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1975 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

COMMUNICATION

FROM

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

TRANSMITTING

THE 1975 ANNUAL REPORT OF THE BOARD, PURSUANT TO SECTION 201(c) OF THE SOCIAL SECURITY ACT, AS AMENDED

MAY 6, 1975.—Referred to the Committee on Ways and Means and ordered to be printed

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U.S. GOVERNMENT PRINTING OFFICE

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1975 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 1975 Annual Report of the Board (35th Report), Pursuant to the Provisions of Section 201(c) of the Social Security Act, as Amended

LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE
AND DISABILITY INSURANCE TRUST FUNDS,
Washington, D.C., May 2, 1975.

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

SIR: We have the honor to transmit to you the 1975 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 35th such report), in compliance with the provisions of section 201(c) of the Social Security Act.

Respectfully,

WILLIAM E. SIMON,
Secretary of the Treasury, and Managing Trustee of the Trust.
JOHN T. DUNLOP,
Secretary of Labor.
CASPAR W. WEINBERGER,
Secretary of Health, Education, and Welfare.
JAMES B. CARDWELL,
Commissioner of Social Security.

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1975 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 1975, the 35th such report.

HIGHLIGHTS

The more important developments since the 1974 annual report, 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 1974 was close to that predicted in the 1974 annual report. Income in fiscal 1974 amounted to $57.7 billion, up by 16 percent over fiscal 1973. Outgo totaled $55.9 billion, 14 percent more than in fiscal 1973. The funds increased by $1.8 billion in fiscal 1974, to a level of $46.1 billion on June 30, 1974.

(*b*) Several changes affecting the operations of the trust funds occurred during fiscal year 1974. A general benefit increase of 11 percent became effective in two steps—the first, an interim increase of 7 percent effective for the 3 months March–May 1974, followed by the full 11-percent increase effective for June 1974. The amount that a beneficiary may earn in a year, and still receive all of his benefits under the retirement test (i.e., the annual exempt amount) increased from $2,100 to $2,400 effective January 1, 1974. The contribution rate for old-age, survivors, and disability insurance increased from 4.85 percent each, for employees and their employers, to 4.95 percent each, effective January 1, 1974. The contribution and benefit base also increased, from $10,800 to $13,200, effective January 1, 1974. The comparison of trust-fund operations in fiscal year 1974 with operations in fiscal year 1973 is also affected by a 20-percent general benefit increase effective with benefits for September 1972, provided under Public Law 92–336, and by other provisions of Public Laws 92–336 and 92–603, most of which became effective January 1, 1973.

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(*c*) The number of persons receiving monthly benefits under the old-age, survivors, and disability insurance program totalled 30.2 million by the end of June 1974. An estimated 101 million workers had earnings in calendar year 1974 that were taxable and creditable toward benefits under the program.

(*d*) The trust funds earned interest of $2.5 billion during the fiscal year, equivalent to an effective annual rate of 6.0 percent on the total assets of the trust funds.

(*e*) The first automatic increases in the contribution and benefit base and in the annual exempt amount under the retirement test were determined under the automatic increase provisions in the law. The new amounts, effective for January 1, 1975, are $14,100 and $2,520, respectively. The published statement announcing the determination of these amounts is shown in Appendix B.

(*f*) The first automatic cost-of-living benefit increase was determined to be 8.0 percent, effective for June 1975.

(*g*) In every calendar year beginning with 1975, the projected outlays of the combined old-age and survivors insurance and disability insurance systems are estimated to exceed the tax income according to the scheduled tax rates and estimated future increases in the contribution and benefit base. This annual deficit is estimated to be, on the average, 1.26 percent of taxable earnings over the next 25-year period (1975–1999). The average annual deficit over the second 25-year period (2000–2024) is estimated to be 4.10 percent, and over the third 25-year period (2025–2049) is estimated to be 10.19 percent.

The long-range average-cost when computed in the customary way over the entire 75-year period (1975–2049) exceeds the average tax rate scheduled in present law by 5.32 percent of taxable payroll.

(*h*) Assets of both the old-age and survivors insurance trust fund and the disability insurance trust fund are estimated to show substantial declines during the 5-year period 1975–79. The estimates indicate that, without legislation to provide additional financing, the assets of both trust funds will be exhausted soon after 1979.

(*i*) The reports of the 1975 Advisory Council on Social Security were received, and the recommendations that would have a significant impact on the financing of the old-age, survivors, and disability insurance program are being carefully evaluated.

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 United States 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. For 1976 and later, the contribution rates shown are the rates scheduled in the provisions of present law. The maximum amount of annual earnings taxable in each year, 1937–75, is also shown in table 1. Beginning with 1975, the maximum amount of earnings taxable in each year is determined in the preceding year under the automatic increase provisions in section 230 of the Social Security Act, unless modified by intervening Congressional action.

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.

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
Past experience:							
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	.7125
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	.8250
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	13,200	4.950	4.375	.575	7.0000	6.1850	.8150
1975	14,100	4.950	4.375	.575	7.0000	6.1850	.8150
Changes scheduled in present law:							
1976-77	(1)	4.950	4.375	.575	7.0000	6.1850	.8150
1978-80	(1)	4.950	4.350	.600	7.0000	6.1500	.8500
1981-85	(1)	4.950	4.300	.650	7.0000	6.0800	.9200
1986-2010	(1)	4.950	4.250	.700	7.0000	6.0100	.9900
2011 plus	(1)	5.950	5.100	.850	7.0000	6.0000	1.0000

[1] Subject to automatic increase.

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.

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 wage 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.

Section 231 of the Social Security Act authorizes reimbursement 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 wage credits to individuals who were interned during World War II at a place within the United States operated by the Federal government for the internment of persons of Japanese ancestry.

Section 201(i) of the Social Security Act authorizes the Managing Trustee to accept and deposit in the trust funds unconditional money gifts or bequests made for the benefit of the trust funds or any activity financed through such funds.

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 in a fiscal year for payments for the costs of such services, including applicable administrative expenses of State agencies, may not exceed a specified percentage of the benefits certified for payment to these types of beneficiaries in the preceding year. This limitation on the amount to be made available was 1 percent in each of the fiscal years 1966 (when such amounts were first made available) through 1972 and 1¼ percent in fiscal year 1973. Under present law, the limitation is 1½ percent in fiscal years after 1973.

Congress has authorized expenditures from the trust funds for construction, rental, and lease or purchase contract of office buildings and related facilities for the Social Security Administration. Both the capital costs of construction financed directly from the trust funds and the rental, lease, or purchase contract costs of acquiring facilities are included in trust fund expenditures. In 1974, construction of several large facilities was begun under purchase contract authority, wherein initial capital costs are borne by the private sector. Under this method of facilities acquisition, trust fund expenditures for use and ultimate Government ownership of a facility are made over periods of from 10 to 30 years. Whatever the manner of acquisition, the net worth of facilities and other fixed capital assets is not carried in the statement. of the operations of the trust funds presented in this report. This is because the value of fixed capital assets does not represent funds available for benefit or administrative expenditures, and therefore is not viewed as being a consideration in assessing the actuarial status of the funds.

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 (including special public-debt obligations described below), 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. These obligations may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

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.

Summmary of the Operations of the Federal Old-Age and Survivors Insurance Trust Fund, Fiscal Year 1974

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, 1973, and ended on June 30, 1974, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2. Comparable amounts for fiscal year 1973 are also shown in the table.

The total assets of the old-age and survivors insurance trust fund amounted to $36,416 million on June 30, 1973. During fiscal year 1974, total receipts amounted to $50,936 million and total disbursements were $49,485 million. The assets of the trust fund amounted to $37,867 million at the end of fiscal year 1974, or $1,451 million more than at the beginning of the year.

Included in total receipts during fiscal year 1974 were $43,858 million representing contributions appropriated to the fund, and $4,989 million representing 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, $393 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 1973 AND 1974

[In thousands]

	Fiscal year 1973	Fiscal year 1974
Total assets of the trust fund, beginning of year	$36,399,058	$36,415,896
Receipts:		
Contributions:		
Appropriations	37,560,472	43,857,792
Deposits arising from State agreements	4,130,891	4,989,458
Gross contributions	41,691,363	48,847,250
Less payment into the Treasury for contributions subject to refund	373,186	392,557
Net contributions	41,318,177	48,454,693
Reimbursement from general fund of the Treasury for costs of:		
Noncontributory credits for military service	138,000	139,000
Payments to noninsured persons aged 72 and over:		
Benefit payments	292,965	265,890
Administrative expenses	3,624	3,173
Interest	40,057	33,724
Total reimbursement for payments to noninsured persons aged 72 and over	336,645	302,788
Interest:		
Interest on investments	1,848,393	2,039,660
Interest on amounts transferred between the old-age and survivors insurance and the disability insurance trust funds due to adjustment in allocation of the costs of vocational rehabilitation services [1]	16	−20
Interest received from general fund of the Treasury on funds advanced in fiscal year 1973 from the old-age and survivors insurance trust fund to finance administrative expenses of the supplemental security income program		656
Gross interest	1,848,409	2,040,297
Less interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs	1,891	1,054
Net interest	1,846,518	2,039,243
Total receipts [2]	43,639,340	50,935,724
Disbursements:		
Benefit payments	42,169,744	47,848,838
Transfer to railroad retirement account	782,954	908,585
Payment for cost of vocational rehabilitation services for disabled beneficiaries:		
For the current fiscal year	2,510	3,534
Transfer between the old-age and survivors insurance and the disability insurance trust funds due to adjustment in allocation of cost for prior fiscal year [3]	−40	340
Net payment for cost of vocational rehabilitation services	2,470	3,873
Administrative expenses:		
Department of Health, Education, and Welfare	611,374	618,506
Treasury Department	78,020	87,571
Construction of facilities for Social Security Administration	7,446	4,954
Expenses of the Department of Health, Education, and Welfare for administration of vocational rehabilitation program for disabled beneficiaries	36	40
Interfund transfers due to adjustment in allocation of:		
Administrative expenses [3]	10,874	12,645
Costs of construction [3]	609	−353
Gross administrative expenses	708,359	723,362
Less receipts from sale of supplies, materials, etc	24	47
Less reimbursement from general fund of the Treasury for funds advanced in fiscal year 1973 from the old-age and survivors insurance trust fund to finance administrative expenses of the supplemental security income program	41,000	
Net administrative expenses	667,335	723,315
Total disbursements	43,622,503	49,484,611
Net addition to the trust fund	16,837	1,451,113
Total assets of the trust fund, end of year	36,415,896	37,867,008

[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] Includes gifts totaling $174.78.

[3] 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 $48,455 million, an increase of 17.3 percent over the amount for the preceding fiscal year. Growth in contribution income resulted primarily from (1) the higher level of employment and taxable earnings, (2) the two increases in the maximum annual amount of earnings taxable—from $9,000 to $10,800 and from $10,800 to $13,200—that became effective on January 1, 1973, and January 1, 1974, respectively, and (3) the two increases in the combined employer-employee contribution rate allocated to finance the old-age and survivors insurance program—from 8.1 percent to 8.6 percent and from 8.6 percent to 8.75 percent—that became effective on January 1, 1973, and January 1, 1974, respectively. Although the first increase in the maximum annual amount of earnings taxable, from $9,000 to $10,800, became effective in 1973, the first full fiscal year during which earnings between $9,000 and $10,800 were taxable was 1974. Similarly, although the first increase in the combined employer-employee contribution rate allocated to finance the old-age and survivors insurance program, from 8.1 percent to 8.6 percent, became effective in 1973, the first full fiscal year during which the higher rate was operative was 1974.

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 $3 million for additional costs attributable to noncontributory credit for military service performed after 1967. Thus, reimbursements amounting to $139 million for the old-age and survivors insurance trust fund, and to $52 million for the disability insurance trust fund, were received in December 1973.

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 1974 amounted to $303 million.

Again, reference has been made in an earlier section to provisions under which money gifts or bequests may be deposited in the old-age and survivors insurance and disability insurance trust funds. In fiscal year 1974, the old-age and survivors insurance trust fund received gifts amounting to $174.78.

The remaining $2,039 million of receipts consisted of interest on the investments of the trust fund and net interest on amounts of interfund transfers arising out of adjustments in the allocation of administrative expenses, construction costs, and the cost of vocational rehabilitation services for the prior fiscal year, 1973.

Of the $49,485 million in total disbursements, $47,849 million was for benefit payments, an increase of 13.5 percent over the corresponding amount paid in fiscal year 1973. This increase was due to (1) the amendments enacted on July 1, 1972, which provided for a general increase in benefits of 20 percent effective for September 1972, (2) the amendments enacted on October 30, 1972, which provided higher benefit amounts for certain categories of beneficiaries and liberalized some of the conditions under which persons can qualify for benefits, (3) the amendments enacted on December 31, 1973, which provided for a general increase in benefits of 11 percent effective in two steps—an interim increase of 7 percent effective for the 3 months March–May 1974, followed by the full 11-percent increase effective for June 1974, and (4) the expected growth in the total number of beneficiaries and in average benefit amounts resulting from the rising level of earnings. Although the amendments enacted in 1972 became effective during fiscal year 1973, the first full fiscal year during which they were operative was 1974.

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 $866,800,000 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, 1973, 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 May 1974, together with interest to the date of transfer amounting to $41,785,000.

Expenditures of the old-age and survivors insurance program for the cost of vocational rehabilitation services amounted to nearly $3.9 million. 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 $723 million of disbursements from the old-age and survivors insurance trust fund represents net administrative expenses. The expenses of administering the programs financed through the four trust funds—the old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance trust funds—are allocated and charged directly to each trust fund on the basis of provisional estimates. Beginning in fiscal year 1974, the expenses of administering the newly enacted Supplemental Security Income program are also allocated, on a provisional basis, and charged directly to the general fund of the Treasury. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for price periods are effected by interfund transfers, with appropriate interest allowances. (In fiscal year 1973, the administrative expenses of the new Supplemental Security Income program were initially charged to the old-age and survivors insurance trust fund because no money had yet been appropriated from the general fund of the Treasury. Reimbursement representing only the principal of $41 million, but excluding interest, was received from the general fund at the end of fiscal year 1973. Interest on this amount was received from the general fund in fiscal year 1974.)

