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THE 1966 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

LETTER

FROM

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

TRANSMITTING

THE 1966 ANNUAL REPORT OF THE BOARD OF TRUSTEES, PURSUANT TO THE PROVISIONS OF SECTION 201(c) OF THE SOCIAL SECURITY ACT, AS AMENDED

FEBRUARY 28, 1966.—Referred to the Committee on Ways and Means and ordered to be printed

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE
AND DISABILITY INSURANCE TRUST FUNDS,
Washington, D.C., February 28, 1966.

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

SIR: We have the honor to transmit to you the 1966 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, in compliance with the provisions of section 201(c) of the Social Security Act, as amended, which is the 26th such report.

Respectfully,

HENRY H. FOWLER,
Secretary of the Treasury and Managing Trustee of the Trust Fund.

W. WILLARD WIRTZ,
Secretary of Labor.

JOHN W. GARDNER,
Secretary of Health, Education, and Welfare.

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

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THE 1966 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, as amended. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the managing trustee. The Commissioner of Social Security is secretary of the Board.

FISCAL YEAR HIGHLIGHTS

Both benefit payments and tax contributions for the old-age and survivors insurance trust fund and the disability insurance trust fund continued to rise during fiscal year 1965, reaching higher levels in that year than in any previous year. The number of persons receiving monthly benefits under the old-age, survivors, and disability insurance program increased to 20.2 million by the end of June 1965. There were an estimated 78 million workers with taxable earnings under the program in calendar year 1964, another record high.

For the old-age and survivors insurance trust fund, total receipts in fiscal year 1965 amounted to $16,443 million, an increase of about 2 percent over fiscal year 1964. Total disbursements of $15,962 million were about 4 percent greater than in the preceding fiscal year. The excess of total income over total outgo, amounting to $482 million, increased the total assets of the old-age and survivors insurance trust fund from $19,699 million on June 30, 1964 to $20,180 million on June 30, 1965.

Receipts of the old-age and survivors insurance trust fund consisted of $15,857 million in tax contributions and $586 million in interest. Of the total disbursements, $15,226 million was paid out for benefits, $436 million was transferred to the railroad retirement account under the financial interchange provisions, and $300 million was spent for administrative expenses.

The number of persons receiving monthly benefits from the old-age and survivors insurance trust fund at the end of the fiscal year was 18,509,000, about 3 percent more than at the beginning of the year. Some 13,874,000 of these persons were retired workers and their dependents, and 4,635,000 were survivors of deceased workers.

For the disability insurance trust fund, total receipts in fiscal year 1965 amounted to $1,237 million, or about 2 percent higher than in fiscal year 1964. Total disbursements, amounting to $1,495 million, were about 12 percent higher than in the previous year. Part of this increase consisted of additional benefit payments resulting from the enactment of Public Law 88-650 on October 13, 1964. This amendment to the Social Security Act restored eligibility for benefits to some persons, and increased benefit amounts for others, by removing the 18-month limitation on the retroactivity of disability applications filed after June 30, 1962, so that a period of disability could begin as early as actual disablement. Since disbursements exceeded receipts by $257 million, total assets of this fund decreased from $2,264 million at the beginning of fiscal year 1965 to $2,007 million at the end of the year.

Receipts of the disability insurance trust fund consisted of $1,175 million in tax contributions and $62 million in interest. Total disbursements were composed of $1,392 million for benefit payments, $79 million for administrative expenses, and $24 million transferred to the railroad retirement account.

The number of disabled workers and their dependents receiving monthly benefits from the disability insurance trust fund increased to 1,648,000 by the end of fiscal year 1965, about 9 percent more than at the beginning of the year.

