

**1986 ANNUAL REPORT OF THE BOARD OF TRUSTEES
OF THE FEDERAL OLD-AGE AND SURVIVORS IN-
SURANCE AND DISABILITY INSURANCE TRUST
FUNDS**

COMMUNICATION

FROM

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

TRANSMITTING

**THE 1986 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND THE FED-
ERAL DISABILITY INSURANCE TRUST FUNDS, PURSUANT TO 42
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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., March 31, 1986

HONORABLE THOMAS P. O'NEILL, JR.
Speaker of the House of Representatives
Washington, D.C.

HONORABLE GEORGE BUSH
President of the Senate
Washington, D.C.

GENTLEMEN: We have the honor of transmitting to you the 1986 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 46th such report), in compliance with section 201(c)(2) of the Social Security Act.

Respectfully,

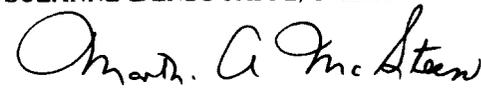

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Commissioner of Social Security, and
Secretary, Board of Trustees.*

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1986 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

SUMMARY

Highlights

The actuarial estimates shown in the 1986 Annual Report indicate that the assets of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds will be sufficient to permit the timely payment of OASDI benefits for many years into the future. The long-range 75-year estimates indicate that, under the intermediate assumptions, the OASDI program will experience about three decades of actuarial surpluses, with continuing actuarial deficits thereafter. The surpluses in the first part of the 75-year projection period approximately offset the later deficits, so that the program, as a whole, is said to be in close actuarial balance.

Trust fund assets grew more rapidly in 1985 than was estimated in the 1985 Annual Report, reflecting both continued growth in the economy and a \$3.2-billion transfer from the general fund of the Treasury for the costs of pre-1957 military-service wage credits. As a result, the trust fund levels are higher than had been expected, and the ability of the OASDI program to withstand temporary economic downturns has improved significantly. The estimates for each trust fund, separately, indicate that both the OASI and the DI programs can operate satisfactorily for many years. During the next several years, however, the assets of the DI Trust Fund could decline to a relatively low level, if experience is very adverse.

For the long-range 75-year projection period, the OASDI program has an average annual deficit of 0.44 percent of taxable payroll, based on the intermediate II-B assumptions. (The long-range deficit under alternative II-B in the 1985 report was about the same—0.41 percent of payroll.) The long-range deficit represents about 3 percent of the average annual cost rate. The program is therefore in "close actuarial balance," although imbalances occur in the 25-year subperiods.

For OASI and DI, separately, the average long-range deficits, based on the II-B assumptions, are 0.29 percent and 0.15 percent of taxable payroll, respectively. The deficit for DI represents about 10 percent of the average annual cost rate; thus, the DI program is not in close actuarial balance. The DI program could be brought into close actuarial balance by a small reallocation of the contribution rate from OASI to DI, in such a way that the OASI program would remain in close actuarial balance. While such a reallocation is not recommended at this time, the financial condition of the DI program will need to be carefully monitored for the next several years.

1. Program Description

The OASDI program consists of two separate parts, which pay monthly benefits to workers and their families:

- (1) Old-Age and Survivors Insurance (OASI) pays benefits after a worker retires and to survivors after a worker dies.
- (2) Disability Insurance (DI) pays benefits after a worker becomes disabled.

The Board of Trustees of the trust funds is required by law to report annually to the Congress on the financial condition of the funds and on estimated future results. The Board has five members, three of whom serve in an ex officio capacity: the Secretaries of the Treasury, Labor, and Health and Human Services. The Board also includes two members of the public, Mary Falvey Fuller and Suzanne Denbo Jaffe, who are serving 4-year terms which began on September 28, 1984.

Most OASDI revenue consists of contributions paid by employees, their employers, and the self-employed. (Additional contributions are paid into a separate trust fund for the Hospital Insurance part of Medicare. This summary focuses on OASDI and does not discuss Medicare except in the context of interfund borrowing.) The contribution rates are established by law. Contributions are paid on earnings not exceeding the earnings base—\$42,000 in 1986. The earnings base will rise in the future as average wages increase. The current and future OASDI contribution rates for employees and employers, each, are shown below (as percentages):

Year	OASI	DI	Total
1986-87.....	5.20	0.50	5.70
1988-89.....	5.53	.53	6.06
1990-99.....	5.60	.60	6.20
2000 & later.....	5.49	.71	6.20

Since 1984, a portion (not more than one-half) of OASDI benefits may be subject to Federal income taxation under certain circumstances. The revenues collected as a result of this provision are transferred from the general fund of the Treasury to the trust funds, in advance of their actual collection.

