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87th Congress, 1st Session - - - - - House Document No. 60

# 21ST 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

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

TRANSMITTING

THE 21ST ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND, PURSUANT TO SECTION 201(c) OF THE SOCIAL SECURITY ACT, AS AMENDED

JANUARY 18, 1961.—Referred to the Committee on Ways and Means and ordered to be printed

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## LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE FEDERAL
OLD-AGE AND SURVIVORS INSURANCE AND
DISABILITY INSURANCE TRUST FUNDS,
*January 17, 1961, Washington, D.C.*

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

SIR: We have the honor to transmit to you the 21st 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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# TWENTY-FIRST 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, 1960**

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## 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

Total receipts of the old-age and survivors insurance trust fund in fiscal year 1960 amounted to $10,359 million, or about 28 percent more than in fiscal year 1959. Total disbursements of $11,072 million were about 18 percent greater than the disbursements made in the preceding fiscal year. The excess of total outgo over total income, amounting to $713 million, lowered the total assets of the old-age and survivors insurance trust fund from $21,541 million on June 30, 1959, to $20,829 million on June 30, 1960.

Disbursements consisted of $10,270 million for benefit payments, $202 million for administrative expenses, and $600 million—including $17 million in interest—in transfers to the railroad retirement account. (The disbursement total, like the income total, does not include $79 million in refunds for overpayments of employee contributions.) The total number of old-age and survivors insurance beneficiaries at the end of the fiscal year was 13,740,000, or about 7 percent more than in June 1959. Retirement beneficiaries numbered 10,297,000, and survivor beneficiaries numbered 3,443,000 in June 1960. The estimated number of persons with taxable earnings under the old-age, survivors, and disability insurance program in calendar year 1959 was about 73 million.

The income of the old-age and survivors insurance trust fund in fiscal year 1960 consisted of $9,843 million in tax contributions and $516 million in interest on investments. The 30-percent increase in contribution income was associated with increases in contribution rates and in maximum taxable earnings that were effective during part or all of the fiscal year 1960. On January 1, 1960, in accordance with the schedule of rates set forth in the Social Security Act, the contribution rate for employees and employers was increased from 2½ percent of taxable earnings to 3 percent each, and the rate for the self-employed was increased from 3¾ percent to 4½ percent. These increases were, of course, effective for only half the fiscal year 1960. The maximum annual amount of earnings taxable and creditable toward benefits was $4,800 during the entire fiscal year, having been increased from $4,200 on January 1, 1959.

Shortly after the close of fiscal year 1960, Congress amended the Social Security Act in several ways affecting the management of trust fund investments. The most noteworthy amendment in this regard stipulates that the interest rate on public-debt obligations issued for purchase by the trust funds shall be approximately equivalent to the average market yield of all marketable obligations of the United States that are not due or callable for 4 or more years from the time at which the obligations are issued for purchase by the trust funds. This provision puts into effect the substance of a recommendation that was made by the 1958 Advisory Council on Social Security Financing and that was substantially supported by the Board of Trustees. Current actuarial cost estimates indicate that this change will, over the long run, provide additional income to the trust funds equivalent to 0.02 percent of payroll on a level-premium basis.

Estimates for the 5 fiscal years 1961–65 show continued increases in both the receipts and the disbursements of the old-age and survivors insurance trust fund. The estimates indicate that total income of the fund will exceed its total outgo over the period of the 5 fiscal years 1961–65. According to these estimates, at the end of fiscal year 1965 the trust fund will amount to $24.0 billion, with income of $15.8 billion and outgo of $14.2 billion in that fiscal year.

Medium-range (15-year) estimates based on assumed increasing trends in earnings of covered workers, presented for the first time in this report, also show continued increases in receipts and disbursements. According to these estimates, at the end of calendar year 1975, the old-age and survivors insurance trust fund will amount to $84.8 billion.

Long-range cost estimates for the old-age and survivors insurance program, as amended in 1960, indicate that the program is in approximate actuarial balance. The level-premium cost of the benefit payments and administrative expenses, at 3.02 percent interest, ranges from 7.40 to 9.65 percent of payroll, depending on the combination of cost assumptions selected. On the basis of intermediate-cost assumptions, such level-premium cost is 8.42 percent of payroll as compared with the level-premium equivalent of the contributions of 8.18 percent of payroll.

Total disbursements of the disability insurance trust fund in fiscal year 1960 were 1½ times as large as in fiscal year 1959, but they amounted to only about half of the 1960 income of the fund. Disbursements totaled $561 million—$528 million for benefit payments and $33 million for administrative expenses and interest. Income totaled $1,062 million—$987 million in net contributions (after deduction of $10 million in refunds), $48 million in interest on investments, and a transfer with interest of $27 million from the railroad retirement account. The total income of the disability insurance trust fund thus exceeded total disbursements by $501 million, and this amount brought the total assets of the fund to $2,167 million on June 30, 1960.

Estimates of the expected operations of the disability insurance trust fund during the five fiscal years 1961–65 show that this fund at the end of fiscal year 1965 will amount to $2.8 billion, with receipts of $1.2 billion and disbursements of $1.2 billion in that fiscal year.

The medium-range (15-year) estimates for the disability insurance program show that the trust fund at the end of calendar year 1975 will amount to $4.7 billion. The long-range cost estimates show that the level-premium cost of the benefit payments and administrative expenses, at 3.02 percent interest, ranges from 0.42 to 0.73 percent of payroll, depending on the combination of assumptions used. On the basis of intermediate-cost assumptions, such level-premium cost is 0.56 percent of payroll, as compared with the level premium equivalent of the contributions of 0.50 percent of payroll.

## SOCIAL SECURITY AMENDMENTS OF 1960

The 1960 amendments to the Social Security Act and related sections of the Internal Revenue Code (Public Law 86–778, approved September 13, 1960 (will have effect on both the immediate and long-range future levels of income and disbursement of the system. The disability insurance part of the program was expanded considerably. The insured-status provisions were liberalized. The retirement test was made more liberal, flexible, and equitable. Benefits to children of deceased workers were increased in some cases. The basis for determining the interest rate on trust fund investments in special issues was revised. Long-range actuarial estimates of the program as amended in 1960 show benefit costs very closely in balance with contribution income. Accordingly, the schedule of contribution rates contained in the law continues to reflect the intent that the program be self-supporting.

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

1. Beginning with November 1960, disability insurance benefits were provided for workers under the age of 50 and for their dependents, on the same basis as benefits under previous law were provided for disabled workers aged 50 to 64 and for their dependents.

2. The fully insured status provisions (applicable to all types of monthly benefits) were liberalized so that, beginning in October 1960, to be fully insured a person needs 1 quarter of coverage for every 3 calendar quarters elapsing after 1950 (or after the year in which he attained age 21, if that is later) and before the year in which he reached the minimum retirement age, or died, or became disabled, whichever first occurred (but requiring not less than 6 nor more than 40 quarters of coverage). Under prior law, the requirement was 1 quarter of coverage for every 2 elapsed quarters before the quarter in which the first of those events occurred.

3. The retirement test was amended, effective for taxable years beginning after 1960, by eliminating the requirement for withholding a month's benefit for each $80 of annual earnings above $1,200 and providing instead for withholding $1 in benefits for each $2 of the first $300 of earnings above $1,200 and for withholding $1 in benefits

for each $1 of earnings above $1,500. There was no change in the provision which specifies that, regardless of the amount of annual earnings, no benefits will be withheld for any month in which the beneficiary neither earns wages of more than $100 nor renders substantial services in self-employment or for any month in which the beneficiary is aged 72 or over.

4. The benefit of each child of a deceased worker was changed, beginning December 1960, to three-fourths of the primary insurance amount of the deceased worker (retaining the effect of the family maximum), rather than one-half of the primary insurance amount plus one-fourth of the primary insurance amount divided by the number of entitled children.

5. The basis for determining the interest rate on future trust fund investments in public-debt obligations (special issues) was changed. Under the new law, these investments will bear a rate of interest equal to the average market yield of all marketable Government obligations not due or callable for 4 or more years from the time when the special obligations are issued, the average yield being rounded to the nearest one-eighth of 1 percent. Under prior law, this rate of interest was related to the average coupon rate on all outstanding marketable obligations of the United States not due or callable for at least 5 years from the original issue date. Current cost estimates indicate that this change from average coupon rate to average market yield will increase somewhat the interest income to the trust funds over the long-range future. Also, the law was changed to allow the purchase of marketable securities only when such purchase would be in the public interest; prior law required that marketable securities always be purchased except when this would not be in the public interest, in which case special issues were to be purchased.

Table 1 presents an estimate of the effect, expressed as a level-premium percent of payroll, of the changes in the program in 1960.

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

| Item | Old-age and survivors insurance | Disability insurance |
|---|---|---|
| Benefit cost of program in effect before 1960 amendments [1] | 8.38 | 0.35 |
| Effect of changes: | | |
| Liberalization of requirements for fully insured status | .02 | |
| Liberalization of retirement test | .02 | |
| Increase in child survivor benefits | .02 | |
| Improved yield of trust fund investments | —.02 | |
| Elimination of age-50 requirement for disability benefits | | .20 |
| Other changes in disability program [2] | | .01 |
| Benefit cost of program after enactment of 1960 amendments [1] | 8.42 | .56 |

[1] Taking into account (*a*) lower contribution rate payable by the self-employed compared with combined employer-employee rate, (*b*) interest on trust funds on hand as of Dec. 31, 1959, and (*c*) administrative expenses.

[2] Elimination of 2d waiting period for recurrence of disability within 5 years and liberalization of trial-work period.

## 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 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 employment covered by the old-age, survivors, and disability insurance program. All employees and their employers in employment covered by the program are required to pay contributions with respect to the wages of individual workers. 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.

Under the Internal Revenue Code, as amended, the contribution rate for employees and their employers of 2½ percent was increased to 3 percent each on January 1, 1960, and is scheduled to rise 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 rates. The Social Security Act, as amended in 1956, provides that beginning January 1, 1957, from 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 (to effect coverage under the program for State and local government employees) and deposited directly in the trust funds, all contributions are collected by the Internal Revenue Service and are paid into the Treasury as internal revenue collections. However, sums equivalent to 100 percent of these taxes are transferred to the trust funds from time to time. Such transfers are first made on the basis of estimated tax receipts. The exact amount is not known since old-age, survivors, and disability insurance and income taxes withheld are not separately identified in tax-collection reports received by the Treasury Department from the district offices of the Internal Revenue Service. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

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

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 the issue price or by purchase of outstanding obligations at their market price. In addition, the Social Security Act authorizes the issuance of public-debt obligations for purchase by the trust funds. The law requires that such public-debt obligations shall have maturities fixed with due regard for the needs of the trust funds and shall bear interest at a rate equal to the average market yield (computed by the managing trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such calendar month; where such average market yield is 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 market yield.

Interest on public issues held by the trust funds is received by the funds at the time the interest is paid on the particular issues held. Interest on 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 disbursements. The role of interest in meeting future benefit payments is indicated in tables B and C.

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

## SUMMARY OF THE OPERATIONS OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, FISCAL YEAR 1960

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, 1959, and ended on June 30, 1960, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2.

The total assets of the old-age and survivors insurance trust fund amounted to $21,541 million on June 30, 1959. These assets decreased to $20,829 million by the end of the fiscal year 1960, as a result of an excess of disbursements over receipts amounting to $713 million.

TABLE 2.—*Statement of operations of the old-age and survivors insurance trust fund during the fiscal year 1960*

| | | | |
|---|---|---|---|
| Total assets of the trust fund, June 30, 1959 | | | $21,541,424,332.49 |
| Receipts, fiscal year 1960: | | | |
| Tax contributions: | | | |
| Appropriations | $9,271,868,378.13 | | |
| Deposits arising from State agreements | 650,256,737.97 | | |
| Gross tax contributions | 9,922,125,116.10 | | |
| Less payment into the Treasury for taxes subject to refund | 79,440,000.00 | | |
| Net tax contributions | | $9,842,685,116.10 | |
| Interest and profit: | | | |
| On investments | 516,406,240.21 | | |
| On administrative expenses reimbursed by disability insurance trust fund | 724,045.00 | | |
| Gross interest and profit | 517,130,285.21 | | |
| Less interest on amounts transferred to railroad retirement account | 17,337,000.00 | | |
| Net interest and profit | | 499,793,285.21 | |
| Total receipts | | 10,342,478,401.31 | |
| Disbursements, fiscal year 1960: | | | |
| Benefit payments | | 10,269,708,576.63 | |
| Transfers to railroad retirement account | | 583,100,000.00 | |
| Administrative expenses: | | | |
| Department of Health, Education, and Welfare | 181,362,903.57 | | |
| Treasury Department | 37,410,317.91 | | |
| Preparation and construction of building for Bureau of Old-Age and Survivors Insurance | 12,525,583.59 | | |
| Gross administrative expenses | 231,298,805.07 | | |
| Less receipts from sale of surplus materials, supplies, etc | 147,822.63 | | |
| Less reimbursement for administrative expenses by disability insurance trust fund | 26,387,515.00 | | |
| Less reimbursement for construction by disability insurance trust fund | 2,394,393.00 | | |
| Net administrative expenses | | 202,369,074.44 | |
| Total disbursements | | 11,055,177,651.07 | |
| Net addition to the trust fund | | | −712,699,249.76 |
| Total assets of the trust fund, June 30, 1960 | | | 20,828,725,082.73 |

Net receipts of the trust fund during the fiscal year 1960 amounted to $10,342 million. Of this total, $9,272 million represented tax collections appropriated to the fund and $650 million represented amounts received by the Secretary of the Treasury in accordance with State agreements for coverage of State and local government employees and deposited in the trust fund. However, $79 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 $9,843 million and represented an increase of 30 percent over the amount for the preceding fiscal year. This large increase resulted chiefly from (1) the increase in the combined-employer-employee contribution rate for old-age and survivors benefits from 4 percent to 4½ percent that went into effect January 1, 1959, (2) the increase in the maximum amount of annual taxable earnings from $4,200 to $4,800 that also went into effect on January 1, 1959, and (3) the increase in the combined employer-employee rate from 4½ percent to 5½ percent that went into effect January 1, 1960. Although the first two changes became effective in 1959, fiscal year 1960 was the first full year during which they were operative. The remaining $500 million of receipts consisted of net interest and profit on the investments of the fund.

Disbursements from the trust fund during the fiscal year 1960 totaled $11,055 million. Of this total, $10,270 million was for benefit payments, an increase of 13 percent over the corresponding amount paid in the fiscal year 1959. This increase resulted chiefly from (1) the expected growth in the number of beneficiaries as the program matures and (2) the fact that the higher benefit provisions of the 1958 amendments were effective during the entire fiscal year 1960 but during only part of fiscal year 1959.