Shortly after the close of fiscal year 1965, Congress made extensive amendments to the Social Security Act and related sections of the Internal Revenue Code directly affecting the old-age, survivors, and disability insurance program. These amendments included an across-the-board increase in benefit amounts, benefits to certain new classes of beneficiaries, and a liberalization of the earnings test. Coverage was extended to include the self-employment income of doctors of medicine and to include certain cash tips as wages. The maximum amount of earnings taxable and creditable toward benefits was raised to $6,600, beginning January 1966. The schedule of contribution rates for old-age, survivors, and disability insurance was revised to continue to reflect the intent of Congress that the program be self-supporting on a long-range basis. These and other provisions of the 1965 amendments are described more fully in another section of this report, and their effects are taken into account in the actuarial cost estimates presented in this report.

Provisions for two related health insurance programs for persons aged 65 and over were added to the Act. The hospital insurance program provides protection against the costs of hospital and related care. The voluntary supplementary medical insurance program provides protection against the costs of certain medical and other health services (including physicians' services). Summary descriptions of the provisions of, as well as the actuarial cost estimates for, these two programs are contained in separate reports of the Board of Trustees of the Federal hospital insurance trust fund and of the Federal supplementary medical insurance trust fund.

For the old-age and survivors insurance trust fund, estimates for the 5 fiscal years 1966–70 show that although both receipts and disbursements will increase steadily, the receipts will rise more rapidly, due to the increase in the maximum taxable earnings base in calendar year 1966 and to the scheduled rises in contribution rates in the law.

Consequently, at the end of fiscal year 1970, this trust fund will amount to an estimated $29.0 billion, or an increase of $8.8 billion in the 5-year period. Receipts during fiscal year 1970 are estimated to total $27.4 billion, and disbursements, $22.5 billion. Medium-range estimates, based on the assumption that economic activity will continue to expand throughout the period 1966–85, show continued increases in receipts, disbursements, and assets of the old-age and survivors insurance trust fund. According to these estimates, if the provisions of present law, as modified by the 1965 amendments, are assumed to remain unchanged, the assets of the trust fund will rise rapidly, reaching a total of $205 billion at the end of calendar year 1985. On the other hand, if the maximum taxable earnings base and the benefit provisions of present law are assumed to be amended periodically so as to keep the program in line with changes in levels of average earnings, the assets of the trust fund will rise less rapidly, reaching a total of $109 billion by 1985.

Long-range cost estimates for the old-age and survivors insurance program indicate that the program is in close actuarial balance. The level-cost of benefit payments and administrative expenses combined, estimated over a period of 75 years, ranges from 7.74 to 10.23 percent of taxable payroll. The intermediate-cost estimate is 8.82 percent of taxable payroll, as compared with the level-equivalent of the graded schedule of contributions of 8.72 percent of taxable payroll.

According to estimates for the 5 fiscal years 1966–70, income of the disability insurance trust fund will rise more rapidly than disbursements due to the increases, effective in calendar year 1966, in the maximum taxable earnings base and in the contribution rate allocated to the fund. Consequently, this trust fund will amount to an estimated $2.3 billion by the end of fiscal year 1970, an increase of $0.3 billion in the 5-year period. According to the medium-range estimates, the assets of the trust fund will reach $12.8 billion by the end of calendar year 1985, if provisions of present law are assumed to remain unchanged. If, on the other hand, the maximum taxable earnings base and the benefit provisions of present law are amended periodically to keep pace with average earnings, the medium-range estimates indicate that the assets of the fund will reach $7.6 billion by 1985.

Long-range estimates for the disability insurance trust fund show that the fund is in close actuarial balance. Estimates of the level-cost, calculated over a 75-year period, range from 0.60 percent to 0.78 percent of taxable payroll. The intermediate-cost estimate is 0.67 percent of taxable payroll, as compared with the level contribution rate of 0.70 percent of taxable payroll.

SOCIAL SECURITY AMENDMENTS OF 1965

The 1965 amendments to the Social Security Act and related sections of the Internal Revenue Code (Public Law 89–97, approved July 30, 1965) will have significant effects on both the immediate and long-range future levels of income and disbursements under the old-age, survivors, and disability insurance program. Benefit amounts were increased. Eligibility requirements for the payment of benefits were liberalized. Coverage was extended. The schedule of contribution rates was revised to continue to reflect the intent that the program be self-supporting.