The outgo of the OASDI trust funds consists of benefit payments and administrative expenses. Trust fund assets may not be used for any other purposes.

During periods when outgo temporarily exceeds income, trust fund assets are used to meet the shortfall. In the event of recurring shortfalls, the trust funds can allow time for legislation to be enacted to restore balance to the program. The assets of the trust funds are invested in U.S. Government securities bearing rates of interest similar to those for long-term securities issued to the general public.

2. Recent Results

During 1985, about 122 million workers made contributions to the OASDI program. At the end of September 1985, 36.9 million persons were receiving monthly OASDI benefit payments. Administrative expenses represented about 1.2 percent of benefit payments in fiscal 1985.

Income to the OASDI trust funds in fiscal 1985 was \$197.9 billion, while outgo was \$188.5 billion. In addition, \$1.8 billion was transferred from the OASI fund to the Hospital Insurance (HI) fund, as partial repayment of interfund loans made in 1982. Thus, the assets of the OASDI funds increased by \$7.5 billion during the fiscal year. A summary of the OASDI financial operations in fiscal 1985 is shown below (in billions):

Trust fund assets at end of fiscal 1984.....	\$32.2
Income during year:	192.2
Contributions.....	3.4
Revenue from taxation of benefits.....	.1
Payments from general fund.....	2.2
Net interest.....	197.9
Total income.....	
Outgo during year:	184.0
Benefit payments.....	2.2
Administrative expenses.....	2.4
Transfer to Railroad Retirement program.....	188.5
Total outgo.....	
Loan repayment to HI fund.....	1.8
Net increase in assets during year.....	7.5
Trust fund assets at end of fiscal 1985.....	39.7

Note: Totals may not equal sums of components, due to rounding.

The growth of the trust funds in calendar year 1985 was such that the entire \$10.6 billion in interfund loans owed from the OASI Trust Fund to the HI Trust Fund in January 1986 was repaid then—a year sooner than had been expected. The \$2.5 billion currently owed from the OASI fund to the DI fund is scheduled to be repaid in April 1986.

While some decline in the *invested* assets of the trust funds occurred late in 1985 because of debt-limit problems, the assets are now fully invested. Legislative action by the Congress, with the support of the Administration, restored the long-term bonds that had been redeemed and prevented any losses of interest earnings to the funds.

3. Actuarial Estimates

The annual report contains 75-year estimates of each fund's financial operations and status. Because precise prediction of the future is impossible, alternative sets of assumptions, representing a reasonable range of possible future experience, are used to make short- and long-range estimates. Future experience could, however, fall outside the range indicated by these assumptions.

Future OASDI income and outgo will depend on a variety of economic and demographic factors, including economic growth, inflation, unemployment, fertility, and mortality. Economic factors affect the levels of workers' earnings and OASDI benefits, while demographic factors affect the numbers of people making contributions and receiving benefits.

This year's estimates were prepared using four alternative sets of assumptions. Two sets—alternatives II-A and II-B—are designated "intermediate." These sets share the same demographic assumptions, but

differ with respect to economic assumptions; somewhat more robust economic growth is assumed for alternative II-A than for alternative II-B. One set—alternative I—is designated “optimistic,” and another—alternative III—is “pessimistic.”

No single measure is used to assess the actuarial status of the OASDI funds. Short-range measures usually focus on the adequacy of reserves available to pay benefits. Long-range measures usually focus instead on the balance between income and outgo during the projection period.

The *contingency fund ratio* is the usual measure of the OASDI program’s ability to pay benefits on time in the near future. This ratio is the amount in the trust funds at the beginning of the year, including advance tax transfers for January, divided by that year’s expenditures. Thus, if the trust fund ratio is 25 percent, the amount in the fund represents about 3 months’ outgo. At the beginning of 1986, the fund ratio for OASDI was about 29 percent. A ratio of 8-9 percent is required to pay benefits at the beginning of each month.

In analyzing the actuarial status of OASDI for the next 75 years, several different measures are commonly used. The *income rate* is the combined OASDI employee-employer contribution rate scheduled in the law, plus the income from taxation of benefits expressed as a percentage of taxable payroll. The *cost rate* is the annual outgo expressed as a percentage of taxable payroll. Average income and cost rates can be compared directly to measure the adequacy of the program’s financing.

