

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

LETTER

FROM

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

TRANSMITTING

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



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

U.S. GOVERNMENT PRINTING OFFICE

LETTER OF TRANSMITTAL

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

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

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

Respectfully,

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

PETER J. BRENNAN,
Secretary of Labor.

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

ARTHUR E. HESS,
Acting Commissioner of Social Security.



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

THE BOARD OF TRUSTEES

The Federal old-age and survivors insurance trust fund, established on January 1, 1940, and the Federal disability insurance trust fund, established on August 1, 1956, are held by the Board of Trustees under the authority of section 201(c) of the Social Security Act. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the Managing Trustee. The Commissioner of Social Security is Secretary of the Board. The Board of Trustees reports to the Congress once each year, in compliance with section 201(c)(2) of the Social Security Act. This Report is the Annual Report for 1973, the 33rd such report.

HIGHLIGHTS

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

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

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

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

SOCIAL SECURITY AMENDMENTS SINCE 1972 REPORT

Since the close of fiscal year 1972 there have been two important amendments to the Social Security Act (and the Internal Revenue Code) substantially affecting the old-age, survivors, and disability

insurance system. Public Law 92-336 was approved July 1, 1972, and was followed by Public Law 92-603, approved October 30, 1972. This Report fully recognizes the new legislation. Only those portions of the Report dealing with fiscal 1972 and earlier are unaffected.

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

NATURE OF THE TRUST FUNDS

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

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

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

The contribution rates applicable to taxable earnings in each of the calendar years 1937 and later, and the allocation of the rates to finance expenditures from each of the two trust funds, are shown in table 1. The maximum amount of annual earnings taxable in each year, 1937-74, is also shown. For years after 1974, this amount is subject to auto-

matic increases. For 1972 and earlier, table 1 is a historical record based on continually changing law. For 1973 and later, the table reflects the provisions of present law as last amended in October 1972.

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

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

¹ Subject to automatic increase after 1974.

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

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

Another source from which receipts of the trust funds are derived is interest received on investments held by the funds. The investment procedures of the funds are described later in this section.

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

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

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

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

Section 222(d) of the Social Security Act provides for payments from the trust funds for the cost of vocational rehabilitation services furnished to disabled persons receiving benefits because of their disability. The total amount of funds that may be made available for purposes of payments for the costs of such services, including applicable administrative expenses of State agencies, in a fiscal year may not exceed a specified percentage of the benefits certified for payment to these types of beneficiaries in the preceding year. This limitation was 1 percent for payments for the costs of vocational rehabilitation services in each of the fiscal years 1966 (when such payments were first provided) through 1972. Under present law, the limitation scheduled for payments in fiscal year 1973 is $1\frac{1}{4}$ percent, and for payments in fiscal years after 1973, $1\frac{1}{2}$ percent.

Congress has authorized expenditures from the trust funds for construction of office buildings and related facilities for the Social Security Administration. The costs of such construction are included as part of administrative expenses in the financial statements of opera-

tions of the trust funds as set forth in subsequent sections of this report. The net worth of the resulting facilities—like the net worth of all other capital assets—is not carried as an asset in such statements.

That portion of each trust fund which, in the judgment of the Managing Trustee, is not required to meet current expenditures for benefits and administration is invested, on a daily basis, in interest-bearing obligations of the U.S. Government, in obligations guaranteed as to both principal and interest by the United States, or in certain federally-sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. Obligations of these types may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

In addition, the Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust funds that shall bear interest at a rate based on the average market yield (computed by the Managing Trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States then forming a part of the public-debt which are not due or callable until after the expiration of four years from the end of such calendar month.

SUMMARY OF THE OPERATIONS OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, FISCAL YEAR 1972

A statement of the income and disbursements of the Federal old-age and survivors insurance trust fund in the fiscal year which began on July 1, 1971, and ended on June 30, 1972, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2. Also appearing in the table are comparable amounts for fiscal year 1971.

