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93d Congress, 1st Session - - - - - House Document No. 93–130

1973 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

LETTER

FROM

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

TRANSMITTING

THE 1973 ANNUAL REPORT OF THE BOARD (33RD REPORT), PURSUANT TO THE PROVISIONS OF SECTION 201(c) OF THE SOCIAL SECURITY ACT, AS AMENDED

JULY 16, 1973.—Referred to the Committee on Ways and Means and ordered to be printed

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U.S. GOVERNMENT PRINTING OFFICE
98–650 O WASHINGTON : 1973

LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE
AND DISABILITY INSURANCE TRUST FUNDS,
Washington, D.C., July 13, 1973.

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

SIR: We have the honor to transmit to you the 1973 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (the 33rd such report), in compliance with the provisions of section 201(c) of the Social Security Act.

Respectfully,

GEORGE P. SHULTZ,
Secretary of the Treasury, and Managing Trustee of the Trust Funds.

PETER J. BRENNAN,
Secretary of Labor.

CASPAR W. WEINBERGER,
Secretary of Health, Education, and Welfare.

ARTHUR E. HESS,
Acting Commissioner of Social Security.

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1973 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND

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. 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. The Board of Trustees reports to the Congress once each year, in compliance with section 201(c)(2) of the Social Security Act. This Report is the Annual Report for 1973, the 33rd such report.

Highlights

The more important developments during fiscal 1972, discussed in more detail in later sections, are indicated below:

(*a*) The growth of the old-age, survivors, and disability insurance system during fiscal year 1972 was close to that predicted in the 1972 Report. Income for fiscal 1972 amounted to $43.2 billion, up by 11 percent over fiscal 1971. Outgo totalled $40.2 billion, 12 percent more than in fiscal 1971. The funds increased by $3.1 billion in fiscal 1972, to a level of $43.8 billion on June 30, 1972. Comparison between fiscal years is affected by a 10 percent general benefit increase which went into effect as of January 1, 1971, and hence affected all of fiscal 1972 but only the last half of fiscal 1971; and by an increase in the taxable earnings base from $7,800 to $9,000, effective January 1, 1972.

(*b*) The number of persons receiving monthly benefits under the old-age, survivors, and disability insurance program increased to 27.8 million by the end of June 1972. An estimated 94 million workers had earnings in calendar year 1971 that were taxable and creditable toward benefits under the program.

(*c*) The trust funds earned interest of $2.1 billion during the fiscal year, equivalent to an annual rate of 5.2 percent.

Social Security Amendments Since 1972 Report

Since the close of fiscal year 1972 there have been two important amendments to the Social Security Act (and the Internal Revenue Code) substantially affecting the old-age, survivors, and disability insurance system. Public Law 92–336 was approved July 1, 1972, and was followed by Public Law 92–603, approved October 30, 1972. This Report fully recognizes the new legislation. Only those portions of the Report dealing with fiscal 1972 and earlier are unaffected.

The two sets of social security amendments in 1972 provided for a general benefit increase of 20 percent, effective with the September 1972 payments made in early October; for automatic adjustment of the benefits and the taxable earnings base under certain conditions; and for other changes in the benefit structure and the financing arrangements. Details of the 1972 Amendments and their financial effect can be found in documents prepared by or for the Congress, and will not be a part of this Report.

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 which relate to the system of old-age and survivors insurance are 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 major sources of receipts of these two funds are (1) amounts 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 and (2) amounts deposited in each of them representing contributions paid by workers employed by State and local governments and by such employers with respect to work covered by the 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 (cash tips, covered as wages beginning in 1966 under the 1965 Amendments, are an exception to this; employees pay contributions with respect to cash tips, but employers do not). All covered self-employed persons are required to pay contributions with respect to their self-employment income.

In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount, with the contributions being determined first on the wages and then on any self-employment income necessary to make up the annual maximum amount.

The contribution rates applicable to taxable earnings in each of the calendar years 1937 and later, and the allocation of the rates to finance expenditures from each of the two trust funds, are shown in table 1. The maximum amount of annual earnings taxable in each year, 1937–74, is also shown. For years after 1974, this amount is subject to automatic increases. For 1972 and earlier, table 1 is a historical record based on continually changing law. For 1973 and later, the table reflects the provisions of present law as last amended in October 1972.

TABLE 1.—CONTRIBUTION RATES AND MAXIMUM TAXABLE AMOUNT OF ANNUAL EARNINGS

Calendar years	Maximum taxable amount of annual earnings	Contribution rates (percent of taxable earnings)					
		Employees and employers, each			Self-employed		
		OASDI	OASI	DI	OASDI	OASI	DI
1937–49	$3,000	1.000	1.000				
1950	3,000	1.500	1.500				
1951–53	3,600	1.500	1.500		2.2500	2.2500	
1954	3,600	2.000	2.000		3.0000	3.0000	
1955–56	4,200	2.000	2.000		3.0000	3.0000	
1957–58	4,200	2.250	2.000	0.250	3.3750	3.0000	0.3750
1959	4,800	2.500	2.250	.250	3.7500	3.3750	.3750
1960–61	4,800	3.000	2.750	.250	4.5000	4.1250	.3750
1962	4,800	3.125	2.875	.250	4.7000	4.3250	.3750
1963–65	4,800	3.625	3.375	.250	5.4000	5.0250	.3750
1966	6,600	3.850	3.500	.350	5.8000	5.2750	.5250
1967	6,600	3.900	3.550	.350	5.9000	5.3750	.5250
1968	7,800	3.800	3.325	.475	5.8000	5.0875	.7120
1969	7,800	4.200	3.725	.475	6.3000	5.5875	.7125
1970	7,800	4.200	3.650	.550	6.3000	5.4750	.8255
1971	7,800	4.600	4.050	.550	6.9000	6.0750	.8250
1972	9,000	4.600	4.050	.550	6.9000	6.0750	.8250
1973	10,800	4.850	4.300	.550	7.0000	6.2050	.7950
1974	12,000	4.850	4.300	.550	7.0000	6.2050	.7950
1975–77	(1)	4.850	4.300	.550	7.0000	6.2050	.7950
1978–80	(1)	4.800	4.225	.575	7.0000	6.1600	.8400
1981–85	(1)	4.800	4.225	.575	7.0000	6.1600	.8400
1986–2010	(1)	4.800	4.225	.575	7.0000	6.1600	.8400
2011 and later	(1)	5.850	5.100	.750	7.0000	6.1050	.8950

[1] Subject to automatic increase after 1974.

Except for amounts received by the Secretary of the Treasury under State agreements (to effectuate 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 deposited in the general fund of the Treasury as internal revenue collections; then, on an estimated basis, the contributions received are immediately and automatically appropriated to the trust funds. The exact amount of contributions received is not known initially since old-age, survivors, disability, and hospital insurance contributions and individual income taxes are not separately identified in collection reports received by the Treasury Department. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

An employee who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum can receive a refund of the contributions he paid on such excess wages. The amount of contributions 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.

Another 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.

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The income and expenditures of the trust funds are also affected by the provisions of the Railroad Retirement Act which provide for a system of coordination and financial interchange between the railroad retirement program and the old-age, survivors, and disability insurance program.

Sections 217(g) and 229(b) of the Social Security Act authorize annual reimbursements from the general fund of the Treasury to the old-age and survivors insurance and disability insurance trust funds for any costs arising from the granting of noncontributory credits for military service, according to periodic determinations made by the Secretary of Health, Education, and Welfare.

Section 228 of the Social Security Act provides monthly cash benefits to certain persons aged 72 and over, almost all of whom are not eligible for cash benefits under other provisions of the old-age, survivors, and disability insurance program. Under section 228, all payments are made initially from the old-age and survivors insurance trust fund, with later reimbursement, with interest, from the general fund of the Treasury for the costs, including administrative expenses, of payments to persons who have less than 3 quarters of coverage. The reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest allowances, as the actual experience develops and is analyzed.

Expenditures for benefit payments and administrative expenses under the old-age, survivors, and disability insurance program are paid out of the trust funds. All expenses incurred by the Department of Health, Education, and Welfare and by the Treasury Department in carrying out the provisions of title II of the Social Security Act and of the Internal Revenue Code relating to the collection of 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.

Section 222(d) of the Social Security Act provides for payments from the trust funds for the cost of vocational rehabilitation services furnished to disabled persons receiving benefits because of their disability. The total amount of funds that may be made available for purposes of payments for the costs of such services, including applicable administrative expenses of State agencies, in a fiscal year may not exceed a specified percentage of the benefits certified for payment to these types of beneficiaries in the preceding year. This limitation was 1 percent for payments for the costs of vocational rehabilitation services in each of the fiscal years 1966 (when such payments were first provided) through 1972. Under present law, the limitation scheduled for payments in fiscal year 1973 is 1¼ percent, and for payments in fiscal years after 1973, 1½ percent.

Congress has authorized expenditures from the trust funds for construction of office buildings and related facilities for the Social Security Administration. The costs of such construction are included as part of administrative expenses in the financial statements of operations of the trust funds as set forth in subsequent sections of this report. The net worth of the resulting facilities—like the net worth of all other capital assets—is not carried as an asset in such statements.

That portion of each trust fund which, in the judgment of the Managing Trustee, is not required to meet current expenditures for benefits and administration is invested, on a daily basis, in interest-bearing obligations of the U.S. Government, in obligations guaranteed as to both principal and interest by the United States, or in certain federally-sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of 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 special public-debt obligations for purchase exclusively by the trust funds that shall bear interest at a rate based on 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.

Summary of the Operations of the Federal Old-Age and Survivors Insurance Trust Fund, Fiscal Year 1972

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, 1971, and ended on June 30, 1972, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2. Also appearing in the table are comparable amounts for fiscal year 1971.

The total assets of the old-age and survivors insurance trust fund amounted to $34,331 million on June 30, 1971. These assets increased to $36,399 million by the end of the fiscal year 1972, an increase of $2,068 million.

Net receipts of the trust fund during the fiscal year 1972 amounted to $37,917 million. Of this total, $32,463 million represented contributions appropriated to the fund, and $3,596 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, $349 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base.

TABLE 2.—STATEMENT OF OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING FISCAL YEARS 1971 AND 1972

[In thousands]

	Fiscal year— 1971	Fiscal year— 1972
Total assets of the trust fund, beginning of year	$32,616,355	$34,330,848
Receipts:		
Contributions:		
Appropriations	29,242,673	32,462,924
Deposits arising from State agreements	3,066,427	3,596,457
Gross contributions	32,309,101	36,059,381
Less payment into the Treasury for contributions subject to refund	393,870	348,656
Net contributions	31,915,231	35,710,725
Reimbursement from general fund of the Treasury for costs of—		
Noncontributory credits for military service	78,000	137,000
Payments to noninsured persons aged 72 and over:		
Benefit payments	322,148	298,315
Administrative expenses	4,457	3,791
Interest	44,310	48,440
Total reimbursement for payments to noninsured persons aged 72 and over	370,916	350,546
Interest:		
Interest on investments	1,617,802	1,718,672
Interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs [1]	364	−111
Interest on amount transferred between the old-age and survivors insurance and the disability insurance trust funds due to adjustment in cost of vocational rehabilitation services [1]	−28	11
Total interest	1,618,138	1,718,572
Total receipts	33,982,285	37,916,842
Disbursements:		
Benefit payments	31,101,018	34,540,813
Transfer to railroad retirement account	613,026	724,341
Payment for cost of vocational rehabilitation services for disabled beneficiaries:		
For the current fiscal year	1,756	1,797
Transfer between the old-age and survivors insurance and the disability insurance trust funds due to adjustment in cost for prior fiscal year [2]	103	−242
Total	1,859	1,555
Administrative expenses:		
Department of Health, Education, and Welfare	480,714	506,216
Treasury Department	69,428	75,631
Construction of facilities for Social Security Administration	2,026	6,922
Expenses of the Department of Health, Education, and Welfare for administration of vocational rehabilitation program for disabled beneficiaries	30	25
Interfund transfers due to adjustment in allocation of [2]—		
Administrative expenses	−482	−6,317
Costs of construction	207	−518
Gross administrative expenses	551,922	581,959
Less receipts from sale of surplus supplies, materials, etc	33	36
Net administrative expenses	551,889	581,923
Total disbursements	32,267,792	35,848,632
Net addition to the trust fund	1,714,493	2,068,210
Total assets of the trust fund, end of year	34,330,848	36,399,058

[1] A positive figure represents a transfer of interest to the old-age and survivors insurance trust fund from the other social security trust funds. A negative figure represents a transfer of interest from the old-age and survivors insurance trust fund to the other social security trust funds.

[2] A positive figure represents a transfer from the old-age and survivors insurance trust fund to the other social security trust funds. A negative figure represents a transfer to the old-age and survivors insurance trust fund from the other social security trust funds.

Net contributions amounted to $35,711 million, an increase of 11.9 percent over the amount for the preceding fiscal year. Growth in contribution income resulted from (1) the higher level of employment and taxable earnings, (2) the increase from 7.3 percent to 8.1 percent in the combined employer-employee contribution rate allocated to finance benefits from the old-age and survivors insurance trust fund that became effective on January 1, 1971, and (3) the increase in the maximum annual amount of earnings taxable from $7,800 to $9,000 that became effective on January 1, 1972. Although the increase in the contribution rate became effective in 1971, the first full fiscal year during which the higher rate was operative was 1972.