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The more important changes, significant from an actuarial standpoint, are presented below:

1. Coverage was extended to self-employed doctors of medicine (previously the only group of significant size whose self-employment income was excluded from coverage) for taxable years ending on or after December 31, 1965. Coverage was also extended, beginning on January 1, 1966, to medical and dental interns on the same basis as other employees working for the same employers. For self-employed farm operators, revisions were made in the computation methods for reporting net earnings, effective with taxable years beginning after December 31, 1965. Beginning on January 1, 1966, coverage was extended to include cash tips of $20 or more per month, received by an employee, as wages, with only the employee's share of the tax contributions payable (the employer is exempted from paying his usual share of the tax contributions on cash tips). The major groups of workers that continue to be excluded from coverage are (*a*) practically all Federal civilian employees who are under staff retirement systems; (*b*) those self-employed persons, farm workers, and domestic workers whose earnings are less than the amounts required for the coverage of these particular groups; and (*c*) except in certain States, policemen and firemen covered by a State or local government retirement system.

2. Larger benefits were made payable to future beneficiaries as well as to persons on the rolls:

(*a*) The maximum amount of earnings taxable and creditable toward benefits was raised to $6,600 a year, beginning with 1966.

(*b*) Effective retroactively beginning with January 1965, benefit amounts were increased by 7 percent, with a minimum increase of $4 in the primary insurance amount. As a result, the minimum primary insurance amount was increased from $40 to $44 per month, and, for beneficiaries already on the rolls, the maximum primary insurance amount was increased from $127 to $135.90 per month. For workers coming on the rolls in the future, benefits will range as high as $168 per month, because of the higher earnings base. However, the maximum benefit of $168, based on the maximum possible average monthly earnings of $550, will not become generally payable for some years to come.

(*c*) The minimum benefit for a family containing only one survivor beneficiary is $44 per month.

(*d*) The maximum amount of benefits payable to a family on the basis of a single earnings record is now related to the worker's average monthly earnings at all earnings levels. Previously, there was a limit of $254 per month on family benefits which operated over a wide range of average monthly earnings. The maximum family benefit that will be payable on the basis of average monthly earnings of $550 is $368 per month.

3. The conditions under which persons may become eligible for benefits were liberalized (additional changes in eligibility requirements for benefits payable under the disability insurance program are described in item 4):

(*a*) Effective retroactively beginning with January 1965, child's benefits may be paid beyond age 18 and up to age 22 provided the child is regularly attending school (but mother's benefits are not payable solely because she has such a child in her care). Also, the definition of "child" was broadened.

(*b*) Effective September 1965, the minimum age at which women may qualify for widow's benefits was reduced from 62 to 60. Women who elect to receive a widow's benefit before age 62 will receive reduced benefits (both before and after age 62) which are, on an actuarial basis, virtually equivalent to the full-rate benefits that they would have received if they were aged 62 at the time they applied for benefits.

(*c*) Effective September 1965, special benefits are payable under a "transitional insured status" provision to certain persons aged 72 and over—workers who have been in covered employment for only limited periods and therefore cannot meet the fully insured status requirements, and the wives and widows of such workers. Under this provision, monthly benefits of $35 are payable to workers and widows; wives receive $17.50.

(*d*) Effective September 1965, benefits are payable to widows (and widowers) even though they have remarried if the remarriage occurred after they reached age 60 (age 62 for widowers). The amount of the benefit equals 50 percent of the primary insurance amount of the deceased spouse rather than 82½ percent of that amount, which was payable to such widows and widowers before they married.

(*e*) Wife's benefits are payable to the divorced wife, aged 62 or over, of a retired or disabled worker, if she had been married to the worker for at least 20 years before the date of the divorce and if her divorced husband was making (or was obligated by a court order to make) a substantial contribution to her support when he became entitled to old-age insurance benefits or became disabled. Similarly, widow's benefits are payable to the surviving divorced wife, aged 60 or over, of a deceased worker. Provision is also made for the reestablishment of benefit rights for a divorced wife, a widow, a surviving divorced mother, or a surviving divorced wife who has remarried if the subsequent marriage has ended. These changes became effective with benefits for September 1965.