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

Net receipts of the trust fund during the fiscal year 1972 amounted to \$37,917 million. Of this total, \$32,463 million represented contributions appropriated to the fund, and \$3,596 million represented amounts received by the Secretary of the Treasury in accordance with State agreements for coverage of State and local government employees and deposited in the trust fund. As an offset, \$349 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base.

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

[In thousands]

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

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

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

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

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

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

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

Disbursements from the trust fund during the fiscal year totalled \$35,849 million. Of this total \$34,541 million was for benefit payments, an increase of 11.1 percent over the corresponding amount paid in the fiscal year 1971. This increase was due primarily to the 1971 amendments which provided for a general increase in benefits of 10 percent effective for January 1971. (Fiscal year 1972 was the first full fiscal year during which this benefit increase was operative.) Other factors

that contributed to the increase in benefit payments from fiscal year 1971 to fiscal year 1972 were the expected growth in the total number of beneficiaries and in average benefit amounts resulting from the rising level of earnings.

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

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

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

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

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

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

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

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

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

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

[Amounts in millions]

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

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

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

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

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

The 1956 amendments provided that the public-debt obligations issued for purchase by the old-age and survivors insurance trust fund and the disability insurance trust fund shall have maturities fixed with due regard for the needs of the funds. Under these amendments, the general practice in the past was to spread the maturity dates for the holdings of special issues as nearly as practicable in equal amounts over a 15-year period. As a result of this practice, the old-age and survivors insurance trust fund held special issues, totalling \$8,49½ million, that were distributed in equal amounts of \$1,080 million maturing in each of the years 1974-80 and in a smaller amount maturing in 1973 (table 5).

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

	June 30, 1971		June 30, 1972	
	Par value	Book value ¹	Par value	Book value ¹
INVESTMENTS IN PUBLIC-DEBT OBLIGATIONS				
Public issues:				
Treasury notes:				
5¾ percent, 1975	\$7,000,000	\$7,030,458.47	\$7,000,000	\$7,021,958.51
6 percent, 1975	17,450,000	17,450,000.00	17,450,000	17,450,000.00
6¼ percent, 1976	5,000,000	4,991,815.53	5,000,000	4,993,601.25
6½ percent, 1976	22,180,000	22,180,000.00	22,180,000	22,180,000.00
7 percent, 1975			50,000,000	49,919,607.80
7½ percent, 1976	90,500,000	90,104,958.10	90,500,000	90,182,671.30
8 percent, 1977	15,000,000	15,000,000.00	15,000,000	15,000,000.00
Treasury bonds:				
2½ percent, 1967-72	250	250.00	250	250.00
2¾ percent, investment series B, 1975-80	1,064,902,000	1,064,902,000.00	1,064,902,000	1,064,902,000.00
3 percent, 1995	70,170,000	70,145,852.44	70,170,000	70,146,876.40
3¼ percent, 1978-83	60,200,000	59,494,709.12	60,200,000	59,553,894.32
3¼ percent, 1985	25,700,000	24,497,370.35	25,700,000	24,584,307.47
3½ percent, 1980	449,450,000	453,521,217.27	449,450,000	453,085,015.47
3½ percent, 1990	556,250,000	548,364,644.46	556,250,000	548,788,968.66
3½ percent, 1998	552,037,000	543,599,062.36	552,037,000	543,907,767.52
3¾ percent, 1974	24,500,000	24,490,716.89	24,500,000	24,493,501.97
4 percent, 1971	100,000,000	100,015,163.89		
4 percent, 1973	38,000,000	37,924,689.10	38,000,000	37,960,838.50
4 percent, 1980	153,100,000	153,058,255.24	153,100,000	153,063,118.84
4½ percent, 1974	61,934,000	61,918,329.35	61,934,000	61,924,395.59
4½ percent, 1989-94	91,300,000	90,609,835.02	91,300,000	90,640,061.22
4½ percent, 1974	6,352,000	6,356,999.04	6,352,000	6,355,234.56
4¼ percent, 1975-85	78,023,000	77,732,731.79	78,023,000	77,753,715.11
4¼ percent, 1987-92	33,000,000	34,711,958.49	33,000,000	34,605,515.45
7 percent, 1981			50,000,000	49,633,333.30
Total investments in public issues	3,522,048,250	3,508,101,016.91	3,522,048,250	3,508,146,633.24
Obligations sold only to this fund (special issues):				
Notes:				
4¾ percent, 1974	2,720,279,000	2,720,279,000.00	2,720,279,000	2,720,279,000.00
5½ 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
6¼ 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
7½ percent, 1977	5,033,296,000	5,033,296,000.00	5,033,296,000	5,033,296,000.00