Reference has been made in an earlier section to provisions of the Social Security Act under which the old-age and survivors insurance and disability insurance trust funds are to be reimbursed annually from the general fund of the Treasury for costs of granting noncontributory credits for military service. In accordance with section 217 (g), the Secretary of Health, Education, and Welfare made a determination in 1970 of the level annual appropriations to the trust funds necessary to amortize over a 44-year period, beginning in fiscal year 1972, the estimated total additional costs, for military service performed before 1957, arising from payments that have been made after August 1950 and that will be made in future years, taking into account the amounts of annual appropriations in fiscal years 1966–71 that have been deposited into the trust funds. The annual amounts resulting from this determination were $136 million for the old-age and survivors insurance trust fund and $49 million for the disability insurance trust fund. In accordance with section 229(b), the Secretary determined that each of the two trust funds should receive reimbursement of $1 million for additional costs attributable to noncontributory credit for military service performed after 1967. Thus, reimbursements amounting to $137 million for the old-age and survivors insurance trust fund, and to $50 million for the disability insurance trust fund were received in December 1971.

Reference has also been made in an earlier section to provisions under which the old-age and survivors insurance trust fund is to be reimbursed annually from the general fund of the Treasury for costs of monthly payments to certain noninsured persons aged 72 and over who have less than three quarters of coverage. The reimbursement in fiscal year 1972 amounted to $351 million.

The remaining $1,719 million of receipts consisted of interest on the investments of the trust fund and net interest on amounts of interfund transfers among the old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance trust funds.

Disbursements from the trust fund during the fiscal year totalled $35,849 million. Of this total $34,541 million was for benefit payments, an increase of 11.1 percent over the corresponding amount paid in the fiscal year 1971. This increase was due primarily to the 1971 amendments which provided for a general increase in benefits of 10 percent effective for January 1971. (Fiscal year 1972 was the first full fiscal year during which this benefit increase was operative.) Other factors that contributed to the increase in benefit payments from fiscal year 1971 to fiscal year 1972 were the expected growth in the total number of beneficiaries and in average benefit amounts resulting from the rising level of earnings.

Reference has been made in an earlier section to provisions of the Railroad Retirement Act which coordinate the railroad retirement and the old-age and survivors insurance programs and which govern the financial interchanges arising from the allocation of costs between the two systems. In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of $691,700,000 to the railroad retirement account from the old-age and survivors insurance trust fund would place this trust fund in the same position as of June 30, 1971, as it would have been if railroad employment had always been covered under the Social Security Act. This amount was transferred to the railroad retirement account in June 1972, together with interest to the date of transfer amounting to $32,641,000.

Expenditures of the old-age and survivors insurance program for the cost of vocational rehabilitation services amounted to $1,555,000. These services were furnished to disabled adults—dependents of old-age beneficiaries and survivors of deceased insured workers—who were receiving monthly benefits from the old-age and survivors insurance trust fund because of their disability.

The remaining $582 million of disbursements from the old-age and survivors insurance trust fund represents net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds on the basis of provisional estimates. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses, and costs of construction, for prior periods are effected by interfund transfers, with appropriate interest allowances.

Net administrative expenses charged to both the old-age and survivors insurance trust fund and the disability insurance trust fund in fiscal year 1972 totalled $794 million and represented 2.1 percent of benefit payments during the fiscal year. Corresponding percentages for each of the last 5 years for the system as a whole and for each trust fund separately are shown in table 3.

TABLE 3.—RELATIONSHIP OF NET ADMINISTRATIVE EXPENSES OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM TO BENEFIT PAYMENTS, BY TRUST FUND, FISCAL YEARS 1968–72

Fiscal year	Administrative expenses as a percentage of benefit payments for the— Old-age and survivors insurance and disability insurance trust funds, combined	Old-age and survivors insurance trust funds	Disability insurance trust fund
1968	2.5	2.2	5.4
1969	2.3	2.0	5.5
1970	2.1	1.8	5.4
1971	2.2	1.8	5.6
1972	2.1	1.7	5.2

Note: In interpreting the figures in the above table, reference should be made to the applicable text in the current and earlier annual reports.

In table 4, the experience with respect to actual amounts of contributions and benefit payments in fiscal year 1972 is compared with the estimates for fiscal year 1972 which appeared in the 1972 Annual Report of the Board of Trustees. Reference was made in an earlier section to the appropriation of contributions to the trust funds on an estimated basis, with subsequent periodic adjustments to account for differences from the amounts of contributions actually payable on the basis of reported earnings. In interpreting the figures in table 4, it should be noted that the "actual" amount of contributions in fiscal year 1972 reflects the aforementioned type of adjustments to contributions for prior fiscal year. On the other hand, the "actual" amount of contributions in fiscal year 1972 does not reflect adjustments to contributions for fiscal year 1972 that were to be made after June 30, 1972. The actual experience for each trust fund was quite close, relatively, to the estimates.

The assets of the old-age and survivors insurance trust fund at the end of fiscal year 1972 totalled $36,399 million, consisting of $33,188 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations, and $3,211 million in undisbursed balances. Table 5 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1971 and 1972.

TABLE 4.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, FISCAL YEAR 1972

[Amounts in millions]

	Actual amount	Estimated amount published in 1972 Report	Actual as percentage of estimate
Old-age and survivors insurance trust fund:			
Net contributions	$35,711	$35,760	100
Benefit payments	34,541	34,541	100
Disability insurance trust fund:			
Net contributions	4,853	4,856	100
Benefit payments	4,046	3,961	102

Note: In interpreting the figures in the above table, reference should be made to the accompanying test.

The net increases in the par value of the investments owned by the fund during the fiscal year 1972 amounted to $1,827 million. New securities at a total par value of $39,963 million were acquired during the fiscal year through the investment of receipts, and the reinvestment of funds made available from the maturity of securities. The par value of securities redeemed during the fiscal year was $38,135 million. Included in these amounts is $36,860 million in certificates of indebtedness that were acquired and redeemed within the fiscal year. In addition, $100 million in 4-percent bonds maturing in August 1971 was exchanged for $50 million in 7-percent notes maturing in November 1975, and $50 million in 7-percent bonds maturing in August 1981. (Although the interest rate on bonds is generally limited to 4¼ percent by the provisions of 31 U.S.C. 752, P.L. 92–5, enacted March 17, 1971, amended these provisions to authorize the issuance of up to $10 billion in bonds at rates of interest exceeding 4¼ percent.)

The effective annual rate of interest earned by the assets of the old-age and survivors insurance trust fund during fiscal year 1972 was

5.1 percent. The interest rate on public-debt obligations issued for purchase by the trust fund in June 1972 was 5¾ percent, compounded semiannually.

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 these amendments, the general practice in the past was to spread the maturity dates for the holdings of special issues as nearly as practicable in equal amounts over a 15-year period. As a result of this practice, the old-age and survivors insurance trust fund held special issues, totalling $8,495 million, that were distributed in equal amounts of $1,080 million maturing in each of the years 1974–80 and in a smaller amount maturing in 1973 (table 5).

TABLE 5.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1971 AND 1972

	June 30, 1971		June 30, 1972	
	Par value	Book value[1]	Par value	Book value[1]
INVESTMENTS IN PUBLIC-DEBT OBLIGATIONS				
Public issues:				
Treasury notes:				
5¾ percent, 1975	$7,000,000	$7,030,458.47	$7,000,000	$7,021,958.51
6 percent, 1975	17,450,000	17,450,000.00	17,450,000	17,450,000.00
6¼ percent, 1976	5,000,000	4,991,815.53	5,000,000	4,993,601.25
6½ percent, 1976	22,180,000	22,180,000.00	22,180,000	22,180,000.00
7 percent, 1975			50,000,000	49,919,607.80
7½ percent, 1976	90,500,000	90,104,958.10	90,500,000	90,182,671.30
8 percent, 1977	15,000,000	15,000,000.00	15,000,000	15,000,000.00
Treasury bonds:				
2½ percent, 1967–72	250	250.00	250	250.00
2¾ percent, investment series B, 1975–80	1,064,902,000	1,064,902,000.00	1,064,902,000	1,064,902,000.00
3 percent, 1995	70,170,000	70,145,852.44	70,170,000	70,146,876.40
3¼ percent, 1978–83	60,200,000	59,494,709.12	60,200,000	59,553,894.32
3¼ percent, 1985	25,700,000	24,497,370.35	25,700,000	24,584,307.47
3½ percent, 1980	449,450,000	453,521,217.27	449,450,000	453,085,015.47
3½ percent, 1990	556,250,000	548,364,644.46	556,250,000	548,788,968.66
3½ percent, 1998	552,037,000	543,599,062.36	552,037,000	543,907,767.52
3⅞ percent, 1974	24,500,000	24,490,716.89	24,500,000	24,493,501.97
4 percent, 1971	100,000,000	100,015,163.89		
4 percent, 1973	38,000,000	37,924,689.10	38,000,000	37,960,838.50
4 percent, 1980	153,100,000	153,058,255.24	153,100,000	153,063,118.84
4⅛ percent, 1974	61,934,000	61,918,329.35	61,934,000	61,924,395.59
4⅛ percent, 1989–94	91,300,000	90,609,835.02	91,300,000	90,640,061.22
4¼ percent, 1974	6,352,000	6,356,999.04	6,352,000	6,355,234.56
4¼ percent, 1975–85	78,023,000	77,732,731.79	78,023,000	77,753,715.11
4¼ percent, 1987–92	33,000,000	34,711,958.49	33,000,000	34,605,515.45
7 percent, 1981			50,000,000	49,633,333.30
Total investments in public issues	3,522,048,250	3,508,101,016.91	3,522,048,250	3,508,146,633.24
Obligations sold only to this fund (special issues):				
Notes:				
4¾ percent, 1974	2,720,279,000	2,720,279,000.00	2,720,279,000	2,720,279,000.00
5⅝ percent, 1975	2,460,795,000	2,460,795,000.00	2,460,795,000	2,460,795,000.00
5¾ percent, 1979			3,102,896,000	3,102,896,000.00
6⅛ percent, 1978	3,468,850,000	3,468,850,000.00	3,468,850,000	3,468,850,000.00
6½ percent, 1976	3,844,864,000	3,844,864,000.00	3,844,864,000	3,844,864,000.00
7⅝ percent, 1977	5,033,296,000	5,033,296,000.00	5,033,296,000	5,033,296,000.00

See footnote at end of table.

TABLE 5.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1971 AND 1972

	June 30, 1971		June 30, 1972	
	Par value	Book value[1]	Par value	Book value[1]
Obligations sold only to this fund (special issues)—Continued				
Bonds:				
2⅝ percent, 1972	$1,080,011,000	$1,080,011,000.00		
2⅝ percent, 1973	1,080,011,000	1,080,011,000.00	$934,472,000	$934,472,000.00
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	421,567,000	421,567,000.00
4⅛ percent, 1979	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
4⅛ percent, 1980	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
Total obligations sold only to this fund (special issues)	27,248,183,000	27,248,183,000.00	29,125,529,000	29,125,529,000.00
Total investments in public-debt obligations	30,770,231,250	30,756,284,016.91	32,647,577,250	32,633,675,633.24
Investments in federally-sponsored agency obligations participation certificates:				
Federal Assets Liquidation Trust-Government National Mortgage Association:				
5.10 percent, 1987	50,000,000	50,000,000.00	50,000,000	50,000,000.00
5.20 percent, 1982	100,000,000	100,000,000.00	100,000,000	100,000,000.00
5½ percent, 1972	50,000,000	50,000,000.00		
Federal Assets Financing Trust-Government National Mortgage Association:				
6.05 percent, 1988	65,000,000	64,797,890.83	65,000,000	64,810,078.39
6.20 percent, 1988	230,000,000	230,000,000.00	230,000,000	230,000,000.00
6.40 percent, 1987	75,000,000	75,000,000.00	75,000,000	75,000,000.00
6.45 percent, 1988	35,000,000	35,000,000.00	35,000,000	35,000,000.00
Total investments in federally-sponsored agency obligations	605,000,000	604,797,890.83	555,000,000	554,810,078.39
Total investments	31,375,231,250	31,361,081,907.74	33,202,577,250	33,188,485,711.63
Undisbursed balance[5]		2,969,766,076.05		3,210,572,322.64
Total assets		34,330,847,983.79		36,399,058,034.27

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

However, the interest rate on special issues acquired in June of each year 1966–71, as determined under section 201(d) of the Social Security Act, was higher than the maximum rate of 4¼ percent to which the interest rate on long-term issues (bonds) was limited. Thus, it was not possible to follow the former practice, and the entire available amounts were invested in short-term issues (notes). Since the practice of investing in relatively long-term bonds when interest rates are low, and in shorter-term notes when rates are high, is disadvantageous to the trust funds in the long run, the 1971 Advisory Council recommended that the maturity dates on all special issues be equal to the maximum maturity date for Treasury notes. The Board of Trustees concurred with this recommendation.

Thus, on June 30, 1972, the old-age and survivors insurance trust fund acquired $3,103 million in special issues consisting of 7-year notes, making a total of $20,631 million invested in such 7-year notes maturing on June 30 of each year 1974–79 (table 5). The operations under the investment policy in effect before 1972 are described in the 1972 and earlier, annual reports.

Summary of the Operations of the Federal Disability Insurance Trust Fund, Fiscal Year 1972

A statement of the income and disbursements of the Federal disability insurance trust fund during fiscal year 1972 and of the assets of the fund at the beginning and end of the fiscal year is presented in table 6. Also appearing in the table are comparable amounts for fiscal year 1971.