4. The amendments made several changes in benefits payable under the disability insurance program:

(*a*) Effective with benefits for September 1965, the definition of disability was changed. Under the definition, as modified, a disability must be expected to result in death, or to have lasted or be expected to last for a continuous period of not less than 12 months. Under the former definition, it was required that the disability be expected to result in death or to be of long-continued and indefinite duration.

(*b*) Effective September 1965, a person who becomes entitled before age 65 to a benefit payable on account of old age may later become entitled to disability insurance benefits. Where the prior benefit was actuarially reduced, the disability insurance benefit must also be reduced according to the number of months for which the prior benefit was paid.

(*c*) Effective September 1965, the disability provisions with respect to the blind were modified in two respects. First, the definition of disability was changed to provide that an individual is disabled for purposes of entitlement to disability benefits if he is between the ages of 55 and 65, meets the definition of "blindness" (as provided for purposes of the provision for maintaining the insured status and benefit amount of disabled workers) and is unable, because of such blindness, to engage in substantial gainful activity requiring skills or abilities comparable to those required in his past occupation or occupations. He will receive no payment, however, for any month in which he engages in substantial gainful activity. Second, an alternative insured-status requirement for disability benefits was provided for persons who become disabled before age 31 because of "blindness". Under this provision, if the disability occurs after age 23, then at least half the quarters in the period beginning with the calendar quarter following attainment of age 21 and ending with the calendar quarter in which the disability occurs must be quarters of coverage. (If the number of quarters in this period is an odd number, then it is reduced by one.) If the disability occurs before age 24, then at least 6 of the quarters in the 12-quarter period ending with the quarter in which the disability occurred must be quarters of coverage.

(*d*) Effective January 1966, benefits payable to a disabled worker under age 62 and his dependents will be reduced for any month for which the worker also receives a periodic workmen's compensation benefit, in the event that the combined benefits exceed a specified limitation. Under this provision, the monthly benefits payable to the family from the disability insurance trust fund are reduced so that the total amount payable under both programs does not exceed the higher of (1) 80 percent of the worker's "average current earnings", or (2) the total benefits payable to the family from the disability insurance trust fund before reduction because of workmen's compensation. The worker's "average current earnings" is defined as the higher of (1) the average monthly earnings on which his disability insurance benefit is based, or (2) his average monthly earnings in covered employment during the 5 consecutive years after 1950 in which his covered earnings were highest. Provision is made for periodic adjustments in the amount of the worker's "average current earnings" to take account of changes in the national level of average earnings. These changes apply to benefits payable with respect to workers who become disabled after June 1, 1965.

(*e*) Provision was made for reimbursement from the trust funds for the cost of vocational rehabilitation services furnished to disability beneficiaries and disabled child beneficiaries aged 18 and over. The total amount of funds that may be made available for purposes of reimbursement for these services may not, in any fiscal year, exceed 1 percent of the disability insurance benefits and the disabled child's benefits certified for payment in the preceding year.

5. The earnings (retirement) test was amended, effective for taxable years ending after December 31, 1965. The provision for withholding benefits from beneficiaries whose earnings exceed $1,200 a year was changed so that benefits are withheld only when earnings exceed $1,500 a year. Also, $1 in benefits will be withheld for each $2 of earnings between $1,500 and $2,700, rather than between $1,200

and $1,700 as under the law in effect before the 1965 amendments ($1 in benefits will be withheld for each $1 of earnings above $2,700 instead of above $1,700). The maximum amount of wages that a beneficiary may earn in a month and still receive all of his benefit for that month regardless of his annual earnings was raised from $100 to $125.

