 15 or 20 years based on expected earnings and employment levels and on demographic developments.

The Council endorses the long-standing practice adopted by Congress of including in the law a contribution schedule which according to the cost estimates places the system substantially in actuarial balance into the indefinite future. We believe this procedure to be the best way of making people conscious of the long-range cost of the current provisions of the program and of the cost of proposals to modify the present program.

The long-range estimates of the cost of the program are presented in the form of a range, showing the effect of assumptions resulting in high costs, and other assumptions resulting in low costs. Reflecting the great uncertainties attached to costs that may develop in the more distant future, these estimates indicate a broad spread in the possible range of program costs toward the end of the present century and in the first half of the next century. For purposes of financial planning, the practice has been to take an average of the high-cost and low-cost estimates to obtain so-called intermediate cost estimates. On the basis of these intermediate cost estimates a schedule of contribution rates is developed to provide contribution income sufficient to meet

[6] It is recognized, of course, that if the long-range estimates were to remain unchanged but the imposition of the ultimate rate were postponed beyond 1969, a contribution schedule showing the system in actuarial balance would, because of this delay, have an ultimate employer-employee rate above the 9 percent in present law for the combined old-age, survivors, and disability insurance system. For example, if the 1969 rate increase were postponed until 1982, when, according to the cost estimates we have used for evaluating the contribution schedule, an increase would be needed to prevent disbursements from exceeding income, then a 9.89 percent rate would be needed in 2025 and thereafter to produce the same degree of long-range actuarial balance as the schedule in present law.

the costs of the system as they fall due from the present into the long-range future. The Council has examined these estimates and believes that the assumptions on which they are based are reasonable and that the methods used in making them are sound.

The long-range cost estimates, based as they are on assumptions reflecting the possible variations in long-range trends in such cost factors as fertility, mortality, retirement rates, and family composition, while producing a wide range in possible costs several decades ahead, show a fairly narrow range in possible costs in the shorter run future. This is because the economic factors which may show significant ups and downs in the short run are assumed in the long-range estimates to have a smooth trend. Thus, for example, the estimates assume that the volume of employment will average out over the long run somewhat below full employment. The estimates also assume that average annual earnings will remain level.[7] However reasonable these assumptions may be for the long-range estimates, they cannot be used for estimates designed to show expected operations over a short-run period. Here the possible variations arising from the economic factors will be very significant, and the Council believes that there is need for cost estimates that take these economic factors into account.

As stated above, the Council believes that when the contribution rate approaches the level of a reasonable minimum estimate of the costs over a period of many decades into the future, decisions about the imposition of further rate increases, if needed, should be guided largely by estimates covering a period of 15 or 20 years. Like the estimates covering the period of 5 future years that are presented in the annual reports of the board of trustees, these 15- or 20-year forecasts should be based on assumptions which take into account future developments with respect to economic as well as population changes.

VIII. THE ROLE OF THE TRUST FUNDS

A. The Council approves of the accumulation of funds that are more than sufficient to meet all foreseeable short-range contingencies, and that will therefore earn interest in somewhat larger amounts than would be earned if the funds served only a contingency purpose. The Council concludes, however, that a "full" reserve is unnecessary and does not believe that interest earnings should be expected to meet a major part of the long-range benefit costs.

Income not currently needed for benefits is held in two trust funds—the old-age and survivors insurance trust fund and the disability insurance trust fund. These trust funds serve two primary purposes: (1) They are contingency reserves for use in temporary situations when current income is less than current outgo, and (2) they are a source of investment income which helps pay the benefits and administrative costs of the program.

[7] The assumption that average earnings will remain level is not, of course, in accord with what has been happening in this country throughout its history. If average earnings do in fact continue to rise and if no changes are made in benefit levels, the costs of the program, expressed as a percentage of payroll, will be lower than those shown in the estimates. In this sense it can be said that the estimates overstate the costs of the benefit provisions now in the law. As a practical matter, however, it may be expected that, as average earnings continue to rise, there will be an upward adjustment of benefits. If the added cost resulting from such adjustment is sufficient to balance the reduction in the cost of the program that results from rising average earnings, the level-premium cost of the program, expressed as a percentage of payroll, will be the same as is shown in the estimates.