The total assets of the disability insurance trust fund amounted to $6,408 million on June 30, 1971. By the end of fiscal year 1972 the assets amounted to $7,390 million, an increase of $982 million.

Net receipts of the fund amounted to $5,291 million. Of this total $4,411 million represented contributions appropriated to the fund, and $490 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. As an offset, $47 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base.

Net contributions amounted to $4,853 million, representing an increase of 6.2 percent over the amount for the preceding fiscal year. This increase is accounted for by the same factors, insofar as they apply to contributions of the disability insurance trust fund, that accounted for the increase in contributions to the old-age and survivors insurance trust fund (described in the preceding section).

In addition, the trust fund received $50 million in December from the general fund of the Treasury, as reimbursement for the costs of noncontributory credits for military service.

The remaining $388 million of receipts consisted of interest on the investments of the fund, less interest on amounts of interfund transfers.

Disbursements from the fund during the fiscal year 1972 totalled $4,309 million. Of this total, $4,046 million was for benefit payments, an increase of 19.6 percent over the corresponding amount paid in the fiscal year 1971. This increase is accounted for by the same factors that resulted in the increase in benefit payments from the old-age and survivors insurance trust fund (described in the preceding section).

Provisions governing the financial interchanges between the railroad retirement account and the disability insurance trust fund are similar to those referred to in the preceding section relating to the old-age and survivors insurance trust fund. The determination made as of June 30, 1971, required that a transfer of $23,100,000 be made from the disability insurance trust fund to the railroad retirement account. This amount was transferred to the railroad retirement account in June 1972 together with interest to the date of transfer amounting to $1,090,000.

TABLE 6.—STATEMENT OF OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING FISCAL YEARS 1971 AND 1972

[In thousands]

	Fiscal year— 1971	1972
Total assets of the trust fund, beginning of year	$5,103,596	$6,408,329
Receipts:		
Contributions:		
Appropriations	4,182,690	4,410,780
Deposits arising from State agreements	445,590	489,577
Gross contributions	4,628,279	4,900,357
Less payment into the Treasury for contributions subject to refund	58,810	47,361
Net contributions	4,569,470	4,852,996
Reimbursement from general fund of the Treasury for costs of noncontributory credits for military service	16,000	50,000
Interest:		
Interest on investments	325,461	388,532
Interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs[1]	−421	−288
Interest on amount transferred between the old-age and survivors insurance and the disability insurance trust funds due to adjustment in cost of vocational rehabilitation services[1]	28	−11
Total interest	325,068	388,233
Total receipts	4,910,538	5,291,228
Disbursements:		
Benefit payments	3,381,448	4,045,895
Transfer to railroad retirement account	13,240	24,190
Payment for cost of vocational rehabilitation services for disabled beneficiaries:		
For the current fiscal year	21,345	27,282
Transfer between the old-age and survivors insurance and the disability insurance trust funds due to adjustment in cost for prior fiscal year[2]	−103	242
Total	21,242	27,523
Administrative expenses:		
Department of Health, Education, and Welfare	172,738	194,607
Treasury Department	8,969	10,106
Construction of facilities for Social Security Administration	476	2,960
Expenses of the Department of Health, Education, and Welfare for administration of vocational rehabilitation program for disabled beneficiaries	360	375
Interfund transfers due to adjustment in allocation of[2]—		
Administrative expenses	7,664	3,375
Costs of construction	−320	252
Gross administrative expenses	189,887	211,677
Less receipts from sale of surplus supplies, materials, etc	12	6
Net administrative expenses	189,875	211,671
Total disbursements	3,605,805	4,309,280
Net addition to the trust fund	1,304,732	981,949
Total assets of the trust fund, end of year	6,408,329	7,390,277

[1] A positive figure represents a transfer of interest to the disability insurance trust fund from the other social security trust funds. A negative figure represents a transfer of interest from the disability trust fund to the other social security trust funds.

[2] A positive figure represents a transfer from the disability insurance trust fund to the other social security trust funds. A negative figure represents a transfer to the disability insurance trust fund from the other social security trust funds.

The remaining disbursements amounted to $212 million for net administrative expenses and $28 million for the net cost of vocational rehabilitation services furnished to disabled-worker beneficiaries and to those dependents of disabled workers who are receiving benefits on the basis of disabilities that have continued since childhood.

As stated in an earlier section, the total amount of funds that may be made available for payment for the costs of vocational rehabilitation services in a fiscal year may not exceed a specified percentage of the benefits certified for payment in the preceding year from the old-age and survivors insurance and disability insurance trust funds to disabled persons receiving benefits because of their disability. For payments of the costs of such services in each fiscal year through 1972, this percentage was 1 percent. The following data show the relationship between the total amount of payments for the costs of such rehabilitation services for each fiscal year, 1968–72, and the corresponding amount of benefits paid in the prior fiscal year from the trust funds to disabled beneficiaries (amounts in thousands):

Fiscal year to which costs of rehabilitation services are charged	Amount of payments for costs of rehabilitation services[1]	Estimated amount of benefit payments in preceding fiscal year to disabled beneficiaries	Payments for costs of rehabilitation services as percent of preceding year's benefit payments
1968	$15,981	$1,600,682	1.00
1969	17,517	1,803,657	.97
1970	20,622	2,155,579	.96
1971	23,078	2,464,004	.94
1972	30,037	3,028,695	.99

[1] The amounts shown represent the expenditures for a fiscal year and differ from amounts expended in a fiscal year as shown in accounting statements of the trust funds on a cash basis. The amount shown for each fiscal year is subject to further change, but not to an amount that exceeds 1 percent of estimated benefit payments in the preceding fiscal year to disabled beneficiaries.

The assets of this fund at the end of fiscal year 1972 totalled $7,390 million, consisting of $7,010 million in the form of obligations of the U.S. Government and $380 million in undisbursed balances. Table 7 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1971 and 1972.

The net increase in the par value of the investments owned by the fund during the fiscal year amounted to $934 million. New securities at a total par value of $6,096 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 year was $5,162 million. Included in these amounts is $5,035 million in certificates of indebtedness that were acquired and redeemed within the first year.

The effective annual rate of interest earned by the assets of the disability insurance trust fund during fiscal year 1972 was 6.0 percent. The interest rate on public-debt obligations issued for purchase by the trust fund in June 1972 was 5¾ percent, compounded semiannually.

The investment policy and practices described in the preceding section apply equally to investments of the assets of the disability insurance trust fund. A distribution of these investments by type of government security and date of maturity is shown in table 7.

TABLE 7.—ASSETS OF THE DISABILITY INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1971 AND 1972

	June 30, 1971		June 30, 1972	
	Par value	Book value [1]	Par value	Book value [1]
Investments in public-debt obligations:				
Public issues:				
Treasury notes:				
5¾-percent, 1975	$10,000,000	$10,051,190.73	$10,000,000	$10,036,905.09
6-percent, 1975	3,750,000	3,750,000.00	3,750,000	3,750,000.00
6-percent, 1978			2,000,000	2,004,867.96
6¼-percent, 1978	2,000,000	2,006,731.69	2,000,000	2,005,709.17
7½-percent, 1976	26,000,000	25,903,292.77	26,000,000	25,922,317.21
7¾-percent, 1977	14,000,000	13,969,216.87	14,000,000	13,974,277.11
8-percent, 1977	10,000,000	10,000,000.00	10,000,000	10,000,000.00
Treasury bonds:				
3½-percent, 1990	10,500,000	9,985,845.74	10,500,000	10,013,513.30
3½-percent, 1998	5,000,000	4,715,541.80	5,000,000	4,725,948.80
3⅞-percent, 1974	5,000,000	5,000,000.00	5,000,000	5,000,000.00
4-percent, 1972	2,000,000	1,997,600.84		
4-percent, 1973	16,500,000	16,450,222.56	16,500,000	16,474,115.64
4-percent, 1980	30,250,000	30,242,840.81	30,250,000	30,243,674.69
4⅛-percent, 1974	10,000,000	10,007,109.92	10,000,000	10,004,357.60
4⅛-percent, 1989–94	68,400,000	67,639,492.32	68,400,000	67,672,799.16
4¼-percent, 1975–85	20,795,000	20,777,415.58	20,795,000	20,778,158.86
4¼-percent, 1987–92	80,800,000	80,945,193.03	80,800,000	80,936,165.55
Total investments in public issues	314,995,000	313,441,694.66	314,995,000	313,542,810.14
Obligations sold only to this fund (special issues):				
Notes:				
4¾-percent, 1974	309,178,000	309,178,000.00	309,178,000	309,178,000.00
5⅝-percent, 1975	583,612,000	583,612,000.00	583,612,000	583,612,000.00
5¾-percent, 1979			1,058,617,000	1,058,617,000.00
6⅛-percent, 1978	1,284,249,000	1,284,249,000.00	1,284,249,000	1,284,249,000.00
6½-percent, 1976	1,151,608,000	1,151,608,000.00	1,151,608,000	1,151,608,000.00
7⅝-percent, 1977	1,394,466,000	1,394,466,000.00	1,394,466,000	1,394,466,000.00
Bonds:				
2⅝-percent, 1974	75,144,000	75,144,000.00	425,000	425,000.00
2⅝-percent, 1975	132,894,000	132,894,000.00	132,894,000	132,894,000.00
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	153,632,000	153,632,000.00	153,632,000	153,632,000.00
4⅛-percent, 1980	125,606,000	125,606,000.00	125,606,000	125,606,000.00
Total obligations sold only to this fund (special issues)	5,712,761,000	5,712,761,000.00	6,696,659,000	6,696,659,000.00
Total investments in public-debt obligations	6,027,756,000	6,026,202,694.66	7,011,654,000	7,010,201,810.14
Investments in federally-sponsored agency obligations:				
Participation certificates:				
Federal Assets Liquidation Trust—Government National Mortgage Association:				
5½-percent, 1972	50,000,000	50,000,000.00		
Total investments in federally-sponsored agency obligations	50,000,000	50,000,000.00		
Total investments	6,077,756,000	6,076,202,694.66	7,011,654,000	7,010,201,810.14
Undisbursed balances		332,125,938.04		380,075,536.03
Total assets		6,408,328,632.70		7,390,277,346.17

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

Expected Operations and Status of the Trust Funds During the Period July 1, 1972, to December 31, 1977

In the following statement of the expected operations and status of the trust funds during the period July 1, 1972, to December 31, 1977, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program will remain unchanged in the period 1973–77. The income and disbursements of the program, however, are affected by general economic conditions as well as by legislative provisions. Economic conditions, of course, affect the levels of employment and taxable earnings; but beginning in 1975, under the automatic increase provisions enacted in 1972, economic conditions will also directly affect benefits, the contribution and benefit base (i.e., the maximum annual amount of earnings taxable and creditable toward benefits), and the retirement test.

Under the automatic increase provisions, benefits will increase in accordance with increases in the Consumer Price Index. In any year in which an automatic benefit increase becomes effective, the contribution and benefit base, and the amount of earnings exempted from the withholding of benefits under the retirement test, will automatically be increased in proportion to the increase in average covered wages. The estimates presented in this section, and in the following section, reflect the effects of the following changes assumed to occur, under the automatic increase provisions, on January 1 of the stated year (amounts for 1974 are also shown as a basis for comparison):

Year	General benefit increase (percent)	Contribution and benefit base	Annual exempt amount under the retirement test
1974		$12,000	$2,100
1975	7.1	12,900	2,280
1977	5.7	14,400	2,520

The assumed changes, stated above, are based on current official government projections as to the growth in the Gross National Product and as to the rate of change in the Consumer Price Index. Emerging experience, as it relates to price changes, may show that the assumption of an automatic benefit increase of 7.1 percent effective January 1975 will prove to be too low.

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.

Table 8 presents data on the actual operations of the old-age and survivors insurance trust fund for selected fiscal years during the period 1940–72 [1] and also estimates of the expected operations of the

[1] Data relating to the operations of the old-age and survivors insurance trust fund for years not shown in tables 8 and 9 are contained in the 1967 Annual Report of the Board of Trustees.

