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88th Congress, 1st Session - - - - - House Document No. 80

THE 23D 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 23D 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

MARCH 6, 1963.—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,
February 28, 1963, Washington, D.C.

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

SIR: We have the honor to transmit to you the 23d 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,

C. DOUGLAS DILLON,
Secretary of the Treasury, and Managing Trustee of the Trust Funds.

W. WILLARD WIRTZ,
Secretary of Labor.

ANTHONY J. CELEBREZZE,
Secretary of Health, Education, and Welfare.

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

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TWENTY-THIRD 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, 1962

THE BOARD OF TRUSTEES

The Federal old-age and survivors insurance trust fund, established on January 1, 1940, and the Federal disability insurance trust fund, established on August 1, 1956, are held by the Board of Trustees under the authority of section 201(c) of the Social Security Act, as amended. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the managing trustee. The Commissioner of Social Security is secretary of the Board.

FISCAL YEAR HIGHLIGHTS

Both the income and the outgo of the old-age and survivors insurance trust fund and of the disability insurance trust fund reached all-time highs in the fiscal year 1962. The estimated number of workers with taxable earnings under the program in calendar year 1961 reached a record high of 74 million.

The increase in expenditures from the old-age and survivors insurance trust fund in fiscal year 1962 was substantial (12.9 percent), but the increase in receipts was relatively small (1.4 percent). Receipts of the trust fund totaled $11,985 million, while expenditures were $13,259 million. Since expenditures exceeded receipts by $1,274 million, total assets of this trust fund decreased from $20,900 million on June 30, 1961, to $19,626 million on June 30, 1962. The major portion of the expenditures was for benefit payments, totaling $12,658 million. Payments to the railroad retirement account under the financial interchange provisions were $361 million, including $11 million in interest. Administrative expenses were $251 million. The number of monthly beneficiaries as of the end of the year rose by about 10 percent, to 16,129,000, of whom 12,189,000 were retirement beneficiaries and 3,940,000 were survivor beneficiaries.

Under the 1961 amendments, monthly benefits for men aged 62–64 and their dependents first became payable for August 1961. During the last 11 months of fiscal year 1962, about 723,000 monthly benefits were awarded under this provision—527,000 old-age benefits to retired men aged 62–64, 195,000 wife's or child's benefits to dependents of these men, and 1,000 husband's, widower's, or parent's benefits. An additional 169,000 persons were awarded monthly benefits in fiscal year 1962 because of the liberalized insured-status provisions in the 1960 and 1961 amendments.

The two major income items of the old-age and survivors insurance program were net tax contributions and interest, which in the fiscal year 1962 totaled \$11,455 million and \$530 million, respectively.

Estimates for the 5 fiscal years 1963–67 show that although both receipts and disbursements will increase steadily, the receipts will rise somewhat more rapidly, due to the scheduled rise in contribution rates in the law. Consequently, at the end of fiscal year 1967, this trust fund will amount to an estimated \$22.1 billion, or an increase of \$2.5 billion in the 5-year period. Receipts during fiscal 1967 are estimated to total \$19.5 billion, and expenditures, \$17.4 billion.

Long-range cost estimates for the old-age and survivors insurance program indicate that the program is in approximate actuarial balance. The level-cost of the benefit payments and administrative expenses, based on 3.25 percent interest, ranges from 7.71 to 9.89 percent of taxable payroll, depending on the combination of cost assumptions chosen. On the basis of intermediate-cost assumptions, the level-cost is 8.69 percent of taxable payroll, as compared with the level-equivalent of the graded schedule of contributions of 8.52 percent of taxable payroll.

Total disbursements of the disability insurance trust fund were about 46 percent larger in fiscal year 1962 than in 1961. A large part of this increase was due to the fact that benefits for disabled workers under age 50 and for their dependents were payable during the entire year 1962 but during only about half of the preceding year. Total receipts of \$1,088 million exceeded total expenditures of \$1,086 million by \$2 million. Total assets at the end of fiscal 1962 amounted to \$2,507 million.

Total receipts of the disability insurance trust fund were composed of \$1,021 million in net contributions and \$67 million in net interest. Components of the total expenditures were \$1,011 million in benefit payments, \$11 million in payments to the railroad retirement account, and \$64 million in administrative expenses.

At the end of fiscal 1962, the number of beneficiaries receiving monthly benefits from the disability insurance trust fund had risen to 1,152,000, 28 percent more than at the end of fiscal year 1961.

According to estimates for the 5 fiscal years 1963–67, income of the disability insurance trust fund will rise very slowly, since the scheduled contribution rate remains constant; expenditures, on the other hand, will rise more rapidly. Outgo is expected to exceed income in each year and the trust fund will decline slowly. At the end of fiscal year 1967, assets are estimated at \$1.8 billion. The long-range cost estimates show a level-cost for benefit payments and administrative expenses, based on 3.25 percent interest, which ranges from 0.57 percent to 0.72 percent of taxable payroll, depending on the combination of assumptions used. On the basis of intermediate-cost assumptions, such level-cost is 0.64 percent of taxable payroll, as compared with the level-equivalent of the contributions of 0.50 percent of taxable 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 showed benefit costs very closely in balance with contribution income. Accordingly, the schedule of contribution rates contained in the law continued 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

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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.

SOCIAL SECURITY AMENDMENTS OF 1961

The 1961 amendments to the Social Security Act and related sections of the Internal Revenue Code (Public Law 87-64, approved June 30, 1961) make significant improvements in the old-age, survivors, and disability insurance program. Eligibility requirements for the payment of benefits were liberalized. Benefit amounts payable to certain classes of present and future beneficiaries were increased. The schedule of contribution rates was revised to continue to reflect the intent that the program be self-supporting.

From an actuarial standpoint, the most important changes made by the 1961 amendments are the following:

1. The minimum age at which men may qualify for retirement benefits was reduced from 65 to 62. Full-rate benefits are payable at age 62 to dependent widowers and to dependent fathers of deceased insured workers. Men who elect to receive a retired worker's benefit or a dependent husband's benefit when they are between age 62 and age 65 will receive reduced benefits (both before and after age 65) which are, on an actuarial basis, virtually equivalent to the full-rate benefits that they would have received if they were aged 65 at the time they applied for benefits. In determining a male worker's fully insured status and in calculating his average monthly wage, the measuring period ends with the beginning of the year he reaches age 65 (for women workers, the measuring period ends at 62).

2. The fully insured status provisions (applicable to all types of monthly benefits) were liberalized so that, beginning August 1961, to be fully insured a person needs one quarter of coverage for each calendar year elapsing after 1950 (or after the year in which he attains age 21 if that is later) and before the year in which he reached age 65 (62 for women), or died, or became disabled, whichever first occurred (but requiring not less than 6 nor more than 40 quarters of coverage).

3. Effective August 1961, the minimum primary insurance amount was raised from $33 to $40. This provision affects all types of benefits since all retirement, disability, and survivor benefits (including lump-sum death payments) are figured on the basis of the primary insurance amount. For example, the minimum amount payable to a retired worker prior to actuarial reduction for retirement before age 65, to a disabled worker, and to the sole survivor of a deceased insured worker is equal to the minimum primary insurance amount.

4. The retirement test was amended, effective for taxable years ending after June 30, 1961. The provision for withholding benefits from beneficiaries whose earnings exceed $1,200 a year was changed so that $1 in benefits will be withheld for each $2 of earnings between $1,200 and $1,700 (and $1 in benefits for each $1 in earnings above

that amount), rather than between $1,200 and $1,500 as under the law as amended in 1960. There was no change in the provision which specifies that, regardless of the amount of annual earnings, no benefits are 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.

5. Aged widow's benefits were increased, beginning August 1961, by 10 percent (from 75 to 82½ percent of the worker's primary insurance amount). Similar increases were granted for widower's and for parent's benefits (when only one parent is entitled).

6. In recognition of the increase in costs resulting from the changes in the program, the contribution rates payable by employees and employers are increased, beginning with 1962, by one-eighth of 1 percent each; the contribution rate for self-employed persons is increased by three-sixteenths of 1 percent and then rounded to the nearest one-tenth of 1 percent. In addition, the date when the ultimate scheduled tax rate becomes effective has been moved up from 1969 to 1968.

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 3 percent each that was in effect in calendar years 1960 and 1961 was increased to 3⅛ percent each on January 1, 1962; the contribution rate for the self-employed rose from 4.5 to 4.7 percent. The following table shows the scheduled increases in tax rates in the present law:

Calendar years	Percent of taxable earnings	
	Employees and employers, each	Self-employed
1962	3⅛	4.7
1963–65	3⅝	5.4
1966–67	4⅛	6.2
1968 and after	4⅝	6.9

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 payment 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 1962

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, 1961, and ended on June 30, 1962, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 1.

The total assets of the old-age and survivors insurance trust fund amounted to $20,900 million on June 30, 1961. These assets decreased to $19,626 million by the end of the fiscal year 1962, a decline of $1,274 million.