6. A change was made in the basis of reimbursement to the old-age and survivors insurance trust fund and, where appropriate, to the disability insurance trust fund from general revenues for expenditures after August 1950 resulting from the amendments made in previous years that provided noncontributory $160 monthly wage credits for active military service from September 16, 1940 through December 31, 1956, and from the provisions enacted in 1946 that granted survivor protection to certain World War II veterans for a period of 3 years after leaving service. Under the new basis, annual appropriations to the trust funds from general revenues are authorized, beginning in fiscal year 1966, that will amortize, over a 50-year period, both the accumulated backlog of expenditures resulting from such military service and the additional amounts that will accrue through fiscal year 2015. After then, annual appropriations are authorized to meet the currently accruing additional costs of subsequent benefit payments.

7. Changes relating to the financing of the old-age, survivors, and disability insurance program were made with the intent of assuring that it will continue to be self-supporting.

Under the new contribution rate schedule, the employee and employer rates each increased from the 3.625 percent of taxable earnings applicable in 1966 to 3.85 percent as of January 1, 1966. Future increases are scheduled to occur in 1967, 1969, and 1973, when the ultimate rate of 4.85 percent is reached. There are corresponding increases in the self-employed contribution rate. Under the schedule as in effect before the 1965 amendments, the employee and employer rates would have increased to 4.125 percent on January 1, 1966, with a final increase to 4.625 percent on January 1, 1968.

The amendments increased the portion of the contribution rate allocated to finance benefits from the disability insurance trust fund. Effective January 1, 1966, the allocated rate was increased from 0.25 percent to 0.35 percent each for employees and employers. For the self-employed, the allocated rate was increased from 0.375 percent to 0.525 percent.

Table 1 presents an estimate of the effect, expressed as level-costs in percent of taxable earnings, of the changes in the old-age, survivors, and disability insurance program in 1965.

TABLE 1.—*Changes in estimated level-costs as percent of taxable earnings, by type of change, intermediate-cost estimate, 3.5 percent interest*

Item	Old-age and survivors insurance	Disability insurance
Benefit cost of program in effect before 1965 amendments [1]	8.49	0.63
Effect of changes:		
Additional income, less additional benefits, resulting from higher earnings base	−.51	−.04
Increase in level of benefits	.59	.05
Benefits for children to age 22 if in school	.10	.02
Broadened definition of child	.01	(2)
Reduced benefits for widows at age 60 [3]	(2)	------------
Benefits to persons aged 72 and over who qualify under the "transitional insured status" provision	.01	------------
Modifications in disability provisions [4]	(2)	.01
Liberalization of earnings (retirement) test	.14	(2)
Extensions of coverage	−.01	(2)
Benefit cost after enactment of 1965 amendments [1]	8.82	.67
Level-equivalent of graded tax schedule before 1965 amendments [5]	8.63	.50
Effect of changes in tax schedule	.09	.20
Level-equivalent of graded tax schedule after enactment of 1965 amendments	8.72	.70

[1] Based on valuation date of Jan. 1, 1965. Taking into account (*a*) lower contribution rate for the self-employed as compared with combined employer-employee rate, (*b*) administrative expenses, and (*c*) interest on trust funds on hand as of Dec. 31, 1964.

[2] Between −0.005 and 0.005 percent.

[3] Includes also the costs of benefits to widows aged 60 or over who remarry and to certain divorced women.

[4] Includes (*a*) the cost of the modification in the definition of disability, (*b*) the cost of the provision which permits the payment of disability benefits after entitlement, on account of old age, to some other benefit, (*c*) the cost of the liberalized eligibility requirements for blind workers, and (*d*) the savings arising from reduction of benefits when workmen's compensation is also payable.

[5] Based on taxable earnings, adjusted to reflect lower contribution rate for the self-employed as compared with combined employer-employee rate.

NATURE OF THE TRUST FUNDS

The Federal old-age and survivors insurance trust fund was established on January 1, 1940, as a separate account in the U.S. Treasury to hold the amounts accumulated under the old-age and survivors insurance program. All the financial operations which relate to the system of old-age and survivors insurance are handled through this fund. The Social Security Amendments of 1956, which became law August 1, 1956, provided for the creation of the Federal disability insurance trust fund—a fund entirely separate from the old-age and survivors insurance trust fund—through which are handled all financial operations in connection with the system of monthly disability benefits payable to insured workers and to their dependents.