TABLE 8.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, SELECTED FISCAL YEARS 1940–77

[In millions]

Fiscal year	Transactions during period: Income: Total	Income: Contributions, less refunds	Income: Reimbursements from general fund of Treasury for costs of—: Noncontributory credits for military service	Income: Reimbursements from general fund of Treasury for costs of—: Payments to noninsured persons aged 72 and over	Income: Interest on investments [1]	Disbursements: Total	Disbursements: Benefit payments	Disbursements: Payments for vocational rehabilitation services	Disbursements: Administrative expenses [1]	Disbursements: Transfers to railroad retirement account	Net increase in fund	Fund at end of period
1940	$592	$550			$42	$28	$16		$12		$564	$1,745
1945	1,434	1,310			124	267	240		27		1,167	6,613
1950	2,367	2,106	$4		257	784	727		57		1,583	12,893
1955	5,525	5,087			438	4,427	4,333		103	$10	1,098	21,141
1960	10,360	9,843			517	11,073	10,270		202	600	−713	20,829
1961	11,824	11,293			531	11,752	11,185		236	332	72	20,900
1962	11,996	11,455			541	13,270	12,658		251	361	−1,274	19,626
1963	13,843	13,328			515	14,530	13,845		263	423	−687	18,939
1964	16,044	15,503			542	15,285	14,579		303	403	760	19,699
1965	16,443	15,857			586	15,962	15,226		300	436	482	20,180
1966	18,461	17,866			595	18,769	18,071		254	444	−308	19,872
1967	23,371	22,567	78		726	19,728	18,886	(2)	334	508	3,643	23,515
1968	23,640	22,662	78		899	21,622	20,737	(2)	447	438	2,018	25,533
1969	27,348	25,953	156	$226	1,014	24,690	23,732	$2	465	491	2,658	28,191
1970	31,746	29,955	78	364	1,350	27,321	26,267	1	474	579	4,425	32,616
1971	33,982	31,915	78	371	1,618	32,268	31,101	2	552	613	1,714	34,331
1972	37,917	35,711	137	351	1,719	35,849	34,541	2	582	724	2,068	36,399
Estimated future experience:												
1973	43,708	41,403	138	337	1,830	43,694	42,223	2	686	783	14	36,413
1974	51,885	49,519	139	303	1,924	49,190	47,499	4	733	954	2,695	39,108
1975	56,790	54,174	140	323	2,153	53,021	51,265	5	749	1,002	3,769	42,877
1976	61,217	58,328	146	410	2,333	57,639	55,836	6	778	1,019	3,578	46,455
1977	65,002	61,821	225	512	2,444	61,653	59,791	6	810	1,046	3,349	49,804

[1] Interest on investments includes net profits on marketable investments. Total administrative expenses exclude expenses for the period ending Dec. 31, 1939; for that period, appropriations to the old-age and survivors insurance trust fund (designated as the old-age reserve account prior to Jan. 1, 1940) were approximately equivalent to tax contributions collected by the Treasury Department less administrative expenses. Beginning in 1954, administrative expenses include costs of construction of office space for the Social Security Administration. Beginning in 1967, administrative expenses incurred under each of the four programs, old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance, are charged currently to the appropriate trust fund on an estimated basis, with a final adjustment, including interest, made in the following fiscal year. The amounts of these interest adjustments are included in interest on investments. For years prior to 1967, a description of the method of accounting for administrative expenses is contained in the 1970 Annual Report of the Board of Trustees.

[2] Less than $500,000.

Note: In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions.

trust fund in fiscal years 1973–77. The estimates are based on the assumptions that employment and earnings will increase each year through 1977. Under these assumptions, the estimated number of persons with taxable earnings under the old-age, survivors, and disability insurance program is expected to increase from 96 million during calendar year 1972 to about 107 million during calendar year 1977. Their taxable earnings in each calendar year are estimated to increase as follows:

	Contribution and benefit base	Taxable earnings (in billions)
Calendar year:		
1972	$9,000	$489
1973	10,800	564
1974	12,000	620
1975	12,900	674
1976	12,900	710
1977	14,400	771

In addition to the effects of the increases in the contribution and benefit base, estimated taxable earnings and income from contributions during the period reflect the assumed upward trend in the levels of employment and earnings and the increase in contribution rates effective on January 1, 1973.

Rising benefit disbursements during fiscal years 1973–77 reflect the effects of the assumed automatic benefit increases of 7.1 percent, effective January 1975, and 5.7 percent, effective January 1977, as well as the effects of the other benefit provisions enacted in 1972. The long-range upward trend in the numbers of beneficiaries and in the average monthly amounts of benefits payable under the program are also reflected in the increases in benefit payments. Aggregate income of the old-age and survivors insurance trust fund is estimated to exceed aggregate outgo in the 5-year period covering fiscal years 1973–77. During this period, there is an estimated net increase in the old-age and survivors insurance trust fund of $13.4 billion.

Estimates consistent with those shown on a fiscal-year basis in table 8 are presented in table 9 to show the progress of the old-age and survivors insurance trust fund on a calendar-year basis. The trust fund is estimated to increase in each of the calendar years 1973–77, reaching $49.8 billion on December 31, 1977.

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 aged persons who are eligible for and receiving old-age and survivors insurance benefits. The growth in the number of eligible persons since 1940 has been uninterrupted. This growth results partly from the increase in the aged population and partly from two other factors—(1) in each passing year a larger proportion of the persons attaining age 65 became eligible for benefits and (2) the amendments during the period 1950–72 liberalized the eligibility provisions and extended coverage to new categories of employment.

TABLE 9.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, SELECTED CALENDAR YEARS 1940–77

[In millions]

Calendar year	Transactions during period											
	Income					Disbursements						
			Reimbursements from general fund of Treasury for costs of—									
	Total	Contributions, less refunds	Noncontributory credits for military service	Payments to noninsured persons aged 72 and over	Interest on investments	Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to railroad retirement account	Net increase in fund	Fund at end of period
1940	$368	$325			$43	$62	$35		$26		$306	$2,031
1945	1,420	1,285			134	304	274		30		1,116	7,121
1950	2,928	2,667	$4		257	1,022	961		61		1,905	13,721
1955	6,167	5,713			454	5,079	4,968		119	−$7	1,087	21,663
1960	11,382	10,866			516	11,198	10,677		203	318	184	20,324
1961	11,833	11,285			548	12,432	11,862		239	332	−599	19,725
1962	12,585	12,059			526	13,973	13,356		256	361	−1,388	18,337
1963	15,063	14,541			521	14,920	14,217		281	423	143	18,480
1964	16,258	15,689			569	15,613	14,914		296	403	645	19,125
1965	16,610	16,017			593	17,501	16,737		328	436	−890	18,235
1966	21,302	20,580	78		644	18,967	18,267	(1)	256	444	2,335	20,570
1967	24,034	23,138	78		818	20,382	19,468	(1)	406	508	3,652	24,222
1968	25,040	23,719	156	$226	939	23,557	22,642	$1	276	438	1,483	25,704
1969	29,554	27,947	78	364	1,165	25,176	24,209	1	474	491	4,378	30,082
1970	32,220	30,256	78	371	1,515	29,848	28,796	2	471	579	2,371	32,454
1971	35,877	33,723	137	351	1,667	34,542	33,413	2	514	613	1,335	33,789
1972	40,050	37,781	138	337	1,794	38,522	37,122	2	674	724	1,528	35,318
Estimated future experience:												
1973	48,820	46,543	139	303	1,835	47,540	46,036	3	718	783	1,280	36,598
1974	54,132	51,642	140	323	2,027	50,365	48,667	4	740	954	3,767	40,365
1975	59,059	56,264	146	410	2,239	56,029	54,257	5	765	1,002	3,030	43,395
1976	62,564	59,440	225	512	2,387	58,915	57,095	6	795	1,019	3,649	47,044
1977	67,542	64,325	227	473	2,517	64,830	62,950	7	827	1,046	2,712	49,756

1 Less than $500,000.

Note: In interpreting the above, reference should be made to the footnotes in table 8.

In addition, there has been a growth in the proportion of eligible persons who receive benefits. This growth is due to several factors, among which are (1) the amendments enacted during the period 1950–72 which affect the conditions governing the receipt of benefits, and (2) the increasing percentage of eligible persons aged 72 and over who receive benefits regardless of earnings.

The expected operations and status of the disability insurance trust fund during the next 5 fiscal years are presented in table 10, together with the figures on actual experience in earlier years. Contribution income will increase during fiscal years 1973–77 because of the same factors, insofar as they apply to contributions to the disability insurance trust fund, that account for the increase in contributions to the old-age and survivors insurance trust fund during the same period. Benefit payments will increase because of the 1972 legislation and because of increases in the numbers of beneficiaries and the average monthly benefit amounts payable. Aggregate income of the disability insurance trust fund is expected to exceed aggregate outgo in the 5-year period covering fiscal years 1973–77. During this period there is an estimated net increase in the trust fund of $1.5 billion.

Estimates consistent with those shown on a fiscal-year basis in table 10 are presented in table 11 to show the progress of the disability insurance trust fund on a calendar-year basis. Aggregate income of the trust fund is expected to exceed aggregate outgo in the 5-year period covering calendar years 1973–77. The trust fund at the end of calendar year 1972 amounted to about $7.5 billion and is estimated to increase to $8.5 billion by December 31, 1977.

The expected operations and status of the old-age and survivors insurance and disability insurance trust funds combined, during each year 1973–77, are shown in tables 12 and 13 on a fiscal-year basis and a calendar-year basis, respectively, together with figures on actual experience in 1960–72.

The ratio of assets at the beginning of the year to expenditures during the year for the old-age and survivors insurance and disability insurance trust funds, combined, is estimated to be about 0.80 for calendar year 1973. For calendar years 1974–77, the ratio is expected to fluctuate within the narrow range of 0.76–0.78. This ratio for each of the next 5 calendar years 1973–77, and for each of the past calendar years 1960–72, is shown in table 14 for both trust funds combined and for each trust fund separately.

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. Estimates of future financial interchanges are included in the various tables in this section.

Reference has also been made previously to the provisions of section 228 of the Social Security Act under which benefits are paid initially from the old-age and survivors insurance trust fund to certain noninsured persons aged 72 and over, with later reimbursement from the general fund of the Treasury for the costs of payments to those in this group who have less than three quarters of coverage. The estimates in the tables in this section reflect the effect of these provisions.

TABLE 10.—OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND, FISCAL YEARS 1957–77

[In millions]

Fiscal year	Transactions during period: Income: Total	Contributions, less refunds	Reimbursements from general fund of Treasury for cost of noncontributory credits for military service	Interest on investments [1]	Disbursements: Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses [1]	Transfers to railroad retirement account	Net increase in fund	Fund at end of period
1957	$339	$337		$1	$1			$1		$337	$337
1958	942	926		16	181	$168		12		762	1,099
1959	928	895		33	361	339		21		568	1,667
1960	1,034	987		47	533	528		32	−$27	501	2,167
1961	1,083	1,022		61	745	704		36	5	337	2,504
1962	1,089	1,021		68	1,086	1,011		64	11	2	2,507
1963	1,144	1,077		67	1,257	1,171		67	20	−113	2,394
1964	1,208	1,143		65	1,338	1,251		68	19	−130	2,264
1965	1,237	1,175		62	1,495	1,392		79	24	−257	2,007
1966	1,611	1,557		54	1,931	1,721	$1	183	25	−321	1,686
1967	2,332	2,249	$16	67	1,997	1,861	7	99	31	335	2,022
1968	2,800	2,699	16	85	2,236	2,088	15	112	20	564	2,585
1969	3,705	3,532	32	141	2,613	2,443	15	133	21	1,092	3,678
1970	4,380	4,141	16	223	2,954	2,778	16	149	10	1,426	5,104
1971	4,911	4,569	16	325	3,606	3,381	21	190	13	1,305	6,408
1972	5,291	4,853	50	388	4,309	4,046	28	212	24	982	7,390
Estimated future experience:											
1973	5,942	5,464	51	427	5,515	5,202	39	254	20	427	7,817
1974	6,835	6,333	52	450	6,482	6,106	61	273	43	353	8,170
1975	7,458	6,929	52	477	7,048	6,642	76	288	42	410	8,580
1976	8,012	7,460	66	486	7,772	7,351	83	298	40	240	8,820
1977	8,465	7,908	84	473	8,395	7,947	92	313	43	70	8,890

[1] Interest on investments include net profits on marketable investments. Beginning in 1967, administrative expenses incurred under the disability insurance program are charged directly to the trust fund on a current (preliminary) basis, with a final adjustment, including interest, made in the following fiscal year. The amounts of these interest adjustments are included in interest on investments. For years prior to 1967, a description of the method of accounting for administrative expenses is contained in the 1970 Annual Report of the Board of Trustees.

Note: In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions.

TABLE 11.—OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND, CALENDAR YEARS 1957–77

[In millions]

Calendar year	Transactions during period: Income: Total	Income: Contributions, less refunds	Income: Reimbursements from general fund of Treasury for cost of noncontributory credits for military service	Income: Interest on investments	Disbursements: Total	Disbursements: Benefit payments	Disbursements: Payments for vocational rehabilitation services	Disbursements: Administrative expenses	Disbursements: Transfers to railroad retirement account	Net increase in fund	Fund at end of period
1957	$709	$702		$7	$59	$57		$3		$649	$649
1958	991	966		25	261	249		12		729	1,379
1959	931	891		40	485	457		50	−$22	447	1,825
1960	1,063	1,010		53	600	568		36	−5	464	2,289
1961	1,104	1,038		66	956	887		64	5	148	2,437
1962	1,114	1,046		68	1,183	1,105		66	11	−69	2,368
1963	1,165	1,099		66	1,297	1,210		68	20	−133	2,235
1964	1,218	1,154		64	1,407	1,309		79	19	−188	2,047
1965	1,247	1,188		59	1,687	1,573		90	24	−440	1,606
1966	2,079	2,006	$16	58	1,947	1,781	$3	137	25	133	1,739
1967	2,379	2,286	16	78	2,089	1,939	11	109	31	290	2,029
1968	3,454	3,316	32	106	2,458	2,294	16	127	20	996	3,025
1969	3,792	3,599	16	177	2,716	2,542	15	138	21	1,075	4,100
1970	4,774	4,481	16	277	3,259	3,067	18	164	10	1,514	5,614
1971	5,031	4,620	50	361	4,000	3,758	24	205	13	1,031	6,645
1972	5,572	5,107	51	414	4,759	4,473	29	233	24	813	7,457
Estimated future experience:											
1973	6,467	5,977	52	438	6,176	5,849	52	256	20	291	7,748
1974	7,119	6,605	52	462	6,686	6,295	68	280	43	433	8,181
1975	7,746	7,198	66	482	7,504	7,089	80	293	42	242	8,423
1976	8,167	7,603	84	480	7,994	7,562	87	305	40	173	8,596
1977	8,784	8,228	87	469	8,839	8,383	95	318	43	−55	8,541

Note: In interpreting the above, reference should be made to the footnotes in table 10.