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 the principal sum of $274,600,000 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, 1958, as it would have been if railroad employment had always been covered under the Social Security Act. This sum together with interest thereon for fiscal year 1959, amounting to $7,448,000, was transferred to the railroad retirement account in July 1959. Similarly, the determination made as of June 30, 1959, showed that a transfer of the principal sum of $308,500,000 to the railroad retirement account from the trust fund was necessary. This amount together with interest thereon for fiscal year 1960 totaling $9,889,000 was transferred to the railroad retirement account in June 1960. The amount of $583,100,000 for fiscal year 1960 (table 2) is the total of the principal sums of $274,600,000 and $308,500,000.

Net administrative expenses charged to the fund totaled $202 million and represented 2.1 percent of contribution income and 2.0 percent of benefit payments during fiscal year 1960. Corresponding figures for each of the last 10 fiscal years are shown in table 3.

TABLE 3.—*Relationship of net administrative expenses [1] to contribution income and benefit payments, old-age and survivors insurance trust fund, fiscal years 1951–60*

| Fiscal year | Administrative expenses as a percentage of— Contribution income | Benefit payments | Fiscal year | Administrative expenses as a percentage of— Contribution income | Benefit payments |
|---|---|---|---|---|---|
| 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 |
| 1954 | 1.9 | 2.7 | 1959 | 2.7 | 2.3 |
| 1955 | 2.0 | 2.4 | 1960 | 2.1 | 2.0 |

[1] Include administrative expenses, less receipts from sale of surplus materials, 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 are then made from the disability insurance trust fund in the following fiscal year.

TABLE 4.—*Estimated distribution of benefit payments from the old-age and survivors insurance trust fund, by type of benefit, fiscal years 1959 and 1960*

[Amounts in millions]

| Type of benefit | 1959 Amount | 1959 Percent of total | 1960 Amount | 1960 Percent of total |
|---|---|---|---|---|
| Total [1] | $9,049.1 | 100 | $10,269.7 | 100 |
| Monthly benefits [1] | 8,899.5 | 98 | 10,103.9 | 98 |
| Old-age (retired workers) | 6,041.4 | 67 | 6,803.5 | 66 |
| Wife's or husband's (aged wives or dependent husbands of old-age beneficiaries or their young wives if caring for child beneficiary) | 913.4 | 10 | 1,020.0 | 10 |
| Widow's or dependent widower's (aged widows or aged dependent widowers of workers) | 833.4 | 9 | 990.7 | 10 |
| Parent's (aged dependent parents of deceased workers) | 22.3 | (2) | 27.1 | (2) |
| Child's (children, under age 18 or disabled, of old-age beneficiaries) | 65.6 | 1 | 85.3 | 1 |
| Child's (children, under age 18 or disabled, of deceased workers) | 781.8 | 9 | 903.1 | 9 |
| Mother's (widows or dependent divorced wives of deceased workers caring for child beneficiaries) | 241.6 | 3 | 274.2 | 3 |
| Lump-sum death payments | 149.6 | 2 | 165.8 | 2 |

[1] Totals do not necessarily equal the sum of rounded components.
[2] Less than 0.5 percent.

The distribution of benefit payments in fiscal years 1959 and 1960, 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 1960 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 decreased 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.

On June 30, 1960, about 14.3 million persons in some 10.5 million families were receiving monthly benefits under the old-age, survivors, and disability insurance program (table 5). Average monthly family benefits on that date showed moderate increases over the corresponding averages a year earlier. The higher averages reflected in part the greater proportion of benefits computed on the basis of earnings after 1950. 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.

The assets of the old-age and survivors insurance trust fund at the end of fiscal year 1960 totaled $20,829 million, consisting of $19,749 million in the form of obligations of the U.S. Government, and $1,080 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 1959 and 1960.

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 1959 and 1960*

| Family classification of beneficiaries receiving benefits | June 30, 1959 | | | June 30, 1960 | | |
|---|---|---|---|---|---|---|
| | 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 [1] | 9,727.8 | 13,181.4 | | 10,536.4 | 14,261.8 | |
| Retired-worker families [1] | 7,295.6 | 9,636.6 | | 7,813.0 | 10,296.6 | |
| Worker only | 5,149.6 | 5,149.6 | $68.20 | 5,539.3 | 5,539.3 | $69.50 |
| Male | 2,696.5 | 2,696.5 | 77.20 | 2,843.8 | 2,843.8 | 79.20 |
| Female | 2,453.1 | 2,453.1 | 58.30 | 2,695.5 | 2,695.5 | 59.30 |
| Worker and aged wife | 1,981.1 | 3,962.2 | 120.70 | 2,084.4 | 4,168.8 | 123.40 |
| Worker and young wife [2] | .7 | 1.4 | 115.70 | .8 | 1.6 | 118.80 |
| Worker and aged dependent husband | 14.6 | 29.2 | 103.10 | 14.4 | 28.8 | 105.50 |
| Worker and 1 or more children | 37.5 | 87.4 | 118.30 | 50.2 | 114.5 | 120.10 |
| Worker, wife aged 65 or over, and 1 or more children | 11.7 | 36.0 | 155.70 | 14.2 | 43.4 | 159.40 |
| Worker, young wife, and 1 or more children | 100.2 | 370.2 | 148.10 | 109.5 | 399.6 | 153.90 |
| Worker, husband, and 1 or more children | .2 | .6 | 123.10 | .2 | .6 | 126.00 |
| Survivor families [1] | 2,157.0 | 3,183.5 | | 2,352.6 | 3,443.7 | |
| Aged widow | 1,311.0 | 1,311.0 | 56.20 | 1,456.0 | 1,456.0 | 57.20 |
| Aged widow and 1 or more children | 9.1 | 18.7 | 110.00 | 13.2 | 27.2 | 112.90 |
| Aged widow and 1 or 2 aged dependent parents | .1 | .2 | 129.10 | .2 | .4 | 130.90 |
| Aged dependent widower | 1.8 | 1.8 | 52.90 | 2.0 | 2.0 | 53.50 |
| Widower and 1 or more children | (3) | (3) | 92.40 | (3) | .1 | 93.60 |
| Widowed mother [2] | 1.1 | 1.1 | 54.90 | 1.0 | 1.0 | 56.00 |
| Widowed mother and 1 child | 154.8 | 309.6 | 128.30 | 164.6 | 329.2 | 131.30 |
| Widowed mother and 2 children | 105.9 | 317.7 | 168.60 | 109.6 | 328.8 | 173.00 |
| Widowed mother and 3 or more children | 104.2 | 499.2 | 176.00 | 111.8 | 537.3 | 181.20 |
| Widowed mother, 1 or more children, and 1 or 2 aged dependent parents | .2 | .8 | 217.10 | .5 | 2.0 | 221.30 |
| Divorced wife and 1 or more children | .3 | .8 | 165.70 | .3 | .9 | 167.50 |
| 1 child only | 274.4 | 274.4 | 56.30 | 288.8 | 288.8 | 57.70 |
| 2 children | 106.2 | 212.4 | 99.80 | 113.1 | 226.2 | 102.70 |
| 3 children | 35.7 | 107.1 | 127.60 | 36.5 | 109.5 | 131.30 |
| 4 or more children | 21.5 | 96.0 | 145.70 | 21.9 | 98.5 | 150.50 |
| 1 or more children and 1 or 2 aged dependent parents | .4 | .8 | 135.90 | .9 | 2.0 | 138.80 |
| 1 aged dependent parent | 28.6 | 28.6 | 58.70 | 30.5 | 30.5 | 60.40 |
| 2 aged dependent parents | 1.7 | 3.4 | 103.40 | 1.7 | 3.4 | 106.20 |
| Disabled-worker families [1] | 275.2 | 361.2 | | 370.8 | 521.6 | |
| Worker only | 235.7 | 235.7 | 87.90 | 298.2 | 298.2 | 88.20 |
| Male | 179.0 | 179.0 | 91.70 | 220.8 | 220.8 | 92.30 |
| Female | 56.7 | 56.7 | 75.90 | 77.4 | 77.4 | 76.40 |
| Worker and aged wife | 12.9 | 25.8 | 135.30 | 19.7 | 39.4 | 136.30 |
| Worker and young wife [2] | .2 | .4 | 132.60 | .3 | .6 | 133.30 |
| Worker and aged dependent husband | .1 | .2 | 116.10 | .2 | .4 | 117.40 |
| Worker and 1 or more children | 6.2 | 15.5 | 153.00 | 16.3 | 39.9 | 154.60 |
| Worker, wife aged 65 or over, and 1 or more children | (3) | .1 | 202.60 | .1 | .3 | 204.80 |
| Worker, young wife, and 1 or more children | 20.0 | 83.5 | 184.90 | 36.0 | 142.7 | 186.10 |

[1] Totals do not necessarily equal the sum of rounded components.
[2] Benefits of children were being withheld.
[3] Less than 50.

TABLE 6.—*Assets of the old-age and survivors insurance trust fund, by type, at end of fiscal years 1959 and 1960*

| | June 30, 1959 | | June 30, 1960 | |
|---|---|---|---|---|
| | Par value | Book value [1] | Par value | Book value [1] |
| Investments: | | | | |
| Public issues: | | | | |
| Treasury bills, January 15, 1961 | --- | --- | $23,550,000 | $22,935,960.98 |
| Treasury notes: | | | | |
| 2⅝-percent, series A, 1963 | $30,000,000 | $30,000,000.00 | 30,000,000 | 30,000,000.00 |
| 3½-percent, series A, 1960 | 47,500,000 | 47,405,203.22 | --- | --- |
| 3⅝-percent, series A, 1962 | 176,000,000 | 175,958,906.27 | 176,000,000 | 175,974,813.47 |
| 3¾-percent, series C, 1962 | 20,000,000 | 20,000,000.00 | 20,000,000 | 20,000,000.00 |
| 4-percent, series A, 1961 | 119,100,000 | 119,101,441.29 | 119,100,000 | 119,100,749.49 |
| 4-percent, series B, 1962 | 15,000,000 | 15,000,000.00 | --- | --- |
| 4-percent, series B, 1963 | 25,000,000 | 25,000,000.00 | 25,000,000 | 25,000,000.00 |
| 4⅝-percent, series A, 1965 | --- | --- | 47,500,000 | 47,500,000.00 |
| 4⅞-percent, series C, 1963 | --- | --- | 15,000,000 | 15,000,000.00 |
| 5-percent, series B, 1964 | --- | --- | 25,000,000 | 25,000,000.00 |
| Treasury bonds: | | | | |
| 2¼-percent, 1959-62 | 4,205,000 | 4,205,585.40 | 4,205,000 | 4,205,000.00 |
| 2½-percent, 1961 | 10,450,000 | 9,960,343.75 | --- | --- |
| 2½-percent, 1962-67 | 58,650,000 | 58,703,600.75 | 58,650,000 | 58,685,223.33 |
| 2½-percent, 1963 | 4,500,000 | 4,155,625.00 | 4,500,000 | 4,239,961.72 |
| 2½-percent, 1963-68 | 116,480,000 | 116,564,321.35 | 116,480,000 | 116,545,229.71 |
| 2½-percent, 1964-69 | 104,004,000 | 102,842,360.04 | 104,004,000 | 103,067,631.60 |
| 2½-percent, 1965-70 | 456,747,500 | 456,857,225.84 | 456,747,500 | 456,837,862.40 |
| 2½-percent, 1966-71 | 308,077,500 | 307,945,931.30 | 308,077,500 | 307,965,666.50 |
| 2½-percent, 1967-72 | 164,593,250 | 163,720,703.36 | 183,378,250 | 179,126,859.40 |
| 2⅝-percent, 1965 | 225,400,000 | 224,165,703.13 | 225,400,000 | 224,386,771.21 |
| 2¾-percent, 1961 | 2,000,000 | 1,907,187.50 | 2,000,000 | 1,950,024.02 |
| 2¾-percent, investment series B, 1975-80 | 1,064,902,000 | 1,065,883,329.48 | 1,064,902,000 | 1,065,764,380.44 |
| 3-percent, 1966 | 25,000,000 | 25,000,000.00 | 25,000,000 | 25,000,000.00 |
| 3-percent, 1995 | 85,170,000 | 85,125,776.37 | 85,170,000 | 85,127,019.21 |
| 3¼-percent, 1978-83 | 45,100,000 | 44,910,656.26 | 45,100,000 | 44,920,665.58 |
| 3½-percent, 1990 | 63,850,000 | 63,393,620.77 | 63,850,000 | 63,408,543.25 |
| 3⅞-percent, 1968 | --- | --- | 10,450,000 | 10,170,196.39 |
| 3⅞-percent, 1974 | 25,000,000 | 25,000,000.00 | 25,000,000 | 25,000,000.00 |
| 4-percent, 1969 | 36,500,000 | 36,500,000.00 | 36,500,000 | 36,500,000.00 |
| 4-percent, 1980 | 18,000,000 | 17,833,057.82 | 18,000,000 | 17,841,168.38 |
| 4¼-percent, 1975-85 | --- | --- | 25,000,000 | 25,000,000.00 |
| Total public issues | 3,251,229,250 | 3,247,140,578.90 | 3,343,564,250 | 3,336,253,727.08 |
| Accrued interest purchased | --- | 52,307.98 | --- | --- |
| Total investments in public issues | 3,251,229,250 | 3,247,192,886.88 | 3,343,564,250 | 3,336,253,727.08 |
| Public-debt obligations (special issues): [2] | | | | |
| Certificates of indebtedness: | | | | |
| 2⅝-percent, 1960 | 400,237,000 | 400,237,000.00 | --- | --- |
| 2⅝-percent, 1961 | --- | --- | 270,000,000 | 270,000,000.00 |
| Notes: | | | | |
| 2½-percent, 1960 | 965,000,000 | 965,000,000.00 | --- | --- |
| 2½-percent, 1961 | 965,000,000 | 965,000,000.00 | 325,660,000 | 325,660,000.00 |
| 2½-percent, 1962 | 965,000,000 | 965,000,000.00 | 965,000,000 | 965,000,000.00 |
| 2½-percent, 1963 | 465,000,000 | 465,000,000.00 | 465,000,000 | 465,000,000.00 |
| 2⅝-percent, 1961 | 168,000,000 | 168,000,000.00 | 168,000,000 | 168,000,000.00 |
| 2⅝-percent, 1962 | 168,000,000 | 168,000,000.00 | 168,000,000 | 168,000,000.00 |
| 2⅝-percent, 1963 | 168,000,000 | 168,000,000.00 | 168,000,000 | 168,000,000.00 |
| 2⅝-percent, 1964 | 168,000,000 | 168,000,000.00 | 168,000,000 | 168,000,000.00 |
| Bonds: | | | | |
| 2½-percent, 1963 | 500,000,000 | 500,000,000.00 | 500,000,000 | 500,000,00.000 |
| 2½-percent, 1964 | 965,000,000 | 965,000,000.00 | 965,000,000 | 965,000,000.00 |
| 2½-percent, 1965 | 965,000,000 | 965,000,000.00 | 965,000,000 | 965,000,000.00 |
| 2½-percent, 1966 | 965,000,000 | 965,000,000.00 | 965,000,000 | 965,000,000.00 |
| 2½-percent, 1967 | 965,000,000 | 965,000,000.00 | 965,000,000 | 965,000,000.00 |
| 2½-percent, 1968 | 465,000,000 | 465,000,000.00 | 465,000,000 | 465,000,000.00 |
| 2⅝-percent, 1965 | 168,000,000 | 168,000,000.00 | 168,000,000 | 168,000,000.00 |
| 2⅝-percent, 1966 | 168,000,000 | 168,000,000.00 | 168,000,000 | 168,000,000.00 |
| 2⅝-percent, 1967 | 168,000,000 | 168,000,000.00 | 168,000,000 | 168,000,000.00 |
| 2⅝-percent, 1968 | 668,000,000 | 668,000,000.00 | 668,000,000 | 668,000,000.00 |
| 2⅝-percent, 1969 | 1,133,000,000 | 1,133,000,000.00 | 1,133,000,000 | 1,133,000,000.00 |
| 2⅝-percent, 1970 | 1,133,000,000 | 1,133,000,000.00 | 1,133,000,000 | 1,133,000,000.00 |
| 2⅝-percent, 1971 | 1,133,000,000 | 1,133,000,000.00 | 1,133,000,000 | 1,133,000,000.00 |
| 2⅝-percent, 1972 | 1,133,000,000 | 1,133,000,000.00 | 1,133,000,000 | 1,133,000,000.00 |
| 2⅝-percent, 1973 | 1,133,000,000 | 1,133,000,000.00 | 1,133,000,000 | 1,133,000,000.00 |
| 2⅝-percent, 1974 | 1,133,000,000 | 1,133,000,000.00 | 1,133,000,000 | 1,133,000,000.00 |
| 2⅝-percent, 1975 | --- | --- | 919,934,000 | 919,934,000.00 |
| Total public-debt obligations | 17,227,237,000 | 17,227,237,000.00 | 16,412,594,000 | 16,412,594,000.00 |
| Total investments | 20,478,466,250 | 20,474,429,886.88 | 19,756,158,250 | 19,748,847,727.08 |
| Undisbursed balances | --- | 1,066,994,445.61 | --- | 1,079,877,355.65 |
| Total assets | --- | 21,541,424,332.49 | --- | 20,828,725,082.73 |