The major sources of receipts of these two funds are (1) amounts appropriated to each of them under permanent appropriation on the basis of contributions paid by workers and their employers, and by individuals with self-employment income, in work covered by the old-age, survivors, and disability insurance program and (2) amounts deposited in each of them representing contributions paid by workers employed by State and local governments and by such employers with respect to work covered by the program. All employees and their employers in employment covered by the program are required to pay contributions with respect to the wages of individual workers (cash tips, covered as wages beginning in 1966 under the 1965 amendments, are an exception to this; employees pay tax 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, beginning with calendar year 1966, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a maximum of $6,600, with the contributions being determined first on the wages and then on any self-employment income necessary to make up the $6,600.

Under the Internal Revenue Code, as amended, the contribution rate for old-age, survivors, and disability insurance for employees and their employers of 3.625 percent each that was in effect in calendar years 1963–65 increased to 3.85 percent each on January 1, 1966; the contribution rate for the self-employed rose from 5.4 to 5.8 percent. The following table shows the scheduled increases in tax rates in the present law:

Calendar years	Percentage of taxable earnings	
	Employees and employers, each [1]	Self-employed
1963–65	3.625	5.4
1966	3.850	5.8
1967–68	3.900	5.9
1969–72	4.400	6.6
1973 and after	4.850	7.0

[1] Only the employee tax is paid on tips that are taxable as wages (coverage of tips is effective beginning in 1966).

The Social Security Act as amended in 1956 provided that beginning January 1, 1957, from the total contribution income based on these rates, contributions at the rate of 0.25 percent each for employees and employers, and 0.375 percent for the self-employed, shall be allocated to the disability insurance trust fund. Under the Act as amended in 1965 this allocation increased to 0.35 percent each for employees and employers on January 1, 1966; for the self-employed, the allocation rate increased to 0.525 percent.

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 are paid into the Treasury as internal revenue collections. However, sums equivalent to 100 percent of these taxes are transferred to the trust funds from time to time. Such transfers are first made on the basis of estimated tax receipts. The exact amount is not known since old-age, survivors, and disability insurance taxes and income taxes withheld are not separately identified in tax-collection reports received by the Treasury Department from the district offices of the Internal Revenue Service. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

An employee who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum can receive a refund of the taxes he paid on such excess wages. The amount of taxes subject to refund for any period is a charge against each of the trust funds in the ratio in which the amount was appropriated to or deposited in such trust funds for that period.

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 Public Law 234, approved October 30, 1951, which amended the Railroad Retirement Act to provide a system of coordination and financial interchange between the railroad retirement and old-age and survivors insurance programs. Public Law 880, approved August 1, 1956, amended Public Law 234 to include financial interchanges between the railroad retirement and the disability insurance programs. A description of the legislative provisions governing the allocation of costs between the two programs appears in appendix II.

Under a decision of the Comptroller General of the United States (B-4906) dated October 11, 1951, receipts derived from the sale of miscellaneous supplies and reimbursable services are credited to and form a part of the trust funds, where the initial outlays therefore were paid from the trust funds. Formerly, these moneys were credited to the general fund of the Treasury as miscellaneous receipts.

Under Public Law 85-840 approved August 28, 1958, the Secretary of Health, Education, and Welfare is authorized to charge for providing certain services not directly related to the old-age, survivors, and disability insurance program. The Social Security Administration has accumulated a unique body of information in the course of the administration of the program. Situations arise when it is in the public interest to use this information to perform certain services, such as the preparation of statistical tabulations for research purposes, when such services can be performed without interfering unduly with the administration of the program. Such services could not properly be provided at the expense of the trust funds. Receipts derived from performance of these services are credited to and form a part of the trust funds.