TABLE 12.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND THE DISABILITY INSURANCE TRUST FUNDS, COMBINED, FISCAL YEARS 1960–77

[In millions]

	Transactions during period											
	Income					Disbursements						
			Reimbursements from general fund of Treasury for costs of—									
Fiscal year	Total	Contributions, less refunds	Noncontributory credits for military service	Payments to noninsured persons aged 72 and over	Interest on investments	Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to railroad retirement account	Net increase in fund	Fund at end of period
1960	$11,394	$10,830			$564	$11,606	$10,798		$234	$574	−$212	$22,996
1961	12,906	12,315			592	12,498	11,889		272	337	409	23,405
1962	13,085	12,476			609	14,356	13,669		315	372	−1,272	22,133
1963	14,986	14,404			582	15,786	15,015		329	442	−800	21,333
1964	17,253	16,646			607	16,623	15,830		370	422	630	21,963
1965	17,681	17,032			648	17,456	16,618		379	459	224	22,187
1966	20,071	19,423			649	20,700	19,793	$1	437	469	−629	21,558
1967	25,703	24,816	$94		793	21,725	20,747	7	433	539	3,979	25,537
1968	26,440	25,362	94		984	23,859	22,825	16	560	458	2,581	28,118
1969	31,054	29,485	188	$226	1,155	27,303	26,175	17	599	513	3,750	31,868
1970	36,127	34,096	94	364	1,572	30,275	29,045	18	623	589	5,852	37,720
1971	38,893	36,485	94	371	1,943	35,874	34,482	23	742	626	3,019	40,739
1972	43,208	40,564	187	351	2,107	40,158	38,587	29	794	749	3,050	43,789
Estimated future experience:												
1973	49,650	46,867	189	337	2,257	49,209	47,425	42	940	802	441	44,230
1974	58,720	55,852	191	303	2,374	55,672	53,605	64	1,006	997	3,048	47,278
1975	64,248	61,103	192	323	2,630	60,069	57,907	81	1,037	1,044	4,179	51,457
1976	69,229	65,788	212	410	2,819	65,411	63,187	89	1,076	1,059	3,818	55,275
1977	73,467	69,729	309	512	2,917	70,048	67,738	98	1,123	1,089	3,419	58,694

Note: In interpreting the above, reference should be made to the footnotes in table 8.

TABLE 13.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND THE DISABILITY INSURANCE TRUST FUNDS, COMBINED, CALENDAR YEARS 1960–77

[In millions]

Calendar year	Transactions during period: Income: Total	Income: Contributions, less refunds	Income: Reimbursements from general fund of Treasury for costs of—: Noncontributory credits for military service	Income: Reimbursements from general fund of Treasury for costs of—: Payments to noninsured persons aged 72 and over	Income: Interest on investments	Disbursements: Total	Disbursements: Benefit payments	Disbursements: Payments for vocational rehabilitation services	Disbursements: Administrative expenses	Disbursements: Transfers to railroad retirement account	Net increase in fund	Fund at end of period
1960	$12,445	$11,876			$569	$11,798	$11,245		$240	$314	$647	$22,613
1961	12,937	12,323			614	13,388	12,749		303	337	−451	22,162
1962	13,699	13,105			594	15,156	14,461		322	372	−1,457	20,705
1963	16,227	15,640			587	16,217	15,427		348	442	10	20,715
1964	17,476	16,843			633	17,020	16,223		375	422	456	21,172
1965	17,857	17,205			651	19,187	18,311		418	459	−1,331	19,841
1966	23,381	22,585	$94		702	20,913	20,048	$3	393	469	2,467	22,308
1967	26,413	25,424	94		896	22,471	21,406	11	515	539	3,942	26,250
1968	28,493	27,034	188	$226	1,045	26,015	24,936	17	603	458	2,479	28,729
1969	33,346	31,546	94	364	1,342	27,892	26,751	16	612	513	5,453	34,182
1970	36,993	34,737	94	371	1,791	33,108	31,863	20	635	589	3,886	38,068
1971	40,908	38,343	187	351	2,027	38,542	37,171	26	719	626	2,366	40,434
1972	45,622	42,888	189	337	2,208	43,281	41,595	30	907	749	2,341	42,775
Estimated future experience:												
1973	55,287	52,520	191	303	2,273	53,716	51,885	55	974	802	1,571	44,346
1974	61,251	58,247	192	323	2,489	57,051	54,962	72	1,020	997	4,200	48,546
1975	66,805	63,462	212	410	2,721	63,533	61,346	85	1,058	1,044	3,272	51,818
1976	70,731	67,043	309	512	2,867	66,909	64,657	93	1,100	1,059	3,822	55,640
1977	76,326	72,553	314	473	2,986	73,669	71,333	102	1,145	1,089	2,657	58,297

Note: In interpreting the above, reference should be made to the footnotes in table 8.

TABLE 14.—ASSETS, AT THE BEGINNING OF THE YEAR, RELATED TO EXPENDITURES DURING THE YEAR, FOR THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM, BY TRUST FUND, CALENDAR YEARS 1960–77

Calendar year	Ratio of assets, at beginning of year, to expenditures during year		
	Old-age and survivors insurance and disability insurance trust funds, combined	Old-age and survivors insurance trust fund	Disability insurance trust fund
Past experience:			
1960	1.86	1.80	3.04
1961	1.69	1.63	2.39
1962	1.46	1.41	2.06
1963	1.28	1.23	1.83
1964	1.22	1.18	1.59
1965	1.10	1.09	1.21
1966	.95	.96	.82
1967	.99	1.01	.83
1968	1.01	1.03	.83
1969	1.03	1.02	1.11
1970	1.03	1.01	1.26
1971	.99	.94	1.40
1972	.93	.88	1.40
Estimated future experience:			
1973	.80	.74	1.21
1974	.78	.73	1.16
1975	.76	.72	1.09
1976	.77	.74	1.05
1977	.76	.73	.97

The estimates in the tables in this section also include the effect of the provisions in section 222(d) of the Social Security Act authorizing expenditures from the old-age and survivors insurance and disability insurance trust funds for the cost of vocational rehabilitation services furnished to disabled beneficiaries.

Reference has also been made previously to sections 217(g) and 229(b) of the Social Security Act authorizing annual reimbursements from the general fund of the Treasury to the old-age and survivors insurance and disability insurance trust funds for costs of granting noncontributory credits for military service. The estimates shown in the various tables in this section reflect the effect of past and expected future reimbursements under these sections.

Actuarial Analysis of Benefit Disbursements From the Federal Old-Age and Survivors Insurance Trust Fund With Respect to Disabled Beneficiaries

(Specifically required by section 201(c) of the Social Security Act)

Effective January 1957, monthly benefits have been payable from the old-age and survivors insurance trust fund to disabled adult children aged 18 and over—sons and daughters of retired and deceased workers—with respect to disabilities that have continued since childhood. Effective February 1968, reduced monthly benefits have been payable from this trust fund to disabled widows and widowers beginning at age 50.

On December 31, 1972, about 363,000 persons were receiving monthly benefits from the old-age and survivors insurance trust fund with respect to disability. In addition to disabled beneficiaries, this

TABLE 14.—ASSETS, AT THE BEGINNING OF THE YEAR, RELATED TO EXPENDITURES DURING THE YEAR, FOR THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM, BY TRUST FUND, CALENDAR YEARS 1960–77

Calendar year	Ratio of assets, at beginning of year, to expenditures during year		
	Old-age and survivors insurance and disability insurance trust funds, combined	Old-age and survivors insurance trust fund	Disability insurance trust fund
Past experience:			
1960	1.86	1.80	3.04
1961	1.69	1.63	2.39
1962	1.46	1.41	2.06
1963	1.28	1.23	1.83
1964	1.22	1.18	1.59
1965	1.10	1.09	1.21
1966	.95	.96	.82
1967	.99	1.01	.83
1968	1.01	1.03	.83
1969	1.03	1.02	1.11
1970	1.03	1.01	1.26
1971	.99	.94	1.40
1972	.93	.88	1.40
Estimated future experience:			
1973	.80	.74	1.21
1974	.78	.73	1.16
1975	.76	.72	1.09
1976	.77	.74	1.05
1977	.76	.73	.97

The estimates in the tables in this section also include the effect of the provisions in section 222(d) of the Social Security Act authorizing expenditures from the old-age and survivors insurance and disability insurance trust funds for the cost of vocational rehabilitation services furnished to disabled beneficiaries.

Reference has also been made previously to sections 217(g) and 229(b) of the Social Security Act authorizing annual reimbursements from the general fund of the Treasury to the old-age and survivors insurance and disability insurance trust funds for costs of granting noncontributory credits for military service. The estimates shown in the various tables in this section reflect the effect of past and expected future reimbursements under these sections.

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(Specifically required by section 201(c) of the Social Security Act)

Effective January 1957, monthly benefits have been payable from the old-age and survivors insurance trust fund to disabled adult children aged 18 and over—sons and daughters of retired and deceased workers—with respect to disabilities that have continued since childhood. Effective February 1968, reduced monthly benefits have been payable from this trust fund to disabled widows and widowers beginning at age 50.

On December 31, 1972, about 363,000 persons were receiving monthly benefits from the old-age and survivors insurance trust fund with respect to disability. In addition to disabled beneficiaries, this total includes 29,000 mothers. These mothers—wives under age 65 of retired-worker beneficiaries and widows of deceased insured workers—met all other qualifying requirements and were receiving full-rate (i.e., not reduced for age) benefits solely because they had at least one disabled-child beneficiary in their care. Benefits paid from this trust fund to persons receiving benefits with respect to disability totaled $409 million in calendar year 1972. Similar figures are presented in table 15 to show the past experience in each of the calendar years 1957–72.

TABLE 15.—BENEFITS PAYABLE FROM THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND WITH RESPECT TO DISABLED BENEFICIARIES, CALENDAR YEARS 1957–77

[Beneficiaries in thousands; benefit payments in millions]

Calendar year	Disabled beneficiaries, end of year			Amount of benefit payments [1]		
	Total	Children [2]	Widows and widowers	Total	Children [2]	Widows and widowers [3]
Past experience:						
1957	34	34		$7	$7	
1958	59	59		23	23	
1959	94	94		41	41	
1960	117	117		59	59	
1961	138	138		74	74	
1962	163	163		89	89	
1963	183	183		101	101	
1964	200	200		113	113	
1965	214	214		134	134	
1966	228	228		147	147	
1967	243	243		163	163	
1968	275	256	19	212	198	$14
1969	301	270	31	249	214	35
1970	320	284	36	301	260	41
1971	338	298	40	363	307	56
1972	363	317	46	409	343	66
Estimated future experience: [4]						
1973	394	344	50	513	435	78
1974	419	365	54	547	465	82
1975	440	383	57	616	525	91
1976	460	400	60	654	559	95
1977	480	418	62	722	618	104

[1] Beginning in 1966, includes payments for vocational rehabilitation services.
[2] Reflects effect of including certain mothers. (See text.)
[3] Reflects the offsetting effect of lower benefits payable to disabled widows and widowers who continue to receive benefits past age 60 (62, for disabled widowers, prior to 1973) as compared to the higher nondisabled widow's (and widower's) benefits that would otherwise be payable.
[4] Reflects the assumed changes under the automatic increase provisions that were described in the preceding section.

Table 15 also shows the expected future experience in calendar years 1973–77. Total benefit payments from the old-age and survivors insurance trust fund with respect to disabled beneficiaries will increase from $513 million in calendar year 1973 to $722 million in calendar year 1977.

In calendar year 1972, benefit payments (including expenditures for vocational rehabilitation services) with respect to disabled persons from the old-age and survivors insurance trust fund and from the disability insurance trust fund (including payments from the latter fund to all dependents of disabled-worker beneficiaries) totaled $4,930 million, of which $409 million, or 8.3 percent, represented payments from the old-age and survivors insurance trust fund. Similar figures for all of the calendar years 1957–77 are presented in table 16.

TABLE 16.—BENEFIT PAYMENTS UNDER THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM WITH RESPECT TO DISABLED BENEFICIARIES, BY TRUST FUND, CALENDAR YEARS 1957–77

[In millions]

Calendar year	Total [1]	Benefit payments [1] from— Disability insurance trust fund [2]	Old-age and survivors insurance trust fund: Amount [3]	Old-age and survivors insurance trust fund: As a percentage of total benefit payments with respect to disabled beneficiaries
Past experience:				
1957	$64	$57	$7	11.1
1958	272	249	23	8.5
1959	498	457	41	8.2
1960	627	568	59	9.4
1961	961	887	74	7.7
1962	1,194	1,105	89	7.4
1963	1,311	1,210	101	7.7
1964	1,422	1,309	113	8.0
1965	1,707	1,573	134	7.9
1966	1,932	1,784	147	7.6
1967	2,113	1,950	163	7.7
1968	2,523	2,311	212	8.4
1969	2,806	2,557	249	8.9
1970	3,386	3,085	301	8.9
1971	4,146	3,783	363	8.8
1972	4,930	4,521	409	8.3
Estimated future experience: [4]				
1973	6,414	5,901	513	8.0
1974	6,910	6,363	547	7.9
1975	7,785	7,169	616	7.9
1976	8,303	7,649	654	7.9
1977	9,200	8,478	722	7.8

[1] Beginning in 1966, includes payments for vocational rehabilitation services.
[2] Benefit payments to disabled workers and their dependents.
[3] Benefit payments to disabled children aged 18 and over, to certain mothers (see text), and to disabled widows and widowers (see footnote 3, table 15).
[4] Reflects the assumed changes under the automatic increase provisions that were described in the preceding section.

