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THE 25TH 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 25TH 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 3, 1965.—Referred to the Committee on Ways and Means and ordered to be printed

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE FEDERAL
OLD-AGE AND SURVIVORS INSURANCE AND
DISABILITY INSURANCE TRUST FUNDS,
Washington, D.C., February 26, 1965.

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

SIR: We have the honor to transmit to you the 25th 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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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

During fiscal year 1964, both the income and the outgo of the old-age and survivors insurance trust fund and of the disability insurance trust fund were again higher than in any previous year. The number of workers with taxable earnings under the program continued to increase, reaching an estimated 76 million in calendar year 1963. The total number of monthly beneficiaries increased to 19.5 million by the end of June 1964.

Total receipts of the old-age and survivors insurance trust fund in fiscal year 1964 amounted to $16,044 million, or about 16 percent more than in fiscal year 1963. Total disbursements of $15,285 million were about 5 percent greater than the disbursements made in the preceding year. The excess of total income over total outgo, amounting to $760 million, increased the total assets of the old-age and survivors insurance trust fund from $18,939 million on June 30, 1963, to $19,699 million on June 30, 1964. Disbursements consisted of $14,579 million for benefit payments, $303 million for administrative expenses, and $403 million transferred to the railroad retirement account under the financial interchange provisions. The total number of monthly beneficiaries at the end of the fiscal year was 17,954,000, or about 4 percent more than at the beginning of the year. Retirement beneficiaries numbered 13,502,000 and survivor beneficiaries numbered 4,452,000.

The income of the old-age and survivors insurance trust fund in fiscal year 1964 consisted of $15,503 million in tax contributions and $542 million in interest. The 16-percent increase in contribution income was due in part to increases in contribution rates which became effective on January 1, 1963, and were applicable to all of fiscal year 1964. Estimates for the 5 fiscal years 1965–69 show that although both receipts and disbursements will increase steadily, the receipts will rise more rapidly, due to the scheduled rise in contribution rates in the law. Consequently, at the end of fiscal year 1969, this trust fund will amount to an estimated $31.5 billion, or an increase of $11.8 billion in the 5-year period. Receipts during fiscal year 1969 are estimated to total $24 billion, and disbursements, $19.1 billion.

Medium-range estimates, based on the assumption that economic activity will continue to expand throughout the period 1965–80, show continued increases in receipts, disbursements, and assets of the old-age and survivors insurance trust fund. According to these estimates, if the provisions of present law are assumed to remain unchanged, the assets of the trust fund will rise rapidly, reaching a total of $129 billion at the end of calendar year 1980. On the other hand, if the maximum taxable earnings base and the benefit provisions of present law are assumed to be amended periodically so as to keep the program in line with changes in levels of average earnings, the assets of the trust fund will rise less rapidly, reaching a total of $89 billion by 1980.

Long-range cost estimates for the old-age and survivors insurance program indicate that the program is in close actuarial balance. The level-cost of benefit payments and administrative expenses combined, estimated over a period of 75 years, as the Advisory Council on Social Security recommended, ranges from 7.40 to 9.82 percent of taxable payroll. The intermediate cost is 8.46 percent of taxable payroll, as compared with the level equivalent of the graded schedule of contributions of 8.60 percent of taxable payroll. There is thus a favorable actuarial balance of 0.14 percent of taxable payroll.

For the disability insurance trust fund, total receipts in fiscal year 1964 amounted to $1,208 million, or about 6 percent higher than in fiscal year 1963. Total disbursements, amounting to $1,338 million, were also about 6 percent greater than in the previous year. Since disbursements exceeded receipts by $130 million, total assets of this trust fund decreased from $2,394 million at the beginning of fiscal year 1964, to $2,264 million at the end of the year.

Total receipts of the disability insurance trust fund were composed of $1,143 million in net contributions and $65 million in net interest. Of the total disbursements, $1,251 million was paid out in benefits, $19 million was transferred to the railroad retirement account, and $68 million was spent for administrative expenses.

By the end of fiscal year 1964, the number of disabled workers and their dependents receiving monthly benefits from the disability insurance trust fund had risen to 1,516,000, or 10 percent more than at the beginning of the year.

According to estimates for the 5 fiscal years 1965–69, income of the disability insurance trust fund will rise very slowly, since the scheduled contribution rate remains level; disbursements, on the other hand, will rise more rapidly. Outgo is expected to exceed income in each year, and the trust fund is expected to decline. Estimates of the level long-range cost calculated over a period of 75 years range from 0.57 to 0.73 percent of taxable payroll. The intermediate cost is estimated at 0.63 percent of taxable payroll, as compared with the level contribution rate of 0.50 percent of taxable payroll. The Board of Trustees recommends that additional financing be made available to this fund through a small allocation of future contribution income to the disability insurance trust fund.

The Advisory Council on Social Security, appointed by the Secretary of Health, Education, and Welfare in June 1963, submitted its report on January 1, 1965. In accordance with the law providing for its appointment, the Council's findings, recommendations, and conclusions are included in this report as appendix V.

SOCIAL SECURITY AMENDMENTS IN 1964

Public Law 88–650, approved October 13, 1964, amended the Social Security Act and related provisions of the Internal Revenue Code. The amendments made one change that is significant from a short-range cost standpoint, as well as several minor changes, in the old-age survivors, and disability insurance program.

Years of no earnings during an established "period of disability" are excluded in determining whether a worker is insured or in computing his benefit amount. For a worker to receive the full benefit of this provision, his established period of disability must include all of the period of total disablement. Under prior law, if a worker with a longstanding disability filed application after June 30, 1962, the starting date of his period of disability could not be earlier than 18 months before the day that the application was filed. Thus, it was possible that the disabled worker may have met the disability insured status requirement at some time, but not within the 18-month period before the date of filing. In another type of situation, the disabled worker could have met the disability insured status requirement within the 18-month period before the date of filing but, because of the limitation on the starting date of his period of disability, an earlier date for the beginning of a period of disability could not be used, with the result that inclusion of these years produced lower benefit amounts.

Public Law 88–650 removed this limitation with respect to the date of filing application so that a period of disability may now begin as early as actual disablement. Some persons who filed applications for benefits after June 30, 1962, will have eligibility for benefits restored; some who are now beneficiaries will receive larger benefits. The effect of this amendment on benefit amounts is retroactive only through November 1963. In addition, some people now applying or who will apply in the future will also be benefited.

From an actuarial standpoint this change has some significant effect on benefit disbursements in the short-range future. In the long run, however, the effect of this provision is expected to be negligible. Accordingly, this change is estimated to have no effect on the long-range level-cost, and hence on the actuarial status, of the program.

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 work 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 rates in effect for calendar years 1963–65 are 3⅝ percent each for employees and their employers and 5.4 percent for the self-employed. 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
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 Social Security Administration has accumulated a unique body of information in the course of the administration of the program. Situations arise when it is in the public interest to use this information to perform certain services, such as the preparation of statistical tabulations for research purposes, when such services can be performed without interfering unduly with the administration of the program. Such services could not properly be provided at the expense of the trust funds. Receipts derived from performance of these services are credited to and form a part of the trust funds.

Public Law 719, approved August 10, 1946, provided noncontributory survivor protection to certain veterans of World War II. The legislation provided, and 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 prioı 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 Social Security Administration.

The managing trustee invests that portion of each trust fund which, in his judgment, is not required to meet current expenditures for benefits and administration. The Social Security Act restricts permissible investments of the trust funds to interest-bearing obligations of the U.S. Government or to obligations guaranteed as to both principal and interest by the United States. Obligations of these types may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price. In addition, the Social Security Act authorizes the issuance of 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 20 and 21.

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 1964

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, 1963, and ended on June 30, 1964, 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 $18,939 million on June 30, 1963. These assets increased to $19,699 million by the end of the fiscal year 1964, an increase of $760 million.

TABLE 1.—*Statement of operations of the old-age and survivors insurance trust fund during the fiscal year 1964*

Total assets of the trust fund, June 30, 1963			$18, 939, 083, 297. 39
Receipts, fiscal year 1964:			
Tax contributions:			
Appropriations	$14, 488, 596, 928. 47		
Deposits arising from State agreements	1, 166, 599, 194. 16		
Gross tax contributions	15, 655, 196, 122. 63		
Less payment into the Treasury for taxes subject to refund	152, 470, 000. 00		
Net tax contributions		$15, 502, 726, 122. 63	
Interest:			
On investments	539, 044, 380. 18		
On administrative expenses reimbursed by disability insurance trust fund	2, 507, 908. 00		
Total interest		541, 552, 288. 18	
Total receipts		16, 044, 278, 410. 81	
Disbursements, fiscal year 1964:			
Benefit payments		14, 579, 166, 049. 52	
Transfers to railroad retirement account		402, 636, 000. 00	
Administrative expenses:			
Department of Health, Education, and Welfare	$315, 021, 991. 63		
Treasury Department	49, 073, 954. 76		
Preparation and construction of building for Social Security Administration	2, 558, 352. 02		
Gross administrative expenses	366, 654, 298. 41		
Less receipts from sale of surplus materials, supplies, etc	95, 711. 23		
Less reimbursement for administrative expenses by disability insurance trust fund	63, 317, 971. 00		
Less reimbursement for construction by disability insurance trust fund	531, 745. 00		
Net administrative expenses		302, 708, 871. 18	
Total disbursements		15, 284, 510, 920. 70	
Net addition to the trust fund			759, 767, 490. 11
Total assets of the trust fund, June 30, 1964			19, 698, 850, 787. 50

Net receipts of the trust fund during the fiscal year 1964 amounted to $16,044 million. Of this total, $14,489 million represented tax collections appropriated to the fund and $1,167 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, $152 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 $4,800, the statutory maximum. Net contributions amounted to $15,503 million, representing an increase of 16 percent over the amount for the preceding fiscal year. This increase resulted chiefly from the increase in the combined employer-employee contribution rate for old-age and survivors insurance benefits from 5¾ to 6¾ percent, effective January 1, 1963. Although this increase in the contribution rate became effective in 1963, fiscal year 1964 was the first full year during which it was operative. The remaining $542 million of receipts consisted of interest on the investments of the fund and on amounts transferred from the disability insurance trust fund for reimbursement of administrative expenses.

Disbursements from the trust fund during the fiscal year 1964 totaled $15,285 million. Of this total, $14,579 million was for benefit payments, an increase of 5 percent over the corresponding amount paid in the fiscal year 1963. This increase was due principally to the growth in the number of beneficiaries, which is to be expected as the program gradually matures.

Public Law 234, approved October 30, 1951, amended the Railroad Retirement Act to provide a 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 $389,200,000 to the railroad retirement account from the old-age and survivors insurance trust fund would place this fund in the same position as of June 30, 1963, as it would have been if railroad employment had always been covered under the Social Security Act. This amount, together with interest thereon for fiscal year 1964 amounting to $13,436,000, was transferred to the railroad retirement account in June 1964.

The remaining $303 million of disbursements from the old-age and survivors insurance trust fund was for administrative expenses. Net administrative expenses charged to both the old-age and survivors insurance trust fund and the disability insurance trust fund totaled $370 million and represented 2.2 percent of contribution income and 2.3 percent of benefit payments during fiscal year 1964. The relationship of administrative expenses to contribution income and to benefit payments for each of the last 5 years is shown in table 2, for the system as a whole as well as for each trust fund separately.

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 1960–64*

Fiscal year	Total: Total administrative expenses as a percentage of—: Total contribution income	Total: Total administrative expenses as a percentage of—: Total benefit payments	Old-age and survivors insurance trust fund: Administrative expenses as a percentage of—: Contribution income	Old-age and survivors insurance trust fund: Administrative expenses as a percentage of—: Benefit payments	Disability insurance trust fund: Administrative expenses as a percentage of—: Contribution income	Disability insurance trust fund: Administrative expenses as a percentage of—: Benefit payments
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
1963	2.3	2.2	2.0	1.9	6.2	5.7
1964	2.2	2.3	2.0	2.1	5.9	5.4

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

In table 3, the experience with respect to actual amounts of tax contributions and benefit payments in, and trust fund assets at the end of, fiscal year 1964 is compared with the estimates for fiscal year 1964 which appeared in the 22d, 23d, and 24th Annual Reports of the Board of Trustees. No amendments significant from a cost standpoint were enacted during the period covered by these reports. On the whole, the estimates were quite close, relatively, to the actual experience.

TABLE 3.—*Comparison of actual and estimated operations of the old-age and survivors insurance and disability insurance trust funds, fiscal year 1964*

[Amounts in millions]

	Actual amount	Comparison of actual experience with estimates for fiscal year 1964 published in—: 24th report	23d report	22d report
	Old-age and survivors insurance trust fund			
Tax contributions:				
Amount	$15,503	$15,314	$14,984	$15,290
Estimate as percentage of actual		99	97	99
Benefit payments:				
Amount	$14,579	$14,629	$14,648	$14,157
Estimate as percentage of actual		100	100	97
Assets, end of year:				
Amount	$19,699	$19,426	$19,127	$20,993
Estimate as percentage of actual		99	97	107
	Disability insurance trust fund			
Tax contributions:				
Amount	$1,143	$1,131	$1,110	$1,137
Estimate as percentage of actual		99	97	99
Benefit payments:				
Amount	$1,251	$1,255	$1,231	$1,129
Estimate as percentage of actual		100	98	90
Assets, end of year:				
Amount	$2,264	$2,247	$2,259	$2,568
Estimate as percentage of actual		99	100	113

The distribution of benefit payments in fiscal years 1963 and 1964, by type of benefit, is shown in table 4. Approximately 87 percent of the total benefit payments from the old-age and survivors insurance trust fund in the fiscal year 1964 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 monthly benefits to mothers—practically all of them under age 62—who had children of deceased workers in their care. The balance of the benefits paid consisted of lump-sum death payments.

TABLE 4.—*Estimated distribution of benefit payments from the old-age and survivors insurance trust fund, by type of benefit, fiscal years 1963 and 1964*

[Amounts in millions]

Type of benefit	1963		1964	
	Amount	Percent of total	Amount	Percent of total
Total	$13,844.6	100	$14,579.2	100
Monthly benefits	13,649.3	99	14,364.6	99
Old age (retired workers)	9,139.2	66	9,632.9	66
Wife's or husband's (wives or dependent husbands of old-age beneficiaries)	1,241.6	9	1,269.3	9
Widow's or widower's (aged widows or aged dependent widowers of deceased workers)	1,544.5	11	1,681.6	12
Parent's (aged dependent parents of deceased workers)	33.8	(1)	33.5	(1)
Child's (children, under age 18 or disabled, of old-age beneficiaries)	143.1	1	148.3	1
Child's (children, under age 18 or disabled, of deceased workers)	1,202.4	9	1,248.0	9
Mother's (widows or dependent divorced wives of deceased workers caring for child beneficiaries)	344.6	2	351.1	2
Lump-sum death payments	195.3	1	214.6	1

1 Less than 0.5 percent.

On June 30, 1964, about 19.5 million persons in some 14.4 million families were receiving monthly benefits under the old-age, survivors, and disability insurance program (table 5). Generally, average monthly family benefits on that date showed moderate increases over the corresponding averages a year earlier. The higher averages reflected in part the greater proportion of benefits computed on the basis of earnings after 1950.

The assets of the old-age and survivors insurance trust fund at the end of fiscal year 1964 totaled $19,699 million, consisting of $18,305 million in the form of obligations of the U.S. Government, and $1,394 million in undisbursed balances. Table 6 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1963 and 1964.

TABLE 5.—*Estimated number of families and beneficiaries receiving benefits under the old-age, survivors, and disability insurance program, and average family amount, by family group, end of fiscal years 1963 and 1964*

[Numbers in thousands]

Family classification of beneficiaries receiving benefits	June 30, 1963			June 30, 1964		
	Number of families	Number of beneficiaries	Average monthly amount per family	Number of families	Number of beneficiaries	Average monthly amount per family
Total	13,752.2	18,608.3		14,434.9	19,470.3	
Retired-worker families	10,037.4	13,014.8		10,481.8	13,501.6	
Worker only	7,398.7	7,398.7	$73.00	7,807.6	7,807.6	$73.60
Male	3,793.0	3,793.0	82.40	3,946.7	3,946.7	83.10
Female	3,605.7	3,605.7	63.10	3,860.9	3,860.9	63.90
Worker and wife (aged 62 and over [1])	2,351.0	4,702.0	128.80	2,380.3	4,760.6	130.10
Worker and wife (under age 65 [2]) [3]	1.4	2.8	111.00	1.6	3.2	111.00
Worker and aged dependent husband	13.1	26.2	109.30	12.4	24.8	111.10
Worker and 1 or more children	75.6	172.3	119.80	78.8	178.7	121.90
Worker, wife (aged 62 and over [1]), and 1 or more children	28.2	87.0	159.20	30.1	92.9	161.40
Worker, wife (under age 65 [2]), and 1 or more children	169.2	625.4	149.20	170.8	633.5	150.00
Worker, husband, and 1 or more children	.1	.3	111.80	.1	.2	112.40
Survivor families	2,924.4	4,211.1		3,091.2	4,452.5	
Aged widow only	1,914.4	1,914.4	66.40	2,058.1	2,058.1	67.40
Aged widow and 1 or more children	22.5	46.2	124.90	25.2	51.9	126.00
Aged widow and 1 aged dependent parent	.4	.8	166.00	.5	1.0	165.70
Aged widow, 1 or more children, and 1 aged dependent parent	(4)	.1	240.00	(4)	.1	245.00
Aged dependent widower	2.5	2.5	62.70	2.6	2.6	63.50
Widower and 1 or more children	.1	.2	114.10	.1	.2	115.90
Widowed mother only [3]	2.1	2.1	61.40	2.0	2.0	61.60
Widowed mother and 1 child	190.6	381.2	138.30	191.0	382.0	140.00
Widowed mother and 2 children	129.6	388.8	191.50	133.0	399.0	193.90
Widowed mother and 3 or more children	133.5	645.7	188.30	140.3	685.5	192.70
Widowed mother, 1 or more children, and 1 aged dependent parent	.4	1.3	207.80	.5	1.7	203.30
Divorced wife and 1 or more children	.4	1.2	178.00	.5	1.3	175.10
1 child only	312.0	312.0	62.70	309.3	309.3	64.20
2 children	109.5	219.0	128.00	114.0	228.0	130.60
3 children	44.3	132.9	169.50	47.7	143.1	174.30
4 or more children	27.2	125.6	168.10	31.9	149.6	168.60
1 or more children and 1 aged dependent parent	.7	1.7	155.00	.8	2.2	165.30
1 aged dependent parent	32.9	32.9	69.50	32.5	32.5	70.30
2 aged dependent parents	1.3	2.6	110.60	1.2	2.4	112.80
Disabled-worker families	790.4	1,382.3		861.9	1,516.2	
Worker only	573.5	573.5	88.30	623.7	623.7	88.90
Male	401.7	401.7	92.50	430.5	430.5	93.30
Female	171.8	171.8	78.50	193.2	193.2	79.10
Worker and wife (aged 62 and over [1])	26.1	52.1	137.60	27.2	54.5	138.50
Worker and wife (under age 65 [2]) [3]	.5	1.0	142.00	.6	1.1	142.50
Worker and aged dependent husband	.4	.8	122.00	.5	1.0	122.00
Worker and 1 or more children	56.8	154.0	156.50	63.4	171.6	156.00
Worker, wife (aged 62 and over [1]), and 1 or more children	.4	1.2	173.00	.4	1.3	174.00
Worker, wife (under age 65 [2]), and 1 or more children	132.8	599.7	192.60	146.1	663.0	193.60

[1] Excludes wife aged 62 to 64 with entitled children in her care.
[2] With entitled children in her care.
[3] Benefits of children being withheld.
[4] Less than 50.

TABLE 6.—*Assets of the old-age and survivors insurance trust fund, by type, at end of fiscal years 1963 and 1964*

	June 30, 1963		June 30, 1964	
	Par value	Book value [1]	Par value	Book value [1]
Investments in public debt obligations:				
Public issues:				
Treasury notes:				
4⅝ percent, series A, 1965	$38,500,000	$38,500,000.00	$6,352,000	$6,352,000.00
4⅞ percent, series C, 1963	15,000,000	15,000,000.00	----------	----------
5 percent, series B, 1964	25,000,000	25,000,000.00	4,125,000	4,125,000.00
Treasury bonds:				
2½ percent, 1964–69	55,180,000	51,351,528.36	55,180,000	51,968,134.80
2½ percent, 1967–72	250	250.00	250	250.00
2¾ percent, investment series B, 1975–80	1,064,902,000	1,065,407,533.32	1,064,902,000	1,065,288,584.28
3 percent, 1995	85,170,000	85,130,747.73	85,170,000	85,131,990.57
3¼ percent, 1978–83	60,200,000	59,021,227.52	60,200,000	59,080,412.72
3¼ percent, 1985	25,700,000	23,801,873.39	25,700,000	23,888,810.51
3½ percent, 1980	449,450,000	457,010,831.67	449,450,000	456,574,629.87
3½ percent, 1990	556,250,000	544,971,829.04	556,250,000	545,394,375.06
3½ percent, 1998	552,037,000	540,882,427.39	552,037,000	541,401,354.12
3⅝ percent, 1967	34,205,000	34,211,370.72	34,205,000	34,209,900.60
3¾ percent, 1966	27,729,000	27,745,426.95	27,729,000	27,739,629.15
3¾ percent, 1968	7,000,000	7,000,000.00	7,000,000	7,000,000.00
3⅞ percent, 1968	17,450,000	17,450,000.00	17,450,000	17,450,000.00
3⅞ percent, 1974	32,500,000	32,450,308.96	32,500,000	32,413,664.08
4 percent, 1969	77,500,000	77,470,479.41	77,500,000	77,475,202.73
4 percent, 1971	100,000,000	101,470,880.05	100,000,000	101,288,915.53
4 percent, 1973	----------	----------	38,000,000	37,671,643.30
4 percent, 1980	153,100,000	153,019,346.44	153,100,000	153,024,210.04
4⅛ percent, 1989–94	----------	----------	91,300,000	90,398,251.62
4¼ percent, 1975–85	25,000,000	25,000,000.00	78,023,000	77,585,848.55
4¼ percent, 1987–92	10,000,000	10,096,333.34	10,000,000	10,092,333.34
Total public issues	3,411,873,250	3,391,947,394.29	3,526,173,250	3,505,555,140.87
Accrued interest purchased	----------	91,270.64	----------	----------
Total investments in public issues	3,411,873,250	3,392,038,664.93	3,526,173,250	3,505,555,140.87
Obligations sold only to this fund (special issues):				
Notes: 4⅛ percent, 1966	----------	----------	597,887,000	597,887,000.00
Bonds:				
2½ percent, 1965	434,575,000	434,575,000.00	----------	----------
2½ percent, 1966	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	----------	----------
2⅝ percent, 1966	168,000,000	168,000,000.00	161,284,000	161,284,000.00
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
3⅞ percent, 1977	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
3⅞ percent, 1978	658,444,000	658,444,000.00	658,444,000	658,444,000.00
4⅛ percent, 1978	----------	----------	421,567,000	421,567,000.00
4⅛ percent, 1979	----------	----------	1,080,011,000	1,080,011,000.00
Total obligations sold only to this fund (special issues)	14,221,151,000	14,221,151,000.00	14,799,314,000	14,799,314,000.00
Total investments in public-debt obligations	17,633,024,250	17,613,189,664.93	18,325,487,250	18,304,869,140.87
Undisbursed balances	----------	1,325,893,632.46	----------	1,393,981,646.63
Total assets	----------	18,939,083,297.39	----------	19,698,850,787.50

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

The net increase in the par value of the investments owned by the fund during the fiscal year 1964 amounted to $692 million. New securities at a total par value of $18,215 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 $17,522 million. A summary of transactions for the fiscal year, by type of security, is presented in table 7.

The 1956 amendments provided that the public-debt obligations issued for purchase by the old-age and survivors insurance 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, 1964, were distributed in equal amounts of $1,080 million among maturities ranging from 3 to 15 years and in a smaller amount maturing at the end of the second year (table 6).

TABLE 7.—*Statement of transactions in public-debt securities for the old-age and survivors insurance trust fund during the fiscal year 1964*

[All amounts represent par values]

	Acquisitions	Dispositions
Public issues:		
Treasury notes:		
4⅝-percent, series A, 1965	0	$32, 148, 000
4⅞-percent, series C, 1963	0	15, 000, 000
5-percent, series B, 1964	0	20, 875, 000
Treasury bonds:		
4-percent, 1973	$38, 000, 000	0
4⅛-percent, 1989–94	91, 300, 000	0
4¼-percent, 1975–85	53, 023, 000	0
Total, public issues	182, 323, 000	68, 023, 000
Obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
3⅞-percent, 1964	2, 721, 601, 000	2, 721, 601, 000
4-percent, 1964	2, 693, 059, 000	2, 693, 059, 000
4⅛-percent, 1964	9, 956, 055, 000	9, 956, 055, 000
4¼-percent, 1964	562, 107, 000	562, 107, 000
Notes: 4⅛-percent, 1966	597, 887, 000	0
Bonds:		
2½-percent, 1965	0	434, 575, 000
2½-percent, 1966	0	912, 011, 000
2⅝-percent, 1965	0	168, 000, 000
2⅝-percent, 1966	0	6, 716, 000
4⅛-percent, 1978	421, 567, 000	0
4⅛-percent, 1979	1, 080, 011, 000	0
Total, obligations sold only to this fund (special issues)	18, 032, 287, 000	17, 454, 124, 000
Total, transactions	18, 214, 610, 000	17, 522, 147, 000

SUMMARY OF THE OPERATIONS OF THE FEDERAL DISABILITY INSURANCE TRUST FUND, FISCAL YEAR 1964

A statement of the income and disbursements of the Federal disability insurance trust fund during fiscal year 1964 and of the assets of the fund at the beginning and end of the fiscal year is presented in table 8.

The total assets of the disability insurance trust fund amounted to $2,394 million on June 30, 1963. These assets decreased by $130 million during the fiscal year, to $2,264 million at the end of the year.

Net receipts of the fund amounted to $1,208 million. Of this total, $1,070 million represented tax collections appropriated to the fund, and $86 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. As an offset, $13 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of $4,800, the statutory maximum. An additional $65 million of receipts consisted of net interest on the investments of the fund.

TABLE 8.—*Statement of operations of the disability insurance trust fund during the fiscal year 1964*

Total assets of the trust fund, June 30, 1963			$2,393,711,841.78
Receipts, fiscal year 1964:			
Tax contributions:			
Appropriations	$1,070,185,734.61		
Deposits arising from State agreements	86,305,332.52		
Gross tax contributions	1,156,491,067.13		
Less payment into the Treasury for taxes subject to refund	13,330,000.00		
Net tax contributions		$1,143,161,067.13	
Interest:			
On investments	67,659,757.89		
Less interest on amounts transferred to old-age and survivors insurance trust fund for reimbursed administrative expenses	2,507,908.00		
Net interest		65,151,849.89	
Total receipts		1,208,312,917.02	
Disbursements, fiscal year 1964:			
Benefit payments		1,251,207,262.65	
Transfers to railroad retirement account		19,139,000.00	
Administrative expenses:			
Reimbursement to the old-age and survivors insurance trust fund:			
For administrative expenses of the Department of Health, Education, and Welfare	63,317,971.00		
For construction of building for Social Security Administration	531,745.00		
Treasury Department	3,841,295.67		
Total administrative expenses		67,691,011.67	
Total disbursements		1,338,037,274.32	
Net addition to the trust fund			−129,724,357.30
Total assets of the trust fund, June 30, 1964			2,263,987,484.48

Disbursements from the fund during the fiscal year 1964 totaled $1,338 million. Of this total, $1,251 million was for benefit payments, an increase of 7 percent over the corresponding amount paid in the fiscal year 1963. This increase was due chiefly to the increase in the number of disability insurance beneficiaries, which is to be expected as the program matures.

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, 1963, required that a transfer of $18,500,000 be made from the disability insurance trust fund to the railroad retirement account. This amount, together with interest thereon for fiscal year 1964 amounting to $639,000 was transferred to the railroad retirement account in June 1964. The remaining $68 million of disbursements was for administrative expenses.

At the end of fiscal year 1964, some 1,516,000 persons in 862,000 families were receiving monthly benefits from the disability insurance trust fund (table 5). The distribution of benefit payments in fiscal years 1963 and 1964, by type of benefit, is shown in table 9.

TABLE 9.—*Estimated distribution of benefit payments from the disability insurance trust fund, by type of benefit, fiscal years 1963 and 1964*

[Amounts in millions]

Type of benefit	1963		1964	
	Amount	Percent of total	Amount	Percent of total
Total	$1,170.7	100	$1,251.2	100
Disability (disabled workers)	936.7	80	997.7	80
Wife's or husband's (wives or dependent husbands of disability beneficiaries)	71.0	6	75.3	6
Child's (children, under age 18 or disabled, of disability beneficiaries)	162.9	14	178.2	14

The assets of this fund at the end of fiscal year 1964 totaled $2,264 million, consisting of $2,139 million in the form of obligations of the U.S. Government, and $125 million in undisbursed balances. Table 10 shows a comparison of the total assets of the fund and their distribution at the end of the fiscal years 1963 and 1964.

The net decrease in the par value of the investments owned by the fund during the fiscal year amounted to $137 million. New securities at a total par value of $1,495 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 exchange of securities. The par value of securities redeemed or exchanged during the year was $1,632 million. A summary of transactions for the fiscal year, by type of security, is presented in table 11.

As indicated in the preceding section of this report, the law provides that the special issues held by the trust funds shall have maturities fixed with due regard for the needs of the funds. On June 30, 1964, these holdings of the disability insurance trust fund were distributed in equal amounts of $154 million among maturities ranging from 4 to 14 years and in smaller amounts maturing at the end of the 3d and 15th years (table 10).

TABLE 10.—*Assets of the disability insurance trust fund, by type, at end of fiscal years 1963 and 1964*

	June 30, 1963		June 30, 1964	
	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 percent, series B, 1964	5,000,000	5,000,000.00	$825,000	$825,000.00
Treasury bonds:				
3½-percent, 1990	7,500,000	7,092,050.94	10,500,000	9,792,172.82
3½-percent, 1998	5,000,000	4,632,285.80	5,000,000	4,642,692.80
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	5,000,000	5,000,000.00
3⅞-percent, 1968	3,750,000	3,750,000.00	8,750,000	8,713,437.46
3⅞-percent, 1974	5,000,000	5,000,000.00	5,000,000	5,000,000.00
4-percent, 1969	26,000,000	25,987,119.58	36,000,000	35,973,543.92
4-percent, 1970			14,000,000	13,899,565.74
4-percent, 1972			4,000,000	3,960,548.52
4-percent, 1973			16,500,000	16,282,971.00
4-percent, 1980	30,250,000	30,236,169.77	30,250,000	30,237,003.65
4⅛-percent, 1989–94			68,400,000	67,406,344.44
4¼-percent, 1975–85	5,000,000	5,000,000.00	19,045,000	19,019,990.94
4¼-percent, 1987–92	5,000,000	5,048,166.66	5,000,000	5,046,166.66
Total public issues	112,500,000	111,745,792.75	238,270,000	235,799,437.95
Accrued interest purchased		30,939.20		54,615.38
Total investments in public issues	112,500,000	111,776,731.95	238,270,000	235,854,053.33
Obligations sold only to this fund (special issues):				
Certificates of indebtedness: 3⅞-percent, 1964	5,706,000	5,706,000.00		
Notes:				
2⅝-percent, 1965	32,394,000	32,394,000.00		
3¾-percent, 1964	8,913,000	8,913,000.00		
3¾-percent, 1965	20,738,000	20,738,000.00		
3¾-percent, 1966	20,738,000	20,738,000.00		
3¾-percent, 1967	1,349,000	1,349,000.00	1,349,000	1,349,000.00
Bonds:				
2½-percent, 1965	37,500,000	37,500,000.00		
2½-percent, 1966	37,500,000	37,500,000.00		
2½-percent, 1967	37,500,000	37,500,000.00		
2½-percent, 1968	30,000,000	30,000,000.00	30,000,000	30,000,000.00
2⅝-percent, 1965	63,000,000	63,000,000.00		
2⅝-percent, 1966	95,394,000	95,394,000.00		
2⅝-percent, 1967	95,394,000	95,394,000.00	58,792,000	58,792,000.00
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	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3¾-percent, 1969	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3¾-percent, 1970	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3¾-percent, 1971	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3¾-percent, 1972	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3¾-percent, 1973	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3¾-percent, 1974	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3¾-percent, 1975	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3¾-percent, 1976	153,632,000	153,632,000.00	153,632,000	153,632,000.00
3¾-percent, 1977	153,632,000	153,632,000.00	153,632,000	153,632,000.00
3⅞-percent, 1978	153,632,000	153,632,000.00	153,632,000	153,632,000.00
4⅛-percent, 1979			133,173,000	133,173,000.00
Total obligations sold only to this fund (special issues)	2,165,467,000	2,165,467,000.00	1,902,655,000	1,902,655,000.00
Total investments in public-debt obligations	2,277,967,000	2,277,243,731.95	2,140,925,000	2,138,509,053.33
Undisbursed balances		116,468,109.83		125,478,431.15
Total assets		2,393,711,841.78		2,263,987,484.48

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

TABLE 11.—*Statement of transactions in public-debt securities for the disability insurance trust fund during the fiscal year 1964*

[All amounts represent par values]

	Acquisitions	Dispositions
Public issues:		
Treasury notes:		
4⅞-percent, series C, 1963	0	$5,000,000
5-percent, series B, 1964	0	4,175,000
Treasury bonds:		
3½-percent, 1990	$3,000,000	0
3⅞-percent, 1968	5,000,000	0
4-percent, 1969	10,000,000	0
4-percent, 1970	14,000,000	0
4-percent, 1972	4,000,000	0
4-percent, 1973	16,500,000	0
4⅛-percent, 1989–94	68,400,000	0
4¼-percent, 1975–85	14,045,000	0
Total public issues	134,945,000	9,175,000
Obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
3⅞-percent, 1964	182,618,000	188,324,000
4-percent, 1964	263,775,000	263,775,000
4⅛-percent, 1964	735,221,000	735,221,000
4¼-percent, 1964	44,996,000	44,996,000
Notes:		
2⅝-percent, 1965	0	32,394,000
3¾-percent, 1964	0	8,913,000
3¾-percent, 1965	0	20,738,000
3¾-percent, 1966	0	20,738,000
Bonds:		
2½-percent, 1965	0	37,500,000
2½-percent, 1966	0	37,500,000
2½-percent, 1967	0	37,500,000
2⅝-percent, 1965	0	63,000,000
2⅝-percent, 1966	0	95,394,000
2⅝-percent, 1967	0	36,602,000
4⅛-percent, 1979	133,173,000	0
Total obligations sold only to this fund (special issues)	1,359,783,000	1,622,595,000
Total transactions	1,494,728,000	1,631,770,000

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING THE PERIOD JULY 1, 1964, TO DECEMBER 31, 1969

In the following statement of the expected operations and status of the trust funds during the period July 1, 1964, to December 31, 1969, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program remain unchanged throughout the period. The estimates shown in the various tables in this section reflect the effect of the 1964 amendments to the Social Security Act, as described in a previous section. The income and disbursements of the program, however, are affected by general economic conditions as well as by legislative provisions. Because it is difficult to foresee economic developments, the assumptions and the resulting estimates here presented are subject to some uncertainty. This statement of the expected operations of the trust funds should therefore be read with full recognition of the difficulties of estimating future trust fund income and disbursements under changing economic conditions.