See footnote at end of table.

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

	June 30, 1971		June 30, 1972	
	Par value	Book value ¹	Par value	Book value ¹
Obligations sold only to this fund (special issues)—Continued				
Bonds:				
2½ percent, 1972	\$1,080,011,000	\$1,080,011,000.00		
2½ percent, 1973	1,080,011,000	1,080,011,000.00	\$934,472,000	\$934,472,000.00
2½ percent, 1974	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2½ percent, 1975	919,934,000	919,934,000.00	919,934,000	919,934,000.00
3½ percent, 1975	160,077,000	160,077,000.00	160,077,000	160,077,000.00
3½ percent, 1976	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
3½ percent, 1977	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
3½ percent, 1978	658,444,000	658,444,000.00	658,444,000	658,444,000.00
4½ percent, 1978	421,567,000	421,567,000.00	421,567,000	421,567,000.00
4½ percent, 1979	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
4½ percent, 1980	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
Total obligations sold only to this fund (special issues)	27,248,183,000	27,248,183,000.00	29,125,529,000	29,125,529,000.00
Total investments in public-debt obligations	30,770,231,250	30,756,284,016.91	32,647,577,250	32,633,675,633.24
Investments in federally-sponsored agency obligations participation certificates:				
Federal Assets Liquidation Trust-Government National Mortgage Association:				
5.10 percent, 1987	50,000,000	50,000,000.00	50,000,000	50,000,000.00
5.20 percent, 1982	100,000,000	100,000,000.00	100,000,000	100,000,000.00
5½ percent, 1972	50,000,000	50,000,000.00		
Federal Assets Financing Trust-Government National Mortgage Association:				
6.05 percent, 1988	65,000,000	64,797,890.83	65,000,000	64,810,078.39
6.20 percent, 1988	230,000,000	230,000,000.00	230,000,000	230,000,000.00
6.40 percent, 1987	75,000,000	75,000,000.00	75,000,000	75,000,000.00
6.45 percent, 1988	35,000,000	35,000,000.00	35,000,000	35,000,000.00
Total investments in federally-sponsored agency obligations	605,000,000	604,797,890.83	555,000,000	554,810,078.39
Total investments	31,375,231,250	31,361,081,907.74	33,202,577,250	33,188,485,711.63
Undisbursed balance ²		2,969,766,076.05		3,210,572,322.64
Total assets		34,330,847,983.79		36,399,058,034.27

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

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

Thus, on June 30, 1972, the old-age and survivors insurance trust fund acquired \$3,103 million in special issues consisting of 7-year

notes, making a total of \$20,631 million invested in such 7-year notes maturing on June 30 of each year 1974-79 (table 5). The operations under the investment policy in effect before 1972 are described in the 1972 and earlier, annual reports.

SUMMARY OF THE OPERATIONS OF THE FEDERAL DISABILITY INSURANCE TRUST FUND, FISCAL YEAR 1972

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

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

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

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

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

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

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

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

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

[In thousands]

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

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

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

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

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

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

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

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

The net increase in the par value of the investments owned by the fund during the fiscal year amounted to \$934 million. New securities at a total par value of \$6,096 million were acquired during the fiscal year through the investment of receipts, the reinvestment of funds made available from the maturity of securities, and the exchange of securities. The par value of securities redeemed or exchanged during the year was \$5,162 million. Included in these amounts is \$5,035 million in certificates of indebtedness that were acquired and redeemed within the first year.