Report of the 1971 Advisory Council on Social Security

Pursuant to section 706 of the Social Security Act, an Advisory Council on Social Security was appointed in May 1969 and submitted its report on April 5, 1971. The Council made certain recommendations which directly affect the financing methods, the actuarial methodology, and the adequacy of the trust funds. As to these, the Trustees have the responsibility of a careful evaluation, and a transmittal of the Trustees' views, as a part of the Trustees' reports.

The Trustees discharged this responsibility to a large extent in the 1972 reports. However, one of the Council's financing recommendations has now been more completely evaluated.

Securities Issued by Federally Sponsored Agencies—The Council believes that there is adequate statutory authority for investment of trust fund money in securities issued by federally sponsored agencies. The Council recommends that the Managing Trustee establish a policy of purchasing a portion of new obligations issued by such agencies as investments for the trust funds.

The Board of Trustees recognizes that statutory authority exists for trust fund investment in securities of federally sponsored agencies;

and that the trust funds might earn a small amount of additional interest if the Council recommendation were followed. The Board is nonetheless opposed to this recommendation under present procedures for Federal agency financing.

The Secretary of Treasury's dual roles as Managing Trustee and as chief financial officer of the Government would create conflicts of interest that do not now exist. Purchase of securities of agencies privately owned but federally sponsored would become an expenditure in the federal accounts, would add to the federal deficit, and would deprive the President and the Congress of their full range of choice in determining priorities. It is possible that these difficulties may be resolved if plans for a federal financing bank materialize, in which case the Board of Trustees will reconsider their position.

Actuarial Status of the Trust Funds

Factors Affecting Long-Range Costs

The estimates of the long-range cost of the old-age, survivors, and disability insurance system are for the law as presently written and do not take into account any possible statutory changes in the future. The cost of these provisions as now enacted in the law will depend on demographic factors and on economic factors. It is also important to remember that any future changes in the law either as to changes in benefits, in the financing provisions, or in the classes of persons covered will affect the actual cost of the program as it develops and such changes would, of course, require new long-range actuarial cost estimates.

Table 17 traces the history of the expenditures from the old-age, survivors, and disability insurance trust funds as a percentage of taxable payroll. Several benefit increases and extensions of coverage are reflected in the expenditures; and several changes in the taxable earnings base are reflected in taxable earnings, as are changes in the earnings level of covered workers. Comparison with table 1 will indicate when changes in the taxable earnings base have occurred, and will also indicate the relationship between (1) the expenditures as a percent of taxable payroll, and (2) the contribution rates paid by employer and employee.

Table 17 indicates an upward trend, except for the period 1966 through 1969, during which expenditures as a percent of taxable payroll held relatively constant.

Demographic factors were responsible for part of the increase shown by table 17. The ratio of persons over 65 (potential beneficiaries) to those 20–64 (potential workers) increased over most of the 30-year period. The relatively large number of children born during the period beginning in about 1945 are now beginning to swell the ranks of worker-contributors, and will slow the increase in this important ratio until about 1990, when the ratio is expected to start a gradual descent. After about 2010, the ratio is expected to rise rather sharply as those born shortly after World War II reach age 65.

The rising level of earnings experienced in the United States almost continuously since 1940 is a factor tending to increase the taxable payroll, and hence, to hold down the expenditures as a percent of taxable payroll. The several increases in the taxable earnings base have had a similar effect.

TABLE 17.—EXPENDITURES OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE TRUST FUNDS AS PERCENT OF TAXABLE PAYROLL, FOR SELECTED YEARS 1940–72

Calendar year	Expenditures [1] as a percentage [2] of taxable [3] payroll		
	OASI	DI	OASDI
1940	0.19	(4)	0.19
1945	.48	(4)	.48
1950	1.17	(4)	1.17
1955	3.34	(4)	3.34
1960	5.59	0.30	5.89
1961	6.13	.47	6.60
1962	6.60	.56	7.16
1963	6.84	.59	7.44
1964	6.83	.62	7.45
1965	7.23	.70	7.93
1966	6.24	.64	6.88
1967	6.27	.65	6.92
1968	6.36	.67	7.03
1969	6.31	.69	7.00
1970	7.27	.80	8.07
1971	8.23	.96	9.19
1972	8.04	1.00	9.04

[1] For 1940–54, percentages are based on the sum of payments for benefits and administrative expenses. Starting in 1955, transfers to the railroad retirement account and, starting in 1966, payments for vocational rehabilitation services, are included in expenditures. Beginning in 1966, expenditures are adjusted to exclude payments under section 228 of the Social Security Act to certain noninsured persons aged 72 and over with less than 3 quarters of coverage, costs of which are financed from the general fund of the Treasury.

[2] Percentage takes into account, for 1951 and later, (1) lower contribution rate payable by the self-employed compared with combined employee-employer rate, (2) employee contributions subject to refund, and (3) for 1966 and later, that only the employee contribution is payable on tips taxable as wages.

[3] For 1968–72, percentages are preliminary and subject to revision when a complete tabulation of taxable earnings is available.

[4] The disability insurance program started operating in 1957.

Substantial general benefit increases are responsible for the marked rise in the table 17 result in recent years, as well as in some earlier years. Other increases come from the introduction of disability benefits in 1957, and many minor benefit liberalizations which have taken place over the years. Extension of coverage to new groups of workers has had an upward effect on both trust fund expenditure and taxable earnings, and in most cases has not materially affected the table 17 result.

Long-Range Cost Estimates

Long-range cost estimates for the old-age, survivors, and disability insurance system presented in this report are computed under dynamic assumptions with respect to the future levels of the benefits and the taxable base. These assumptions are based on the automatic adjustment provisions enacted in 1972. The estimates do not take into account any other possible future modification in either the benefits or the financing.

The 1971 Advisory Council on Social Security recommended that the level-benefit level-earnings assumption used in the past be replaced by dynamic assumptions as to benefit table increases and as to the rate of increase in taxable earnings. These recommendations have now been adopted. The two sets of amendments to the Social Security Act enacted in 1972 were based on financing schedules that incorporate the dynamic assumptions. Estimates based on such dynamic assumptions basically assume (1) that the provisions automatically adjusting the benefit table in accordance with the Consumer Price Index, and automatically adjusting the taxable earnings base in accordance with the increase in covered earnings per worker, will continue to be a part of the structure of the system, and (2) if Congress were to grant larger benefit table increases, to liberalize the benefits in any other sense, or to hold down the taxable earnings base, it would simultaneously provide additional financing. Tax schedules based on such dynamic methodology provide the financing needed to increase the benefit table in step with the Consumer Price Index, but do not provide financing for benefit table increases in excess of the increase in prices.

Table 18 shows the current cost of the OASDI system (including amounts needed to increase the funds by amounts equivalent to the expected increase in the following year's expenditures) for selected years over the next 75 years, expressed as percent of taxable payroll, in accordance with the dynamic actuarial methodology.

The results in table 18 are based on the same actuarial assumptions as those used in the past with respect to demographic factors. However, with respect to economic factors, it is assumed that:

(*a*) The benefit table will be adjusted after 1974 to reflect increases in the Consumer Price Index.

(*b*) Concurrently with adjustments in the benefit table, the taxable wage base and the exempt amount under the earnings test are both adjusted after 1974 to reflect increases in average earnings.

(*c*) Through 1977 the assumptions are similar to those used in developing the short-range cost estimates, which are presented earlier in this Report.

TABLE 18.—ESTIMATED "CURRENT COST"[1] OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL[2] UNDER DYNAMIC ASSUMPTIONS,[3] FOR SELECTED YEARS, 1973–2047

[In percent]

Calendar year	Old-age and survivors insurance	Disability insurance	Total
1973	8.59	1.14	9.73
1980	8.59	1.23	9.82
1985	8.59	1.26	9.85
1990	8.68	1.29	9.97
1995	8.42	1.34	9.76
2000	8.10	1.44	9.54
2005	8.06	1.59	9.65
2010	8.55	1.71	10.26
2015	9.24	1.74	10.98
2020	10.04	1.73	11.77
2025	10.78	1.72	12.50
2030	10.77	1.69	12.46
2035	10.72	1.73	12.45
2040	10.74	1.76	12.50
2045	10.87	1.76	12.63
Average cost[4]	9.41	1.54	10.95

[1] Represents the cost as percent of taxable payroll of all expenditures in the year, including amounts needed to maintain the funds at about one year's expenditures.
[2] Payroll is adjusted to take into account the lower contribution rate on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.
[3] See text for a description of the assumptions.
[4] Represents the arithmetic average of the "current cost" for the 75-year period 1973–2047.

(*d*) That beyond 1977, the CPI will increase at an annual rate of 2¾ percent, while average earnings will increase at 5 percent.

The results in table 18 are sensitive to the economic assumptions. Illustrations of the effect on these results of varying the earnings increase assumption and the CPI increase assumption can be found in table E in the Appendix. Because of this sensitivity, and as a provision against all the other ways in which the long-range estimates may prove to underestimate the costs, a specific contingency margin has been built into table 18. The amount of this margin is ⅜ of 1 percent each year from 1973 until the year 2010.

This contingency margin is such that, if all of the actuarial and economic assumptions were to work out exactly as estimated, a benefit table increase of about 3⅛ percent annually up to the year 2010, instead of the 2¾ percent assumed, would not significantly affect the actuarial balance.

Table 19 compares the average long-range cost of the OASDI system under dynamic assumptions with the average rate in the tax schedule in present law. Under the above set of assumptions, the old-age, survivors, and disability insurance system is shown to be underfinanced over the long-range, with a negative actuarial balance of −0.32 percent of taxable payroll. This underfinancing is largely due to the disability insurance program, which is shown to have an actuarial deficit of −0.23 percent of taxable payroll, while the old-age and survivors insurance program is shown as having a negative actuarial balance of −0.09 percent of taxable payroll.

TABLE 19.—ESTIMATED ACTUARIAL BALANCE OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL,[1] DYNAMIC ASSUMPTIONS[2]

[In percent]

Item	OASI	DI	Total
Average cost of system	9.41	1.54	10.95
Average rate in present tax schedule	9.32	1.31	10.63
Actuarial balance	−.09	−.23	−.32

[1] Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.
[2] See text for a description of the assumptions.

As compared with the long-range cost estimates prepared at the time that the 1972 Social Security Amendments were under consideration, the present estimates show a higher cost. The higher cost is attributed mostly to the disability insurance portion of the system. In the last two years the disability rates—that is, the number of allowed claims as a percentage of the insured population—has shown an increase over previous experience. If the higher rates continue, there will be an increase in costs in later years sufficient to require additional financing. Although it is not yet possible to have a firm judgment on whether or not the increases will be permanent, the actuaries are of the opinion that a significant portion of the increase in the rates may not be temporary and that the possibility of higher costs in the long run should now be recognized in the long-range planning of the program. The Trustees agree and have, therefore, shown the cash benefit program to be out of balance for the long run. However, since much more needs to be known about the change in disability rates before a solid opinion can be made concerning the certainty of higher costs for the later years, the Trustees are not, at this time, recommending an actual change in the contribution rates.

The Social Security Administration has set up a comprehensive study to look into the recent increases in disability rates and the study should be expedited. The additional knowledge that will be gained through this study will be of assistance in the determination of any reallocation or other revision of the contribution schedule for the future.

Conclusion

The long-range actuarial cost estimates for the old-age, survivors, and disability insurance program have been prepared in accordance with dynamic assumptions as to both benefits and taxable earnings, as is appropriate now that automatic provisions affecting the benefit table and the taxable earnings base have become a part of the law. The estimates currently show an actuarial imbalance of −0.32 percent of taxable payroll, a deficit of about 3 percent of the long-range cost of the program. The deficit, which did not appear in the actuarial estimates prepared for use by the Congress in connection with its consideration of the Social Security Amendments of 1972, arises from two sources.

A small part arises from the sensitivity of the methodology to short-term changes in consumer prices and average covered wages. The rate at which consumer prices have increased since the last benefit increase was granted (for September 1972) makes it now appear that the benefit increase called for as of January 1, 1975, may be over 7 percent, whereas the earlier projections were based on the assumption of a benefit increase amounting to just over 5 percent. The estimates as to the rate of increase in average covered earnings have also been increased, further increasing the estimates of future benefits (since increases in taxable earnings are reflected later in the benefit payments), but increasing the estimates of future trust fund income as well. Variations in the actuarial balance (in either direction) arising from short-term fluctuations in consumer prices and average covered earnings are inherent in the actuarial methodology now employed. Over the 75-year period of the estimates short-term fluctuations could be expected to be in both directions and somewhat offsetting, and relatively small deviations from exact actuarial balance should not call for changes in the contribution schedule.

The larger part of the deficit arises from the projection of disability rates that are significantly higher than those used in previous estimates. A higher rate of disability was used because the 1972 data now available indicate that the rather sharp increase in the rate of disability awards first noted in 1971 was apparently not due to temporary causes. The reasons for the increase in the rate of disability awards are not entirely clear, and an intensive study of disability experience has already been begun to ascertain these reasons, and to determine whether additional financing may eventually be required. The actuarial deficit shown in this Report serves as a notification that an increase in the contribution rate for the disability program is likely to be needed sometime in the future.