As contingency reserves, the assets of the trust funds are available, when needed, to supplement current receipts in periods when disbursements may temporarily rise above income. The Council believes the trust funds are and will continue to be larger than would be required for contingency purposes alone. Both the trust funds are expected to grow for many years and should remain well in excess of foreseeable contingency needs.

Although larger than needed for contingency purposes, the trust funds will continue to be considerably less than would be required under "full reserve" financing, often used for private pension plans. The "full reserve" basis contemplates the accumulation during an initial period of very substantial funds which, if the pension plan were to cease operating, would be available to discharge existing liabilities. These are liabilities to the then current beneficiaries and the liabilities accrued to date for those still in active employment. In a national compulsory social insurance program it can properly be assumed that the program will continue to collect contributions and to pay benefits indefinitely into the future. The old-age, survivors, and disability insurance program therefore does not need a full reserve. It may be considered to be in actuarial balance when estimated future income from contributions and from interest on the investments of the accumulated trust funds will, over the long run, support the estimated disbursements for benefits and administrative expenses.

Although the old-age and survivors insurance trust fund will be only a fraction of the "full reserve," as defined above, it will grow to considerable size and play a significant role as an interest-earning fund. Interest will, of course, be available to help pay benefit costs and to some extent will make later contribution rates lower than they would otherwise have to be. Interest earnings since the program began, in 1937, have already totaled over $5 billion.

In a dynamic system of social insurance, the significance of the role played by an interest-earning fund is quite different from what it would be under a static system. If benefits are adjusted upward as earnings levels rise, then the interest earnings on a fund of any given size will meet a decreasing proportion of benefit costs. In the light of potential increases in earnings and benefits as decades pass, we believe it unwise to count on interest to meet a major part of the costs of the program in the far-distant future.

We see no merit in the provision of present law which requires the trustees to report to the Congress whenever, in the course of the next 5 years, it is expected that either of the trust funds will exceed three times expenditures in any one year. The implication of the provision is that the trust funds should not be allowed to exceed the result of this formula. We do not believe that the trust funds should be held to any arbitrary relationship to expected annual expenditures, and we recommend that the provision be repealed.

B. The investment of the trust funds in U.S. Government obligations is a proper use of the excess of income over outgo for the benefit of the contributors to the funds. The trust funds are properly kept separate from the general fund of the Treasury and have the same lender status as other investors in Federal securities.

The Council is aware that there is some misunderstanding concerning the nature of the trust funds of the program and their distinct separation from the general Treasury account. The members are in unanimous agreement with the advisory councils of 1938 and 1948 that the present provisions regarding the investment of the moneys in these trust funds do not involve any misuse of these moneys or endanger the funds in any way, nor is there any "double taxation" for social security purposes by reason of the investment of these funds in Government obligations.

Each of these trust funds is kept completely separate from all other funds in the Treasury. The income and disbursements of the old-age and survivors insurance trust fund and the disability insurance trust fund are not included in the administrative budget of the Government. Instead, the President reports their operations separately in his budget message to Congress. The debt obligations held by the trust funds are shown in Treasury reports as part of the Federal debt, and interest payments on these obligations are regularly made by the Treasury to the trust funds. The securities are sold or redeemed whenever necessary to obtain cash for disbursement by these funds.

When the trust fund receipts not needed for current disbursements are invested in Government securities, the funds are lenders and the U.S. Treasury is the borrower. The trustees of the funds receive and hold Federal securities as evidence of these loans. These Government obligations are assets of the funds, and they are liabilities of the U.S. Government, which must pay interest on the money borrowed and must repay the principal when the securities are redeemed or mature.

The marketable securities held by the funds are identical in every way with Federal bonds bought and sold on the open market by other investors in Federal securities. The special obligations issued directly to the funds are public debt obligations backed by the full faith and credit of the United States. Interest on, and the proceeds from the sale or redemption of, securities held by each of the two trust funds are credited to and form a part of each fund. Thus the trust funds are completely separate from the general fund of the Treasury and have the same status as lenders that other investors in Federal securities have.