Net administrative expenses charged to the old-age and survivors insurance trust fund and to the disability insurance trust fund in fiscal year 1974 totaled $878 million. This amount represented 1.6 percent of contribution income and 1.6 percent of expenditures for benefit payments and payments for the cost of vocational rehabilitation services 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.

In table 4, the experience with respect to actual amounts of contributions and benefit payments in fiscal year 1974 is compared with the estimates for fiscal year 1974 which appeared in the 1974 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 1974 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1974 does not reflect adjustments to contributions for fiscal year 1974 that were to be made after June 30, 1974. The actual experience for each trust fund was quite close, relatively, to the estimates.

At the end of fiscal year 1974, about 30.2 million persons were receiving monthly benefits under the old-age, survivors, and disability insurance program. About 26.5 million of these persons were receiving monthly benefits from the old-age and survivors insurance trust fund. The distribution of benefit payments in fiscal years 1973 and 1974, by type of beneficiary, is shown in table 5. Approximately 72 percent of the total benefit payments from the old-age and survivors insurance trust fund in fiscal year 1974 was accounted for by monthly benefits to retired workers and their dependents and about 17 percent by monthly benefits to aged survivors and disabled widows or widowers of deceased workers. Approximately 10 percent of the benefit payments represented monthly benefits on behalf of children of deceased workers and monthly benefits to mothers who had children of deceased workers in their care.

TABLE 3.—RELATIONSHIP OF NET ADMINISTRATIVE EXPENSES OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM TO CONTRIBUTION INCOME AND BENEFIT PAYMENTS, BY TRUST FUND, FISCAL YEARS 1970–74

Fiscal year	Total administrative expenses as a percentage of—		Old-age and survivors insurance trust fund, administrative expenses as a percentage of—		Disability insurance trust fund, administrative expenses as a percentage of—	
	Total contribution income	Total benefit payments [1]	Contribution income	Benefit payments [1]	Contribution income	Benefit payments [1]
1970	1.8	2.1	1.6	1.8	3.[illegible]	5.3
1971	2.0	2.1	1.7	1.8	4.2	5.6
1972	2.0	2.1	1.6	1.7	4.4	5.2
1973	2.0	1.9	1.6	1.6	4.5	4.7
1974	1.6	1.6	1.5	1.5	2.5	2.5

[1] In determining the percentage shown, payments for the cost of vocational rehabilitation services are included with benefit payments.

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

TABLE 4.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, FISCAL YEAR 1974

[In millions]

	Actual amount	Estimated amount published in 1974 report	Actual as percentage of estimate
Old-age and survivors insurance trust fund:			
Net contributions	$48,455	$48,484	100
Benefit payments	47,849	48,118	99
Disability insurance trust fund:			
Net contributions	6,234	6,243	100
Benefit payments	6,159	6,180	100

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

TABLE 5.—ESTIMATED DISTRIBUTION OF BENEFIT PAYMENTS FROM THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE OF BENEFICIARY AND PAYMENT, FISCAL YEARS 1973 AND 1974

[In millions]

	1973		1974	
	Amount	Percent of total	Amount	Percent of total
Total	$42,169.7	100	$47,848.8	100
Monthly benefits	41,848.6	99	47,533.0	99
Retired workers and their dependents	30,511.4	72	34,390.5	72
Retired workers	27,261.6	65	30,793.1	64
Wives and husbands	2,821.8	7	3,112.9	7
Children	428.0	1	484.6	1
Survivors of deceased workers	11,066.5	26	12,891.8	27
Aged widows and widowers	6,359.0	15	7,764.4	16
Disabled widows and widowers	105.9	(1)	129.3	(1)
Parents	46.4	(1)	47.7	(1)
Children	3,807.6	9	4,107.6	9
Widowed mothers caring for child beneficiaries	747.6	2	842.9	2
Noninsured persons aged 72 and over [2]	270.8	1	250.7	1
Lump-sum death benefits	321.1	1	315.9	1

[1] Less than 0.5 percent.
[2] The trust fund is reimbursed from the general fund of the Treasury for the costs of payments to beneficiaries with less than 3 quarters of coverage.

TABLE 6.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1973 AND 1974

	June 30, 1973		June 30, 1974	
	Par value	Book value [1]	Par value	Book value [1]
Investments in public-debt obligations:				
Public issues:				
Treasury notes:				
6 percent, 1975	$17,450,000	$17,450,000.00	$17,450,000	$17,450,000.00
6¼ percent, 1976	5,000,000	4,995,386.97	5,000,000	4,997,172.69
6½ percent, 1976	22,180,000	22,180,000.00	22,180,000	22,180,000.00
7 percent, 1975	50,000,000	49,943,137.16	50,000,000	49,966,666.52
7½ percent, 1976	90,500,000	90,260,384.50	90,500,000	90,338,097.70
8 percent, 1977	15,000,000	15,000,000.00	15,000,000	15,000,000.00
Treasury bonds:				
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	70,147,900.36	70,170,000	70,148,924.32
3¼ percent, 1978-83	60,200,000	59,613,079.52	60,200,000	59,672,264.72
3¼ percent, 1985	25,700,000	24,671,244.59	25,700,000	24,758,181.71
3½ percent, 1980	449,450,000	452,648,813.67	449,450,000	452,212,611.87
3½ percent, 1990	556,250,000	549,213,292.86	556,250,000	549,637,617.06
3½ percent, 1998	552,037,000	544,216,472.68	552,037,000	544,525,177.84
4 percent, 1973	38,000,000	37,996,987.90		
4 percent, 1980	153,100,000	153,067,982.44	153,100,000	153,072,846.04
4⅛ percent, 1974	61,934,000	61,930,461.83		
4⅛ percent, 1989-94	91,300,000	90,670,287.42	91,300,000	90,700,513.62
4¼ percent, 1974	6,352,000	6,353,470.08		
4¼ percent, 1975-85	78,023,000	77,774,698.43	78,023,000	77,795,681.75
4¼ percent, 1987-92	33,000,000	34,499,072.43	33,000,000	34,392,629.43
6⅜ percent, 1984	31,500,000	32,007,081.30	31,500,000	31,961,671.02
7 percent, 1981	50,000,000	49,673,333.26	50,000,000	49,713,333.22
7½ percent, 1988-93			99,934,000	98,411,627.93
8½ percent, 1994-99			6,352,000	6,531,829.12
Total investments in public issues	3,522,048,000	3,509,215,087.40	3,522,048,000	3,508,368,846.56
Obligations sold only to this fund (special issues):				
Notes:				
4¾ percent, 1974	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	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
6⅝ percent, 1980	4,547,285,000	4,547,285,000.00	4,547,285,000	4,547,285,000.00
7⅝ percent, 1977	5,033,296,000	5,033,296,000.00	5,033,296,000	5,033,296,000.00
Bonds:				
2⅝ percent, 1975	685,178,000	685,178,000.00		
3¾ percent, 1975	160,077,000	160,077,000.00		
3¾ percent, 1976	1,080,011,000	1,080,011,000.00	760,998,000	760,998,000.00
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
7⅝ percent, 1981			677,910,000	677,910,000.00
7⅝ percent, 1982			677,910,000	677,910,000.00
7⅝ percent, 1983			677,910,000	677,910,000.00
7⅝ percent, 1984			677,910,000	677,910,000.00
7⅝ percent, 1985			677,910,000	677,910,000.00
7⅝ percent, 1986			677,910,000	677,910,000.00
7⅝ percent, 1987			677,910,000	677,910,000.00
7⅝ percent, 1988			677,909,000	677,909,000.00
7⅝ percent, 1989			677,909,000	677,909,000.00
Total obligations sold only to this fund (special issues)	31,423,575,000	31,423,575,000.00	33,640,216,000	33,640,216,000.00
Total investments in public-debt obligations	34,945,623,000	34,932,790,087.40	37,162,264,000	37,148,584,846.56

See footnote at end of table p. 13.

TABLE 6.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1973 AND 1974—Continued

	June 30, 1973		June 30, 1974	
	Par value	Book value [1]	Par value	Book value [1]
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
Federal Assets Financing Trust-Government National Mortgage Association:				
6.05 percent, 1988	65,000,000	64,822,265.95	65,000,000	64,834,453.51
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	555,000,000	554,822,265.95	555,000,000	554,834,453.51
Total investments	35,500,623,000	35,487,612,353.35	37,717,264,000	37,703,419,300.07
Undisbursed balances		928,283,163.88		163,589,142.13
Total assets		36,415,895,517.23		37,867,008,442.20

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

Benefit payments to noninsured persons aged 72 and over amounted to $251 million, or slightly more than ½ percent of total benefit payments from the trust fund. Reference has been made in an earlier section to the legislative provisions governing reimbursement from the general fund of the Treasury for the costs of such payments to persons who have fewer than three quarters of coverage. About 98 percent of the total amount of the payments made in fiscal year 1974 to noninsured persons aged 72 and over went to persons with fewer than three quarters of coverage.

The balance of the benefits paid during fiscal year 1974 consisted of lump-sum death payments.

The assets of the old-age and survivors insurance trust fund at the end of fiscal year 1974 totaled $37,867 million, consisting of $37,703 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations, and an undisbursed balance of $164 million. Table 6 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1973 and 1974.

The net increase in the par value of the investments owned by the fund during fiscal year 1974 amounted to $2,217 million. New securities at a total par value of $58,824 million were acquired during the fiscal year through the investment of receipts, and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was $56,607 million. Included in these amounts is $52,723 million in certificates of indebtedness that were acquired and redeemed within the fiscal year. In addition, $38 million in 4-percent bonds maturing in August 1973 and $62 million in 4⅛-percent bonds maturing in February 1974 were exchanged for $100 million in 7½-percent bonds maturing in August of 1993, and $6 million in 4¼-percent bonds maturing in May 1974 were exchanged for an equal amount of 8½-percent bonds maturing in May of 1999. Although the interest rate on bonds is generally limited to 4¼ percent by the provisions of 31 U.S.C. 752, amendments to these provisions authorize the issuance of bonds at rates of interest exceeding 4¼ percent, subject to certain restrictions. P.L. 92-5, enacted March 17, 1971, amended the provisions to authorize the issuance to the public and to Government accounts of up to a total of $10 billion in bonds at rates of interest exceeding 4¼ percent. P.L. 93-53, enacted July 1, 1973, further amended the provisions of 31 U.S.C. 752 by (1) removing the $10 billion limitation on the aggregate face amount of such bonds that may be issued and (2) limiting the amount of such bonds that may be held by the public at any one time to $10 billion.

The effective annual rate of interest earned by the assets of the old-age and survivors insurance trust fund during fiscal year 1974 was 5.9 percent. The interest rate on special issues purchased by the trust fund in June 1974 was 7⅝ percent, payable 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 (1) special issues, totaling $$5,081 million, that were acquired before 1966 and were distributed in equal amounts of about $1,080 million maturing in each of the years 1977-80 and in a smaller amount maturing in 1976 (table 6).

However, the interest rate on special issues acquired in June of each year 1966-74, 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) is generally limited. Thus, the former practice could not be followed until the enactment of P.L. 93-53 on July 1, 1973. Accordingly, the entire amounts available for investment in June of each year 1966-73 were invested in short-term issues (notes). As a result, the old-age and survivors insurance trust fund held $22,458 million in special issues consisting of 7-year notes that were distributed in varying amounts maturing on June 30 of each year 1975-80 (table 6).

On June 30, 1974, the investment practice in effect before 1966 was reinstated, and the old-age and survivors insurance trust fund acquired $6,101 million in special issues that were distributed in virtually equal amounts of about $678 million maturing in each of the years 1981-1989 (table 6). The investment operations of the fund in fiscal years 1973 and earlier are described in the 1974, and earlier, annual reports.

Summary of the Operations of the Federal Disability Insurance Trust Fund, Fiscal Year 1974

A statement of the income and disbursements of the Federal disability insurance trust fund during fiscal year 1974, and of the assets of the fund at the beginning and end of the fiscal year is presented in table 7. Comparable amounts for fiscal year 1973 are also shown in the table.

The total assets of the disability insurance trust fund amounted to $7,869 million on June 30, 1973. During fiscal year 1974, total receipts amounted to $6,768 million and total disbursements were $6,385 million. The assets of the trust fund thus increased $383 million during the year to a total of $8,253 million on June 30, 1974.

authorize the issuance of bonds at rates of interest exceeding $4\frac{1}{4}$ percent, subject to certain restrictions. P.L. 92–5, enacted March 17, 1971, amended the provisions to authorize the issuance to the public and to Government accounts of up to a total of $10 billion in bonds at rates of interest exceeding $4\frac{1}{4}$ percent. P.L. 93–53, enacted July 1, 1973, further amended the provisions of 31 U.S.C. 752 by (1) removing the $10 billion limitation on the aggregate face amount of such bonds that may be issued and (2) limiting the amount of such bonds that may be held by the public at any one time to $10 billion.

The effective annual rate of interest earned by the assets of the old-age and survivors insurance trust fund during fiscal year 1974 was 5.9 percent. The interest rate on special issues purchased by the trust fund in June 1974 was $7\frac{5}{8}$ percent, payable 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 (1) special issues, totaling $$5,081 million, that were acquired before 1966 and were distributed in equal amounts of about $1,080 million maturing in each of the years 1977–80 and in a smaller amount maturing in 1976 (table 6).

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SUMMARY OF THE OPERATIONS OF THE FEDERAL DISABILITY INSURANCE TRUST FUND, FISCAL YEAR 1974

A statement of the income and disbursements of the Federal disability insurance trust fund during fiscal year 1974, and of the assets of the fund at the beginning and end of the fiscal year is presented in table 7. Comparable amounts for fiscal year 1973 are also shown in the table.