Net receipts of the trust fund during the fiscal year 1962 amounted to $11,985 million. Of this total, $10,715 million represented tax collections appropriated to the fund and $870 million represented amounts received by the Secretary of the Treasury in accordance with State agreements for coverage of State and local government employees and deposited in the trust fund. As an offset, $130 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 $11,455 million, representing an increase of 1 percent over the amount for the preceding fiscal year. The remaining $530 million of receipts consisted of net interest on the investments of the fund.

TABLE 1.—*Statement of operations of the old-age and survivors insurance trust fund during the fiscal year 1962*

Total assets of the trust fund, June 30, 1961			$20,900,349,854.25
Receipts, fiscal year 1962:			
Tax contributions:			
Appropriations	$10,714,781,548.49		
Deposits arising from State agreements	869,621,102.40		
Gross tax contributions	11,584,402,650.89		
Less payment into the Treasury for taxes subject to refund	129,760,000.00		
Net tax contributions		$11,454,642,650.89	
Interest:			
On investments	$539,048,987.03		
On administrative expenses reimbursed by disability insurance trust fund	2,204,658.00		
Gross interest	541,253,645.03		
Less interest on amounts transferred to railroad retirement account	10,788,000.00		
Net interest		530,465,645.03	
Total receipts		11,985,108,295.92	
Disbursements, fiscal year 1962:			
Benefit payments		12,657,835,048.49	
Transfers to railroad retirement account		350,000,000.00	
Administrative expenses:			
Department of Health, Education, and Welfare	$266,267,374.35		
Treasury Department	42,483,593.21		
Preparation and construction of building for Bureau of Old-Age and Survivors Insurance	3,081,941.44		
Gross administrative expenses	311,832,909.00		
Less receipts from sale of surplus materials, supplies, etc	70,537.22		
Less reimbursement for administrative expenses by disability insurance trust fund	56,582,183.00		
Less reimbursement for construction by disability insurance trust fund	3,690,416.00		
Net administrative expenses		251,489,772.78	
Total disbursements		13,259,324,821.27	
Net addition to the trust fund			−1,274,216,525.35
Total assets of the trust fund, June 30, 1962			19,626,133,328.90

Disbursements from the trust fund during the fiscal year 1962 totaled $13,259 million. Of this total, $12,658 million was for benefit payments, an increase of 13 percent over the corresponding amount paid in the fiscal year 1961. This increase was due in part to the expected growth in the number of beneficiaries as the program gradually matures, and also to the liberalized eligibility conditions and higher benefit amounts resulting from the provisions of the 1960 and 1961 amendments.

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 $350 million to the railroad retirement account from the old-age and survivors insurance trust fund would place the old-age and survivors insurance trust fund in the same position as of June 30, 1961, 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 1962 amounting to $10,788,000 was transferred to the railroad retirement account in June 1962. The remaining $251 million of disbursements was for administrative expenses.

Net administrative expenses charged to both the old-age and survivors insurance trust fund and the disability insurance trust fund totaled $315 million and represented 2.5 percent of contribution income and 2.3 percent of benefit payments during fiscal year 1962. Similar figures for each of the last 5 years for the system as a whole, as well as for each trust fund separately, are shown in table 2.

TABLE 2.—*Relationship of net administrative expenses of the old-age, survivors, and disability insurance program to contribution income and benefit payments, by trust fund, fiscal years 1958–62*

Fiscal year	Total administrative expenses as a percentage of—		Old-age and survivors insurance trust fund, administrative expenses as a percentage of—		Disability insurance trust fund, administrative expenses as a percentage of—	
	Total contribution income	Total benefit payments	Contribution income	Benefit payments	Contribution income	Benefit payments
1958	2.2	2.2	2.3	2.1	1.3	7.2
1959	2.7	2.4	2.7	2.3	2.4	6.3
1960	2.2	2.2	2.1	2.0	3.2	6.0
1961	2.2	2.3	2.1	2.1	3.6	5.2
1962	2.5	2.3	2.2	2.0	6.3	6.3

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

The distribution of benefit payments in fiscal years 1961 and 1962, by type of benefit, is shown in table 3. Approximately 86 percent of the total benefit payments from the old-age and survivors insurance trust fund in fiscal year 1962 was accounted for by monthly benefits to persons aged 62 or over—retired workers and their wives (including a relatively small number of wives under age 62) or dependent husbands, and aged widows, dependent widowers, and dependent parents of deceased workers. Approximately 12 percent of the benefit payments represented monthly benefits on behalf of children of deceased or retired workers and to mothers—practically all of them under age 65—who had children of deceased workers in their care. The balance of the benefits paid consisted of lump-sum death payments.

TABLE 3.—*Estimated distribution of benefit payments from the old-age and survivors insurance trust fund, by type of benefit, fiscal years 1961 and 1962*

[Amounts in millions]

Type of benefit	1961		1962	
	Amount	Percent of total	Amount	Percent of total
Total[1]	$11,184.5	100	$12,657.8	100
Monthly benefits[1]	11,017.5	99	12,483.7	99
Old-age (retired workers)	7,371.2	66	8,339.9	66
Wife's or husband's (aged wives or dependent husbands of old-age beneficiaries or their young wives if caring for child beneficiary)	1,087.7	10	1,171.1	9
Widow's or dependent widower's (aged widows or aged dependent widowers of workers)	1,120.3	10	1,370.1	11
Parent's (aged dependent parents of deceased workers)	29.1	(2)	32.7	(2)
Child's (children, under age 18 or disabled, of old-age beneficiaries)	97.9	1	119.3	1
Child's (children, under age 18 or disabled, of deceased workers)	1,009.8	9	1,124.5	9
Mother's (widows or dependent divorced wives of deceased workers caring for child beneficiaries)	301.5	3	326.3	3
Lump-sum death payments	167.0	1	174.1	1

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

On June 30, 1962, about 17.3 million persons in some 12.8 million families were receiving monthly benefits under the old-age, survivors, and disability insurance program (table 4). Generally, average monthly family benefits on that date showed moderate increases over the corresponding averages a year earlier. The higher averages reflected in part the 1961 legislation which raised the minimum primary insurance amount and the sole survivor's benefit from $33 to $40 and increased widow's widower's, and—when only one parent is entitled—parent's benefits by 10 percent.

TABLE 4.—*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 1961 and 1962*

[Numbers in thousands]

Family classification of beneficiaries receiving benefits	June 30, 1961			June 30, 1962		
	Number of families	Number of beneficiaries	Average monthly amount per family	Number of families	Number of beneficiaries	Average monthly amount per family
Total [1]	11,514.0	15,624.2		12,757.5	17,280.4	
Retired-worker families [1]	8,414.0	11,028.4		9,347.6	12,188.6	
Worker only	6,029.9	6,029.9	$70.40	6,813.3	6,813.3	$72.40
Male	3,043.0	3,043.0	80.60	3,522.5	3,522.5	81.70
Female	2,986.9	2,986.9	60.00	3,290.8	3,290.8	62.40
Worker and aged wife	2,173.0	4,346.0	125.10	2,268.0	4,536.0	127.10
Worker and young wife [2]	1.0	2.0	112.60	.9	1.8	108.90
Worker and aged dependent husband	14.0	28.0	106.20	13.4	26.8	108.20
Worker and 1 or more children	54.2	121.7	120.70	70.5	160.0	121.50
Worker, aged wife, and 1 or more children	23.8	73.0	158.40	26.3	81.0	159.50
Worker, young wife, and 1 or more children	117.9	427.1	152.70	155.1	569.2	149.70
Worker, husband, and 1 or more children	.2	.6	117.70	.2	.5	125.20
Survivor families [1]	2,541.9	3,698.1		2,730.6	3,940.0	
Aged widow	1,603.7	1,603.7	58.20	1,756.5	1,756.5	65.40
Aged widow and 1 or more children	15.8	32.4	113.90	18.9	38.6	123.50
Aged widow and 1 or 2 aged dependent parents	.3	.6	131.20	.3	.6	155.30
Aged dependent widower	2.1	2.1	54.00	2.4	2.4	62.80
Widower and 1 or more children	.1	.1	84.20	.1	.1	91.00
Widowed mother [2]	1.3	1.3	62.70	1.1	1.1	61.50
Widowed mother and 1 or 2 aged dependent parents [2]	(3)	(3)	(3)	(3)	(3)	(3)
Widowed mother and 1 child	180.9	361.8	132.70	187.7	375.4	136.20
Widowed mother and 2 children	118.4	355.2	186.50	121.9	365.7	191.40
Widowed mother and 3 or more children	118.6	571.1	181.70	123.0	601.5	183.00
Widowed mother, 1 or more children, and 1 or 2 aged dependent parents	.4	1.5	215.80	.4	1.5	232.10
Widowed mother, divorced wife, and children	(3)	(3)	(3)	(3)	(3)	(3)
Divorced wife and 1 or more children	.3	.9	164.90	.5	1.1	170.40
1 child only	298.2	298.2	59.40	310.2	310.2	61.40
2 children	105.3	210.6	123.70	106.9	213.8	126.50
3 children	39.4	118.2	157.20	42.3	126.9	161.80
4 or more children	22.9	104.0	161.00	23.8	108.0	170.70
1 or more children and 1 or 2 aged dependent parents	.6	1.3	138.00	.5	1.0	145.60
1 aged dependent parent	32.1	32.1	61.40	32.6	32.6	68.10
2 aged dependent parents	1.5	3.0	108.90	1.5	3.0	111.00
Disabled-worker families [1]	558.1	897.7		679.3	1,151.8	
Worker only	423.2	423.2	87.90	498.8	498.8	87.60
Male	308.1	308.1	91.80	356.7	356.7	91.40
Female	115.1	115.1	77.40	142.1	142.1	77.90
Worker and aged wife	24.3	48.6	135.80	24.9	49.8	137.20
Worker and young wife [2]	.1	.3	148.50	.1	.1	162.20
Worker and aged dependent husband	.2	.5	120.80	.3	.6	116.60
Worker and 1 or more children	32.3	84.7	154.60	47.8	126.4	155.00
Worker, aged wife, and 1 or more children	.1	.4	186.20	.2	.7	187.00
Worker, young wife, and 1 or more children	77.8	340.1	190.10	107.2	475.5	191.70

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

The assets of the old-age and survivors insurance trust fund at the end of fiscal year 1962 totaled $19,626 million, consisting of $18,435 million in the form of obligations of the U.S. Government, and $1,191 million in undisbursed balances. Table 5 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1961 and 1962.