[1] Par value plus unamortized premium less discount outstanding.
[2] All special issues—certificates, notes, and bonds—mature June 30 of the year shown.

The net decrease in the par value of the investments owned by the fund during the fiscal year 1960 amounted to $722 million. New securities at a total par value of $10,702 million were acquired during the fiscal year through the investment of receipts, the reinvestment of funds made available from the maturity of securities, and the exchange of securities. The par value of securities redeemed or exchanged during the fiscal year was $11,425 million. A summary of transactions for the fiscal year, by type of security, is presented in table 7.

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. Under this provision, the maturities of the public-debt obligations issued for purchase by the funds have been lengthened gradually over a period of several years. On June 30, 1960, the special issues held by the old-age and survivors insurance trust fund were distributed in equal amounts of $1,133 million among maturities ranging from 2 to 14 years and in smaller amounts maturing at the end of the 1st and 15th years (table 6).

TABLE 7.—*Statement of transactions in public debt securities for the old-age and survivors insurance trust fund during the fiscal year 1960*

[All amounts represent par values]

| | Acquisitions | Dispositions |
|---|---|---|
| Public issues: | | |
| Treasury bills, Jan. 15, 1961 | $23,550,000 | 0 |
| Treasury notes: | | |
| 3½-percent, series A, 1960 | 0 | $47,500,000 |
| 4-percent, series B, 1962 | 0 | 15,000,000 |
| 4⅝-percent, series A, 1965 | 47,500,000 | 0 |
| 4⅞-percent, series C, 1963 | 15,000,000 | 0 |
| 5-percent, series B, 1964 | 25,000,000 | 0 |
| Treasury bonds: | | |
| 2¼-percent, 1961 | 0 | 10,450,000 |
| 2½-percent, 1967–72 | 18,785,000 | 0 |
| 3⅞-percent, 1968 | 10,450,000 | 0 |
| 4¼-percent, 1975–85 | 25,000,000 | 0 |
| Total public issues | 165,285,000 | 72,950,000 |
| Public-debt obligations (special issues): [1] | | |
| Certificates of indebtedness: | | |
| 2⅝-percent, 1960 | 9,347,004,000 | 9,747,241,000 |
| 2⅝-percent, 1961 | 270,000,000 | 0 |
| Notes: | | |
| 2½-percent, 1960 | 0 | 965,000,000 |
| 2½-percent, 1961 | 0 | 639,340,000 |
| Bonds: 2⅝-percent, 1975 | 919,934,000 | 0 |
| Total public-debt obligations | 10,536,938,000 | 11,351,581,000 |
| Total transactions | 10,702,223,000 | 11,424,531,000 |

[1] All special issues—certificates, notes, and bonds—mature June 30 of the year shown.

## SUMMARY OF THE OPERATIONS OF THE FEDERAL DISABILITY INSURANCE TRUST FUND, FISCAL YEAR 1960

A statement of the income and disbursements of the Federal disability insurance trust fund for fiscal year 1960 and of the assets of the fund at the beginning and end of the fiscal year is presented in table 8.

The total assets of the disability insurance trust fund amounted to $1,667 million on June 30, 1959. These assets increased to $2,167 million by the end of the fiscal year 1960 as a result of an excess of receipts over disbursements amounting to $501 million.

Net receipts of the fund amounted to $1,061 million. Of this total, $939 million represented tax collections appropriated to the fund, and

$58 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. However, $10 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. An additional $48 million of receipts consisted of net interest and profit on the investments of the fund.

TABLE 8.—*Statement of operations of the disability insurance trust fund during the fiscal year 1960*

| | | | |
|---|---|---|---|
| Total assets of the trust fund, June 30, 1959 | | | $1,666,620,511.97 |
| Receipts, fiscal year 1960: | | | |
| Tax contributions: | | | |
| Appropriations | $938,681,781.48 | | |
| Deposits arising from State agreements | 58,146,727.48 | | |
| Gross tax contributions | 996,828,508.96 | | |
| Less payment into the Treasury for taxes subject to refund | 9,750,000.00 | | |
| Net tax contributions | | $987,078,508.96 | |
| Interest and profit: | | | |
| On investments | $47,634,535.99 | | |
| On amounts transferred from railroad retirement account | 731,000.00 | | |
| Gross interest and profit | 48,365,535.99 | | |
| Less interest on amounts transferred to old-age and survivors insurance trust fund for reimbursed administrative expenses | 724,045.00 | | |
| Net interest and profit | | 47,641,490.99 | |
| Transfers from railroad retirement account | | 26,100,000.00 | |
| Total receipts | | 1,060,819,999.95 | |
| Disbursements, fiscal year 1960: | | | |
| Benefit payments | | 528,303,887.13 | |
| Administrative expenses: | | | |
| Reimbursement to the old-age and survivors insurance trust fund: | | | |
| For administrative expenses of the Department of Health, Education, and Welfare | $26,387,515.00 | | |
| For construction of building for the Bureau of Old-Age and Survivors Insurance | 2,394,393.00 | | |
| Treasury Department | 3,140,241.95 | | |
| Total administrative expenses | | 31,922,149.95 | |
| Total disbursements | | 560,226,037.08 | |
| Net addition to the trust fund | | | 500,593,962.87 |
| Total assets of the trust fund, June 30,, 1960 | | | 2,167,214,474.84 |

Public Law 880, approved August 1, 1956, provided for financial interchanges between the railroad retirement account and the disability insurance trust fund similar to those described in the preceding chapter relating to the old-age and survivors insurance trust fund. Upon completion of the first determination it was established that, as of June 30, 1958, a transfer of the principal sum of $21,400,000 from the railroad retirement account to the disability insurance trust fund was necessary. This amount together with interest thereon for fiscal year 1959, totaling $580,000, was transferred to the trust fund in July 1959. Similarly, the determination made as of June 30, 1959, required that a transfer of the principal sum of $4,700,000 to the disability insurance trust fund from the railroad retirement account was required. This amount together with interest thereon for fiscal year 1960 of $151,000 was transferred to the disability insurance trust fund in June 1960. The amount of $26,100,000 for fiscal year 1960 (table 8) is the total of the two principal sums of $21,400,000 and $4,700,000.

Disbursements from the fund during the fiscal year 1960 totaled $560 million. Of this total, $528 million was for benefit payments, an increase of 56 percent over the corresponding amount paid in the fiscal year 1959. This increase was due chiefly to (1) the expected increase in the number of disability insurance beneficiaries as the program matures and (2) the substantial changes made in the disability insurance program by the 1958 amendments which were in effect for the entire fiscal year 1960 but during only a part of the fiscal year 1959. The remaining $32 million of disbursements was for administrative expenses.

At the end of fiscal year 1960, some 522,000 persons in 371,000 families were receiving monthly benefits payable from the disability insurance trust fund (table 5). The distribution of benefit payments in fiscal years 1959 and 1960, by type of benefit, is shown in table 9.

The assets of this fund at the end of fiscal year 1960 totaled $2,167 million, consisting of $2,101 million in the form of obligations of the U.S. Government, and $66 million in undisbursed balances. Table 10 shows a comparison of the total assets of the fund and their distribution at the end of the fiscal years 1959 and 1960.

The net increase in the par value of the investments owned by the fund during the fiscal year amounted to $494 million. New securities at a total par value of $1,619 million were acquired during the fiscal year through the investment of receipts of the fund, the reinvestment of funds made available from the maturity of securities, and the exchange of securities. The par value of securities redeemed or exchanged during the year was $1,125 million. A summary of transactions for the fiscal year, by type of security, is presented in table 11.

As indicated in the preceding section of this report, the maturity dates of the special issues held by the trust funds have been gradually lengthened over a period of several years. On June 30, 1960, these holdings of the disability insurance trust fund were distributed in equal amounts of about $132.9 million among maturities ranging from 2 to 15 years and in the amount of $156.9 million maturing at the end of the first year.

**TABLE 9.**—*Estimated distribution of benefit payments from the disability insurance trust fund, by type of benefit, fiscal years 1959 and 1960*

[Amounts in millions]

| Type of benefit | 1959 | | 1960 | |
|---|---|---|---|---|
| | Amount | Percent of total | Amount | Percent of total |
| Total [1] [2] | $339.2 | 100 | $528.3 | 100 |
| Disability (disabled worker) | 311.1 | 92 | 450.1 | 85 |
| Wife's or husband's (aged wives or dependent husbands of disability beneficiaries or their young wives if caring for child beneficiary) | 12.3 | 4 | 32.8 | 6 |
| Child's (children, under age 18 or disabled, of disability beneficiary) | 15.8 | 5 | 45.4 | 9 |

[1] Benefits to disabled workers aged 50 to 64 began July 1957, and benefits to their dependents began September 1958. However, disbursements from the trust fund were first made to these 2 classes of beneficiaries in August 1957, and October 1958, respectively.

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

TABLE 10.—*Assets of the disability insurance trust fund, by type, at end of fiscal years 1959 and 1960*

