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

LETTER

FROM THE

BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

TRANSMITTING

THEIR SECOND ANNUAL REPORT

APRIL 9, 1942.—Referred to the Committee on Ways and Means and ordered to be printed with illustrations

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE FEDERAL
OLD-AGE AND SURVIVORS INSURANCE TRUST FUND,
Washington, D. C., January 2, 1942.

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

SIR: We have the honor to transmit to you the Second Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund, in compliance with the provisions of section 201 (b) of the Social Security Act, as amended.

Respectfully,

H. MORGENTHAU, Jr.,
FRANCES PERKINS,
A. J. ALTMEYER.

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

INTRODUCTORY STATEMENT

The Federal old-age and survivors insurance trust fund created pursuant to section 201 of the Social Security Act Amendments of 1939, approved August 10, 1939, became effective on January 1, 1940, superseding the old-age reserve account established under the Social Security Act of 1935. The trust fund is held by a board of trustees composed of the Secretary of the Treasury, the Secretary of Labor, and the Chairman of the Social Security Board, all ex officio. The Secretary of the Treasury is the managing trustee.

The old-age and survivors insurance trust fund is available for the payment of old-age and survivors insurance benefits and the expenditures incurred by the Social Security Board and the Treasury Department in the administration of the program. Benefits are paid out of the fund by the managing trustee in accordance with section 205 (i) of the Social Security Act, as amended, upon receiving certifications from the Social Security Board.

Reimbursements for administrative expenses are made in accordance with section 201 (f) of the act, as amended, which directs the managing trustee to pay from the trust fund for each 3-month period the amount of administrative expenses of both the Treasury and the Social Security Board under titles II and VIII of the Social Security Act and the Federal Insurance Contributions Act.

Resources made available to the trust fund include amounts equivalent to contributions of covered workers and their employers, interest on and proceeds from the sale or redemption of any securities held by the trust fund, and the assets standing to the credit of the old-age reserve account on January 1, 1940. Amounts equivalent to 100 percent of the taxes (including interest, penalties, and additions to taxes) received under the Federal Insurance Contributions Act and covered into the Treasury are appropriated to the trust fund for the fiscal year ended June 30, 1941, and for each fiscal year thereafter. Funds not required to meet current disbursements in accordance with the Social Security Act, as amended, are invested by the managing trustee. Securities eligible as investments for the fund are interest-bearing obligations of the United States and obligations guaranteed as to both principal and interest by the United States.

The trust fund serves as a reserve against fluctuations in contributions and benefits, counteracting the effect of these fluctuations on the old-age and survivors insurance program. The amounts of both contributions and benefits are responsive to changes in business activity, employment, and wages. The total volume of contributions

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collected has fluctuated appreciably with changes in business conditions. While benefit payments are expected to reflect changes in employment opportunities and wages, particularly in the first years of the program, experience to date is not sufficient to indicate reliably the longer-run relationships between employment and pay-roll conditions on the one hand, and the amount of benefit disbursements, on the other.

At this time, when national efforts are directed toward war and defense, production and employment have risen to the highest level in the Nation's history. As a consequence of this expansion, contributions have been higher and total benefit payments lower than previously estimated. The trust fund thus is accumulating additional amounts which will provide reserves against the future long-term rise in benefits and against any sudden increase in benefits or decline in contributions which may result from a reversal in business activity as an aftermath of the war efforts.

The trust fund provides a financial margin of safety for the old-age and survivors insurance system, not only against these short-term contingencies but also against the first impacts of an acceleration in the increasing rate of disbursements. Benefits under the program are expected to increase markedly over a long period. Such a substantial increase is anticipated because it is expected that for many decades the number of persons age 65 or over will be increasing markedly, and also an ever increasing proportion of such aged persons will be qualifying for benefits under the old-age and survivors insurance system.

At the beginning of 1940, there were about 9,000,000 persons age 65 and over, representing 6.8 percent of the total population. According to one authoritative estimate, the number of persons age 65 or over will increase to about 22,000,000, or 14.4 percent of the population, within 40 years. The effect on the old-age and survivors insurance system of this demographic change in the number of aged persons will be accentuated by the further fact that a much larger proportion of the aged population 40 years hence will be receiving benefits under the program than the corresponding proportion of the present aged population. Hence, the essential assurance of future financial soundness of the system, with its rising rate of disbursement, rests on a graduated increase in contribution rates or provision of income from other sources or both.

SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1941

The operations of the old-age and survivors insurance trust fund through the fiscal year 1940 and the status of the trust fund at the end of the fiscal year 1940 have been reported previously to the Congress by the board of trustees. At the end of the period covered in the previous report—June 30, 1940—total assets of the old-age and survivors insurance trust fund amounted to $1,744.7 million. A statement of the operations from that date to June 30, 1941, is incorporated in table 1.

Receipts of the old-age and survivors insurance trust fund for the fiscal year 1941 totaled $744.1 million, of which $688.1 million represented the appropriation equal to contributions collected and covered into the Treasury during the fiscal year and $56.0 million represented interest received on the investments of the fund.

Benefit payments during the fiscal year 1941 totaled $64.3 million, an amount more than four times as large as that of the prior fiscal year. This substantial increase was to be expected, since the fiscal year 1941 was the first fiscal year throughout which monthly benefit payments were made under the provisions of the Social Security Act as amended in 1939.

Of the $64.3 million total benefit payments, about 58 percent represented monthly benefits to persons over age 65—retired workers and their wives, and widows and parents of deceased workers. Approximately another 22 percent represented monthly benefits to children of deceased or retired workers, and to widows—generally under age 65—who had such children of deceased workers in their care. The balance of the benefit payments represented lump-sum payments made in those cases in which no survivor of a deceased insured worker could be immediately entitled to monthly benefits. At the end of June 1941, the monthly benefit rolls included about 336,000 persons to whom aggregate benefits of about $6.1 million per month were being paid.

A total of $26.8 million was paid out of the trust fund in the fiscal year 1941, as reimbursements for administrative expenses.

Table 2 indicates the total assets of the trust fund and their distribution by type, at the beginning and end of the fiscal year 1941. During the fiscal year, all the new investments of the trust fund assets were made in the form of 2.5 percent special Treasury notes. The $1,003.2 million increase in such 2.5 percent notes included the reinvestment of $264.9 million of 3 percent special Treasury notes which were issued in the fiscal year 1937 and matured June 30, 1941. The investments in 3 percent notes were further reduced during the fiscal year by the redemption of such notes in an amount sufficient to meet withdrawals for benefit payments and administrative expenses during the year.

As a result of the change during the year in the amount and distribution of invested assets, the average interest rate on investments held by the trust fund was reduced from 2.91 percent as of June 30, 1940, to 2.72 percent as of June 30, 1941.

Total investments held by the trust fund at the end of the fiscal year 1941 amounted to $2,380.6 million. In addition, the assets of the trust fund included $10.8 million to the credit of the disbursing officer and $6.2 million to the credit of the fund account. The assets of the trust fund at the end of the fiscal year 1941 totaled $2,397.6 million.

TABLE 1.—*Statement of the operations of the Federal old-age and survivors insurance trust fund during the fiscal year 1941* [1]

Total assets of the trust fund, June 30, 1940		$1, 744, 697, 955. 52
Receipts (fiscal year 1941)	$744, 099, 006. 40	
Appropriations by Congress	688, 140, 728. 28	
Interest on investments	55, 958, 278. 12	
Disbursements (fiscal year 1941)	91, 181, 879. 52	
Benefit payments	64, 341, 884. 66	
Reimbursements for administrative expenses	26, 839, 994. 86	
Net addition to the trust fund during fiscal year 1941 (receipts less disbursements)		652, 917, 126. 88
Total assets of the trust fund, June 30, 1941		2, 397, 615, 082. 40

[1] On basis of the Daily Statement of the United States Treasury (unrevised).

TABLE 2.—*Distribution of the assets of the Federal old-age and survivors, insurance trust fund at the beginning and end of the fiscal year 1941* [1]

	June 30, 1940	June 30, 1941
Total assets of the trust fund	$1,744,697,955.52	$2,397,615,082.40
Total investments held	1,738,100,000.00	2,380,600,000.00
3 percent special Treasury notes	1,413,200,000.00	1,052,500,000.00
Maturing June 30, 1941	264,900,000.00	
Maturing June 30, 1942	382,000,000.00	382,000,000.00
Maturing June 30, 1943	497,400,000.00	497,400,000.00
Maturing June 30, 1944	268,900,000.00	173,100,000.00
2½ percent special Treasury notes	324,900,000.00	1,328,100,000.00
Maturing June 30, 1944	283,000,000.00	283,000,000.00
Maturing June 30, 1945	41,900,000.00	725,900,000.00
Maturing June 30, 1946		319,200,000.00
Unexpended balance	6,597,955.52	17,015,082.40
To credit of fund account	500,242.33	6,237,575.95
To credit of disbursing officer	6,097,713.19	10,777,506.45

[1] On basis of the Daily Statement of the United States Treasury (unrevised).