TABLE 5.—*Assets of the old-age and survivors insurance trust fund, by type, at end of fiscal years 1961 and 1962*

	June 30, 1961		June 30, 1962	
	Par value	Book value [1]	Par value	Book value [1]
Investments in public-debt obligations:				
Public issues:				
Treasury notes:				
4⅝-percent, series A, 1965	$47,500,000	$47,500,000.00	$38,500,000	$38,500,000.00
4⅞ percent, series C, 1963	15,000,000	15,000,000.00	15,000,000	15,000,000.00
5-percent, series B, 1964	25,000,000	25,000,000.00	25,000,000	25,000,000.00
Treasury bonds:				
2½-percent, 1964–69	46,500,000	42,307,632.59	55,180,000	50,734,921.92
2½-percent, 1965–70	463,297,500	462,749,460.44	----	----
2½-percent, 1966–71	315,077,500	314,213,517.27	----	----
2½-percent, 1967–72	239,578,250	229,227,928.70	250	250.00
2⅝-percent, 1965	225,400,000	224,607,839.29	----	----
2¾-percent, 1961	2,000,000	1,992,860.54	----	----
2¾-percent, investment series B, 1975–80	1,064,902,000	1,065,645,431.40	1,064,902,000	1,065,526,482.36
3-percent, 1966	25,000,000	25,000,000.00	25,000,000	25,000,000.00
3-percent, 1995	85,170,000	85,128,262.05	85,170,000	85,129,504.89
3¼-percent, 1978–83	60,200,000	58,902,857.12	60,200,000	58,962,042.32
3¼-percent, 1985	25,700,000	23,627,999.15	25,700,000	23,714,936.27
3⅜-percent, 1966	4,500,000	4,327,542.16	4,500,000	4,421,610.04
3½-percent, 1980	67,450,000	67,111,298.17	449,450,000	457,447,033.47
3½-percent, 1990	283,130,000	277,399,870.03	556,250,000	544,568,842.52
3½-percent, 1998	174,454,000	169,955,315.25	552,037,000	540,343,519.75
3⅝-percent, 1967	34,205,000	34,214,310.96	34,205,000	34,212,840.84
3¾-percent, 1966	27,729,000	27,757,022.55	27,729,000	27,751,224.75
3¾-percent, 1968	----	----	7,000,000	7,000,000.00
3⅞-percent, 1968	15,450,000	15,380,049.06	17,450,000	17,450,000.00
3⅞-percent, 1974	25,000,000	25,000,000.00	32,500,000	32,396,953.84
4-percent, 1969	37,500,000	37,514,850.00	57,500,000	57,465,756.09
4-percent, 1971	----	----	100,000,000	101,652,844.57
4-percent, 1980	18,000,000	17,849,278.94	123,600,000	123,419,562.00
4¼-percent, 1975–85	25,000,000	25,000,000.00	25,000,000	25,000,000.00
Total public issues	3,352,743,250	3,322,413,325.67	3,381,873,250	3,360,698,325.63
Accrued interest purchased	----	932,355.11	----	329,850.53
Total investments in public issues	3,352,743,250	3,323,345,680.78	3,381,873,250	3,361,028,176.16
Obligations sold only to this fund (special issues): [2]				
Certificates of indebtedness:				
3¾-percent, 1962	440,698,000	440,698,000.00	----	----
3¾-percent, 1963	----	----	1,080,011,000	1,080,011,000.00
Notes:				
2½-percent, 1962	471,319,000	471,319,000.00	----	----
2½-percent, 1963	412,011,000	412,011,000.00	----	----
2⅝-percent, 1962	168,000,000	168,000,000.00	----	----
2⅝-percent, 1963	168,000,000	168,000,000.00	----	----
2⅝-percent, 1964	168,000,000	168,000,000.00	168,000,000	168,000,000.00
3¾-percent, 1964	----	----	88,796,000	88,796,000.00
Bonds:				
2½-percent, 1963	500,000,000	500,000,000.00	----	----
2½-percent, 1964	912,011,000	912,011,000.00	776,698,000	776,698,000.00
2½-percent, 1965	912,011,000	912,011,000.00	912,011,000	912,011,000.00
2½-percent, 1966	912,011,000	912,011,000.00	912,011,000	912,011,000.00
2½-percent, 1967	912,011,000	912,011,000.00	912,011,000	912,011,000.00
2½-percent, 1968	412,011,000	412,011,000.00	412,011,000	412,011,000.00
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	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2⅝-percent, 1970	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2⅝-percent, 1971	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2⅝-percent, 1972	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2⅝-percent, 1973	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2⅝-percent, 1974	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2⅝-percent, 1975	919,934,000	919,934,000.00	919,934,000	919,934,000.00
3¾-percent, 1975	160,077,000	160,077,000.00	160,077,000	160,077,000.00
3¾-percent, 1976	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
Total obligations sold only to this fund (special issues)	16,200,171,000	16,200,171,000.00	15,073,637,000	15,073,637,000.00
Total investments in public-debt obligations	19,552,914,250	19,523,516,680.78	18,455,510,250	18,434,665,176.16
Undisbursed balances	----	1,376,833,173.47	----	1,191,468,152.74
Total assets	----	20,900,349,854.25	----	19,626,133,328.90

[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 1962 amounted to $1,097 million. New securities at a total par value of $15,175 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 $16,272 million, including $1,261 million of public issues. A summary of transactions for the fiscal year, by type of security, is presented in table 6.

TABLE 6.—*Statement of transactions in public-debt securities for the old-age and survivors insurance trust fund during the fiscal year 1962*

[All amounts represent par values]

	Acquisitions	Dispositions
Public issues:		
Treasury notes:		
4⅝-percent, series A, 1965	0	$9,000,000
Treasury bonds:		
2½-percent, 1964–69	$8,680,000	0
2½-percent, 1965–70	0	463,297,500
2½-percent, 1966–71	0	315,077,500
2½-percent, 1967–72	6,500,000	246,078,000
2⅝-percent, 1965	0	225,400,000
2¾-percent, 1961	0	2,000,000
3½-percent, 1980	382,000,000	0
3½-percent, 1990	273,120,000	0
3½-percent, 1998	377,583,000	0
3¾-percent, 1968	7,000,000	0
3⅞-percent, 1968	2,000,000	0
4⅞-percent, 1974	7,500,000	0
4-percent, 1969	20,000,000	0
4-percent, 1971	100,000,000	0
4-percent, 1980	105,600,000	0
Total, public issues	1,289,983,000	1,260,853,000
Obligations sold only to this fund (special issues): [1]		
Certificates of indebtedness:		
3¾-percent, 1962	4,128,119,000	4,568,817,000
3¾-percent, 1963	1,080,011,000	0
3⅞-percent, 1962	5,251,594,000	5,251,594,000
4-percent, 1962	3,336,189,000	3,336,189,000
Notes:		
2½-percent, 1962	0	471,319,000
2½-percent, 1963	0	412,011,000
2⅝-percent, 1962	0	168,000,000
2⅝-percent, 1963	0	168,000,000
3¾-percent, 1964	88,796,000	0
Bonds:		
2½-percent, 1963	0	500,000,000
2½-percent, 1964	0	135,313,000
Total obligations sold only to this fund (special issues)	13,884,709,000	15,011,243,000
Total transactions	15,174,692,000	16,272,096,000

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

The 1956 amendments provided that the public-debt obligations issued for purchase by the old-age and survivors insurance trust fund and the disability insurance trust fund shall have maturities fixed with due regard for the needs of the funds. Under this provision, the special issues held by the old-age and survivors insurance trust fund on June 30, 1962, were distributed in approximately equal amounts of $1,080 million among maturities ranging from 1 to 14 years (table 5).