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

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

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

	June 30, 1971		June 30, 1972	
	Par value	Book value ¹	Par value	Book value ¹
Investments in public-debt obligations:				
Public issues:				
Treasury notes:				
5½-percent, 1975	\$10,000,000	\$10,051,190.73	\$10,000,000	\$10,036,905.09
6-percent, 1975	3,750,000	3,750,000.00	3,750,000	3,750,000.00
6-percent, 1978			2,000,000	2,004,867.96
6½-percent, 1978	2,000,000	2,006,731.69	2,000,000	2,005,709.17
7½-percent, 1976	26,000,000	25,903,292.77	26,000,000	25,922,317.21
7¾-percent, 1977	14,000,000	13,969,216.87	14,000,000	13,974,277.11
8-percent, 1977	10,000,000	10,000,000.00	10,000,000	10,000,000.00
Treasury bonds:				
3½-percent, 1990	10,500,000	9,985,845.74	10,500,000	10,013,513.30
3½-percent, 1998	5,000,000	4,715,541.80	5,000,000	4,725,948.80
3¾-percent, 1974	5,000,000	5,000,000.00	5,000,000	5,000,000.00
4-percent, 1972	2,000,000	1,997,600.84		
4-percent, 1973	16,500,000	16,450,222.56	16,500,000	16,474,115.64
4-percent, 1980	30,250,000	30,242,840.81	30,250,000	30,243,674.69
4½-percent, 1974	10,000,000	10,007,109.92	10,000,000	10,004,357.60
4½-percent, 1989-94	68,400,000	67,639,492.32	68,400,000	67,672,799.16
4½-percent, 1975-85	20,795,000	20,777,415.58	20,795,000	20,778,158.86
4½-percent, 1987-92	80,800,000	80,945,193.03	80,800,000	80,936,165.55
Total investments in public issues	314,995,000	313,441,694.66	314,995,000	313,542,810.14
Obligations sold only to this fund (special issues):				
Notes:				
4½-percent, 1974	309,178,000	309,178,000.00	309,178,000	309,178,000.00
5½-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
6½-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
7½-percent, 1977	1,394,466,000	1,394,466,000.00	1,394,466,000	1,394,466,000.00
Bonds:				
2½-percent, 1974	75,144,000	75,144,000.00	425,000	425,000.00
2½-percent, 1975	132,894,000	132,894,000.00	132,894,000	132,894,000.00
3½-percent, 1974	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3½-percent, 1975	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3½-percent, 1976	153,632,000	153,632,000.00	153,632,000	153,632,000.00
3½-percent, 1977	153,632,000	153,632,000.00	153,632,000	153,632,000.00
3½-percent, 1978	153,632,000	153,632,000.00	153,632,000	153,632,000.00
4½-percent, 1979	153,632,000	153,632,000.00	153,632,000	153,632,000.00
4½-percent, 1980	125,606,000	125,606,000.00	125,606,000	125,606,000.00
Total obligations sold only to this fund (special issues)	5,712,761,000	5,712,761,000.00	6,696,659,000	6,696,659,000.00
Total investments in public-debt obligations	6,027,756,000	6,026,202,694.66	7,011,654,000	7,010,201,810.14
Investments in federally-sponsored agency obligations:				
Participation certificates:				
Federal Assets Liquidation Trust—Government National Mortgage Association:				
5½-percent, 1972	50,000,000	50,000,000.00		
Total investments in federally-sponsored agency obligations	50,000,000	50,000,000.00		
Total investments	6,077,756,000	6,076,202,694.66	7,011,654,000	7,010,201,810.14
Undisbursed balances		332,125,938.04		380,075,536.03
Total assets		6,408,328,632.70		7,390,277,346.17

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

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING
THE PERIOD JULY 1, 1972, TO DECEMBER 31, 1977

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

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

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

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

Because it is difficult to foresee economic developments, the assumptions and the resulting estimates here presented are subject to some uncertainty. This statement of the expected operations of the trust funds should therefore be read with full recognition of the difficulties of estimating future trust fund income and disbursements under changing economic conditions.