Estimates are presented in table 12 to show the expected operations of the old-age and survivors insurance trust fund in fiscal years 1965–69. They are based on the assumption that economic activity will expand throughout the period, with employment and earnings increasing steadily through 1969. 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 77.3

TABLE 11.—*Statement of transactions in public-debt securities for the disability insurance trust fund during the fiscal year 1964*

[All amounts represent par values]

	Acquisitions	Dispositions
Public issues:		
Treasury notes:		
4⅞-percent, series C, 1963	0	$5,000,000
5-percent, series B, 1964	0	4,175,000
Treasury bonds:		
3½-percent, 1990	$3,000,000	0
3⅞-percent, 1968	5,000,000	0
4-percent, 1969	10,000,000	0
4-percent, 1970	14,000,000	0
4-percent, 1972	4,000,000	0
4-percent, 1973	16,500,000	0
4⅛-percent, 1989–94	68,400,000	0
4¼-percent, 1975–85	14,045,000	0
Total public issues	134,945,000	9,175,000
Obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
3⅞-percent, 1964	182,618,000	188,324,000
4-percent, 1964	263,775,000	263,775,000
4⅛-percent, 1964	735,221,000	735,221,000
4¼-percent, 1964	44,996,000	44,996,000
Notes:		
2⅝-percent, 1965	0	32,394,000
3¾-percent, 1964	0	8,913,000
3¾-percent, 1965	0	20,738,000
3¾-percent, 1966	0	20,738,000
Bonds:		
2½-percent, 1965	0	37,500,000
2½-percent, 1966	0	37,500,000
2½-percent, 1967	0	37,500,000
2⅝-percent, 1965	0	63,000,000
2⅝-percent, 1966	0	95,394,000
2⅝-percent, 1967	0	36,602,000
4⅛-percent, 1979	133,173,000	0
Total obligations sold only to this fund (special issues)	1,359,783,000	1,622,595,000
Total transactions	1,494,728,000	1,631,770,000

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING THE PERIOD JULY 1, 1964, TO DECEMBER 31, 1969

In the following statement of the expected operations and status of the trust funds during the period July 1, 1964, to December 31, 1969, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program remain unchanged throughout the period. The estimates shown in the various tables in this section reflect the effect of the 1964 amendments to the Social Security Act, as described in a previous section. The income and disbursements of the program, however, are affected by general economic conditions as well as by legislative provisions. Because it is difficult to foresee economic developments, the assumptions and the resulting estimates here presented are subject to some uncertainty. This statement of the expected operations of the trust funds should therefore be read with full recognition of the difficulties of estimating future trust fund income and disbursements under changing economic conditions.

Estimates are presented in table 12 to show the expected operations of the old-age and survivors insurance trust fund in fiscal years 1965–69. They are based on the assumption that economic activity will expand throughout the period, with employment and earnings increasing steadily through 1969. 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 77.3

million during calendar year 1964 to 84.9 million during calendar year 1969; their taxable earnings are estimated to increase from $236 billion in 1964 to $277 billion in 1969. The increase in estimated income from contributions in fiscal years 1965–69 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 1966 and 1968. Benefit disbursements increase because of the long-range upward trend in the number of beneficiaries under the program.

Income of the old-age and survivors insurance trust fund is expected to exceed outgo in each of the 5 fiscal years 1965–69. During this period there is an estimated net increase in the trust fund of $11.8 billion, most of which occurs in the last 2 fiscal years.

Estimates consistent with those shown on a fiscal-year basis in table 12 are presented in table 13 to show the progress of the old-age

TABLE 12.—*Operations of the old-age and survivors insurance trust fund, fiscal years 1937–69*

[In millions]

Fiscal year	Transactions during period						Fund at end of period
	Income		Disbursements			Net increase in fund	
	Tax contributions [1]	Interest on investments [2]	Benefit payments	Administrative expenses [3]	Transfers to railroad retirement account		
Past experience:							
1937–64	$124,870	$8,190	$108,427	$2,727	$2,207	$19,699	$19,699
1941	688	56	64	27		653	2,398
1942	896	71	110	27		830	3,227
1943	1,130	87	149	27		1,041	4,268
1944	1,292	103	185	33		1,178	5,446
1945	1,310	124	240	27		1,167	6,613
1946	1,238	148	321	37		1,028	7,641
1947	1,460	163	426	41		1,157	8,798
1948	1,617	191	512	47		1,248	10,047
1949	1,694	230	607	53		1,263	11,310
1950	2,110	257	727	57		1,583	12,893
1951	3,124	287	1,498	70		1,843	14,736
1952	3,598	334	1,982	85		1,864	16,600
1953	4,097	387	2,627	89		1,766	18,366
1954	4,589	439	3,276	89	−12	1,676	20,043
1955	5,087	438	4,333	103	−10	1,098	21,141
1956	6,442	487	5,361	124	−7	1,452	22,593
1957	6,540	555	6,515	150	−5	436	23,029
1958	7,267	556	7,875	166	−2	−216	22,813
1959	7,565	543	9,049	206	124	−1,271	21,541
1960	9,843	517	10,270	202	600	−712	20,829
1961	11,293	531	11,185	236	332	72	20,900
1962	11,455	541	12,658	251	361	−1,274	19,626
1963	13,328	515	13,845	263	423	−687	18,939
1964	15,503	542	14,579	303	403	760	19,699
Estimated future experience:							
1965	15,620	569	15,253	314	399	223	19,922
1966	17,284	600	16,030	330	411	1,114	21,036
1967	19,192	673	16,798	346	406	2,315	23,351
1968	20,828	791	17,602	352	391	3,274	26,625
1969	23,008	959	18,369	360	385	4,853	31,478

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

[2] Includes net profits on marketable investments and, 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. Beginning in 1954, includes cost of construction of office space for the Social Security Administration. Beginning in 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.

NOTE.—In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared in December 1964.

and survivors insurance trust fund on a calendar-year basis. The trust fund is expected to increase in each of the 5 calendar years 1965–69, reaching about $32.7 billion by December 31, 1969.

TABLE 13.—*Operations of the old-age and survivors insurance trust fund, calendar years 1937–69*

[In millions]

Calendar year	Transactions during period						Fund at end of period
	Income		Disbursements			Net increase in fund	
	Tax contributions	Interest on investments	Benefit payments	Administrative expenses	Transfers to railroad retirement account		
Past experience:							
1937–64	$131,617	$8,487	$115,936	$2,836	$2,207	$19,125	$19,125
1941	789	56	88	26	----------	731	2,762
1942	1,012	72	131	28	----------	926	3,688
1943	1,239	88	166	29	----------	1,132	4,820
1944	1,316	107	209	29	----------	1,184	6,005
1945	1,285	134	274	30	----------	1,116	7,121
1946	1,295	152	378	40	----------	1,029	8,150
1947	1,558	164	466	46	----------	1,210	9,360
1948	1,688	281	556	51	----------	1,362	10,722
1949	1,670	146	667	54	----------	1,094	11,816
1950	2,671	257	961	61	----------	1,905	13,721
1951	3,367	417	1,885	81	----------	1,818	15,540
1952	3,819	365	2,194	88	----------	1,902	17,442
1953	3,945	414	3,006	88	----------	1,265	18,707
1954	5,163	447	3,670	92	−21	1,869	20,576
1955	5,713	454	4,968	119	−7	1,087	21,663
1956	6,172	526	5,715	132	−5	856	22,519
1957	6,825	556	7,347	162	−2	−126	22,393
1958	7,566	552	8,327	194	124	−528	21,864
1959	8,052	532	9,842	184	282	−1,724	20,141
1960	10,866	516	10,677	203	318	184	20,324
1961	11,285	548	11,862	239	332	−599	19,725
1962	12,059	526	13,356	256	361	−1,388	18,337
1963	14,541	521	14,217	281	423	143	18,480
1964	15,689	569	14,914	296	403	645	19,125
Estimated future experience:							
1965	16,014	584	15,640	314	399	245	19,370
1966	18,459	636	16,416	339	411	1,929	21,299
1967	19,448	732	17,201	347	406	2,226	23,525
1968	22,210	875	17,984	355	391	4,355	27,880
1969	23,289	1,060	18,758	363	385	4,843	32,723

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

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 14 shows the annual amount of benefit payments distributed by classification of beneficiaries for each of the calendar years 1940–69. Benefit payments were 6.55 percent of taxable earnings for calendar year 1964. It is estimated that in 1969 benefit expenditures will be 7.03 percent of taxable earnings. Figures for each of the calendar years 1940–69 are shown in table 15.

TABLE 14.—*Old-age and survivors insurance benefit payments, distributed by classification of beneficiaries, calendar years 1940–69*

[In millions]

Calendar year	Total benefit disbursements	Disbursed to old-age beneficiaries	Disbursed to dependents of old-age beneficiaries	Disbursed to survivors of deceased insured workers: Monthly benefits: Total	Monthly benefits: Aged widows, dependent widowers, and dependent parents	Monthly benefits: Widowed mothers, dependent divorced wives, and dependent children	Lump-sum payments
Past experience: [1]							
1940	$35	$15	$2	$6	(2)	$6	$12
1941	88	44	8	24	$3	21	13
1942	131	65	11	40	6	34	15
1943	166	79	14	55	10	45	18
1944	209	97	17	73	15	59	22
1945	274	126	22	100	21	79	26
1946	378	189	33	128	29	99	28
1947	466	245	43	149	38	111	29
1948	556	300	52	172	49	122	32
1949	667	373	64	197	62	134	33
1950	961	557	95	277	92	185	33
1951	1,885	1,135	186	507	165	342	57
1952	2,194	1,328	212	592	201	390	63
1953	3,006	1,884	291	744	260	483	87
1954	3,670	2,340	358	880	317	563	92
1955	4,968	3,253	495	1,108	412	695	113
1956	5,715	3,793	568	1,244	486	758	109
1957	7,347	4,888	799	1,521	672	849	139
1958	8,327	5,567	907	1,720	777	943	133
1959	9,842	6,548	1,059	2,063	946	1,117	171
1960	10,677	7,053	1,143	2,316	1,085	1,231	164
1961	11,862	7,802	1,230	2,659	1,262	1,396	171
1962	13,356	8,813	1,349	3,011	1,504	1,507	183
1963	14,217	9,391	1,403	3,216	1,645	1,571	206
1964	14,914	9,854	1,427	3,416	1,787	1,629	216
Estimated future experience:							
1965	15,640	10,315	1,455	3,639	1,941	1,698	231
1966	16,416	10,821	1,494	3,857	2,094	1,763	244
1967	17,201	11,332	1,537	4,077	2,248	1,829	255
1968	17,984	11,839	1,584	4,298	2,404	1,894	263
1969	18,758	12,333	1,631	4,524	2,563	1,961	270

[1] Partly estimated.
[2] Less than $500,000.

TABLE 15.—*Old-age and survivors insurance benefit payments as a percentage of taxable earnings,*[1] *calendar years, 1940–69*

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	1956	3.48
1941	.21	1957	4.20
1942	.25	1958	4.77
1943	.27	1959	5.03
1944	.32	1960	5.33
1945	.44	1961	[2] 5.85
1946	.55	1962	[2] 6.31
1947	.59	1963	[2] 6.52
1948	.66	1964	[2] 6.55
1949	.82	Estimated future experience:	
1950	1.10	1965	6.63
1951	1.61	1966	6.75
1952	1.76	1967	6.85
1953	2.28	1968	6.95
1954	2.83	1969	7.03
1955	3.26		

[1] For years 1951 and later, take into account (1) lower contribution rate payable by the self-employed compared with combined employer-employee rate, and (2) employee contributions subject to refund.
[2] Preliminary, subject to revision on complete tabulation of self-employment earnings for 1961–64 and of taxable wages for 1962–64.

The growth in the number of beneficiaries in the past and the expected growth in the future are attributable in large measure to the rising number of workers aged 65 or over eligible for and receiving old-age (primary) benefits. The growth in the number of eligible workers aged 65 and over since 1940 has been uninterrupted. This growth resulted partly from the increase in the population at these 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 addition there has been a growth in the proportion of eligible workers who get benefits. In the early years of the program, a considerable proportion of the workers aged 65 and over who were eligible for old-age (primary) benefits in the past remained in covered employment (or, if they left covered employment, later returned to it) and therefore did not receive benefits. Since 1945, however, the proportion of eligible workers receiving retirement benefits has been increasing except for temporary halts due to special circumstances resulting from the amendments of 1950 and 1954. In general, due to the increasing percentage of eligibles aged 72 or over, who receive benefits regardless of earnings, the upward trend in this proportion is expected to continue, although at a slower rate than in the past.

The expected operations and status of the disability insurance trust fund during the next 5 fiscal years are presented in table 16, 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 1965–69. It is estimated that this fund will decrease to $416 million on June 30, 1969.

TABLE 16.—*Operations of the disability insurance trust fund, fiscal years 1957–69*

[In millions]

Fiscal year	Transactions during period						Fund at end of period
	Income		Disbursements			Net increase in fund	
	Tax contributions [1]	Interest on investments [2]	Benefit payments	Administrative expenses [3]	Transfers to railroad retirement account		
Past experience:							
1957–64	$7,408	$358	$5,173	$301	$28	$2,264	$2,264
1957	337	1	----------	1	----------	337	337
1958	926	16	168	12	----------	762	1,099
1959	895	33	339	21	----------	568	1,667
1960	987	47	528	32	−27	501	2,167
1961	1,022	61	704	36	5	337	2,504
1962	1,021	68	1,011	64	11	2	2,507
1963	1,077	67	1,171	67	20	−113	2,394
1964	1,143	65	1,251	68	19	−130	2,264
Estimated future experience:							
1965	1,158	61	1,416	79	20	−296	1,968
1966	1,204	54	1,485	85	20	−332	1,636
1967	1,238	47	1,549	90	20	−374	1,262
1968	1,277	31	1,604	95	20	−411	851
1969	1,315	15	1,647	98	20	−435	416

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

[2] Includes net profits on marketable investments and, 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.

NOTE.—Reference should be made to the text which describes the underlying assumptions and limitations. Estimates were prepared in December 1964.

Estimates consistent with those shown on a fiscal-year basis in table 16 are presented in table 17 to show the progress of the disability insurance trust fund on a calendar-year basis. The total amount of benefit payments will continue to increase over the next 5 calendar years as the number of beneficiaries increases. Benefit expenditures as a percentage of payroll will also increase. Benefit payments were 0.57 percent of taxable earnings for calendar year 1964. It is estimated that in 1969 benefit payments will be 0.62 percent of taxable earnings, as shown in table 18.

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 12, 13, 16, and 17 reflect the effect of future financial interchanges.

TABLE 17.—*Operations of the disability insurance trust fund, calendar years 1957–69*

[In millions]

Calendar year	Transactions during period						Fund at end of period
	Income		Disbursements			Net increase in fund	
	Tax contributions	Interest on investments	Benefit payments	Administrative expenses	Transfers to railroad retirement account		
Past experience:							
1957–64	$7,905	$389	$5,842	$378	$28	$2,047	$2,047
1957	702	7	57	3		649	649
1958	966	25	249	12		729	1,379
1959	891	40	457	50	−22	447	1,825
1960	1,010	53	568	36	−5	464	2,289
1961	1,038	66	887	64	5	148	2,437
1962	1,046	68	1,105	66	11	−69	2,368
1963	1,099	66	1,210	68	20	−133	2,235
1964	1,154	64	1,309	79	19	−188	2,047
Estimated future experience:							
1965	1,187	58	1,471	85	20	−331	1,716
1966	1,214	51	1,518	90	20	−363	1,353
1967	1,255	39	1,577	95	20	−398	955
1968	1,292	23	1,625	97	20	−427	528
1969	1,332	8	1,667	100	20	−447	81

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 16.

TABLE 18.—*Disability insurance benefit payments as a percentage of taxable earnings,[1] calendar years 1957–69*

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	1965	0.62
1958	.14	1966	.62
1959	.23	1967	.63
1960	.28	1968	.63
1961	[2] .44	1969	.62
1962	[2] .52		
1963	[2] .55		
1964	[2] .57		

[1] Take into account (1) lower contribution rate payable by the self-employed compared with combined employer-employee rate, and (2) employee contributions subject to refund.
[2] Preliminary, subject to revision on complete tabulation of taxable self-employment earnings for 1961–64 and of taxable wages for 1962–64.

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. 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.

No funds have been appropriated as reimbursements to the trust funds for such additional costs that arose after August 1950. New legislation has been proposed authorizing annual reimbursements based on the following plan: The estimated total additional costs arising from (1) payments that have been made through fiscal year 1964 and (2) payments that will be made in future years will be amortized by level annual appropriations to the trust funds over a 50-year period beginning in fiscal year 1966. Periodically, the estimated amount of annual payment will be refigured to reflect actual costs incurred. The Budget of the U.S. Government for the fiscal year 1966 makes provision for the first of these reimbursements, on the assumption that the proposed legislation will be enacted. The estimates shown in the various tables in this section reflect the effect of these annual reimbursements.

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 constitutes almost 85 percent of the total cost, will rise for several reasons. The U.S. population will, in the long run, almost certainly become relatively much older on the average. A relatively older population will tend to result from the fact that the present aged population is made up of the survivors from past periods when death rates were much higher than they are now. Another such factor is that, after the turn of the century, the larger birth cohorts of the 1940's, 1950's, and 1960's will be attaining retirement age. Thus, in the future, relatively more persons, both in total and in each cohort, will attain age 65 and older ages.

The cost of the program is closely related to the ratio of the population aged 65 and over (potential beneficiaries) to the population aged 20–64 (potential contributors). On June 30, 1964, this ratio was 18.1 percent. In a stationary population that would result if the death rates of the U.S. life tables for 1959–61 were applied to a constant annual number of births, the ratio would be 25.4 percent, but such a situation is not likely to occur within the next century. Ultimately this ratio may become even greater than 25 percent, because decreases in mortality below present rates would, in a stationary population, have the effect of increasing the proportion at the oldest ages.

Another reason for the increasing cost is that the proportion of the aged population eligible for and receiving benefits will increase. Some of the present persons aged 65 and over were not in covered employment long enough to obtain benefits, or, in the case of widows, their husbands were not sufficiently long in covered employment. Although the system began in 1937, many jobs were not covered until 1951 or 1955. It is estimated that the proportion of the aged population eligible for some type of benefit under the system will increase from the level of about 83 percent on June 30, 1964, to between 95 and 98 percent by the end of the century.

Since the long-term future cost of the old-age, survivors, and disability insurance program will be affected by many factors that are difficult to determine, the assumptions used in the actuarial cost estimates may differ widely and yet be reasonable. The long-term cost estimates for the program (shown for 1975 and thereafter) are presented here on a range basis to indicate the plausible variation in future costs depending on the actual trends that develop for the various cost factors. Both the low- and high-cost estimates are based on assumptions that represent close to full employment, with the average annual earnings remaining at about the level that prevailed in 1963. Each estimate provides data on taxable payroll and contributions and on beneficiaries and benefit payments for every future year. The data are presented here for selected future years.

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

Table 19 shows benefit-payment costs for selected years and the corresponding level costs over the next 75 years and into perpetuity, all expressed as percentages of taxable payroll, under each of the three estimates. (In earlier reports, the into-perpetuity basis has been used. In the future, in accordance with the recommendations of the Advisory Council on Social Security, the 75-year basis will be used. In this report, both bases are shown for purposes of comparison.) The level cost of the program on this basis is the constant combined employer-employee tax rate that, together with a tax on the self-employed at 75 percent of such combined rate, would exactly pay for future benefits and administrative expenses, after making allowance for the effect of the future interest earnings of the existing trust fund and for all other future interest earnings. All percentage-of-payroll figures are adjusted so that they represent the tax rate that employees and employers combined, and the self-employed at three-quarters of the combined rate, would have to pay in any given year to meet exactly the disbursements in that year.

TABLE 19.—*Estimated costs of old-age, survivors, and disability insurance system as percent of payroll,*[1] *1963 level-earnings assumptions, 1975–2050*

[In percent]

Calendar year	Low-cost estimate	High-cost estimate	Intermediate-cost estimate [2]
	Old-age and survivors insurance benefits		
1975	7.45	8.33	7.95
1980	7.84	8.98	8.39
1990	8.05	10.27	9.08
2000	7.28	10.16	8.58
2025	8.16	13.14	10.21
2050	10.17	14.86	11.98
Level cost: [3]			
Perpetuity [4]	7.63	10.09	8.71
75-year [5]	7.40	9.82	8.46
	Disability insurance benefits		
1975	0.60	0.72	0.66
1980	.59	.73	.66
1990	.54	.73	.63
2000	.54	.75	.63
2025	.61	.82	.70
2050	.66	.86	.74
Level cost: [3]			
Perpetuity [4]	.57	.74	.64
75-year [5]	.57	.73	.63

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

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

[3] Level contribution rate, at an interest rate of 3.25 percent for high-cost, 3.50 percent for intermediate-cost, and 3.75 percent for low-cost, for benefits after 1963, taking into account interest on the trust fund on Dec. 31, 1963, future administrative expenses, the railroad retirement financial interchange provisions, reimbursement for additional cost of noncontributory credit for military service, and the lower contribution rates payable by the self-employed.

[4] Based on 3.5-percent interest, the level cost for old-age and survivors insurance benefits would be 7.70 and 9.91 percent, respectively, for the low-cost and high-cost estimates, while for disability insurance benefits they would be 0.57 and 0.73 percent, respectively.

[5] Based on 3.5-percent interest, the level cost for old-age and survivors insurance benefits would be 7.52 and 9.58 percent, respectively, for the low-cost and high-cost estimates, while for disability insurance benefits they would be 0.56 and 0.72 percent respectively.

Tables 20 and 21 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.

It should be emphasized that dollar figures projected for so many years into the future have only limited significance because of changes that are likely to occur in the general economy, as well as in the system itself. What is really the most significant are relative figures such as those in table 19, showing the benefit costs as a percentage of taxable payroll.

TABLE 20.—*Estimated progress of old-age and survivors insurance trust fund, 1963 level earnings assumption* [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Financial interchange [2]	Interest on fund	Fund at end of year [3]
			Actual data			
1955	$5,713	$4,968	$119	$7	$454	$21,663
1956	6,172	5,715	132	5	526	22,519
1957	6,825	7,347	[4] 162	2	556	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	548	19,725
1962	12,059	13,356	256	−361	526	18,337
1963	14,541	14,217	281	−423	521	18,480
1964	15,689	14,914	296	−403	569	19,125
			Low-cost estimate			
1975	$25,078	$21,081	$361	−$280	$2,291	$67,536
1980	27,340	23,998	398	−115	3,378	97,409
1990	32,354	29,330	469	30	6,023	170,867
2000	38,575	31,666	515	80	10,549	298,251
2025	51,374	47,268	731	110	38,272	1,065,318
			High-cost estimate			
1975	$24,041	$22,120	$418	−$350	$1,451	$46,654
1980	25,677	25,689	464	−185	1,711	55,097
1990	28,324	32,621	550	−50	1,249	40,491
2000	31,805	36,301	603	0	(5)	(5)
2025	35,953	53,222	807	30	(5)	(5)
			Intermediate-cost estimate			
1975	$24,560	$21,601	$390	−$315	$1,806	$56,769
1980	26,508	24,843	431	−150	2,448	75,507
1990	30,339	30,974	510	−10	3,410	103,363
2000	35,190	33,983	559	40	4,562	138,633
2025	43,664	50,246	769	70	10,236	304,076

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

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

[3] Not including amounts in the railroad retirement account to the credit of the old-age and survivors insurance trust fund. In millions of dollars, these amounted to $377 for 1953, $284 for 1954, 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 1999.

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

TABLE 21.—*Estimated progress of disability insurance trust fund, 1963 level earnings assumption* [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Financial interchange [2]	Interest on fund	Fund at end of year
			Actual data			
1957	$702	$57	[3] $3		$7	$649
1958	966	249	[3] 12		25	1,379
1959	891	457	50	$22	40	1,825
1960	1,010	568	36	5	53	2,289
1961	1,038	887	64	−5	66	2,437
1962	1,046	1,105	66	−11	68	2,368
1963	1,099	1,210	68	−20	66	2,235
1964	1,154	1,309	79	−19	64	2,047
			Low-cost estimate			
1975	$1,436	$1,658	$93	−$6	(4)	(4)
1980	1,565	1,769	94	2	(4)	(4)
1990	1,852	1,928	92	5	(4)	(4)
2000	2,207	2,294	102	5	(4)	(4)
2025	2,936	3,479	145	5	(4)	(4)
			High-cost estimate			
1975	$1,374	$1,899	$111	−$14	(5)	(5)
1980	1,467	2,059	116	−8	(5)	(5)
1990	1,619	2,258	119	−5	(5)	(5)
2000	1,818	2,616	136	−5	(5)	(5)
2025	2,054	3,231	165	−5	(5)	(5)
			Intermediate-cost estimate			
1975	$1,405	$1,778	$102	−$10	(6)	(6)
1980	1,516	1,914	105	−3	(6)	(6)
1990	1,735	2,093	106	0	(6)	(6)
2000	2,013	2,455	119	0	(6)	(6)
2025	2,495	3,355	155	0	(6)	(6)

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

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

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

[4] Fund exhausted in 1973.

[5] Fund exhausted in 1969.

[6] Fund exhausted in 1970.

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

For old-age and survivors insurance, annual benefit payments as a percentage of payroll are less than or close to the scheduled tax rates in the early future years, but they eventually rise well above the ultimate combined employer-employee rate of 8¾ percent. For disability insurance the benefit payments are higher than the present combined employer-employee tax rate of one-half percent in 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-equivalent rate of contributions minus the level cost of benefit payments and administrative costs expressed as a percentage of taxable payroll (after making allowance for the interest-earning effect of the existing trust fund), gives the amount by which the contribution rate in all years would have to be changed to put the system in exact long-range balance according to the estimate. A negative figure would indicate that an increase in the tax rate is needed to make the system self-supporting.

The long-range balance of the system is shown by the following level-equivalent costs and contributions, expressed in percentages of taxable payroll, which are computed as of the beginning of calendar year 1964, at interest rates of 3.25 percent for high cost, 3.50 percent for intermediate cost, and 3.75 percent for low cost:

[In percent]

Item	Perpetuity basis			75-year basis		
	OASI	DI	Total	OASI	DI	Total
	Low-cost estimate					
Contributions [1]	8.61	0.50	9.11	8.60	0.50	9.10
Benefits [2]	7.63	.57	8.20	7.40	.57	7.97
Actuarial balance	.98	−.07	.91	1.20	−.07	1.13
	High-cost estimate					
Contributions [1]	8.61	0.50	9.11	8.60	0.50	9.10
Benefits [2]	10.09	.74	10.83	9.82	.73	10.55
Actuarial balance	−1.48	−.24	−1.72	−1.22	−.23	−1.45
	Intermediate-cost estimate					
Contributions [1]	8.61	0.50	9.11	8.60	0.50	9.10
Benefits [2]	8.71	.64	9.35	8.46	.63	9.09
Actuarial balance	−.10	−.14	−.24	.14	−.13	.01

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

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

The lack of actuarial balance, on the perpetuity basis of financing, of the old-age and survivors insurance program (0.10 percent of taxable payroll on the intermediate-cost basis) is within the acceptable limit of variation of 0.25 percent of taxable payroll that has been used frequently in the past by the congressional committees which deal with this program. The disability insurance program has a lack of actuarial balance of 0.14 percent of taxable payroll, which is well above the corresponding acceptable limit of variation of 0.06 percent of taxable payroll.

Basing the long-range financing on the next 75 years, as the Advisory Council on Social Security has recommended, the actuarial balance of the old-age and survivors insurance program shows a positive balance of 0.14 percent of taxable payroll for the intermediate-cost estimate. The disability insurance program shows a significant actuarial lack of balance, 0.13 percent of taxable payroll, but the old-age, survivors, and disability insurance system as a whole is in close actuarial balance, with a positive balance of 0.01 percent of payroll.

The Board of Trustees agrees with the Advisory Council on Social Security that for the 75-year basis the two programs should be kept reasonably close to an exact balance.

If the intermediate-cost estimate had been based on a higher interest rate than 3.50 percent (which is somewhat above the current average being earned by the total investments of the trust funds, although considerably below the prevailing market rate of interest on long-term Government obligations, which is currently slightly above 4 percent), the actuarial balance of the total program would have been considerably improved and in fact, if an interest rate of 4 percent had been assumed, the total program would have been in close actuarial balance, even for the perpetuity basis of long-range financing.

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

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

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

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

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

MEDIUM-RANGE COST ESTIMATES

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

Tables 22 and 23 present two medium-range projections based on different assumptions. For both projections, it is assumed that economic activity will have normal expansion throughout the period, with employment increasing steadily and with the average total earnings of each covered worker increasing at an annual rate of 3 percent. In the first one (table 22), the maximum taxable earnings base is assumed to remain at its present level of $4,800 per year, while for the second one (table 23), the base is assumed to be kept up to date, i.e., it is assumed that the base is changed periodically so as to cover about the same proportion of total earnings that was covered in 1964 by the $4,800 base. These assumptions imply that for the first projection, of the estimated 60-percent increase in average earnings that will occur in the 1964–80 period, only 18 percent (or 30 percent relatively) will be taxable under the program, due to the dampening effect of the fixed maximum taxable earnings base. For the second projection, the entire 65-percent increase will be taxable because of the constant updating of the earnings base.

TABLE 22.—*Estimated progress of trust funds, increasing earnings assumption fixed earnings base and equivalent 3.50-percent interest rate basis* [1]

[In millions]

Calendar year	Contributions [2]	Benefit payments	Administrative expenses	Financial interchange [3]	Interest on fund	Fund at year end
	Old-age and survivors insurance trust fund					
1975	$28,522	$22,228	$467	−$301	$2,671	$84,059
1980	31,997	26,099	538	−143	4,169	128,622
	Disability insurance trust fund					
1975	$1,639	$1,950	$120	−$10	(4)	(4)
1980	1,837	2,140	126	−3	(4)	(4)

[1] On the same basis as used to develop the trust funds for the long-range intermediate cost estimates in tables 20 and 21.
[2] Includes reimbursement for additional cost of noncontributory credits for military service.
[3] A positive figure indicates payment to the trust funds from the railroad retirement account; a negative figure indicates the reverse.
[4] Fund exhausted in year 1970.

TABLE 23.—*Estimated progress of trust funds, increasing earnings and benefits assumptions, variable earnings base and equivalent 3.50-percent interest rate basis* [1]

[In millions]

Calendar year	Contributions [2]	Benefit payments	Administrative expenses	Financial interchange [3]	Interest on fund	Fund at year end
	Old-age and survivors insurance trust fund					
1975	$35,017	$30,798	$556	−$449	$2,012	$64,272
1980	43,814	41,062	712	−248	2,831	88,821
	Disability insurance trust fund					
1975	$2,003	$2,534	$145	−$14	(4)	(4)
1980	2,506	3,159	174	−5	(4)	(4)

[1] On the same basis as used to develop the trust funds for the long-range intermediate cost estimates in tables 20 and 21.
[2] Includes reimbursement for additional cost of noncontributory credits for military service.
[3] A positive figure indicates payment to the trust funds from the railroad retirement account; a negative figure indicates the reverse.
[4] Fund exhausted in year 1969.