| | June 30, 1959 | | June 30, 1960 | |
|---|---|---|---|---|
| | Par value | Book value [1] | Par value | Book value [1] |
| Investments: | | | | |
| Public issues: | | | | |
| Treasury notes: | | | | |
| 2⅝-percent, series A, 1963 | $10,000,000 | $10,000,000.00 | $10,000,000 | $10,000,000.00 |
| 3¾-percent, series C, 1962 | 7,000,000 | 7,000,000.00 | 7,000,000 | 7,000,000.00 |
| 4-percent, series B, 1962 | 5,000,000 | 5,000,000.00 | | |
| 4-percent, series B, 1963 | 5,000,000 | 5,000,000.00 | 5,000,000 | 5,000,000.00 |
| 4⅞-percent, series C, 1963 | | | 5,000,000 | 5,000,000.00 |
| 5-percent, series B, 1964 | | | 5,000,000 | 5,000,000.00 |
| Treasury bonds: | | | | |
| 2⅝-percent, 1965 | 18,250,000 | 18,042,968.75 | 18,250,000 | 18,080,048.99 |
| 3-percent, 1966 | 10,000,000 | 10,000,000.00 | 10,000,000 | 10,000,000.00 |
| 3½-percent, 1990 | 1,500,000 | 1,374,062.50 | 1,500,000 | 1,378,180.30 |
| 3⅞-percent, 1974 | 5,000,000 | 5,000,000.00 | 5,000,000 | 5,000,000.00 |
| 4-percent, 1969 | 10,000,000 | 10,000,000.00 | 10,000,000 | 10,000,000.00 |
| 4-percent, 1980 | 2,000,000 | 1,993,828.13 | 2,000,000 | 1,994,128.01 |
| 4¼-percent, 1975–80 | | | 5,000,000 | 5,000,000.00 |
| Total public issues | 73,750,000 | 73,410,859.38 | 83,750,000 | 83,452,357.30 |
| Accrued interest purchased | | 13,040.43 | | |
| Total investments in public issues | 73,750,000 | 73,423,899.81 | 83,750,000 | 83,452,357.30 |
| Public-debt obligations (special issues): [2] | | | | |
| Certificates of indebtedness: | | | | |
| 2⅝-percent, 1960 | 88,950,000 | 88,950,000.00 | | |
| 2⅝-percent, 1961 | | | 56,394,000 | 56,394,000.00 |
| Notes: | | | | |
| 2½-percent, 1960 | 37,500,000 | 37,500,000.00 | | |
| 2½-percent, 1961 | 37,500,000 | 37,500,000.00 | 37,500,000 | 37,500,000.00 |
| 2½-percent, 1962 | 37,500,000 | 37,500,000.00 | 37,500,000 | 37,500,000.00 |
| 2½-percent, 1963 | 30,000,000 | 30,000,000.00 | 30,000,000 | 30,000,000.00 |
| 2⅝-percent, 1961 | 63,000,000 | 63,000,000.00 | 63,000,000 | 63,000,000.00 |
| 2⅝-percent, 1962 | 63,000,000 | 63,000,000.00 | 95,394,000 | 95,394,000.00 |
| 2⅝-percent, 1963 | 63,000,000 | 63,000,000.00 | 95,394,000 | 95,394,000.00 |
| 2⅝-percent, 1964 | 63,000,000 | 63,000,000.00 | 95,394,000 | 95,394,000.00 |
| 2⅝-percent, 1965 | | | 32,394,000 | 32,394,000.00 |
| Bonds: | | | | |
| 2½-percent, 1963 | 7,500,000 | 7,500,000.00 | 7,500,000 | 7,500,000.00 |
| 2½-percent, 1964 | 37,500,000 | 37,500,000.00 | 37,500,000 | 37,500,000.00 |
| 2½-percent, 1965 | 37,500,000 | 37,500,000.00 | 37,500,000 | 37,500,000.00 |
| 2½-percent, 1966 | 37,500,000 | 37,500,000.00 | 37,500,000 | 37,500,000.00 |
| 2½-percent, 1967 | 37,500,000 | 37,500,000.00 | 37,500,000 | 37,500,000.00 |
| 2½-percent, 1968 | 30,000,000 | 30,000,000.00 | 30,000,000 | 30,000,000.00 |
| 2⅝-percent, 1965 | 63,000,000 | 63,000,000.00 | 63,000,000 | 63,000,000.00 |
| 2⅝-percent, 1966 | 63,000,000 | 63,000,000.00 | 95,394,000 | 95,394,000.00 |
| 2⅝-percent, 1967 | 63,000,000 | 63,000,000.00 | 95,394,000 | 95,394,000.00 |
| 2⅝-percent, 1968 | 70,500,000 | 70,500,000.00 | 102,894,000 | 102,894,000.00 |
| 2⅝-percent, 1969 | 100,500,000 | 100,500,000.00 | 132,894,000 | 132,894,000.00 |
| 2⅝-percent, 1970 | 100,500,000 | 100,500,000.00 | 132,894,000 | 132,894,000.00 |
| 2⅝-percent, 1971 | 100,500,000 | 100,500,000.00 | 132,894,000 | 132,894,000.00 |
| 2⅝-percent, 1972 | 100,500,000 | 100,500,000.00 | 132,894,000 | 132,894,000.00 |
| 2⅝-percent, 1973 | 100,500,000 | 100,500,000.00 | 132,894,000 | 132,894,000.00 |
| 2⅝-percent, 1974 | 100,500,000 | 100,500,000.00 | 132,894,000 | 132,894,000.00 |
| 2⅝-percent, 1975 | | | 132,894,000 | 132,894,000.00 |
| Total public-debt obligations | 1,533,450,000 | 1,533,450,000.00 | 2,017,410,000 | 2,017,410,000.00 |
| Total investments | 1,607,200,000 | 1,606,873,899.81 | 2,101,160,000 | 2,100,862,357.30 |
| Undisbursed balances | | 59,746,612.16 | | 66,352,117.54 |
| Total assets | | 1,666,620,511.97 | | 2,167,214,474.84 |

[1] Par value plus unamortized premium less discount outstanding.
[2] All special issues—certificates, notes, and bonds—mature June 30 of the year shown.

TABLE 11.—*Statement of transactions in public-debt securities for the disability insurance trust fund during the fiscal year 1960*

[All amounts represent par values]

| | Acquisitions | Dispositions |
|---|---|---|
| Public issues: | | |
| Treasury notes: | | |
| 4-percent, series B, 1962 | 0 | $5,000,000 |
| 4⅞-percent, series C, 1963 | $5,000,000 | 0 |
| 5-percent, series B, 1964 | 5,000,000 | 0 |
| Treasury bonds: 4¼-percent, 1975–85 | 5,000,000 | 0 |
| Total public issues | 15,000,000 | 5,000,000 |
| Public-debt obligations (special issues): [1] | | |
| Certificates of indebtedness: | | |
| 2⅝-percent, 1960 | 993,544,000 | 1,082,494,000 |
| 2⅝-percent, 1961 | 56,394,000 | 0 |
| Notes: | | |
| 2½-percent, 1960 | 0 | 37,500,000 |
| 2⅝-percent, 1962 | 32,394,000 | 0 |
| 2⅝-percent, 1963 | 32,394,000 | 0 |
| 2⅝-percent, 1964 | 32,394,000 | 0 |
| 2⅝-percent, 1965 | 32,394,000 | 0 |
| Bonds: | | |
| 2⅝-percent, 1966 | 32,394,000 | 0 |
| 2⅝-percent, 1967 | 32,394,000 | 0 |
| 2⅝-percent, 1968 | 32,394,000 | 0 |
| 2⅝-percent, 1969 | 32,394,000 | 0 |
| 2⅝-percent, 1970 | 32,394,000 | 0 |
| 2⅝-percent, 1971 | 32,394,000 | 0 |
| 2⅝-percent, 1972 | 32,394,000 | 0 |
| 2⅝-percent, 1973 | 32,394,000 | 0 |
| 2⅝-percent, 1974 | 32,394,000 | 0 |
| 2⅝-percent, 1975 | 132,894,000 | 0 |
| Total public-debt obligations | 1,603,954,000 | 1,119,994,000 |
| Total transactions | 1,618,954,000 | 1,124,994,000 |

[1] All special issues—certificates, notes, and bonds—mature June 30 of the year shown.

## EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING THE PERIOD JULY 1, 1960, TO DECEMBER 31, 1965

In the following statement of the expected operations and status of the trust funds during the period July 1, 1960, to December 31, 1965, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program remain unchanged throughout the period under consideration. The income and disbursements of the program, however, are affected by general economic conditions as well as by legislative provisions. Because it is difficult to foresee economic developments, the assumptions and the resulting estimates here presented are subject to some uncertainty. This statement of the expected operations of the trust funds should therefore be read with full recognition of the difficulties of estimating future trust fund income and disbursements under changing economic conditions.

Estimates are presented in table 12 to show the expected operations of the old-age and survivors insurance trust fund in fiscal years 1961–65. They are based on the assumption that the current adjustment in the economy is followed by a pickup in business activity, beginning in 1961, with a steady increase in employment and earnings through 1965. Figures on actual experience in earlier fiscal years are also presented. The increase in estimated income from contributions in fiscal years 1961–65 reflects the assumed uptrend in the levels of employment and earnings as well as the effect of the scheduled increase in contribution rates on January 1, 1963. Benefit disburse-

TABLE 11.—*Statement of transactions in public-debt securities for the disability insurance trust fund during the fiscal year 1960*

[All amounts represent par values]

| | Acquisitions | Dispositions |
|---|---|---|
| Public issues: | | |
| Treasury notes: | | |
| 4-percent, series B, 1962 | 0 | $5,000,000 |
| 4⅞-percent, series C, 1963 | $5,000,000 | 0 |
| 5-percent, series B, 1964 | 5,000,000 | 0 |
| Treasury bonds: 4¼-percent, 1975–85 | 5,000,000 | 0 |
| Total public issues | 15,000,000 | 5,000,000 |
| Public-debt obligations (special issues):[1] | | |
| Certificates of indebtedness: | | |
| 2⅝-percent, 1960 | 993,544,000 | 1,082,494,000 |
| 2⅝-percent, 1961 | 56,394,000 | 0 |
| Notes: | | |
| 2½-percent, 1960 | 0 | 37,500,000 |
| 2⅝-percent, 1962 | 32,394,000 | 0 |
| 2⅝-percent, 1963 | 32,394,000 | 0 |
| 2⅝-percent, 1964 | 32,394,000 | 0 |
| 2⅝-percent, 1965 | 32,394,000 | 0 |
| Bonds: | | |
| 2⅝-percent, 1966 | 32,394,000 | 0 |
| 2⅝-percent, 1967 | 32,394,000 | 0 |
| 2⅝-percent, 1968 | 32,394,000 | 0 |
| 2⅝-percent, 1969 | 32,394,000 | 0 |
| 2⅝-percent, 1970 | 32,394,000 | 0 |
| 2⅝-percent, 1971 | 32,394,000 | 0 |
| 2⅝-percent, 1972 | 32,394,000 | 0 |
| 2⅝-percent, 1973 | 32,394,000 | 0 |
| 2⅝-percent, 1974 | 32,394,000 | 0 |
| 2⅝-percent, 1975 | 132,894,000 | 0 |
| Total public-debt obligations | 1,603,954,000 | 1,119,994,000 |
| Total transactions | 1,618,954,000 | 1,124,994,000 |

[1] All special issues—certificates, notes, and bonds—mature June 30 of the year shown.

## EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING THE PERIOD JULY 1, 1960, TO DECEMBER 31, 1965

In the following statement of the expected operations and status of the trust funds during the period July 1, 1960, to December 31, 1965, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program remain unchanged throughout the period under consideration. The income and disbursements of the program, however, are affected by general economic conditions as well as by legislative provisions. Because it is difficult to foresee economic developments, the assumptions and the resulting estimates here presented are subject to some uncertainty. This statement of the expected operations of the trust funds should therefore be read with full recognition of the difficulties of estimating future trust fund income and disbursements under changing economic conditions.

Estimates are presented in table 12 to show the expected operations of the old-age and survivors insurance trust fund in fiscal years 1961–65. They are based on the assumption that the current adjustment in the economy is followed by a pickup in business activity, beginning in 1961, with a steady increase in employment and earnings through 1965. Figures on actual experience in earlier fiscal years are also presented. The increase in estimated income from contributions in fiscal years 1961–65 reflects the assumed uptrend in the levels of employment and earnings as well as the effect of the scheduled increase in contribution rates on January 1, 1963. Benefit disbursements increase because of the recent amendments and also because of the long-range upward trend in the number of beneficiaries under the program.

TABLE 12.—*Operations of the old-age and survivors insurance trust fund, fiscal years 1937–65*

[In millions]

| Fiscal year | Transactions during period | | | | | | | Fund at end of period [4] |
|---|---|---|---|---|---|---|---|---|
| | Income | | | Disbursements | | | Net increase in fund [4] | |
| | Tax contributions [1] | Interest on investments [2] | Reimbursement for additional cost of noncontributory credit for military service | Benefit payments | Administrative expenses [3] | Transfers to railroad retirement account | | |
| Past experience: | | | | | | | | |
| 1937–60 | $73,277 | $6,076 | $15 | $56,161 | $1,674 | $704 | $20,829 | $20,829 |
| 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 | 1,459 | 163 | (5) | 426 | 41 | ---------- | 1,157 | 8,798 |
| 1948 | 1,616 | 191 | 1 | 512 | 47 | ---------- | 1,248 | 10,047 |
| 1949 | 1,690 | 230 | 3 | 607 | 53 | ---------- | 1,263 | 11,310 |
| 1950 | 2,106 | 257 | 4 | 727 | 57 | ---------- | 1,583 | 12,893 |
| 1951 | 3,120 | 287 | 4 | 1,498 | 70 | ---------- | 1,843 | 14,736 |
| 1952 | 3,594 | 334 | 4 | 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 |
| 1959 | 7,565 | 540 | ---------- | 9,049 | 206 | 121 | −1,271 | 21,541 |
| 1960 | 9,843 | 500 | ---------- | 10,270 | 202 | 583 | −712 | 20,829 |
| Estimated future experience: | | | | | | | | |
| 1961 | 11,185 | 501 | ---------- | 11,196 | 237 | 310 | −57 | 20,772 |
| 1962 | 11,641 | 522 | [6] 247 | 12,014 | 239 | 305 | −147 | 20,625 |
| 1963 | 12,860 | 538 | 98 | 12,639 | 238 | 325 | 294 | 20,919 |
| 1964 | 14,631 | 585 | 96 | 13,187 | 251 | 320 | 1,554 | 22,473 |
| 1965 | 15,029 | 657 | 91 | 13,657 | 262 | 305 | 1,553 | 24,026 |

[1] Beginning December 1952, include adjustments for refunds of contributions.

[2] Includes (1) profits on marketable investments, (2) for fiscal years 1954–58, interest transferred from the railroad retirement account and, beginning in 1959, adjustment for interest transferred to the railroad retirement account, and (3) beginning in 1958, interest on administrative expenses reimbursed by the disability insurance trust fund.

[3] Include administrative expenses, less receipts from sale of surplus materials, services, etc. For fiscal years 1954–63, 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, including interest, are then made from the disability insurance trust fund in the following fiscal year.

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

[5] Less than $500,000.

[6] The budget for fiscal year 1962 did not provide for this reimbursement. (See text for additional details.)

NOTE.—In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared in January 1961.

Aggregate income of the old-age and survivors insurance trust fund is expected to exceed aggregate outgo in the 5-year period covering fiscal years 1961–65. During this period, there is an estimated net increase in the trust fund of $3.2 billion.

Estimates consistent with those shown on a fiscal-year basis in table 12 are presented in table 13 to show the progress of the old-age and survivors insurance trust fund on a calendar-year basis. During calendar year 1962 the outgo of the trust fund is expected to exceed the income. With the rate increase scheduled to take place in 1963, total income is expected to exceed total disbursements and the upward trend in the size of the fund will be resumed.

Benefit disbursements will continue to increase over the next 5 calendar years as the number of beneficiaries under the program increases. Table 14 shows the annual amount of benefit payments distributed by classification of beneficiaries.

Benefit expenditures expressed as a percentage of payroll will also continue to increase. Benefit payments were 5.04 percent of taxable earnings for calendar year 1959. It is estimated that by 1965 benefit expenditures from the old-age and survivors insurance trust fund will be 5.92 percent of taxable earnings. Figures for each of the calendar years 1940–65 are shown in table 15.

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 16 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 1965.