SUMMARY OF THE OPERATIONS OF THE FEDERAL DISABILITY INSURANCE TRUST FUND, FISCAL YEAR 1962

A statement of the income and disbursements of the Federal disability insurance trust fund for fiscal year 1962 and of the assets of the fund at the beginning and end of the fiscal year is presented in table 7.

TABLE 7.—*Statement of operations of the disability insurance trust fund during the fiscal year 1962*

Total assets of the trust fund, June 30, 1961			$2,504,384,461.36
Receipts, fiscal year 1962:			
Tax contributions:			
Appropriations	$955,449,632.27		
Deposits arising from State agreements	77,323,679.77		
Gross tax contributions	1,032,773,312.04		
Less payment into the Treasury for taxes subject to refund	11,907,500.00		
Net tax contributions		$1,020,865,812.04	
Interest:			
On investments	$69,956,452.98		
Less interest on amounts transferred to old-age and survivors insurance trust fund for reimbursed administrative expenses	2,204,658.00		
Less interest on amounts transferred to railroad retirement account	330,000.00		
Net interest		67,421,794.98	
Total receipts		1,088,287,607.02	
Disbursements, fiscal year 1962:			
Benefit payments		1,011,375,762.35	
Transfers to railroad retirement account		10,700,000.00	
Administrative expenses:			
Reimbursement to the old-age and survivors insurance trust fund:			
For administrative expenses of the Department of Health, Education, and Welfare	$56,582,183.00		
For construction of building for the Bureau of Old-Age and Survivors Insurance	3,690,416.00		
Treasury Department	3,654,157.42		
Total administrative expenses		63,926,756.42	
Total disbursements		1,086,002,518.77	
Net addition to the trust fund			2,285,088.25
Total assets of the trust fund, June 30, 1962			2,506,669,549.61

The total assets of the disability insurance trust fund amounted to $2,504 million on June 30, 1961. These assets increased by somewhat more than $2 million, to $2,507 million by the end of the fiscal year 1962.

Net receipts of the fund amounted to $1,088 million. Of this total, $955 million represented tax collections appropriated to the fund, and $77 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. As an offset, $12 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 $67 million of receipts consisted of net interest on the investments of the fund.

Disbursments from the fund during the fiscal year 1962 totaled $1,086 million. Of this total, $1,011 million was for benefit payments, an increase of 44 percent over the corresponding amount paid in the fiscal year 1961. This increase was due chiefly to (1) the expected increase in the number of disability insurance beneficiaries as the program matures and (2) the fact that benefits for disabled workers under age 50 and for their dependents, as provided by the 1960 amendments, were payable during the entire fiscal year 1962 but during only part of fiscal year 1961.

Public Law 880, approved August 1, 1956, provided for financial interchanges between the railroad retirement account and the disability insurance trust fund similar to those described in the preceding section relating to the old-age and survivors insurance trust fund. The determination made as of June 30, 1961, required that a transfer of the principal sum of $10,700,000 be made from the disability insurance trust fund to the railroad retirement account. This sum, together with interest thereon for fiscal year 1962 amounting to $330,000, was transferred to the railroad retirement account in June 1962. The remaining $64 million of disbursements was for administrative expenses.

At the end of fiscal year 1962, some 1,152,000 persons in 679,000 families were receiving monthly benefits from the disability insurance trust fund (table 4). The distribution of benefit payments in fiscal years 1961 and 1962, by type of benefit, is shown in table 8.

TABLE 8.—*Estimated distribution of benefit payments from the disability insurance trust fund, by type of benefit, fiscal years 1961 and 1962*

[Amounts in millions]

Type of benefit	1961		1962	
	Amount	Percent of total	Amount	Percent of total
Total [1] [2]	$704.0	100	$1,011.4	100
Disability (disabled worker)	589.5	84	816.3	81
Wife's or husband's (aged wives or dependent husbands of disability beneficiaries or their young wives if caring for child beneficiary)	41.2	6	62.6	6
Child's (children, under age 18 or disabled, of disability beneficiaries)	73.3	10	132.4	13

[1] Benefits were first payable (1) to disabled workers aged 50 through 64, for July 1957, (2) to disabled workers under age 50, for November 1960, and (3) to dependents of disabled-worker beneficiaries, for September 1958.

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

The assets of this fund at the end of fiscal year 1962 totaled $2,507 million, consisting of $2,406 million in the form of obligations of the U.S. Government, and $101 million in undisbursed balances. Table 9 shows a comparison of the total assets of the fund and their distribution at the end of the fiscal years 1961 and 1962.

TABLE 9.—*Assets of the disability insurance trust fund, by type, at end of fiscal years 1961 and 1962*

	June 30, 1961		June 30, 1962	
	Par value	Book value [1]	Par value	Book value [1]
Investments in public-debt obligations:				
Public issues:				
Treasury notes:				
4⅞-percent, series C, 1963	$5, 000, 000	$5, 000, 000. 00	$5, 000, 000	$5, 000, 000. 00
5-percent, series B, 1964	5, 000, 000	5, 000, 000. 00	5, 000, 000	5, 000, 000. 00
Treasury bonds:				
2½-percent, 1967–72	1, 500, 000	1, 319, 472. 22		
2⅝-percent, 1965	18, 250, 000	18, 117, 129. 23	----------	----------
3-percent, 1966	10, 000, 000	10, 000, 000. 00	10, 000, 000	10, 000, 000. 00
3½-percent, 1990	7, 500, 000	7, 061, 358. 78	7, 500, 000	7, 076, 704. 86
3½-percent, 1998	3, 500, 000	3, 280, 489. 98	5, 000, 000	4, 621, 878. 80
3⅝-percent, 1967	10, 000, 000	10, 000, 000. 00	10, 000, 000	10, 000, 000. 00
3¾-percent, 1968	----------	----------	5, 000, 000	5, 000, 000. 00
3⅞-percent, 1968	3, 750, 000	3, 750, 000. 00	3, 750, 000	3, 750, 000. 00
3⅞-percent, 1974	5, 000, 000	5, 000, 000. 00	5, 000, 000	5, 000, 000. 00
4-percent, 1969	11, 000, 000	11, 009, 900. 00	21, 000, 000	20, 985, 058. 70
4-percent, 1980	2, 000, 000	1, 994, 427. 89	20, 250, 000	20, 183, 365. 41
4¼-percent, 1975–85	5, 000, 000	5, 000, 000. 00	5, 000, 000	5, 000, 000. 00
Total public issues	87, 500, 000	86, 532, 778. 10	102, 500, 000	101, 617, 007. 77
Accrued interest purchased	----------	90, 422. 15	----------	28, 232. 02
Total investments in public issues	87, 500, 000	86, 623, 200. 25	102, 500, 000	101, 645, 239. 79
Obligations sold only to this fund (special issues): [2]				
Certificates of indebtedness:				
3¾-percent, 1962	34, 096, 000	34, 096, 000. 00	----------	----------
3¾-percent, 1963	----------	----------	1, 361, 000	1, 361, 000. 00
Notes:				
2½ percent, 1962	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, 1962	95, 394, 000	95, 394, 000. 00	----------	----------
2⅝ percent, 1963	95, 394, 000	95, 394, 000. 00	95, 394, 000	95, 394, 000. 00
2⅝ percent, 1964	95, 394, 000	95, 394, 000. 00	95, 394, 000	95, 394, 000. 00
2⅝ percent, 1965	32, 394, 000	32, 394, 000. 00	32, 394, 000	32, 394, 000. 00
3¾ percent, 1963	19, 389, 000	19, 389, 000. 00	19, 389, 000	19, 389, 000. 00
3¾ percent, 1964	19, 389, 000	19, 389, 000. 00	20, 738, 000	20, 738, 000. 00
3¾ percent, 1965	19, 389, 000	19, 389, 000. 00	20, 738, 000	20, 738, 000. 00
3¾ percent, 1966	19, 389, 000	19, 389, 000. 00	20, 738, 000	20, 738, 000. 00
3¾ percent, 1967	----------	----------	1, 349, 000	1, 349, 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. 19
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	95, 394, 000	95, 394, 000. 00	95, 394, 000	95, 394, 000. 00
2⅝-percent, 1967	95, 394, 000	95, 394, 000. 00	95, 394, 000	95, 394, 000. 00
2⅝-percent, 1968	102, 894, 000	102, 894, 000. 00	102, 894, 000	102, 894, 000. 00
2⅝-percent, 1969	132, 894, 000	132, 894, 000. 00	132, 894, 000	132, 894, 000. 00
2⅝-percent, 1970	132, 894, 000	132, 894, 000. 00	132, 894, 000	132, 894, 000. 00
2⅝-percent, 1971	132, 894, 000	132, 894, 000. 00	132, 894, 000	132, 894, 000. 00
2⅝-percent, 1972	132, 894, 000	132, 894, 000. 00	132, 894, 000	132, 894, 000. 00
2⅝-percent, 1973	132, 894, 000	132, 894, 000. 00	132, 894, 000	132, 894, 000. 00
2⅝-percent, 1974	132, 894, 000	132, 894, 000. 00	132, 894, 000	132, 894, 000. 00
2⅝-percent, 1975	132, 894, 000	132, 894, 000. 00	132, 894, 000	132, 894, 000. 00
3¾-percent, 1967	19, 389, 000	19, 389, 000. 00	19, 389, 000	19, 389, 000. 00
3¾-percent, 1968	19, 389, 000	19, 389, 000. 00	20, 738, 000	20, 738, 000. 00
3¾-percent, 1969	19, 389, 000	19, 389, 000. 00	20, 738, 000	20, 738, 000. 00
3¾-percent, 1970	19, 389, 000	19, 389, 000. 00	20, 738, 000	20, 738, 000. 00
3¾-percent, 1971	19, 389, 000	19, 389, 000. 00	20, 738, 000	20, 738, 000. 00
3¾-percent, 1972	19, 389, 000	19, 389, 000. 00	20, 738, 000	20, 738, 000. 00
3¾-percent, 1973	19, 389, 000	19, 389, 000. 00	20, 738, 000	20, 738, 000. 00
3¾-percent, 1974	19, 389, 000	19, 389, 000. 00	20, 738, 000	20, 738, 000. 00
3¾-percent, 1975	19, 389, 000	19, 389, 000. 00	20, 738, 000	20, 738, 000. 00
3¾-percent, 1976	152, 283, 000	152, 283, 000. 00	153, 632, 000	153, 632, 000. 00
3¾-percent, 1977	----------	----------	153, 632, 000	153, 632, 000. 00
Total obligations sold only to this fund (special issues)	2, 298, 952, 000	2, 298, 952, 000. 00	2, 304, 492, 000	2, 304, 492, 000. 00
Total investments in public-debt obligations	2, 386, 452, 000	2, 385, 575, 200. 25	2, 406, 992, 000	2, 406, 137, 239. 79
Undisbursed balances	----------	118, 809, 261. 11	----------	100, 532, 309. 82
Total assets	----------	2, 504, 384, 461. 36	----------	2, 506, 669, 549. 61