It is assumed for the first projection that all provisions of the law would remain as they were at the end of 1964. This projection is based on dynamic earnings-level assumptions and static benefit-provision assumptions. However, over the 15-year period covered by the estimates, changes will undoubtedly be made. The purpose of this estimate is to indicate the size of the financial commitments of present law even though it is recognized that the law itself would undoubtedly be changed during the period. The extent and timing of these changes are, of course, unpredictable.

It is assumed for the second projection that the maximum taxable earnings base and the benefit provisions of present law are amended periodically so that the relationships among total earnings, taxable earnings, and benefit expenditures during each of the years 1965–80 under the amended law are the same as those shown in the long-range intermediate-cost estimates prepared on level-earnings assumptions.

The cost estimate shown in table 23 is, therefore, very similar to the long-range cost estimate if costs are considered in terms of percentages of taxable payroll, but it has the advantage of presenting dollar figures of a more realistic magnitude. This projection, accordingly, is based on dynamic earnings-level assumptions, combined with an assumption that the law is frequently amended to keep the system fully up to date.

As shown in tables 22 and 23, according to the medium-range estimates, the old-age and survivors insurance trust fund grows more or less steadily through the period up to 1980—reaching in 1975 about $84 billion in the first projection and about $64 billion in the second one. For 1980 the corresponding figures for the balance in the trust fund are $129 billion and $89 billion. In 1980 estimated contribution income exceeds benefit outgo by about 23 percent under the assumptions of dynamic earnings-level conditions and static benefit provisions, but by only 7 percent under the double dynamic assumptions basis.

The disability insurance trust fund, according to the medium-range estimates, decreases continuously until it is finally exhausted in either 1969 or 1970. In 1980 estimated contribution income is about 10 percent lower than benefit outgo under the assumptions of dynamic earnings-level conditions and static benefit provisions, and about 21 percent lower under the double dynamic assumptions basis. It evident that the proportion of the total contribution income of the program that is now allocated to the disability insurance trust fund will not support it for a decade.

REPORT OF ADVISORY COUNCIL ON SOCIAL SECURITY

In accordance with section 116 of the Social Security Amendments of 1956 (Public Law 880, 84th Cong.) the Secretary of Health, Education, and Welfare in June 1963 appointed an Advisory Council on Social Security Financing. The Council studied and reported not only on the method of financing old-age, survivors, and disability insurance, the long-range costs of the program, the sufficiency of the tax income provided by law (including the timing and the amounts of the scheduled increases), the base to which contribution rates apply, the management and investment of the trust funds, but also on its findings and recommendations with respect to extensions of coverage, adequacy of benefits, and all other aspects of the program. The latter responsibility is, according to the law, assigned only to this particular Council and not to any of the subsequent Councils provided for.

The law provides that the Council make a report of its findings and recommendations not later than January 1, 1965, and that this report shall be included in the annual report of the Board of Trustees that is due on or before March 1, 1965. The report of the Council was submitted to the Board of Trustees as provided by law and appears as appendix V of this report.

The Board of Trustees is pleased to observe the finding of the Council that the method of financing the program is sound and that, based on the best available cost estimates, the contribution schedule, in the aggregate, makes adequate provision for meeting both short-range and long-range costs. The Council recommended, however, that the allocation of contribution income to the disability insurance trust fund should be increased so that this part of the program, like the old-age and survivors insurance part of the program and the program as a whole, will be in close actuarial balance. The Board of Trustees is in full agreement with these findings.

The Board of Trustees concurs with the recommendation made by the Council, which is similar to the recommendation made by the Council that functioned during 1957 and 1958, that the law should continue to include a schedule of contribution rates that will be sufficient to support the program over the long-range future, according to the intermediate-cost estimate, but that decisions about putting future rate increases into effect, once the rates actually being charged are high enough to cover the long-range cost according to a reasonable minimum estimate, should be guided largely by the cost estimates for the following 15 or 20 years.

The Board of Trustees has previously strongly recommended that legislation be enacted, as was proposed in the 1965 Budget of the United States, submitted to Congress in January 1964, that would provide for reimbursement of the trust funds 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). Accordingly, the Board of Trustees is pleased to note that the Council has made a similar recommendation. This action is needed so that the integrity of the trust funds will be maintained.

In reviewing the actuarial cost estimating procedure for the old-age, survivors, and disability insurance program, the Council suggested only one significant change in assumptions and procedure. In the past, the cost estimates were made into perpetuity, but the Council believes that it is sufficient to make them for a period of 75 years into the future, which would span the lifetime of virtually all covered persons living on the valuation date. The Board of Trustees agrees with this suggestion and is presenting the actuarial cost estimates on this basis in this report (but also giving figures on the "perpetuity" basis for purposes of comparability in this first report in which the 75-year estimates are used).

The Board of Trustees also agrees with, and recommends the adoption of, the recommendation made by the Council that would necessitate a change in the law so that the Board of Trustees would be required to meet only at intervals of not more than 12 months (rather than 6 months, as under present law). In this respect, the Board of Trustees has found that the statutory requirement of regular meetings, as incorporated in the Social Security Amendments of 1960, is desirable, but it believes that meetings only once a year will generally be sufficient for it to meet its responsibilities (with the possibility of more frequent meetings being held if desirable).

Recognizing the desirability of having a single body review the methods of allocating administrative costs to the trust funds and the charges based on such allocations, the Board will seek a way in which it can carry out the objective of the Advisory Council's recommendation in this regard.

The Board believes that the Council's other recommendations merit the careful attention and consideration of those in Government who are directly involved in the development and administration of the social security program.

CONCLUSION

The current long-range actuarial cost estimates for the old-age, survivors, and disability insurance program as a whole indicate that the system continues in close actuarial balance. The balance of each of the two portions of the program—old-age and survivors insurance and disability insurance—is, however, differently affected.

The actuarial balance of the old-age and survivors insurance program is, according to the intermediate-cost estimate, positive to the extent of 0.14 percent of taxable payroll on a level-cost basis computed over the next 75 years, but the disability insurance program shows a lack of actuarial balance of 0.13 percent of taxable payroll.

As indicated previously, the Advisory Council on Social Security Financing has recommended that there should be an increase in the allocation of future contribution income to the disability insurance trust fund. With such increased allocation, the portion of the combined employer-employee contribution rate that would go to the disability insurance trust fund would be 0.65 percent, while for the self-employed rate the corresponding figure would be 0.4875 percent. The increased allocation to the disability insurance trust fund would not affect the actuarial balance of the old-age, survivors, and disability insurance system as a whole, but it would make for a more reasonable subdivision of the income between the two portions of the system.

For the present program, following the increased allocation to the disability insurance trust fund, the lack of actuarial balance of the old-age and survivors insurance portion of the system would, according to the intermediate-cost estimate, be 0.01 percent of taxable payroll, while the disability insurance portion of the system would show a positive actuarial balance of 0.02 percent of taxable payroll. Thus, after the increase in allocation, on the basis of the present long-range cost estimates, not only would the present program as a whole be in close actuarial balance, but also each of the two subdivisions would likewise be. 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 earnings on investments to meet the cost of the benefit payments and administrative expenses for the next 75 years.

As mentioned previously, the Advisory Council on Social Security Financing has recommended that the reimbursement to the trust funds for the cost of paying benefits based on military service for which no contributions were made should begin without further delay. The Board of Trustees made a similar recommendation last year and again urges action on this matter.

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 U.S. population (including oversea 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 estimates, mortality rates for the year 2000 are about 50 to 55 percent of the 1953 level up to age 70, with the rates at the older ages showing somewhat smaller improvements. The low-cost estimate assumes roughly half of the improvement in mortality used in the high-cost estimate.

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

The low-cost estimate is based on high fertility and high mortality, while the high-cost estimate assumes low fertility and low mortality. This makes the high-cost population relatively much older than the low-cost population, which is reasonable in view of the fact that benefits to aged persons account for nearly 85 percent of the cost of the

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

[2] The 1960 census revealed a greater number of persons aged 65 and over than earlier estimates had indicated, with most of this excess at ages 65 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 April 1, and they include Puerto Rico and several other geographic areas.)

system. Complete details about the population projections are given in Actuarial Study No. 46, Social Security Administration.

EMPLOYMENT

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

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

EARNINGS

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

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

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

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

INSURED POPULATION

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

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

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

AGED BENEFICIARIES

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

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

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

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

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

Appendix table 1 shows the estimated numbers of aged beneficiaries.

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

[In thousands]

Calendar year	Old-age beneficiaries		Wives of old-age beneficiaries [2]	Aged widows [3]	Dependent parents	Total
	Male	Female				
	Actual data					
1955	3,252	1,222	1,144	701	25	6,344
1956	3,572	1,540	1,376	913	27	7,428
1957	4,198	1,999	1,779	1,095	29	9,101
1958	4,617	2,303	1,979	1,233	30	10,162
1959	4,937	2,589	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
1962	6,244	3,494	2,510	1,859	37	14,145
1963	6,497	3,766	2,561	2,011	37	14,872
	Low-cost estimate					
1975	8,136	6,153	2,849	2,969	34	20,141
1980	8,985	7,294	2,980	3,205	34	22,498
1990	10,457	9,410	3,102	3,560	32	26,561
2000	10,915	10,514	2,845	3,576	28	27,878
2025	16,983	17,402	3,519	4,649	33	42,586
	High-cost estimate					
1975	9,220	7,520	2,988	2,641	34	22,403
1980	10,564	9,191	3,175	2,769	34	25,733
1990	13,265	12,207	3,576	3,040	32	32,120
2000	14,779	13,790	3,489	3,080	28	35,166
2025	22,470	21,182	3,919	3,956	29	51,556

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

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

[3] Including dependent widowers.

BENEFICIARIES UNDER RETIREMENT AGE

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

Child survivor beneficiaries were obtained from estimates of total paternal orphans in the country in future years. The projected child population by age groups was multiplied by the probability of being a paternal orphan. These probabilities were derived by using distributions of age of fathers at birth of child and death rates consistent with the population projections. The number of paternal orphans were then adjusted to eliminate orphans of uninsured men, to add the small numbers of orphans of insured women and to include the eligible disabled orphans aged 18 and over. Mother survivor beneficiaries are estimated by assuming a constant ratio of mothers to children. The numbers of lump-sum death payments were estimated by multiplying the insured population by death rates consistent with the survival rates used in the population projections.

DISABLED BENEFICIARIES AND THEIR DEPENDENTS

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

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

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 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 estimates; i.e., class 3 rates for high cost and 1924–27 German social insurance experience for low-cost estimate.

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

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

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

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

[In thousands]

Calendar year	Children [2]	Widowed mothers	Disability beneficiaries			Total monthly beneficiaries	Lump-sum death cases
			Workers	Wives [3]	Children [4]		
	Actual data						
1955	1,276	292				1,568	567
1956	1,341	301				1,642	547
1957	1,502	328	150			1,980	689
1958	1,606	354	238	12	18	2,228	[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
1962	2,160	452	741	147	387	3,887	865
1963	2,230	462	827	168	457	4,144	969
	Low-cost estimate						
1975	3,126	659	1,085	202	576	5,648	1,284
1980	3,312	701	1,167	214	610	6,004	1,425
1990	3,784	821	1,270	228	634	6,737	1,676
2000	4,030	899	1,520	267	703	7,419	1,930
2025	4,552	980	2,390	378	859	9,159	2,863
	High-cost estimate						
1975	2,262	442	1,291	231	577	4,803	1,250
1980	2,279	441	1,430	234	558	4,942	1,389
1990	2,328	448	1,584	249	554	5,163	1,679
2000	2,226	427	1,852	274	595	5,374	1,985
2025	2,462	425	2,334	321	656	6,198	2,769

[1] See footnote 1 of appendix table 1 for definition of minimum retirement age. Does not include wives under age 62 of old-age beneficiaries: includes disability beneficiaries aged 62 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 the ultimate benefits computed. The latter were determined as though the 1963 earnings level were in effect throughout the entire working life of all workers with respect to whom benefits are being paid. Total benefit payments are shown, in dollar amounts, in tables 20 and 21, and as a percentage of payroll, in table 19.

The combined cost of old-age, survivors, and disability benefits (expressed as a percentage of taxable payroll) in 1964 as shown in tables 15 and 18 is projected to increase by about 50 percent in the low-cost estimate and by about 120 percent in the high-cost estimate, according to table 19. The significant upward cost trend is temporarily reversed around the year 2000, at which time a significant part of the aged population consists of survivors of persons born in the 1930's, when birth rates were low.

ADMINISTRATIVE EXPENSES

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

RAILROAD RETIREMENT FINANCIAL INTERCHANGE

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

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

INTEREST RATE

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

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

For the intermediate-cost estimate a level interest rate of 3.50 percent was assumed. This is somewhat above the average yield of present investments (about 3.15 percent), but is below the rate currently being obtained for new investments (slightly above 4 percent). The interest rate for the low-cost and high-cost estimates was assumed at 3.75 percent and 3.25 percent, respectively.

44-344—65——4

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 pro-

[1] Amendments to the Social Security Act and to related sections of the Internal Revenue Code were made during the period 1939–61. 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 23d Annual Report of the Board of Trustees.

vided by the Social Security Amendments of 1958. These rates remained in effect through December 31, 1961. In accordance with the Social Security Amendments of 1961, the 3-percent rates rose, on January 1, 1962, to 3⅛ percent each for employees and employers, and on January 1, 1963, to 3⅝ percent each. Beginning January 1, 1951—the effective date of extension of coverage to self-employed persons—the rates of tax on self-employment income have been equal to 1½ times the corresponding employee rates, except that beginning in 1962 the resulting rates for the self-employed are rounded to the nearest tenth of 1 percent. The tax rates that have been in effect since 1937 and the maximum amount of annual earnings to which the rates applied are shown in the following table:

Calendar years	Maximum taxable amount of annual earnings	Percent of taxable earnings	
		Employees and employers, each	Self-employed
1937–49	$3,000	1	
1950	3,000	1½	
1951–53	3,600	1½	2¼
1954	3,600	2	3
1955–56	4,200	2	3
1957–58	4,200	2¼	3⅜
1959	4,800	2½	3¾
1960–61	4,800	3	4½
1962	4,800	3⅛	4.7
1963	4,800	3⅝	5.4

SPECIAL REFUNDS OF EMPLOYEE CONTRIBUTIONS

With respect to wages paid before 1951, refunds to employees who worked for more than one employer during the course of a year and paid contributions on such wages in excess of the statutory maximum were made from general revenues. With respect to wages paid after 1950, these refunds are paid from the Treasury account for refunding internal revenue collections. The Social Security Act Amendments of 1950 directed the managing trustee to pay from time to time from the old-age and survivors insurance trust fund into the Treasury, as repayments to the account for refunding internal revenue collections, the amount 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. The existing statutory provisions that authorize the granting of noncontributory credits for military service and the financing of these credits are set forth in appendix III.

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

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

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

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

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

There is no authority in the law that would have permitted the transfer of the $488 million from the railroad retirement account to the trust fund, but the legislation provides that beginning with fiscal year 1953, and for each fiscal year thereafter, annual interest payments on this amount (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 June 30, 1963, Creating the Trust Funds, Defining the Duties of the Board of Trustees, Granting Noncontributory Credits for Military Service, and Providing for Advisory Councils on Social Security Financing

(Sec. 201, sec. 217, and sec. 218(e)(1), (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 collec-

tors 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 clause (3) and (4) of this subsection, paid to or deposited into the Treasury; and proper adjustments shall be made in amounts subsequently transferred to the extent prior estimates were in excess of or were less than the taxes specified in such clauses (3) and (4) of this subsection.

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

(1) ½ 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) ⅜ 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.

BENEFITS IN CASE OF VETERANS

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

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

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

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

(3) Any agency or wholly owned instrumentality of the United States which is authorized by any law of the United States to pay benefits, or has a system of benefits which are based, in whole or in part, on military or naval service during World War II shall, at the request of the Secretary of Health, Education, and Welfare, certify

to him, with respect to any veteran, such information as the Secretary deems necessary to carry out his functions under paragraph (2) of this subsection.

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

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

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

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

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

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

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

(d) For the purposes of this section—

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

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

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

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

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

The provisions of clause (B) shall not apply in the case of any monthly benefit or lump-sum death payment under this title if its application would reduce by $0.50 or less the primary insurance amount (as computed under section 215 prior to any recomputation thereof pursuant to subsection (f) of such section) of the individual on whose wages and self-employment income such benefit or payment is based. The provisions of clause (B) shall also not apply for purposes of section 216(i)(3). In the case of monthly benefits under this title for months after December 1956 (and any lump-sum death payment under this title with respect to a death occurring after December 1956) based on the wages and self-employment income of a veteran who performed service (as a member of a uniformed service) to which the provisions of section 210(l)(1) are applicable, wages which would, but for the provisions of clause (B), be deemed under this subsection to have been paid to such veteran with respect to his active military or naval service performed after December 1950 shall be deemed to have been paid to him with respect to such service notwithstanding the provisions of such clause, but only if the benefits referred to in such clause which are based (in whole or in part) on such service are payable solely by the Army, Navy, Air Force, Marine Corps, Coast Guard, Coast and Geodetic Survey or Public Health Service.

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

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

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

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

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

(g) (1) There are hereby authorized to be appropriated to the Trust Funds annually, as benefits under this title are paid after June 1956, such sums as the Secretary of Health, Education, and Welfare determines to be necessary to meet the additional costs, resulting from subsections (a), (b), and (e), of such benefits (including lump-sum death payments).

(2) The Secretary shall, before October 1, 1958, determine 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 June 30, 1956, if section 210 of this Act, as in effect prior to the Social Security Act Amendments of 1950, and section 217 of this Act (including amendments thereof), had not been enacted. There are hereby authorized to be appropriated to such Trust Fund annually, during the first ten fiscal years beginning after such determination is made, sums aggregating the amount so determined, plus interest accruing on such amount (as reduced by appropriations made pursuant to this paragraph) for each fiscal year beginning after June 30, 1956, at a rate for such fiscal year equal to the average rate of interest (as determined by the Managing Trustee) earned on the invested assets of such Trust Fund during the preceding fiscal year.

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

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

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

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

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

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

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

(ii) died while in such service,

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

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

PAYMENTS AND REPORTS BY STATES

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

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

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

DEPOSITS IN TRUST 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.

Appendix IV. Illustration of the Operations of the Old-Age and Survivors Insurance Trust Fund in the Unlikely Event of a Sharp Reduction in the Level of Economic Activity in the Short-Range Future

As indicated in the main body of this report, the forecasts appearing in tables 12 through 18 are based on the assumption that economic activity will expand normally throughout the period 1964–69. Estimates have been presented in previous reports of the Board of Trustees 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 the next 5 calendar years, with a relatively high rate of unemployment during the entire period. Under this assumption, contributions would be lower and benefit payments would be higher than estimated under high employment conditions.

The lower the level of employment during the next 5 years, the larger will be the volume of benefit payments to retired workers and to their eligible dependents. Under the hypothetical lower employment conditions, it is estimated that larger proportions of eligible workers would be obliged to leave employment, especially at ages 62 to 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 somewhat larger inasmuch as many of the more steadily employed, higher paid older workers, who would not withdraw from employment under high-employment conditions, would not be in employment under these assumed conditions.

On the other hand, the amount paid out for survivor benefits over the short-range future will not be affected significantly by variations in economic conditions. While 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, 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.

No specific estimate of this type has been prepared for this report, but the demonstration from last year's report showing that the trust fund could weather an extremely severe, unlikely depression remains valid, and in fact the trust fund is in even a stronger position now.

Appendix V. The Status of the Social Security Program and Recommendations for Its Improvement—A Report of the Advisory Council on Social Security

LETTER OF TRANSMITTAL

January 1, 1965.

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

Gentlemen: As required by section 116 of the Social Security Amendments of 1956 there is transmitted herewith the report of the Advisory Council on Social Security appointed in 1963. The report, as directed by law, includes the Council's findings and recommendations with respect to the financing of the old-age, survivors, and disability insurance program, and all other aspects of the program, including extensions of coverage and the adequacy of benefits.

Sincerely yours,

Robert M. Ball,
Chairman, Advisory Council on Social Security.

FOREWORD

As required by law, this Advisory Council was appointed by the Secretary of Health, Education, and Welfare in 1963. It is the second Advisory Council appointed under the Social Security Amendments of 1956. The first was appointed in 1957 and made its report on January 1, 1959. Under the law other advisory councils are to be appointed in 1966 and every fifth year thereafter.

Like the preceding Council and the councils to be appointed in the future, the present Council is required to review 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 social security program and to make a report of its findings and recommendations, including recommendations for changes in the social security tax rates. In addition, however, the law gives the present Council a special mandate; it provides that the Council "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."

This Council, although only the second in the series established by the 1956 amendments, is the sixth major advisory group to consider social security in a long tradition of seeking advice and guidance from expert opinion and from those affected by the program. The first of these advisory groups played an important role in shaping the recommendations of the Executive Branch that led to the creation of the social security program in 1935. Additional groups appointed in 1938 and 1948 made broad studies of social security, and their recommendations played an important part in shaping the present program. A group appointed in 1953 dealt with extensions of coverage, and the one appointed in 1957 dealt only with financing.

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The Council has studied the social security program for the last year and a half. It held its first meetings on June 10 and 11, 1963, and met frequently throughout the rest of 1963 and during 1964. Between meetings the Council continued its analysis of the program through a study of extensive materials. In addition, a subcommittee of three members, with the aid of two insurance company actuaries and one from organized labor as well as the actuarial staff of the Social Security Administration, has conducted a technical review of the practices followed in preparing the actuarial estimates for the program and reported its findings to the Council.

The Commissioner of Social Security, acting *ex officio* as Chairman of the Council in accordance with the provisions of law establishing the Council, has been presiding officer at the Council's meetings, and in other ways has helped to forward the work of the Council. As a government official, however, he has not taken a position on the recommendations of this essentially nongovernmental group.

The Council wishes to express its appreciation of the assistance of the staff of the Social Security Administration. The technical competence of the staff has been invaluable to the Council in conducting its review of the program

Membership of the Council

Robert M. Ball, Commissioner of Social Security, Chairman
J. Douglas Brown, Dean of the Faculty, Princeton University
Kenneth W. Clement, M.D., Practicing Physician and Immediate Past President, National Medical Association
Nelson H. Cruikshank, Director, Department of Social Security, American Federation of Labor and Congress of Industrial Organizations
James P. Dixon, M.D., President, Antioch College
Loula F. Dunn, Director, American Public Welfare Association, 1949–1964
Marion B. Folsom, Director and former Treasurer, Eastman Kodak Company
Gordon M. Freeman, President, International Brotherhood of Electrical Workers
Reinhard A. Hohaus, Director, Metropolitan Life Insurance Company, and Fellow, Society of Actuaries
Arthur Larson, Director, Rule of Law Research Center, Duke University
Herman M. Somers, Professor of Politics and Public Affairs, Princeton University
John C. Virden, Chairman of the Board, Eaton Manufacturing Company
Leonard Woodcock, Vice President, United Automobile, Aerospace and Agricultural Implement Workers of America

INTRODUCTION

A generation ago the United States established a system of contributory social insurance providing protection against the loss of earnings due to retirement in old age. Under this system employees, together with their employers, and self-employed persons make contributions during their working years and receive a continuing income for themselves and their families when they no longer have income from work.

As enacted in 1935 this social security program was limited to the risk of retirement in old age, and it was limited in coverage to industrial and commercial employees. Today, the program covers practically all kinds of employment and self-employment, and provides benefits for the wives and children of retired workers as well as for the retired worker himself. It provides benefits, also, for survivors of deceased workers and for totally disabled workers and their dependents when the disability is expected to be of long-continued and indefinite duration. Over the years the program has been improved and broadened in other ways as well. From time to time benefits have been increased, and other adjustments have been made, to take account of social and economic change and to improve the protection provided.

For the vast majority of Americans this Federal program of social security gives assurance that old age, total disability or death will not mean the end of a regular family income. Some 20 million men, women and children—1 out of 10 Americans—are receiving social security benefits every month. During 1964 about 77 million earners paid social security contributions. Nine out of ten children and their mothers can look to the program for a regular income if the head of the family should die. Over 85 percent of the people past 65 are either getting benefits or will be entitled to benefits when they or their husbands retire. About 53 million workers have now worked long enough in covered employment so that they and their families have disability insurance protection.

The Council strongly endorses the social insurance approach as the best way to provide, in a way that applies to all, that family income will continue when earnings stop or are greatly reduced because of retirement, total disability or death. It is a method of *preventing* destitution and poverty rather than relieving those conditions after they occur. And it is a method that operates through the individual efforts of the worker and his employer, and thus is in total harmony with general economic incentives to work and save. It can be made practically universal in application, and it is designed so as to work in ongoing partnership with voluntary insurance, individual savings, and private pension plans.

Under the social security program the right to benefits grows out of work; the individual earns protection as he earns his living, and, up to the maximum amount of earnings covered under the program, the more he earns the greater is his protection. Since, unlike relief or assistance, social security benefits are paid without regard to the beneficiary's savings and resources, people can and do build upon their basic social security protection and they are rewarded for their planning and thrift by a higher standard of living than the benefits alone can provide.

The fact that the program is contributory—that employees and self-employed workers make contributions in the form of earmarked social security taxes to help finance the benefits—protects the rights and dignity of the recipient and at the same time helps to guard the program against unwarranted liberalization. The covered worker can expect, because he has made social security contributions out of his earnings during his working lifetime, that social security benefits will be paid in the spirit of an earned right, without undue restrictions and in a manner which safeguards his freedom of action and his privacy. Moreover, the tie between benefits and contributions fosters responsibility in financial planning; the worker knows that improved benefits mean higher contributions. In social insurance the decision on how to finance improvements is always an integral part of the decision on whether they are to be made.

Because of these characteristics of social insurance the Council believes that where it can be properly applied it is much to be preferred to the method of public assistance, with its test of individual need, and the Council therefore strongly favors the improvement of social insurance as a way of reducing the need for assistance. The Council recognizes the need for an adequate public assistance program, but it believes that assistance should play the role of a secondary and supplemental program designed to meet special needs and circumstances which cannot be dealt with satisfactorily by other means.

No matter how well designed and administered, assistance has serious inherent disadvantages in terms of human dignity and incentives to work and save. People view receipt of assistance as meaning a loss of self-support. In contrast, they view social insurance as an extension of self-support. People who have led productive lives and have supported themselves through their own efforts do not want to see their self-reliance end with their ability to work.

Moreover, applying for assistance is at best a negative experience. Eligibility for assistance depends upon the individual's asking the community for help and proving that he is without the resources and income to support himself and his family. On the other hand, under social insurance the individual proves, not that he lacks something, but that he has worked and contributed, and has thus earned a right to a benefit.

In all its considerations a primary concern of the Council has been the financial soundness of the program. Clearly, no change in the program should be made, and no present trend should be permitted to continue, if the result were to jeopardize financial soundness in any way. In the light of this primary concern, the Council has undertaken to assure that the financing will be sufficient to meet all benefit and administrative costs as they fall due.

The Council has also considered the economic impact of the program. In important respects the program supports consumer demand and helps to prevent deflation. Because of social security, 20 million retired people, disabled people, widows and orphans now have an assured regular income which, of course, continues undiminished even when other segments of consumer income decline. Moreover, the program operates automatically to compensate in part for the loss of income arising from the higher rate of retirement that occurs when the general level of employment declines.

The Council is concerned, however, about the deflationary effect of the present contribution schedule in the years just ahead. Under that schedule there would be a shift from an approximate balance of income and outgo in 1965 to an annual rate of trust fund accumulation of about $4 billion beginning in 1968. The Council recommends a large reduction in the size of these accumulations.

The Council is concerned also that in both the short run and the long run, the economic impact should be reasonable and should be capable of being absorbed by the economy and by the employee, employer and the self-employed without undue burden or strain. For this reason the Council is recommending that needed increases in both the contribution rate and the contribution and benefit base be put into effect gradually so that there will not be large changes in the level of contributions at any one time.

The Council's major recommendation in the pages that follow is for the extension of the program so that workers (and their employers) and the self-employed will make contributions during their working years in order to have protection against the cost of hospital care and related services in old age or in the event of permanent and total disability. The Council believes that the time has come to apply the method of social insurance to this pressing problem in order to assure the continuing effectiveness of retirement protection. While social security cash payments, if adequate, can assure that the older person and his family, or the disabled person and his family, will be able to meet regularly recurring, budgetable costs of food, clothing, and shelter, they cannot in practice be made sufficient to replace the need for insurance protection against the large and uncertain costs of hospital care. If our social insurance system is to be truly effective in preventing both dependency and the fear of dependency, the system must be broadened to include hospital insurance for the aged and the totally disabled. Otherwise more and more of these people will have to turn for help to public assistance—with all the disadvantages that this has for them and for society as a whole.

The Council is also concerned that the social security cash payments be made more adequate and, particularly, that the system take into account increases in prices and earnings levels that have occurred since the last time major revisions were made in the benefit provisions. One of the strengths of social insurance is its ability to adjust to changing economic conditions so that retired and disabled persons and survivors can share on a reasonable basis in the increasing productivity of our economy.

Other major recommendations of the Council relate to the way in which the social security program is financed, the maximum amount of annual earnings taxable and creditable toward benefits under the program (the contribution and benefit base) and the level of benefits and extensions of coverage.

The Council's recommendations, together with the considerations which prompted them, are presented in three parts. Part I presents the Council's findings with respect to the financing of the social security program, assuming no changes in the benefit and coverage provisions. Part II presents recommendations for an extension of the program to help meet the cost of hospital care and related services for the aged and the totally disabled. Part III of the report presents the Council's recommendations for improving the cash-benefit provisions, extending the coverage of the program and financing the recommended changes.

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

I. Financing the Present Program

The Council has examined the financing of the present program apart from any changes which it is recommending and has found as follows:

1. *The Status of the Program and Allocation of Contribution Income.*—The social security program as a whole is soundly financed, its funds are properly invested, and on the basis of actuarial estimates that the Council has reviewed and found sound and appropriate, provision has been made to meet all of the costs of the program both in the short run and over the long-range future. The contribution income should be reallocated between the two trust funds, however, so that the disability insurance part of the program, like the old-age and survivors insurance part of the program and the program as a whole, will be in close actuarial balance.

2. *Adjustment in the Contribution Rate Schedule in the Short Range.*—The contribution rates now scheduled in the law should be adjusted to avoid the rapid increase in trust fund assets that will otherwise begin with the rate increases scheduled for 1966 and 1968.

3. *The Contribution Rates in the Long Range.*—There should continue to be included in the law a schedule of contribution rates which, according to the intermediate-cost estimates, will be sufficient to support the program over the long-range future. However, decisions about putting future rate increases into effect, once the rates actually being charged are high enough to cover the long-range cost of the program as shown by a reasonable minimum estimate, should be guided largely by estimates of program costs over a 15- or 20-year period.

4. *The Contribution and Benefit Base.*—The maximum amount of annual earnings that is taxable and creditable toward benefits needs to be substantially increased in order to maintain the wage-related character of the benefits, to restore a broader financial base for the program and to apportion the cost of the system among low-paid and higher-paid workers in the most desirable way.

5. *The Contribution Rate for the Self-Employed.*—Increases in the social security contribution rate for the self-employed beyond the present rate should be put into effect gradually, and only to the extent that the ultimate rate will be no more than 1 percent of earnings greater than the rate paid by employees.

6. *Maintaining the Integrity of the Trust Funds.*—To maintain the integrity of the trust funds, the reimbursement of the trust funds for the cost of paying social security benefits based on military service for which no contributions were paid should begin without further delay and the Board of Trustees should be given specific responsibility for reviewing those administrative charges against the trust funds which are based on estimates rather than on actual costs.

II. Hospital Insurance for Older People and the Disabled

The Council proposes hospital insurance protection for those 65 or over and for disabled social security beneficiaries as follows:

1. *Inpatient Hospital Benefits.*—The proposed hospital insurance for people age 65 or over and the disabled should cover a number of days sufficient to meet the cost of inpatient hospital services for the full stay of almost all beneficiaries.

2. *Outpatient Hospital Diagnostic Services.*—Payment under the program should be made for the costs of outpatient hospital diagnostic services furnished beneficiaries.

3. *Deductibles.*—Hospitalized beneficiaries should pay a deductible equal to the cost of one-half day of care—$20 at the program's beginning. In the case of beneficiaries who are provided outpatient diagnostic services, this deductible amount should be applied for each 30-day period during which diagnostic services are provided.

4. *Services in Extended-Care Facilities.*—The cost of posthospitalization extended-care services in facilities which provide high-quality rehabilitative and convalescent services should be covered so as to pay for a minimum number of days after hospitalization in all cases, with additional days of extended-care services being paid for if the patient has not used all of his inpatient hospital coverage.

5. *Organized Home Nursing Services.*—Insurance coverage should be provided for organized home nursing services.

6. *Payments on the Basis of Reasonable Cost.*—The extent of hospital insurance and related protection should be specified in terms of the services covered rather than in terms of fixed dollars, and covered services should be paid for on the basis of the full reasonable cost of the services.