TABLE 13.—*Operations of the old-age and survivors insurance trust fund, calendar years 1937–65*

[In millions]

| Calendar year | Transactions during period | | | | | | | Fund at end of period |
|---|---|---|---|---|---|---|---|---|
| | Income | | | Disbursements | | | Net increase in fund | |
| | Tax contributions | Interest on investments | Reimbursement for additional cost of noncontributory credit for military service | Benefit payments | Administrative expenses | Transfers to railroad retirement account | | |
| Past experience: | | | | | | | | |
| 1937-59 | $67,162 | $5,832 | $15 | $50,911 | $1,561 | $396 | $20,141 | $20,141 |
| 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 | 1,557 | 164 | 1 | 466 | 46 | ---------- | 1,210 | 9,360 |
| 1948 | 1,685 | 281 | 3 | 556 | 51 | ---------- | 1,362 | 10,722 |
| 1949 | 1,666 | 146 | 4 | 667 | 54 | ---------- | 1,094 | 11,816 |
| 1950 | 2,667 | 257 | 4 | 961 | 61 | ---------- | 1,905 | 13,721 |
| 1951 | 3,363 | 417 | 4 | 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 |
| 1958 | 7,566 | 549 | ---------- | 8,327 | 194 | 121 | −528 | 21,864 |
| 1959 | 8,052 | 525 | ---------- | 9,842 | 184 | 275 | −1,724 | 20,141 |
| Estimated future experience: | | | | | | | | |
| 1960 | 10,866 | 506 | ---------- | 10,676 | 203 | 308 | 185 | 20,325 |
| 1961 | 11,466 | 511 | 247 | 11,658 | 238 | 310 | 18 | 20,343 |
| 1962 | 11,835 | 530 | 98 | 12,326 | 239 | 305 | −407 | 19,936 |
| 1963 | 13,981 | 560 | 96 | 12,913 | 243 | 325 | 1,156 | 21,092 |
| 1964 | 14,825 | 621 | 91 | 13,424 | 256 | 320 | 1,537 | 22,629 |
| 1965 | 15,199 | 695 | 84 | 13,880 | 267 | 305 | 1,526 | 24,155 |

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 12.

TABLE 14.—*Old-age and survivors insurance benefit payments, distributed by classification of beneficiaries, calendar years 1940–65*

[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 experience: [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 |
| 1958 | 8,327.0 | 5,566.5 | 907.4 | 1,720.1 | 777.5 | 942.7 | 132.9 |
| 1959 | 9,841.6 | 6,548.0 | 1,059.0 | 2,063.3 | 946.1 | 1,117.2 | 171.3 |
| Estimated future experience: | | | | | | | |
| 1960 | 10,676 | 7,050 | 1,144 | 2,312 | 1,084 | 1,228 | 170 |
| 1961 | 11,658 | 7,686 | 1,237 | 2,551 | 1,207 | 1,344 | 184 |
| 1962 | 12,326 | 8,085 | 1,294 | 2,752 | 1,324 | 1,428 | 195 |
| 1963 | 12,913 | 8,426 | 1,345 | 2,939 | 1,433 | 1,506 | 203 |
| 1964 | 13,424 | 8,734 | 1,388 | 3,093 | 1,537 | 1,556 | 209 |
| 1965 | 13,880 | 9,010 | 1,417 | 3,238 | 1,641 | 1,597 | 215 |

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

TABLE 15.—*Old-age and survivors insurance benefit payments as a percentage* [1] *of taxable earnings, calendar years, 1940–65*

| Calendar year | Benefit payments as a percentage of taxable earnings | Calendar year | Benefit payments as a percentage of taxable earnings |
|---|---|---|---|
| Past experience: | | Past experience—Continued | |
| 1940 | 0.11 | 1954 | 2.83 |
| 1941 | .21 | 1955 | 3.26 |
| 1942 | .25 | 1956 | 3.48 |
| 1943 | .27 | 1957 | [2] 4.20 |
| 1944 | .32 | 1958 | [2] 4.78 |
| 1945 | .44 | 1959 | [2] 5.04 |
| 1946 | .55 | Estimated future experience: | |
| 1947 | .59 | 1960 | 5.30 |
| 1948 | .66 | 1961 | 5.55 |
| 1949 | .82 | 1962 | 5.69 |
| 1950 | 1.10 | 1963 | 5.82 |
| 1951 | 1.60 | 1964 | 5.87 |
| 1952 | 1.76 | 1965 | 5.92 |
| 1953 | 2.28 | | |

[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 on complete tabulation of taxable self-employment earnings for 1957–59 and of taxable wages for 1958–59.

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, 1956, and 1960 which liberalized the insured-status provisions and extended coverage to new areas of employment have an even greater effect.

As is indicated in table 16, 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, 1954, and 1960. In general, due to the increasing percentage of eligibles aged 72 or over who receive benefits regardless of earnings, the past upward trend in this proportion is expected to continue.

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 16 excludes data relating to women aged 62–64.) On January 1, 1961, there were an estimated 870,000 women workers aged 62-64 eligible for old-age benefits, of whom about 360,000, or 41 percent, were drawing such benefits. It is estimated that on January 1, 1965, 53 percent of the 900,000 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 table 17 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 1961–65. During this 5-year period, it is estimated that the disability insurance trust fund will increase by about $600 million.

TABLE 16.—*Workers aged 65 and over eligible for and receiving old-age (primary) benefits, by attained age, calendar years 1941–65*

[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 | 5,306 | 3,775 | 71 | 2,636 | 1,518 | 58 | 2,670 | 2,257 | 85 |
| 1956 | 5,879 | 4,474 | 76 | 2,821 | 1,744 | 62 | 3,058 | 2,729 | 89 |
| 1957 | 6,802 | 4,999 | 74 | 3,175 | 1,876 | 59 | 3,627 | 3,123 | 86 |
| 1958 | 7,394 | 5,931 | 80 | 3,377 | 2,257 | 67 | 4,017 | 3,675 | 91 |
| 1959 [2] | 7,803 | 6,608 | 85 | 3,471 | 2,475 | 71 | 4,332 | 4,133 | 95 |
| 1960 | 8,225 | 7,191 | 87 | 3,530 | 2,644 | 75 | 4,695 | 4,547 | 97 |
| Estimated future experience: | | | | | | | | | |
| 1961 | 8,832 | 7,710 | 87 | 3,804 | 2,820 | 74 | 5,028 | 4,890 | 97 |
| 1962 | 9,237 | 8,296 | 90 | 3,881 | 3,061 | 79 | 5,356 | 5,235 | 98 |
| 1963 | 9,582 | 8,648 | 90 | 3,929 | 3,122 | 79 | 5,653 | 5,526 | 98 |
| 1964 | 9,862 | 8,948 | 91 | 3,942 | 3,163 | 80 | 5,920 | 5,785 | 98 |
| 1965 | 10,088 | 9,190 | 91 | 3,937 | 3,176 | 81 | 6,151 | 6,014 | 98 |

[1] Figures for 1941–60 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, survivors, and disability insurance and the railroad retirement programs, and (2) noncontributory wage credits for military service.
[2] Data are as of Dec. 1, 1958.

Estimates consistent with those shown on a fiscal-year basis in table 17 are presented in table 18 to show the progress of the disability insurance trust fund on a calendar-year basis.

The total amount of benefit payments under the disability insurance program will continue to increase over the next 5 calendar years as the number of beneficiaries increases. Benefit expenditures as a percentage of payroll will also continue to increase. Benefit payments were 0.23 percent of taxable earnings for calendar year 1959. It is estimated that by 1965 benefit expenditures from the disability insurance trust fund will be 0.51 percent of payroll. Figures for each of the calendar years 1957–65 are shown in table 19.

Reference has been made in earlier chapters to the financial interchanges between the railroad retirement account and the two trust funds under the provisions of the Railroad Retirement Act, as amended. The estimates shown in tables 12, 13, 17, and 18 reflect the effect of future financial interchanges.

TABLE 17.—*Operations of the disability insurance trust fund, fiscal years 1957–65*

[In millions]

| Fiscal year | Transactions during period | | | | | | | Fund at end of period [4] |
|---|---|---|---|---|---|---|---|---|
| | Income | | | Disbursements | | | Net increase in fund [4] | |
| | Tax contributions [1] | Interest on investments [2] | Reimbursement for additional cost of noncontributory credit for military service | Benefit payments | Administrative expenses [3] | Transfers to railroad retirement account | | |
| Past experience: | | | | | | | | |
| 1957–60 | $3,146 | $98 | ---------- | $1,036 | $67 | −$26 | $2,167 | $2,167 |
| 1957 | 337 | 1 | ---------- | ---------- | 1 | ---------- | 337 | 337 |
| 1958 | 926 | 16 | ---------- | 168 | 12 | ---------- | 762 | 1,099 |
| 1959 | 895 | 33 | ---------- | 339 | 21 | ---------- | 568 | 1,667 |
| 1960 | 987 | 48 | ---------- | 528 | 32 | −26 | 501 | 2,167 |
| Estimated future experience: | | | | | | | | |
| 1961 | 1,015 | 55 | ---------- | 715 | 37 | −1 | 319 | 2,486 |
| 1962 | 1,058 | 67 | [5] $2 | 935 | 46 | 0 | 146 | 2,632 |
| 1963 | 1,093 | 76 | 2 | 1,030 | 52 | 2 | 87 | 2,719 |
| 1964 | 1,125 | 80 | 3 | 1,106 | 53 | 2 | 47 | 2,766 |
| 1965 | 1,156 | 82 | 5 | 1,163 | 56 | 3 | 21 | 2,787 |

[1] Adjusted for refunds.
[2] Includes (1) profits on marketable investments and (2) for fiscal years 1960–61, interest transferred from the railroad retirement account and, beginning in 1963, adjustment for interest transferred to the railroad retirement account.
[3] 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, including interest, are then made from the disability insurance trust fund in the following fiscal year.
[4] Totals do not necessarily equal the sum of rounded components.
[5] The budget for fiscal year 1962 did not provide for this reimbursement. (See text for additional details.)

NOTE.—Reference should be made to the text which describes the underlying assumptions and limitations. Estimates were prepared in January 1961.

TABLE 18.—*Operations of the disability insurance trust fund, calendar years 1957–65*

[In millions]

| Calendar year | Transactions during period | | | | | | | Fund at end of period |
|---|---|---|---|---|---|---|---|---|
| | Income | | | Disbursements | | | Net increase in fund | |
| | Tax contributions | Interest on investments | Reimbursement for additional cost of noncontributory credit for military service | Benefit payments | Administrative expenses | Transfers to railroad retirement account | | |
| Past experience: | | | | | | | | |
| 1957–59 | $2,558 | $73 | ---------- | $762 | $65 | −$21 | $1,825 | $1,825 |
| 1957 | 702 | 7 | ---------- | 57 | 3 | ---------- | 649 | 649 |
| 1958 | 966 | 25 | ---------- | 249 | 12 | ---------- | 729 | 1,379 |
| 1959 | 891 | 41 | ---------- | 457 | 50 | −21 | 447 | 1,825 |
| Estimated future experience: | | | | | | | | |
| 1960 | 1,010 | 53 | ---------- | 568 | 36 | −5 | 464 | 2,289 |
| 1961 | 1,041 | 61 | $2 | 857 | 43 | −1 | 205 | 2,494 |
| 1962 | 1,077 | 71 | 2 | 986 | 49 | 0 | 115 | 2,609 |
| 1963 | 1,107 | 78 | 3 | 1,071 | 52 | 2 | 63 | 2,672 |
| 1964 | 1,138 | 81 | 5 | 1,137 | 54 | 2 | 31 | 2,703 |
| 1965 | 1,168 | 83 | 6 | 1,186 | 57 | 3 | 11 | 2,714 |

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

TABLE 19.—*Disability insurance benefit payments as a percentage [1] of taxable earnings, calendar years 1957–65*

| Calendar year | Benefit payments as a percentage of taxable earnings | Calendar year | Benefit payments as a percentage of taxable earnings |
|---|---|---|---|
| Past experience: | | Estimated future experience—Con. | |
| 1957 | [2] 0.03 | 1961 | 0.41 |
| 1958 | [2] .14 | 1962 | .46 |
| 1959 | [2] .23 | 1963 | .48 |
| Estimated future experience: | | 1964 | .50 |
| 1960 | .28 | 1965 | .51 |

[1] 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 on complete tabulation of taxable self-employment earnings for 1957–59 and of taxable wages for 1958–59.

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. In accordance with these provisions, the annual reimbursement is to be made up of two parts: (1) the additional costs arising from payments during the period September 1950 through June 1956, the total of which is to be amortized in annual installments over a 10-year period; and (2) the additional costs arising from payments made after June 30, 1956, to be repaid to each of the trust funds on a current basis. The estimates shown in the various tables in this section of the report reflect the effect of these reimbursements and are based on the assumption that the required appropriations will be made in fiscal year 1962 and thereafter. The budget for the fiscal year 1962 (p. M80) did not make any provision for such reimbursements, pending development of legislative proposals dealing with situations in which, under present law, payments are required to be made from general funds to both the railroad retirement account and to the trust funds on account of military service. The budget stated that—

> * * * it is not sound policy for the Government to pay more than the true cost of such benefits or to pay both the railroad retirement and the old-age, survivors, and disability insurance trust funds for the same military service credits, as the present law requires.

A description of the legislative history of provisions relating to credit for military service, including provisions for reimbursement for the additional costs arising from payments made before September 1950, is contained in appendix II.

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 20 to show the effects on the operations and status of the old-age and survivors insurance trust fund in the unlikely event of a sharp reduction in the level of economic activity during calendar years 1961–65, with a relatively high rate of unemployment during the entire period.

Under this assumption, contributions would be lower and benefit payments higher than estimated above under high employment conditions.

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 proportions 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 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.

TABLE 20.—*Illustration showing the operations and status of the old-age and survivors insurance trust fund assuming the unlikely event of a sharply reduced level of economic activity, calendar years 1961–65*

[In millions]

| Calendar year | Transactions during period | | | | | | | Fund at end of period |
|---|---|---|---|---|---|---|---|---|
| | Income | | | Disbursements | | | Net increase in fund | |
| | Tax contributions | Interest on investments | Reimbursement for additional cost of noncontributory credit for military service | Benefit payments | Administrative expenses | Transfers to railroad retirement account | | |
| 1961 | $10,904 | $500 | [1] $247 | $11,801 | $245 | $310 | −$705 | $19,620 |
| 1962 | 10,382 | 454 | 98 | 12,724 | 246 | 320 | −2,356 | 17,264 |
| 1963 | 11,378 | 389 | 96 | 13,417 | 248 | 360 | −2,162 | 15,102 |
| 1964 | 11,598 | 311 | 91 | 13,863 | 260 | 380 | −2,503 | 12,599 |
| 1965 | 11,637 | 229 | 84 | 14,210 | 270 | 390 | −2,920 | 9,679 |

[1] The budget for fiscal year 1962 did not provide for this reimbursement. (See text for additional details.)

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

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 forgo 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 taxable payroll. Long-range estimates are needed, therefore, to show how much the cost is likely to increase and to indicate whether the scheduled tax rates are adequate.

The cost of benefits to aged persons, which constitute almost 90 percent of the total cost, will rise for several reasons. The United States population will almost certainly become relatively much older on the average. A relatively older population will result because the present aged population is made up of the survivors from past periods when death rates were much higher than they are now. Also, after the turn of the century, the larger birth cohorts of the 1940's and 1950's will be attaining retirement age. Thus, in the future, relatively more persons, both in total and in each cohort, will attain age 65 and older ages.