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

The net increase in the par value of the investments owned by the fund during the fiscal year amounted to $21 million. New securities at a total par value of $1,353 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 $1,332 million, including $20 million of public issues. A summary of transactions for the fiscal year, by type of security, is presented in table 10.

TABLE 10.—*Statement of transactions in public-debt securities for the disability insurance trust fund during the fiscal year 1962*

[All amounts represent par values]

	Acquisitions	Dispositions
Public issues:		
Treasury bonds:		
2½-percent, 1967-72	$0	$1,500,000
2⅝-percent, 1965	0	18,250,000
3½-percent, 1998	1,500,000	0
3¾-percent, 1968	5,000,000	0
4-percent, 1969	10,000,000	0
4-percent, 1980	18,250,000	0
Total public issues	34,750,000	19,750,000
Obligations sold only to this fund (special issues): [1]		
Certificates of indebtedness:		
3¼-percent, 1962	358,821,000	392,917,000
3¾-percent, 1963	1,361,000	0
3⅞-percent, 1962	475,669,000	475,669,000
4-percent, 1962	311,154,000	311,154,000
Notes:		
2½-percent, 1962	0	37,500,000
2⅝-percent, 1962	0	95,394,000
3¾-percent, 1964	1,349,000	0
3¾-percent, 1965	1,349,000	0
3¾-percent, 1966	1,349,000	0
3¾-percent, 1967	1,349,000	0
Bonds:		
3¾-percent, 1968	1,349,000	0
3¾-percent, 1969	1,349,000	0
3¾-percent, 1970	1,349,000	0
3¾-percent, 1971	1,349,000	0
3¾-percent, 1972	1,349,000	0
3¾-percent, 1973	1,349,000	0
3¾-percent, 1974	1,349,000	0
3¾-percent, 1975	1,349,000	0
3¾-percent, 1976	1,349,000	0
3¾-percent, 1977	153,632,000	0
Total obligations sold only to this fund (special issues)	1,318,174,000	1,312,634,000
Total transactions	1,352,924,000	1,332,384,000

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

As indicated in the preceding section of this report, the special issues held by the trust funds have maturities fixed with due regard for the needs of the funds. On June 30, 1962, these holdings of the disability insurance trust fund were distributed in virtually equal amounts of $154 million among maturities ranging from 1 to 15 years (table 9).

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING THE PERIOD JULY 1, 1962, TO DECEMBER 31, 1967

In the following statement of the expected operations and status of the trust funds during the period July 1, 1962, to December 31, 1967, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program remain unchanged throughout the period. 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 11 to show the expected operations of the old-age and survivors insurance trust fund in fiscal years

TABLE 11.—*Operations of the old-age and survivors insurance trust fund, fiscal years 1937–67*

[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:								
1937–62 [4]	$96,025	$7,128	$15	$80,004	$2,161	$1,377	$19,626	$19,626
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
1961	11,293	522	----------	11,185	236	322	72	20,900
1962	11,455	530	----------	12,658	251	350	−1,274	19,626
Estimated future experience:								
1963	13,262	509	----------	13,865	268	375	−738	18,889
1964	14,984	511	63	14,648	297	375	238	19,127
1965	15,449	530	140	15,332	305	410	72	19,199
1966	16,817	559	132	15,999	314	430	765	19,964
1967	18,793	625	128	16,691	322	420	2,113	22,077

[1] Beginning December 1952, includes adjustment for refunds.

[2] Includes (1) net 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] Receipts from sale of surplus materials, services, etc. are deducted from gross administrative expenses. For fiscal years 1954–64, includes 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.

NOTE.—In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared in December 1962.

1963–67. They are based on the assumption that economic activity will expand throughout the period, with employment and earnings increasing steadily through 1967. Under this assumption the estimated number of persons with taxable earnings under the old-age, survivors, and disability insurance program is expected to increase from 75.0 million during calendar year 1962 to 80.6 million during calendar year 1967; their taxable earnings are estimated to increase from $219 billion to $255 billion in that period. The increase in estimated income from contributions in fiscal years 1963–67 reflects the assumed upward trend in the levels of employment and earnings as well as the effect of the scheduled increases in contribution rates, effective on January 1 of 1963 and 1966. 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.

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 1963–67. During this period, there is an estimated net increase in the trust fund of $2.5 billion.

Estimates consistent with those shown on a fiscal-year basis in table 11 are presented in table 12 to show the progress of the old-age and

TABLE 12.—*Operations of the old-age and survivors insurance trust fund, calendar years 1937–67*

[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:								
1937-61	$89,313	$6,876	$15	$73,449	$2,003	$1,027	$19,725	$19,725
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
1960	10,866	506	----------	10,677	203	308	184	20,324
1961	11,285	539	----------	11,862	239	322	−599	19,725
Estimated future experience:								
1962	12,059	515	----------	13,356	256	350	−1,388	18,337
1963	14,447	510	63	14,279	277	375	89	18,426
1964	15,171	520	140	14,988	296	375	172	18,598
1965	15,663	544	132	15,667	307	410	−45	18,553
1966	18,091	592	128	16,344	316	430	1,721	20,274
1967	18,991	677	123	17,038	326	420	2,007	22,281

NOTE.—In interpreting the above experienec, reference should be made to the footnotes in table 11.

survivors insurance trust fund on a calendar-year basis. The trust fund is expected to increase in each of the 5 calendar years 1963–67, except 1965. During that year, which immediately precedes the year in which the next tax rate increase is scheduled to take effect, the outgo of the trust fund is estimated to exceed the income by a small amount. With the tax rate increases sheduled to take place in 1966 and 1968, total income is expected to exceed total disbursements by substantial amounts, and the upward trend in the size of the fund will be resumed.

Benefit disbursements from the old-age and survivors insurance trust fund will continue to increase over the next 5 calendar years as the number of beneficiaries under the program increases. Table 13 shows the annual amount of benefit payments distributed by classification of beneficiaries. Benefit payments were 5.84 percent of taxable earnings for calendar year 1961. It is estimated that by 1967 benefit expenditures will be 6.92 percent of taxable earnings. Figures for each of the calendar years 1940–67 are shown in table 14.

TABLE 13.—*Old-age and survivors insurance benefit payments, distributed by classification of beneficiaries, calendar years 1940–67*

[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	99.7	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	149.2	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
1960	10,676.6	7,052.9	1,143.3	2,316.2	1,085.3	1,230.9	164.3
1961	11,861.6	7,801.5	1,230.4	2,658.6	1,262.3	1,396.3	171.1
Estimated future experience:							
1962	13,356.0	8,819.0	1,347.0	3,006.0	1,504.0	1,502.0	184.0
1963	14,279.0	9,462.0	1,423.0	3,202.0	1,639.0	1,563.0	192.0
1964	14,988.0	9,914.0	1,475.0	3,399.0	1,777.0	1,622.0	200.0
1965	15,667.0	10,328.0	1,521.0	3,610.0	1,926.0	1,684.0	208.0
1966	16,344.0	10,747.0	1,567.0	3,815.0	2,073.0	1,742.0	215.0
1967	17,038.0	11,175.0	1,613.0	4,028.0	2,219.0	1,809.0	222.0

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

TABLE 14.—*Old-age and survivors insurance benefit payments as a percentage*[1] *of taxable earnings, calendar years, 1940–67*

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	1955	3.26
1941	.21	1956	3.48
1942	.25	1957	4.20
1943	.27	1958	4.77
1944	.32	1959	[2] 5.03
1945	.44	1960	[2] 5.32
1946	.55	1961	[2] 5.84
1947	.59	Estimated future experience:	
1948	.66	1962	6.30
1949	.82	1963	6.49
1950	1.10	1964	6.63
1951	1.60	1965	6.70
1952	1.76	1966	6.81
1953	2.28	1967	6.92
1954	2.83		

[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 self-employment earnings for 1959–61 and of taxable wages for 1960–61.