7. *Hospital Staff Review of Utilization.*—Hospitals should be required, as a condition of participation, to establish professional staff committees to review the services utilized.

8. *Administration.*—The proposed hospital insurance provisions should be administered by the same Federal agencies which administer the social security program but in carrying out this responsibility the Federal Government should use private and State agencies to the extent that these agencies can contribute to efficient and effective operation.

9. *The Basis of Eligibility for Benefits.*—Hospital insurance benefits should be provided for aged and disabled beneficiaries of the social security program, and special provision should be made for the next few years for those who have not met the requirements of eligibility under the program.

10. *Financing.*—The proposed hospital insurance program should be financed by a special earmarked contribution of 0.4 percent of covered earnings from employees and from employers, and 0.5 percent from the self-employed, with an 0.15 percent contribution from Federal general revenues to cover the cost of benefits for those already retired or disabled.

III. Improvements in the Cash-Benefit Provisions

The Council has examined all aspects of the present program of cash benefits and is recommending changes as follows:

SOCIAL SECURITY BENEFIT AMOUNTS

1. *The Period for Computing Benefits for Men.*—The period for computing benefits (and insured status) for men should be based, as is now the case for women, on the period up to the year of attainment of age 62, instead of age 65 as under present law, with the result that 3 additional years of low earnings would be dropped from the computation of retirement benefits for men.

2. *A General Increase in Benefits.*—A general increase in benefit amounts, accomplished by a change in the way the benefit formula is constructed, should be provided to take into account increases in wages and prices since the last general benefit increase in 1958, and the maximum on monthly family benefits should be related to earnings throughout the benefit range.

3. *The Maximum Lump-Sum Death Payment.*—The maximum lump-sum death payment should not be set in terms of an absolute dollar limit but rather should be the same as the highest family maximum monthly benefit.

DEPENDENTS' AND SURVIVORS' BENEFITS

4. *Children Over Age 18 Attending School.*—Benefits should be payable to a child until he reaches age 22, provided the child is attending school betwen ages 18 and 22.

5. *Disabled Widows.*—The disabled widow of an insured worker, if she became disabled before her husband's death or before her youngest child became 18, or within a limited period after either of these events, should be entitled to widow's benefits regardless of her age.

6. *Definition of Child.*—A child should be paid benefits based on his father's earnings without regard to whether he has the status of a child under State inheritance laws if the father was supporting the child or had a legal obligation to do so.

DISABILITY BENEFITS

7. *Young Disabled Workers.*—Young workers who become disabled should have their eligibility for benefits determined on the basis of a test of substantial and recent employment that is appropriate for such workers.

8. *Rehabilitation of Disability Beneficiaries.*—The social security program should pay the costs of rehabilitation for disability beneficiaries likely to be returned to gainful work through such help, with the rehabilitation services being provided through State vocational rehabilitation agencies.

ELIGIBILITY FOR BENEFITS

9. *Insured Status.*—The Council recommends retention of a requirement of covered work as a test of eligibility for benefits, and has no major changes to recommend in the present provisions.

10. *Retirement Test.*—The provision in the law that prevents the payment of benefits to a person with substantial earnings from current work—the retirement test—is essential in a program designed to replace lost work income and should be retained.

EXTENDING THE COVERAGE OF THE PROGRAM

11. *Doctors of Medicine.*—Self-employed doctors of medicine should be covered on the same basis as other self-employed people now covered, and interns should be covered on the same basis as other employees working for the same employer.

12. *Tips.*—Social security contributions should be paid on tips an employee receives from a customer of his employer, and tips should be counted toward benefits.

13. *Federal Employees.*—Social security credit should be provided for the Federal employment of workers whose Federal service was covered under the civil service retirement system but who are not protected under that system at the time they retire, become disabled, or die.

14. *State and Local Government Employees.*—The coverage of additional State and local government employees should be facilitated by making available to all States the option of covering only those present members of State and local government retirement system groups who wish to be covered, with coverage of all

new members of the group being compulsory. Also, policemen and firemen in all States should be provided the same opportunity for coverage as other State and local government employees.

The tax rates needed to finance the changes recommended by the Council

[The contribution rates under present law are applicable to annual earnings up to $4,800; the proposed contribution rates would apply to annual earnings of $4,800 in 1965, $6,000 in 1966 and 1967, and $7,200 in 1968 and thereafter]

Period	Employee and employer, each			Self-employed		
	OASDI		Hospital insurance [1]	OASDI		Hospital insurance [1]
	Present law	Proposed		Present law	Proposed	
1965	3.625	3.625		5.4	5.4	
1966-67	4.125	4.3	0.4	6.2	5.8	0.5
1968-70	4.625	4.3	.4	6.9	5.8	.5
1971-75	4.625	4.7	.4	6.9	6.0	.5
1976 and after	4.625	5.3	.4	6.9	6.3	.5

[1] The financing of the proposed hospital insurance program would also include a level contribution of 0.15 percent of covered payroll from Federal general revenues for the next 50 years (not shown in the table).

PART I. FINANCING THE PRESENT PROGRAM

In this part of the report the Council presents the results of its study of the financial status of the existing social security program and of the principles underlying the legislative provisions for social security financing. The financial implications of the Council's recommendations for program improvements as set forth in parts II and III of the report are presented in conjunction with those recommendations.

The financing provisions of present law are as follows: Employees pay contributions on their annual earnings up to a maximum of $4,800. Each employer pays at the same rate as the employee on the first $4,800 paid to each of his employees in the year. The self-employed pay at a rate approximately equal to 1½ times the rate paid by employees. Contribution rates are scheduled to increase from an employer and employee rate of 3⅝ percent each in 1965 to 4⅛ percent each in 1966 and to an ultimate rate of 4⅝ percent each in 1968. The contribution rates now scheduled are intended to provide enough income to meet all of the costs of the system, including administration, into the indefinite future.

Funds not needed for immediate benefit payments are invested in obligations of the United States Government and the interest earnings on these obligations are available to help pay the cost of the system. The scheduled contribution rates include an allocation to the separate disability insurance trust fund of one-half of 1 percent from the combined employer and employee contribution (three-eighths of 1 percent for the self-employed).

I. THE STATUS OF THE PROGRAM AND ALLOCATION OF CONTRIBUTION INCOME

The social security program as a whole is soundly financed, its funds are properly invested, and on the basis of actuarial estimates that the Council has reviewed and found sound and appropriate, provision has been made to meet all of the costs of the program both in the short run and over the long-range future. The contribution income should be reallocated between the two trust funds, however, so that the disability insurance part of the program, like the old-age and survivors insurance part of the program and the program as a whole, will be in close actuarial balance.

As indicated in the latest Trustees' Report, the social security program as a whole is in actuarial balance both over the short run and for the long-range future. The review of the actuarial estimates conducted by the Council supported this conclusion of the Trustees. In the Council's opinion, based on actuarial estimates that the Council has reviewed and found sound and appropriate, the contribution rates in present law will supply income which, together with interest earnings on the funds, will be sufficient to meet all benefit costs and administrative expenses as they fall due.

While the old-age and survivors insurance part of the program and the program as a whole are in close actuarial balance, the disability insurance part of the program (which involves only a small proportion of the total cost of the system), when looked at separately, is underfinanced. It was recognized at the time of the last major disability amendments in 1960 that the income to the disability fund was likely to be about 0.06 percent of covered payroll short of what was needed for the long run. Experience since that time has indicated that disability benefit termination rates due to death and recovery of the beneficiary are lower than had been assumed in the earlier estimates, so that the expected deficit is now about 0.14 percent of covered payroll. To correct this situation, the Council endorses the recommendation of the Board of Trustees that there be a small reallocation of contribution income—the Council would favor 0.15 percent of covered payroll for present law—from the old-age and survivors insurance trust fund to the disability insurance trust fund.[1] This could be done without any increase in the over-all contribution rates now scheduled for the program and would put the disability insurance part of the program in close actuarial balance, while also leaving the old-age and survivors insurance part and the program as a whole in close balance.

In arriving at the conclusion that the system as a whole is in actuarial balance, the Council examined not only the results of the estimates but also the techniques used and the assumptions on which the estimates are based. It found that the techniques used in preparing the estimates of the cost of the program are in accordance with sound actuarial practice and that the assumptions on which these estimates are based are appropriate. The estimates take full and proper account of the various economic and demographic factors affecting the future cost of the program.[2] The Council favors the continuance of present practice under which estimating techniques and the assumptions underlying the estimates and the contribution schedule are re-examined and adjusted in the light of developing experience.

The Council believes that it is proper for a national system of compulsory social insurance to use what is known as an "open-group" technique in preparing actuarial cost estimates—that is, to take into account not only present assets, future benefits for present beneficiaries, and future contributions and benefits with respect to workers now covered, but also the contributions and benefits to be paid with respect to workers to be covered in the future as well. The Council is in agreement with the previous groups that have studied the financing of the program that it is unnecessary and would be unwise to keep on hand a huge accumulation of funds sufficient, without regard to income from new entrants, to pay all future benefits to past and present contributors. A compulsory social insurance program is correctly considered soundly financed if, on the basis of actuarial estimates, current assets plus future income are expected to be sufficient to cover all the obligations of the program; the present system meets this test. The claim sometimes made that the system is financially unsound, with an unfunded liability of some $300 billion, grows out of a false analogy with private insurance, which because of its voluntary character cannot count on income from new entrants to meet a part of the future obligations for the present covered group.

It is important to note that the long-range cost estimates prepared for the program are based on the assumption that earnings will remain at a given level (at the 1963 level under the estimates shown in this report). If average earnings continue to rise in the future, as there is reason to expect they will, then, assuming no change in other cost factors, the income of the program relative to outgo will be considerably higher than the estimates show.[3] The Council believes that making the estimates on a level-wage assumption allows for a desirable margin of safety and recommends that the practice be continued in making the long-range estimates. If the assumptions which underlie the intermediate or low-cost estimates are borne out by experience, then the use of level wages allows for

[1] Under the Council's recommendations discussed in Part III, the reallocation should be 0.25 percent of covered payroll rather than 0.15 percent.

[2] Since over the long-range future the cost of the program will be affected by many factors that do not lend themselves to precise measurement, assumptions regarding them may differ widely and yet be reasonable. For this reason, high-cost and low-cost assumptions are made for the various factors affecting the long-range cost of the program. Intermediate-cost estimates are then derived by averaging the high-cost estimates and the low-cost estimates. The Council believes that these intermediate-cost estimates provide a reasonable basis for gauging the long-range cost implications of present benefit provisions and proposals for changes.

[3] The reason for this effect of rising earnings is that benefits based on low earnings are a higher precentage of the worker's average monthly wage than are benefits based on higher earnings, and therefore, as earnings go up, benefits as a percentage of earnings go down. Contributions, on the other hand, are the same percentage of covered earnings at all levels. As earnings go up, then, the benefit outgo as a percentage of covered earnings decreases while the contribution income as a percentage of covered earnings stays the same.

benefit increases if wages rise without any increase in the contribution rates. If experience comes close to the high-cost assumptions, then the use of the level-wage assumption will result, if wages rise, in an offset to the cost consequences of the unfavorable experience and still allow for some upward adjustment in benefits without any increase in the contribution rates.

The Council suggests only one significant change in the assumptions underlying the long-range estimates. In the past an attempt has been made to present cost estimates into perpetuity. Specifically, it has been assumed for purposes of the estimates that trends for the factors affecting the cost of the program will level off at some point in the distant future (about 85 to 90 years) and continue at that level indefinitely. The Council believes that it serves no useful purpose to present estimates as if they had validity in perpetuity. A period of 75 years would span the lifetime of virtually all covered persons living on the valuation date and is as long a period as can be expected to have a realistic basis for estimating purposes. When costs are reassessed at frequent intervals, as has always been the practice, 75-year projections allow sufficient time to adjust to new and changing experience as it emerges. The long-range cost estimates shown in this report, therefore, are developed for a period of 75 years and it is our recommendation that long-range estimates in the future also be made on this assumption. The effect of this changed procedure is to make the estimated level-cost of the present program about 3 percent lower (about 0.25 percent of payroll) than when using the earlier procedure. At the same time the Council believes that the financing should be such that the actuarial status of the program will be reasonably close to an exact balance according to the intermediate-cost estimates.[4]

The Council has also examined the practices followed with respect to investment of the funds of the program. From the inception of the program in 1937, the investment of trust fund assets has been restricted by law to interest-bearing obligations of the United States or obligations guaranteed as to principal and interest by the United States. The investments can be either in special obligations issued exclusively for purchase by the trust funds or in publicly available obligations of the Federal Government. Under the present provisions of the Social Security Act relating to the investments of the trust funds, the special obligations issued exclusively to the trust funds bear interest rates equal to the average market yield at the end of the preceding month on all interest-bearing marketable obligations of the United States not due or callable for 4 or more years after that date. This market-yield formula, based on the recommendations of the Advisory Council on Social Security Financing appointed in 1957, has served as a model for determining interest rates on special obligations issued to certain other Federal trust funds. This Council believes that the present procedures for investing the trust funds and for setting the interest rates on the special obligations are satisfactory.

2. ADJUSTMENT IN THE CONTRIBUTION RATE SCHEDULE IN THE SHORT RANGE

The contribution rates now scheduled in the law should be adjusted to avoid the rapid increase in trust fund assets that will otherwise begin with the rate increases scheduled for 1966 and 1968.

The 1956 legislation establishing the social security advisory councils scheduled them so that each would make its report 1 year before the date when an increase in the social security contribution rates was due to go into effect, and one of the primary duties of the councils, as specified in the law, is to make recommendations with respect to the social security contribution schedule. Thus the Council recognizes a special obligation, without regard to other changes it is recommending, to report its findings and make recommendations regarding the social security contribution rates designed to support the existing program.

The benefit outgo of the program will increase for many years, mainly because of the increasing number of people eligible for benefits at age 62 or over. This increasing cost is to be met under the present law by raising the rates to 4⅛ percent each for employees and employers and to 6.2 percent for the self-employed in 1966, and finally to 4⅝ percent each for employees and employers and 6.9 percent for the self-employed in 1968. The question to which the Council is here addressing itself is whether changes should be made in these scheduled rate increases.

On the basis of the actuarial cost estimates the Council has examined, it is clear that some increase in income to the program over what the 3⅝ percent tax

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[4] Traditionally the social security program has been considered in actuarial balance when, on the basis of the long-range intermediate-cost estimates projected into perpetuity, the actuarial insufficiency was not greater than 0.30 percent of payroll for the program as a whole. The Council believes that a closer balance would be desirable when the long-range cost estimates are projected over a 75-year period.

rate now in effect would produce will be needed in 1966. The Council finds, however, that the increase to 4⅛ percent each for employers and employees now scheduled for 1966 and 1967 is higher than it believes is desirable for several years. The Council is recommending an increase in the contribution and benefit base in order to maintain the wage-related character of the benefits, to restore a broader financial base for the program, and to apportion the cost of the program appropriately between high-paid and low-paid workers. If the increase in the base is adopted in accordance with the Council's recommendation, the increase needed in 1966 in the income of the program will be provided thereby. If the base is not increased, and if all other provisions remain unchanged, the Council would propose the contribution rate be increased in 1966 to 3.9 percent. This rate would produce a slight excess of income over outgo for about 2 years. In the Council's opinion it is highly desirable that the income to the funds exceed outgo year by year. As has been evidenced in several recent years, if this is not the situation, there is danger of public misunderstanding of the financial condition of the program. On the other hand, as nearly as can now be determined, it would seem to be desirable from the standpoint of the general economy to avoid the deflationary effect of large trust fund accumulations.

In the absence of any other changes in the law the Council would also propose revisions in the rates scheduled for 1968 and later years. The imposition of the 4⅝ percent rate as scheduled in 1968 would build very large trust fund accumulations—as much as $4 billion a year—and would also involve the possibility of imposing rates higher than will ever be needed to pay for the benefits provided under present law. The rate of 4⅝ percent in 1968 is designed to meet long-range costs falling about halfway between the high- and the low-cost estimates. If the actual experience is close to the low-cost estimates, for example, a contribution rate of 4⅛ percent in 1968, rather than 4⅝ percent, would cover the cost of the present program for 75 years.

This Council agrees with the last Advisory Council in the view that once the social security contribution rates actually in effect are high enough to cover the long-range cost of the program as shown by a reasonable minimum estimate, then decisions on whether scheduled rate increases are allowed to go into effect should be guided largely by conditions expected in the 15- or 20-year period immediately ahead. The Council recommends that if the present program continues unchanged in other respects the proposed 3.9 percent rate for 1966 be continued through 1968 and the rate scheduled for 1969–1971 be 4.1 percent of payroll. This figure is close to the 75-year level cost of the program under the low-cost estimates. The recommendations for rates to be included in the law for years after 1971—but to be allowed to go into effect only if developing conditions indicate that they will be necessary—are given on page 70.

The Council believes that reducing the scheduled rates as suggested for the 6 years after 1965 would not threaten the financial soundness of the program. Since continuing income from social security contributions is assured, the only fund balances required are those needed to meet temporary excesses of outgo over income due to relatively high benefit costs or low social security tax revenue in a particular period. In the opinion of the Council, fund balances high enough to maintain the solvency of the program in the face of recession conditions as severe as, say, those referred to in the annual report of the Board of Trustees—that is, conditions that would prevail if there were a drop of 5 million in the number of people with covered earnings in a year—would be adequate to provide protection against any contingency that might reasonably be expected, and the trust fund balances resulting from the Council's recommended rate schedule would be sufficient to do this.[5]

Holding the trust funds to reasonable contingency levels, instead of allowing them to increase as they would under the present tax schedule, will of course mean a loss of interest income to the program. However, despite the very substantial funds that would be built up under the present schedule, the interest earned on these funds is expected to supply only about 10 to 15 percent of the income of the program over the long-range future. Thus the role of the trust funds as interest-earning reserves is not very great even under the present schedule; the funds are even now to be thought of largely as a reserve to meet unexpected contingencies rather than as funds for the purpose of earning interest. Moreover, if the system is improved as earnings levels rise in the future, as seems likely to be the case, interest earnings on a fund of any given size will meet a decreasing

[5] The Trustees follow a practice of including in their annual report an illustration of the effect that a sharp reduction in the level of economic activity and an increase in the rate of unemployment would have on the operations of the program. In the opinion of the Council this is a desirable practice and should be continued.

proportion of benefit costs. It may therefore prove to be unwise to count on interest earnings meeting even as large a part of benefit costs in the distant future as is now contemplated.

The Council does not consider the use of interest in the financing of the program to be a major issue. A reasonable contingency fund will result in interest earnings which will supply 4 to 5 percent of benefit costs. Even under the present contribution schedule interest earnings may not exceed 10 percent of costs. The Council believes that, on balance, any advantage of imposing rates that will build up large interest-earning trust funds is outweighed by the disadvantages.

3. THE CONTRIBUTION RATES IN THE LONG RANGE

There should continue to be included in the law a schedule of contribution rates which, according to the intermediate-cost estimates, will be sufficient to support the program over the long-range future. However, decisions about putting future rate increases into effect, once the rates actually being charged are high enough to cover the long-range cost of the program as shown by a reasonable minimum estimate, should be guided largely by estimates of program costs over a 15- or 20-year period.

Like the last Advisory Council, the present Council endorses the practice of including in the law a contribution schedule that, according to the intermediate-cost estimates, places the system in actuarial balance over the long-range future. As that Council pointed out, this procedure is needed to make people conscious of the long-range costs of the program and the costs of proposals to change the program. Accordingly, this Council is recommending that for the *present* program, if the contribution rates it recommends for 1966 and 1969 are put into effect (bringing the rates about to the level needed for the next 75 years under the low-cost estimates), further contribution rate increases nevertheless should be scheduled in the law for 1972 and 1975. The 1972 rate should reflect the estimated cost for the next 3 years on the basis of the long-range intermediate-cost estimate, while the 1975 rate should represent the level-cost for the succeeding 65 years. The employee (and employer) rate for 1972–74 should be 4.3 percent. A rate of 4.7 percent effective in 1975 would be sufficient to finance the present program under the intermediate-cost estimate throughout the period covered by the estimate.

While the Council believes that the rates for 1972 and 1975 should be scheduled in the law in order to assure public appreciation of the approximate long-range cost of the program, decisions on whether these rates should be put into effect as scheduled, since they are higher than would be needed if the low-cost estimates are borne out by experience, should be made in the light of circumstances prevailing just before the proposed effective dates. These decisions should be made largely in the light of conditions that are expected to exist over the 15 or 20 years following the proposed effective dates.

If there are no other changes in the program, and if the contribution and benefit base is not increased, the Council would recommend that the 4.125 percent rate scheduled for employees and employers in 1966 be reduced to 3.9 percent, that the rate be held at this level through 1968, and that the rate for 1969 be set at 4.1 percent. Rates of 4.3 percent in 1972 and 4.7 percent in 1975 should be scheduled in the law, subject to future review. If the Council's recommendations for improvements in the program are adopted, the rates would of course need to be higher than those shown here; the cost of the changes and the recommended rates for the cash-benefit program as it would be improved are shown on page 102.

The financing of hospital insurance is discussed on pages 82–85.

4. THE CONTRIBUTION AND BENEFIT BASE

The maximum amount of annual earnings that is taxable and creditable toward benefits needs to be substantially increased in order to maintain the wage-related character of the benefits, to restore a broader financial base for the program and to apportion the cost of the system among low-paid and higher-paid workers in the most desirable way.

The Council recommends that the maximum amount of annual earnings that is taxable and creditable toward benefits—the contribution and benefit base—be increased to at least $6,000 effective in 1966 and $7,200 effective in 1968. These increases are needed in order to maintain the wage-related character of the benefits, to restore a broader financial base for the program, thus keeping the contribution rates lower than they would otherwise have to be, and to apportion the cost of the system appropriately.

As is discussed in Part III, failure to keep the contribution and benefit base up to date has serious effects on the benefit protection provided as more and more workers have earnings above the base and their benefits are related to a smaller and smaller part of their earnings. In addition, unless the contribution and benefit base is increased as earnings rise, the foundation of the financing of the program—the proportion of the Nation's payrolls which is subject to social security contributions—is weakened.

Moreover, if benefits were raised without increasing the contribution and benefit base, the increases in the contribution rates would have to be higher than they would have to be if the base were raised, and lower-paid workers as well as those earning at or above the maximum would have to pay these higher rates. It is much more desirable to meet the cost of increased protection for workers at average or higher earnings levels by increasing the amount of earnings on which those workers contribute than by increasing the contribution rates that all workers pay.[6]

The contribution and benefit base is now substantially out of date because of large advances in the general wage level. When the program was enacted in 1935, the $3,000 base provided would have covered 95 percent of total earnings in covered work in that year, and would have covered the full earnings of 98 percent of all workers and of 97 percent of regularly employed men.[7] When the base was raised to $3,600 in 1950, the $3,600 base would have covered 86 percent of earnings in covered work and all of the earnings of 81 percent of all workers and of 62 percent of regularly employed men. In 1965, with the $4,800 base, only about 72 percent of earnings in covered employment will be taxed to support the program and only 66 percent of all workers and 36 percent of regularly employed men will have all their earnings covered.

The concept embodied in the original $3,000 base was that practically all of the Nation's covered payrolls should be subject to contributions for the support of the program and that all but the most highly paid workers should have all their earnings counted toward benefits. The Council does not think it would be practicable to attempt at this time to restore all of the ground that has been lost over the years. A base of $14,500 would be needed now to cover 95 percent of total earnings in covered work, as was contemplated in 1935. Nor does the Council believe it necessary that the original situation with respect to the proportion of total earnings covered under the program be fully restored in order to carry out the general principles of the original Act.

The Council believes that a return to the relationship that existed in 1950, the first year the Congress increased the contribution and benefit base, *is* a practical goal. The council recognizes, however, that it may not be practical to move to this level in one step, and is recommending, therefore, that the base be increased at least to $6,000 for 1966 and 1967 and to $7,200 in 1968. A contribution and benefit base of $7,200, if effective in 1968, would, it is estimated, tax about 80 percent of total earnings in covered work and would result in 82 percent of all workers, and 63 percent of regularly employed men, having all their earnings counted toward benefits.[8] The result would be comparable to the 1950 situation in respect to the last two measures and somewhat short in respect to the first measure.

The members of the Council are agreed on the changes here recommended as the minimum desirable. Some members, however, think that the proposed amounts for the contribution and benefit base are not high enough and would recommend that they be substantially greater, rising in the second step to nine or ten thousand dollars. This group believes that it is important to go beyond restoring the 1950 situation and move toward the situation contemplated under the original Social Security Act.

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[6] If the base were restored to a figure comparable to the $3,000 figure provided in the 1935 legislation, the ultimate contribution rate for employee and employer under the present program could be reduced for each by about 0.5 percent. If it were raised to a figure comparable to $3,600 at the time that figure was written into the law in 1950, the ultimate rate for the present program could be reduced by about 0.3 percent each.

[7] Measures of the effectiveness of the contribution and benefit base that have been used from time to time include the proportion of earnings taxed for the support of the program, the proportion of all workers who have all of their earnings credited toward benefits, and the proportion of regularly employed men (generally the primary earners) who have all of their earnings credited toward benefits. The first is probably most important for financing and the third for an evaluation of the adequacy of the benefit structure.

[8] If earnings levels continue to increase at about the same rate as they increased over the last 5 years, average earnings in covered work will increase about 4 percent per year during the period January 1964–January 1968.

5. THE CONTRIBUTION RATE FOR THE SELF-EMPLOYED

Increases in the social security contribution rate for the self-employed beyond the present rate should be put into effect gradually, and only to the extent that the ultimate rate will be no more than 1 percent of earnings greater than the rate paid by employees.

Since 1951, when self-employed people were first brought into the social security program, they have paid social security contributions at a rate 1½ times the rate paid by employees. The policy of imposing the contribution at this 1½-times rate, balances two opposing considerations. On the one hand, to the extent that the self-employed person does not contribute at rates as high as the combined employee-employer rate, there is a financial disadvantage to the program in covering him, as compared to covering an employee. On the other hand, looked at from the standpoint of an individual contributing toward his own protection, some self-employed people will be "overcharged" when paying over a lifetime at the ultimate rate now scheduled.

Although the policy of setting the self-employed rate at 1½ times the employee rate seemed a reasonable compromise at the time it was adopted, the Council believes that, as the rates have gone up, the substanital difference between the employee rate and the self-employed rate has become difficult to justify. The contributions paid by self-employed people above the rates paid by employees are, like employers' contributions to the program, used in large part to help provide protection for low-paid workers, workers with large families and workers who were already on in years when their jobs were first covered.[9] The Council believes that it is reasonable to use the contributions of an employer for general purposes, rather than for the benefit of the particular employees on whose earnings the contributions are based, as long as the employee can in general be said to get his own money's worth. On the other hand, the Council does not believe that self-employed workers should as a rule be charged rates for their own coverage beyond the rates needed to pay for the protection they are provided by the program in order to help meet the cost of the protection provided to others.

The Council recommends, therefore, that, except for the financing of new types of benefits such as hospital insurance, increases in the social security tax rate for the self-employed beyond the rate now being charged be put into effect only to the extent that the self-employed will pay no more than 1 percent of covered earnings above the rate paid by employees at the time the ultimate rate goes into effect.[10] With self-employed contributors paying, ultimately, 1 percent of earnings more than employees, their contribution rate would reflect the fact that to a degree they are in the same position as an employer, that is, that they are their own employers. At the same time, they would not be overcharged when paying for a full working lifetime at the ultimate contribution rate.[11]

6. MAINTAINING THE INTEGRITY OF THE TRUST FUNDS

To maintain the integrity of the trust funds, the reimbursement of the trust funds for the cost of paying social security benefits based on military service for which no contributions were paid should begin without further delay and the Board of Trustees should be given specific responsibility for reviewing those administrative charges against the trust funds which are based on estimates rather than on actual costs

The last Advisory Council called the management of the social security trust funds "the greatest financial trusteeship in history." This Council agrees, and it has reviewed the management of the funds to be sure that their integrity is maintained. As a result of its study, the Council has concluded that, in general, the trust funds are managed with due regard for their nature as funds held in trust

[9] Actually, a part of the employers' contributions (about 15 to 20 percent)—and of that part of the self-employed person's contribution that exceeds the employee contribution—is used to meet the cost of benefits for the long-term better-paid worker, since the contributions of this group do not quite cover the cost of their own benefits.

[10] In Part II the Council also recommends that the contribution rate for the self-employed under the hospital insurance proposal be only a little above that for employees—0.5 percent of earnings for the self-employed and 0.4 percent for employees.

[11] The contribution rate paid by the self-employed person in excess of that paid by the employee would roughly cover the difference between the value of the contributions paid over a lifetime at the ultimate rate by employees earning at the maximum covered amount and the value of the old-age, survivors, and disability insurance protection received by a person covered by the system over a whole working lifetime and earning at the maximum covered amount.

for the contributors and beneficiaries of the program. The Council does, however, want to call attention to two respects in which improvement should be made.

Military service after 1956 is covered in the same way as is all other work in covered employment, and social security employee and employer contributions with respect to military service are paid into the trust fund by the Federal Government just as are the contributions of private employers and employees. For service prior to 1957 (and after September 16, 1940), however, noncontributory wage credits were provided, and, in addition, benefits were provided for the survivors of certain World War II veterans who died within 3 years after discharge. Social security contributions were not paid with respect to those special wage credits and benefits.

The social security system has been reimbursed from the general fund of the Treasury for the cost resulting from the special benefits paid through August 1950. The authorization for such reimbursement was repealed by the 1950 amendments. In 1956 the law authorized reimbursement of the system for the cost resulting from the payment of the special benefits from September 1950 on and for the cost resulting from the noncontributory wage credits for military service. Although the 1956 legislation authorized such reimbursement beginning in fiscal year 1960, no reimbursement has yet been made.

The Council views the reimbursement owed the trust funds by the United States Government for benefits arising from noncontributory military service credits in the same light as social security contributions payable by employers generally, and therefore urges that the Government as the employer of the servicemen discharge its obligations to the trust funds just as it requires employers generally to meet their obligations. The Council also believes that this reimbursement should begin without delay.

The Council notes also that, although the Board of Trustees is directed to review the general policies followed in managing the trust funds, there is no specific requirement in the law that it review the way in which administrative costs incurred outside of the Social Security Administration—for example, by the Internal Revenue Service in the collection of social security taxes and by the Treasury Disbursing Office in issuing benefit checks—are arrived at and charged to the funds, nor has any other agency of Government been assigned this responsibility. Many of these costs, unlike those of the Social Security Administration, are charged to the trust funds on the basis of estimates rather than of actual cost. The Council believes that there should be a review of such charges and that the Board of Trustees should do it.

The Council does not believe that the Board of Trustees should be required by law to meet every 6 months, as it now is. The Council has been informed that important financial policy issues suitable for consideration by the Trustees do not come up every 6 months. The Council recommends that the law be changed so that the Trustees would not be required to meet more than once every year.

PART II. HOSPITAL INSURANCE FOR OLDER PEOPLE AND THE DISABLED

In its examination of the adequacy of social security protection for the aged and the totally disabled the Council came to the conclusion that cash benefits alone are not enough. Monthly cash benefits, if adequate, can meet regularly recurring expenses such as those for food, clothing and shelter, but monthly cash benefits are not a practical way to meet the problem that the aged and disabled face in the high and unpredictable costs of health care, costs that may run into the thousands of dollars for some and amount to very little for others. Security in old age and during disability requires the combination of a cash benefit and insurance against a substantial part of the costs of expensive illness.

THE COUNCIL'S POSITION IN BRIEF

Essentially the problem is this: Incomes decrease sharply upon old-age or disability retirement, but the incidence of costly illness increases. During their working years, when ill health is less frequent, employed workers can generally meet costs of current care for themselves and their families—directly or through insurance—out of their current employment income, often through an employee-benefit plan and with the help of their employers. The situation of the aged and disabled is quite different. Not only do they have the higher health costs associated with old age and disability but their incomes are greatly reduced because they are no longer working.

The solution, the Council believes,[12] is to apply the method of contributory social insurance, which underlies the present social security program, so that people can contribute from earnings during their working years and have protection against the costs of hospital and related services after age 65 and during disability without having to pay contributions at the time when income is generally curtailed. Contributory social insurance, the Council believes, offers the only practical way of making sure that almost everyone will have hospital protection in old age and during periods of long-term total disability.

It is not proposed, however, that social insurance cover all the costs of illness during old age and long-term total disability. The American approach to income security has traditionally involved a partnership of private effort and governmental measures. For example, old-age, survivors, and disability insurance is supplemented by employer and trade union plans, private insurance, and individual savings and investments. All contribute to the common goal of personal and economic independence. Backstopping this combination of measures for individual self-support are the Federal-State public assistance programs.

We believe this same pluralistic approach can be used effectively in meeting the costs of illness during old age and disability. With social security meeting just about all of the costs of hospitalization, which, on the average, represent at least half the costs associated with the more expensive illnesses, the person who is old or totally disabled will be in a much better position than he is today to meet, on his own and through private insurance, the costs of physician services, drugs, and the other elements of complete medical care. Also, with social security providing basic hospital protection, it should be practicable to improve the Federal-State public assistance programs to make them serve more effectively in meeting the health costs for older and disabled people whose needs are not met in other ways.