The cost of the program is thus closely related to the ratio of the population aged 65 and over (potential beneficiaries) to the population aged 20–64 (potential contributors). At present, this ratio is 16.6 percent. In a stationary population resulting from present death rates the ratio would be 25.4 percent, but such a situation is not likely to occur within a number of decades. Ultimately it is expected that this ratio will become even greater because of decreases in mortality below present rates.

Another reason for the increasing cost is that the proportion of the aged population eligible for and receiving benefits will increase. Many of the present persons aged 65 and over were not in covered employment long enough to obtain benefits, or, in the case of widows, their husbands were not sufficiently long in covered employment. Although the system began in 1937, many jobs were not covered until 1951 or 1955. It is estimated that the proportion of the aged population eligible for some type of benefit under the system will increase from the present level of about 75 percent to between 92 and 97 percent by the end of the century.

Since the future cost of the old-age, survivors, and disability insurance program will be affected by many factors that are difficult to determine, the assumptions used in the actuarial cost estimates may differ widely and yet be reasonable. The long-range cost estimates for the program as it was changed by the 1960 amendments (shown for 1970 and thereafter) are presented here on a range basis to indicate the plausible variation in future costs depending on the actual trends that develop for the various cost factors. Both the low- and high-cost estimates are based on high economic assumptions, intended to represent close to full employment, with average annual earnings at about the level prevailing in 1959. Each estimate provides data on payroll and contributions and on beneficiaries and benefit payments for every future year. The data are presented here for selected future years. 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. Also, a single estimate of costs is needed as a guide in considering proposed legislation and developing tax schedules intended to make the system self-supporting. For these reasons, an intermediate-cost estimate is prepared, in which numbers of beneficiaries, amount of benefit payments, and payrolls are taken halfway between the low-cost and high-cost figures. The intermediate percentage-of-payroll figures are obtained by dividing total benefit payments by taxable payroll, each on the intermediate basis, and are therefore not exactly equal to the average of low-cost and high-cost percentage-of-payroll figures.

Table A shows benefit payment costs 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 that, together with a tax on the self-employed at 75 percent of such combined rate, would exactly pay for all future benefits and administrative expenses, after making allowance for the effect of the existing trust fund and for future interest earnings. All percentage-of-payroll figures are adjusted so that they represent the tax rate that employees and employers combined, and the self-employed at three-quarters of the combined rate, would have to pay in any given year to meet exactly the disbursements in that year. Tables B and C 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 A.—*Estimated costs of old-age, survivors, and disability insurance system as percent of payroll,*[1] *high employment and 1959 level earnings assumptions, 1970–2050*

[In percent]

| Calendar year | Low-cost estimate | High-cost estimate | Intermediate-cost estimate [2] |
|---|---|---|---|
| | Old-age and survivors insurance benefits | | |
| 1970 | 6.69 | 7.02 | 6.85 |
| 1980 | 7.55 | 8.57 | 8.05 |
| 1990 | 7.73 | 9.78 | 8.71 |
| 2000 | 6.94 | 9.89 | 8.29 |
| 2025 | 7.81 | 13.01 | 9.97 |
| 2050 | 9.90 | 14.85 | 11.81 |
| Level-premium cost [3] | 7.40 | 9.65 | 8.42 |
| | Disability insurance benefits | | |
| 1970 | 0.40 | 0.65 | 0.52 |
| 1980 | .41 | .72 | .56 |
| 1990 | .39 | .71 | .54 |
| 2000 | .39 | .74 | .55 |
| 2025 | .45 | .82 | .60 |
| 2050 | .49 | .85 | .63 |
| Level-premium cost [3] | .42 | .73 | .56 |

[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 3.02 percent interest rate, for benefits after 1959, taking into account interest on the trust fund on December 31, 1959, future administrative expenses, the railroad retirement financial interchange provisions, and the lower contribution rates payable by the self-employed.

TABLE B.—*Estimated progress of old-age and survivors insurance trust fund, high employment and 1959 level earnings assumption, 3.02 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 | 6,825 | 7,347 | [4] 162 | | 557 | 22,393 |
| 1958 | 7,566 | 8,327 | [4] 194 | −$124 | 552 | 21,864 |
| 1959 | 8,052 | 9,842 | 184 | −282 | 532 | 20,141 |
| | Low-cost estimate | | | | | |
| 1970 | $20,061 | $15,790 | $230 | −$100 | $1,420 | $45,530 |
| 1980 | 23,821 | 21,168 | 250 | 41 | 2,841 | 98,122 |
| 1990 | 28,414 | 25,855 | 292 | 126 | 4,592 | 157,829 |
| 2000 | 34,065 | 27,807 | 332 | 126 | 7,521 | 259,577 |
| 2025 | 46,142 | 42,407 | 472 | 126 | 24,196 | 827,072 |
| | High-cost estimate | | | | | |
| 1970 | $19,951 | $16,476 | $260 | −$220 | $1,157 | $36,974 |
| 1980 | 22,833 | 23,014 | 290 | −39 | 1,913 | 64,999 |
| 1990 | 25,759 | 29,636 | 337 | 46 | 1,753 | 57,707 |
| 2000 | 28,888 | 33,603 | 379 | 46 | 680 | 20,668 |
| 2025 | 32,655 | 49,992 | 498 | 46 | ([5]) | ([5]) |
| | Intermediate-cost estimate | | | | | |
| 1970 | $20,006 | $16,132 | $245 | −$160 | $1,289 | $41,270 |
| 1980 | 23,327 | 22,092 | 270 | 1 | 2,377 | 81,581 |
| 1990 | 27,087 | 27,745 | 315 | 86 | 3,173 | 107,798 |
| 2000 | 31,477 | 30,704 | 356 | 86 | 4,101 | 140,161 |
| 2025 | 39,398 | 46,201 | 485 | 86 | 8,118 | 273,320 |

[1] An interest rate of 3.02 percent is used in determining the level-premium costs, but in developing the progress of the trust fund a varying rate in the early years has been used, which is equivalent to such fixed rate.

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

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

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

[5] Fund exhausted in 2005.

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

TABLE C.—*Estimated progress of disability insurance trust fund, high employment and 1959 level earnings assumptions, 3.02 percent interest basis* [1]

[In millions]

| Calendar year | Contributions | Benefit payments | Administrative expenses | Interest on fund | Fund at end of year |
|---|---|---|---|---|---|
| | Actual data | | | | |
| 1957 | $702 | $57 | [2] $3 | $7 | $649 |
| 1958 | 966 | 249 | [2] 12 | 25 | 1,379 |
| 1959 | 891 | 457 | 50 | 41 | 1,825 |
| | Low-cost estimate | | | | |
| 1970 | $1,180 | $934 | $51 | $180 | $5,622 |
| 1980 | 1,401 | 1,160 | 58 | 285 | 9,805 |
| 1990 | 1,671 | 1,302 | 64 | 464 | 15,986 |
| 2000 | 2,004 | 1,573 | 78 | 743 | 25,537 |
| 2025 | 2,714 | 2,456 | 115 | 1,819 | 62,109 |
| | High-cost estimate | | | | |
| 1970 | $1,174 | $1,525 | $55 | $42 | $1,089 |
| 1980 | 1,343 | 1,943 | 66 | (3) | (3) |
| 1990 | 1,515 | 2,157 | 71 | (3) | (3) |
| 2000 | 1,699 | 2,522 | 82 | (3) | (3) |
| 2025 | 1,921 | 3,148 | 97 | (3) | (3) |
| | Intermediate-cost estimate | | | | |
| 1970 | $1,177 | $1,229 | $53 | $111 | $3,354 |
| 1980 | 1,372 | 1,550 | 62 | 75 | 2,438 |
| 1990 | 1,593 | 1,730 | 68 | 19 | 557 |
| 2000 | 1,852 | 2,048 | 80 | (4) | (4) |
| 2025 | 2,318 | 2,802 | 106 | (4) | (4) |

[1] An interest rate of 3.02 percent is used in determining the level-premium costs, but in developing the progress of the trust fund a varying rate in the early years has been used, which is equivalent to such fixed rate.
[2] These figures are artificially low because of the method of reimbursements between the trust fund and the old-age and survivors insurance trust fund (and, likewise, the figure for 1959 is too high).
[3] Fund exhausted in 1973.
[4] Fund exhausted in 1993.

NOTE.—Contributions include reimbursement for additional cost of noncontributory credit for military service and transfers to or from the railroad retirement account under the financial interchange provisions of the Railroad Retirement Act.

Annual benefit payments as a percentage of payroll are less than the scheduled tax rates in the early future years (with a few exceptions), but—except under the low-cost disability estimate—eventually rise to well above the ultimate scheduled combined employer-employee tax rate 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 has been computed, taking into account future interest. The level-premium equivalent of contributions minus the level-premium equivalent of benefit and administrative costs, after making allowance for the interest-earning effect of the existing trust fund, gives the amount by which the contribution rate in all years would have to be changed to put the system in exact long-range balance according to the estimate. A negative figure indicates that an increase in the tax rate is needed to make the system self-supporting. The following level-premium figures, in percentages of payroll, are computed as of the beginning of calendar year 1960, at 3.02 percent interest (the estimated average rate corresponding to the revised method of determining the interest rate on special obligations issued to the trust funds under the provisions of the 1960 amendments):

| Item | Low cost | High cost | Intermediate cost |
|---|---|---|---|
| | Old-age and survivors insurance | | |
| Contributions [1] | 8.20 | 8.14 | 8.18 |
| Benefit cost [2] | 7.40 | 9.65 | 8.42 |
| Net difference | .80 | −1.51 | −.24 |
| | Disability insurance | | |
| Contributions [1] | 0.50 | 0.50 | 0.50 |
| Benefit cost [2] | .42 | .73 | .56 |
| Net difference | .08 | −.23 | −.06 |

[1] Based on adjusted payroll that reflects the lower contribution rate for the self-employed as compared with the combined employer-employee rate.
[2] Including adjustments (*a*) to reflect lower contribution rate for the self-employed as compared with the combined employer-employee rate, (*b*) for interest on existing trust fund, (*c*) for administrative expenses, and (*d*) for the railroad retirement financial interchange provisions.

The 1960 amendments increased the lack of actuarial balance of the old-age and survivors insurance system from 0.20 percent of payroll (as shown in the 20th Trustees Report) to 0.24 percent on the intermediate-cost basis. The disability insurance system has a lack of actuarial balance of 0.06 percent of payroll, as compared with the 0.15 percent actuarial surplus under the provisions of the 1958 act. The combined old-age, survivors, and disability insurance system has an actuarial deficit of 0.30 percent of payroll, which is well within the margin of variation possible in actuarial cost estimates, and which is about the same as has generally prevailed in the past when the system has been considered to be in substantial actuarial balance.

If the cost estimates had been based on a higher interest rate than 3.02 percent (which is somewhat above the current average being earned by the total investments of the trust funds, although considerably below the prevailing market rate of interest on long-term Government obligations, which was about 3⅝ percent in the last part of 1960), the lack of actuarial balance would have been considerably less than 0.30 percent of payroll. In fact, if an interest rate of 3¼ percent had been hypothesized, the cost estimates would show no actuarial deficit.

If the experience exactly follows the assumptions, future computations would show a gradual increase in the actuarial lack of balance under the high-cost or intermediate-cost estimate for both the old-age and survivors insurance system and the diasbility insurance system, while the actuarial surplus would increase under the low-cost estimate. The reason for this is that interest accumulations increase any deficit or surplus in the system. In the case of a surplus, the excess contributions actually earn interest, while a deficit grows because of the absence of the annual interest that would have been earned if the proper contributions had been paid. With continuing study of the emerging experience under the program, there will be ample time to make any changes in the tax rate or other changes that may be necessary to keep the system in actuarial balance.

It is important to note that these estimates are made on the assumption that earnings will remain at about the level prevailing in 1959. If earnings levels rise, as they have in the past, the benefits and the taxable earnings base under the program will undoubtedly be modified. If such changes are made concurrently and proportionately with changes in general earnings levels, and if the experience follows all the other assumptions, the future year-by-year costs of the system as a percentage of taxable payroll would be the same as those shown.

However, the existing trust fund accumulated in the past, and its interest earnings, will represent a smaller proportion of the future taxable payrolls than if earnings were not to increase in future years. As a result, since interest earnings of the trust fund will play a relatively smaller role in the financing of the system, the "net" level-premium cost—taking into account benefit payments, administrative expenses, and interest on the existing trust fund—would be somewhat higher. If benefits were modified to reflect changes in earnings levels, not in full but rather only in part or with a time lag, a still different cost situation would develop. Again, the effect of such events can be observed in ample time to make any needed changes in the contribution schedule or any other changes to improve the actuarial balance of the system.

This analysis includes the benefits and contributions in respect to all persons anticipated to be covered in the future under present legislative provisions. The actuarial deficiency would be larger if account were taken only of (*a*) the benefits to be paid to workers who have been covered by the system in the past and to their dependents and survivors, (*b*) the future taxes to be paid by such workers, and (*c*) the existing trust funds. 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 that 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 analyzing the actuarial condition of a compulsory social insurance system that will continue indefinitely, the income and outgo with respect to new entrants should properly be included, thus obviating the need to set up reserves for all currently accrued liabilities.

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

## MEDIUM-RANGE COST ESTIMATES

Preceding sections have presented both short-range cost estimates (the next 5 years) and long-range cost estimates (many decades into the future) for the old-age, survivors, and disability insurance system. The 1957–58 Advisory Council on Social Security Financing, among its recommendations, suggested that a third type of actuarial cost estimate is desirable; namely, medium-range cost estimates for the next 15 to 20 years (see 19th Trustees Report, H. Doc. 181, 85th Cong., pps. 66–67). These estimates, it was suggested, should take into account possible variations in economic factors, such as earnings and employment levels, as well as in demographic developments. The long-range cost estimates encompass the latter factors but, for the reasons given previously, do not take into account changes in such economic factors as general business conditions and earnings levels.

In this report, for the first time, such medium-range estimates are presented for the system as it exists following the 1960 amendments, in the form of preliminary estimates subject to future refinement. The estimates cover the period through 1975 and are the same as the short-range estimates through 1965 that were developed for the 1960 amendments at the time the legislation was enacted (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 1960," prepared for the use of the Committee on Ways and Means of the House of Representatives by Robert J. Myers, September 1960).