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. The growth in the number of eligible workers aged 65 and over since 1940 has been uninterrupted. This growth resulted partly from the increase in the population at these attained ages, but primarily from two additional factors—(1) in each passing year a larger proportion of the persons attaining age 65 had fully insured status and (2) the amendments during the period 1950–61 liberalized the eligibility provisions and extended coverage to new areas of employment.

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

The expected operations and status of the disability insurance trust fund during the next 5 fiscal years are presented in table 15 together with the figures on actual experience in earlier years. Outgo of the disability insurance trust fund is expected to exceed income in each of the 5 fiscal years 1963–67. It is estimated that this fund will amount to $1,764 million on June 30, 1967.

TABLE 15.—*Operations of the disability insurance trust fund, fiscal years 1957–67*

[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:								
1957–62 [4]	$5,189	$226		$2,751	$167	−$10	$2,507	$2,507
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
1961	1,022	60		704	36	5	337	2,504
1962	1,021	67		1,011	64	11	2	2,507
Estimated future experience:								
1963	1,072	66		1,167	67	10	−105	2,401
1964	1,110	63	$1	1,231	75	10	−142	2,259
1965	1,145	59	6	1,276	84	10	−160	2,099
1966	1,179	54	7	1,306	88	10	−164	1,935
1967	1,209	50	8	1,336	92	10	−171	1,764

[1] Adjusted for refunds.
[2] Includes (1) net profits on marketable investments, (2) for fiscal year 1960, interest transferred from the railroad retirement account and, beginning in 1961, adjustment for interest transferred to the railroad retirement account, and (3) beginning in 1958, adjustment for interest on administrative expenses reimbursed to the old-age and survivors insurance trust fund.
[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.

NOTE.—Reference should be made to the text which describes the underlying assumptions and limitations. Estimates were prepared in December 1962.

Estimates consistent with those shown on a fiscal-year basis in table 15 are presented in table 16 to show the progress of the 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 increase. Benefit payments were 0.44 percent of taxable earnings for calendar year 1961. During 1962–67, benefit payments are expected to be about 0.55 percent of payroll, as shown in table 17.

TABLE 16.—*Operations of the disability insurance trust fund, calendar years 1957–67*

[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:								
1957–61	$4,606	$192		$2,218	$165	−$21	$2,437	$2,437
1957	702	7		57	3		649	649
1958	966	25		249	12		729	1,379
1959	801	41		457	50	−21	447	1,825
1960	1,010	53		568	36	−5	464	2,289
1961	1,038	66		887	64	5	148	2,437
Estimated future experience:								
1962	1,046	67		1,105	66	11	−69	2,368
1963	1,090	64	$1	1,206	75	10	−136	2,232
1964	1,123	61	6	1,257	84	10	−161	2,071
1965	1,160	56	7	1,291	88	10	−166	1,905
1966	1,194	52	8	1,321	92	10	−169	1,736
1967	1,221	47	9	1,350	94	10	−177	1,559

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 15.

TABLE 17.—*Disability insurance benefit payments as a percentage*[1] *of taxable earnings, calendar years 1957–67*

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:	
1957	0.03	1962	0.52
1958	.14	1963	.55
1959	[2].23	1964	.56
1960	[2].28	1965	.55
1961	[2].44	1966	.55
		1967	.55

[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 1959–61 and of taxable wages for 1960–61.

Reference has been made in earlier sections to the financial interchanges between the railroad retirement account and the two trust funds under the provisions of the Railroad Retirement Act. The estimates shown in tables 11, 12, 15, and 16 reflect the effect of future financial interchanges.

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 at some time during the period September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 that granted survivor protection to certain World

War II veterans for a period of 3 years after leaving service. The arrangements for annual reimbursements are based on the following plan: The total additional costs arising from payments during the period September 1950 through June 1961 are to be amortized in annual installments over a 10-year period, the first installment of which will be paid in fiscal year 1964. The Budget of the U.S. Government for the fiscal year 1964 makes provision for this reimbursement. The additional costs arising from payments made after June 1961 will be repaid annually on a current basis, the first such repayment to be made in fiscal year 1965. The estimates shown in the various tables in this section reflect the effect of these reimbursements. A description of the legislative history of provisions relating to credit for military service, including the provisions for reimbursement for the additional costs arising from payments made before September 1950, is contained in appendix II.

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 18 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 1963–67, 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. A severe decline in business activity is assumed to begin in the first half of calendar year 1963. The decline is halted in early 1966 and a modest recovery takes place during that year and 1967. These conditions result in annual declines in the number of persons with taxable earnings under the old-age, survivors, and disability insurance program from 73.3 million in 1963 to 68.2 million in 1966, and then rising to 68.5 million in 1967; their taxable earnings, estimated at $214 billion in calendar year 1963, decline further to $195 billion in calendar year 1966, then increasing to $196 billion in calendar year 1967.

TABLE 18.—*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 1963–67*

[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		
1963	$13,761	$491	$63	$14,613	$287	$375	−$960	$17,377
1964	13,465	433	140	15,792	306	390	−2,450	14,927
1965	12,878	357	132	16,759	315	435	−4,142	10,785
1966	14,300	282	128	17,588	322	490	−3,660	7,095
1967	14,744	226	123	18,257	331	505	−4,000	3,095

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

The lower the level of employment during the next 5 years, the larger will be the volume of benefit payments to retired workers and to their eligible dependents. Under the hypothetical lower employment conditions it is estimated that larger 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 in employment under these assumed conditions. The foregoing analysis also applies to insured workers aged 62–64.

On the other hand, the larger the volume of employment, the larger will be the number of workers who are insured under the program and therefore the larger will be the number of deaths which will give rise to valid claims for survivor benefits. While favorable opportunities for employment will operate to increase the number of new death claims, such a high employment situation will tend to have counterbalancing effects such as that of inducing many of the widows and older children eligible for survivor benefits to 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 85 percent of the total cost of the program, will rise for several reasons. The U.S. population aged 65 and over will, over the long range, almost certainly become a larger proportion of the total population. This will result, in part, 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. It is recognized that the question of whether the population will become relatively much older in the future depends to a large extent on fertility (and not only on mortality experience). However, over the very long-distant future, it seems unlikely that fertility will be so high (and remain so high) that aging of the population will not occur.

The cost of the program is closely related to the ratio of the population aged 65 and over (potential beneficiaries) to the population aged 20–64 (potential contributors). At present, this ratio is 17.7 percent. In a stationary population resulting from present death rates the ratio would be 25.2 percent, but such a situation is not likely to occur within the next century. Ultimately this ratio may 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. Some of the present persons aged 65 and over were not in covered employment long enough to obtain benefits, or, in the case of widows, their husbands were not sufficiently long in covered employment. Although the system began in 1937, many jobs were not covered until 1951 or 1955. It is estimated that the proportion of the aged population eligible for some type of benefit under the system will increase from the present level of about 78 percent to between 93 and 96 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 1961 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 assumptions that represent close to full employment, with the average annual earnings remaining at about the level that prevailed in 1961. 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 1961 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	6.87	7.36	7.11
1980	7.70	8.79	8.23
1990	8.09	10.13	9.06
2000	7.41	10.34	8.74
2025	8.41	13.43	10.49
2050	10.50	15.18	12.31
Level-premium cost[3]	7.71	9.89	8.69
	Disability insurance benefits		
1970	0.62	0.72	0.67
1980	.59	.71	.65
1990	.54	.70	.61
2000	.55	.73	.63
2025	.62	.80	.70
2050	.66	.83	.74
Level-premium cost[3]	.57	.72	.64

[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 3.25 percent interest rate, for benefits after 1961, taking into account interest on the trust fund on December 31, 1961, future administrative expenses, the railroad retirement financial interchange provisions, reimbursement for military wage credits cost, 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 1961 level earnings assumption, equivalent 3.25 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
1960	10,866	10,677	203	−318	516	20,324
1961	11,285	11,862	239	−332	549	19,725
			Low-cost estimate			
1970	$22,432	$17,016	$271	−$281	$1,531	$50,515
1980	26,607	22,974	336	−95	3,686	117,622
1990	31,339	28,613	398	60	5,951	193,109
2000	37,170	31,092	441	110	9,581	310,372
2025	49,870	47,398	630	110	29,507	943,145
			High-cost estimate			
1970	$21,829	$17,652	$339	−$339	$1,161	$39,052
1980	24,921	24,454	419	−165	2,336	74,468
1990	27,890	31,752	501	−20	2,298	73,998
2000	31,116	36,209	556	30	1,176	38,157
2025	35,255	53,416	734	30	[5]	[5]
			Intermediate-cost estimate			
1970	$22,131	$17,333	$305	−$310	$1,346	$44,784
1980	25,764	23,713	378	−130	3,012	96,051
1990	29,615	30,182	450	20	4,125	133,555
2000	34,143	33,649	498	70	5,379	174,275
2025	42,563	50,408	682	70	10,249	326,401

[1] An interest rate of 3.25 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, when averaged over a long period of time.