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Included in total receipts were $5,652 million representing contributions appropriated to the fund, and $633 million representing amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. As an offset, $50 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 7.—STATEMENT OF OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING FISCAL YEARS 1973 AND 1974

[In thousands]

	Fiscal year 1973	Fiscal year 1974
Total assets of the trust fund, beginning of year	$7,390,277	$7,869,472
Receipts:		
Contributions:		
Appropriations	4,961,148	5,651,996
Deposits arising from State agreements	550,447	632,646
Gross contributions	5,511,595	6,284,642
Less payment into the Treasury for contributions subject to refund	50,626	50,217
Net contributions	5,460,969	6,234,425
Reimbursement from general fund of the Treasury for costs of noncontributory credits for military service	51,000	52,000
Interest:		
Interest on investments	434,840	479,140
Interest on amounts of interfund tranfers due to adjustment in allocation of administrative expenses and construction costs [1]	−244	2,641
Interest on amounts transferred between the old-age and survivors insurance and the disability insurance trust funds due to adjustment in allocation of cost of vocational rehabilitation services [1]	−16	20
Net interest	434,580	481,800
Total receipts	5,946,549	6,768,225
Disbursements:		
Benefit payments	5,161,840	6,158,569
Transfer to railroad retirement account	19,503	22,327
Payment for cost of vocational rehabilitation services for disabled beneficiaries:		
For the current fiscal year	39,321	49,331
Transfer to the old-age and survivors insurance trust fund due to adjustment in allocation of cost for prior fiscal year	40	340
Total cost of vocational rehabilitation services	39,361	49,670
Administrative expenses:		
Department of Health, Education, and Welfare	223,049	185,814
Treasury Department	9,849	11,650
Construction of facilities for Social Security Administration	2,104	329
Expenses of the Department of Health, Education, and Welfare for administration of vocational rehabilitation program for disabled beneficiaries	564	560
Interfund transfers due to adjustment in allocation of—		
Administrative expenses [2]	11,302	−44,353
Costs of construction [2]	−214	280
Gross administrative expenses	246,653	154,281
Less receipts from sales of surplus supplies, materials, etc	4	14
Net administrative expenses	246,649	154,266
Total disbursements	5,467,354	6,384,833
Net addition to the trust fund	479,195	383,392
Total assets of the trust fund, end of year	7,869,472	8,252,865

[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.

Net contributions amounted to $6,234 million, an increase of 14.2 percent over the amount for the preceding fiscal year. This increase is accounted for, in part, 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), and in part by the provision in P.L. 93–233, enacted December 31, 1973, that increased the portion of the contribution rate allocated to finance benefits from the disability insurance trust fund. Effective January 1, 1974, the allocated rate for employees and employers was increased from 0.55 percent of taxable earnings each to 0.575 percent each. For the self-employed, the allocated rate was increased from 0.795 percent to 0.815 percent.

In addition, the trust fund received $52 million in December from the general fund of the Treasury, as reimbursement for the costs of noncontributory credits for military service.

The remaining $482 million of receipts consisted of interest on the investments of the fund, plus interest on amounts of interfund transfers.

Of the $6,385 million in total disbursements, $6,159 million was for benefit payments, an increase of 19.3 percent over the corresponding amount paid in the fiscal year 1973. This increase is accounted for by the same factors insofar as they apply to disabled-worker beneficiaries and their dependents, 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, 1973, required that a transfer of $21,300,000 be made from the disability insurance trust fund to the railroad retirement account. This amount was transferred to the railroad retirement account in May 1974 together with interest to the date of transfer amounting to $1,027,000.

The remaining disbursements amounted to $154 million for net administrative expenses and $50 million for the 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 in a fiscal year for payment for the costs of vocational rehabilitation services 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. This limitation on the amounts to be made available was 1 percent in each fiscal year through 1972, 1¼ percent in fiscal year 1973, and 1½ percent in fiscal year 1974. The following data show the relationship between the total amount of payments for the costs of such rehabilitation services for each fiscal year, 1970–74, and the corresponding amount of benefits paid in the prior fiscal year from the trust funds to disabled beneficiaries:

Fiscal year to which costs of rehabilitation services are charged	Amount of payments for costs of rehabilitation services [1] (in thousands)	Estimated amount of benefit payments in preceding fiscal year to disabled beneficiaries (in thousands)	Payments for costs of rehabilitation services as percent of preceding year's benefit payments
1970	$20, 610	$2, 155, 579	0. 96
1971	23, 099	2, 464, 004	. 94
1972	29, 940	3, 028, 695	. 99
1973	39, 889	3, 629, 590	1. 10
1974	55, 242	4, 647, 721	1. 19

[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.

At the end of fiscal year 1974, some 3,691,000 persons were receiving monthly benefits from the disability insurance trust fund. The distribution of benefit payments in fiscal years 1973 and 1974, by type of beneficiary, is shown in table 8.

TABLE 8.—ESTIMATED DISTRIBUTION OF BENEFIT PAYMENTS FROM THE DISABILITY INSURANCE TRUST FUND, BY TYPE OF BENEFICIARY, FISCAL YEARS 1973 AND 1974

[In millions]

	1973		1974	
	Amount	Percent of total	Amount	Percent of total
Total	$5, 161. 8	100	$6, 158. 6	100
Disabled workers	4, 201. 9	81	5, 042. 5	82
Wives and husbands	255. 4	5	296. 8	5
Children	704. 6	14	819. 3	13

The assets of this fund at the end of fiscal year 1974 totalled $8,253 million, consisting of $8,193 million in the form of obligations of the U.S. Government and an undisbursed balance of $60 million. Table 9 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1973 and 1974.

The net increase in the par value of the investments owned by the fund during the fiscal year amounted to $391 million. New securities at a total par value of $7,856 million were acquired during the fiscal year through the investment of receipts, the reinvestment of funds made available from the redemption of securities, and the exchange of securities. The par value of securities redeemed or exchanged during the year was $7,465 million. Included in these amounts is $6,734 million in certificates of indebtedness that were acquired and redeemed within the fiscal year.

The effective annual rate of interest earned by the assets of the disability insurance trust fund during fiscal year 1974 was 6.4 percent. The interest rate on public-debt obligations issued for purchase by the trust fund in June 1974 was 7⅝ percent, payable semiannually.

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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 9.

TABLE 9.—ASSETS OF THE DISABILITY INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1973 AND 1974

	June 30, 1973		June 30, 1974	
	Par value	Book value [1]	Par value	Book value [1]
Investments in public-debt obligations:				
Public issues:				
Treasury notes:				
6 percent, 1975	$3,750,000	$3,750,000.00	$3,750,000	$3,750,000.00
6 percent, 1978	2,000,000	2,004,109.32	2,000,000	2,003,350.68
6¼ percent, 1978	2,000,000	2,004,686.65	2,000,000	2,003,664.13
7½ percent, 1976	26,000,000	25,941,341.65	26,000,000	25,960,366.09
7¾ percent, 1977	14,000,000	13,979,337.38	14,000,000	13,984,397.66
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	10,041,180.86	10,500,000	10,068,848.42
3½ percent, 1998	5,000,000	4,736,355.80	5,000,000	4,746,762.80
4 percent, 1973	16,500,000	16,498,008.72		
4 percent, 1980	30,250,000	30,244,508.57	30,250,000	30,245,342.45
4⅛ percent, 1974	10,000,000	10,001,605.28		
4⅛ percent, 1989-94	68,400,000	67,706,106.00	68,400,000	67,739,412.84
4¼ percent, 1975-85	20,795,000	20,778,902.14	20,795,000	20,779,645.42
4¼ percent, 1987-92	80,800,000	80,927,138.07	80,800,000	80,918,110.59
6⅜ percent, 1984	15,000,000	15,060,582.25	15,000,000	15,055,156.93
7½ percent, 1988-93			26,500,000	25,764,571.55
Total investments in public issues	314,995,000	313,673,862.69	314,995,000	313,019,629.56
Obligations sold only to this fund (special issues):				
Notes:				
4¾ percent, 1974	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	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
6⅝ percent, 1980	943,266,000	943,266,000.00	943,266,000	943,266,000.00
7⅝ percent, 1977	1,394,466,000	1,394,466,000.00	1,394,466,000	1,394,466,000.00
Bonds:				
2⅝ percent, 1975	2,366,000	2,366,000.00		
3¾ percent, 1975	20,738,000	20,738,000.00		
3¾ percent, 1976	153,632,000	153,632,000.00		
3¾ percent, 1977	153,632,000	153,632,000.00		
3⅞ percent, 1978	153,632,000	153,632,000.00	89,570,000	89,570,000.00
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
7⅝ percent, 1981			121,663,000	121,663,000.00
7⅝ percent, 1982			121,663,000	121,663,000.00
7⅝ percent, 1983			121,663,000	121,663,000.00
7⅝ percent, 1984			121,663,000	121,663,000.00
7⅝ percent, 1985			121,663,000	121,663,000.00
7⅝ percent, 1986			121,663,000	121,663,000.00
7⅝ percent, 1987			121,663,000	121,663,000.00
7⅝ percent, 1988			121,663,000	121,663,000.00
7⅝ percent, 1989			121,663,000	121,663,000.00
Total obligations sold only to this fund (special issues)	7,488,234,000	7,488,234,000.00	7,879,593,000	7,879,593,000.00
Total investments in public-debt obligations	7,803,229,000	7,801,907,862.69	8,194,588,000	8,192,612,629.56
Undisbursed balances		67,564,541.18		60,251,890.80
Total Assets		7,869,472,403.87		8,252,864,520.36

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

Expected Operations and Status of the Trust Funds During the Period July 1, 1974, to December 31, 1979

In the following statement of the expected operations and status of the trust funds during the period July 1, 1974, to December 31, 1979, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program will remain unchanged in the period 1975–79. 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 in present law, 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 annual exempt amount under the retirement test.

Under the automatic provisions, benefits will increase in accordance with increases in the Consumer Price Index (CPI). In 1975,[1] and in each year thereafter which immediately follows a 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, automatically increase in proportion to the increase in average wages in covered employment. The first such automatic increase in the contribution and benefit base, from $13,200 in 1974 to $14,100 in 1975, and in the annual exempt amount under the retirement test, from $2,400 in 1974 to $2,520 in 1975 were established October 29, 1974, as described in Appendix B. The first automatic cost-of-living benefit increase, effective for June 1975, has been determined to be 8.0 percent.

Under the economic assumptions on which the estimates in this section, and in the following section, are based,[2] the assumed future path of the CPI, assumed future increases in average wages in covered employment, and assumed future rates of unemployment for calendar years 1975–80 have the values shown in the following table:

Calendar year	Assumed percentage increase over prior year in annual average wages and in annual average CPI		Assumed annual average unemployment rate (percent)
	Increase in wages	Increase in CPI	
1975	6.2	9.0	8.8
1976	9.0	6.6	8.0
1977	11.0	6.5	7.0
1978	8.8	5.7	6.2
1979	7.7	4.6	5.4
1980	7.0	4.0	4.8

[1] Public Law 93–233 provided that the 11-percent general benefit increase that became effective in 1974 be considered an automatic cost-of-living benefit increase for purposes of the automatic provisions.

[2] The economic assumptions underlying the estimates in this report differ from the assumptions that appear on page 41 of the President's 1976 Budget. The estimates in this report reflect the significant changes in economic indicators and trends that have taken place since the earlier Budget assumptions were prepared (e.g., a lower level of economic activity and higher rates of unemployment, as well as a somewhat lower rate of increase in the Consumer Price Index).

In accordance with the above assumptions, the estimates reflect the following changes that would occur, under the automatic provisions, in each year 1976–79 (amounts for 1975 are also shown as a basis for comparison):

Year	General benefit increase (percent)[1]	Contribution and benefit base[2]	Annual exempt amount under the retirement test[2]
1975	8.0	$14,100	$2,520
1976	6.6	15,000	2,640
1977	6.4	16,500	2,880
1978	6.3	18,300	3,240
1979	4.8	19,800	3,480

[1] Effective with benefits for June of the stated year.
[2] Effective on Jan. 1 of the stated year.

Statements of the expected operations of the trust funds should be read with full recognition of the difficulties of estimating future income and disbursements. Both future benefit levels and future amounts of contribution income are highly sensitive to assumed changes in economic activity—e.g., changes in the CPI, levels of employment, and earnings levels. Because it is difficult to forecast accurately future changes in these economic indicators, the resulting estimates of the progress of the trust funds are subject to many uncertainties.

Table 10 presents data on the actual operations of the old-age and survivors insurance trust fund for selected fiscal years during the period 1940–74[3] and also estimates of the expected operations of the trust fund in fiscal years 1975–79. Because of the current economic recession, the estimated number of persons with taxable earnings under the old-age, survivors, and disability insurance program is expected to decline from about 101 million during calendar year 1974 to about 98 million during calendar year 1975. After 1975, the number of persons with taxable earnings is expected to increase each year, reaching about 110 million during calendar year 1979. Although the number of persons with taxable earnings is expected to decline from 1974 to 1975, the total annual amount of taxable earnings is expected to increase from $632 billion in 1974 to $653 billion in 1975, because the percentage increase in estimated average taxable earnings, of about 6 percent, more than offsets the 2½-percent decrease in the estimated number of persons with taxable earnings. The total annual amount of taxable earnings is expected to continue to increase in each year after 1975, rising to $1,021 billion in 1979. These increases are due in part to the future automatic increases in the contribution and benefit base previously set forth.

[3] Data relatng to the operations of the two trust funds for years not shown in the tables of this section are contained in earlier annual reports.