STATEMENT ON THE EXPECTED OPERATION AND STATUS OF THE TRUST FUND DURING THE FISCAL YEARS 1942–46

Estimates of the receipts and disbursements of the trust fund during the fiscal years 1942 to 1946, and the status of the trust fund during this period, are presented in table 3.

As in the case of the first annual report to the Congress by the board of trustees, the 5-fiscal-year estimates presented are subject to considerable margins of error. Even by the end of the fiscal year 1941, benefit-payment experience under the amended act has still been very limited, covering a period of only a year and a half. During this period the number of persons receiving benefit payments was lower than previously anticipated, due at least in part to the spectacular rise in employment and pay rolls occasioned by the defense effort. Many aged who had retired and drawn benefits under the program returned to covered employment as job opportunities were opened to them, and others, who in more normal times would have retired and drawn benefits, continued in covered employment.

Business and employment conditions in the near future, which will influence significantly the operations of the old-age and survivors insurance system, undoubtedly will be dependent to a large degree on the state of international affairs and the domestic armament and war program. It is impossible to forecast with confidence the policies which will be pursued by both business and government in the future in carrying out the war program—and any program for peacetime adjustment, should peace come within this period—nor can the effect of these policies on pay rolls and employment in industries covered by the insurance system be predicted accurately. Hence the estimates for the ensuing 5 fiscal years are presented with the full realization that the figures for these years are of unusually uncertain reliability.

The estimates presented in table 3 include, for the fiscal years 1942 and 1943, the figures shown in the Budget document which accompanied the President's 1943 Budget message to the Congress. The estimates for these years assume that because of war spending and consequent plant expansion further marked increases in employment and pay rolls in covered industries will occur in the next 2 fiscal years. Because of the high degree of uncertainty in respect to political and economic developments, the estimates for the remaining 3 fiscal years are predicated merely on the maintenance of employment and pay rolls at the general level which they are assumed to reach during the fiscal year 1943.

Table 3 indicates aggregate income of $9,719 million during the 5-fiscal-year period, with $9,032 million of this amount representing taxes collected, and the balance of $687 million representing interest on the investments of the trust fund. The disbursements indicated for the period aggregate $1,304 million, of which $1,154 million represent benefit payments and $150 million administrative expenses. The total assets of the trust fund would thus increase from $2,398 million at the beginning of the fiscal year 1942 to $10,813 million at the end of the fiscal year 1946.

As indicated previously, the figures presented in table 3 are predicated on further increases in the level of employment and pay rolls during the initial portion of the 5-fiscal-year period and continuance of the high level during the remainder of the period. While such a development will result in a substantial increase in the number of insured workers and their average wages, and consequently an abnormal upward trend in the number and amount of benefits payable to the survivors of deceased insured workers, a correlative development will be an abnormally low level of retirements among the aged.

As a consequence, while the present high level of employment prevails, there will be an especially rapid increase in the number of those aged insured workers eligible for retirement who prefer, because of the employment opportunities available, to continue in covered employment. On June 30, 1941, the number of monthly benefits being paid to aged retired workers and their aged wives aggregated about 205,000. In contrast, approximately 625,000 additional aged workers and wives, it is estimated, could have been receiving monthly benefits under the program if they had so elected. With an assumed continuance of the present high level of employment throughout the fiscal years 1942 to 1946, corresponding to the estimates in table 3, at the end of the period only about 850,000 aged workers and wives would be receiving monthly benefits, while an additional 1,100,000 workers and wives would be eligible for such benefits at that time.

In the event of a marked reduction in covered employment during the 5-fiscal-year period, it may be expected that a significant proportion of the 1,100,000 potential recipients of monthly benefits will elect to receive such benefits. Thus, if a material reduction in covered employment should develop before the end of the 5-year period, the level of benefit disbursements may be considerably higher, and the level of tax collections considerably lower, than the respective levels indicated in table 3.

TABLE 3.—*Estimates of operations of the Federal old-age and survivors insurance trust fund, fiscal years 1942–46—subject to the limitations stated in the text*

[In millions]

	Fiscal year—				
	1942	1943	1944	1945	1946
Fund at beginning of year	$2, 398	$3, 229	$4, 520	$6, 592	$8, 645
Transactions during year:					
Appropriations (taxes)	900	1, 394	2, 200	2, 200	2, 338
Interest on investments	72	92	127	174	222
Total income	972	1, 486	2, 327	2, 374	2, 560
Benefit payments	113	166	225	290	360
Administrative expenses	28	29	30	31	32
Total disbursements	141	195	255	321	392
Net increase in fund	831	1, 291	2, 072	2, 053	2, 168
Fund at end of year	3, 229	4, 520	6, 592	8, 645	10, 813