[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, and $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 2008.

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 1961 level earnings assumptions, equivalent 3.25 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	912	457	50	41	1,825
1960	1,015	568	36	53	2,289
1961	1,033	887	64	66	2,437
	Low-cost estimate				
1970	$1,279	$1,505	$81	$40	$1,345
1980	1,519	1,692	81	(3)	(3)
1990	1,788	1,857	83	(3)	(3)
2000	2,121	2,235	92	(3)	(3)
2025	2,850	3,410	134	(3)	(3)
	High-cost estimate				
1970	$1,245	$1,709	$92	(4)	(4)
1980	1,424	1,940	92	(4)	(4)
1990	1,592	2,120	93	(4)	(4)
2000	1,776	2,497	98	(4)	(4)
2025	2,015	3,118	119	(4)	(4)
	Intermediate-cost estimate				
1970	$1,262	$1,607	$86	$9	$311
1980	1,472	1,816	87	(5)	(5)
1990	1,690	1,989	88	(5)	(5)
2000	1,949	2,366	95	(5)	(5)
2025	2,433	3,264	127	(5)	(5)

1 An interest rate of 3.25 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, when averaged over a long period of time.

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 1975.

4 Fund exhausted in 1969.

5 Fund exhausted in 1971.

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.

For old-age and survivors insurance, annual benefit payments as a percentage of payroll are less than or close to the scheduled tax rates in the early future years, but they eventually rise well above the ultimate rate of 8¾ percent. For disability insurance the benefit payments are higher than the present level tax rate of one-half percent for every future year. 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 would indicate that an increase in the tax rate is needed to make the system self-supporting. However, considering the variability of long-range cost estimates and certain elements of conservatism believed to be present in the estimates, small negative figures are not considered significant. The long-range balance of the system is shown by the following level-premium equivalent costs and contributions, in percentages of payroll, which are computed as of the beginning of calendar year 1962, at 3.25 percent interest (the estimated long-range 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):

[In percent]

Item	Low cost	High cost	Intermediate cost
	Old-age and survivors insurance		
Contributions [1]	8.54	8.50	8.52
Benefit cost [2]	7.71	9.89	8.69
Net difference	.83	−1.39	−.17
	Disability insurance		
Contributions [1]	0.50	0.50	0.50
Benefit cost [2]	.57	.72	.64
Net difference	−.07	−.22	−.14

[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, (*d*) for the railroad retirement financial interchange provisions, and (*e*) for reimbursement of military wage credits cost.

The lack of actuarial balance of the old-age and survivors program (0.17 percent on the intermediate-cost basis) is within the acceptable limit of variation of 0.25 percent of taxable payroll. The disability insurance program has a lack of actuarial balance of 0.14 percent of payroll which is well above the acceptable limit of variation of 0.05 percent.

If the cost estimates had been based on a higher interest rate than 3.25 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 3⅞ percent in 1962), the lack of actuarial balance would have been considerably less than 0.31 percent of payroll. In fact, if an interest rate of 3¾ percent had been assumed, the combined actuarial deficit of both programs would have been virtually eliminated.

If the experience exactly follows the assumptions, future computations would show a gradual increase in the actuarial lack of balance under the intermediate-cost estimate for both the old-age and survivors insurance system and the disability insurance system. The reason for this is that interest accumulations increase any surplus in the system, but declines in interest income increase any deficit. In the case of a surplus, the excess contributions actually earn interest, while a deficit grows because of the absence of the annual interest that would have been earned if the proper contributions had been paid. It is estimated that because of this effect the present deficiency of 0.31 percent would increase to 0.36 percent by the year 1970. 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 1961. 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 timelag, the "net" level-premium cost would not rise as much, or might not increase at all. 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 statutory 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

The 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.) 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 do not take into account changes in such economic factors as general business conditions and earnings levels.

In the 21st Trustees Report, for the first time, such medium-range estimates were presented for the system as it was following the 1960 amendments. The estimates covered the period through 1975.[1] The 22d Trustees Report contained similar figures for the program as it was following the 1961 amendments.

A detailed statement of the economic assumptions underlying the medium-range cost estimates to 1975 has been published.[2] Briefly, the assumptions through 1965 were those developed in connection with the short-range projections. After 1965, it was assumed that there would be an annual increase of 3 percent in the total earnings of each covered worker. 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 this proportion will probably drop to slightly less than 60 percent by 1975 if the earnings base remains unchanged and the general earnings level rises.

The medium-range estimates, like the short-range and long-range estimates, assume no future changes in the law. However, over the period covered by the estimates, many changes will undoubtedly be made. In particular, if earnings levels rise, changes will amost certainly be made in benefit levels. The extent and timing of whatever changes are made in the law are, of course, unpredictable.

Both the medium-range and long-range cost estimates consider trends in the labor force participation rates (including increases in these rates among women and changes in these rates among persons aged 65 and over). The medium-range estimates 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 period after 1965. The estimates, however, do not show the effect of differing fluctuations in labor force participation rates that occur during successive business cycles.

New medium-range cost estimates comparable with the revised short-range and long-range cost estimates have not been prepared for inclusion in this report. Nonetheless, the same general observations can be reached as in the previous reports. If earnings levels rise steadily and, at the same time, the statutory provisions of the system are not changed, then as compared with estimates based on level-earnings assumptions, both contribution income and benefit disburse-

[1] For more details on these medium-range cost estimates, see "Actuarial Study No. 53," Social Security Administration, August 1961.

[2] See "Economic Assumptions Underlying the Medium-Range Projections of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, 1966–75," by Moses Lukaczer, Division of Program Research, Social Security Administration, August 1961.

ments will be higher, but the former will have a much larger increase than the latter. Accordingly, the balance in the trust fund will grow significantly more under the rising-earnings assumption, as used in the medium-range cost estimates, than under the level-earnings assumption, as used in the long-range cost estimates. It is intended that future reports will carry specific medium-range cost estimates.

CONCLUSION

Total assets of the old-age and survivors insurance trust fund decreased $1.3 billion during fiscal year 1962. A decrease of about this magnitude had been anticipated in the previous report. Over the 5 years 1963-67 the trust fund is expected to increase, although during the early part of this period the rise will not be very rapid.

Total assets of the disability insurance trust fund increased by only $2 million during fiscal year 1962, or by 0.1 percent. The estimated increase shown in the previous report was $40 million, or about 1.6 percent. Short-range future estimates for this trust fund indicate that its assets will decline slowly, but steadily (although at an increasing rate), over the next 5 years—as contrasted with the previous report which indicated that they would remain about level.

Relatively large margins and possible variations are inherent in long-range actuarial cost estimates. Such estimates are, therefore, the subject of continuing study and appraisal. Considering the old-age and survivors insurance and the disability insurance portions of the program together, the new cost estimates made recently show that the actuarial balance is substantially the same as it was before the new estimates were prepared so that the system as a whole remains in close actuarial balance. The balances of each of the two portions of the program, however, are differently affected. The balance of the old-age and survivors insurance program is shown to have improved somewhat—by 0.07 percent of taxable payroll on a level-cost basis—but the balance of the disability insurance program is shown to have deteriorated somewhat—by 0.08 percent of taxable payroll. As to the latter, the previous lack of actuarial balance was 0.06 percent of taxable payroll (or 12 percent relatively); the current estimates show a lack of balance of 0.14 percent of taxable payroll (or 28 percent relatively).

An adjustment of the allocation of the total contribution rate between the two portions of the program would thus not affect the over-all actuarial balance, but it would make for a more reasonable subdivision between them.

Accordingly, the Board of Trustees recommends that in 1966, when the combined employer-employee contribution rate increases by 1 percent (with a corresponding increase in the rate for the self-employed), the allocation to the disability insurance trust fund shall be changed from the present basis. It is recommended that a small portion of the increase of 1 percent be allocated to the disability insurance trust fund and the remainder to the old-age and survivors insurance trust fund. It is not necessary at this time to recommend the exact amount of the allocation to the disability insurance trust fund, which will undoubtedly be relatively small, since this can better be done after study of the developing experience in the next 2 years. On the basis of the present long-range cost estimates, it could then be said that not only the program as a whole, but also each of the two subdivisions, would be in close actuarial balance. It may be noted that under conditions of actuarial balance, 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 benefit payments and administrative expenses indefinitely into the long-range future.

Under section 217(g) of the Social Security Act, as amended, the trust funds are to be reimbursed from general revenues for the additional costs that were incurred after August 1950 with respect to benefits based on credits for military service performed at some time during the period from September 16, 1940, through December 31, 1956 (for which no contributions were paid). No reimbursements, however, have been made to date for these costs. The Board of Trustees, therefore, strongly recommends enactment of the first appropriation request of $63.4 million, contained in the 1964 Budget of the United States, as submitted to Congress in January 1963.