The medium-range estimates, like the short-range and long-range estimates, relate to present law. Over the periods covered by the estimates, many changes will undoubtedly be made in the law. In particular, if earnings levels rise, changes will almost certainly be made in benefit levels. The extent and timing of whatever changes are made in the law are, of course, unpredictable.

After 1965, it is assumed that there is an annual increase of 3 percent in the total earnings of each covered worker. A detailed statement of the economic assumptions is in preparation and will be published shortly.

Under a fixed maximum taxable earnings base, the average earnings on which contributions are collected and on which benefits are based will not rise at this assumed 3-percent annual rate; rather, the increase in average covered earnings is considerably smaller because of the dampening effect of the fixed base. This effect is well illustrated by the fact that in 1959, 80.7 percent of the total earnings of covered individuals was taxable, but that by 1975 this proportion will probably drop to slightly less than 60 percent if the earnings base remains unchanged.

The medium-range and long-range cost estimates consider trends in the labor force participation rates (including increases in rates among women and changes in rates among persons aged 65 and over). The medium-range estimates presented here take into consideration the business cycle conditions of the postwar type, in that their effect has been averaged out in the trend projected for the 1965–75 period.

The results of the medium-range cost estimates are presented in tables D and E, which show the estimated progress over the next 15 years of the old-age and survivors insurance trust fund and the disability insurance trust fund, respectively. The old-age and survivors insurance trust fund grows steadily through the period up to 1975—reaching about $85 billion in 1975. It is interesting to note that, according to the intermediate-cost long-range estimate, which assumes level earnings, the balance in this trust fund at the end of 1975 is about $63 billion (see table B), or $22 billion lower than under the medium-range estimate, which assumes rising earnings.

It is also interesting to note that under the medium-range estimate the old-age and survivors insurance benefit disbursements in 1975 are 4 percent higher than under the long-range cost estimate, whereas the corresponding increase in the contributions is 21 percent. If the conditions assumed in the medium-range estimate actually eventuate, the actuarial balance of the system would, of course, be materially improved, but it is highly improbable that under such conditions there would be no legislation liberalizing the benefits of the program. If benefits are liberalized without provision being made for a corresponding increase in income to the system, through increased contribution rates or otherwise, the estimated size of the trust fund shown in table D would, of course, be smaller, beginning with the year in which the benefit liberalization took effect.

TABLE D.—*Estimated progress of old-age and survivors insurance trust fund, high employment and increasing earnings assumptions, varying interest rate basis* [1]

[In millions]

| Calendar year | Contributions | Benefit payments | Administrative expenses | Financial interchange [2] | Interest on fund | Fund at end of year |
|---|---|---|---|---|---|---|
| 1965 | $14,925 | $13,880 | $229 | −$240 | $604 | $23,135 |
| 1966 | 17,409 | 14,503 | 239 | −234 | 767 | 26,335 |
| 1967 | 18,379 | 15,126 | 249 | −210 | 903 | 30,032 |
| 1968 | 18,997 | 15,752 | 260 | −181 | 1,043 | 33,879 |
| 1969 | 21,630 | 16,378 | 270 | −184 | 1,215 | 39,892 |
| 1970 | 22,704 | 17,003 | 282 | −160 | 1,426 | 46,577 |
| 1975 | 26,224 | 19,899 | 347 | −91 | 2,440 | 84,843 |

[1] On the same basis as used to develop the progress of the trust funds in tables B and C.
[2] A positive figure indicates payment to the trust fund from the railroad retirement account; a negative figure indicates the reverse.

TABLE E.—*Estimated progress of disability insurance trust fund, high employment and increasing earnings assumptions, varying interest rate basis* [1]

[In millions]

| Calendar year | Contributions | Benefit payments | Administrative expenses | Interest on fund | Fund at end of year |
|---|---|---|---|---|---|
| 1965 | $1,154 | $1,029 | $57 | $107 | $3,323 |
| 1966 | 1,193 | 1,077 | 60 | 116 | 3,495 |
| 1967 | 1,231 | 1,125 | 61 | 122 | 3,662 |
| 1968 | 1,271 | 1,173 | 65 | 127 | 3,822 |
| 1969 | 1,304 | 1,221 | 67 | 131 | 3,969 |
| 1970 | 1,341 | 1,270 | 70 | 134 | 4,104 |
| 1975 | 1,543 | 1,476 | 88 | 140 | 4,733 |

[1] On the same basis as used to develop the progress of the trust funds in tables B and C.

The estimated future growth of the disability insurance trust fund under the medium-range cost estimates is very similar to that previously described for the old-age and survivors insurance trust fund. The trust fund grows steadily throughout the entire period up to 1975, reaching $4.7 billion at the end of that year. Of course, this estimated growth is subject to the same qualification mentioned in the discussion of the progress of the old-age and survivors insurance trust fund, namely, that if benefits are liberalized without provision being made for a corresponding increase in income to the system, either through increased contribution rates or otherwise, the estimated size of the trust fund shown in table E would be smaller, beginning with the year in which the benefit liberalization took effect.

## CONCLUSION

Total assets of the old-age and survivors insurance trust fund declined by about $2.2 billion during the 3 fiscal years ended June 30, 1960. The cash needed to meet expenditures not financed by current income of the fund during this period was obtained by redemption before maturity, at par, of securities issued for purchase by the trust fund. The Board believes that these transactions demonstrate the effectiveness with which the funds can serve as a contingency reserve.

Although the old-age and survivors insurance trust fund decreased during the fiscal years 1957–60, short-range estimates show that trust fund assets will remain relatively unchanged through fiscal year 1963, and will then begin to rise substantially, in line with the increase in contribution rates that becomes effective during that year.

Long-range cost estimates show that 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. With the elimination of the age-50 limitation for disability insurance benefits, as provided by the 1960 amendments, the system is shown to be not quite self-supporting over the long-range future under the intermediate-cost estimate. The difference, on a level-premium basis, is relatively small, however, considering the variation possible in long-range actuarial cost estimates. Accordingly, this portion of the program can continue to be considered to be in close 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 in this appendix.[1] Also given are more detailed data in connection with the results of these estimates.

### POPULATION

A projection was made of the U.S. population (including overseas areas covered by the old-age, survivors, and disability insurance program) for future quinquennial years, by 5-year age groups and by sex. The starting point was the population on July 1, 1955, as estimated by the Bureau of the Census from the 1950 census and from births, deaths, and migration in 1950–55. This population estimate was increased to allow for probable 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 the rates at the older ages showing somewhat smaller improvements. The low-cost estimate assumes less improvement in mortality than the high-cost estimate.

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

The low-cost estimate is based on high fertility and high mortality, while the high-cost estimate assumes low fertility and low mortality. This makes the high-cost population relatively much older than the low-cost population, which is reasonable in view of the fact that benefits to aged persons account for nearly 90 percent of the cost of the system. Complete details about the population projections are given in "Actuarial Study No. 46," Social Security Administration, Department of Health, Education, and Welfare.

### 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 males aged 25–64 the 1955

[1] For more details as to the procedures followed in making the long-range cost estimates, see "Actuarial Study No. 49," Social Security Administration, DHEW, which deals with the 1956 act but also indicates the modified procedures that were used in connection with estimates for the 1958 and 1960 acts.

figures, after upward adjustment 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 females under retirement age an increase was assumed, especially at the middle and older ages, which continues the past trend. Beyond retirement age, an increase was assumed in the low-cost estimate, which implies an increasing proportion affected by the retirement test; conversely, in the high-cost estimate a decrease was assumed, which is somewhat larger than the increase assumed in the low-cost estimate. Assumptions were also made about the percentage of covered workers in each age group who have four quarters of coverage during the year. These assumptions may be characterized as representing moderately full employment.

A depression could substantially increase the cost, as shown in table 20 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 1959 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. It was also assumed that the earnings level would not rise on account of changes in the distribution of covered workers by occupation or industry.

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

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

### INSURED POPULATION

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

The percentages of insured persons by age and sex in various future years are estimated from the percentages of persons covered. It is evident that eventually almost all males in the country will be insured for old-age and survivor benefits; the ultimate percentage for aged males is estimated at 92 percent in the low-cost estimate and 97 percent in the high-cost estimate. For females there is much greater uncertainty; it is estimated that the corresponding proportions for aged females will eventually be 60 percent in the low-cost estimate and 70 percent in the high-cost estimate. The liberalized requirements for attaining fully insured status which were provided by the 1960 amendments will have the effect of increasing the insured population for the next several years. In the long run, however, all persons attaining retirement age will need 40 quarters of coverage—as under previous law—so that the effect is largely temporary in nature.

The estimated numbers 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. The estimated disability costs contained in this report are, of course, higher than those in the previous report since the 1960 amendments eliminated the age-50 requirement for monthly disability benefits.

## AGED BENEFICIARIES

Old-age beneficiaries are estimated by subtracting from the estimated total aged insured workers those whose earnings are at a level that they do not meet the retirement test. The number of persons with benefits so withheld or not payable is assumed to be a constant percentage of the aged covered population, based on recent actual data adjusted for changes made in the retirement test by the 1960 amendments. To estimate potential wife beneficiaries, the percentages of men having wives aged 62 and over, by age of male, are obtained from census data. These figures are assumed to increase in the future so as to be consistent with the decreasing mortality assumption. Based on experience to date it is assumed that no wives will defer claiming benefits to age 65 in order to avoid reduced benefits.

To estimate potential widow beneficiaries, the deaths of insured married men in each quinquennial year are computed using the same percentages of married men among the total deaths of insured male workers in the year as is found in recent operating data. The number of widows thus created are 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 the 1956 experience of women receiving mothers' benefits.

It is assumed that the actual wife and widow beneficiaries consist of the uninsured among these potential beneficiaries. In actual practice, 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 percent in the low-cost estimate and 32 percent in the high-cost estimate. These figures are obtained by assuming that the proportion of single and divorced women 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 is a potential wife or widow beneficiary. The percentage uninsured is, 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 is adjusted 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 also are benefits for dependent husbands and widowers.

Appendix table 1 shows the estimated aged beneficiaries. By 2050, the numbers of beneficiaries in the low-cost estimate slightly exceed those under the high-cost estimate. This is because the low-cost population is much larger—not only at the working ages but also, although to a smaller degree, at the older ages.

APPENDIX TABLE 1.—*Estimated monthly aged beneficiaries,*[1] *males aged 65 and over and females aged 62 and over, in current-payment status, 1970–2050*

[In thousands]

| Calendar year | Old-age beneficiaries | | Wives of old-age beneficiaries [2] | Aged widows [3] | Dependent parents | Total |
|---|---|---|---|---|---|---|
| | Male | Female | | | | |
| | Actual data for end of year [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 |
| 1958 | 4,617 | 2,303 | 1,980 | 1,233 | 30 | 10,163 |
| 1959 | 4,937 | 2,587 | 2,131 | 1,394 | 35 | 11,086 |
| | Low-cost estimate | | | | | |
| 1970 | 6,123 | 4,093 | 2,420 | 2,735 | 54 | 15,425 |
| 1980 | 7,515 | 6,150 | 2,785 | 3,494 | 47 | 19,991 |
| 2000 | 9,395 | 9,234 | 2,947 | 4,245 | 34 | 25,855 |
| 2050 | 20,905 | 24,651 | 5,475 | 8,503 | 50 | 59,584 |
| | High-cost estimate | | | | | |
| 1970 | 6,879 | 4,979 | 2,680 | 2,506 | 52 | 17,096 |
| 1980 | 9,114 | 7,822 | 3,300 | 2,963 | 43 | 23,242 |
| 2000 | 13,432 | 12,502 | 3,840 | 3,649 | 24 | 33,447 |
| 2050 | 23,684 | 25,021 | 4,578 | 4,907 | 24 | 58,214 |

[1] Persons qualifying both for old-age benefits and for wife's, widow's, husband's, widower's, and parent's benefits are shown only as old-age beneficiaries.
[2] Including dependent husbands and including wives of any age with child beneficiaries in their care (both relatively small categories).
[3] Including dependent widowers.
[4] As of December, except for 1958 (November). Excluding effect of railroad coverage under financial interchange provisions.

BENEFICIARIES UNDER RETIREMENT AGE

Young wives and children of retired workers are estimated by reference to pertinent ratios to male old-age beneficiaries, as derived from recent actual data.

Child survivor beneficiaries are obtained from estimates of total paternal orphans in the country in future years. The projected child population by age groups is multiplied by the probability of the father having died, using an average age for fathers at birth of child and using death rates consistent with the population projections. The numbers of paternal orphans are then adjusted to eliminate orphans of uninsured men and to include the small numbers of orphans of insured women and of eligible disabled orphans aged 18 and over. Mother survivor beneficiaries are 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 numbers of lump-sum death payments are estimated by multiplying the estimated insured population by death rates consistent with the survival rates used in the population projections.

### DISABLED BENEFICIARIES AND THEIR DEPENDENTS

Future numbers of persons receiving monthly disability benefits based on their own earnings records are estimated by applying disability incidence and termination rates (annual rates, by age and sex) to the appropriate groups. New cases are estimated by applying disability incidence rates to the assumed population insured for disability benefits. Then, termination rates are applied to the disability benefit roll to complete the projection; when disability beneficiaries attain age 65, they are transferred to the old-age benefit roll.

As discussed in the previous report, the actuarial assumptions used in the original estimates of the cost of the disability insurance program (prepared at the time of the 1956 amendments) have been revised in the light of actual operating experience. It was found in particular that the assumed incidence rates for women had been too high and that the population insured for disability benefits had been overestimated. These changes in assumptions tended to reduce estimated future costs of the program. Since the 1960 amendments eliminated the age-50 requirement for monthly disability benefits, the costs (and number of beneficiaries) appearing here are higher than those shown in the previous report.

Currently, 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 the same as those for men. Termination rates because of death or recovery 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 are based on 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 the same as those for men. Termination rates are based on German social insurance 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. 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, of course, recognized that in many disability benefit programs the cost experience of the early years is much lower than in later years. For example, this has been true with respect to life insurance company experience under disability income benefit policies (which led to a rather general revision of contract provisions in the early 1930's). More valid estimates are possible only after operating experience of several years has developed and has been adequately tabulated and analyzed. Many factors make disability incidence and termination rates difficult to predict—much more so than mortality rates, which underlie retirement and survivor benefit cost calculations. In adopting these assumptions for the long-range estimates, however, account is taken of the fact that it is not within the jurisdiction of the Department of Health, Education, and Welfare to liberalize the definition of disability by administrative action. Furthermore, it is assumed that there will be no court decisions that will have the general effect of liberalizing the definition of disability. Moreover, as indicated earlier, the estimates presuppose a continued high level of employment.