Public Law 719, approved August 10, 1946, provided noncontributory survivor protection to certain veterans of World War II. The legislation provided, and until August 31, 1950 the old-age and survivors insurance trust fund received, reimbursement from the general fund of the Treasury for the additional costs arising from these provisions. Under Public Law 734, approved August 28, 1950, these additional costs arising after August 31, 1950, were borne by the trust fund. Public Law 881, approved August 1, 1956, provided that the old-age and survivors insurance trust fund would be reimbursed for all additional costs arising after August 31, 1950, from the 1946 provisions. Public Law 881 also provided that (1) the old-age and survivors insurance trust fund would be reimbursed for all past and future additional expenditures resulting from the provisions that granted noncontributory $160 monthly wage credits to persons who served in the Armed Forces from September 16, 1940 through December 31, 1956; and (2) the disability insurance trust fund would be reimbursed for all additional expenditures after July 31, 1956, resulting from these provisions. Public Law 85-840 broadened the provisions of prior law dealing with noncontributory wage credits of $160 for each month of active military service for the United States to provide such credits for certain American citizens who served in the

Armed Forces of our allies during World War II. As in the case of the other noncontributory credit for military service, the trust funds will be reimbursed for the additional costs arising from the new provisions. A summary of the legislative history of the financing of credit for military service appears in appendix II.

Expenditures for benefit payments and administrative expenses under the old-age, survivors, and disability insurance program are paid out of the trust funds. All expenses incurred by the Department of Health, Education, and Welfare and by the Treasury Department in carrying out the provisions of title II of the Social Security Act, as amended, and of the Internal Revenue Code relating to the collection of insurance contributions, are charged to the trust funds. The Secretary of Health, Education, and Welfare certifies benefit payments to the managing trustee who makes the payment from the respective trust funds in accordance therewith.

Public Law 89–97 (the 1965 amendments) provides for reimbursement from the trust funds for the cost of vocational rehabilitation services furnished to disability insurance beneficiaries and to disabled child beneficiaries aged 18 and over. The total amount of funds that may be made available for purposes of reimbursement for these services may not, in any fiscal year, exceed 1 percent of the disability insurance benefits and the disabled child's benefits certified for payment in the preceding year.

Congress has authorized expenditures from the trust funds for construction of office buildings and related facilities for the Social Security Administration.

The managing trustee invests that portion of each trust fund which, in his judgment, is not required to meet current expenditures for benefits and administration. The Social Security Act restricts permissible investments of the trust funds to interest-bearing obligations of the U.S. Government or to obligations guaranteed as to both principal and interest by the United States. Obligations of these types may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price. In addition, the Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust funds. The law requires that such special public-debt obligations shall have maturities fixed with due regard for the needs of the trust funds and 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 forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such calendar month. Where such average market yield is a multiple of one-eighth of 1 percent, this is taken as the rate of interest on such special obligations; otherwise such rate is the multiple of one-eighth of 1 percent nearest such market yield.

Interest on public issues held by the trust funds is received by the funds at the time the interest is paid on the particular issues held. Interest on special public-debt obligations issued specifically for purchase by the trust funds is payable semiannually or at redemption.

Public issues acquired by the funds may be sold at any time by the managing trustee at their market price. Special public-debt obligations issued for purchase by the trust funds may be redeemed at par plus accrued interest. Interest receipts and proceeds from the sale or redemption of obligations held in the trust funds are available for investment in the same manner as other receipts of the funds. Interest earned by the invested assets of the trust funds will provide income to meet a portion of future benefit disbursements. The role of interest in meeting future benefit payments is indicated in tables 21 and 22.

In addition to serving as a source of income, the assets of the trust funds assure the continued payment of benefits without sharp changes in contribution rates during periods of short-run fluctuations in total income and expenditures.

SUMMARY OF THE OPERATIONS OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, FISCAL YEAR 1965

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, 1964, and ended on June 30, 1965, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2.

The total assets of the old-age and survivors insurance trust fund amounted to $19,699 million on June 30, 1964. These assets increased to $20,180 million by the end of the fiscal year 1965, an increase of $482 million.