The Need for Protection Against the Cost of Hospitalization

Older people and disabled people have a special need for protection against the cost of hospitalization and related services—they need more care and they have less money to pay for it.

As one would expect, health care expenditures on the average are much greater for people past 65 than for younger people. Total health care expenditures for the aged, in fact, are twice as high, and in the case of expenditures for hospitalization, the ratio is about 2¾ to 1. Older persons go to the hospital more often and have to stay much longer than those under 65.

The cost of hospitalization affects practically all older people. Of every ten persons who reach age 65, nine will be hospitalized at least once during their remaining years and most will be hospitalized two or more times. In the case of aged couples, the chances are about even that the husband and wife will each be hospitalized two or more times.

Not only is hospitalization a virtually universal occurrence among older people but there is a high correlation between hospitalization and large total medical expenses. Older people who are hospitalized in a given year are the ones who have the big expenses. While medical care costs for all aged couples averaged about $442 in 1962, the medical expenses of aged couples with one or both members hospitalized averaged $1,220; for nonmarried elderly people, average medical expenses for the year were $270, whereas for those who were hospitalized, the average was $1,038.[13] Both the averages and the differentials would be even higher now.

Hospital expenses are a serious problem for the totally disabled too. Like the aged, they too are hospitalized frequently and in many cases their hospital stays are long. According to a survey of workers found disabled under the social security disability provisions[14] (conducted by the Social Security Administration in 1960), about one out of five disability beneficiaries under social security received care in short-stay hospitals in the survey year; and, excluding hospitalizations in long-term institutions, half of those hospitalized were in the hospital for 3 weeks or more.[15]

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[12] One member of the Council does not share in this belief; his reasons are given in Appendix A.

[13] Medical data obtained in the 1963 Survey of the Aged, a study conducted by the Social Security Administration, with the Bureau of the Census carrying out the field collection and the tabulation of the data.

[14] At the time the survey was conducted, the worker had to be aged 50 or over to be eligible for disability insurance benefits. Since the time of the survey, the age requirement for disability beneficiaries has been eliminated, but beneficiaries aged 50 and over still represent about three-fourths of all disability beneficiaries. Thus, the data for this age group are representative of the major part of the disability beneficiary population.

[15] Almost 90 percent of the disability beneficiaries in the survey had been totally disabled at least 6 months before the beginning of the survey year and half had been disabled 3 years or more.

The problem now faced by older people and the disabled is going to become even more serious because health costs will undoubtedly continue to rise, probably at a rate considerably in excess of any increase in other prices. From 1953 to 1963 the percentage rise in the consumer price index for medical care items was nearly three times the increase in the over-all index; and the price index for medical care items increased more than that for any other major price-index component. Among the items that compose the medical care segment of the index, hospitalization costs have risen at a much faster rate than other components—hospital daily service charges rose twice as much as medical care costs generally.

Health care has become so expensive that virtually no one, including the relatively well-off person at the height of his earning power, can afford to pay the cost of major, prolonged illness unless he has effective insurance. And the great majority of the aged and disabled are neither well-off nor have adequate health insurance. Older people have, on the average, only one-half as much income as younger people living in family groups of the same size.[16] About half of the aged social security beneficiaries have practically nothing (less than $12.50 a month per person) in continuing retirement income other than their social security benefits; and for all but about one-fifth of the aged beneficiaries, benefits were the major source of continuing retirement income.[17] (Only 15 percent of the aged, for example, have any income from private pension plans and even for this 15 percent the amount from social security is generally larger than the private pension.)

Totally disabled people also have comparatively low incomes, although they more often depend in part upon the earnings of a spouse.[18] Many older people and people with long-term total disabilities must therefore turn to their children and other relatives and to public agencies for aid in meeting the costs of illnesses that require hospitalization.

In the 1960's we have seen a large and growing proportion of those applying for public aid forced to do so only because they cannot meet their health costs. Today over one-third of public assistance expenditures for the aged are for health costs, and such costs have become the most important single reason older people apply for public assistance.

The Role of Private Plans

The hospital insurance provisions we recommend would work in partnership with private plans and individual voluntary effort as social security now does in the field of cash benefits. With social security providing basic protection against the costs of hospital care and related services, and with improved cash benefits such as we recommend in Part III of this report, many people aged 65 and over or disabled who now cannot afford comprehensive private health insurance would be able to afford the less expensive supplementary protection against doctor bills and other health costs which, in combination with social security, would furnish comprehensive coverage. Employers also would find it more feasible to continue health protection for employees into retirement if, instead of having the whole job to do, they could build on the hospital insurance protection furnished under social security. These private measures would be built upon the hospital insurance base, just as the private life insurance and retirement pensions and annuities that many people have today are built upon the base of social security cash benefits.

On the other hand, it is unrealistic to expect private voluntary insurance alone to provide comprehensive protection for the great majority of elderly people and totally disabled people. To a large extent the problem of financing the cost of

[16] Bureau of the Census Current Population Survey income data for 1960 (the most recent available by age and size of family) show median annual income as $2,530 for aged two-person families and as $5,314 for younger two-person families; for individuals living alone the data for 1963 show median incomes of $1,277 for the aged and of $2,881 for the younger persons. The Social Security Administration's 1963 Survey of the Aged shows median income for all aged couples as $2,875 in 1962; no data are available for younger couples as of that date, but Census data for 1962 and 1963 for aged and younger families of all sizes indicate that the ratios between incomes of aged and young families of comparable size have not changed significantly.

[17] Retirement income as used here means all income other than earnings, assistance payments (public and private) and money income from a relative living in the same household. Data shown are derived from the Social Security Administration's 1963 Survey of the Aged.

[18] According to the Social Security Administration's 1960 survey of disabled workers, one-half of the married disability beneficiary units (family units composed of disabled workers and spouses and their children, if any) had income, not counting social security benefits, of less than $170 per month. The bulk of the income for most of these family units came from the earnings of a working spouse. One-half of the nonmarried disability beneficiaries had income, not counting social security benefits, of less than $7 per month (there being no spouse present to work).

expensive illness among people at the younger ages, who are largely dependent on current earnings, is being met by private insurance organizations, but private insurance cannot meet this problem for most of the aged at a price they can afford to pay. Despite years of creative effort and hard work by the voluntary insurance organizations, less than half of the totally disabled and only a little over half of the elderly have any kind of health insurance coverage and most of what they do have is quite limited. The absolute number of older people without any kind of protection at all is nearly as large as it was 5 years ago.

The basic difficulty in relying exclusively on private insurance, of course, has been that the costs of insurance are necessarily high because the aged and the disabled need so much in the way of health care that they cannot pay the costs of adequate insurance from low retirement incomes. Then too, unlike working people, who generally get group health insurance coverage through their place of employment, the disabled and the elderly can ordinarily obtain health insurance only on an individual or nongroup basis. The marketing and administrative costs associated with the individual handling that is characteristic of nongroup commercial health insurance make individual coverage about 1½ times as expensive, on the average, as group coverage offering the same benefits. Because of this consideration, together with the fact that hospital costs for the aged run about 2¾ times as much as those for younger people, the protection provided to an aged person by an individually purchased commercial hospital insurance policy costs about four times as much as comparable protection furnished younger people on a group basis. And relatively few disabled and retired workers have the benefit of contributions made toward health insurance by employers.

As a result of these facts, most voluntary health insurance within reach of the pocketbooks of the aged and the disabled is inadequate in the amounts and types of service covered and in the duration of benefits. In 1962 (the most recent year for which data are available) only 10 to 15 percent of the total medical costs of the aged, for example, was paid for by insurance. Moreover, as hospital costs rise, those who have health insurance policies paying fixed dollar amounts toward hospital care will find that the amounts cover an increasingly smaller proportion of their hospital bills; those who have policies which provide service benefits rather than fixed dollar amounts will be faced with increased premiums.

In the case of Blue Cross, which ordinarily provides service benefits without dollar limits, pressures are heavy to apply experience rating more and more to the high-risk older population in order to be able to offer the young group rates that are more competitive with those for commercial insurance policies. These pressures will continue to apply in the future and the result will be additional increases in Blue Cross premiums for the aged as they are required to pay rates closer to the true value of their protection.

It is also true that most of the aged who now have some form of health insurance are those who are still working, those in good health, and those in the higher income group. To a very large extent those who can be sold voluntary protection have already been sold.

For all these reasons, in the absence of social insurance taking on a part of the job, the Council believes that in all probability the great majority of older people and disabled people will, for the foreseeable future, continue to be without adequate protection against health care costs.

The Council believes that the extension of social insurance to the costs of hospitalization for the elderly and the disabled will make it possible for the private plans to perform a valuable complementary role. Since hospital insurance protection will be provided without further contributions during old age and disability, more of the retirement dollar will become available for buying current protection covering other parts of the medical bill, and, as indicated above, employers will find it more feasible to carry over health protection for their retired personnel.[19]

The Role of Public Assistance

There will be some disabled and elderly people who are without the means to add other protection to their basic hospital insurance or who have special needs such as

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[19] In connection with the continuing role of private insurance in providing health insurance protection for the elderly, the Council would like to call attention to the recommendations of the National Committee on Health Care of the Aged. This was an ad hoc committee, with expert membership, which Senator Jacob K. Javits initiated and which served under the chairmanship of Arthur S. Flemming, former Secretary of Health, Education, and Welfare. In addition to proposing hospital insurance under social security, the National Committee recommended provisions designed to encourage the setting up of Federally authorized pools of insurers to offer supplementation to the social insurance plan. The Council has not taken any position on the subject of those recommended provisions because it is not within the scope of the Council's assignment. The Council believes, however, that the suggestion is worth the careful consideration of the Congress.

the need for long-continuing custodial care. Public assistance programs will, therefore, have an important continuing role in meeting the total problem. Consequently, the Council favors the improvement of the program for medical assistance for the aged (MAA) and the medical care provisions of old-age assistance and aid to the permanently and totally disabled to provide more effectively for remaining needs after the proposed social insurance program goes into effect. The enactment of hospital insurance provisions for the aged and disabled will save the States some two-fifths of their present medical expenditures for older people and place them in a financial position to improve their medical assistance programs. When the number of those who need help is reduced and when the remainder do not need help with most of the costs of hospital care, because of hospital insurance under social security and because of the spread of effective supplementary protection, the way will be open in many States for much needed improvements in medical assistance for the smaller numbers of people who still need help.

There is abundant evidence, however, that the Federal-State programs of public assistance, without a social insurance program to meet a large part of the cost, cannot do the job of filling the gaps left by private voluntary insurance. Many States either cannot—or, in the light of other financial priorities, will not—put up enough money to meet the need. Despite the fact that the Federal Government will pay, out of general revenues, from 50 percent to 80 percent of the cost of a State program to meet the health needs of the aged, only a few States have developed adequate programs for the very poor, and none has combined both comprehensive care and liberal enough tests of income and assets to meet the health needs of more than a small proportion of the retired aged in the State. Some have no medical-assistance-for-the-aged program at all.

Under a grant-in-aid system the wealthier States are the ones most likely to establish the better programs and most likely to get the major share of Federal funds. Furthermore, States vary in their willingness to apply their resources to a given purpose. As a result, an approach that depends on *State* initiative cannot reasonably be expected to lead to an adequate *nationwide* program. In October 1964, 68 percent of Federal MAA funds went to five of the wealthier States with only 31 percent of the country's aged.

For reasons explained in the introduction to this report, the Council does not, in any event, favor placing a main reliance on assistance in dealing with a problem which is faced by practically all the aged and the disabled. Even an adequate assistance program would have grave drawbacks for the recipient and for our society as a whole when compared with the method of social insurance. The Council believes that to the extent practicable the objective should be to prevent dependency rather than alleviate it after it has occurred.

Yet in some circumstances assistance will continue to be necessary. This is why the Council recommends that the Federal Government give continuing support to improvements in the medical provisions of assistance programs so that all the aged and all the disabled may have their full medical needs met through a combination of social security, private protection and savings, and, as a last resort, for the unusual need and circumstance, through an improved and generally available assistance plan.

Basic Elements of the Recommended Plan

The Council recommends that the core of protection be coverage of the costs of hospital care, subject to a small deductible. Coverage of three additional types of services, which can frequently take the place of inpatient hospital care, is also recommended: (1) extended care, following a hospital stay, in a hospital-operated or hospital-affiliated facility capable of providing high quality convalescent and rehabilitative services; (2) organized home nursing services which are medically supervised and are provided by organizations staffed and equipped to offer coordinated services sufficient so that an individual who is confined at home, but not in need of round-the-clock services, could receive substantially the full array of nursing services and therapeutic services (not including those of a physician) needed to care for him at home; and (3) subject to a small deductible, hospital outpatient diagnostic services covering the full use of the hospital's facilities and personnel but not covering the diagnostic services of the patient's personal physician.

A major principle that guided the Council in developing its recommendations is that health services should be tailored to the health needs of the patient. Provision for the four types of benefits—hospital care, extended care following the care given in the hospital, organized home nursing care, and hospital outpatient diagnostic services—would enable the older or disabled person, together with those who participate in planning for his care, to have available the kinds of services, and a level of care, most appropriate to his individual need. Particularly for the aged, the next step in the care of a person who has been hospitalized for a serious illness may be a period of medically supervised treatment in an extended-care facility rather than continued occupancy of a high-cost bed normally used by acutely ill hospital patients. The benefit structure should cover a continuum of institutional and home nursing services and should provide an appropriate level of care for individuals who require convalescent care of somewhat lesser degree of intensity than that provided for hospital inpatients.

The coverage of important alternatives to hospitalization would help subordinate financial to medical considerations in decisions shared in by the doctor, patient and institution on whether inpatient hospital care or another form of care would be best for the patient. The recommended benefits would give financial support to the provision of institutional and noninstitutional services at the most appropriate level of intensity for patients who require care of extended duration. Covering each of the stages of required care is conducive to careful planning of the long-range treatment of those suffering serious illnesses.

In the course of formulating the proposed hospital insurance provisions for the aged and disabled, the Council was mindful of the increasing interest that the community as a whole has demonstrated in seeing to it that high quality health services are provided and that full value is received for the health dollar. Reflecting this community interest, many State and local hospital planning groups, private health cost prepayment organizations, and others have called attention to the effects of inadequate planning of facilities, excess capacity, inefficient operation, and unneeded services, any of which, whenever they occur, can result in an increase in health costs far beyond that attributable to medical and scientific achievements. The work of these groups shows that there is real promise for an improvement in the quality of care and at the same time improvement in the efficiency with which the services are provided.

The Council believes this matter to be of such widespread concern that it recommends the creation of a commission, its members to be appointed by the President, composed of experts in the fields of health care and hospital planning, of representatives of groups and agencies purchasing health care on a large scale, and of the general public, for the purpose of enhancing the effectiveness of our hospitals throughout the country in the provision of high-quality health care. The recommendations of such a commission would be of benefit primarily to the population as a whole but would, of course, also be of long-run importance to the hospital insurance program for elderly and disabled people.

1. INPATIENT HOSPITAL BENEFITS

The proposed hospital insurance for people age 65 or over and the disabled should cover a number of days sufficient to meet the cost of inpatient hospital services for the full stay of almost all beneficiaries.

The Council believes that the number of days for which inpatient hospital benefits are paid should be enough to cover the full hospital stays required in nearly all cases. Sixty days of coverage for each spell of illness would accomplish this purpose. Sixty days would cover the full stay of all but about 3 to 5 percent of the stays of older persons. Moreover, it is quite possible that with coverage in extended-care facilities, such as we recommend, many of those who would otherwise stay in acute general hospitals for over 60 days could be transferred to extended-care facilities.

The Council holds the view, which is shared by many experts on hospital insurance, that the availability of hospital coverage for a substantially longer period may, especially among the aged, result in excessively long hospital stays and therefore unnecessary cost to the program. We therefore believe that it is desirable to place a limit on the number of covered days in the acute general hospital and, at the same time, provide for extended care in less expensive facilities.

The Council believes that the proposed hospital insurance should not include any provision under which beneficiaries would choose among various combinations of benefits of the same actuarial value but with a varying number of days and higher and lower deductibles. The Council sees little gain in such a choice and, on the contrary, believes that for most beneficiaries the need to make a choice would be confusing and upsetting and that widespread dissatisfaction could be expected among the large number who would later discover that they would have been better off with a different choice. Any attempt to meet this dissatisfaction by allowing people to change options would significantly increase the cost of the program for the whole group of contributors by giving an unfair advantage to those who could anticipate the need for a specific type of protection.

2. OUTPATIENT HOSPITAL DIAGNOSTIC SERVICES

Payment under the program should be made for the costs of outpatient hospital diagnostic services furnished beneficiaries.

Recent progress in science and medicine has resulted in the development of complex services and equipment for the more accurate and more timely diagnosis of disease. Because of the cost of the equipment and the need for specialized personnel to operate it, the hospital has increasingly become a diagnostic center which is used when expensive and complex tests are required. Providing for the payment of the cost of expensive outpatient hospital diagnostic services should help to encourage early diagnosis of disease by removing financial barriers to the use of such services. Payment for outpatient hospital diagnostic services would also help to support the efficient provision of care by eliminating a financial incentive for hospital admissions to obtain diagnostic services.

3. DEDUCTIBLES

Hospitalized beneficiaries should pay a deductible equal to the cost of one-half day of care—$20 at the program's beginning. In the case of beneficiaries who are provided outpatient diagnostic services, this deductible amount should be applied for each 30-day period during which diagnostic services are provided.

The Council believes that beneficiaries who are hospitalized should be required to pay a small amount toward the cost of their hospital stay. Such a deductible amount might help to reduce unnecessary hospital admissions. On the other hand, we would not favor a deductible amount of substantial size since such a deductible might well deter many beneficiaries from seeking needed care. In the Council's judgment a deductible amount which is equal to about a half, or even three-fourths, of the national average cost per patient day of hospital care would not be so large as to represent a significant impediment to needed care. Such a deductible amount—$20 to start—would, moreover, make it possible to provide, within the funds available to the proposed program, more extensive protection against catastrophic health costs than would otherwise be possible.

Provision for a similar deductible amount in the outpatient diagnostic benefit would limit coverage to diagnostic procedures with a significant financial impact. It should also have the effect of excluding from the coverage of the program the type of routine laboratory and other diagnostic procedures that are customarily furnished in or through the physician's office.

4. SERVICES IN EXTENDED-CARE FACILITIES

The cost of post-hospitalization extended-care services in facilities which provide high-quality rehabilitative and convalescent services should be covered so as to pay for a minimum number of days after hospitalization in all cases, with additional days of extended-care services being paid for if the patient has not used all of his inpatient hospital coverage.

The services that would be covered would be those furnished to patients in extended-care facilities which are under control of a hospital or affiliated with a hospital and which are designed primarily to render convalescent and rehabilitative services. Care in such a facility will frequently represent, particularly among the aged, the next appropriate step after the intensive care furnished in a hospital and will make unnecessary the continued occupancy of a high-cost bed normally used by acutely ill patients.

Services of this kind are essential in the overall treatment of many illnesses following their acute stage and prior to the time a person can return to his home or transfer, in some instances, to an essentially custodial institution. And, of course, extended-care coverage, even for a limited duration, will also be of benefit to many older patients with chronic or terminal illness who can be transferred from intensive care in acute general hospitals.

Since the proposed program is designed primarily to support efforts to cure and rehabilitate, and since "nursing home" care, in many cases, is oriented not to curing or rehabilitating the patient but to giving him custodial care, the Council does not propose the coverage of care in nursing homes generally.

In order to provide an incentive for transferring a patient from a hospital to an extended-care facility at an early point, when such transfer is medically desirable, the Council believes that coverage should be provided for 2 additional days of extended care, if needed, for each day the patient's hospital stay is less than 60 days. A minimum of 30 days or so might be covered in all cases.

The Council recognizes that hospital-affiliated facilities which provide post-acute convalescent and rehabilitative care do not exist in many communities and that the services therefore may not be available immediately to many of the beneficiaries who might need them. The Council believes, however, that the coverage under the proposed program will encourage the development of such facilities and that, with the help of other programs designed to assist directly with construction, such extended-care services can be made generally available within a reasonable time.

5. ORGANIZED HOME NURSING SERVICES

Insurance coverage should be provided for organized home nursing services.

As a fourth element in the protection it proposes, the Council recommends the coverage of organized home nursing services—that is, services provided on a visiting basis in the patient's own home. Coverage of medically supervised home nursing services provided through qualified nonprofit or public agencies would encourage the establishment of organized home care programs. Experience has shown that such visiting programs can bring high-quality care to the patient in his own home, thus avoiding the need for hospitalization altogether in some cases or facilitating the discharge of patients not only from hospitals but from extended-care facilities. The Council believes that a substantial number of professional visits a year—in the range of two to three hundred—should be covered in order to make organized home nursing services a real alternative to institutionalization.

Organized home care services sometimes include the services of hospital interns and residents-in-training. We believe that payment should be made for their services when furnished but only if the services provided are part of a professionally approved training program for such individuals.

6. PAYMENTS ON THE BASIS OF REASONABLE COST

The extent of hospital insurance and related protection should be specified in terms of the services covered rather than in terms of fixed dollars, and covered services should be paid for on the basis of the full reasonable cost of the services.

The Council recommends that protection should be in the form of service benefits, with payments for covered services made directly to the institution or organization furnishing the services rather than payments of fixed dollar amounts to the beneficiary receiving the services. Service benefits would provide more secure and reliable protection for the patient and enable the program to promptly adjust payment to hospitals in accordance with changes in hospital costs resulting from the acquisition of new equipment, the adoption of new health practices, and the general improvement of services. The inpatient hospital benefits should cover all hospital services and supplies ordinarily furnished by the hospital for necessary care and treatment of its patients, except that accommodations more expensive than semi-private accommodations would be paid for only if medically necessary. Luxury items would not be included.

The hospital or other provider of service should be reimbursed for the reasonable cost of services provided. Payment on a reasonable cost basis would be in line with the recommendations of many expert groups, including the American Hospital Association. The established practices of most Blue Cross plans are generally in line with this recommendation.

It is likely that no single formula for estimating the cost of services will prove best under all circumstances, and provision should be made to permit variations in hospital practices and services to be taken into account.

7. HOSPITAL STAFF REVIEW OF UTILIZATION

Hospitals should be required, as a condition of participation, to establish professional staff committees to review the services utilized.

Procedures for medical staff review of hospital admissions, length of stays, the medical necessity for services provided, and the efficient use of services and facilities are coming into use in many hospitals, and the experience with some of these procedures has been promising. Procedures for the recertification of the continued need for service by the attending physician have also been adopted in some hospitals.

The Council believes that all participating hospitals should be required to have staff committees to review the utilization of services and that consideration should be given to certification procedures. The structure and responsibilities of the staff committee should be left to the discretion of the hospital and its medical staff. However, such committees should be required at least to conduct sample reviews of hospital admissions among the beneficiaries of the program and to review long-stay cases. The professional judgments obtained through the use of such a staff committee would provide a safeguard against the improper use of services.

8. ADMINISTRATION

The proposed hospital insurance provisions should be administered by the same Federal agencies which administer the social security program but in carrying out this responsibility the Federal Government should use private and State agencies to the extent that these agencies can contribute to efficient and effective operation.

The Council recommends that the Federal Government have over-all responsibility for the operation of the proposed hospital insurance program but that it use both qualified private organizations and State agencies for the performance of certain functions where such use would contribute to the efficiency of administration.

Many of the functions necessary to the administration of the proposed hospital insurance provisions would require little, if any, additional effort since they are now being successfully performed under the social security program and would simultaneously serve the purposes of the hospital insurance provisions and the existing cash benefit provisions. These functions include the collection of contributions; the maintenance of earnings records; the establishment of age, disability and the status of dependents; the determination of whether insured status requirements for eligibility are met; and the maintenance of current records of eligibles under the program.

The Council recommends, however, that the authority given to the Federal administrator should be flexible enough to permit him to determine whether or not to use the help of private and State agencies, and to what extent. Included among the functions which might be carried out by private agencies are those related to arranging for hospitals and other providers of health services to participate in the program and handling the payment of hospital bills covering costs insured by the program. State agencies which license health facilities could be used, for example, to assure that health facilities desiring to participate in the program meet the requirements for participation. The Government might find that functions such as these could be carried out better, or at less cost, if instead of performing them directly it arranged to have them performed by private and public agencies with experience in similar functions.

9. THE BASIS OF ELIGIBILITY FOR BENEFITS

Hospital insurance benefits should be provided for aged and disabled beneficiaries of the social security program, and special provision should be made for the next few years for those who have not met the requirements of eligibility under the program.

In the long run all people age 65 or over and all people with long-term total disabilities who have worked long enough to become entitled to monthly social security cash benefits will have paid hospital insurance contributions as well as contributions for cash benefits and will be entitled to both types of protection on the basis of the insured status provisions of present law.

The Council believes that the hospital insurance benefits should also be available to people who are age 65 or over, or who will become 65 in the next few years, whether or not they have made significant contributions toward hospital insurance and whether or not they are entitled to social security cash benefits. Such persons have not had the opportunity to gain protection by contributing to the hospital insurance program but their need for such protection is equally great.

People who attain age 65 after a specified date should be required to have a gradually increasing number of earnings credits under social security, and the number required for eligibility for hospital insurance should ultimately be the same as that required for social security cash benefits.[20] The cost of the protection provided under this provision should be met from general revenues, as explained below in the recommendation on financing.

After consideration of all possible alternatives, the introduction of hospital insurance by making it part of the ongoing social insurance system seems to be highly desirable in social, economic and administrative terms.

10. FINANCING

The proposed hospital insurance program should be financed by a special earmarked contribution of 0.4 percent of covered earnings from employees and from employers, and 0.5 percent from the self-employed, with an 0.15 percent contribution from Federal general revenues to cover the cost of benefits for those already retired or disabled.

The contributions for hospital insurance should be an earmarked percentage of covered earnings, established as a new tax, separate from the taxes in the Federal Insurance Contributions Act that support the present social security cash benefits. The proceeds of this new tax would be kept separate from the taxes which finance the present social security program. These proceeds would be deposited in a newly created hospital insurance trust fund separate from the old-age and survivors insurance trust fund and the disability insurance trust fund. However, the employment and earnings coverage and the maximum on covered earnings to which the new tax would apply should be the same as those to which the present social security taxes apply so that the recordkeeping tasks of employers and the Government would be largely unaffected by the establishment of a separate contribution for hospital insurance.

Hospital insurance financing separate from that of old-age survivors, and disability insurance should allay any concern that the hospital insurance program might in any way impinge upon the financial soundness of the OASDI trust funds. Furthermore, identifying the contribution as a hospital insurance contribution will tend to increase the contributor's sense of financial responsibility for the benefits provided.

Several members of the Council, however, while believing in the value of a separate trust fund, are of the opinion that it is not necessary to have a new and separate tax either to allay possible concern about the financial soundness of the social security program, to maintain the identity of the hospital insurance financing, or, in general, to accomplish the objectives of the proposal.

The contribution rates should be 0.4 percent of covered earnings each for employees and employers and 0.5 percent for the self-employed.[21] It is assumed that these contributions for hospital insurance would go into effect at least 6 months earlier than the first hospital insurance benefits were paid. For example, if the plan were enacted in 1965, the contributions might go into effect in January 1966 and benefits might first be paid in July 1966.

In addition to the earmarked contributions there would be a contribution from Federal general revenues to meet the cost of hospital insurance benefits for those already retired or disabled. The Government contribution would be justified in terms of the health and welfare of the Nation's aged and disabled and the reduction in general revenue costs that will follow as social insurance reduces the need for public assistance. It is proposed that the cost to the Government be met by annual and automatic appropriations over a 50-year period. The Government's cost on this basis is estimated to be 0.15 percent of covered payrolls.

The recommended contribution rates are designed to be sufficient to cover the estimated costs of the proposed benefits both in the short run and over the long run. Because sound financing depends on the validity of the cost estimates used and this in turn depends on the validity of the assumptions which underlie the estimates, the Council believes it to be in order for this report to contain a statement of the assumptions it has directed be used in making the cost estimates.

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20 For example, the provision might be as follows: Uninsured people who reach age 65 in 1966 or before would need no quarters of coverage; those who reach age 65 in 1967 would be deemed to be insured for hospital insurance if they had at least 6 quarters of coverage (earned at any time). For people who reach age 65 in each of the succeeding years, the number of quarters of coverage needed to be insured for hospital insurance protection would increase by 3 each year. The provision would not apply to people who reach age 65 in 1971 (or later), since, under the Council's recommendation, in that year the number of quarters that would be required under the special provision would be the same as the number required for regular insured status.

21 For the same reasons that the Council has recommended that the contribution rate paid by the self-employed toward old-age, survivors, and disability insurance be set in the long run at no more than 1 percent of earnings higher than the employee rate, the Council recommends that the rate paid by the self-employed for hospital insurance be a comparable 0.1 percent above the rate paid by employees. (See p. 72.)

As in the case of estimates of the cost of cash benefits under the social security program, assumptions underlying hospital insurance cost estimates can vary widely and still be reasonable. For hospital insurance the range over which cost assumptions may vary and still be reasonable is somewhat greater than for the cash benefits. For this reason, we have taken great care to assure that the assumptions used in estimating the costs err, if at all, on the conservative side.

Clearly, the cost of the proposed program, expressed in dollars, will be an increasing cost. One important factor which will tend to increase the cost of the program over time will be the rising cost per day of hospitalization. Another factor tending to increase costs will be the growing number of people who are eligible for hospital insurance. A third factor is the increasing average age of those who will be protected.

Since the income to the system will come from a percentage of covered earnings, and since over the years it can be expected that more and more people will be employed and that earnings levels will rise, the income of the system will also increase. To take into account both rising costs and rising income, the analysis of financing is done in terms of costs as a percent of covered (taxable) earnings. Thus, the Council's assumptions concerning future hospital costs are stated in terms of the expected future relationship between rising hospital costs and rising earnings—of how increases in hospital costs will compare with increases in covered earnings (and therefore with increases in contribution income).

Earnings reflect the increasing productivity of labor. Therefore, on the average and over time, the general level of earnings will increase much faster than the general price level. But in recent years the reverse has been true in the case of hospital prices; they have been increasing substantially faster than the general level of earnings. Obviously, however, hospital costs cannot continue indefinitely to rise faster than earnings; if they did, ultimately no one could afford hospital care. Nevertheless, the financing of the hospital insurance program must make allowance for the strong likelihood that hospital costs will, for a time, continue to increase faster than earnings. A reasonable assumption would be that the differential between the rate of increase in hospital costs and the rate of increase in earnings will get smaller and that eventually hospital prices will increase at a somewhat lower rate than earnings even though at a much higher rate than other prices.

Specifically, our assumption for the relatively short run is that hospital costs will rise faster than earnings for 10 years after the program begins operation, but not quite as fast thereafter. The Council has assumed that until 1970 the differential between hospital costs and earnings will continue to be the same as the average over the last 10 years (2.7 percent) [22] and that in the following 5 years the differential will average half as much.[23]

The Council does not presume to have any firm basis for knowing just how much hospital prices or other prices will rise in the distant future. However, because of the comparatively large component of labor costs which will always be present in health services and because of the cost of increasing quality of care, the Council has assumed that hospital costs will probably rise indefinitely considerably faster than other prices. Therefore, the Council's assumption on the relation of hospital costs to earnings is that after the first 10 years of the program's operation (during which hospital costs are assumed to rise faster than earnings), hospital costs will rise slightly less than earnings but substantially more than other prices. (See pp. 109–110, Appendix B, for further discussion of the specific assumptions.)

The conservative nature of this assumption is made plain when one considers the future price levels it implies. The over-all effect of the assumed price rises, if the past relationship between earnings and the general price level continues, is that in the next 75 years hospital prices will have risen 710 percent while other prices will have risen by about 110 percent.

Another factor that affects the financing of the system is the limitation placed on the maximum amount of annual earnings subject to contributions (the con-

[22] Although figures for the 10 years *average* 2.7 percent, the 2 most recent years for which data are available (1962–1963) show a differential between hospital cost increases and earnings increases of only a little over 2 percent for each of these years. Nevertheless we have used the 10-year average in order to make sure that the cost projections will be conservative. Also relevant is the fact that a substantial proportion of the increases in hospital costs that have occurred over the last 10 years is attributable to a catching up in wages and a reduction in the hours of work of hospital employees, who as a group have been considerably underpaid. The catching-up process will, naturally, complete its course in time.

[23] By way of comparison, it may be noted that the major organization representing the commercial health insurance industry assumed smaller rises in hospital costs for this period in its estimates on the costs of the King-Anderson bill. Specifically, it estimated that hospital costs will rise 2 percent per year more rapidly than earnings from 1963 through 1968 and 1 percent more rapidly than earnings from 1969 through 1978. (Pages 587 and 588 of the record of hearings on H.R. 11865 before the Committee on Finance, United States Senate, August 1964—appendix to testimony on behalf of the Health Insurance Association of America.)

tribution base) and its relationship to increases in earnings levels. As has been noted, income to the system tends to rise as earnings rise. However, if over the long run the maximum on earnings which are taxed were fixed—that is, if the maximum did not rise as earnings rise—there would be an increasingly inhibiting effect on contribution income. More and more people would be paying contributions on the maximum earnings covered, and increases in their earnings would not be subject to the contribution rate.