APPENDIXES

Appendix I. Assumptions, Methodology, and Details of Long-Range Cost Estimates

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

POPULATION

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

In the projections for both cost estimates it is assumed that mortality rates will decline until the year 2000. In the high-cost estimate, mortality rates for the year 2000 are about 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 85 percent of the cost of the system. Complete details about the population projections are given in Actuarial Study No. 46, Social Security Administration.

[1] For more details as to the procedures followed in making the long-range cost estimates, see Actuarial Study No. 49, Social Security Administration, May 1959, which deals with the 1956 act but also indicates the modified procedures that were used in connection with estimates for the 1958 and 1960 acts.

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

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. Estimated percentages for 1960 were projected to decrease in the younger ages for males to allow for a greater utilization of schools. For males 25 and over, the proportions were assumed to increase very slightly except for the older ages where they were assumed constant. An increase was assumed for females except for the very young and very old ages. These increases are higher in the middle ages and are a continuation of trends in the past. Assumptions were also made about the percentage of covered workers in each age group who have 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 18 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 1961 level were assumed for each sex. It was also assumed that within each sex group the earnings level would not rise on account of changes in the distribution of covered workers by occupation or industry.

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

It is likely, however, that if average earnings increase, the benefit formula and the earnings base used for contributions will be modified 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 93 percent in the low-cost estimate and 96 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 62 percent in the low-cost estimate and 68 percent in the high-cost estimate. The liberalized requirements for attaining fully insured status which were provided by the 1960 and 1961 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 temporary in nature.

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

AGED BENEFICIARIES

Old-age beneficiaries are estimated from the aged insured population. The proportions, by age and sex, of the insured population that were receiving benefits at the beginning of 1961 were adjusted for the effect of the 1960 and 1961 amendments to the retirement test and to the insured status requirements. These proportions were projected to increase slightly, following the trends in the past.

Wives aged 62 and over of male old-age beneficiaries are estimated by using census data and mortality projections. These potential wife beneficiaries, after adjustment for eligibility to benefits on their own account, are assumed to claim benefits as soon as they are eligible.

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

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

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

Appendix table 1 shows the estimated numbers of aged beneficiaries. By the year 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 I.—*Estimated monthly retirement beneficiaries in current-payment status,*[1] *1970–2050*

[In thousands]

Calendar year	Old-age beneficiaries: Male	Old-age beneficiaries: Female	Wives of old-age beneficiaries [2]	Aged widows [3]	Dependent parents	Total
	Actual data for end of year					
1950	1,469	302	502	306	14	2,593
1951	1,819	459	634	370	19	3,302
1952	2,052	592	724	434	21	3,823
1953	2,438	784	865	511	22	4,621
1954	2,803	972	983	596	24	5,378
1955	3,252	1,222	1,144	701	25	6,344
1956	3,572	1,540	1,376	913	27	7,428
1957	4,198	1,999	1,779	1,095	29	9,101
1958	4,617	2,303	1,979	1,233	30	10,162
1959	4,937	2,589	2,123	1,394	35	11,077
1960	5,217	2,845	2,236	1,544	36	11,877
1961	5,765	3,160	2,368	1,697	37	13,027
	Low-cost estimate					
1970	6,948	4,557	2,638	2,677	32	16,852
1980	8,580	6,298	3,090	3,686	32	21,686
2000	10,517	9,057	3,087	4,589	25	27,275
2050	23,651	23,392	5,296	8,291	44	60,674
	High-cost estimate					
1970	7,477	5,253	2,886	2,453	32	18,101
1980	9,933	7,650	3,642	3,153	32	24,410
2000	14,323	11,754	4,166	4,158	22	34,423
2050	25,011	22,883	4,900	5,173	30	57,997

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

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

[3] Including dependent widowers.

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 distributions of age of 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 prevalence rates (by age and sex) to the population insured for disability benefits. Prevalence rates may be defined as the proportions of the relevant population (population insured for disability in this case) that has a specific characteristic (receiving disability benefits in this case).

The prevalence rates in current use were developed from disability incidence rates based on the so-called 165 percent modification of class 3 rates (which includes increasingly higher percentages for ages above 45). This 165-percent modification corresponds roughly to life insurance company experience during the early 1930's. These rates were reduced by 10 percent to account for the fact that unlike the general definition in insurance company policies, disability is not presumed to be total and of expected long-continued duration after 6 months' duration. Rather, permanence must be proved at the time.

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

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

The prevalence rates resulting from the above incidence and termination rates are adjusted to reflect current operating experience and then used to calculate the numbers of beneficiaries in the future. These prevalence rates are thus based on the incidence and termination rates originally assumed, as corrected to reflect the latest available experience. The modified methodology followed allows a prompt reflection, in the estimated cost, of any changes in the program's experience.

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

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

APPENDIX TABLE 2.—*Estimated monthly beneficiaries under minimum retirement age in current-payment status* [1] *and number of deaths resulting in lump-sum death payments, 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 cases
	Actual data for end of year						
1950	700	169				869	200
1951	846	204				1,050	414
1952	939	229				1,168	438
1953	1,053	254				1,307	512
1954	1,161	272				1,432	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	[5] 657
1959	1,754	376	334	48	78	2,590	[6] 822
1960	1,845	401	455	77	155	2,934	779
1961	1,989	428	618	118	291	3,444	813
	Low-cost estimate						
1970	2,406	527	966	189	540	4,628	1,066
1980	2,793	602	1,058	205	584	5,242	1,342
2000	3,505	772	1,370	255	671	6,573	1,799
2050	4,551	844	2,690	402	838	9,325	3,912
	High-cost estimate						
1970	2,078	431	1,166	216	584	4,475	1,061
1980	2,169	402	1,281	223	530	4,605	1,322
2000	2,374	401	1,636	256	556	5,223	1,833
2050	3,023	393	2,205	302	616	6,539	3,215

[1] See footnote 1 of appendix table 1 for definition of minimum retirement age. Does not include wives under age 62 of old-age beneficiaries; includes disability beneficiaries aged 62 to 64, and spouses aged 62 and over of disability beneficiaries. For actual data, as of December (except for 1958—November); for estimated future data, as of middle of year. Excluding effect of railroad financial interchange provisions.
[2] Children of retired and deceased workers.
[3] Spouses of disabled workers, including some such spouses aged 62 and over.
[4] Children of disabled workers.
[5] January through November 1958.
[6] December 1958 through December 1959.

AVERAGE BENEFITS AND TOTAL BENEFIT PAYMENTS

Average benefits in the various benefit categories were interpolated between the sizes of current benefit awards, estimated from recent claims data, and the sizes of ultimate benefits computed. The latter were determined as though the 1961 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 in dollar amounts, shown in tables B and C, 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 14, 17, 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.

ADMINISTRATIVE EXPENSES

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

RAILROAD RETIREMENT FINANCIAL INTERCHANGE

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

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

INTEREST RATES

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

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

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 3.25 percent for the level-premium calculations (as against 3.02 percent formerly). This rate is the overall equivalent of the varying interest rates, developed on a 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.

Appendix II. Legislative History Affecting the Trust Funds [1]

BOARD OF TRUSTEES

From January 1, 1940, when the Federal old-age and survivors insurance trust fund was established, through July 15, 1946, the three members of the Board of Trustees, who served in an ex officio capacity, were the Secretary of the Treasury, the Secretary of Labor, and the Chairman of the Social Security Board. On July 16, 1946, under 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

[1] Amendments to the Social Security Act and to related sections of the Internal Revenue Code were made during the period 1939–59. The more important changes made in 1950–58 that are significant from an actuarial standpoint are described in app. II of the 21st Annual Report of the Board of Trustees. The more important changes contained in the 1960 and 1961 amendments are described in the main body of the present report.

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, except that beginning in 1962 the resulting rates for the self-employed are rounded to the nearest tenth of 1 percent. The tax rates that have been in effect since 1937 and the maximum amount of annual earnings to which the rates applied are shown in the following table:

Calendar years	Maximum taxable amount of annual earnings	Percent of taxable earnings	
		Employees and employers, each	Self-employed
1937–49	$3,000	1	
1950	3,000	1½	
1951–53	3,600	1½	2¼
1954	3,600	2	3
1955–56	4,200	2	3
1957–58	4,200	2¼	3⅜
1959	4,800	2½	3¾
1960–61	4,800	3	4½
1962	4,800	3⅛	4.7

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. In addition, these amendments authorized that the old-age and survivors insurance trust fund and, where appropriate, the disability insurance trust fund be reimbursed from general revenues for expenditures after August 1950 resulting from the provisions that granted noncontributory $160 monthly wage credits to persons who served in the Armed Forces from September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946.

COORDINATION OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE AND RAILROAD RETIREMENT PROGRAM

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

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

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

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

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

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

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

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 to which the report is made.

(d) It shall be the duty of the Managing Trustee to invest such portion of the Trust Funds as is not, in his judgment, required to meet current withdrawals. Such investments may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purposes such obligations may be acquired (1) on original issue at 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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