Table 8 presents data on the actual operations of the old-age and survivors insurance trust fund for selected fiscal years during the period 1940-72¹ and also estimates of the expected operations of the

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

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

[In millions]

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

¹ Interest on investments includes net profits on marketable investments. Total administrative expenses exclude expenses for the period ending Dec. 31, 1939; for that period, appropriations to the old-age and survivors insurance trust fund (designated as the old-age reserve account prior to Jan. 1, 1940) were approximately equivalent to tax contributions collected by the Treasury Department less administrative expenses. Beginning in 1954, administrative expenses include costs of construction of office space for the Social Security Administration. Beginning in 1967, administrative expenses incurred under each of the four programs, old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance, are charged currently to the appropriate trust

fund on an estimated basis, with a final adjustment, including interest, made in the following fiscal year. The amounts of these interest adjustments are included in interest on investments. For years prior to 1967, a description of the method of accounting for administrative expenses is contained in the 1970 Annual Report of the Board of Trustees.

² Less than \$500,000.

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

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

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

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

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

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

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

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

[In millions]

Calendar year	Transactions during period										
	Income					Disbursements					
	Total	Contributions, less refunds	Reimbursements from general fund of Treasury for costs of—		Interest on investments	Total	Benefit payments	Payments for vocational rehabilitation services	Administra-tive expenses	Transfers to railroad retirement account	Net increase in fund
			Noncontribu-tory credits for military service	Payments to noninsured persons aged 72 and over							
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	1,087	21,663
1960	11,382	10,866			516	11,198	10,677		203	184	20,324
1961	11,833	11,285			548	12,432	11,862		239	332	19,725
1962	12,585	12,059			526	13,973	13,356		256	361	18,337
1963	15,063	14,541			521	14,920	14,217		281	423	18,480
1964	16,258	15,689			569	15,613	14,914		296	403	19,125
1965	16,610	16,017			593	17,501	16,737		328	436	18,235
1966	21,302	20,580	78		644	18,967	18,267	(1)	256	444	20,570
1967	24,034	23,138	78		818	20,382	19,468	(1)	406	508	24,222
1968	25,040	23,719	156	\$226	939	23,557	22,642	\$1	276	438	25,704
1969	29,554	27,947	78	364	1,165	25,176	24,209	1	474	491	30,082
1970	32,220	30,256	78	371	1,515	29,848	28,796	2	471	579	32,454
1971	35,877	33,723	137	351	1,667	34,542	33,413	2	514	613	33,789
1972	40,050	37,781	138	337	1,794	38,522	37,122	2	674	724	35,318
Estimated future experience:											
1973	48,820	46,543	139	303	1,835	47,540	46,036	3	718	783	36,598
1974	54,132	51,642	140	323	2,027	50,365	48,667	4	740	954	40,365
1975	59,059	56,264	146	410	2,239	56,029	54,257	5	765	1,002	43,395
1976	62,564	59,440	225	512	2,387	58,915	57,095	6	795	1,019	47,044
1977	67,542	64,325	227	473	2,517	64,830	62,950	7	827	1,046	49,576

1 Less than \$500,000.

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

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

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

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

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

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

Reference has been made in earlier sections to the financial interchanges between the railroad retirement account and the two trust funds, under the provisions of the Railroad Retirement Act. Estimates of future financial interchanges are included in the various tables in this section.