TABLE 10.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING SELECTED FISCAL YEARS 1940–74 AND ESTIMATED FUTURE OPERATIONS DURING FISCAL YEARS 1975–79

[In millions]

Fiscal year [1]	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 [2]	Disbursements: Total	Disbursements: Benefit payments	Disbursements: Payments for vocational rehabilitation services	Disbursements: Administrative expenses [2]	Disbursements: Transfers to railroad retirement account	Net increase in fund	Fund at end of period
Past experience:												
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
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	(3)	334	508	3,643	23,515
1968	23,640	22,662	78	—	899	21,622	20,737	(3)	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
1973	43,639	41,318	138	337	1,847	43,623	42,170	2	667	783	17	36,416
1974	50,936	48,455	139	303	2,039	49,485	47,849	4	723	909	1,451	37,867
Estimated future experience: [4]												
1975	58,545	55,809	140	307	2,289	56,775	54,927	7	861	960	1,770	39,637
1976	60,779	58,125	157	268	2,229	64,544	62,535	9	970	1,030	−3,765	35,872
July–September 1976	15,806	15,702	—	—	104	17,311	17,068	2	241	—	−1,505	34,367
1977	70,725	68,154	303	241	2,027	74,195	71,680	10	1,053	1,452	−3,470	30,897
1978	78,529	76,187	311	222	1,809	82,285	79,840	12	1,149	1,284	−3,756	27,141
1979	86,730	84,686	314	244	1,486	90,923	88,286	13	1,243	1,381	−4,193	22,948

[1] Under the Congressional Budget Act of 1974 (Public Law 93–344), fiscal years 1977 and later consist of the 12 months ending on Sept. 30 of each year. The Act further provides that the calendar quarter July–September 1976 is a period of transition from fiscal year 1976, which ends on June 30, 1976, to fiscal year 1977, which begins on Oct. 1, 1976.

[2] 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 4 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.

[3] Less than $500,000.

[4] In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions.

Estimated income from contributions reflects the increases in estimated taxable earnings described above and, in addition, the scheduled changes in the allocation of the contribution rates between the old-age and survivors insurance and disability insurance trust funds effective January 1, 1978 (table 1).

Rising benefit disbursements during fiscal years 1975–79 reflect the effects of the future automatic benefit increases previously set forth, as well as the long-range upward trend in the numbers of beneficiaries and in the amounts of average monthly earnings underlying benefits payable under the program. In each fiscal year during the period 1976–79, outgo from the old-age and survivors insurance trust fund is estimated to exceed income. During the entire period covering fiscal years 1975–79, there is an estimated net decrease in the old-age and survivors insurance trust fund of $14.9 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 old-age and survivors insurance trust fund on a calendar-year basis. During the 5-year period covering calendar years 1975–79, the trust fund is estimated to decline by $19.6 billion from $37.8 billion at the end of calendar year 1974 to $18.2 billion at the end of calendar year 1979.

TABLE 11.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING SELECTED CALENDAR YEARS 1940–74 AND ESTIMATED FUTURE OPERATIONS DURING CALENDAR YEARS 1975–79

[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
Past experience:												
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
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	476	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
1973	48,344	45,975	139	303	1,928	47,175	45,741	3	647	783	1,169	36,487
1974	54,688	52,081	140	307	2,159	53,397	51,618	5	865	909	1,291	37,777
Estimated future experience:												
1975	58,610	55,891	157	268	2,294	60,773	58,888	8	917	960	−2,163	35,614
1976	63,788	61,199	303	241	2,045	68,072	66,022	10	1,010	1,030	−4,284	31,330
1977	72,169	69,797	311	222	1,839	76,198	73,660	11	1,075	1,452	−4,029	27,301
1978	80,095	77,943	314	244	1,594	84,404	81,944	12	1,164	1,284	−4,309	22,992
1979	88,178	86,426	320	167	1,265	92,997	90,339	14	1,263	1,381	−4,819	18,173

[1] Less than $500,000.

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

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 1950-73 liberalized the eligibility provisions and extended coverage to new categories of employment.

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 1950–73 which affect the conditions governing the receipt of benefits, and (2) the increasing percentage of eligible persons who are aged 72 and over and who therefore receive benefits regardless of earnings.

The expected operations and status of the disability insurance trust fund during fiscal years 1975–79 are presented in table 12, together with the figures on actual experience in earlier years. Contribution income will increase during fiscal years 1975–79 reflecting the same factors, insofar as they apply to contributions to the disability insurance trust fund, that are reflected in the increase in contributions to the old-age and survivors insurance trust fund during the same period. Beginning January 1, 1978, contribution income will also be increased as a result of the scheduled increase from 1.15 percent to 1.20 percent in the combined employee-employer contribution rate allocated for disability insurance. (This increase is exactly counterbalanced by a decrease in the rate allocated for old-age and survivors insurance.) Benefit payments will increase because of automatic benefit increases and because of increases in the numbers of beneficiaries and in the amounts of average monthly earnings on which benefits are based. Outgo from the disability insurance trust fund is expected to exceed income in each year during the period covering fiscal years 1975–79. During this period, the assets of the trust fund are estimated to decline by $6.8 billion.

TABLE 12.—OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING SELECTED FISCAL YEARS 1960–74 AND ESTIMATED FUTURE OPERATIONS DURING FISCAL YEARS 1975–79

[In millions]

Fiscal year[1]	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[2]	Disbursements: Total	Disbursements: Benefit payments	Disbursements: Payments for vocational rehabilitation services	Disbursements: Administrative expenses[2]	Disbursements: Transfers to railroad retirement account	Net increase in fund	Fund at end of period
Past experience:[3]											
1960	$1,034	$987		$47	$533	$528		$32	−$27	$501	$2,167
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
1973	5,947	5,461	51	435	5,467	5,162	39	247	20	479	7,869
1974	6,768	6,234	52	482	6,385	6,159	50	154	22	383	8,253
Estimated future experience:[4]											
1975	7,908	7,342	52	514	7,985	7,636	67	262	20	−77	8,176
1976	8,196	7,641	90	465	9,420	9,020	90	295	15	−1,224	6,952
July–September 1976	2,080	2,064		16	2,598	2,499	26	73		−518	6,434
1977	9,443	8,957	104	382	11,030	10,579	115	319	17	−1,587	4,847
1978	10,769	10,375	119	275	12,353	11,859	131	349	14	−1,584	3,263
1979	11,928	11,682	125	121	13,752	13,221	147	374	10	−1,824	1,439

[1] Under the Congressional Budget Act of 1974 (Public Law 93-344), fiscal years 1977 and later consist of the 12 months ending on Sept. 30 of each year. The Act further provides that the calendar quarter July–September 1976 is a period of transition from fiscal year 1976, which ends on June 30, 1976, to fiscal year 1977, which begins on Oct. 1, 1976.

[2] Interest on investments includes 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.

[3] The financial operations of the disability insurance trust fund began in the latter half of fiscal year 1957.

[4] In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions.

Estimates consistent with those shown on a fiscal-year basis in table 12 are presented in table 13 to show the progress of the disability insurance trust fund on a calendar-year basis. During the 5-year period covering calendar years 1975–79, the assets of the trust fund are estimated to decline by $7.7 billion from $8.1 billion at the end of calendar year 1974 to $0.4 billion by the end of calendar year 1979.

The expected operations and status of the old-age and survivors insurance and disability insurance trust funds, combined, during each year 1975–79 are shown in tables 14 and 15 on a fiscal-year basis and a calendar-year basis, respectively, together with figures on actual experience in earlier years.

TABLE 13.—OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING SELECTED CALENDAR YEARS 1960–74 AND ESTIMATED FUTURE OPERATIONS DURING CALENDAR YEARS 1975–79

[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: 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
Past experience:											
1960	$1,063	$1,010		$53	$600	$568		$36	—$5	$464	$2,289
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
1973	6,443	5,932	52	458	5,973	5,718	46	190	20	470	7,927
1974	7,378	6,826	52	500	7,196	6,903	54	217	22	182	8,109
Estimated future experience:											
1975	7,938	7,347	90	501	8,752	8,378	78	276	20	—814	7,295
1976	8,555	8,044	104	407	10,060	9,640	99	306	15	—1,505	5,790
1977	9,603	9,173	119	311	11,350	10,888	119	326	17	—1,747	4,043
1978	11,051	10,714	125	212	12,709	12,205	135	355	14	—1,658	2,385
1979	12,131	11,921	133	77	14,095	13,553	151	381	10	—1,964	421

Note: In interpreting the above, reference should be made to the footnotes in table 12.

TABLE 14.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND THE DISABILITY INSURANCE TRUST FUNDS, COMBINED, DURING SELECTED FISCAL YEARS 1960–74 AND ESTIMATED FUTURE OPERATIONS DURING FISCAL YEARS 1975–79

[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—Payment 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 funds	Funds at end of period
Past experience:												
1960	$11,394	$10,830			$564	$11,606	$10,798		$234	$574	−$212	$22,996
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
1973	49,586	46,779	189	337	2,281	49,090	47,332	42	914	802	496	44,285
1974	57,704	54,689	191	303	2,521	55,869	54,007	54	878	931	1,835	46,120
Estimated future experience:												
1975	66,453	63,151	192	307	2,803	64,760	62,563	75	1,142	980	1,693	47,813
1976	68,975	65,766	247	268	2,694	73,964	71,555	99	1,265	1,045	−4,989	42,824
July–September 1976	17,886	17,766			120	19,909	19,567	28	314		−2,023	40,801
1977	80,168	77,111	407	241	2,409	85,225	82,259	125	1,372	1,469	−5,057	35,744
1978	89,298	86,562	430	222	2,084	94,638	91,699	143	1,498	1,298	−5,340	30,404
1979	98,658	96,368	439	244	1,607	104,675	101,507	160	1,617	1,391	−6,017	24,387

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

TABLE 15.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND THE DISABILITY INSURANCE TRUST FUNDS, COMBINED, DURING SELECTED CALENDAR YEARS 1960–74 AND ESTIMATED FUTURE OPERATIONS DURING CALENDAR YEARS 1975–79

[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 funds	Funds at end of period
Past experience:												
1960	$12,445	$11,876			$569	$11,798	$11,245		$240	$314	$647	$22,613
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
1973	54,787	51,907	191	303	2,386	53,148	51,459	49	837	802	1,639	44,414
1974	62,066	58,907	192	307	2,660	60,593	58,521	59	1,082	931	1,472	45,886
Estimated future experience:												
1975	66,548	63,238	247	268	2,795	69,525	67,266	86	1,193	980	—2,977	42,909
1976	72,343	69,243	407	241	2,452	78,132	75,662	109	1,316	1,045	—5,789	37,120
1977	81,772	78,970	430	222	2,150	87,548	84,548	130	1,401	1,469	—5,776	31,344
1978	91,146	88,657	439	244	1,806	97,113	94,149	147	1,519	1,298	—5,967	25,377
1979	100,309	98,347	453	167	1,342	107,092	103,892	165	1,644	1,391	—6,783	18,594

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

The estimates in the tables in this section include the effects of various provisions to which reference has been made in earlier sections, namely, the provisions for (1) reimbursements to the trust funds from the general fund of the Treasury for the costs of granting noncontributory credits for military service and for the costs of monthly payments to certain noninsured persons aged 72 and over, and (2) financial interchanges between the railroad retirement account and the trust funds.

Expenditures in calendar year 1974, from both trust funds combined, were 9.82 percent of taxable earnings for the year and are estimated to increase to 10.90 percent in 1975 and to 11.05 percent in 1976. The percentage will decline somewhat after 1976, as estimated taxable earnings increase at a relatively greater rate than estimated expenditures. These percentages, as well as the actual percentages for earlier years, are shown in table 16 for both trust funds combined and for each trust fund separately. The following table shows, for each of the years 1975–79, the extent to which the percentage for both trust funds combined exceeds the combined employee-employer contribution rate:

[In percent]

Calendar year	Expenditures as a percentage of taxable payroll	Combined employee-employer contribution rate	Difference
1975	10.90	9.90	−1.00
1976	11.05	9.90	−1.15
1977	10.87	9.90	−.97
1978	10.75	9.90	−.85
1979	10.73	9.90	−.83

The ratio of assets at the beginning of the year to expenditures during the year for both trust funds combined is estimated to be about 0.66 for calendar year 1975. The ratio will drop each year, as the assets of the trust funds decline during the 5-year period 1975–79; and by calendar year 1979, the ratio is estimated to be 0.24. The estimated ratio for each of the 5 calendar years 1975–79, as well as the actual ratio for earlier years, is shown in table 17 for both trust funds combined and for each trust fund separately.

TABLE 16.—EXPENDITURES FROM THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS AS A PERCENTAGE OF TAXABLE PAYROLL FOR SELECTED CALENDAR YEARS 1960-74 AND ESTIMATED FUTURE PERCENTAGES FOR CALENDAR YEARS 1975-79

Calendar year	Expenditures as a percentage of taxable payroll [1]		
	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	5.89	5.59	0.30
1965	7.93	7.23	.70
1966	6.88	6.24	.64
1967	6.92	6.27	.65
1968	7.03	6.35	.67
1969	7.08	6.38	.70
1970	8.13	7.32	.81
1971	9.22	8.26	.96
1972	9.15	8.13	1.01
1973	9.71	8.61	1.10
1974	9.82	8.65	1.17
Estimated future experience: [2]			
1975	10.90	9.52	1.38
1976	11.05	9.62	1.43
1977	10.87	9.46	1.41
1978	10.75	9.34	1.41
1979	10.73	9.31	1.41

[1] Percentage takes into account (1) the lower contribution rate payable by the self-employed compared with combined employee-employer rate, (2) employee contributions subject to refund, and (3) that for 1966 and later, only the employee contribution is payable on tips taxable as wages. Beginning in 1966, expenditures are adjusted to exclude payments 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. For 1970-74, percentages are preliminary and subject to revision.

[2] In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions.

TABLE 17.—ASSETS, AT THE BEGINNING OF THE YEAR, AS A PERCENTAGE OF EXPENDITURES DURING THE YEAR, FOR THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM, BY TRUST FUND, FOR SELECTED CALENDAR YEARS 1960-74, AND ESTIMATED FUTURE PERCENTAGES FOR CALENDAR YEARS 1975-79

Calendar year	Assets, at the beginning of the year, as a percentage of expenditures during the 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	186	180	304
1965	110	109	121
1966	95	96	83
1967	99	101	83
1968	101	103	83
1969	103	102	111
1970	103	101	126
1971	99	94	140
1972	93	88	140
1973	80	75	125
1974	73	68	110
Estimated future experience: [1]			
1975	66	62	93
1976	55	52	73
1977	42	41	51
1978	32	32	32
1979	24	25	17

[1] In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions.