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 numbers of beneficiaries under retirement age (including disability insurance beneficiaries and their dependents).

## AVERAGE BENEFITS AND TOTAL BENEFIT PAYMENTS

Average benefits in the various benefit categories were interpolated between the sizes of current benefit awards, estimated from recent claims data, and the sizes of ultimate benefits computed. The latter were as though the 1959 earnings level would be in effect throughout the entire working life of all workers with respect to whom benefits are being paid. Total benefit payments are shown in tables B and C of the main text (and as a percentage of payroll in table A).

The cost for old-age, survivor, and disability benefits combined, as a percentage of payroll, is eventually about three times the 1960 figure for the high-cost estimate, as shown in tables 15, 19, and A, and two times as high for the low-cost estimate. The significant upward cost trend is temporarily reversed around the year 2000, at which time a significant part of the aged population consists of survivors of persons born in the 1930's, when birth rates were low. The disability estimates show a wider relative range between low-cost and high-cost figures because of the relative uncertainty about the disability rates to be experienced.

APPENDIX TABLE 2.—*Estimated monthly beneficiaries under retirement age*[1] *in current-payment status, 1970–2050*

[In thousands]

| Calendar year | Children[2] | Widowed mothers | Disability beneficiaries: Workers | Disability beneficiaries: Wives[3] | Disability beneficiaries: Children[4] | Total monthly beneficiaries | Lump-sum death payments |
|---|---|---|---|---|---|---|---|
| | Actual data for end of year[5] | | | | | | |
| 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 |
| 1958 | 1,606 | 354 | 238 | 12 | 18 | 2,228 | [6] 657 |
| 1959 | 1,754 | 376 | 334 | 48 | 78 | 2,590 | [7] 822 |
| | Low-cost estimate | | | | | | |
| 1970 | 2,278 | 468 | 685 | 145 | 289 | 3,865 | 1,129 |
| 1980 | 2,401 | 484 | 803 | 168 | 337 | 4,193 | 1,367 |
| 2000 | 2,685 | 543 | 1,029 | 233 | 466 | 4,956 | 1,852 |
| 2050 | 3,247 | 588 | 2,016 | 418 | 835 | 7,104 | 4,104 |
| | High-cost estimate | | | | | | |
| 1970 | 1,887 | 449 | 1,118 | 237 | 473 | 4,164 | 1,084 |
| 1980 | 1,709 | 382 | 1,367 | 284 | 568 | 4,310 | 1,276 |
| 2000 | 1,589 | 329 | 1,703 | 368 | 737 | 4,726 | 1,804 |
| 2050 | 1,835 | 317 | 2,283 | 461 | 922 | 5,818 | 3,253 |

[1] Does not include wives under age 62 of old-age beneficiaries. Includes female disability beneficiaries aged 62–64, wives aged 62 and over of male disability beneficiaries, and dependent husbands aged 65 or over of female disability beneficiaries.
[2] Children of retired and deceased workers.
[3] Wives of disabled workers, including some such wives aged 62 and over; also includes dependent husbands aged 65 and over.
[4] Children of disabled workers.
[5] As of December, except for 1958 (November). Figure for lump-sum payments is number of deaths in awards of year. Excluding effect of railroad coverage under financial interchange provisions.
[6] January through November 1958.
[7] December 1958 through December 1959.

## ADMINISTRATIVE EXPENSES

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

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

The long-range estimates are first made as if railroad employment were covered directly under old-age, survivors, and disability insurance. Then, estimates are made of the old-age, survivors, and disability insurance taxes that would be payable by railroad workers (a level railroad payroll of $5.3 billion is assumed) and of the additional old-age, survivors, and disability insurance benefits that would be payable, if railroad employment were covered directly. The progress of the trust funds as shown in tables B and C as to contributions, benefit payments, and administrative expenses, is exclusive of the amounts arising from the indirect coverage. The amount transferred to or from the railroad retirement system is shown as a separate item in table B, but is included in contributions in table C.

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

INTEREST RATE

The 1960 amendments revised the basis for determining the interest rate on public-debt obligations issued for purchase by the trust funds (special issues), which constitute a major portion of the investments of the trust funds. Under previous law, the interest rate on special obligations was related to the average coupon rate on all outstanding marketable obligations of the United States not due or callable for at least 5 years from the original issue date. Under the new law, this interest rate is based on the average market yield of all such marketable obligations not due or callable for 4 or more years from the time of the issuance of the special obligations. In the first month of the application of this new basis (October 1960), the interest rate so determined was increased from 2⅝ percent to 3⅝ percent.

This change, therefore, will have the immediate effect of gradually increasing the interest income of the trust funds as compared with the previous basis. The ultimate effect is expected to be only a slight increase in the interest income of the system since, over the long run, market rates and coupon rates on long-term Government obligations tend to be about the same.

The gain in the immediate future and the small possible long-run advantage of the new interest basis are reflected in the cost estimates by using a level interest rate of 3.02 percent for the level-premium calculations (as against 3 percent formerly). This rate is the overall equivalent of the varying interest rates, developed on year-by-year basis, used in the development of the progress of the trust funds. These varying interest rates have been estimated from the existing maturity schedule of special issues and from assumed average market-yield rates on long-term Government obligations, running from about their present level down to about 3 percent ultimately.

## 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 served in an ex officio capacity, were the Secretary of the Treasury, the Secretary of Labor, and the Chairman of the Social Security Board. On July 16, 1946, under 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. The Social Security Amendments of 1960 provide that the Board of Trustees shall meet not less frequently than once each 6 months. These amendments also eliminated the so-called three-times rule (requiring the Board of Trustees to report to the Congress whenever it expects that in the course of the next 5 fiscal years either of the trust funds will exceed three times the highest annual expenditures from such fund anticipated during that 5-year period).

*Contribution rates.*—The Social Security Act of 1935 fixed the contribution rates for employees and their employers at 1 percent each on taxable wages for the calendar years 1937–39, and provided for higher rates thereafter. However, subsequent acts of Congress extended the 1-percent rates through calendar year 1949. On January 1, 1950, the rates rose to 1½ percent each for employees and employers, as provided by the Social Security Act Amendments of 1947. In accordance with the Social Security Act Amendments of 1950, the 1½-percent rates remained in effect through calendar year 1953, and, on January 1, 1954, rose to 2 percent each for employees and employers. These rates remained in effect through December 31, 1956. In accordance with the Social Security Amendments of 1956, the 2-percent rates rose to 2¼ percent each on January 1, 1957, and remained in effect through calendar year 1958. On January 1, 1959, the rates rose to 2½ percent each, and on January 1, 1960, to 3 percent each, as provided by the Social Security Amendments of 1958. 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 receive retirement benefits. It also removed the disadvantage the

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

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.*[3]—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 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.

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

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.*[4]—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.

(*a*) Monthly benefits were provided, beginning January 1957, for a dependent, unmarried, disabled child aged 18 or over of a retired aged 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

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

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 was included in the 19th annual report of the Board of Trustees.

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 date of issue, the average rate being rounded to the nearest one-eighth of 1 percent.

*Social Security Amendments of 1958.*—The 1958 amendments to the Social Security Act and related sections of the Internal Revenue Code (Public Law 85–840) became law on August 28, 1958.

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 were based were shown in a benefit table that replaced 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 was raised to $33, and the maximum primary insurance amount for beneficiaries on the rolls in January 1959 became $116. For workers subsequently coming on the rolls, benefits could range as high as $127, because of the higher earnings base.

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

(*d*) The maximum monthly amount of family benefits payable with respect to each amount of average monthly earnings was set forth in the benefit table. In general, as in prior law, benefits were limited to 80 percent of average monthly earnings, but this could not reduce benefits below 1½ times the primary insurance amount (or the primary insurance amount plus $20, if larger). The dollar maximum on family benefits was raised from $200 to $254.

2. Beginning with September 1958, the same benefits were provided for wives, dependent husbands, and children of disability insurance beneficiaries as those previously provided for dependents of old-age insurance beneficiaries. These benefits are payable from the disability insurance trust fund.

3. The disability benefits offset provision was repealed effective with benefits payable for August 1958. This provision had required

that the monthly 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 under State workmen's compensation systems.

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

5. Disability insurance benefits were made payable for as many as 12 months before the month in which the application was filed if all other requirements were met for such prior months.

6. The deadline of June 30, 1958, for filing fully retroactive disability freeze applications was postponed to 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. Changes were made in provisions relating to dependents benefits.

(*a*) Dependent parents of a deceased worker were made eligible for benefits even though a widow, a dependent widower, or a dependent child survived the worker.

(*b*) The same rules for presuming dependency on their parents that applied to younger children were made applicable to disabled children aged 18 or over. 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.

8. Retirement test provisions were amended to raise from $80 to $100 the amount of wages a beneficiary could earn in a month without losing benefits for that month even though during the year he earned above $1,200, the annual exempt amount.

9. Changes relating to the financing of the system were made with the intent of assuring that it would continue to be self-supporting. The employee and employer contribution rates for old-age and survivors insurance were 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 were scheduled at 3-year intervals (rather than at 5-year intervals) beginning with 1960. The employer-employee contribution rate schedule, including the rate of one-half of 1 percent for disability insurance, was changed as follows: 1959, 5 percent; 1960–62, 6 percent; 1963–65, 7 percent; 1966–68, 8 percent; 1969 and thereafter, 9 percent. The contribution rates on self-employment income were continued at 1½ times the employee rates.

*Social Security Amendments of 1960.*—The more important changes, significant from an actuarial standpoint, are presented in the section "Social Security Amendments of 1960" in the main body of this report.

*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, placed 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 86–30, approved May 20, 1959, Congress authorized expenditures from the trust funds of $32,290,000 for construction of an office building and related facilities for the Bureau of Old-Age and Survivors Insurance.

## Appendix III. Statutory Provisions, as of September 13, 1960, Creating the Trust Funds, Defining the Duties of the Board of Trustees, and Providing for Advisory Councils on Social Security Financing

(Sec. 201 and sec. 218 (e), (h), and (j) of the Social Security Act as amended and sec. 116 of the Social Security Amendments of 1956 as amended)

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

Sec. 201. (a) There is hereby created on the books of the Treasury of the United States a trust fund to be known as the "Federal Old-Age and Survivors Insurance Trust Fund." The Federal Old-Age and Survivors Insurance Trust Fund shall consist of the securities held by the Secretary of the Treasury for the Old-Age Reserve Account and the amount standing to the credit of the Old-Age Reserve Account on the books of the Treasury on January 1, 1940, which securities and amount the Secretary of the Treasury is authorized and directed to transfer to the Federal Old-Age and Survivors Insurance Trust Fund, and, in addition, such amounts as may be appropriated to, or deposited in, the Federal Old-Age and Survivors Insurance Trust Fund, as hereinafter provided. There is hereby appropriated to the Federal Old-Age and Survivors Insurance Trust Fund for the fiscal year ending June 30, 1941, and for each fiscal year thereafter, out of any moneys in the Treasury not otherwise appropriated, amounts equivalent to 100 per centum of—

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

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

(3) the taxes imposed by subchapter A of chapter 9 of such Code with respect to wages (as defined in section 1426 of such Code), and by chapter 21 of the Internal Revenue Code of 1954 with respect to wages (as defined in section 3121 of such Code) re-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.

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. The Board of Trustees shall meet not less frequently than once each six months. 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 operations and status of the Trust Funds during the preceding fiscal year and on their expected operation and status during the next ensuing five fiscal years;

(3) Report immediately to the Congress whenever the Board of Trustees is of the opinion that the amount of either of the Trust Funds is unduly small;

(4) Recommend improvements in administrative procedures and policies designed to effectuate the proper coordination of the old-age and survivors insurance and Federal-State unemployment compensation program; and

(5) Review the general policies followed in managing the Trust Funds, and recommend changes in such policies, including necessary changes in the provisions of the law which govern the way in which the Trust Funds are to be managed.

The report provided for in paragraph (2) above shall include a statement of the assets of, and the disbursements made from, the Trust Funds during the preceding fiscal year, an estimate of the expected future income to, and disbursements to be made from, the Trust Funds during each of the next ensuing five fiscal years, and a statement of the actuarial status of the Trust Funds. Such reports shall be printed as a House document of the session of the Congress in 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 the issue price, or (2) by purchase of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of public-debt obligations for purchase by the Trust Funds. Such obligations issued for purchase by the Trust Funds shall have maturities fixed with due regard for the needs of the Trust Funds and shall bear interest at a rate equal to the average market yield (computed by the Managing Trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States then forming a part of the public debt which are not due or callable until after the expiration of four years from the end of such calendar month; except that where such average market yield is not a multiple of one-eighth of 1 per centum, the rate of interest of such obligations shall be the multiple of one-eighth of 1 per centum nearest such market yield. The Managing Trustee may purchase other interest-bearing obligations of the United States or obligations guaranteed as to both principal and interest by the United States, on original issue or at the market price, only where he determines that the purchase of such other obligations is in the public interest.

(e) Any obligations acquired by the Trust Funds (except public-debt obligations issued exclusively to the Trust Funds) may be sold by the Managing Trustee at the market price, and such public-debt obligations may be redeemed at par plus accrued interest.

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

(g)(1) The Managing Trustee is directed to pay from the Trust Funds into the Treasury the amounts estimated by him and the Secretary of Health, Education, and Welfare which will be expended, out of moneys appropriated from the general funds in the Treasury, during a three-month period by the Department of Health, Education, and Welfare and the Treasury Department for the administration of titles II and VIII of this Act and subchapter E of chapter 1 and subchapter A of chapter 9 of the Internal Revenue Code of 1939, and chapters 2 and 21 of the Internal Revenue Code of 1954. Such payments shall be covered into the Treasury as repayments to the account for reimbursement of expenses incurred in connection with the administration of titles II and VIII of this Act and subchapter E of chapter 1 and subchapter A of chapter 9 of the Internal Revenue Code of 1939, and chapters 2 and 21 of the Internal Revenue Code of 1954. There are hereby authorized to be made available for expenditure, out of either or both of the Trust Funds, such amounts as the Congress may deem appropriate to pay the cost of administration of this title. After the close of each fiscal year, the Secretary of Health, Education, and Welfare shall analyze the 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).

ADVISORY COUNCIL ON SOCIAL SECURITY FINANCING

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) During 1963, 1966, and every fifth year thereafter, 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 second year after the year in which it is appointed, 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.

(f) The Advisory Council appointed under subsection (e) during 1963 shall, in addition to the other findings and recommendations it is required to make, include in its report its findings and recommendations with respect to extensions of the coverage of the old-age, survivors, and disability insurance program, the adequacy of benefits under the program, and all other aspects of the program.

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