The confusion that there is "double taxation" for social security purposes arises because, in addition to paying social security taxes, people must also pay taxes to pay interest on, and repay the principal amount of, the obligations held by the trust funds. But the taxes that must be raised to pay interest on these obligations, or to repay the principal, are not levied for social security purposes. They are levied to meet the costs of the defense program and the other purposes for which the borrowed money was expended by the Treasury in accordance with congressional appropriations. If the trust funds did not exist, money for these purposes would have been borrowed from other sources, and in this case, too, taxes would have to be raised to pay interest and principal on the borrowings. The purchase of Government obligations by the trust funds is financially sound in relation to both the social security program and the fiscal operations of the Federal Government.

IX. THE MANAGEMENT AND INVESTMENT OF THE TRUST FUNDS

A. The investment of the trust funds should continue to be restricted to interest-bearing obligations of the U.S. Government or to obligations guaranteed as to principal and interest by the United States.

The Council recommends that investment of the trust funds should, as in the past, be restricted to obligations of the U.S. Government. Departure from this principle would put trust fund operations into direct involvement in the operation of the private economy or the affairs of State and local governments. Investment in private business corporations could have unfortunate consequences for the social security system—both financial and political—and would constitute an unnecessary interference with our free enterprise economy. Similarly, investment in the securities of State and local governments would unnecessarily involve the trust funds in affairs which are entirely apart from the social security system.

B. The investment of the trust funds should be in obligations having maturities which reasonably reflect the long-term character of the funds.

The bulk of the assets of the trust funds will be on continuous loan to the Federal Treasury, and therefore the funds' investments are essentially long term in character. The maturities of special issues should reflect this fact. Before the 1956 amendments to the Social Security Act, the law included no provision regarding the maturities of special obligations issued for purchase by the trust funds. Up to that time, special issues had been 5-year notes or 1-year (or less) certificates of indebtedness. The 1956 amendments added the provision that special issues shall have "* * * maturities fixed with due regard for the needs of the trust funds. * * *" This requirement has been interpreted by the Managing Trustee to mean maturities of 5 years or longer. Accordingly, he inaugurated a program to lengthen gradually the maturities of special obligations issued to the trust funds. The special issues held by the funds on June 30, 1958, consisted of 1-year certificates, 2- to 5-year notes, and 6- to 10-year bonds.

C. Each special obligation issued for purchase by the trust funds should carry a rate of interest that, in principle, equals the rate of return being realized by investors who purchase long-term Government securities in the open market at the time the special obligation is issued.[8]

The Council believes the rate of return on trust fund investments in special issues should be comparable to what the Treasury would have to pay for long-term money if borrowed from other investors. Such a rate of return seems to us the way to avoid either a financial advantage or disadvantage to the funds. Such a rate on special issues would go a long way toward eliminating any conflict of interest that might be encountered by the Secretary of the Treasury, acting both as the principal fiscal officer of the Government and as manager of the trust funds, in deciding whether to invest trust fund assets in marketable obligations or in special issues.

The provision in the present law for setting the interest rate on the special issues needs revision in order to make possible the attainment of this policy. The present law requires that special obligations issued for purchase by the trust funds bear interest at a rate equal to the average rate of interest, computed as of the end of the month preceding the date of issue, on all marketable interest-bearing public debt obligations that are not due or callable until after the expiration of 5 years from date of original issue. The interest rate on special obligations issued to the trust funds at the beginning of fiscal year 1959 was 2⅝ percent. During recent years about nine-tenths of the

[8] It is recognized that the Managing Trustee may need to keep a minor part of the funds in short-term securities, at an interest rate appropriate thereto, to meet immediate prospective needs.

old-age and survivors insurance trust fund investments have been in special obligations; on June 30, 1958, about 95 percent of the disability insurance trust fund investments were in special obligations.

The Council endorses the policy in present law which relates the interest rate on special obligations to the interest rate on long-term marketable obligations. This policy correctly identifies the special obligations as being primarily long-term investments.

We recommend, however, that two changes be made in the law in order that the rate of return on special obligations be as nearly as possible equal to the rate being realized by investors who purchase long-term Government securities in the open market at the time such a special obligation is issued. The rate on each special obligation should be made equal to the average market yield on long-term marketable Federal obligations outstanding when the special obligation is issued, rather than to the average coupon rate of such marketable obligations. This change would cause the interest rate on the obligations issued for purchase by the trust funds to reflect the market rate of return prevailing at the time of issuing any given block of secutities to the trust funds. The average yield should be computed on the basis of market quotations in a recent past period, such as the month preceding the special issue, and, as at present, the average so computed should be rounded to the nearest one-eighth of 1 percent.