Estimates of trust fund operations presented in this report show substantial declines in the assets of both trust funds during the next 5-year period, as already noted. It is apparent that without legislation to provide additional financing, the trust funds' assets will be exhausted soon after 1979. Under the assumptions on which the estimates in this section are based, the assets of the disability insurance trust fund will be exhausted in 1980, and the assets of the old-age and survivors insurance trust fund will be exhausted shortly thereafter. The expected substantial decline in the assets of the trust funds during 1975–79, which was not anticipated in the 1974 annual report, is attributable primarily to (1) the reduction in contribution income resulting from lower levels of employment and taxable earnings due to the current recession, and (2) the greater-than-expected upward movement in the CPI, with the result that automatic benefit increases assumed herein are larger than were previously assumed.

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

(Specifically required by Sec. 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, 1974, about 410,000 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 37,000 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 $567 million in calendar year 1974. Similar figures are presented in table 18 to show the experience in each of the calendar years 1957–74.

Table 18 also shows the expected future experience in calendar years 1975–79. Total benefit payments from the old-age and survivors insurance trust fund with respect to disabled beneficiaries are estimated to increase from $651 million in calendar year 1975 to $1,075 million in calendar year 1979.

TABLE 18.—BENEFITS PAYABLE FROM THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND WITH RESPECT TO DISABLED BENEFICIARIES, CALENDAR YEARS 1957–79

[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
1973	384	333	51	502	417	85
1974	410	357	53	567	479	88
Estimated future experience: [4]						
1975	432	376	56	651	553	98
1976	456	397	59	744	633	111
1977	481	419	62	844	721	123
1978	507	442	65	956	820	136
1979	535	467	68	1,075	927	148

[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.

In calendar year 1974, 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) totalled $7,524 million, of which $567 million, or 7.5 percent, represented payments from the old-age and survivors insurance trust fund. Similar figures for all of the calendar years 1957–79 are presented in table 19.

TABLE 19.—BENEFIT PAYMENTS UNDER THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM WITH RESPECT TO DISABLED BENEFICIARIES, BY TRUST FUND, CALENDAR YEARS 1957–79

[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	4,911	4,502	409	8.3
1973	6,266	5,764	502	8.0
1974	7,524	6,957	567	7.5
Estimated future experience: [4]				
1975	9,107	8,456	651	7.1
1976	10,483	9,739	744	7.1
1977	11,851	11,007	844	7.1
1978	13,296	12,340	956	7.2
1979	14,779	13,704	1,075	7.3

[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 18).
[4] Reflects the assumed changes under the automatic increase provisions that were described in the preceding section.

Long-Range Actuarial Status of the Trust Funds

Significance of Long-Range Cost Estimates

Long-range cost estimates are essential to the evaluation and planning of the OASDI program over the long-range future. Such estimates are of necessity based on a number of demographic and economic assumptions.

While it is not possible to accurately predict the future, it is possible to make long-range cost estimates based upon reasonable assumptions which will indicate the trend and general range in future costs. Such cost estimates, and their underlying assumptions, if revised periodically in the light of developing trends, provide valuable information for use in policy decision-making.

Since future demographic and economic experience may differ considerably from any single set of assumptions on which cost estimates are based, long-range cost estimates have been prepared on the basis of a wide range of assumptions, some of which are presented in the body of the Report and some of which are summarized in Appendix A.

Long-Range Cost Estimates

The estimates of the long-range cost of the old-age, survivors, and disability insurance system presented in this Report are based on present law. Therefore, if future legislation results in changes in benefits or in the financing provisions, the cost of the program will change and new cost estimates will be required.

The long-range cost estimates are computed under dynamic assumptions with respect to the future increases in the benefit levels and in the taxable earnings base under the automatic adjustment provisions in present law. These provide for automatically adjusting the benefit table in accordance with the Consumer Price Index and for automatically adjusting the taxable earnings base in accordance with the increase in average covered earnings per worker. It should be noted here, however, that the Board is recommending a modification in the provisions of law so as to avoid the probability of future unintended and excessively costly benefit payments that could result from the way in which the automatic adjustments are now designed. This proposal is discussed below in more detail.

The cost estimates are presented herein under three alternative sets of economic assumptions. The central set of assumptions is based on annual increases of 6 percent in average earnings and 4 percent in the Consumer Price Index throughout the period 1981–2049. Because of the high degree of uncertainty in any long-range economic forecast, two alternative sets of economic assumptions are also used. These alternatives fall on either side of the central assumptions, with one alternative based on a 5 percent annual increase in earnings and a 3 percent annual CPI increase, while the other set uses 7 percent wage and 5 percent CPI assumptions. These alternatives are presented following the description and analyses of the system under the central assumptions, and a comparison of all of the results obtained under all three sets is found in table 23. In all, higher assumptions are used in the period 1975–80. An earlier section of this Report dealing with the "Expected Operations and Status of the Trust Funds During the Period, July 1, 1974, to December 31, 1979", discusses the higher assumptions in the early years, which are used with respect to the long-range central set of economic assumptions.

Table 20 contains a projection of the future expenditures of the old-age, survivors, and disability insurance system as percent of taxable payroll under the central set of economic assumptions. According to this projection the cost of the old-age and survivors insurance program will increase slowly during the remainder of this century. After the turn of the century, the cost will be subject to accelerated increases until leveling at about 18½ percent of taxable payroll around the year 2030. For the disability insurance program the projection shows a steady increase in cost to around the year 2020, after which the cost will level at about 3¾ percent of taxable payroll.

The combined cost of the total old-age, survivors, and disability insurance system, using the central set of economic assumptions, is projected to increase to about 12 percent of taxable payroll by the end of the century; thereafter the costs will increase rapidly to about 22 percent of taxable payroll by the year 2030 and will remain essentially level during the remainder of the valuation period. These future costs would be substantially ameliorated, however, if the provisions of law were modified to avoid the phenomenon that causes future projected benefits under the automatic adjustment provisions to increase out of proportion to the levels of wage replacement established by benefits currently paid under the program. (The expected costs under the assumption of a change in law are set forth in tables 24 and 25, below, with accompanying text.)

Table 20 also compares for selected years the projected expenditures as percent of taxable payroll and the tax rates that are scheduled in present law. In every year in the future the projected cost exceeds the scheduled tax rate. The excess increases with time and is projected to reach levels of about 10 percent of taxable payroll or higher after the year 2030.

TABLE 20.—ESTIMATED EXPENDITURES OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL[1] FOR SELECTED YEARS, 1985–2050

[In percent]

Calendar year	Expenditures as percent of taxable pryroll[2]			Tax rate in law	Difference
	Old-age and survivors insurance	Disability insurance	Total		
1985	9.24	1.69	10.93	9.90	−1.03
1990	9.28	1.94	11.22	9.90	−1.32
1995	9.49	2.15	11.64	9.90	−1.74
2000	9.50	2.50	12.00	9.90	−2.10
2005	9.81	2.95	12.76	9.90	−2.86
2010	10.77	3.36	14.13	9.90	−4.23
2015	12.44	3.63	16.07	11.90	−4.17
2020	14.58	3.76	18.34	11.90	−6.44
2025	16.74	3.71	20.45	11.90	−8.55
2030	18.15	3.60	21.75	11.90	−9.85
2035	18.61	3.59	22.20	11.90	−10.30
2040	18.41	3.70	22.11	11.90	−10.21
2045	18.26	3.86	22.12	11.90	−10.22
2050	18.51	3.93	22.44	11.90	−10.54
Averages as percent of taxable payroll:					
1975–99	9.35	1.81	11.16	9.90	−1.26
2000–24	11.99	3.13	15.12	11.02	−4.10
2025–49	18.18	3.91	22.09	11.90	−10.19
Average-current-cost:[3] 1975–2049	13.29	2.97	16.26	10.94	−5.32

[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] Calculated under the central set of economic assumptions of annual increases after 1980 of 6 percent in average earnings and 4 percent in CPI. Higher assumptions are used in the 1975–80 period.
[3] "Average-current-cost" represents the arithmetic average of expenditures as percent of taxable payroll for the period and includes the cost of increasing the funds on hand to 1-yr expenditures by the end of the valuation period.

Table 21 compares the average tax rate in the present law with the expenditures as percent of taxable payroll of the old-age, survivors, and disability insurance system projected under the central set of assumptions for three successive periods of 25 years beginning in 1975. In addition, the table compares the average tax rate and average-current-cost of the system over the customary 75-year period (1975–2049). According to these calculations the old-age, survivors, and disability insurance system is estimated to be underfinanced over the customary long-range 75-year period by an average annual amount equivalent to 5.32 percent of taxable payroll. Over the first 25-year period the cost would exceed taxes by an average annual amount equivalent to 1.26 percent of taxable payroll; over the second 25-year period it would exceed them by an average annual amount equivalent to 4.10 percent of taxable payroll; and over the third 25-year period it would exceed them by an average annual amount equivalent to 10.19 percent of taxable payroll. In all cases the underfinancing is more pronounced for the disability insurance program than for the old-age and survivors insurance program when viewed as a proportion of the cost of each program.

TABLE 21.—COMPARISON OF EXPENDITURES [1] AND TAXES FOR OLD-AGE, SURVIVORS AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL [2]

[In percent]

Item	Average for item as percent of taxable payroll: Old-age and survivors insurance	Disability insurance	Total
1st 25-yr period (1975–99):			
Expenditures as percent of taxable payroll	9.35	1.81	11.16
Tax rate in law	8.57	1.33	9.90
Difference	-.78	-.48	-1.26
2d 25-yr period (2000–24):			
Expenditures as percent of taxable payroll	11.99	3.13	15.12
Tax rate in law	9.45	1.57	11.02
Difference	-2.54	-1.56	-4.10
3d 25-yr period (2025–49):			
Expenditures as percent of taxable payroll	18.18	3.91	22.09
Tax rate in law	10.20	1.70	11.90
Difference	-7.98	-2.21	-10.19
Total 75-yr period (1975–2049):			
Current-cost [3]	13.29	2.97	16.26
Tax rate in law	9.41	1.53	10.94
Actuarial balance	-3.88	-1.44	-5.32

[1] Calculated under the central set of economic assumptions of annual increases after 1980 of 6 percent in average earnings and 4 percent in CPI. Higher assumptions are used in the 1975–80 period.
[2] 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.
[3] "Average-current-cost" represents the arithmetic average of expenditures as percent of taxable payroll for the period and includes the cost of increasing the funds on hand to 1 yr expenditures by the end of the valuation period.

The results in tables 20 and 21 are based on new actuarial assumptions as compared to those used in last year's report with respect to demographic factors as well as economic factors. In regard to demographic factors, new population projections were prepared which take into account comments and suggestions made by the panel of experts appointed by the Senate Committee on Finance to review the costs estimates presented in last year's report. The effect of the demographic changes as well as changes in economic and other assumptions on the long-range 75-year actuarial balance may be observed in table 22.

TABLE 22.—CHANGE IN OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE LONG-RANGE ACTUARIAL BALANCE [1] AS PERCENT OF TAXABLE PAYROLL [2] BY TYPE OF ASSUMPTION

[In percent]

Item	Old-age and survivors insurance	Disability insurance	Total
Actuarial balance estimated in last year's report	−2.58	−0.40	−2.98
Demographic assumptions	−.20	−.04	−.24
Female labor force participation	+.33	+.02	+.35
Economic assumptions	−1.54	−.41	−1.95
Disability rates	−0.0	−.60	−.60
All other assumptions (net)	+.11	−.01	+.10
Change in actuarial balance	−1.30	−1.04	−2.34
New estimated actuarial balance	−3.88	−1.44	−5.32

[1] Based on 75-yr period of valuation and calculated under the central set of economic assumptions of annual increases after 1980 of 6 percent in average earnings and 4 percent in CPI. Higher assumptions are used in the 1975–80 period.
[2] 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.

With respect to economic factors, it is assumed that:

(a) The female labor force participation rates will increase faster than previously projected. The new projections are based on a 23 percent ultimate increase in age-adjusted rates over the rates experienced in 1974.

(b) Through 1980 the assumptions are the same as those used in developing the short-range cost estimates, which are presented earlier in this report.

(c) Beyond 1980, average earnings will increase at an annual rate of 6 percent, while the CPI will increase at 4 percent.

(d) Beyond 1980, unemployment will average 5 percent.

In the preparation of the disability insurance cost estimates the assumed rates at which workers become disabled and the rates at which their benefits are later terminated due to either death or recovery from the disability, are updated to reflect the actual experience through calendar year 1974. In addition, it is assumed that the rate at which benefits are being awarded will increase 3 percent per year for the next 5 years.

The effect of these changes in assumptions as measured by the 75-year long-range actuarial balance is shown in table 22, which traces that balance from the estimate presented in last year's report to the estimate presented in this report under the central set of assumptions.

The results in tables 20, 21 and 22 should be read with full recognition of the uncertainties involved in the projection of economic and demographic factors over long-range periods. Because of the sensitivity of the projections to changes in economic assumptions, these results are subject to wide margins of variation. Because of the high degree of uncertainty in long-range economic forecasts, calculations were done under two alternative sets of assumptions. These alternatives fall on either side of the central set of assumptions. These are displayed in table 23 which provides an indication of the effect of changes in the assumed annual increase in CPI. All three projections displayed in the table are based on annual increases in real earnings of about 2 percent. The cost figures shown in the middle column (that is, those based on the central set of assumptions) are the same as those shown in table 20. However, the range of variation shown in table 23 should not be interpreted as depicting the complete range of all conceivable alternative outcomes. Such a range would be wider than that shown by the table. For example, if fertility rates were to continue to decline as they have over the last decade, and if economic conditions which have prevailed over the past few years were treated as normal and extrapolated to continue over the next 75 years, the long-range actuarial deficit of the old-age, survivors, and disability insurance program would be higher than projected under any of the alternatives in table 23. Conversely, if these demographic and economic factors were extrapolated into the future on the basis of experience over the longer term past, rather than just the last decade, the projected 75-year deficit would be lower. Measures of the effect of variation in the assumed increases in real earnings, fertility and migration are provided in Appendix A of this report.