The combined old-age and survivors and disability insurance trust funds at the beginning of 1973 ($42.8 billion) are 80 percent of the estimated combined trust fund expenditures for calendar year 1973 ($53.7 billion). The 1973 ratio is below that for 1972 due to the substantial benefit increase enacted in 1972. The ratio is projected to decrease slowly, but to remain in the 76–78 percent range for the 1974–77 period. However, in absolute dollar amounts, the trust funds are projected to increase from $42.8 billion at the end of 1972 to $58.3 billion at the end of 1977.

The Board of Trustees, in viewing the system beyond the next 5-year period, recognizes the possibility that there may need to be some increase in the rate of contribution to cover higher rates of disability. The need for any extra financing is rather long delayed, however, and can be considered after the studies of disability experience now being undertaken have been completed. The Trustees do not, at this time, propose any changes in financing.

APPENDIX

Statement of Assumptions, Methodology, and Details of Long-Range Cost Estimates

(Prepared by Office of the Actuary—Social Security Administration)

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

Section A of this appendix provides a description of the demographic aspects of the long-range cost estimates, while section B discusses the economic aspects. These terms are used in a general sense, since it is not entirely possible to fully separate the effect of these two aspects on the cost estimates. By "demographic aspects" we mean those elements dealing with the population and its characteristics. These include the number, age, sex, marital status, retirement, disability, mortality, fertility, employment, and coverage under the system. By "economic aspects" we mean those elements dealing with projected average benefits, and with projected increases in earnings and prices.

A. Demographic Aspects

This section of the appendix discusses the methods used to estimate the demographic elements of the OASDI cost projections and their effect on the cost estimates.

(1) POPULATION

Projections were made of the United States population (including persons overseas 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, 1965, as estimated by the Bureau of the Census from the 1960 Census and from births, deaths, and migration in 1960–65. This population estimate was increased to allow for probable underenumeration in the 1960 Census and adjusted for differences in the geographical areas covered by the estimate of the Bureau of the Census and those covered by the old-age, survivors, and disability insurance system.

Two population projections were prepared and in both it was assumed that mortality rates will decline until the year 2000. In the high-cost projection, mortality rates for the year 2000 are, on the average, about 27 percent lower than those experienced in 1959–61. The mortality is projected to decrease by about 40–55 percent at the younger ages, but with the rates at the older ages showing somewhat smaller improvements. The low-cost projection assumes exactly half of the improvement in mortality used in the high-cost projection.

In the low-cost projection, fertility rates were assumed to decrease slowly until reaching a level in 1985 roughly equivalent to about 83 percent of the average rates prevailing in the period 1960–65. The high-cost fertility rates decrease more rapidly and reach an ultimate rate in 2010 equivalent to about 68 percent of the 1960–65 experience. Both projections assume a small amount of net immigration.

The low-cost projection is based on high fertility and high mortality, while the high-cost projection 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 more than 80 percent of the cost of the system. Complete details about the population projections are given in *Actuarial Study No. 62*, Social Security Administration.

The high-cost and low-cost population projections were later averaged to obtain a single intermediate-cost projection, which was used as the basis for the long-range cost estimates. This averaging of two previous population projections was used instead of the direct preparation of a single best estimate because it was felt that unless all the underlying assumptions are modified, either procedure would result in essentially the same projection: It is expected that in the next cost projection, a single population projection will be prepared directly, based on the 1970 Census of Population.

(2) 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 average percentages for 1966–70 for males were projected to remain level except for the older ages where they were assumed to decrease (thus recognizing the possibility of higher retirement rates). An increase was assumed for females, except for the very old ages; these increases are higher in the middle ages and are a continuation of trends in the past.

The foregoing projections are consistent with an assumption of a 4½ percent average unemployment rate in the future. A depression lasting several years could substantially increase the cost, but it is believed that any periods of low employment would be of relatively short duration and would have virtually no long-range cost effect.

(3) INSURED POPULATION

The term "insured" is used as meaning fully insured, since the number of persons who are currently insured only is relatively small and can be disregarded for long-range cost analysis purposes. The percentages of insured persons by age and sex in various future years are estimated from recent experience and from the projected coverage. It is evident that eventually almost all males in the country will be insured for old-age and survivors benefits; the ultimate percentage for aged males is estimated at 97 percent. For females it is estimated that the corresponding proportion will eventually be 71 percent. This is lower than for males because of the lower participation rates of females in the labor force.

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. These were also estimated on the basis of recent experience and the projected percentage of persons covered.

(4) OLD-AGE AND SURVIVORS INSURANCE BENEFICIARIES

Old-age beneficiaries were estimated from the aged insured population. The proportions, by age and sex, of the insured population that were receiving benefits at the beginning of 1972 were projected to increase, due to changes in the earnings test, as well as to follow the trends in the past—thus, reflecting assumed gradual increases in the 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 62–64, 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.

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 and mortality 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 was then adjusted to eliminate orphans of uninsured men, to add orphans of insured women and to include the eligible disabled orphans aged 18 and over. For the non-disabled children aged 18–21, a further reduction was made to exclude those not attending school. Mother survivor beneficiaries were estimated by assuming a constant ratio of mothers to children, after excluding those aged 18–21 who were attending school.

To estimate widow beneficiaries the proportions of widows in the female aged population were projected according to mortality assumptions and adjusted for both eligibility for 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 even if this occurred at ages 60 to 64, when they would have to take reduced benefits. For ages 50–59, the disabled widow beneficiaries were estimated from the eligible widows by using disability prevalence rates.

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 was 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 separate estimates were made for benefits to dependent husbands and widowers since their cost is relatively negligible.

Appendix table A shows the estimated number of beneficiaries in the old-age and survivors insurance program.

APPENDIX TABLE A.—OLD-AGE AND SURVIVORS INSURANCE BENEFICIARIES WITH MONTHLY BENEFITS IN CURRENT-PAYMENT STATUS[1]

[In thousands]

Calendar year	Retired workers and dependents			Survivors of deceased workers				Total
	Old-age	Wives[2]	Children	Mothers	Children	Widows[3]	Parents	
Actual data (as of June 30):								
1962	9,348	2,464	378	435	1,690	1,778	37	16,130
1963	10,037	2,563	416	457	1,776	1,940	37	17,226
1964	10,482	2,595	425	467	1,862	2,087	37	17,955
1965	10,843	2,601	429	472	1,900	2,228	36	18,509
1966	11,461	2,641	506	480	2,224	2,503	35	19,850
1967	11,745	2,619	517	490	2,328	2,686	34	20,419
1968	12,188	2,635	522	494	2,447	2,843	32	21,161
1969	12,582	2,634	523	497	2,559	3,011	31	21,837
1970	13,066	2,651	535	514	2,673	3,151	29	22,619
1971	13,604	2,673	556	523	2,745	3,287	28	23,416
1972	14,181	2,706	578	536	2,847	3,433	27	24,308
Projection (as of June 30):								
1980	18,295	2,938	706	553	2,812	3,897	24	29,225
1985	20,649	3,023	739	563	2,824	3,792	24	31,614
1990	22,892	3,010	768	606	3,017	3,637	23	33,953
1995	24,420	2,922	763	628	3,142	3,573	23	35,471
2000	25,292	2,850	750	633	3,181	3,680	22	36,408
2005	26,209	2,759	782	636	3,202	3,879	21	37,488
2010	28,517	2,827	886	655	3,283	4,239	20	40,427
2015	32,343	3,080	1,050	687	3,438	4,614	19	45,231
2020	36,987	3,535	1,192	725	3,630	5,050	20	51,139
2025	41,474	3,998	1,309	759	3,803	5,496	22	56,861
2030	44,433	4,097	1,348	791	3,964	5,762	24	60,419
2035	45,896	4,218	1,351	826	4,140	6,259	26	62,716
2040	47,746	4,316	1,430	866	4,338	6,644	28	65,368
2045	50,254	4,518	1,533	909	4,550	6,939	30	68,733

[1] Excluding the effect of the railroad financial interchange provisions.
[2] Including dependent husband beneficiaries.
[3] Including dependent widower beneficiaries.

(5) LUMP-SUM DEATH PAYMENTS

The numbers of lump-sum death payments were estimated by multiplying the insured population by the death rates used in the population projections.

(6) DISABILITY INSURANCE BENEFICIARIES

The future number of persons receiving monthly disability benefits based on their own earnings was estimated by the application of incidence and termination rates. These rates were developed from the most recent experience data available from the operations of the disability insurance system. The population insured for disability (by sex and age) was multiplied by the incidence rates to arrive at the number of new cases of disabled workers. These in turn were projected through the use of mortality and recovery rates to obtain the number of beneficiaries.

The assumed incidence rates were based on the estimated actual experience in calendar year 1965, adjusted to reflect some of the recent increases in awarded disability benefits. Since these increases are not yet fully understood, it was not possible to determine what portion of them will turn out to be permanent in nature. It was decided, under the circumstances, that for long-range purposes, the projected costs should reflect about two-thirds of the increases in awards that have already been experienced through the end of calendar year 1972. If in the future the number of awards should continue to increase rapidly, it may be necessary to further revise upward the projections of disabled beneficiaries. On the other hand, it might not be necessary to revise the projection or it might even be possible to revise them downwards if a significant portion of the recent increases turn out to be of a temporary nature.

A more complete knowledge of possible future trends in the number of disabled worker beneficiaries will not be available until the current study of the recent increases is completed.

The mortality and recovery rates are based on the actual experience of the system for the period 1957–67. These experience rates were not modified to take into account any later data. It is possible that the recent increase in the awards may affect the rate at which benefits are terminated, but this will not be known for several years.

The number of child beneficiaries was projected as a proportion of the disabled male beneficiaries allowing for future projected changes in fertility.

The number of wife beneficiaries was projected as a proportion of child beneficiaries after allowing for projected future changes in fertility.

Appendix table B shows the projected number of beneficiaries in the disability insurance program.

B. Economic Aspects

In this section of the appendix, a detailed discussion of the economic aspects of the OASDI long-range cost estimate is presented. The term "economic aspects" is used here to refer to the effect on the cost estimates of changes in the assumptions regarding ultimate future increases in average earnings in covered employment as well as ultimate future increases in the Consumer Price Index. No attempt has been made to coordinate all the various assumptions regarding earnings and CPI with the unemployment assumption. The latter assumption, which was adopted as part of the central set of assumptions, has been allowed to remain at 4.5 percent for all other combinations of earnings and CPI presented, since the main interest regarding the dynamic projections is on getting an idea of the sensitivity of the cost estimates to earnings and price assumptions.

The automatic adjustment provisions in present law provide that the benefit table be adjusted to keep up with increases in the Consumer Price Index (CPI) and that the taxable earnings base, as well as the exempt amount in the earnings test, be adjusted to keep up with increases in average earnings. This type of automatic procedure has the effect that once a worker retires his benefits will not deteriorate in terms of purchasing power. It has the further effect that a worker before retirement will have his potential benefits increased because of his increase in credited earnings, and in addition, adjusted to maintain purchasing power. This dual increase in potential benefits for future beneficiaries may in combination be above or below increases in earnings; but (as will be shown later) is likely to be, on the average, at about the same level as earnings for the next 20 years and somewhat higher thereafter. When all OASDI beneficiaries are taken together, their average benefits will increase faster than the CPI but not as fast as earnings.

The approximate effect of the automatic procedure on the average benefit for all OASDI beneficiaries is illustrated in appendix table C. Under the specific economic assumption, indicated previously, of an ultimate annual 5 percent increase in earnings and 2¾ percent increase in CPI (but with higher increases in both before 1977) the average benefits generated by the automatics decline for about three decades in relation to average earnings, reaching a relative loss of 10 percent by the end of the century.