The Council's assumption is that the contribution base will not remain fixed. In the short run the Council recommends an increase in the base in 1966 and 1968, primarily to take account of the past rise in earnings levels. For the longer run, one of the assumptions made in preparing cost estimates for hospital insurance is that periodically there will be increases in the contribution base if earnings rise. These increases are assumed because the base, which under the cash-benefit. provisions is also the maximum amount of earnings creditable for benefits, must be kept generally in line with changes in earnings levels if cash social security benefits are to continue to have a reasonable relationship to the earnings they are intended to replace and if social security contributions are to vary with earnings.

The great bulk of the income from contribution base increases would of course be used to raise cash benefits to keep them in line with higher earnings levels. For example, if hospital insurance contributions are about one-tenth of contributions under the old-age, survivors, and disability insurance program (as the Council recommends) a little over 90 percent of the income from any future increase in the contribution base would go toward old-age, survivors, and disability insurance and a little less than 10 percent toward hospital insurance.

The Council's assumption is, then, that legislative action will be taken from time to time to adjust the contribution base in line with rising earnings. However, the Council recognizes that over the short run the increases which it expects in the contribution base, beyond those adopted concurrently with hospital insurance, may not occur as anticipated. The Council recommends, therefore, that the contribution rates for hospital insurance be designed to provide sufficient income to cover benefit expenditures even if, for a number of years, no further increase in the base is enacted. The contribution rates proposed by the Council are so designed.

In summary, the principles which the Council has followed in making its recommendation for the contribution rates necessary to support the proposed hospital insurance program are as follows: The Council recommends that the income to the hospital insurance program be large enough each year to cover benefit outgo with a prudent allowance for increases in hospital costs as well as for the possibility that the contribution base increases may lag behind rising earnings.

A contribution rate of 0.4 percent each for employee and employer (0.5 percent for the self-employed) together with the 0.15 percent from the Government would be sufficient not only to meet benefit costs but also to build up substantial amounts in the hospital insurance trust fund. The new trust fund would have a sizeable balance from the start, since contributions toward the program would be collected 6 months or so before benefits would be paid.

The recommended maximum amount of annual earnings taxable would be $6,000 in 1966 rising to $7,200 in 1968, a recommendation discussed in Part I. While, as indicated above, it is contemplated that this maximum would rise in the future, the recommended contribution schedule would yield income in excess of outgo for at least the next 10 years even if the base is not increased after 1968.

The following table summarizes the cost effect of the four types of benefits proposed to be covered:

Actuarial balance under proposed plan of hospital insurance

[Costs expressed as percentage of taxable payroll according to intermediate-cost estimates]

Item	*Level-Cost*
Level-Cost Effect of Changes:	
Hospital benefits, 60-day maximum, ½-day deductible	+.84
Extended care services, 30-day maximum [1]	+.02
Outpatient diagnostic services, deductible of ½-day hospital cost	+.01
Home nursing services, 240-visit maximum	+.03
Level-Cost of Proposed Program	.90
Level-Equivalent of Contribution Schedule [2]	.90
Actuarial Balance	.00

[1] With additional days if all of hospital benefits are not used.

[2] The 0.15 percent of payroll from general revenues for 50 years is equivalent to a level rate of 0.10 percent of payroll.

Conclusion: The Council finds that health costs represent the greatest remaining threat to the economic security of our aged and severely disabled citizens. The social insurance approach, the Council believes, is singularly fitted to serve in dealing with this threat. What is needed is an arrangement under which working people, together with their employers, can contribute from earnings during their working years and have insurance protection against health costs in later years, without further contribution, when their health costs will be high and their incomes low. Only social insurance, as typified by the social security program, can assure that such an arrangement will apply to practically everyone who works for a living.

The Council has developed and presented in this report a plan under which the major part of the costs incident to hospitalization and related care in old age or during periods of total disability will be paid for through the contributory social security program. The plan will pay for these costs in a way which is in keeping with the high standards of American health care. The plan will be responsive to changing methods and improvements that are likely to occur in health care in this country. The plan will accommodate the individual's freedom of choice of health care facilities and will in no way interfere with the private practice of medicine or with the independence of our voluntary hospital system. The Council has included recommendations which, if adopted, would assure that the proposed plan of hospital insurance for older people and totally disabled people will be soundly financed through its own contribution schedule and trust fund.

While neither private insurance nor public assistance, alone or together, can meet the pressing need for hospital protection on the part of the aged and disabled, the recommended plan contemplates an important role for both. The hospital protection proposed to be provided under the social security program will serve as a foundation on which individuals can build private health insurance, just as old-age, survivors, and disability insurance under social security is serving as a base on which people build additional protection through private means. With social security providing basic protection against hospital and related costs, public assistance will assume the role best suited for it—that of a program intended to help the members of the relatively small group whose special needs and circumstances are such that they are unable to meet their health costs through social security or through private insurance or other resources.

The Council is confident that the principles of social insurance underlying its recommended plan for hospital insurance for the aged and the totally disabled can be applied successfully as they have been applied to social security cash benefits. Today's social security program assures that the vast majority of older people and totally disabled people will receive a regular monthly income to help them meet the costs of day-to-day living. The proposed provisions for hospital insurance will round out this security by removing the greatest remaining obstacle to the financial independence of these groups. With such provisions in effect, millions of our older citizens will be able to look forward to their years of retirement without the dread of overwhelming costs arising from serious illness.

PART III. IMPROVEMENTS IN THE CASH-BENEFIT PROVISIONS

In general the Council believes that the present program is functioning well and that its basic structure is satisfactory. The most important improvements in the cash-benefit provisions, and particularly in the benefit amounts, that the Council is recommending are designed to take into account recent wage and price changes. The effectiveness of the social security benefits has been diminishing because the benefits for the last 6 years have not even kept pace with rising prices and because the maximum amount of annual earnings that is taxable and creditable toward benefits has not been raised as the general level of wages has gone up.

The Council has also found that although the program is very broad in its coverage—about nine-tenths of the people who at any one time are in gainful employment in the United States are covered—there are some areas where its coverage should be further extended, and that while benefit payments are now provided in most cases in which support is lost when the worker retires in old age, becomes disabled, or dies, there are a few remaining gaps that should be filled.

The improvements recommended by the Council require additional financing; the cost of those improvements and the recommendations for providing the needed additional financing are discussed at the conclusion of this section.

Before the recommendations of the Council are set forth in detail, it may be helpful to summarize briefly the major provisions of the present program.

Monthly benefits are payable under the program to retired insured workers at age 65, and reduced-rate benefits may be paid to them as early as age 62. Benefits may also be paid to the following dependents: A wife or dependent husband age 65 or over (or age 62 with a reduction in the benefits); children under age 18 or disabled before age 18; and a wife of any age caring for a child entitled to benefits. Monthly benefits are payable to insured workers who have very severe and long-continued disabilities and to the dependents of such workers. Upon the death of an insured worker, monthly benefits are payable to a surviving widow or dependent widower age 62 or over; children under age 18 or disabled before age 18; a mother who has such a child in her care; and dependent parents age 62 or over. A lump-sum death payment is also made.

Benefit amounts under the program are related to the average earnings of the insured worker in covered employment; currently, however, only the first $4,800 of the worker's earnings in a year is included in calculating the average. The minimum benefit payable to a worker who goes on the benefit rolls at age 65 or later is $40 a month and the maximum is $127 a month. A man and wife both going on the rolls at 65 or later receive half again as much. Maximum benefits to a family based on a worker's earnings range up to $254 a month.

Almost everyone who works is covered by social security. The only major groups excluded from coverage are self-employed physicians, Federal employees under the civil service retirement system, self-employed persons with annual net earnings of less than $400, and farm and household workers with irregular employment. Employees of State and local governments and of nonprofit organizations may obtain coverage on a voluntary group basis and almost 80 percent have done so. Railroad employees, through a coordination of the railroad retirement and social security programs, are in effect covered by social security.

The program, then, furnishes basic retirement, disability, and survivor protection to practically all of the American people. The Council believes enactment of the recommendations discussed in the pages that follow will enable the program to do so more effectively.

Social Security Benefit Amounts

The social security program today is the major reliance of most of our people for income security in old age. As indicated in Part II, about one-half of the older social security beneficiaries have less than $12.50 a month in continuing retirement income other than their social security benefits, and for all but about one-fifth of the beneficiaries, benefits are the major source of continuing retirement income.[24] With social security benefits the source of almost all of the regular retirement income received by so many of the older people in the country and the main reliance of so many more, it is essential that the benefit structure be examined from time to time to make sure that benefits are reasonably adequate.

Benefits for a retired worker (men and women) alone average only $74 a month; for an aged couple, $130. Two-thirds of the couples on the benefit rolls are getting less than $158 a month. Even for people now coming on the benefit rolls at or after age 65, the old-age benefits for men alone average $103 a month; for couples, $159. The Council believes that these amounts are too low.

In considering how best, within the limitations imposed by the necessities of financing, to improve benefits for both present beneficiaries and for those who become beneficiaries in the future the Council examined the several factors that determine benefit size—the contribution and benefit base, the provisions for translating the record of credited annual earnings into the "average monthly earnings" on which the benefit is based, the special provisions for reduced benefits for those who retire early, and the structure of the formula for deriving the monthly benefit from the average monthly earnings. As a result of its examination, the Council is recommending changes in three of the four factors and an intensive study of possible changes in the fourth.

The recommendation of the Council for increasing the contribution and benefit base is outlined in Part I of this report (on p. 70) because of its implications for the financing of the program. Raising the base in line with rising earnings has equally important implications for the benefit structure of the program. Social security is important to average and above-average earners as well as to low-paid people. Over the years, the erosion of the base has meant that the protection for the higher earner has significantly deteriorated. For example, a man who was earning $3,000 in 1940 had all of his earnings counted and, looking forward to retirement in 1965, could expect to get a benefit that would equal 21 percent of these earnings; in 1965 a man who was earning $3,000 in 1940, if

[24] See footnotes 16 and 17, p. 75.

his earnings rose in proportion to the rise in earnings generally, will be earning about $13,000, and under the $4,800 base now in effect would get a benefit that would equal only 11 percent of his earnings today. Today about two-thirds of the regularly employed men have earnings above the maximum which can be counted for benefit purposes. The Council believes that improvement of the benefits payable at earnings levels above $4,800 for people retiring in the future through increasing the base is necessary in order to preserve the wage-related character of the program and to make it more effective for the average and above-average earner.

The other recommendations of the Council for improving the benefit structure are discussed in detail in the following pages.

1. THE PERIOD FOR COMPUTING BENEFITS FOR MEN

The period for computing benefits (and insured status) for men should be based, as is now the case for women, on the period up to the year of attainment of age 62, instead of age 65 as under present law, with the result that 3 additional years of low earnings would be dropped from the computation of retirement benefits for men.

The Council recommends that the period used for computing benefits for men in retirement cases should be shortened by 3 years, making it the same as for women. While retirement benefits are payable to men and women at age 62, and while the reduction rates applicable where benefits are taken before age 65 are the same for men as for women, the average monthly earnings for men are computed over a period equivalent to the number of years (less 5 years) up to attainment of age 65, whereas for women they are determined over a period equivalent to the years (less 5 years) up to age 62. If a man does not work after age 62 his average monthly earnings and the resulting benefits generally will be reduced, but a woman's failure to work past age 62 generallv has little or no adverse effect on her benefits.[25]

The Council is concerned about the low benefits payable to men who have been coming on the benefit rolls before age 65, especially those whose retirement has been involuntary. Almost one-half of the men awarded old-age benefits in the fiscal year 1964 get reduced benefits because they came on the rolls before age 65, and their benefits are, on the average, much lower than the benefit amounts payable to men who come on the rolls at age 65 or after—for fiscal year 1964 awards, $75 for men who came on before 65 as compared to $103 for men who came on at or after 65.

The reduced benefits which are now paid to men and their wives who start to get old-age benefits before age 65 are below what they can be expected to live on. As a result it may be anticipated that many will sooner or later have to apply for assistance; and the role of public assistance in providing income for people who can no longer work—a role which has diminished over the years as the social security program has grown—can be expected to expand. The proposal to end the computation period for men at 62 instead of 65 will alleviate this situation.

The Council is not certain, however, that this change will improve benefits enough for people who are forced into early retirement. It may be necessary later to consider providing for a smaller-than-acturial reduction in benefits for people who come on the rolls before age 65. Provision for a smaller reduction, though, would be relatively expensive and could have adverse effects on private pension plans. It might also have effects on retirement policies and on the general patterns of work and retirement in the later years of life.

Because of the importance of such a change, the Council does not want to make any recommendation on the basis of the present limited experience with the age-62 acturial-reduction provision for men. The provision permitting men to get benefits at 62 was enacted in 1961, and available data, much of which relates only to the year 1962, may not be representative of the ongoing situation. The

[25] The following example illustrates the effect on benefit amounts of shortening by 3 years the period over which a man's average monthly earnings are figured: A man who earned $3,000 in each year, 1951 through 1958, became unable to continue at his regular work in 1959 and his earnings decreased to $1,500 a year in 1959 through 1964. He reached age 62 in 1965, had no earnings in that year, and took his reduced old-age benefit. Under present law, only 5 years, including the 3 years from age 62 to 65 in which he had no earnings, could be omitted in figuring his average monthly earnings, with the result that he would get a benefit of $68.80 at age 62 (his average monthly earnings of $208 would yield an unreduced benefit of $86). Under the recommendation an additional 3 years would be dropped from the computation and his benefit would be $73.60 (based on average monthly earnings of $236 and an unreduced benefit amount of $92).

With the general benefit increase recommended by the Council the man would get a benefit of $87.20 (based on an unreduced benefit of $109) with the shorter computation period, while under the benefit increase alone and with the present age 65 closing point he would get a reduced benefit of $82.40.

Council recommends that the Social Security Administration continue to collect information about the people who come on the benefit rolls before age 65. The information should include data relative to both their past work experience and their current financial situation, and should provide answers to such questions as the following: how many have been regular full-time workers over the greater part of their lives, and how many have been only intermittently or casually employed; how many have been the primary earners in their families, and how many have been secondary earners; how many are unskilled workers, how many have skills that have become obsolete because of technological or economic change, and how many have skills that are still useful and in demand; and how many are retiring voluntarily, how many are being forced to retire, and how many have already been out of employment for some time.

Shortening by 3 years the period for computing benefits for men will, of course, benefit men who retire at or after age 65 as well as those who retire before age 65; it will also result in the payment of higher benefits in some cases to the dependents of retired men and to the survivors of men who die after reaching age 62. The proposal will also make payable more quickly, as far as men are concerned, the higher benefits that will become possible with the increased contribution and benefit base that is being recommended by the Council. The reason why this happens is that with a computation period shorter by 3 years than it would be under present law, fewer years prior to the effective date of the new base would have to be included in the computation and the average monthly earnings would consequently be higher.[26]

2. A GENERAL INCREASE IN BENEFITS

A general increase in benefit amounts, accomplished by a change in the way the benefit formula is constructed, should be provided to take into account increases in wages and prices since the last general benefit increase in 1958, and the maximum on monthly family benefits should be related to earnings throughout the benefit range.

The council recommends a general benefit increase which will average about 15 percent but which will be accomplished, not by increasing each benefit by 15 percent, but rather by a change in the way the benefit formula is constructed. About half of the 15 percent will go to restoring the purchasing power of the benefits, taking account of increases in prices since 1958, the time of the last general benefit increase. The remainder will be used to adjust in part to the increase in earnings that has taken place and so improve the real value of the benefits.

The Council believes that while the increase to make up for the increase in the cost of living, amounting to about 7 percent should be applicable at all benefit levels, the improvement in the real value of the benefits should not be uniformly applicable at all levels.

Instead of the large increase in the percentage factor applicable to the lower part of the average monthly earnings that would arise from such a uniform application, the Council proposes to increase the amount of average monthly earnings to which the heavier weighting applies.[27] The purpose of having a weighted formula is to give recognition to the fact that the lower-paid worker and his family have less margin for reduction of their income and are less likely to have other resources than higher-paid workers; and the level of earnings that marks what can be considered a lower-paid worker goes up as earnings go up generally. In recognition of this fact, the amount of average monthly earnings to which the higher percentage applies was increased from the original level of $50, set in 1939, to $100 in 1950 and to $110 in 1954. In view of the increase in wages that has occurred since 1954, when the amount was last changed, the Council believes that in effect the definition of what constitutes a low-paid worker should be changed again by an increase in the level of earnings to which

[26] For example, take the case of a man who has always earned at or above the maximum taxable level and who attains age 65 and retires on January 1, 1971. Assuming that the Council's recommendations with respect to the contribution and benefit base and the benefit formula were enacted, but the years up to 65 had to be used in computing the average monthly earnings, this man's average would be figured over his highest 15 years of earnings after 1950 and thus would be based on 3 years of earnings at $4,200, 7 years at $4,800, 2 years at $6,000, and 3 years at $7,200. His average monthly earnings would be $443 and his benefit would be $153. If, on the other hand, the recommendation for dropping out 3 more years in such cases is adopted, the 3 years in which his earnings were $4,200 would be dropped from the computation, his average monthly earnings would be $466 and his monthly benefit would be $158.

[27] In order to provide a larger benefit relative to earnings for lower-paid people than for higher-paid people, social security benefit amounts have always been based on a formula that is weighted to pay a relatively larger percentage of average earnings up to a certain amount and a smaller percentage of earnings above that amount. The formula underlying the benefit table now in the law is 58.85 percent of the first $110 of average monthly earnings and 21.4 percent of the remainder.

the higher percentage is applied, and the Council recommends an increase from $110 to $155.[38]

The reason for not applying more than a 7-percent cost-of-living increase at the lower levels of average monthly earnings is that the increase at average monthly earnings below, say, $100 would go mostly to people who have not worked regularly under the program, and whose benefits are already almost as large for a couple as the earnings on which the benefits are based.

Although no substantial increase should be made in the percentage factor applying to the lower part of the average monthly earnings, since this would tend to increase benefits for people who work under the program only part time, such as people who spend most of their lives as Federal workers, as housewives, or in noncovered State and local government employment, the Council does favor improving the situation for the low-paid worker who is regularly covered. The Council believes that if the social security program is to do an adequate job as the basic system providing retirement income. one goal must be that such a low-paid worker will get benefits high enough so that he will not have to turn to public assistance to meet regular living expenses. Low-paid workers are not likely to have significant savings or private pensions; and in the absence of adequate social security benefits, most of them will have to turn to assistance to supplement their benefit income. In the opinion of the Council supplementation of benefits by assistance on a large scale to meet regular recurring expenses is undesirable. The goal should be to have social security benefits meet regular, ordinary living expenses and to have assistance serve as a backstop to meet special and unusual needs. The Council believes therefore that the level of benefits should be such that a regular full-time worker at low earnings levels will ordinarily not have to apply for assistance.

Under present law, if a worker has average monthly earnings of $200 a month (the equivalent of full-time earnings at the Federal minimum wage) he and his wife will get a retirement benefit of $126 starting at age 65. Forty-one of the fifty States have old-age assistance standards for a couple that are higher than $126 a month (not counting any allowance made for medical care), and the median standard for a couple is $147 a month. With the benefit increase that the Council is recommending, a worker earning $200 a month and his wife would get total monthly social security benefits of $151.50, an amount that would be more than or within a few dollars of the assistance standards of 30 of the 50 States. Workers who earn more than minimum wages would of course get higher benefits.

The following tables illustrate benefit amounts that would be payable under the Council's recommendations for changing the method of computing the benefits. The effect of the Council's recommendation for increasing the contribution and benefit base is also shown in the tables.

[38] The result of the Council's recommendation for a change in the level of earnings to which the higher percentage is applied is that benefit amounts payable at average monthly earnings above $155 (and up to the present maximum average monthly earnings of $400) will be increased by a flat amount of about $17. (See table on p. 90). Above the present maximum average monthly earnings of $400, of course, the increase in the contribution and benefit base will gradually produce benefits, for those who pay on the higher base and retire in the future, that will be considerably more than $17 above the present maximum benefit of $127.

Benefits payable to a married couple coming on the benefit rolls at age 65 or over under present law and under the Council's recommendations

Average monthly earnings	Benefit amount		Percent replacement of average monthly earnings	
	Present law	Proposal	Present law	Proposal
$67 [1]	$60.00	$64.50	89.6	96.3
$100	88.50	94.50	88.5	94.5
$110 [2]	97.50	105.00	88.6	95.5
$124 [3]	102.00	109.50	82.3	88.3
$155 [4]	111.00	136.50	71.6	88.1
$200	126.00	151.50	63.0	75.8
$300	157.50	183.00	52.5	61.0
$400 [5]	[5] 190.50	216.00	47.6	54.0
$500	[5] 190.50	247.50	38.1	49.5
$600 [6]	[5] 190.50	[6] 279.00	31.8	46.5

1 The highest amount of average monthly earnings on which the minimum benefit of $40 is payable under present law.
2 The highest amount of average monthly earnings to which the higher percentage in the benefit formula in present law is applied.
3 The smallest amount of average monthly earnings to which the recommended formula applies; at all lower average monthly earnings levels the 7-percent increase is larger.
4 The highest amount of average monthly earnings to which the higher percentage in the formula would be applied under the Council's recommendation.
5 The maximum under present law.
6 The maximum under the $7,200 contribution and benefit base which the Council recommends go into effect in 1968.

Benefit amounts payable to a retired worker who comes on the benefit rolls at age 65 or over under present law and under the Council's recommendations

Average monthly earnings	Primary insurance amounts		Percent replacement of average monthly earnings	
	Present law	Proposal	Present law	Proposal
$67 [1]	$40	$43	59.7	64.2
$100	59	63	59.0	63.0
$110 [2]	65	70	59.1	63.6
$124 [3]	68	73	54.8	58.9
$155 [4]	74	91	47.7	58.7
$200	84	101	42.0	50.5
$300	105	122	35.0	40.7
$400 [5]	[5] 127	144	31.8	36.0
$500	[5] 127	165	25.4	33.0
$600 [6]	[5] 127	[6] 186	21.2	31.0

1 The highest amount of average monthly earnings on which the minimum benefit of $40 is payable under present law.
2 The highest amount of average monthly earnings to which the higher percentage in the benefit formula in present law is applied.
3 The smallest amount of average monthly earnings to which the recommended formula applies; at all lower average monthly earnings levels the 7-percent increase is larger.
4 The highest amount of average monthly earnings to which the higher percentage in the formula would be applied under the Council's recommendation.
5 The maximum under present law.
6 The maximum under the $7,200 contribution and benefit base which the Council recommends go into effect in 1968.

The Council recommends also that the method of determining family maximum benefits be changed. At present, over a wide range of average monthly earnings at the higher levels, the maximum family benefit is a flat dollar amount unrelated to the average monthly earnings on which the individual benefits are based.[20] Under the Council's recommendation the family maximum would no longer have a flat dollar limit but would be determined by a weighted formula under which the family maximum at the higher earnings levels, as well as at the lower levels, would

20 Specifically, the maximum family benefit under present law is $254 (twice the maximum benefit payable to a retired worker) or 80 percent of the average monthly earnings (but it is not permitted to reduce the family benefits to less than 1½ times the worker's primary insurance amount. The $254 limit applies at all levels of average monthly earnings above $314.

be related to previous average monthly earnings.[30] Such an approach would get away from a fixed dollar limit yet would continue to avoid the payment of excessively large family benefits at the higher earnings levels.

This new approach was embodied in the omnibus social security bill that passed both the Senate and the House of Representatives in 1964, but did not become law because the Conference Committee was unable to agree on other provisions in the bill.

The following table illustrates family maximum benefit amounts that would be payable under the Council's recommendations:

Maximum family benefits payable under present law and under the Council's recommendations

Average monthly earnings	Family maximum		Average monthly earnings	Family maximum	
	Present law	Proposal		Present law	Proposal
$67 [1]	$60.00	$64.50	$200	$161.60	$161.60
$100	88.50	94.50	$300	240.00	240.00
$110 [2]	97.50	105.00	$400 [5]	[5] 254.00	320.00
$124 [3]	102.00	109.50	$500	[5] 254.00	360.00
$155 [4]	124.00	136.50	$600 [6]	[5] 254.00	[6] 400.00

[1] The highest amount of average monthly earnings on which the minimum benefit of $40 is payable under present law.

[2] The highest amount of average monthly earnings to which the higher percentage in the benefit formula in present law is applied.

[3] The smallest amount of average monthly earnings to which the recommended formula applies; at all lower average monthly earnings levels the 7-percent increase is larger.

[4] The highest amount of average monthly earnings to which the higher percentage in the formula would be applied under the Council's recommendation.

[5] The maximum under present law.

[6] The maximum under the $7,200 contribution and benefit base which the Council recommends go into effect in 1968.

3. THE MAXIMUM LUMP-SUM DEATH PAYMENT

The maximum lump-sum death payment should not be set in terms of an absolute dollar limit but rather should be the same as the highest family maximum monthly benefit.

Under present law the lump-sum death payment is equal to 3 times the primary insurance amount of the deceased worker but it may not exceed $255. The $255 limit on the maximum lump-sum death payment was established by the Congress in 1952 and it has not been changed since that time. This limit, which applies at all levels of primary insurance amounts above $85 (average monthly earnings levels above $207), is becoming increasingly outdated because it is unrelated to earnings levels or benefit amounts and has not been increased as earnings levels have risen or as monthly benefit levels have been increased.

Since 1952 the Consumer Price Index has risen by more than 16 percent. More significantly, over the same period the average cost of an adult's funeral has gone up at least 30 percent; and medical costs, much of which in the case of the last illness is likely to have to be met from the estate, or by the survivors, have increased almost 50 percent.

The Council believes that the lump sum should not be subject to a dollar limit that is allowed to remain stationary when other provisions of the law are changed, but rather that the dollar limit should be adjusted with other provisions of the law as earnings levels rise. The Council recommends specifically that the provision governing the amount of the maximum lump sum be changed from the present one prescribing an absolute dollar limit of $255 to a provision that the maximum lump sum shall be equal to the highest family maximum monthly benefit. Lump-sum death payments up to the new maximum would continue

[30] Specifically, the family maximum would be 80 percent of the average monthly earnings up to the point at which the average monthly earnings amount is two-thirds of the maximum possible average monthly earnings under the contribution and benefit base specified in the law. The family maximum at earnings levels above this breaking point would be increased by 40 percent of the amount of the average monthly earnings over the breaking point. For example, if the contribution and benefit base were $6,000 the family maximum would be 80 percent of the average monthly earnings at earnings levels up to $333; at earnings levels between $333 and $500 it would be 80 percent of the first $333 plus 40 percent of any additional average monthly earnings, so that at the $500 level the maximum would be $333, or two-thirds of the average monthly earnings to which it applies.

to be equal to 3 times the primary insurance amount. And the maximum lump sum would increase whenever the maximum family benefit is increased so that it would not remain stationary in the future as it has over the past 12 years.

Dependents' and Survivors' Benefits

Since the decision in 1939 to provide family protection—that is, to protect those who normally depend on the worker for support as well as the worker himself—Congress has provided benefits in most situations where it is necessary and appropriate to replace the support lost by a dependent or survivor as a result of the retirement, disability, or death of the worker. The Council has concluded, however, that there are a few additional dependency situations for which protection should be provided.

4. CHILDREN OVER AGE 18 ATTENDING SCHOOL

Benefits should be payable to a child until he reaches age 22, provided the child is attending school between ages 18 and 22.

Benefits under the social security program should be paid to a child as long as it is reasonable to assume that he is dependent on his family. Under the present law, child's insurance benefits (except for a disabled child) are payable only until age 18, presumably on the theory (not an unreasonable one at the time that benefits were first provided for children by the 1939 amendments) that by age 18 a child can be expected to support himself.[31] With the growing importance of education in modern life it is becoming increasingly clear that this is not a reasonable expectation. Today at least some education beyond high school is rapidly becoming part of our general level of living and will increasingly be necessary because of rapid technological advancement and the growth in the number of professional, technical, and other jobs requiring higher levels of education. As a consequence the period of dependency of children has been lengthening.

There is precedent in other Federal programs for paying benefits to children after they reach the age of 18 while they are in school. The civil service retirement program generally pays benefits up to the end of the academic year in which the student reaches age 21. Under three veterans' programs—the dependency and indemnity compensation program, the non-service-connected death pension program, and the war orphans education assistance program—a child may get benefits after he reaches age 18 while he is attending school. Under an amendment enacted in 1964 to the program of aid to families with dependent children the Federal matching share in assistance payments may be continued up to age 21 where a child is attending a high school or a vocational school.

The Council does not recommend that mother's benefits be made payable to a mother where the only child getting benefits is age 18 or over and is getting benefits on the basis of being a student. Benefits are paid to a wife or widow under age 62 who has a child in her care if she does not have earnings from work above specified limits, in recognition of her need to stay at home to care for the child. Where the only child is age 18 or over there is not the same reason to pay mother's benefits, since there is no need for the mother to stay home to care for the child.

An amendment similar to that recommended by the Council, to continue social security benefits after a child reaches age 18 when the child is still in school, was passed by both houses of Congress in 1964 but failed to become law because the Conference Committee was unable to agree on other provisions in the omnibus bill.

5. DISABLED WIDOWS

The disabled widow of an insured worker, if she became disabled before her husband's death or before her youngest child became 18, or within a limited period after either of these events, should be entitled to widow's benefits regardless of her age.

The Council believes that the disabled widow, like the widow who is aged 62 or over or the widow who has a child of the deceased worker in her care, needs benefits when her husband dies. The Council therefore recommends that benefits be paid to the widow so disabled that she cannot work—provided, however, that she was disabled at the time of her husband's death or before her youngest child reached age 18, or within a limited period after either of these events.

The widows who would be protected are those who, when their husbands die, suffer a loss of support and who, because they are disabled themselves, have no

[31] Under the 1939 provision, benefits could not be paid to a child over 16 for any month in which he was not regularly attending school unless school attendance was not feasible; the school attendance requirement was srepealed in 1946.

opportunity to work and thus to substitute their own earnings for that loss of support. On the other hand, the Council does not believe it would be in keeping with the purpose of the program to pay widow's benefits on account of disability to a woman whose disability occurred after she could have reasonably been expected to have worked long enough to earn disability insurance benefits in her own right. For example, it would not seem of high priority to pay widow's benefits to a widow who was, say, 30 years old and childless when her husband died and who did not become disabled until many years later. Such a widow would most likely have gone to work and earned disability protection in her own right, and, if she had not worked after she was widowed, it would seem unreasonable to pay her a benefit on the grounds that a physical or mental impairment that developed later in life was preventing her from working.

A theoretical case can also be made, perhaps, for providing benefits for other disabled dependents (almost all of them would be disabled wives who are under age 62) of retired or disabled workers. However, it cannot be assumed that younger wives of older retired men and wives of disabled men look to employment for support to anywhere near the extent that widows do. Thus extending the group of disabled dependents to include wives would result in the payment of benefits in many cases where the couple had not experienced any loss of earned income as a result of the disability of the wife. Considering this fact, the Council believes that additional information is needed to determine whether it would be desirable to pay benefits to disabled wives as well as widows.

6. DEFINITION OF CHILD

A child should be paid benefits based on his father's earnings without regard to whether he has the status of a child under State inheritance laws if the father was supporting the child or had a legal obligation to do so.

Under present law, whether a child meets the definition of a child for the purpose of getting child's insurance benefits based on his father's earnings depends on the laws applied in determining the devolution of intestate personal property in the State in which the worker is domiciled. The States differ considerably in the requirements that must be met in order for a child born out of wedlock to have inheritance rights. In some States a child whose parents never married can inherit property just as if they had married; in others such a child can inherit property as the child of the man only if he was acknowledged or decreed to be the man's child in accordance with requirements specified in the State law; and in several States a child whose parents never married cannot inherit his father's intestate property under any circumstances. As a result, in some cases social security benefits must be denied even where a child is living with his mother and father in a normal family relationship and where neither the child nor his friends and neighbors have any reason to think that the parents were never married.

The social security program is national in scope, covering the worker without regard to the State in which he resides, and the program is intended to pay benefits as a partial replacement of lost support to those relatives of the worker who normally look to him for support. The Council believes that in such a program whether a child gets benefits on the earnings record of a person who has been determined to be his father and who has an obligation to support him should not depend on whether he can inherit that person's intestate personal property under the laws of the State in which the person happens to live.

There is precedent in the veterans' laws for paying benefits to children who do not meet the definition of "child" under State law. Under the veterans' program the child of a veteran may get benefits regardless of State law if the veteran had acknowledged the child in writing, or had been ordered by a court to contribute to the child's support, or before his death had been judicially decreed to be the child's father, or is shown by other satisfactory evidence to be the child's father. The Council believes that a similar provision should be included in the social security program.

Disability Benefits

Disability insurance is the newest part of the social security program, having been established by amendments enacted in 1954 and 1956. Since then, this part of the program has been improved by providing benefits for the dependents of disabled workers and by extending disability protection—as the original provisions did not—to workers at all ages. As a result it has played a growing role in meeting the needs of the disabled. The Council believes that this development should continue as experience with the program grows, and recommends that two improvements be made at this time.

The Council recognizes that there is ground for considering still other changes in the program, since there are many totally disabled people who face the prospect of having their resources depleted during periods when they are not eligible to receive benefits under either private plans or the social security system. The Council is aware that such consideration will be enhanced by several studies now in progress or being planned by the Social Security Administration which will produce additional information on, for example, the characteristics of applicants who are denied social security disability benefits, the income and other financial resources of severely disabled people, and the extent to which social security disability beneficiaries are dependent upon public assistance. The Council believes that these studies may point up the need for further consideration of proposals to eliminate gaps in the protection now afforded totally disabled people.