TABLE 23.—ESTIMATED EXPENDITURES OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL [1] UNDER VARIOUS ECONOMIC ASSUMPTIONS, FOR SELECTED YEARS, 1985–2050

[In percent]

Calendar year	Expenditures as percent of taxable payroll under assumptions of—[2]		
	5–3	6–4	7–5
1985	10.99	10.93	10.89
1990	11.20	11.22	11.25
1995	11.49	11.64	11.79
2000	11.68	12.00	12.34
2005	12.21	12.76	13.34
2010	13.29	14.13	14.99
2015	14.90	16.07	17.30
2020	16.74	18.34	20.03
2025	18.40	20.45	22.66
2030	19.26	21.75	24.43
2035	19.39	22.20	25.21
2040	19.06	22.11	25.30
2045	18.90	22.12	25.49
2050	19.03	22.44	26.04
Average of expenditures as percent of taxable payroll:			
1975–99	11.12	11.16	11.19
2000–24	14.31	15.12	16.42
2025–49	19.05	22.09	24.91
Average-current-cost:[3] 1975–2049	14.93	16.26	17.68

[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] The initial value in each set refers to the assumed annual percent increases after 1980 in average earnings, while the second value in each set refers to the assumed percent increases after 1980 in CPI. Higher assumptions are used in the 1975–80 period.
[3] "Average-current-cost" represents the arithmetic average of expenditures as percent of taxable payroll for the period and includes the cost of increasing the funds on hand to 1 yr's expenditures by the end of the valuation period.

It will be observed that the 75-year average-current-cost of 16.26 percent of taxable payroll estimated under the central set of assumptions would be reduced to 14.93 percent of taxable payroll if the CPI is assumed to increase at 3 percent per year. Similarly, the 75-year average-current-cost would increase to 17.68 percent of taxable payroll if the CPI is assumed to increase at 5 percent per year. This means that the 75-year actuarial balance of −5.32 percent of taxable payroll shown in table 21 would decrease to −3.99 percent of taxable payroll or increase to −6.74 percent of taxable payroll if the assumed annual increase in CPI and in average-earnings were lowered or raised by one percent from the values used in the central set of assumptions.

One significant element of the sensitivity of the projected costs to economic assumptions is the fact that most of the effect of changes in the CPI occurs after the turn of the century. The expenditures as percent of taxable payroll of the old-age, survivors, and disability insurance system over the remainder of the 20th century, that is, over the 26-year period, 1975–1999, would vary only from a low of 11.12 percent of taxable payroll to a high of 11.19 percent of taxable payroll according to the assumptions displayed in table 23. Since variations in other elements in the cost projection (mostly in demographic elements) would have only minor effects on the cost of the system over the 25-year period, it can be concluded that over the remainder of this century the old-age, survivors, and disability insurance system will need additional financing equivalent to about 1.3 percent of taxable payroll under reasonable sets of economic assumptions.

After the turn of the century, the amount of required additional financing would be significantly higher as may be noted from the projections in table 23. However, to a large extent, the higher cost that is projected to occur after the turn of the century is due to what may be considered unintended and undesirable results of the automatic benefit adjustment provisions in present law.

These present provisions in the law automatically increase the benefits of retired workers as increases occur in the CPI. These CPI increases are also given (indirectly through increases in the benefit table) to workers who have not yet retired and who therefore have an opportunity to improve their future benefits as a result of increases in their future taxable earnings. Thus, in a large proportion of cases the future benefits of those who are still working increase at annual rates that are in excess of increases in either CPI or average wages under economic conditions which may be considered likely to prevail. The duality of benefit increases that is possible under present law can result in future benefits being substantially higher than the highest gross earnings on which the worker was taxed.

For illustrative purposes, cost projections are presented in table 24 under alternative economic assumptions (the same ones used in table 23) and under a modified theoretical old-age, survivors, and disability insurance system which would maintain through time the relationship between average awarded benefits and average earnings existing at the beginning of calendar year 1977. It is assumed that in this theoretical system, as is true in present law, benefits after retirement would be increased automatically to keep up with increases in CPI. The new system is assumed to apply to insured workers who attain age 62, die or become disabled after 1976. These individuals would receive the higher of benefits determined under the new procedure for computing benefits or the procedure and benefit table in the law at the end of 1976.

TABLE 24.—ESTIMATED EXPENDITURES OF A MODIFIED THEORETICAL OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM [1] AS PERCENT OF TAXABLE PAYROLL [2] UNDER VARIOUS ECONOMIC ASSUMPTIONS, FOR SELECTED YEARS, 1985-2050

[In percent]

Calendar year	Expenditures as percent of taxable payroll under assumptions of— [3]		
	5-3	6-4	7-5
1985	11.01	10.90	10.79
1990	11.24	11.10	10.98
1995	11.60	11.45	11.32
2000	11.74	11.59	11.45
2005	12.03	11.88	11.73
2010	12.76	12.60	12.45
2015	13.99	13.81	13.65
2020	15.48	15.29	15.11
2025	16.82	16.60	16.40
2030	17.44	17.22	17.01
2035	17.37	17.15	16.95
2040	16.90	16.68	16.48
2045	16.57	16.36	16.16
2050	16.53	16.32	16.12
Average of expenditures as percent of taxable payroll:			
1975-99	11.17	11.06	10.95
2000-24	13.63	13.43	13.28
2025-49	16.95	16.78	16.56
Average-current-cost: [4] 1975-2049	14.00	13.83	13.67

[1] See text for brief description of theoretical system.
[2] 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.
[3] The initial value in each set refers to the assumed annual percent increases after 1980 in average earnings, while the second value in each set refers to the assumed percent increases after 1980 in CPI. Higher assumptions are used in the 1975-80 period.
[4] "Average-current-cost" represents the arithmetic average of expenditures as percent of taxable payroll for the period and includes the cost of increasing the funds on hand to 1 yr's expenditures by the end of the valuation period.

It may be observed from table 24 that the long-range cost of the modified theoretical old-age, survivors, and disability insurance system would be relatively insensitive to changes in the CPI assumption. According to the three sets of economic assumptions shown in the table, the average-current-cost over the customary 75-year period would be about 13.7 to 14.0 percent of taxable payroll.

Table 25 shows the estimated cost over various periods under the modified theoretical system. Under the assumptions used the actuarial imbalance over the customary 75-year period would be reduced to about −2.7 to −3.1 percent of taxable payroll if the system is modified to maintain through time the relationship between average awarded benefits and average earnings that will prevail at the beginning of calendar year 1977. The table also compares over three successive 25-year periods starting in 1975 the estimated average expenditures as percent of taxable payroll and the average-tax rate scheduled in present law.

TABLE 25.—COMPARISON OF EXPENDITURES AND TAXES FOR A MODIFIED THEORETICAL OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM[1] AS PERCENT OF TAXABLE PAYROLL[2] UNDER VARIOUS ECONOMIC ASSUMPTIONS

[In percent]

Item	Average for item as percent of taxable payroll under assumptions of—[3]		
	5-3	6-4	7-5
1st 25-yr period (1975-99):			
Expenditures as percent of taxable payroll	11.17	11.06	10.95
Tax rate in law	9.90	9.90	9.90
Difference	−1.27	−1.16	−1.05
2d 25-yr period (2000-24):			
Expenditures as percent of taxable payroll	13.63	13.43	13.28
Tax rate in law	11.02	11.02	11.02
Difference	−2.61	−2.41	−2.26
3d 25-yr period (2025-49):			
Expenditures as percent of taxable payroll	16.95	16.78	16.56
Tax rate in law	11.90	11.90	11.90
Difference	−5.05	−4.88	−4.66
Total 75-yr period (1975-2094):			
Current-cost[4]	14.00	13.83	13.67
Tax rate in law	10.94	10.94	10.94
Actuarial balance	−3.06	−2.89	−2.73

[1] See text for brief description of theoretical system.
[2] 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.
[3] The initial value in each set refers to the assumed annual percent increases after 1980 in average earnings, while the second value in each set refers to the assumed percent increases after 1980 in CPI. Higher assumptions are used in the 1975-80 period.
[4] "Average-current-cost" represents the arithmetic average of expenditures as percent of taxable payroll for the period and includes the cost of increasing the funds on hand to 1 yr's expenditures by the end of the valuation period.

It may also be observed from table 25 that over the next 25-year period the expenditures as percent of taxable payroll of the old-age, survivors, and disability insurance system is projected to exceed the taxes scheduled in present law under all economic assumptions used. These costs are similar to those projected under present law, which are shown in table 23. Under the modified theoretical system the additional taxes required over the remainder of this century would be about 1.1 to 1.3 percent of taxable payroll, whereas under present law it would be about 1.2 to 1.3 percent of taxable payroll.

It may be concluded from the cost analyses presented in this Report that the expenditures of the old-age, survivors, and disability insurance system for the remainder of the 20th century will exceed the taxes now scheduled in present law under reasonable sets of economic assumptions and irrespective of a possible modification in the automatic benefit adjustment provisions. If the system is to meet its outlays for the remainder of this century, higher taxes equivalent to an increase of about 1.3 percent of taxable payroll will be required.

Advisory Council on Social Security

Pursuant to section 706 of the Social Security Act, an Advisory Council on Social Security was appointed by the Secretary of Health, Education, and Welfare in April, 1974. The Council submitted its reports on March 6, 1975. The following two recommendations of the

Council would have a very significant impact on the financing of the program and the future integrity of the trust funds:

1. *Benefit structure—replacement rates. The provisions of present law for computing average monthly earnings, on which benefits are based, and for adjusting the benefit table in the law to changes in prices may result over the long range in unintended, unpredictable, and undesirable variations in the level of benefits. The benefit structure should be revised to maintain the levels of benefits in relation to preretirement earnings levels that now prevail. Benefits for workers coming on the rolls in the future should be computed on the basis of a revised benefit formula using past earnings indexed to take account of changes during their working lives in the average earnings of all covered workers. As under present law, benefits for people on the rolls should continue to be increased as price levels increase.*

Revising the benefit structure to stabilize replacement rates as recommended by the Advisory Council, would substantially reduce the sensitivity of the future cost of the system to the complex interaction of economic factors. It would also significantly reduce the rapid escalation of cost in the old-age, survivors, and disability insurance system projected to occur after the turn of the century. The Board of Trustees recommends revision of the benefit structure in order to achieve stability of benefit levels relative to prior earnings. The precise method of accomplishing this goal is now under study.

2. *Employee-employer taxes. The OASDI tax rate should be gradually increased, as OASDI costs increase, and the increases should be met by reallocating taxes now scheduled in the law for part A (hospital insurance) of the Medicare program. Income lost to the hospital insurance program by this reallocation should be made up from the general funds of the Treasury.*

Additional revenues for the social security cash benefits program will be required in both the short-range and long-range under all forseeable circumstances. The Board recommends that additional revenue requirements be met through increased contribution rates, an increase in the earnings base or some combination of these elements. The Board is opposed to the use of additional general revenue financing for the social security program.

The Council also made a recommendation concerning the OASDI contribution rates for the self-employed. The Council proposed: *The present 7-percent limitation on the tax rate for the self-employed should be removed. The self-employment OASDI tax rate should be the same multiple of the employee contribution rate as was fixed at the time the self-employed were first covered—150 percent.*

The Board of Trustees supports this rcommendation and recommends its adoption by the Congress.

Additional recommendations were made by the Advisory Council regarding the extension of social security protection through various changes in the provisions governing coverage and eligibility for benefits. The Board cautions that, as the Administration and the Congress consider these recommendations, the financial status of the OASDI system and the financial implications of the recommendations should be fully taken into account.

Conclusion

The short-range actuarial cost estimates indicate that the assets of both the old-age, and survivors insurance trust fund and the disability insurance trust fund will decline during the 5-year period 1975–79. Without legislation to provide additional financing, the assets of both trust funds will be exhausted soon after 1979.

The Board recommends that prompt action be taken to strengthen the financing of the old-age, survivors, and disability insurance system over the near term. The required additional income to the trust funds should be obtained through increases in the tax rate, in the taxable earnings base, or in both rate and base. The Board opposes the use of additional general revenue financing for the old-age, survivors, and disability insurance program. The Board noted that the amount of additional income required for the program would be reduced if the Congress adopted the President's proposal to limit to 5 percent the automatic benefit increase scheduled for June, 1975.

The long-range actuarial cost estimates indicate that for every year in the future the estimated expenditures will exceed the estimated income from taxes. This excess increases with time and is estimated to average about 1.3 percent of taxable payroll over the next 25-year period (1975–1999). All reasonable alternative actuarial assumptions indicate that over the remainder of this century the financing of the old-age, survivors, and disability insurance program will need additional revenues equivalent to about 1.3 percent of taxable payroll.

The long-range cost of the OASDI program projected to occur after the turn of the century will substantially exceed the taxes scheduled in present law. Although those projected costs are highly sensitive to variations in the actuarial assumptions, all reasonable assumptions indicate that there will be significant excesses of expenditures over income. This report is not intended to provide an indication of the fullest possible range of variation in the long-range cost estimates. (Appendix A provides some information on the sensitivity of the long-range cost estimates to alternative assumptions.)

To some extent the high cost of the old-age, survivors, and disability insurance program projected to occur after the turn of the century is due to unintended results in the automatic benefit adjustment provisions enacted in 1972, which cause future projected benefits to increase out of proportion to levels of wage replacement established by benefits currently paid under the program. The Board fully concurs with the intent of the recommendation by the 1975 Advisory Council on Social Security that the benefit structure be revised to maintain the levels of benefits in relation to preretirement earnings levels that now prevail.

The Board recommends that development of specific plans for strengthening of the long-range financing of the old-age, survivors, and disability insurance program be pursued immediately with special priorities given to ways of modifying the automatic benefit adjustment provisions in present law.