APPENDIX TABLE B.—DISABILITY INSURANCE BENEFICIARIES WITH MONTHLY BENEFITS IN CURRENT-PAYMENT STATUS[1]

[In thousands]

Calendar year	Workers	Wives[2]	Children	Total
Actual data (as of June 30):				
1962	679	133	340	1, 152
1963	790	160	432	1, 382
1964	862	175	480	1, 517
1965	944	187	518	1, 649
1966	1, 050	209	627	1, 886
1967	1, 141	226	692	2, 059
1968	1, 245	244	768	2, 257
1969	1, 343	254	810	2, 407
1970	1, 436	271	861	2, 568
1971	1, 561	293	934	2, 788
1972	1, 737	327	1, 028	3, 092
Projection (as of June 30):				
1980	2, 448	422	1, 319	4, 189
1985	2, 671	453	1, 374	4, 498
1990	2, 849	470	1, 423	4, 742
1995	3, 091	508	1, 493	5, 092
2000	3, 491	564	1, 659	5, 714
2005	4, 009	644	1, 866	6, 519
2010	4, 481	717	2, 048	7, 246
2015	4, 796	771	2, 172	7, 739
2020	4, 981	801	2, 256	8, 038
2025	5, 073	816	2, 300	8, 189
2030	5, 256	846	2, 384	8, 486
2035	5, 630	906	2, 553	9, 089
2040	5, 963	960	2, 703	9, 626
2045	6, 208	1, 000	2, 817	10, 025

1 Excluding the effect of the railroad financial interchange provisions.
2 Including dependent husband beneficiaries.

APPENDIX TABLE C.—COMPARISON OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE "CURRENT-COST" PROJECTION UNDER INCREASING-EARNINGS ASSUMPTION AND DEMOGRAPHIC INDEX PROJECTION

Calendar year	"Current cost" under increasing-earnings estimate[1]		"Demographic index"[2]		"Current cost" projection as compared to demographic projection[3]
	In the year	Ratio to cost in 1973	In the year	Ratio to index in 1973	
1973	9. 73	1. 000	25. 21	1. 000	1. 00
1980	9. 60	. 987	25. 63	1. 017	. 97
1985	9. 46	. 972	26. 16	1. 038	. 94
1990	9. 39	. 965	26. 40	1. 047	. 92
1995	9. 01	. 926	25. 81	1. 024	. 90
2000	8. 66	. 890	24. 87	. 987	. 90
2005	8. 58	. 882	24. 31	. 964	. 91
2010	8. 95	. 920	24. 97	. 990	. 93
2015	9. 58	. 985	26. 53	1. 052	. 94
2020	10. 27	1. 056	28. 42	1. 127	. 94
2025	10. 91	1. 121	30. 40	1. 206	. 93
2030	10. 88	1. 118	30. 35	1. 204	. 93
2035	10. 86	1. 116	30. 18	1. 197	. 94
2040	10. 90	1. 120	30. 13	1. 195	. 94
2045	11. 01	1. 132	30. 32	1. 203	. 94

1 Expressed as percent of taxable payroll based on projected ultimate annual increases of 5 percent in earnings and 2¾ percent in Consumer Price Index and somewhat higher increases before 1977. Does not include any factor for contingency margin.
2 The "demographic index" is computed as the number of beneficiaries in the middle of the year per hundred covered workers in the year adjusted to take into account the different amounts of average benefits that were in current-payment status on Jan. 31, 1973 as compared to the average old-age benefits.
3 Computed as the ratio of the "current cost" ratio in the second column to the "demographic index" ratio in the fourth column. The values in this column provide an approximate measure of the lag in the increases in average benefits (for all types of beneficiaries combined) as compared with increases in average earnings that are assumed in the cost estimate.

The automatic adjustment provisions in present law provide only for automatic increases in benefits to reflect changes in the CPI. These automatic benefit increases alone are not likely to be enough to prevent a deterioration in the benefits/earnings ratio. Congress has the option of preventing such deterioration by enacting benefit increases beyond these automatics, but except for the three-eighths of 1 percent margin, additional financing would be needed.

(1) AVERAGE BENEFITS

The average awarded benefits for retired workers were projected by computer simulation of the automatic provisions for workers at various earnings levels under the specific assumptions regarding the increases in earnings and CPI. The average benefits in current-payment status were then obtained by weighting the awarded benefits according to values obtained from recent actual experience after allowing for the effect of projected CPI adjustments.

Appendix table D shows the projected awarded benefits at retirement, the projected average retirement benefits in current-payment status, and their projected increases as compared to increases in average earnings based on the assumed ultimate annual increases of 5 percent in earnings and 2¾ percent in Consumer Price Index with higher increases in years before 1977.

APPENDIX TABLE D.—PROJECTED INCREASES IN AVERAGE RETIREMENT BENEFITS AT AWARD AND IN CURRENT-PAYMENT STATUS AS COMPARED WITH PROJECTED INCREASES IN AVERAGE COVERED EARNINGS, DYNAMIC ASSUMPTIONS [1]

Calendar year	Average annual retirement benefit: Awards	Average annual retirement benefit: In current-payment	Ratio of increase in retirement benefits to increase in earnings: Awards	Ratio of increase in retirement benefits to increase in earnings: In current-payment
1973	$2,116	$1,961	1.000	1.000
1980	3,149	2,676	1.025	.940
1985	3,983	3,404	1.016	.937
1990	5,008	4,336	1.001	.935
1995	6,308	5,486	.988	.927
2000	8,172	6,964	1.003	.922
2005	10,710	8,948	1.030	.928
2010	13,863	11,603	1.044	.943
2015	17,889	15,028	1.056	.957
2020	22,808	19,362	1.056	.967
2025	29,144	24,840	1.056	.971
2030	37,302	31,798	1.059	.974
2035	47,784	40,696	1.063	.977
2040	61,243	52,105	1.067	.980
2045	78,504	66,775	1.072	.984

[1] Based on annual ultimate increases in average earnings of 5 percent and in Consumer Price Index, of 2¾ percent and somewhat higher increases before 1977. All extensions in the benefit table are on the basis of a 20-percent factor.

Note: The last two columns in this table are conceptually similar to the last column in appendix table C. However, while the values in that table pertain to all beneficiaries and in addition, include the effect of the administrative expenses, the railroad interchange, and the needed accumulation of funds to maintain one year's benefit on hand, those in this table refer only to benefits payable to retired workers. The columns under the heading "In current-payment" refer to the average benefits for all retired workers who are receiving benefits, while the column under the heading "Awards" refer to the average benefits for those workers retiring in the particular year.

As will be observed from the last two columns in the table, the average awarded retirement benefits would increase at about the same rate as average earnings through the year 2000. The average retirement benefits in current-payment status would increase at a rate substantially lower than average earnings. After the turn of the century, both would tend to increase faster than average earnings. We must emphasize that these projections are based on ultimate annual increases in average earnings of 5 percent and in the Consumer Price Index of 2¾ percent and that the extensions of the benefit table are assumed to be on the basis of a 20 percent benefit factor. If these assumptions were modified, the projection would be different in absolute terms. However, the relative trough around the turn of the century would still be there since it is associated with the procedure used for calculating the average monthly wage of retiring workers, rather than with the economic assumption or with the formula underlying the benefit table.

Under the present law, workers attaining age 65 in 1973 have their average monthly wage computed over a period of 17 years for males and 14 years for females. These computation periods are required by law to increase by one year for each year elapsed until a maximum is reached in the year 1994, and after which they will remain unchanged. However, due to the amendments enacted in 1972, the computation period does not increase for male workers attaining age 65 in the years 1976–78.

The results in appendix table D indicate that the dual type of increments to which potential retirement benefits are subject under the present automatic provisions (increases due to higher creditable earnings as well as increases due to CPI benefit adjustments) would be higher than the increases in average earnings after 1993, but that before that year the present procedure of extending the computation period would offset enough of the dual increments to produce potential retirement benefits that increase at about the same rate as average earnings.

(2) TOTAL BENEFIT PAYMENTS

Total benefit payments were calculated as the product of the number of beneficiaries by their corresponding average benefits. These values were adjusted to reflect retroactive payments.

(3) ADMINISTRATIVE EXPENSES

On the basis of recent experience and expected operations, it was assumed that future administrative expenses would be 1.8 percent of benefit payments for OASI and 5.0 percent of benefit payments for DI.

(4) RAILROAD RETIREMENT FINANCIAL INTERCHANGE

The effect of the financial interchange was evaluated on the basis of trends similar to those used for the OASDI direct cost. This results in a long-range loss to the OASDI system.

(5) INTEREST RATE

Interest rate was assumed at 6 percent per year. This rate was adopted as a reflection of the assumed ultimate CPI increment of 2¾ percent. It is believed that a differential or "true interest" rate of 3¼ percent is reasonable.

The effect of a different interest rate would be minor since the system is evaluated on a "current-cost" basis with only a 1-year fund on hand. This 6 percent interest assumption was retained for all estimates and projections.

(6) SENSITIVITY TO ECONOMIC ASSUMPTIONS

The cost projections presented above have been based on ultimate annual increases in earnings of 5 percent and in Consumer Price Index of 2¾ percent. It has been indicated that other sets of economic assumptions would yield different results. In this subparagraph, we present a brief analysis of the sensitivity of the cost projections to changes in the economic assumptions. No claim is made about the internal consistency within each one of these sets of economic assumptions, when viewed in terms of today's national economy or of a possible long-range projection of that economy. The sets were selected around a central set of projected ultimate increases in average earnings, CPI, and implied increases in real earnings of 5 percent, 2¾ percent, and 2¼ percent, respectively, in order to offer an idea of how each one of these elements affects the cost projections.

All variations in the economic assumptions were taken on the order of one-half of 1 percent. This was not intended to represent the possible outside range of variation in the assumptions. It only represents a convenient uniform way of testing the sensitivity of the cost projections.

Appendix table E presents the results of this sensitivity test. In calculating the values shown, all assumptions, formulae, and procedures used were the same for all sets except for those specific assumptions that are shown to have been varied. In addition, the higher earnings and CPI values before 1977 were adjusted to produce a smooth transition from the 1974 value to the specific ultimate value. In all cases, a three-eighths of 1 percent contingency margin was added for all years up to the year 2010.

The first column in the table shows the projected "current-cost" under the central assumptions. The projection is identical to the one presented in table 18 in the main body of this Report. It is included in this table in order to facilitate visual comparisons with other projections in assessing the sensitivity of the projections to the assumptions. Under the central assumptions, the average "current-cost" of the OASDI system is estimated at 10.95 percent of taxable payroll.

It should be observed that the overall projected "current-cost" is measured in this table in terms of the arithmetic average of "current-cost" for each of the 75 years in the valuation period.

APPENDIX TABLE E.—PROJECTED "CURRENT COST"[1] OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF PAYROLL,[2] UNDER VARIOUS DYNAMIC ASSUMPTIONS, FOR SELECTED YEARS, 1973-2045

[In percent]

Calendar year	Dynamic economic assumption[3]						
	5.00-2.75	5.00-2.25	5.00-3.25	5.50-2.75	4.50-2.75	5.50-3.25	4.50-2.25
1973	9.73	9.73	9.73	9.73	9.73	9.73	9.73
1980	9.82	9.64	10.07	9.63	9.97	9.81	9.83
1985	9.85	9.42	10.34	9.41	10.23	9.88	9.83
1990	9.97	9.32	10.72	9.34	10.54	10.05	9.90
1995	9.76	8.90	10.74	8.99	10.52	9.89	9.64
2000	9.54	8.49	10.76	8.66	10.46	9.75	9.37
2005	9.65	8.39	11.14	8.63	10.74	9.96	9.37
2010	10.26	8.72	12.11	9.07	11.57	10.70	9.87
2015	10.98	9.14	13.23	9.58	12.54	11.53	10.47
2020	11.77	9.61	13.47	10.16	13.61	12.46	11.14
2025	12.50	10.02	15.63	10.68	14.61	13.32	11.72
2030	12.46	9.84	15.85	10.56	14.70	13.38	11.59
2035	12.45	9.68	16.07	10.50	14.81	13.46	11.48
2040	12.50	9.60	16.36	10.48	14.96	13.61	11.43
2045	12.63	9.59	16.78	10.53	15.25	13.85	11.49
Average cost[4]	10.95	9.36	12.94	9.75	12.31	11.45	10.49

[1] Represents the cost as percent of payroll of the year's total outgo, including amounts needed to maintain the funds at about 1 year's outgo.

[2] Payroll is adjusted to take into account the lower contribution rate on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

[3] The first of the two figures represents the assumed ultimate annual percent increase in earnings after 1976, while the 2d figure represents the assumed ultimate increase in CPI. In all cases, a ⅜ of 1 percent contingency margin is included for years up to 2010.

[4] Represents the arithmetic average of the "current cost" for the 75-year period 1973-2047.

The second and third columns in appendix table E present the projected "current-cost" on the assumptions that increases in earnings would remain at the same ultimate 5 percent level as in the central set, but that CPI would be one-half of 1 percent lower or higher than in the central set. These results could also be interpreted as being based on a one-half of 1 percent variation on the projected gain in real earnings wherein the whole variation is reflected in a change in CPI. The projections indicate that a one-half of 1 percent variation in CPI would change the average cost by about 15–18 percent, relatively.

The fourth and fifth columns present the projected "current-cost" on the assumptions that the ultimate CPI increase would remain at the 2¾ percent level used in the central set, but that the ultimate increases in earnings would be one-half of 1 percent lower or higher than in the central set. These results could also be interpreted as being based on a one-half of 1 percent variation on the projected gain in real earnings wherein the whole variation is reflected in a change in earnings. These projections indicate that a one-half of 1 percent variation in earnings would change the average cost by about 11–12 percent, relatively.

A significant fact to be noted is that the second column and the fourth column are based on the same projected gain in real earnings (2¾ percent), but that the projected average costs are different. A similar observation could be made on the basis of the third and fifth columns. This means that even though two projections could be based on the same gain in real earnings, the projected cost of the OASDI system would be affected by the level of CPI increases. We could also interpret the results to mean that everything being equal, the cost of the OASDI system will depend on the level of inflation, with the cost being lower if inflation is kept at low levels.

The same effect can be observed by comparing the first, sixth, and seventh columns. In this case, the real earnings gains are assumed at 2¼ percent. As will be noted, the average cost of the OASDI system increases by 4 to 4½ percent, relatively, for every one-half of 1 percent increase in CPI and earnings.

In general, this sensitivity analysis indicates that the effect of variations in the economic assumptions is relatively small in the early years, but that it becomes progressively more significant as we move into later years.

(7) THE CENTRAL SET OF ECONOMIC ASSUMPTIONS

The central set of economic assumptions was selected on the basis of the average gain in real earnings of 2¼ percent that has been observed over the last 20 years. To this was added an increase in CPI assumption of 2¾ percent to yield an assumption of a total increase in average earnings of 5 percent. Both the CPI assumption (2¾ percent) and the average earnings assumption (5 percent) are approximately one-half percent higher than the experience of the last 20 years. These assumptions are presented in this appendix to obtain an idea of possible trends in the future OASDI cost. They are not intended to be a prediction of what should be expected over the next 75 years.

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