ACTUARIAL STATUS OF THE TRUST FUND

The previous section has indicated the large probable error inherent in estimates of the income, disbursements, and size of the trust fund in the ensuing 5 fiscal years, all of which depend so greatly upon the length and intensity of the present emergency. Likewise, the long-range situation will be materially influenced by the duration of the war and by the economic conditions which will prevail both during and after the termination of hostilities. The only element which can be relied upon with confidence is a steady increase in the number of aged individuals and in the consequent growth in the number of persons eligible for benefits. The long-range actuarial aspects rest, however, not only on this anticipated increase in the insured aged population, but also on uncertainties in economic and employment conditions in both the near and more distant future.

The statements made in the first annual report of the board of trustees are repeated here in much the same language inasmuch as the exigencies of war are but one of the many temporary fluctuations affecting long-range costs of the program and their analysis. To further emphasize the fact that the figures given herein for the more distant future are not estimates but merely reasonable illustrations, these figures are shown commencing with the fiscal year 1950. The gap between such figures and those given for the fiscal year 1946, the last year covered in the preceding section, is purposely left open. The specific year 1950 is intended only to establish a necessary starting point for a long-range actuarial prospectus.

Under the program benefit payments are made to both survivors of deceased insured employees and to the insured employees upon retirement. Because of the substantial stability in the annual mortality rate among insured workers as a group the total outgo for benefits to survivors will reach a relatively matured condition considerably earlier than will be the case for the retirement benefits. In the long run, however, it is not expected that benefits payable on account of death will constitute more than one-fourth of the cost of the program. The remaining three-fourths of the costs will comprise disbursements for old-age retirement protection; the number of aged beneficiaries may be expected to increase more or less steadily for perhaps a century.

The actuarial status of the trust fund may be measured in several ways. The method used herein is to set down illustrative incomes and disbursements of the fund during specified future periods as shown by table 4, according to which annual tax collections might average $2.0 billion per year for the 5 years of operation 1951–55, and rise to an average of about $2.6 billion 35 or 40 years hence. Annual benefit payments may be expected to increase from an average of about $1.5 billion for 1951–55 to over $4.0 billion after 1985. A further small rise after that period may be expected because of the continued increase in the number of persons receiving benefits and in their average benefit payments.

The accompanying chart illustrates by two examples the possible trend over a 40-year period (1950–90) of future contribution income and future benefit payments. The range in the benefit figures shown in the chart does not represent minimum or maximum values; the single line for contribution income implies a knowledge of taxable pay rolls that obviously does not exist. The examples are merely illustrative of reasonable projections. The values and assumptions upon which the chart is based are those discussed by the actuarial consultant of the Social Security Board, pages 2473–2488, in the hearings relative to the Social Security Act Amendments of 1939 before the Committee on Ways and Means, House of Representatives, Seventy-Sixth Congress.

As indicated in the chart, taxes during most of the decade 1950–60 exceed benefits. This would result in a continuation of the fund accumulation, which fund will provide interest earnings to meet a portion of the then current benefit payments. If benefit payments under the program should follow the growth curve of example 2, such payments would begin to exceed taxes in about 30 years from the present time; but because of the interest earnings of the fund, total annual income might continue to exceed annual benefits indefinitely. If, however, future experience should more closely approximate the curve of example 1, benefits would exceed taxes within approximately 20 years and would probably exceed the sum of taxes and interest on the fund within the following 5 or 10 years; and since the prior accumulation in the trust fund under the conditions of this example would cover excess disbursements for only a limited period, additional income would eventually be required. Because of the cumulative growth of the benefit payments, any long-term deficiency in the finances of the program would be apparent well in advance, and, therefore, could be met, without serious shock or disturbance, by moderate changes in the financial provisions.