In this regard, the Board is pleased to note that the Administration has already begun studies of the possible means of accomplishing this objective. The Board also welcomes the cooperative efforts now under way between the Social Security Administration and the actuarial and economic consultants appointed by the Congressional Research

Service of the Library of Congress at the request of the House Committee on Ways and Means and the Senate Committee on Finance to study this matter.

The Board also concurs with the 1975 Advisory Council on Social Security in the recommendation that the OASDI tax rate applicable to self-employment income be set at a level equivalent to 150 percent of the tax rate applicable to wages.

APPENDIXES

Appendix A.—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 some 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. Section B discusses the economic and various other aspects of the long-range cost estimates. The terms "demographic" and "economic" are used in a general sense, since it is not entirely possible to separate the effect of these two aspects on the cost estimates. "Demographic aspects" refer to those elements dealing with the population and its characteristics. These elements include the number, age, sex, marital status, retirement, disability, mortality, fertility, employment, and coverage under the system. "Economic aspects" refer to the projected annual increases in the Consumer Price Index (CPI) and in the average earnings in covered employment. Section C of this appendix contains a brief analysis of the sensitivity of the cost projections to changes in selected demographic and economic assumptions.

A. Demographic Aspects

This section of the appendix discusses the methods used to estimate the demographic elements of the OASDI cost projections.

(1) POPULATION

A projection was 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, 1973, as estimated by the Bureau of the Census from the 1970 Census and from births, deaths, and migration in 1970–73. This population estimate was 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.

In the population projection it was assumed that through 2050 mortality rates will continue the general trends established over the period from 1950–1970. This results in an overall reduction in mortality rates of about 15 percent from 1970 to 2050.

The total fertility rate was assumed to decrease from its current level to a level of 1.7 children per woman in fiscal year 1977 and then slowly increase to an ultimate level of 2.1 children per woman in fiscal year 2005. It was assumed to remain level at 2.1 from 2005 to 2050. The 2.1 ultimate total fertility rate is close to population replacement rate and would ultimately result in close-to-zero population growth. In addition, the projection assumed a small amount of net immigration. Appendix table A presents the projected population by broad age groups. Complete details about the population projection will be given in a new actuarial study to be published by the Social Security Administration.

APPENDIX TABLE A.—PROJECTIONS OF THE U.S. POPULATION BY BROAD AGE GROUPS, 1985–2050

Year	Population (in thousands) as of July 1				65 and over as—	
	Under 20	20 to 64	65 and over	Total	Percent of total	Ratio of 20 to 64
1985	70,754	141,512	26,741	239,006	11.2	0.189
1990	71,929	147,457	28,789	248,176	11.6	.195
1995	74,264	152,261	30,015	256,540	11.7	.197
2000	76,333	157,038	30,214	263,585	11.5	.192
2005	76,349	162,970	30,580	269,898	11.3	.188
2010	76,222	167,432	32,662	276,316	11.8	.195
2015	76,990	168,840	36,917	282,747	13.1	.219
2020	78,561	167,873	42,061	288,494	14.6	.251
2025	80,030	165,608	47,448	293,087	16.2	.287
2030	80,768	164,636	51,227	296,632	17.3	.311
2035	81,202	166,502	51,879	299,583	17.3	.312
2040	81,989	169,501	50,806	302,296	16.8	.300
2045	83,213	172,462	49,257	304,931	16.2	.286
2050	84,462	173,843	49,352	307,657	16.0	.284

(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. For men, the latest estimated average percentages (1970–72) were projected to increase for teenagers, to decrease slightly for those aged 20–59, and to decrease significantly for those aged 60 and over (thus recognizing the trend toward higher retirement rates). For women, the corresponding percentages were assumed to increase, except for those aged 60 and over for whom a decrease was projected.

As measured by the age-adjusted labor force participation rates for ages 16 and over, the projected ultimate covered employment is equivalent to a decrease over the rates experienced in calendar year 1974 of about 2 percent for males and an increase of about 23 percent for females. At the ultimate assumed rates females would have, on the average, participation in the labor force that is about 73 percent of male participation rates.

The foregoing projections are consistent with the projected average unemployment rate of 5 percent. It is assumed that any periods during which unemployment is substantially higher than the assumed level would be of relatively short duration or would be balanced by offsetting periods of low unemployment, and would therefore have virtually no long-range cost effect.

(3) INSURED POPULATION

The term "insured" as used herein means 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 number of insured persons as percent of population by age and sex, in various future years is 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 95 percent. For females it is estimated that the corresponding proportion will eventually be 85 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 provision for disability benefits. These numbers 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 1973 were projected to increase according to past trends after adjustment for changes in the earnings test and in the level of unemployment, thereby 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 for their own old-age benefits, 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 aforementioned fertility and mortality assumptions.

Child-survivor beneficiaries were obtained from estimates of orphans in the country in future years. The projected child population, by age group, was multiplied by the probability of being an orphan. These probabilities were derived by using distribution of age of parent at birth of child and death rates consistent with the population projections. The number of orphans was then adjusted to eliminate orphans of uninsured deceased parents, and to include the eligible disabled orphans aged 18 and over. For non-disabled children aged 18–21 a further reduction was made to exclude those not attending school. Mother-survivor-beneficiaries were estimated by extrapolating the present ratio of mothers to children, after excluding those non-disabled children 18–21 who were attending school, to reflect the projected fertility. The estimated costs were increased by 0.01 percent of taxable payroll to reflect the cost of fathers survivors benefits, payable as a result of the recent Supreme Court decision.

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 their own old-age benefits 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 may 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 projected by assuming a decrease from a level of 23,000 at the end of 1974 to an ultimate level of 15,000 in 1980. 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 B shows the estimated number of beneficiaries in the old-age and survivors insurance program.

APPENDIX TABLE B.—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):								
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
1973	14,880	2,756	602	548	2,887	3,575	25	25,273
1974	15,589	2,806	619	565	2,908	3,620	24	26,131
Projection (as of June 30):								
1985	21,243	2,892	518	765	3,035	3,686	15	32,154
1990	23,319	2,897	387	777	3,030	3,610	15	34,035
1995	24,589	2,898	310	824	3,253	3,514	15	35,403
2000	25,172	2,766	311	849	3,526	3,452	15	36,091
2005	26,310	2,528	345	855	3,662	3,417	15	37,132
2010	29,077	2,352	416	832	3,636	3,394	15	39,722
2015	33,623	2,317	496	815	3,614	3,345	15	44,225
2020	39,120	2,302	577	819	3,679	3,339	15	49,851
2025	44,427	2,288	623	834	3,777	3,326	15	55,290
2030	47,655	2,247	619	843	3,833	3,327	15	58,539
2035	48,513	2,121	590	836	3,842	3,262	15	59,179
2040	47,506	1,969	552	823	3,853	3,225	15	57,943
2045	46,689	1,841	551	829	3,906	3,153	15	56,984
2050	47,020	1,809	577	837	3,978	3,070	15	57,306

[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 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 termination 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 both the increases in awarded disability benefits through the end of calendar year 1974 as well as relevant legislated changes through that year. Although the reasons for these increases are not yet fully understood, it was decided that the projected costs should reflect the total increases that have already been experienced through the end of calendar year 1974. In addition, the incidence rates were assumed to increase 3 percent per year for the next 5 years and to remain level thereafter. This extrapolation of future incidence rates is intended as a temporary procedure for reflecting probable future increases.

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

The mortality and recovery rates were based on the actual experience of the system for the period 1957–67 adjusted to reflect the estimated experience through the end of calendar year 1974.

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 the projected future changes in fertility.

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

APPENDIX TABLE C.—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):				
1970	1,436	271	861	2,568
1971	1,561	293	934	2,788
1972	1,737	327	1,028	3,092
1973	1,925	364	1,127	3,416
1974	2,098	391	1,203	3,692
Projection (as of June 30):				
1985	3,829	533	1,302	5,664
1990	4,219	516	1,151	5,886
1995	4,675	631	1,340	6,646
2000	5,379	758	1,632	7,769
2005	6,240	906	1,964	9,110
2010	6,982	1,034	2,289	10,305
2015	7,397	1,060	2,434	10,891
2020	7,448	1,007	2,440	10,895
2025	7,146	942	2,338	10,426
2030	6,796	889	2,224	9,909
2035	6,706	884	2,194	9,784
2040	6,868	896	2,242	10,006
2045	7,131	914	2,325	10,370
2050	7,231	904	2,357	10,492

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

B. Economic Aspects; Miscellaneous Aspects

This section of the appendix presents a discussion of the economic aspects and miscellaneous aspects of the OASDI long-range cost estimates. As stated above, the term "economic aspects" is used here to refer primarily to the assumptions regarding future annual increases in average earnings as well as in the Consumer Price Index (CPI). The importance of these economic aspects results from the automatic adjustment provisions in the present law which require that the benefit table be adjusted to keep up with increases in the CPI and that the taxable earnings base, as well as the exempt amount in the retirement test, be adjusted to keep up with increases in average earnings. This type of automatic procedure has the effect that, once a worker retires, the value of his benefits will not deteriorate in terms of purchasing power. It has the further effect that, for those who are still working, their potential benefits increase because of both the increases in the credited earnings and the adjustment in the benefit table according to increases in the CPI. This dual increase in potential benefits for future beneficiaries may, in combination, be at a higher or lower rate than the increase in earnings, but (as will be shown later) it is likely to be, on the average. slightly higher than increases in earnings for the next 20 years and significantly higher thereafter.

(1) ECONOMIC ASSUMPTIONS AS TO ANNUAL INCREASES IN AVERAGE EARNINGS AND IN CPI

The cost estimates presented in the Report are based on three alternative sets of economic assumptions as described therein. This was done to illustrate the effect on the estimates of variations in economic assumptions. However, most of the estimates presented in the report are based on the central set of economic assumptions in which the ultimate annual rate of increase in average earnings is assumed to be 6 percent while CPI is assumed to increase at 4 percent.

The assumed 4 percent increase in the CPI is approximately ½ of one percent higher than has been experienced over the last 30 years. However, trends over the last 60 years indicate a tendency for the CPI to increase slowly with time. Moreover, current outlook does not support a reversal or a halt in these trends. The assumed 6-percent increase in average earnings is a by-product of the 4-percent CPI assumption and the assumption adopted regarding the annual increases in average real earnings. Based on the trend in real earnings over the last 20–25 years, and also on the assumption that there would be a leveling in the movement toward part-time employment, an ultimate annual increase in average real earnings of 2 percent was adopted. This increase when combined with the assumed CPI increase of 4 percent yielded the assumption of a total increase in average earnings of 6 percent.

This central set of economic assumptions is consistent with the economic assumptions adopted by the panel of actuaries and economists appointed in 1974 by the Senate Committee on Finance to review the OASDI long-range cost estimates published in last year's report of the Board of Trustees.[1]

Unless otherwise stated, the estimates presented in this appendix are based on this same central set of economic assumptions, that is, ultimate annual increases in average earnings in covered employment of 6 percent and in the CPI of 4 percent. For years before 1981 the assumptions are as described in the section of this report dealing with the 5-years forecast of operation of the trust funds.

(2) AVERAGE BENEFITS

Appendix table D shows the projected average awarded retirement benefit, the projected average retirement benefit in current-payment status, and the projected increases in each as compared to increases in average earnings. As can be observed from the projected ratios in the third column of the table, all of which are greater than one, the average awarded retirement benefit is projected to increase faster than average earnings. It can also be observed that this is particularly true after the year 1995 when the computation period for retirement benefits reaches its ultimate length of 35 years.

To prepare the figures in appendix table D, the average awarded benefits for retired workers were projected by computer simulation of the automatic adjustment provisions for workers at various earnings levels under the central set of economic assumptions regarding the increases in earnings and CPI. The average benefits in current-payment status were then obtained by weighting the projected awarded benefits according to values obtained from recent actual experience while allowing for the effect of future CPI adjustments.

APPENDIX TABLE D.—PROJECTED INCREASES IN AVERAGE RETIREMENT BENEFIT AT AWARD AND IN CURRENT-PAYMENT STATUS AS COMPARED WITH PROJECTED INCREASES IN AVERAGE COVERED EARNINGS[1] FOR SELECTED YEARS, 1975–2050

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
1975	2,750	2,603	1.000	1.000
1985	5,921	5,001	1.060	.946
1990	8,020	6,832	1.066	.960
1995	10,832	9,280	1.074	.972
2000	15,206	12,643	1.126	.989
2005	21,517	17,521	1.191	1.024
2010	29,769	24,504	1.231	1.070
2015	41,038	34,136	1.268	1.114
2020	56,399	47,218	1.302	1.152
2025	77,431	65,014	1.336	1.185
2030	106,166	89,316	1.369	1.217
2035	145,696	122,569	1.404	1.248
2040	198,435	167,970	1.429	1.278
2045	269,841	229,422	1.452	1.304
2050	366,258	312,401	1.473	1.327

[1] Based on the central set of economic assumptions of annual increases of 4 percent in CPI and 6 percent in earnings and somewhat higher increases before 1981. The benefits refer only to those payable to retired workers. The figures in the column entitled "In current-payment" refer to the average benefits for all retired workers who are receiving benefits, while those in the column entitled "Awards" refer to the average benefits for those workers retiring in the particular year.

(3) TOTAL BENEFIT PAYMENTS

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

[1] The panel's discussion of these assumptions may be found on pp. 10–11 under the subheadings "Rate of Growth in Real Wages" and "Rate of Inflation" of the Report of the Panel on Social Security Financing to the Committee on Finance United States Senate, printed for the Committee, February 1975.

(4) ADMINISTRATIVE EXPENSES

It was assumed that future administrative expenses would be 1.8 percent of benefit payments for old-age and survivors insurance and 5.0 percent of benefit payment for disability insurance. These percentages include the allocation of funds to be used to rehabilitate disabled beneficiaries under the beneficiary rehabilitation program enacted in 1965.

(5) RAILROAD RETIREMENT FINANCIAL INTERCHANGE

The effect of the financial interchange was evaluated on the basis of trends similar to those used for the old-age, survivors, and disability insurance direct costs. This results in a small long-range loss to the Old-Age, Survivors, and Disability System.