The second change we recommend is that the interest rate fixed for a special obligation should be based on the average rate of return on all outstanding marketable Federal obligations that will mature more than, say, 5 years after the date of the special issue, rather than on all bonds that are not due or callable until after 5 years from the date when they were originally issued.[9] This change is necessary to eliminate from the computation those bonds which have in fact become short-term obligations.

In adjusting to the proposed new statutory formula, we believe a gradual and orderly transition over a period of several years would be desirable. We recommend, therefore, that before the new formula becomes effective the present maturity distribution of the special obligations held in the funds be reviewed and, if need be, adjusted to carry out this broad objective.

D. Investment of the trust funds, as at present, should be either in special issues or in public issues, but the statute should be amended to provide that public issues may be acquired only when they will provide currently a yield equal to or greater than the yield that would be provided by the alternative of investing in special issues.

With the adoption of a statutory formula giving to the trust funds a return based on market rates of interest, we believe it is proper for the bulk of the funds to be invested in special obligations. Investment in special issues has the great advantage of avoiding disturbances of the capital market. At the same time, the Council believes that it would be desirable to continue to allow the managing trustee to invest in public issues when he finds that it is in the public interest to do so, provided such investment would involve no sacrifice of income to the funds.

From time to time, circumstances arise in which investment of trust fund assets in public obligations may be in the public interest.

[9] See footnote 8, p. 70.

At a time of declining bond prices, for example, purchase of public issues on the open market may help preserve the asset value of Federal securities held by private investors. It may also assist the Treasury Department in the sale of new issues of Federal securities at a time when the market for Government bonds is unfavorable.

We recognize that it has been the practice of the managing trustee to purchase marketable obligations for the trust funds only if the current yields on the marketable obligations exceed what would be obtained by purchasing special obligations. The Council believes however, that it would be desirable to make this practice a statutory obligation. The Council therefore recommends adoption of a provision allowing purchase of marketable securities only when such purchase is in the public interest and would provide currently a yield equal to or greater than the alternative of investing in special issues. This provision would supersede the present statutory provision that special issues shall be purchased only if it is not in the public interest for the trust funds to purchase other Federal securities.

E. The law should be amended to state that the Board of Trustees as a whole has the responsibility to review the general policies followed in managing the trust funds, and to recommend changes, as needed, in the provisions of the law that govern the way in which the trust funds are to be managed. In keeping with the nature of its responsibilities, the intervals between meetings of the Board should be not more than 6 months.

The Council believes that the present statutory provision giving full authority for management of the operations and investments of the trust funds to the Secretary of the Treasury as managing trustee is sound. Generally the Secretary of the Treasury, by reason of his position and experience, is the person in the Government who is best equipped for this responsibility. However, the Council believes that all members of the Board of Trustees should participate in the review of the general policies followed in the management of the trust funds. We, therefore, recommend an amendment to the law to give more specific recognition to the responsibility of trusteeship of all members of the Board and to require that the intervals between meetings be not more than 6 months.

F. The Council has examined broadly the way administrative expenses are charged to the trust funds and the financial provisions relating to the railroad retirement account and to the coverage of the members of the Armed Forces and believes that the arrangements are fair.

The Council believes that the trust funds should be treated in all respects as funds held in trust, bearing their proper share of expense but not operating so as to subsidize other activities of Government.

The Council did not look, in great detail, into the question of the charging of administrative expenses, but we believe that with relatively minor exceptions all administrative costs are being charged to the trust funds. These include the administrative expenses of the Bureau of Old-Age and Survivors Insurance, the expenses incurred by the Internal Revenue Service in the collection of social security taxes, and expenses incurred by other units of the Department of Health, Education, and Welfare and of the Treasury Department in connection with old-age, survivors, and disability insurance. The administrative expenses of the total program, although charged to the respective trust funds, are subject to the regular appropriation procedures of Congress.