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

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

[In millions]

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

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

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

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

[In millions]

Calendar year	Transactions during period										Fund at end of period
	Income					Disbursements					
	Total	Contributions, less refunds	Reimbursements from general fund of Treasury for cost of noncontributory credits for military service	Interest on investments	Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to railroad retirement account	Net increase in fund	
1957	\$709	\$702		\$7	\$59	\$57		\$3		\$649	\$649
1958	991	966		25	261	249		12		729	1,379
1959	931	891		40	485	457		28		447	1,825
1960	1,063	1,010		53	600	568		36		464	2,289
1961	1,104	1,038		66	956	887		64		148	2,437
1962	1,114	1,046		68	1,183	1,105		66		11	2,368
1963	1,165	1,099		66	1,297	1,210		68		20	2,235
1964	1,218	1,154		64	1,407	1,309		79		19	2,047
1965	1,247	1,188		59	1,687	1,573		90		24	1,606
1966	2,079	2,006	\$16	58	1,947	1,781	\$3	137		25	1,333
1967	2,379	2,286	16	78	2,089	1,939	11	109		31	290
1968	3,454	3,316	32	106	2,458	2,294	16	127		20	996
1969	3,792	3,599	16	177	2,716	2,542	15	138		21	1,075
1970	4,774	4,481	16	277	3,259	3,067	18	164		10	1,514
1971	5,031	4,620	50	361	4,000	3,758	24	205		13	1,031
1972	5,572	5,107	51	414	4,759	4,473	29	233		24	813
Estimated future experience:											
1973	6,467	5,977	52	438	6,176	5,849	52	256		20	291
1974	7,119	6,605	52	462	6,686	6,295	68	280		43	433
1975	7,746	7,198	66	482	7,504	7,089	80	293		42	242
1976	8,167	7,603	84	480	7,994	7,562	87	305		40	173
1977	8,784	8,228	87	469	8,839	8,383	95	318		43	-55

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

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

[In millions]

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

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

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

[In millions]

Calendar year	Transactions during period											
	Income					Disbursements						
	Total	Contributions, less refunds	Reimbursements from general fund of Treasury for costs of—		Interest on investments	Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to railroad retirement account	Net increase in fund	Fund at end of period
			Noncontributory credits for military service	Payments to noninsured persons aged 72 and over								
1960	\$12,445	\$11,876			\$569	\$11,798	\$11,245		\$240	\$314	\$647	\$22,613
1961	12,937	12,323			614	13,388	12,749		303	337	-451	22,162
1962	13,699	13,105			594	15,156	14,461		322	372	-1,457	20,705
1963	16,227	15,640			587	16,217	15,427		348	442	10	20,715
1964	17,476	16,843			633	17,020	16,223		375	422	456	21,172
1965	17,857	17,205			651	19,187	18,311		418	459	-1,331	19,841
1966	23,381	22,585	\$94		702	20,913	20,048	\$3	393	469	2,467	22,308
1967	26,413	25,424	94		896	22,471	21,406	11	515	539	3,942	26,250
1968	28,493	27,034	188	\$226	1,045	26,015	24,936	17	603	558	2,479	28,729
1969	33,346	31,546	94	364	1,342	27,892	26,751	16	612	513	5,453	34,182
1970	36,993	34,737	94	371	1,791	33,108	31,863	20	635	589	3,886	38,068
1971	40,908	38,343	187	351	2,027	38,542	37,171	26	719	626	2,366	40,434
1972	45,622	42,888	189	337	2,208	43,281	41,595	30	907	749	2,341	42,775
Estimated future experience:												
1973	55,287	52,520	191	303	2,273	53,716	51,885	55	974	802	1,571	44,346
1974	61,251	58,247	192	323	2,489	57,051	54,962	72	1,020	997	4,200	48,546
1975	66,805	63,462	212	410	2,721	63,533	61,346	85	1,058	1,044	3,272	51,818
1976	70,731	67,043	309	512	2,867	66,909	64,657	93	1,100	1,059	3,822	55,640
1977	76,326	72,553	314	473	2,986	73,669	71,333	102	1,145	1,089	2,657	58,297

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

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

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

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

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

ACTUARIAL ANALYSIS OF BENEFIT DISBURSEMENTS FROM THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND WITH RESPECT TO DISABLED BENEFICIARIES

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

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

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