(6) INTEREST RATE

The interest rate used in each estimate and projection was assumed at an annual real rate (after discounting for CPI increases) of 3¼ percent.

The effect of a different interest rate would be minor since the system is expected to operate with relatively small trust funds.

C. Sensitivity of Cost Estimates to Changes in Selected Assumptions

(1) SENSITIVITY TO ECONOMIC ASSUMPTIONS

This subsection contains a brief analysis of the sensitivity of the cost projections to some changes in the economic assumptions and to changes in procedures for computing benefits.

Appendix table E shows the average-cost over periods of 25 years (1975–1999), 50 years (1975–2024) and 75 years (1975–2049) under three alternative assumptions of annual CPI increases of 3 percent, 4 percent, and 5 percent. In each case the annual increases in real average earnings are assumed at about 2 percent yielding annual increases in average earnings of 5 percent, 6 percent and 7 percent. The table indicates the cost under present law as well as under a modified theoretical system in which average benefits awarded at retirement are assumed to increase after 1976 at about the same rate as average earnings. In this modified theoretical system it is also assumed, as is true in present law, that after retirement, benefits will be increased automatically to keep up with increases in CPI. The new theoretical system is assumed to apply to individuals who attain age 62, die or become disabled after 1976. These individuals would have a choice between the new procedure for computing benefits or the procedure and benefit table in the law at the end of 1976.

APPENDIX TABLE E.—ESTIMATED LONG-RANGE AVERAGE-CURRENT-COST [1] OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL,[2] UNDER VARIOUS CPI ASSUMPTIONS,[3] PRESENT LAW AND MODIFIED THEORETICAL SYSTEM [4]

[In percent]

System	Estimated under assumptions of—[3] 5–3	6–4	7–5
25-yr period:			
Present law	11.39	11.42	11.47
Modified theoretical	11.43	11.31	11.20
50-yr period:			
Present law	12.93	13.50	14.10
Modified theoretical	12.57	12.43	12.30
75-yr period:			
Present law	14.93	16.26	17.68
Modified theoretical	14.00	13.83	13.67

[1] "Average-current-cost" represents the arithmetic average of expenditures as percent of taxable payroll for the period and includes the cost of increasing the funds on hand to 1 yr's expenditures by the end of the valuation period.

[2] 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.

[3] The initial value in each set refers to the assumed annual percent increases after 1980 in average earnings, while the 2d value in each set refers to the assumed percent increases after 1980 in CPI. Higher assumptions are used in the 1975-80 period.

[4] See text for brief description of theoretical system.

As shown in appendix table E the average-cost of the old-age, survivors, and disability insurance system over a 75-year period under present law is highly sensitive to changes in CPI assumptions. However, under the modified theoretical system the average-cost would be significantly less sensitive to CPI assumptions.

It will be noted that under the modified theoretical system the average-cost decreases with increases in CPI. This is due in large part to specific assumptions used in this case in which there is a lag between the increases in earnings and the assumed increases in average awarded benefits. Normally, costs are computed as a percent of the taxable payroll in the year, while awarded benefits normally are based on earnings in years prior to retirement.

A very significant element in appendix table E is the fact that over the rest of this century, that is, for the next 25-year period, the average-cost of the old-age, survivors, and disability insurance system will be essentially the same (11.2 to 11.5 percent of taxable payroll) regardless of the CPI assumption or of a possible modification in the procedure for computing benefits.

Appendix table F shows the average-cost over periods of 25 years, 50 years and 75 years under three alternative assumptions of annual increases in average real earnings of 1½ percent, 2 percent and 2½ percent. In each case the annual increases in average earnings of 5½ percent, 6 percent, and 6½ percent. The table indicates the cost under the present law as well as under the modified theoretical system previously discussed.

APPENDIX TABLE F.—ESTIMATED LONG-RANGE AVERAGE-CURRENT-COST [1] OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL [2] UNDER VARIOUS REAL EARNINGS ASSUMPTIONS,[3] PRESENT LAW AND MODIFIED THEORETICAL SYSTEM [4]

[In percent]

System	Estimated under assumptions of— [3]		
	5½-4	6-4	½-4
25-yr period:			
Present law	11.95	11.42	10.93
Modified theoretical	11.58	11.31	11.04
50-yr period:			
Present law	14.83	13.50	12.32
Modified theoretical	12.80	12.43	12.08
75-yr period:			
Present law	18.59	16.26	14.30
Modified theoretical	14.27	13.83	13.42

[1] "Average-current-cost" represents the arithmetic average of expenditures as percent of taxable payroll for the period and includes the cost of increasing the funds on hand to 1 yr expenditures by the end of the valuation period.

[2] 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.

[3] The initial value in each set refers to the assumed annual percent increases after 1930 in average earnings, while the 2d value in each set refers to the assumed percent increases after 1930 in CPI. Higher assumptions are used in the 1975–80 period.

[4] See tezt for brief description of theoretical system.

As shown in appendix table F the average-current-cost of the old-age, survivors, and disability insurance system over a 75-year period is highly sensitive to changes in the assumed increases in average real earnings. For a modified theoretical system the sensitivity would be significantly reduced.

For the next 25-year period, that is, for the remainder of this century, the average-cost under present law would vary by about ½ percent of taxable payroll for every ½ percent change in annual increases in average real earnings. Under the modified theoretical system the changes in the 25-year average-cost would be equivalent to about ¼ percent of taxable payroll for each ½ percent change in annual increases in average real earnings. It should be observed that in all instances the average-cost over the next 25 years is higher than the tax rate in present law of 9.9 percent of taxable payroll that is scheduled for the period.

(8) SENSITIVITY TO DEMOGRAPHIC ASSUMPTIONS

This subparagraph contains a brief analysis of the sensitivity of the cost projections to changes in the demographic assumptions. The assumptions tested are those regarding the projected ultimate total fertility rates and the annual level of net migration. All other assumptions and all formulae and procedures remained the same as those used in the preparation of the cost estimates under the central set of economic assumptions.

Appendix table G shows the average-current-cost over periods of 25 years, 50 years, aud 75 years under the central set of economic assumptions with three alternative assumptions of ultimate total fertility rates of 1.7 children per woman, 2.1 children per woman, and 2.5 children per woman. The table indicates the cost under the present law as well as under the modified theoretical system previously discussed.

APPENDIX TABLE G.—ESTIMATED LONG-RANGE AVERAGE-CURRENT COST [1] OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL, [2] UNDER VARIOUS FERTILITY ASSUMPTIONS, [3] PRESENT LAW AND MODIFIED THEORETICAL SYSTEM [4]

[In percent]

System	Estimate under assumed fertility of— [5]		
	1.7	2.1	2.5
25-yr period:			
Present law	11.40	11.42	11.43
Modified theoretical	11.28	11.31	11.32
50-yr period:			
Present law	13.80	13.50	13.23
Modified theoretical	12.68	12.43	12.21
75-yr period:			
Present law	17.72	16.26	15.19
Modified theoretical	14.95	13.83	13.00

[1] "Average-current-cost" represents the arithmetic average of expenditures as percent of taxable payroll for the period and includes the cost of increasing the funds on hand to one year's expenditures by the end of the valuation period.

[2] 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.

[3] These assumptions refer to the ultimate total fetrility rate which is in terms of number of children per woman during her lifetime. In all cases the rate is assumed to start from its 1974 level and to move gradually to the ultimate level which would be attained by the year 2005.

[4] See text for brief description of theoretical system.

[5] Calculated under the central set of economic assumptions of annual increases after 1980 of 6 percent in average earnings and 4 percent in CPI. Higher assumptions are used in the 1975–80 period.

As shown in appendix table G the average-current-cost over a 75-year period of the old-age, survivors, and disability insurance system under either present law or the theoretical system is highly sensitive to changes in fertility assumptions.

Over the next 25 years the average-cost under either system would be slightly lower with assumed fertility and higher with higher assumed fertility, which is opposite to the effect over the 75-year period. This is due to the lower (or higher) survivor and dependent children benefits that would be payable during the 25-year period, which would not be offset by a lower (or higher) number of workers in the period.

It is clear from this table that for the next 25-year period regardless of future fertility the average-cost of the old-age, survivors, and disability insurance system will be significantly higher than the tax rate of 9.9 percent of taxable payroll scheduled in present law.

Appendix table H shows the average-cost over periods of 25 years, 50 years, and 75 years under three alternative assumptions of annual net migration of 300,000 persons, 400,000 persons, and 500,000 persons. The table indicates the cost under the present law as well as under the modified theoretical svstem previously discussed.

APPENDIX TABLE H.—ESTIMATED LONG-RANGE AVERAGE-CURRENT COST [1] OF OLD-AGE, SURVIVORS AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL, [2] UNDER VARIOUS MIGRATION ASSUMPTIONS [3] PRESENT LAW AND MODIFIED THEORETICAL SYSTEM [4]

[In percent]

System	Estimated under assumed migration of— [5]		
	300,000	400,000	500,000
25-yr period:			
Present law	11.48	11.42	11.37
Modified theoretical	11.37	11.31	11.26
50-yr period:			
Present law	13.61	13.50	13.40
Modified theoretical	12.53	12.43	12.33
75-yr period:			
Present law	16.43	16.26	16.10
Modified theoretical	13.97	13.83	13.70

[1] "Average-current-cost" represents the arithmetic average of expenditures as percent of taxable payroll for the period and includes the cost of increasing the funds on hand to 1 yr's expenditures by the end of the valuation period.
[2] 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.
[3] These refer to the annual net migration which would be applicable to all future years. The distribution by age and sex of these immigrants is assumed to be identical to that in the preferred central set of assumptions.
[4] See text for brief description of theoretical system.
[5] Calculated under the central set of economic assumptions of annual increases after 1980 of 6 percent in average earnings and 4 percent in CPI. Higher assumptions are used in the 1975–80 period.

As shown in appendix table H the average-current-cost over all periods is relatively insensitive to changes in migration assumptions. This is the case under present law as well as under the modified theoretical system.

APPENDIX

APPENDIX B.—DETERMINATION AND ANNOUNCEMENT OF SOCIAL SECURITY CONTRIBUTION AND BENEFIT BASE AND RETIREMENT TEST EXEMPT AMOUNT FOR 1975 [1]

Pursuant to authority contained in sections 203(f)(8) and 230 of the Social Security Act (42 U.S.C. 403(f)(8) and 430), as amended by section 3(j) and (k) of Public Law 93–233, enacted December 31, 1973, I hereby determine and announce that the contribution and benefit base with respect to remuneration paid in, and taxable years beginning in 1975 shall be $14,100 and the monthly exempt amount under the retirement test shall be $210 with respect to taxable years ending in calendar year 1975.

There follows a statement of the actuarial bases employed in arriving at the amounts of $210 and $14,100 for the retirement test monthly exempt amount and the contribution and benefit base, respectively, for the calendar year 1975.

In determining each of the 1975 amounts, the law specifies a formula which automatically produces a mathematical result based upon reported statistics.

Section 203(f)(8) of the Act provides that the retirement test monthly exempt amount for 1975 shall be equal to the 1974 amount of $200 multiplied by the ratio of (1) the average amount, per employee, of the taxable wages of all employees reported under the program for the first calendar quarter of 1974 to (2) the average amount of such wages reported for the first calendar quarter of 1973. The section further provides that if the amount so determined is not a multiple of $10, it shall be rounded to the nearest multiple of $10.

Similarly, section 230 of the Act provides that the contribution and benefit base for 1975 shall be equal to the 1974 amount of $13,200 multiplied by the ratio of (1) the average amount, per employee, of the taxable wages of all employees reported under the program for the first calendar quarter of 1974 to (2) the average amount of such wages reported for the first calendar quarter of 1973. The section further provides that if the amount so determined is not a multiple of $300, it shall be rounded to the nearest multiple of $300.

The data used to make the necessary computations of such average taxable wages were derived from reports submitted to the Social Security Administration of taxable wages paid to employees by their employers. Each quarter, taxable wages are posted to the record of earnings of each individual employee for whom wages were reported. These records are referred to hereinafter as Summary Earnings Records. As the wages were posted to the Summary Earnings Records, the data were tabulated on a 100-percent basis to obtain the total amount of reported taxable wages and the total number of employees for whom such wages were reported.

Because of the requirement in the law that the foregoing determinations be made on or before November 1, 1974, the tabulated data on taxable wages reported for the first calendar quarter of 1974 were necessarily limited to those wages that were reported and posted to the Summary Earnings Records by the end of the quarterly updating operations completed in September 1974. In order that the required ratio referred to above be based on data reflecting comparable reporting and posting periods, the tabulated data on taxable wages reported for the first calendar quarter of 1973 were limited to those wages that were reported and posted to the Summary Earnings Records by the end of the quarterly updating operations completed in September 1973.

[1] This statement was published in the Federal Register for October 31, 1974 (Vol. 39, No. 211, pp. 38406–7).

About 70.6 million employees had taxable wages reported for the first calendar quarter of 1973 that were posted to the Summary Earnings Records by the end of September 1973, and the average amount of their taxable wages was $1,895.04 per employee. The corresponding number of employees and average amount of taxable wages for the first calendar quarter of 1974 were 71.1 million and $2,007.69, respectively. The ratio of average taxable wages reported for the first quarter of 1974 to average taxable wages reported for the first quarter of 1973 is therefore 1.059445.

Multiplying the 1974 retirement test monthly exempt amount of $200 by the ratio of 1.059445 produces the amount of $211.89, which must then be rounded to $210. Accordingly, the retirement test exempt amount for taxable years ending in calendar year 1975 is $210 on a monthly basis, or $2,520 on an annual basis.

Multiplying the 1974 contribution and benefit base of $13,200 by the ratio of 1.059445 produces the amount of $13,984.67, which must then be rounded to $14,100. Accordingly, the contribution and benefit base for remuneration paid in, and taxable years beginning in, calendar year 1975 is $14,100.

Dated: October 29, 1974.

CASPAR W. WEINBERGER,
Secretary.