Under the 1951 amendments to the Railroad Retirement Act, wage credits accumulated under the railroad retirement system by workers who die or retire with less than 10 years of railroad employment are transferred to the workers' accounts under the old-age, survivors, and disability insurance program. Benefit payments are made by the old-age, survivors, and disability insurance program on the basis of the combined earnings records. Retirement and disability benefits are payable under both programs to workers with 10 or more years of railroad service who also qualify under old-age, survivors, and disability insurance. The survivors of workers with 10 or more years of railroad service receive benefits under one program or the other based on combined wage records. Each year the two agencies jointly determine the amount of money which, if transferred from the railroad retirement account to the old-age and survivors insurance trust fund or vice versa, would place the trust fund in the same position it would have been in if railroad employment had always been covered under the Social Security Act. The amount so determined is transferred. There is provision for similar annual interchanges between the railroad retirement account and the disability insurance trust fund beginning with the fiscal year 1958. This is an arrangement which seems to us to be fair to both programs.

Beginning January 1, 1957, contributory coverage was extended to members of the uniformed services. Noncontributory wage credits of $160 a month have been provided to persons who served in the Armed Forces from September 16, 1940, through December 31, 1956. In addition, provision had been made for noncontributory survivors insurance protection for certain World War II veterans for a period of 3 years following their discharge from the Armed Forces. The old-age and survivors insurance trust fund received reimbursements from the general fund of the Treasury for the additional costs of these survivor benefits paid before September 1, 1950. Under the 1956 amendments, the additional costs of the survivor benefits after August 31, 1950, and all past and future expenditures arising from the noncontributory military wage credits, will be met by reimbursements from the general fund to the appropriate trust funds. These reimbursements should not be regarded as a Government contribution or as a departure from the policy of self-support. Instead, these contributions are made by the U.S. Government from general funds in its capacity as employer of the members of the Armed Forces.

X. CONCLUSION

In conclusion, the Council would reiterate what we have said earlier in this report: In a dynamic society a program of old-age, survivors, and disability insurance requires periodic review of its operations to assure that its effectiveness is maintained. The Council is pleased to report that according to the best cost estimates available the contribution schedule now in the law makes adequate provision for meeting the cost of the benefits provided. We have found that the method of financing is sound and that no fundamental changes are required or desirable. Our recommendations are intended to strengthen the measures necessary to carry out the basic principles inherent in the program.

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The two 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 that would have permitted the transfer of the $488 million from the railroad retirement account to the trust fund, but the legislation provides that beginning with fiscal year 1953, and for each fiscal year thereafter, annual interest payments on this amount (less any offsets described below) were to be transferred from the railroad retirement account to the trust fund.

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

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

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 85–67, approved June 29, 1957, Congress authorized expenditure from the trust fund of $31,080,000 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 definied 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 preceeding 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 purposes 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 chapter 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 costs 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, and benefit payments required to be made under subsection (b), (c), or (d) of section 202 to individuals entitled to benefits on the basis of the wages and self-employment income of an individual entitled to disability insurance benefits, shall be made only from the Federal Disability Insurance Trust Fund. All other benefit payments required to be made under this title 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).

APPENDIX IV. FINANCING OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE. A REPORT OF THE ADVISORY COUNCIL ON SOCIAL SECURITY FINANCING

LETTER OF TRANSMITTAL

JANUARY 1, 1959.

THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, WASHINGTON 25, D.C.

GENTLEMEN: As required by section 116 of the Social Security amendments of 1956, there is transmitted herewith the report of the Advisory Council on Social Security Financing.

The Council has carefully studied the method of financing the old-age, survivors, and disability insurance program and the estimates of the costs of the program. We are pleased to report that the method is sound and that in our judgment, based on the best available estimates, the contribution schedule now in the law makes adequate provision for meeting both short-range and long-range costs.

The law provides for annual reports by the Board of Trustees and periodic reviews by an advisory council. The sound financing of the program will continue to require annual appraisals of operating results, periodic reexamination of the techniques and assumptions used in making the long-range forecasts of income and disbursements, and periodic reexamination of the adequacy of the contribution schedule in light of the most recent cost estimates. We endorse the statutory provisions that call for these reviews.

The Council wishes to express its appreciation of the assistance of the governmental staff assigned to work with the Council. The efficiency, knowledge, and helpfulness of the staff has greatly facilitated the Council's work.

Respectfully submitted.

CHARLES I. SCHOTTLAND,
Chairman, Advisory Council on Social Security Financing.

FOREWORD

The Advisory Council on Social Security Financing was appointed by the Secretary of Health, Education, and Welfare in accordance with section 116 of Public Law 880, 84th Congress. As provided in