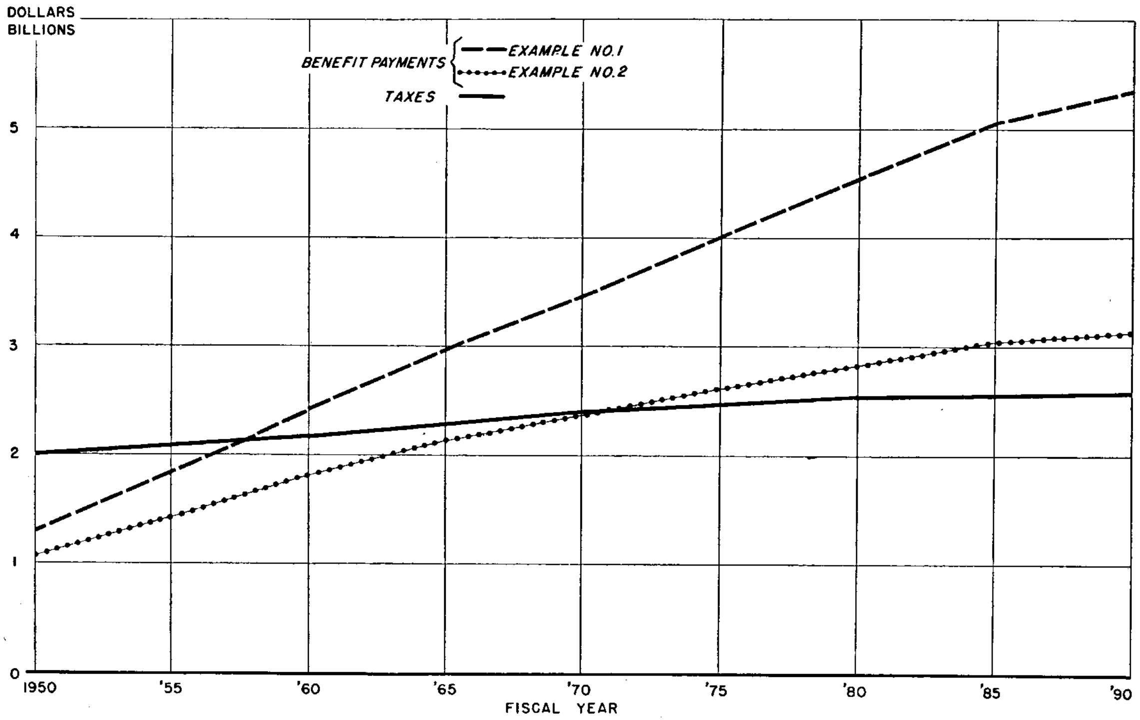
TABLE 4.—*Estimated average annual benefit payments and tax income of the Federal old-age and survivors insurance trust fund for future quinquennial periods, fiscal years 1951–90* [1]*—subject to the limitations stated in the text*

[In billions]

Fiscal year period	Average annual benefit payments	Average annual tax income	Fiscal year period	Average annual benefit payments	Average annual tax income
1951–55	$1.5	$2.0	1971–75	$3.1	$2.4
1956–60	1.9	2.1	1976–80	3.5	2.5
1961–65	2.4	2.2	1981–85	3.9	2.6
1966–70	2.8	2.3	1986–90	4.1	2.6

[1] The figures in this table are based on the chart; the benefit-payment figures represent the average of the two examples given there.

ILLUSTRATIVE TRENDS OF BENEFIT PAYMENTS AND TAXES UNDER 1939 AMENDMENTS



SOCIAL SECURITY BOARD

OFFICE OF THE ACTUARY

EXPECTED RELATION BETWEEN THE SIZE OF THE TRUST FUND AND DISBURSEMENTS

The board of trustees, in its first annual report to the Congress, indicated that in the 5 fiscal years, 1941 to 1945, the trust fund would apparently exceed three times the highest annual expenditures anticipated during the 5-fiscal-year period. A similar relationship is now anticipated for the ensuing 5 fiscal years (1942 through 1946). This condition is again reported to the Congress in accordance with section 201 (b) (3) of the Social Security Act.

However, as indicated in the first annual report, the primary consideration with respect to the size of the trust fund is its adequacy to assure the financial integrity of the social insurance program. The estimates of trust fund income, benefit payments, and assets during the ensuing 5 fiscal years are predicated on an assumed continued increase in employment and pay rolls during the initial years, and the maintenance of such high levels of employment and pay rolls during the balance of the period. With the termination of the war, now of world-wide proportions, widespread adjustments in production may occur. Such economic changes may result in a sharp increase in the number of retirements among the aged—and hence a decided increase in benefit payments—concurrent with a substantial decrease in the pay rolls upon which contributions are based.

Moreover, neither the present nor the immediately prospective level of employment is considered representative of what is likely to be the long-term experience. The probable future level of benefit payments is high and the trend of such payments will be an ascending one over the next generation and longer. The actuarial analysis appearing on pages 15–19 indicates that over the period of a generation or more the disbursements will be multiplied several times in volume. Prudent management requires emphasis on the long-range relationship of income and disbursements. Having regard for these long-range as well as for the short-range commitments, and also for fiscal and economic relationships, the board believes that the trust fund is not excessive in size.