7. YOUNG DISABLED WORKERS

Young workers who become disabled should have their eligibility for benefits determined on the basis of a test of substantial and recent employment that is appropriate for such workers.

Under present law, in order to be eligible for disability benefits, a worker must meet a requirement of 5 years of work in the 10-year period before he became totally disabled. This requirement assures that the benefits will be paid only to people who have both substantial and relatively recent employment. However, the effect of the 5-years-of-work requirement on a worker disabled while young is to make it difficult, or even impossible, for him to get disability benefits. For example, the worker who becomes totally disabled at age 25 and who started to work at age 21 has a total of only 4 years of covered work and therefore cannot meet the requirement.

The restriction of disability insurance protection to workers who have had substantial and recent employment can be achieved for younger workers by an alternative provision under which a worker disabled before age 31 would be eligible for benefits if he had been in covered work for at least one-half of the period between age 21 (the age from which fully insured status is figured under present law) and the point in time at which he became disabled, or, in the case of those becoming disabled before age 24, for at least one-half of the 3 years preceding disablement.[32]

This provision would be somewhat similar to a provision now in the law under which the survivors of a worker who died while young can qualify for benefits even though he had only a short period of covered work.

8. REHABILITATION OF DISABILITY BENEFICIARIES

The social security program should pay the costs of rehabilitation for disability beneficiaries likely to be returned to gainful work through such help, with the rehabilitation services being provided through State vocational rehabilitation agencies.

Disability insurance beneficiaries show less potential for rehabilitation than people who, though disabled, do not meet the strict definition of disability in the social security law. Because the beneficiaries have less potential, rehabilitation services for them may be given a relatively low priority by the State vocational rehabilitation agencies, and because of limitations on funds and therefore on the extent of services that can be offered by the agencies, some beneficiaries who could profit from rehabilitation services do not get them.

The Council believes that those disability beneficiaries who can reasonably be expected to be returned to gainful employment through rehabilitation services should get such services. Increasing the number of disabled workers who are rehabilitated would benefit not only the people involved but also society in general. For the rehabilitated person the gain would not only be increased income but also the satisfaction flowing from his restoration to a useful economic role in society.

The Council recommends, therefore, that money be made available from the social security trust funds to finance the rehabilitation of selected disability beneficiaries. The expenditure of social security funds is clearly justified so long as

[32] Under this proposal, a worker who becomes disabled before attaining age 24 would have to have been in covered work 1½ years in the 3-year period before he became disabled; a worker who became disabled after age 24 and before age 31 would have to have been in covered work half the time after age 21 and before becoming disabled; and a worker who becomes disabled after age 31 would, just as under present law, have to have been in covered work for 5 out of the 10 years before he became disabled.

the savings from the amount of benefits that would otherwise have to be paid exceed, or at least equal, the money paid from the trust funds for rehabilitation costs. It is wasteful and shortsighted for the social security system to be paying benefits to disabled persons if a lesser expenditure of funds would assure their return to work.

ELIGIBILITY FOR BENEFITS

9. INSURED STATUS

The Council recommends retention of a requirement of covered work as a test of eligiblity for benefits, and has no major changes to recommend in the present provisions.[33]

The present requirement of a "fully insured" status—covered work for a period of time equal to about one-fourth of the time after 1950 (or age 21, if later) and up to death or retirement age—is, in the opinion of the Council, a reasonable one.[34] Some prescribed requirement of attachment to covered work is essential under a program which pays a substantial minimum benefit. The present requirement makes the program effective for older workers in the early years and, at the same time, gives equitable treatment to those now young, since the short-run requirement for fully insured status (1 quarter of coverage for each 4 quarters after 1950) is comparable to the long-run requirement (10 years out of a working life of 40 years or so). The alternative requirement for survivor benefits, the "currently insured" [35] status requirement in present law, serves well as a test of dependence upon covered earnings for support. The Council believes that both requirements for old-age and survivors insurance should be retained as they are, except that the end point for determining fully insured status for men should be changed from 65 to 62, as recommended in the section of this report on benefit amounts (p. 87).

In connection with its consideration of the work requirements of the program, the Council has given attention to proposals for paying minimum benefits, financed either from social security funds or from general revenues, to older people who have not met these requirements. Whatever theoretical merit these proposals might have had at an earlier stage in the development of the program, there do not seem to be persuasive reasons for adopting any of them now. Only about 15 percent of the aged today are unprotected by social security and this figure is becoming smaller all the time. Over 90 percent of the people now reaching age 65 are eligible for benefits and, over the long run, virtually everyone who was dependent on earnings will qualify for benefits. About 50 percent of the 2.7 million aged persons not under social security or railroad retirement are getting old-age assistance, and the payment of minimum benefits to them would in effect be substituting either general revenue funds or social security funds, depending on the particular proposal, for a portion of the Federal-State payments which they are getting now, without removing very many from the assistance rolls. Another 20 to 25 percent of those not eligible for social security benefits are beneficiaries of other governmental retirement systems or of veterans' programs and additional numbers are in governmental institutions.

Since the remaining problem is now so small, the Council believes it is undesirable to risk the public misunderstanding that might result from such a "blanketing-in."

10. RETIREMENT TEST

The provision in the law that prevents the payment of benefits to a person with substantial earnings from current work—the retirement test—is essential in a program designed to replace lost work income and should be retained.

The purpose of social security benefits is to furnish a partial replacement of earnings which are lost to a family because of death, disability, or retirement in old age. In line with this purpose the law provides that, generally speaking, the

[33] As previously indicated, the Council is recommending a change in the disability insured status requirement as it applies to young workers and a change from age 65 to age 62 in the ending point for determining fully insured status for men.

[34] More specifically, to be fully insured a person must have at least as many quarters of coverage (earned at any time after 1936) as the number of years elapsing after 1950 (or after the year in which he attains age 21, if later) and up to the year in which he reaches age 65 (62 for women), becomes disabled, or dies, whichever occurs first. (For most kinds of employment a person acquires 1 quarter of coverage for each calendar quarter in which he is paid $50 or more in wages; generally speaking, a person acquires 4 quarters of coverage for each year in which he is covered as a self-employed person.) The minimum requirement for fully insured status is 6 quarters of coverage; the maximum is 40 quarters of coverage.

[35] A person is currently insured if he has approximately 1½ years of covered work out of the 3-year period immediately preceding his death or entitlement to benefits. In death cases, child's benefits, mother's benefits, and a lump-sum death payment can be paid if the worker was currently insured even though he was not fully insured.

benefits for which a worker, his dependents, and his survivors are otherwise eligible are to be withheld if they earn substantial amounts.

If benefits were paid without a test of retirement, the cost of the program would be substantially increased and the combined additional contributions which would have to be paid by employers and employees to support the provision would amount to nearly 1 percent of covered earnings. In 1964 about $2 billion in additional benefits would have been paid, and most of this money would have gone to those who are working full-time and generally earning as much as they ever did. The great majority of the older people who are eligible for benefits—those who are unable to work, those who can do some work but cannot earn more than $1,200 a year, and those who are aged 72 and over and therefore no longer subject to the test—would not be helped by elimination of the test. Indeed they might be hurt; the increased cost might well stand in the way of improvements which *would* be of help to them. Thus if the concept of partially replacing work income lost through retirement were dropped and a straight annuity concept adopted, the costs would be incurred mostly to pay benefits to those fortunate older people with regular jobs at the expense of all the rest.

The test of retirement is essential to implement the purpose of the program—insurance against the loss of earned income. It is not to be confused with a test of individual need or income. The Council believes it is of the greatest importance that benefits continue to be paid without regard to the nonwork income or assets of the beneficiary. Only by paying benefits without regard to nonwork income can the program continue to sustain the motivation of the individual to save on his own and to buy private insurance. Only in this way can the partnership of social security with private pension plans be continued. Moreover, it is the absence of any test of need or income that, together with the concept of earned right, gives the program its distinctive character as a program of self-support and self-reliance.

The Council has not only considered the desirability of retaining the test of retirement, but has evaluated various alternative ways of liberalizing the test. The Council recognizes that the present test does discourage some people who are retired from their regular jobs from earning as much as they could, or would like to, in part-time or irregular employment. Because only $1 in benefits is withheld for each $2 of earnings between $1,200 and $1,700, additional earnings always mean more total income from benefits and earnings up to that point, but above $1,700, a person loses $1 in tax-exempt benefits for each $1 of taxable earnings. Because his earnings are reduced by the amount of income tax he must pay, while the benefits he foregoes would not have been taxable, he may be worse off financially as he earns more. Even those who, because of extra exemptions or extraordinary medical expenses, for example, do not have any income tax liability may be worse off financially because they must pay the social security tax on their earnings and because of expenses connected with working.

If the limit on the span of earnings to which the $1-for-$2 adjustment applies were raised, people would not be faced with a financial deterrent to earning somewhat more than $1,700 a year, and there would be relatively little increase in the cost of the program.

On the other hand, if the limit were extended very far and at the same time the benefit formula were liberalized and the benefit and contribution base raised as the Council recommends, people would be able to earn quite high amounts and still get some benefits. For example, if the present $1,700 figure were extended as far as $3,000 (and if the benefit increases recommended by the Council were adopted) a person getting benefits for himself and his wife based on average earnings of $6,000 a year would be able to earn $5,000 and still get some benefits. And such a substantial liberalization of the test would increase substantially the number of people who could keep on working at their regular jobs and get benefits.

On balance, while the Council does not recommend any change in the retirement test, it believes that if nevertheless a change were to be made it would be best to go a limited way in the direction of extending the $1-for-$2 band.

Extending the Coverage of the Program

Practically all working people are now covered by social security. At any given time the employment of nearly 9 out of 10 people in the paid labor force is covered. Of the employment which is not covered, about one-half is that of governmental employees—Federal, State and local—almost all of whom are covered under governmental staff retirement systems. Almost two-fifths of the employment not covered is that of people who work irregularly—part-time household and farm work performed by people (in many cases housewives, school children, or retired persons) who do not meet the relatively low earnings tests required for coverage in these employment areas, or self-employment by people who earn less than $400 in a particular year. The other major exclusion is self-employment in the practice of medicine. Approximately 170,000 doctors have their self-employment earnings in the practice of medicine excluded from coverage. In addition, a very substantial part of the work income of one group of covered workers, those who customarily receive tips in the course of their employment, is not subject to tax nor creditable toward benefits, and as a consequence, the social security protection of these workers is inadequate.

The changes in the coverage provisions of the program which the Council recommends would extend coverage to the self-employment earnings of physicians, provide social-security protection for Federal employees when they are not eligible for civil service retirement benefits, facilitate the coverage of additional State and local government employees, and provide social security credit for tips.

To the extent feasible, everyone who works should be covered by the social security program. Every occupational group contains substantial numbers of people who at one time or another will need the protection of the program and it is impossible to foresee, over the course of a lifetime, who will and who will not have this need. Moreover, all Americans have an obligation to participate, since an effective social security program helps to reduce public assistance costs, and reduced public assistance costs mean lower general taxes. There is an element of unfairness in a situation where practically all contribute to social security while a few profit from the tax savings but are excused from contributing to the program.

It is essential that the coverage of the program remain on a compulsory basis. If coverage were voluntary, the program could not effectively carry out its purpose of providing basic protection for all. The improvident would not be inclined to elect coverage. Many workers who have great need for protection and limited opportunity to acquire it through private means—low-income workers, workers with large families and workers in poor health—would choose not to pay social security contributions because of pressing day-to-day needs. Moreover, permitting individual voluntary coverage would increase program costs and give those allowed such coverage an unfair advantage over workers who are covered on a compulsory basis.

Social security was designed to operate under a benefit structure which would protect all Americans and their families regardless of the worker's age, the size of his family, or any other factor which might make the value of the protection high in relation to the worker's own contributions. Because social security is financed in part by employer contributions, it can provide in virtually all cases protection worth more than the employee contributions and still take care of the higher-cost risks, such as older workers and workers with large families (where the protection provided may be much more valuable than the contributions). This type of benefit structure, which is highly desirable from the standpoint of enabling the program to accomplish its goals, is practical only under compulsory coverage. Only through compulsory coverage can there be assurance that those covered will include not only the high-cost risks but also the lower-cost risks. And only in a system that provides for compulsory coverage of employees is it reasonable to require employer contributions to help finance the benefits. If employees could choose to be covered or not to be covered by social security, employers would have good grounds for resisting any requirement that they pay contributions on the earnings of those employees who elected not to participate. It would not be practical, on the other hand, to require an employer to contribute with respect to only those of his employees who elected coverage. Aside from the constitutional question of whether a tax can be imposed on one party as a result of a voluntary choice of another, such a provision would create an undesirable economic incentive to employ workers who chose not to be covered.

The only provision now in the program for individual election of coverage is that applying to ministers, and the general objections to voluntary coverage have been borne out in the experience with this provision. Coverage has been elected by a large proportion of those ministers who are approaching retirement age—ministers who can confidently expect a large return for their social security contributions. On the other hand, the proportion of younger ministers who have elected coverage is not nearly as large. Thus the net effect on the trust funds is unfavorable in comparison with the cost of the general compulsory coverage of the program.[36] The Council strongly recommends against adoption of any changes that would make social security coverage voluntary for additional groups.

The Council is not recommending any changes in the minimum earnings required for coverage of work in household and farm employment and self-employment. There are difficult administrative problems in such changes and, although in general the results would be desirable, there are also some drawbacks. A large proportion of the people who would be brought into coverage by a lowering of the minimum earnings requirements would be short-term or casual workers, such as housewives and school children working as local seasonal labor in agriculture, who ordinarily are not in the labor force and are already protected as dependents of covered workers. The Council recognizes that as earnings levels rise there is an automatic increase of the coverage of people engaged in the kinds of work which are subject to the minimum-earnings requirements, and considers the additional coverage which will gradually arise in the future from this process desirable.

11. DOCTORS OF MEDICINE

Self-employed doctors of medicine should be covered on the same basis as other self-employed people now covered, and interns should be covered on the same basis as other employees working for the same employer.

Self-employed physicians, numbering about 170,000, are the only professional group whose self-employment income is not covered under social security. The Council sees no reason why this discriminatory treatment should be continued. There are no technical or administrative barriers to the coverage of doctors. Nor is there any question that many doctors have a need for coverage as great as that of other professional self-employed people. A provision for covering self-employed doctors was approved by the House of Representatives in 1964.

Apparently physicians have been excluded up to now because spokesmen for the profession have indicated opposition to coverage. The Council believes that the wishes of a particular group are not a sufficient basis for the continued exclusion of the group. Social security is not only a mechanism in which a person participates because of the benefits he as an individual expects to receive. It is an institution through which all Americans together promote economic security by financing, from the contributions of all, a continuing income to families whose earnings are cut off by the old age, death, or disablement of the worker. Physicians, like all other Americans, benefit in general tax savings and in other ways from the prevention of dependency through social security. Like other Americans, they should share in its support. In fact, failure to cover the self-employment income of physicians has the effect that many of them have an unfair advantage under the program, since it is possible for them to acquire insured status through working for a time in covered employment, and then, because those who do so have low average monthly earnings under the program, they get the advantage of the weighted benefit formula that is intended for low-income people. Thus many of those who do qualify get a very large return in relation to the contributions they pay, in comparison with self-employed people who spend all of their working lifetimes in covered work.

The present exclusion from social security coverage of interns employed by hospitals is closely related to the exclusion of self-employed physicians. The Council believes that when self-employed physicians are covered, coverage should be extended to interns on the same basis as that on which coverage is now made available to other employees of hospitals.

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[36] There have been repeated extensions of the time limit specified in the law for ministers to elect coverage, thus increasing the original advantage ministers were given and the unfavorable effect on the trust funds, since a minister who first did not choose to be covered may later—if he marries and has a family, for example—decide that coverage would be to his advantage, while one who has no dependents may continue to stay outside of the program.

The Council is not now recommending any change in the coverage provisions for ministers. While the Council believes there are better methods of covering ministers, the improvements it has considered tend to be offset by the problems created by a drastic change from a method which has been known and used over a number of years. The Council recommends that the Social Security Administration explore further whether it would be feasible to change to a plan under which ministers employed by churches or other nonprofit organizations would be covered as employees, and to develop methods of minimizing the transitional problems. The Council believes that any coverage of ministers on this basis should be at the option of the nonprofit employer, and that the church or other employer should be able to provide social security coverage for lay employees and not for ministers if it chose to do so. If a church decides to cover its ministers its current minister (or ministers) could choose to continue to be excluded from coverage, but any minister employed in the future would be covered.

12. TIPS

Social security contributions should be paid on tips an employee receives from a customer of his employer, and tips should be counted toward benefits.

More than a million employees now covered under the social security program have an important part of their income from work excluded from coverage because it is received in the form of tips.[37] The Social Security Administration has estimated that the amount of tips received by employees who regularly receive tips is more than $1 billion a year. Tip income is estimated to represent, on the average, more than one-third of the work income of regularly tipped employees; in many cases, of course, tips represent a much larger part, or even all, of the employee's income. For example, a waiter in a large city may get only $35 a week in wages and may average another $55 a week in tips.

Under present law, with only his wages counted toward benefits, the waiter who gets $35 a week in wages and $55 a week in tips would receive a monthly retirement benefit, beginning at age 65, of $74. If his tips were also covered, his benefit amount would be $125. Because their tips are not counted toward benefits, tipped employees are not adequately protected under the social security program. Moreover, since tipped workers pay income tax on earnings they get in the form of tips, it seems particularly unfair to them that these earnings are not counted for social security purposes. This situation should be corrected.

Since tips received by an employee from a customer of his employer are given for services performed in an employment relationship, they should, to the extent possible, be credited to the employee's social security account in the same way that his wages are credited. This would mean that both the employee and the employer would pay their share of the social security taxes on tips, and the employer would report the tips along with the wages he pays the employee.

The Council recognizes that there are difficulties in requiring the employer to report and pay taxes on his employees' tips, since the amount of tips that would have to be reported may not be readily determinable by the employer. The Council believes, however, that most of the difficulties for employers can be overcome if they are not held responsible for reporting and paying taxes on tips that the employee was required to report but did not. A plan for covering tips on this basis was approved by the House of Representatives in 1964.

The Council is aware that some employers have argued that they should not be required to pay social security taxes on their employees' tips because they cannot count tips in determining whether they meet the requirements of minimum wage laws. The Council has been informed, however, that of the States in which tipping occupations are covered by operative minimum wage laws, only 14 make no allowance for tips. It does not seem reasonable to argue that the fact that tips are not counted toward the minimum wage in 14 States should preclude Federal action to count tips under the basic social security system. As a practical matter, Federal legislation requiring employees to report their tips to their employers for social security credit would help to remove a major obstacle to counting tips toward the minimum wage.

13. FEDERAL EMPLOYEES

Social security credit should be provided for the Federal employment of workers whose Federal service was covered under the civil service retirement system but who are not protected under that system at the time they retire, become disabled, or die.

Unlike almost all private pension plans and a high proportion of State and local retirement systems, the Federal civil service retirement system is not supplementary to the social security program. Thus when a person leaves Federal employment, his years of previous Federal service do not count toward social security benefits. Moreover, protection under the civil service retirement system does not start until after 5 years of Federal employment. As a result, although the civil service retirement system provides good protection for people who stay in Federal employment, Federal workers who leave, or those who die or become disabled before having worked for the Government for 5 years, may have inadequate protection or none at all under either civil service retirement or social security.

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[37] Tips an employee receives directly from someone other than his employer are covered for social security purposes only if the employer requires an accounting of the tips. Very few tips are covered on this basis. Tips received by self-employed persons are covered in the same way as other types of self-employment income.

A practicable and relatively inexpensive way of filling the most serious gaps that result from this situation is to provide for social security credit for the Federal employment of those workers who are not protected under the civil service system at the time they retire, become disabled, or die. As part of the financing arrangement, the civil service retirement system would withhold, from the returns of contributions that are made from the civil service retirement system to separating employees, amounts equal to the social security employee contributions which would have been payable if their Federal work had been covered under social security. These withholdings would be transferred to the social security fund and additional financial adjustments made between the two systems to take account of the transfers of credit.

The plan includes the following principal elements, all of which the Council considers essential to its effective operation:

1. Credit would be transferred to social security for the Federal service of individuals who die, become disabled, or separate from work covered under the civil service retirement system after less than 5 years of Federal service. (At present, the only provision made where a person with less than 5 years of service dies or terminates his employment is for a refund of employee contributions.)
2. Credit would be transferred to social security for the Federal service of people who separate after 5 or more years of Federal work and obtain refunds of their contributions to the civil service retirement system. (The civil service retirement system does not provide any protection for people who separate from the civil service and take refunds.)
3. Former civil service employees who have not taken refunds of their civil service contributions and who die or who become disabled before age 62 could have credit for their Federal service transferred to social security. (Former employees do not have disability or survivorship protection under the civil service retirement system after separation.)

This transfer-of-credit approach would forego certain advantages which would be achieved by a straight extension of social security coverage. For example, an extension of social security coverage would provide superior protection for workers who become disabled or die relatively early in their careers. However, the transfer-of-credit approach the Council is suggesting would be considerably less costly for the Federal Government than a straight extension of social security coverage. Equally important, whereas an extension of social security coverage would require substantial modification of the civil service retirement system to take account of social security benefits and contributions, no modifications would be required to carry out the Council's recommendation except for the financing of the transfer of credits.

14. STATE AND LOCAL GOVERNMENT EMPLOYEES

The coverage of additional State and local government employees should be facilitated by making available to all States the option of covering only those present members of State and local government retirement system groups who wish to be covered, with coverage of all new members of the group being compulsory. Also, policemen and firemen in all States should be provided the same opportunity for coverage as other State and local government employees.

The provisions of present law which make social security coverage available to employees of States and their political subdivisions under voluntary agreements between the States and the Federal Government have proved generally effective in an area of employment where, by reason of constitutional barriers against Federal taxation of the States, compulsory coverage has not seemed feasible. About 7 out of 10 full-time State and local government employees are now covered under social security, and about three-fourths of those covered have supplemental protection under a staff retirement system.

Although the present approach to coverage of State and local government employment has been effective, the Council believes that improvements can and should be made within the existing framework. Over the years a number of special provisions, each applying only to a State or States named specifically in the law, have been enacted. Special provisions not only complicate administration but result in inequalities of treatment as between different groups in similar employment situations—inequalities which are inappropriate in a national social insurance system. In the main, these inequalities arise under provisions which permit a number of States named in the Federal law much greater latitude in bringing retirement-system members under social security than is permitted other States.

In all but 18 States, which are named in the law, coverage is available only by means of a referendum among members of any retirement-system group for which social security coverage is contemplated; if a majority of the members vote for social security coverage, all members of the group are covered. The 18 States named in the law are permitted to use either the referendum procedure or an alternative known as the "divided-retirement-system" provision. Under this alternative, the 18 States may extend social security coverage to only those current members of a retirement-system group who desire such coverage, with coverage being required for all employees who later become members of the retirement-system group. The requirement that all future members of the group must be covered under social security protects the social security trust funds against continuing adverse selection.

Making the divided-retirement-system procedure generally available would make it possible for a State to provide in an orderly way for the protection of future members of retirement-system groups on a coordinated basis.

Under another provision all but 19 States (named in the law) are prohibited from providing social security coverage for retirement-system groups made up of policemen and firemen. The Council sees little justification for the prohibition. There are strong reasons why policemen and firemen should be covered under staff retirement systems in addition to social security because the benefits of staff retirement systems can be tailored to meet their special needs. However, their arduous and dangerous duties make the survivor and disability protection of social security particularly valuable to policemen and firemen. Their own systems are often seriously deficient in providing survivor protection, and their over-all disability and retirement protection, like that of other State and local government employees, could be improved considerably if they were covered under both the basic social security program and a supplementary staff-retirement system.

Some organizations of policemen and firemen that have opposed social security coverage for their members have expressed fear that their State or local government systems would be curtailed, or perhaps abandoned, if social security coverage were obtained. The Council is impressed, though, by the fact that the extension of social security protection to millions of State and local government workers who are under staff-retirement plans has given rise to no instances, to the knowledge of the Council, where there has been a reduction in over-all protection.

The Council supports the policy declaration of the Congress contained in the present social security law, which states that there should be no impairment of the protection of members of a State or local government retirement system by reason of the extension of social security coverage to employment covered by the system.

Meeting the Cost of the Changes Recommended

The increase in the contribution and benefit base and the extensions of coverage recommended by the Council will decrease the cost of the program relative to taxable payroll. On the other hand, the benefit liberalizations recommended by the Council will increase the cost of the program relative to taxable payroll.[38] On balance, the changes recommended by the Council would require a somewhat higher ultimate contribution rate than does present law. The following table summarizes the cost effects of the Council's recommendations and the actuarial status of the program under those changes, exclusive of hospital insurance. These matters are discussed in detail in Appendix B, "Actuarial Cost Estimates for the Council's Recommendations."

[38] The supplementary views of one member on this subject appear in Appendix A.

Actuarial balance under the Council's proposals to modify the cash-benefit provisions

[Costs expressed as a percentage of taxable payroll according to intermediate-cost estimate]

	Page of Council's report	OASI	DI	Total
Level-cost of the benefits of the present program		8.46	0.63	9.09
Level-cost effect of changes:				
$6,000-7,200 contribution and benefits base	70	-.55	-.04	-.59
Revised basis for the self-employed contribution rate	72	+.13	+.01	+.14
Extensions of coverage	96	-.05		-.05
Age-62 computation points for men	87	+.10		+.10
Benefits for disabled widows	92	+.05		+.05
Child's benefits to age 22 if in school	92	+.09	+.01	+.10
Liberalized definition of "child" for child's benefits	93	+.01		+.01
Special disability insured status at ages 30 and under	94		+.02	+.02
Rehabilitation of disability beneficiaries	94			
Increase in the maximum lump-sum death payment	91	+.02		+.02
Revised benefit formula	88	+1.15	+.09	+1.24
Level-cost of proposed program		9.41	.72	10.13
Level-equivalent of contribution schedule		9.42	.75	10.17
Actuarial balance		+.01	+.03	+.04

The recommended schedule outlined below would finance the Council's recommendations discussed in Part III and would carry out the financing principles discussed in Part I. Under the proposed schedule, the rates, beginning in 1966, would increase at 5-year intervals until the full rates scheduled are reached in 1976. The 1971 rate of 4.7 percent would be about sufficient under the low-cost estimates to cover the cost of the improved cash-benefit program for the next 75 years. Whether the final scheduled rate of 5.3 percent should actually be put into effect in 1976 as scheduled should depend on conditions existing at that time and on expected conditions over the ensuing 15 to 20 years. Contribution rates for hospital insurance are discussed separately, on page 82 in Part II.

Period	Contribution rates			
	Employee and employer, each		Self-employed	
	Present law [1]	Recommended [2]	Present law [1]	Recommended [2]
1965	3.625	3.625	5.4	5.4
1966-67	4.125	4.3	6.2	5.8
1968-70	4.625	4.3	6.9	5.8
1971-75	4.625	4.7	6.9	6.0
1976 and after	4.625	5.3	6.9	6.3

1 Applicable to annual earnings up to $4,800.
2 Would apply to annual earnings of $4,800 in 1965, $6,000 in 1966 and 1967 and $7,200 in 1968 and thereafter.

OTHER FINDINGS

In accordance with its mandate to study and report its findings with respect to all aspects of the program the Council has considered a number of matters which are worthy of comment but which do not, at least at this time, call for recommendations for changes in law or policy.

Simplification of the Law

The Council believes that it is important that complexities in the social security law be avoided to the extent that this is possible. Therefore, the Council recommends that a complete re-examination of the Act be conducted by the technical experts of the Social Security Administration and the Congress, and that considerable weight be given to simplification of the law even where this involves deliberalization for rare and special cases. The Council has been informed that much work looking toward an eventual simplification and recodification of the law has already been carried on in the Social Security Administration, and the Council urges that this work be pressed to a successful conclusion.

Public Information Activities

The Council strongly endorses the Social Security Administration's program of wide public dissemination of information about social security. In its formal statement of operating objectives and in its day-to-day administration of the social security program, the Social Security Administration recognizes the importance of an effective public information system. People need to be informed so they can act to secure their rights under the law and discharge their obligations under the law. They need to know ahead of time what rights they have. Security is not only a matter of getting benefits when they are due but of being conscious ahead of time that the protection is there. The responsibility of safeguarding the rights of every individual covered by the program and of providing the full measure of service to which he is entitled can be discharged more economically, as well as more effectively, with the help of a good public information program.

Confidentiality of Records

The Council has been made aware of the interest of some groups in changing the social security law, or in getting a broader application of the authority of the Commissioner to disclose information under present law, so that information from the records of the Social Security Administration would be available for a wide variety of purposes not related to the social security program. The Council believes that maintenance of the existing restrictions on the use of the personal and private information that has been furnished to the Social Security Administration with the understanding that it will be used only for administering the social security program is essential to protect the right to privacy of employers and all those covered under the program. Moreover, if all persons could not count on the information being kept confidential, some would have an incentive to obtain social security numbers under assumed names or would submit other incorrect data. The Social Security Administration must depend on public cooperation for the effective administration of the program. Inaccurate or incomplete information would threaten the integrity of the records and result in serious problems of administration, including the payment of incorrect benefits and the incurring of increased costs.

The Council endorses the restrictions on disclosure of confidential information prescribed by the social security law and the limited exceptions permitted under Regulation No. 1 of the Social Security Administration, including the special restrictions on disclosure of medical information obtained in connection with claims based on disability. While the Council recognizes that many of the purposes for which information is requested are worthwhile, it is convinced that the Social Security Administration should nevertheless maintain the strict confidentiality of the social security records.

Social Security Benefits and Workmen's Compensation

In some cases, disability benefits or survivors' benefits may be paid by both the social security program and a State workmen's compensation program, each program's payment being made without regard to the payment being made under the other program. The Council recognizes that in these dual entitlement cases the combined benefits of the two programs may occasionally be excessive when measured against previous earnings. At present the volume of these situations is not large but the number of cases where combined payments may be excessive in relation to previous earnings can be expected to increase somewhat in the future. Moreover, the issue is not entirely a matter of volume; it would be desirable to prevent any excessive payments resulting from dual entitlement to whatever extent they may occur.

For these reasons the Council has examined various possible ways of meeting the overlap problem through Federal action. None has seemed satisfactory to the great majority of the Council members. Effective administration of a reduction of social security benefits where workmen's compensation is payable would be very difficult to achieve, and the withholding of a contributory benefit because of payment by another system would be hard to defend. The majority of the Council believe that if any adjustment is made it should be made by the workmen's compensation system in those cases where the State considers the combined benefit amount to be too high.

The Council understands that a cooperative study of dual entitlement cases is now being considered by the Social Security Administration and State workmen's compensation agencies. Such a study, the Council believes, would provide worthwhile additional information about the overlap and its effects and might suggest new and better ways of dealing with the problem.

Administration of the Social Security Program

The effectiveness of any law depends, in large part, on how good a job is done by those responsible for carrying it out; a law is only as good as its administration.

From our own observations and from the evaluations of others, we believe that the huge task of administering the social security program, a task which involves the rights of many millions of people and the payment of billions of dollars a year, is being handled effectively and efficiently.

Administrative costs have been kept down to only 2.2 percent of benefit payments, partly as a consequence of the use of the latest in methods and machinery. This low administrative cost, however, has not been achieved by sacrificing high-quality service to the public. Employees at all levels have combined efficient performance of duties with responsiveness to the public and a friendly and sympathetic concern for the aged, the disabled, and the widows and orphans who are the program's beneficiaries.

We should like to register our belief that accomplishment of the purposes of the social security program requires that this high quality of administration—nonpartisan and professional—be continued.

CONCLUSION

The Council believes that the adoption of the recommendations made in this report will increase markedly the effectiveness of social insurance as a method for providing security to the American family when income is cut off in old age or by total disability or death. Moreover, adoption of these recommendations will make sure that the existing social security program will continue on a financially sound basis and that the proposed extension of the social insurance principle to cover hospital insurance for the aged and the permanently and totally disabled will be soundly financed.

The Council has no thought that the changes herein recommended will be the final step in the development of the American social security program. In the opinion of the Council, the proposed changes would do no more than make improvements that are clearly indicated by experience with the social security program up to the present time. Consequently, the Council urges that every 5 years or so Advisory Councils be formed to review the substantive provisions of the program as well as its financing.

The Council believes that social insurance is an institution that is basic and vital to the economic security of almost every American family, and that because of its great importance it must be constantly re-examined and brought up to date. The fulfillment of the promise of social security for the American worker and his family which was implicit in the original Social Security Act will depend on continuing wisdom and alertness to make sure that our use of the social insurance mechanism to combat insecurity among our people is adapted to changing needs and conditions inherent in our dynamic society.

APPENDIX A

Statement of Reinhard A. Hohaus on Part II, "Hospital Insurance for Older People and the Disabled"

The issues posed by this section of the Report are quite complex and far reaching in their impact. Extensive experience and studies in both private and social insurance lead me to take exception to the basic recommendation made in Part II. In short, I believe the analysis and the proposals contained in this part of the Report should be regarded as primarily a useful means of fostering discussion as to what might be the most appropriate ultimate moves. My reasons for these reservations are summarized briefly below.

This proposal to provide social insurance to pay for hospital care and certain related medical services for older people and the disabled differs profoundly from our system of paying cash benefits to beneficiaries under social security. I believe the proposal and its implications should be examined and evaluated more thoroughly before any final conclusions are reached.

The Report recognizes quite correctly that more is involved here than inpatient care in hospitals. It also acknowledges that some flexibility is needed in providing medical care benefits; this need is reflected by its proposals for benefits that would help pay the cost of certain outpatient services and of home nursing care. There are many uncertainties, however, as to what collateral effects the covered services would have on other medical services.

We are not dealing with matters that are fixed or stable, but rather with conditions that have been changing rapidly and will continue to change. We know that the availability of voluntary insurance and prepayment plans has already had marked effect on the utilization of hospital facilities. With this have come very serious financial questions. While the matter of cost is exceedingly important, we also need to know much more clearly where any initial move is likely to lead, so we can better judge whether the direction indicated is a desirable path to take.

I have long been a strong supporter of the principles that have been incorporated in our social security program. I am also strongly inclined toward principles which advocate harmonizing voluntary efforts with Governmental measures, such as the Report endorses. Unquestionably, further evidence must be developed as to whether or not this kind of partnership can be accomplished effectively by the procedure proposed in the Report.

In the formulation of the proposals contained in the Report, not enough recognition has been given to the rapid growth and present scope of voluntary insurance for older people. Instead of supplementing existing plans which have won wide public acceptance, the proposal might lead to adverse consequences. Before moving into this area the potential economic and social consequences should be weighed at greater length than has been done. In like manner, the consequences of alternative measures must also be considered before final conclusions are reached.

Much progress has been made in better identifying the issues for objective consideration and appraisal. The Report contributes substantially toward that end, especially in its recognition that hospital care is but one, though an important, area of medical care. It also recognizes that in many cases care may be required far beyond the limited period of hospital care suggested in the proposal.

Where the range of need among the aged is so great, it is especially important to make certain that any aid provided through Government is utilized most effectively and in a manner that truly advances the health and welfare of all our citizens.

Further comments on the cost of the proposal on hospital insurance are given below.

Statement of Reinhard A. Hohaus on the Cost of the Changes Recommended in Parts II and III

The Report expresses concern about the impact of the recommended financing provisions on our economy and the taxpayers, in both the short run and in the long run. It asks, in effect, that the necessary taxes be such that they can be borne "by the employee, employer and the self-employed without undue burden or strain".

One of the major findings in the Report is:

"The maximum amount of annual earnings that is taxable and creditable toward benefits needs to be substantially increased in order to maintain the wage-related character of the benefits, to restore a broader financial base for the program and to apportion the cost of the system among low-paid and higher-paid workers in the most desirable way."

I agree with that recommendation.

The table on page 102 estimates the "level-cost of the benefits of the present program" at 9.09 percent of taxable payroll under a $4,800 earnings base. The table also estimates that if this taxable base is increased from $4,800 to the $6,000–$7,200 base recommended in the Report and if the present benefit formula is extended to the new base, the level-cost would be .59 percent of taxable payroll lower. Stated another way, a liberalization costing that percentage of the new taxable payroll would not change the present level-cost of 9.09 percent of taxable payroll.

However, if all of the Council's proposals [Parts II and III] are enacted, the level-cost will increase to 10.13 percent of taxable payroll with respect to the recommendations of Part III, and with the level-cost of .90 percent of taxable payroll with respect to he recommendations of Part II (see p. 84), there would be a total level-cost of 11.03 percent of taxable payroll. This would be an increase of about 21 percent above the level-cost of 9.09 percent of taxable payroll applicable to the present program.

An increase of this magnitude, in addition to an increase in the maximum earnings used for determining taxable payrolls, warrants serious scrutiny and public discussion. The cost of adopting all of the recommendations raises important questions as to priority in the distribution of our economic resources.

APPENDIX B

Actuarial Cost Estimates for the Council's Recommendations

(Prepared by Robert J. Myers, Chief Actuary,
Social Security Administration)

This appendix first discusses various matters relating to the actuarial cost estimates (such as the underlying assumptions and methodology) and then presents the results of these estimates.

A. CONCEPT OF ACTUARIAL BALANCE OF SYSTEM

The concept of actuarial balance as it applies to the old-age, survivors, and disability insurance system differs considerably from this concept as it applies to private insurance and private pension plans, although there are certain points of similarity with the latter. In connection with individual insurance, the insurance company or other administering institution, in order to be in actuarial balance, must have sufficient funds on hand so that if operations are terminated, it will be in a position to pay off all the accrued liabilities. This requirement, however, is not necessary for a national compulsory social insurance system. It might be pointed out that well-administered private pension plans have sometimes not funded all their liability for prior service benefits.

It can reasonably be presumed that, under Government auspices, such a social insurance system will continue indefinitely into the future. The test of financial soundness, then, is not a question of whether there are sufficient funds on hand to pay off all accrued liabilities. Rather, the test is whether the expected future income from tax contributions and from interest on invested assets will be sufficient to meet anticipated expenditures for benefits and administrative costs. Thus, since the concept of "unfunded accrued liability" does not by any means have the same significance for a social insurance system as it does for a plan established under private insurance principles, it is quite proper to count both on receiving contributions from new entrants to the system in the future and on paying benefits to this group. These additional assets and liabilities must be considered in order to determine whether the system is in actuarial balance.

The question of whether the old-age, survivors, and disability insurance program is in actuarial balance depends upon whether the estimated future income from contributions and from interest earnings on the accumulated trust fund investments will, over the long run, support the disbursements for benefits and administrative expenses. Obviously, future experience may be expected to vary from the actuarial cost estimates made now. Nonetheless, the intent that the system be self-supporting can be expressed in law by utilizing a contribution schedule that, according to the intermediate-cost estimate, results in the system being in balance or substantially close thereto.

The congressional committees concerned with the program have expressed the belief that it is a matter for concern if any portion of the old-age, survivors, and disability insurance system shows any significant actuarial insufficiency. Traditionally, the view has been held that for the old-age and survivors insurance portion of the program, if such actuarial insufficiency when measured over perpetuity has been no greater than 0.25 percent of payroll, it is at the point where it is within the limits of permissible variation. The corresponding point for the disability insurance portion of the system is about 0.05 percent of payroll (lower because of the relatively smaller financial magnitude of this program). Furthermore, traditionally when there has been an actuarial insufficiency exceeding the limits indicated, any subsequent liberalizations in benefit provisions were fully financed by appropriate changes in the tax schedule or through raising the earnings base, and at the same time the actuarial status of the program was improved.

The Council has recommended that long-range costs should be measured over a 75-year period, rather than over perpetuity, and that then the estimated actuarial status of both trust funds should be reasonably close to an exact balance, and much closer than has been the standard in the past. The cost estimates have been made on this basis, with the assumption that, if the estimates show an exact balance, at the end of the 75-year period the balances in the trust funds should approximate 1 year's benefit payments.

B. ACTUARIAL STATUS AFTER ENACTMENT OF 1961 ACT

The changes made by the 1961 amendments involved an increased cost that was fully met by the changes in the financing provisions (namely, an increase in the combined employer-employee contribution rate of one-fourth of 1 percent a corresponding change in the rate for the self-employed, and an advance in the year when the ultimate rates would be effective—from 1969 to 1968). As a result, the actuarial balance of the program remained unchanged from what it was before this legislation.

Subsequent to 1961, the cost estimates were further reexamined in the light of developing experience. The earnings assumption was changed to reflect the 1963 level, and the interest-rate assumption used was modified upward to reflect recent experience. At the same time, the retirement-rate assumptions were increased somewhat to reflect the experience in respect to this factor.

The further developing disability experience indicated that costs for this portion of the program were significantly higher than previously estimated (because benefits are not being terminated by death or recovery as rapidly as had been originally assumed). Accordingly, the actuarial balance of the disability insurance program was shown to be in an unsatisfactory position, and this has been recognized by the Board of Trustees, who recommended that the allocation to this trust fund should be increased (while, at the same time, correspondingly decreasing the allocation to the old-age and survivors insurance trust fund, which under present law is estimated to be in satisfactory actuarial balance even after such a reallocation). As indicated in the main part of this report, the Council concurs with this view. The portion of the combined employer-employee contribution rate that is assigned to the disability insurance trust fund under the recommendations of the Advisory Council is 0.75 percent (see footnote 1, page 67), while for the self-employed contribution rate the corresponding figure is 0.475 percent (based on 0.1 percent above half of the combined employer-employee allocation, which is consistent with the Council's principles on the self-employed rate basis, as is also followed in connection with the hospital insurance proposal).

C. BASIC ASSUMPTIONS FOR COST ESTIMATES

1. General Basis for Long-Range Cost Estimates

Benefit disbursements under old-age and survivors insurance may be expected to increase continuously for at least the next 50 to 70 years because of such factors as the aging of the population of the country and the slow but steady growth of the benefit roll. Similar factors are inherent in any retirement program, public or private, that has been in operation for a relatively short period. Estimates of the future cost of the old-age, survivors, and disability insurance program are affected by many elements that are difficult to determine. Accordingly, the assumptions used in the actuarial cost estimates may differ widely and yet be reasonable.

The long-range cost estimates (shown for 1975 and thereafter) are presented on a range basis so as to indicate the plausible variation in future costs depending upon the actual trends developing for the various cost factors. Both the low- and high-cost estimates are based on high economic assumptions, intended to represent close to full employment, with average annual earnings at about the level prevailing in 1963. In addition to the presentation of the cost estimates on a range basis, intermediate estimates developed directly from the low- and high-cost estimates (by averaging their components) are shown so as to indicate the basis for the financing provisions.

The cost estimates for old-age and survivors insurance are extended beyond the year 2000, since the aged population itself cannot mature by then. The reason for this is that the number of births in the 1930's was very low as compared with subsequent experience. As a result, there will be a dip in the relative proportion of the aged from 1995 to about 2010, which would tend to result in low benefit costs for the old-age and survivors insurance system during that period. Accordingly, the year 2000 is by no means a typical ultimate year insofar as these costs are concerned.

The cost estimates have been prepared on the basis of the same assumptions and methodology as those contained in the 24th Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (H. Doc. No. 236, 88th Cong.). These estimates and their underlying assumptions are given in more detail in "Actuarial Study No. 58" of the Social Security Administration.

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The underlying assumptions have not been revised, and new detailed cost estimates prepared, because preliminary study indicates that the changes that would be made would be largely counterbalancing from a cost standpoint. For example, lower costs would result from using the higher earnings level of 1964, but higher costs would arise from considering the higher retirement rates of the last few years and other factors. Besides, there is the advantage of consistency and comparability in using the same cost bases for a period of a few years, when no significant net changes in the results would occur.

2. Measurement of Costs in Relation to Taxable Payroll

In general, the costs are shown as percentages of covered payroll. This is the best measure of the financial cost of the program. Dollar figures taken alone are misleading. For example, a higher earnings level will increase not only the outgo of the system but also, and to a greater extent, its income. The result is that when earnings rise, benefit costs in terms of dollars will also rise, but the cost relative to payroll will decrease.

3. General Basis for Short-Range Cost Estimates

The short-range cost estimates (shown for the individual years 1965–72) are not presented on a range basis since—assuming a continuation of present economic conditions—it is believed that the demographic factors involved can be reasonably closely forecast, so that only a single estimate is necessary. A gradual rise in the earnings level in the future, paralleling that which has occurred in the past few years, is assumed. As a result of this assumption, even though then all provisions of the system including the earnings base are assumed to remain unchanged in the future at what the Council has recommended, contribution income is somewhat higher than if level earnings were assumed, while benefit outgo under the cash-benefits program is only slightly affected.

Since the long-range cost assumptions do not involve an increasing-earnings assumption, the short-range and long-range cost estimates do not "link up" as between the 1972 data for the former and the 1975 data for the latter. Thus, for the cash-benefits program the balances in the trust funds at the end of 1972 according to the short-range estimates are higher than what the long-range estimates would show for that year. On the other hand, for the hospital-benefits program the balance in the trust fund at the end of 1972 according to the short-range estimates is lower than what the long-range estimates show for that year (since the hospital benefit costs are assumed to rise as earnings increase—see subsequent discussion).

4. Level-Cost Concept

An important measure of long-range cost is the level-equivalent contribution rate required to support the system over a long-range future period, based on discounting at interest. If such a level rate were adopted relatively large accumulations in the trust funds would result, and in consequence there would be sizable eventual income from interest. Even though such a method of financing is not followed, this concept may be used as a convenient measure of long-range costs, which permits comparison of various possible alternative plans, with weight being given to both early-year and deferred benefit costs.

5. Future Earnings Assumptions

The long-range estimates are based on level-earnings assumptions at the level prevailing in calendar year 1963. This, however, does not mean that covered payrolls are assumed to be the same each year; rather, they are assumed to rise steadily as the population at the working ages is estimated to increase. If in the future the earnings level should be considerably above that which now prevails, and if the cash benefits are adjusted upward so that the annual costs relative to payroll will remain the same as now estimated for the present system, then the increased dollar outgo resulting will offset the increased dollar income. This is an important reason for considering costs relative to payroll rather than in dollars.

The long-range cost estimates have not taken into account the possibility of a rise in earnings levels, although such a rise has characterized the past history of this country. If such an assumption were used in the cost estimates, along with the unlikely assumption that the benefits, nevertheless, would not be changed, the cost relative to payroll would, of course, be lower for the cash benefits, but the reverse would be so for the hospitalization and related benefits (as will be discussed in more detail later).

It is important to note that the possibility that a rise in earnings levels will produce lower costs of the cash-benefits program in relation to payroll is a very important safety factor in the financial operations of this system. Its financing is based essentially on the intermediate-cost estimate, along with the assumption of level earnings; if experience follows the high-cost assumptions, and earnings do not rise, additional financing will be necessary. However, if covered earnings increase in the future as in the past, the resulting reduction in the cost of the program (expressed as a percentage of taxable payroll) will more than offset the higher cost arising under experience following the high-cost estimate. If the latter condition prevails, the reduction in the relative cost of the program coming from rising earnings levels can be used to maintain the actuarial balance of the system, and any remaining savings can be used to adjust the cash benefits upward (to a lesser degree than the increase in the earnings level). The possibility of future increases in earnings levels should be considered only as a safety factor and not as a justification for adjusting benefits upward in anticipation of such increases.

If benefits are adjusted currently to keep pace with rising earnings trends as they occur, the year-by-year costs as a percentage of payroll would be unaffected. If benefits are increased in this manner, the level-cost of the program would be higher than now estimated, since, under such circumstances, the relative importance of the interest receipts of the trust funds would gradually diminish with the passage of time. If earnings and benefit levels do consistently rise, thorough consideration will need to be given to the financing basis of the system because then the interest receipts of the trust funds will not meet as large a proportion of the benefit costs as would be anticipated if the earnings level had not risen (under the present law, for example, for the old-age and survivors insurance system, under level-earnings assumptions this proportion would average about 15 percent over the long range).

6. Assumptions for Hospitalization Benefits

In considering the hospitalization-benefit costs in conjunction with a level-earnings assumption for the future, it is sufficient for the purposes of long-range cost estimates merely to analyze possible future trends in hospitalization costs relative to covered earnings. Accordingly, any study of past experience of hospitalization costs should be made on this relative basis. The actual experience in recent years has indicated, in general, that hospitalization costs have risen more rapidly than the general earnings level, with the differential being in the neighborhood of 3 percent per year—2.7 percent in the last 10 years.

One of the uncertainties in making cost estimates for hospitalization benefits, then, is how long and to what extent this tendency of hospital costs to rise more rapidly than the general earnings level will continue in the future, and whether or not it may in the long run be counterbalanced by a trend in the opposite direction. Some factors to consider are the relatively low wages of hospital employees (which have been rapidly "catching up" with the general level of wages and obviously may be expected to "catch up" completely at some future date, rather than to increase indefinitely at a more rapid rate than wages generally) and the development of new medical techniques and procedures, with resultant increased expense.

In connection with the latter factor, there are possible counterbalancing factors. The higher costs involved for more refined and extensive treatments may be offset by better general health conditions, the development of out-of-hospital facilities, shorter durations of hospitalization, and less expense for subsequent curative treatments as a result of preventive measures. Also, it is possible that at some time in the future, the productivity of hospital personnel will increase significantly as the result of changes in the organization of hospital services or for other reasons, so that, as in other fields of economic activity, their wages might in the long run increase more rapidly than hospitalization prices.

Perhaps the major difficulty in making and in presenting these actuarial cost estimates for hospitalization benefits is that—unlike the situation in regard to cost estimates for the monthly benefits, where the result is the opposite—an unfavorable cost result is shown when total earnings levels rise, unless the provisions of the system are kept up to date (insofar as the maximum taxable earnings base and the dollar amounts of any deductibles are concerned). The reason for this is that there is the fundamental actuarial assumption that the hospitalization costs will rise at a rate over the long run somewhat approximating the rate of increase of the level of total earnings, whereas the contribution income would rise less rapidly than the total earnings level unless the earnings base is kept up to date. Under these conditions, it is hypothesized that the base will be kept up to date with the changes in the general level of earnings; contributions depend on the covered earnings level, and the level is dampened if the earnings base is not raised as earnings go up. It is assumed in the actuarial cost estimates for hospitalization benefits either that earnings levels will be unchanged in the future or that, if wages continue to rise (as they have done in the past), the system will be kept up to date insofar as the earnings base and the deductibles are concerned.

One important reason for the fact that recently hospitalization costs have risen faster than the general earnings level is that the wages of hospital employees have risen at a faster rate than the general earnings level. Personnel costs are about 60 percent of all hospital costs. The fact that the wages of hospital employees have been rising at a faster rate than all earnings reflects a "catching up" from a situation where hospital workers were significantly underpaid in relation to other workers. It is obvious that such a trend cannot continue and that a point will be reached after which wages paid to hospital workers will rise, on the average, at the same rate as the general earnings level. Nor can other elements in hospitalization costs be presumed to rise indefinitely at a faster rate than the general earnings level.

It is not unlikely that the price of hospital services will for a considerable time rise faster than other prices, but if the price of any product continues to rise faster than earnings, it would eventually be priced out of the market. Actually, over the long run, hospitalization costs to the consumer are likely to show conflicting trends. On the one hand, improved technology is leading to more expensive hospital services and to the need for additional personnel. On the other hand, the duration of hospital stays is declining as a result of the improvement in care.

The cost assumptions for the hospitalization and related benefits have been made on what is believed to be a conservative basis. Those used for the cost estimates in this report are based on the assumptions underlying the estimates that the Social Security Administration made for the legislation considered in 1962–63 (see "Actuarial Study No. 57" and "Actuarial Cost Estimates for the Old-Age, Survivors, and Disability Insurance System as Modified by H.R. 11865, as Passed by the House of Representatives and as According to the Action of the Senate" issued by the House Ways and Means Committee), but with additional safety margins for the early-year costs. The differential of hospitalization costs over total earnings rates is assumed to be 2.7 percent per year for the first 5 years after 1965; then it is assumed to decrease to zero over the next 5 years, and then after a further 5 years wages are assumed to rise at an annual rate that is 0.5 percent greater than the increase in hospitalization costs.

The net effect of these modified assumptions, for purposes of the long-range cost estimates, is to produce level-costs that are about 10 percent higher than those resulting from the assumptions used in "Actuarial Study No. 57" and that are about the same as those resulting from the assumptions used in the Ways and Means Committee report. For short-range purposes, however, the modified assumptions produce significantly higher estimates than either of the other sets of assumptions.

7. Interrelationship With Railroad Retirement System

An important element affecting old-age, survivors, and disability insurance costs arose through amendments made to the Railroad Retirement Act in 1951. These provide for a combination of railroad retirement compensation and old-age, survivors, and disability insurance covered earnings in determining benefits for those with less than 10 years of railroad service (and also for all survivor cases).

Financial interchange provisions are established so that the trust funds are to be placed in the same financial position in which they would have been if railroad employment had always been covered under the program. It is estimated that over the long range the net effect of these provisions will be a relatively small loss to the old-age, survivors, and disability insurance system since the reimbursements from the railroad retirement system will be somewhat smaller than the net additional benefits paid on the basis of railroad earnings.

8. Reimbursement for Costs of Military Service Wage Credits

Another important element affecting the financing of the program arose through legislation in 1956 that provided for reimbursement from general revenues for past and future expenditures in respect to the noncontributory credits that had been granted for persons in military service before 1957. The cost estimates contained here reflect the effect of these reimbursements (which are included as contributions), based on the assumption that the required appropriations will be made in the future, as the Council has strongly recommended should be done.

D. INTERMEDIATE-COST ESTIMATES

1. *Purposes of Intermediate-Cost Estimates*

The long-range intermediate-cost estimates are developed from the low- and high-cost estimates by averaging them (using the dollar estimates and developing therefrom the corresponding estimates relative to payroll). The intermediate-cost estimate does not represent the most probable estimate, since it is impossible to develop any such figures. Rather, it has been set down as a convenient and readily available single set of figures to use for comparative purposes.

The Congress, in enacting the 1950 act and subsequent legislation, was of the belief that the old-age survivors and disability insurance program should be on a completely self-supporting basis. Therefore, a single estimate is necessary in the development of a tax schedule intended to make the system self-supporting. Any specific schedule will necessarily be somewhat different from what will actually be required to obtain exact balance between contributions and benefits. This procedure, however, does make the intention specific, even though in actual practice future changes in the tax schedule might be necessary. Likewise, exact self-support cannot be obtained from a specific set of integral or rounded fractional tax rates increasing in orderly intervals, but rather this principle of self-support should be aimed at as closely as possible.

2. *Interest Rate Used in Cost Estimates*

The interest rate used for computing the level-costs is 3½ percent for the intermediate-cost estimate. This is somewhat above the average yield of the investments of the trust funds at the end of 1963 (about 3 percent), but is below the rate currently being obtained for new investments (about 4¼ percent).

3. *Actuarial Balance of System as Modified by Proposal*

Table A summarizes the actuarial balance of the existing old-age, survivors, and disability insurance program in terms of percentages of taxable payroll, according to the intermediate-cost estimate, and gives corresponding information for the program as it would be changed by the recommendations of the Council (and also for programs that are intermediate steps between the present program and these recommendations). For purposes of comparability, the data for the present program are shown on both the basis of measuring costs over perpetuity and the basis of measuring costs over only a 75-year period (as recommended by the Council). The data for the proposed program, as shown here and as shown elsewhere in this report, are on the 75-year cost basis.

Information on the actuarial balance of the proposed hospital insurance program is contained in a table in Part II, which shows that the level-cost of the benefits for all beneficiaries is estimated at .90 percent of taxable payroll, while the level-equivalent of the contribution schedule is also estimated at .90 percent of taxable payroll. Included in the foregoing cost figures is the level-cost of the benefits for the disability insurance beneficiaries, which is estimated at .05 percent of taxable payroll. It should be noted that the recommended 0.15 percent contribution from general revenues for a period of 50 years has an estimated level-cost of 0.10 percent of taxable payroll.

4. *Year-by-Year Projections of Income and Outgo*

Table B shows the estimated operations of the old-age and survivors insurance trust fund in various future years according to the intermediate-cost estimate, as well as giving actual data for the past 14 years. Table C shows corresponding data for the disability insurance trust fund, while Table D relates to the hospital insurance trust fund. With respect to the latter table, it should be observed that the benefit-disbursement estimates do not include the *total* hospital insurance benefit payments made to railroad retirement beneficiaries, but rather only the net effect of the financial-interchange provisions for these benefits. It will also be remembered that the estimate of total benefit payments includes the payments with respect to persons who are not eligible for cash benefits, whereas the estimates relating to the hospital insurance trust fund that were made for the King-Anderson bill and the Senate-approved version of the legislation considered in 1964 did not include such payments (since they were to be financed currently out of the General Treasury, and not through direct trust-fund operations).

It is interesting to note that for each of the three trust funds separately, the short-range cost estimates indicate that the balance in the trust fund at the end of each year increases steadily during 1966–72 and in most instances quite closely approximates one year's benefit payments.

Tables E and F show long-range year-by-year cost projections for the old-age and survivors insurance trust fund and for the disability insurance trust fund, respectively, under the low-cost and high-cost estimates.

Table G presents the actuarial balance of the old-age, survivors, and disability insurance program as it would be changed by the recommendations of the Council, in terms of percentages of taxable payroll according to the low-cost and high-cost estimates. It will be noted that the level-cost of the benefits of the old-age, survivors, and disability insurance program according to the low-cost estimate is 8.9 percent of taxable payroll, which approximates the 9.4 percent combined employer-employee contribution rate that is recommended for 1971–75. This basis is in accordance with one of the financing principles enunciated by both this Council and the last one in regard to the next-to-last step in the contribution schedule (to be reached in the next few years).

TABLE A.—*Summary of actuarial balances of existing and proposed old-age, survivors, and disability insurance program, in terms of percentages of taxable payroll, intermediate-cost estimate.*

[In percent]

Item	OASI	DI	Total
	Present program, $4,800 earnings base, perpetuity cost basis		
Level-cost of benefits	8.72	.64	9.36
Level-equivalent of contribution schedule	8.62	.50	9.12
Actuarial balance	−.10	−.14	−.24
	Present program, $4,800 earnings base, 75-year cost basis		
Level-cost of benefits	8.46	.63	9.09
Level-equivalent of contribution schedule	8.60	.50	9.10
Actuarial balance	+.14	−.13	+.01
	Present program, $6,000–7,200 earnings base for contributions only and $4,800 earnings base for benefit purposes, 75-year cost basis.		
Level-cost of benefits	7.20	.54	7.74
Level-equivalent of contribution schedule	8.60	.50	9.10
Actuarial balance	+1.40	−.04	+1.36
	Present program, $6,000–7,200 earnings base for both contributions and benefit purposes, 75-year cost basis		
Level-cost of benefits	7.91	.59	8.50
Level-equivalent of contribution schedule	8.60	.50	9.10
Actuarial balance	+.69	−.09	+.60
	Proposed program, $6,000–7,200 earnings base, 75-year cost basis		
Level-cost of benefits	9.41	.72	10.13
Level-equivalent of contribution schedule	9.42	.75	10.17
Actuarial balance	+.01	+.03	+.04

NOTE.—The level-costs of the benefits take into account administrative expenses, railroad retirement financial interchange provisions, and interest on the trust fund existing as of December 31, 1965. The taxable payroll is reduced to take into account the lower contribution rate for the self-employed as compared with the combined employer-employee rate.

TABLE B.—*Progress of old-age and survivors insurance trust fund under proposed program, intermediate-cost estimate* [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Railroad retirement financial interchange [2]	Interest on fund [1]	Balance in 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	−$21	447	20,576
1955	5,713	4,968	119	−7	454	21,663
1956	6,172	5,715	132	−5	526	22,519
1957	6,825	7,347	[4] 162	−2	556	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	548	19,725
1962	12,059	13,356	256	361	526	18,337
1963	14,541	14,217	281	423	521	18,480
	Estimated data (short-range estimate)					
1964	$15,688	$14,902	$300	$403	$565	$19,128
1965	16,014	15,640	324	399	593	19,372
1966	20,170	19,380	354	411	626	20,023
1967	21,739	20,515	356	451	679	21,119
1968	23,389	21,451	363	485	756	22,965
1969	24,607	22,401	370	486	787	25,102
1970	25,390	23,377	377	471	887	27,154
1971	28,392	24,343	384	466	1,030	31,383
1972	29,634	25,332	391	442	1,225	36,077
	Estimated data (long-range estimate)					
1975	$28,576	$27,077	$402	$380	$1,061	$34,530
1980	34,962	31,594	444	120	1,844	59,188
1990	40,017	40,309	524	−60	2,991	92,090
2000	46,418	45,002	576	−110	4,068	125,275
2020	56,041	62,189	744	−135	8,286	247,883

[1] An interest rate of 3.5 percent is used in determining the level costs, but in developing the progress of the trust fund a varying rate in the early years has been used, which is equivalent to such fixed rate.

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

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

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

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

TABLE C.—*Progress of disability insurance trust fund under proposed program, intermediate-cost estimate* [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Railroad retirement financial interchange [2]	Interest on fund [1]	Balance in fund at end of year
	Actual data					
1957	$702	$57	[3] $3		$7	$649
1958	966	249	[3] 12		25	1,379
1959	891	457	50	−$22	40	1,825
1960	1,010	568	36	−5	53	2,289
1961	1,038	887	64	5	66	2,437
1962	1,046	1,105	66	11	68	2,368
1963	1,099	1,210	68	20	66	2,235
	Estimated data (short-range estimate)					
1964	$1,153	$1,318	$80	$20	$64	$2,034
1965	1,187	1,471	87	20	56	1,699
1966	1,876	1,784	100	20	52	1,723
1967	2,072	1,897	109	20	54	1,823
1968	2,231	1,946	103	15	60	2,050
1969	2,347	1,999	109	15	70	2,344
1970	2,424	2,053	114	15	83	2,669
1971	2,499	2,106	119	15	95	3,023
1972	2,577	2,161	124	10	109	3,414
	Estimated data (long-range estimate)					
1975	$2,475	$2,230	$106	−$4	$133	$4,210
1980	2,672	2,446	109	−8	182	5,678
1990	3,058	2,752	110	−11	313	9,632
2000	3,547	3,241	124	−11	537	16,310

1 An interest rate of 3.5 percent is used in determining the level costs, but in developing the progress of the trust fund a varying rate in the early years has been used, which is equivalent to such fixed rate.

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

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

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

TABLE D.—*Estimated progress of hospital insurance trust fund under proposed program, intermediate-cost estimate* [1]

[In millions]

Calendar year	Contributions from worker and employer	Contributions from Government	Benefit Payments and administrative expenses [2]	Interest on fund [1]	Balance in fund at end of year
	Estimated data (short-range estimate)				
1966	$1,808	$339	$1,007	$29	$1,169
1967	2,219	430	2,204	47	1,661
1968	2,389	464	2,438	65	2,141
1969	2,513	489	2,683	81	2,541
1970	2,597	506	2,958	93	2,779
1971	2,676	520	3,201	98	2,872
1972	2,760	538	3,456	98	2,812
	Estimated data (long-range estimate)				
1975	$2,634	$510	$3,031	$195	$6,132
1980	2,842	552	3,295	251	7,795
1990	3,254	632	3,835	381	11,677
2000	3,776	732	4,052	621	19,006

[1] An interest rate of 3.5 percent is used in determining the level-costs, but in developing the progress of the trust fund a varying rate in the early years has been used, which is equivalent to such fixed rate.
[2] The net payment to (or from) the railroad retirement system is included here.

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

TABLE E.—*Estimated progress of old-age and survivors insurance trust fund under proposed program, low-cost and high-cost estimates*

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Railroad retirement financial interchange [1]	Interest on fund [2]	Balance in fund at end of year
	Low-cost estimate					
1975	$29,181	$26,493	$372	$350	$1,537	$46,526
1980	36,062	30,614	410	85	2,835	84,099
1990	42,679	38,320	483	−105	6,006	171,992
2000	50,887	42,137	530	−160	11,216	318,705
	High-cost estimate					
1975	$27,971	$27,659	$431	$410	$678	$22,979
1980	33,863	32,576	478	155	1,029	35,421
1990	37,355	42,298	566	15	473	16,498
2000	41,947	47,866	621	−60	(3)	(3)

[1] A negative figure indicates payment to the trust fund from the railroad retirement account, and a positive figure indicates the reverse.
[2] At interest rates of 3.75 percent for the low-cost estimate and 3.25 percent for the high-cost estimate.
[3] Fund exhausted in 1993.

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

TABLE F.—*Estimated progress of disability insurance trust fund under proposed program, low-cost and high-cost estimates*

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Railroad retirement financial interchange [1]	Interest on fund [2]	Balance in fund at end of year
	Low-cost estimate					
1975	$2,527	$2,079	$97	−$8	$226	$6,638
1980	2,755	2,267	98	−12	348	10,047
1990	3,261	2,540	96	−16	723	20,567
2000	3,888	3,035	106	−16	1,369	38,556
	High-cost estimate					
1975	$2,424	$2,381	$115	----------	$56	$1,868
1980	2,589	2,625	121	−$4	43	1,511
1990	2,855	2,965	124	−6	(3)	(3)
2000	3,207	3,447	141	−6	(3)	(3)

1 A negative figure indicates payment to the trust fund from the railroad retirement account, and a positive figure indicates the reverse.
2 At interest rates of 3.75 percent for the low-cost estimate and 3.25 percent for the high-cost estimate.
3 Fund exhausted in 1988.

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

TABLE G.—*Actuarial balances of proposed old-age, survivors, and disability insurance program, in terms of percentages of taxable payroll, low-cost and high-cost estimates, 75-year cost basis*

[In percent]

Item	OASI	DI	Total
	Low-cost estimate		
Level-cost of benefits	8.26	0.64	8.90
Level-equivalent of contribution schedule	9.39	.75	10.14
Actuarial balance	1.13	.11	1.24
	High-cost estimate		
Level-cost of benefits	10.94	0.83	11.77
Level-equivalent of contribution schedule	9.44	.75	10.19
Actuarial balance	−1.50	−.08	−1.58

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