For the 75-year long-range projection period, the *actuarial balance* is the difference between the estimated average income rate and the estimated average cost rate. If this actuarial balance is positive, the program is said to have an actuarial surplus, and if negative, an actuarial deficit. Such a deficit is a warning that future changes may be needed in the program’s financing or benefit provisions, although it does not present a complete picture without the other measures of financing discussed here. The program is in “*close actuarial balance*” for the long-range period if the average income rate is between 95 and 105 percent of the average cost rate.

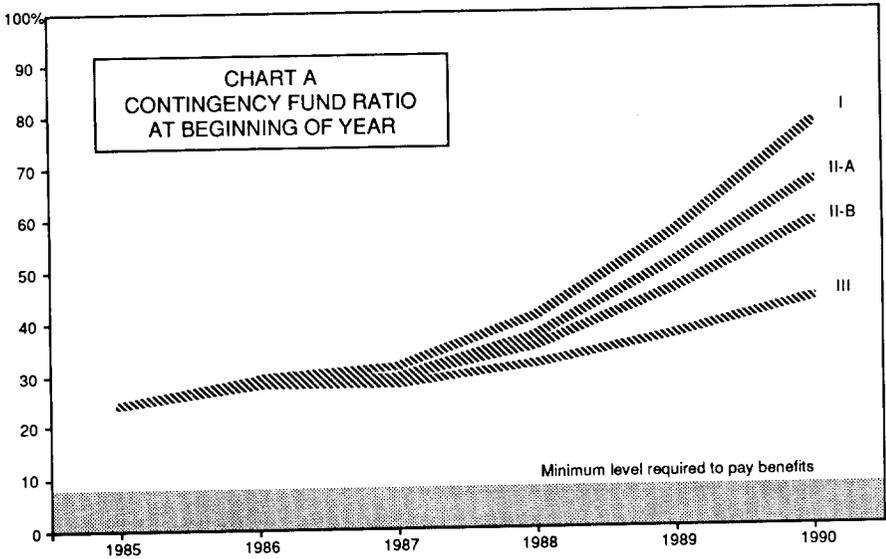
4. Short-Range Financing (1986-90)

Estimates for the next 5 years are used to assess the adequacy of OASDI financing in the short range. In this period, the numbers of persons receiving OASDI benefits can be estimated fairly accurately. Changes in the national economy, however, which are difficult to predict, can have major effects on income and outgo.

The actuarial estimates shown in the 1986 report indicate that the assets of the OASI and DI Trust Funds will be sufficient to pay OASDI benefits on time throughout the 5-year period and for many years thereafter, based on all four sets of assumptions. In addition, the estimates indicate that the OASI and DI programs, separately, can operate satisfactorily for many years. During the next several years, however, the DI contingency fund ratio could decline to a relatively low level, as shown by the pessimistic estimates.

Chart A shows the OASDI contingency fund ratio for 1985, 24 percent, and the projected OASDI ratios for 1986-90, on the basis of all

four sets of assumptions. The fund ratios are generally estimated to increase each year.



5. Long-Range Financing (1986-2060)

Long-range 75-year estimates for OASDI, although sensitive to variations in the assumptions, indicate the trend and general range of the program's future financial status. During this long-range period, income and outgo are greatly affected by demographic, as well as economic, conditions. Most of the beneficiaries during the next 75 years have already been born, so that their numbers are projected mainly from the present population. The numbers of workers involved in these projections, however, depend on future birth rates, which are subject to more variability.

Several important demographic trends are anticipated to raise the proportion of the aged in the population during the next 75 years. First, because of the large number of persons born in the two decades after World War II, rapid growth is expected in the aged population after the turn of the century. Second, assumed declines in death rates also would increase the numbers of aged persons. At the same time, birth rates, which began to decline in the 1960s and are assumed to remain relatively low in the future, would hold down the numbers of young people.

Chart B shows the long-range trend in the number of covered workers for each OASDI beneficiary. ("Beneficiaries" includes not only retired workers, but also disabled workers, spouses, children, and survivor beneficiaries.) This ratio declined from 5.1 in 1960 to 3.3 in 1985. It is estimated to reach about 2 by the middle of the next century, based on

the intermediate assumptions, as the number of beneficiaries increases more rapidly than the number of covered workers.

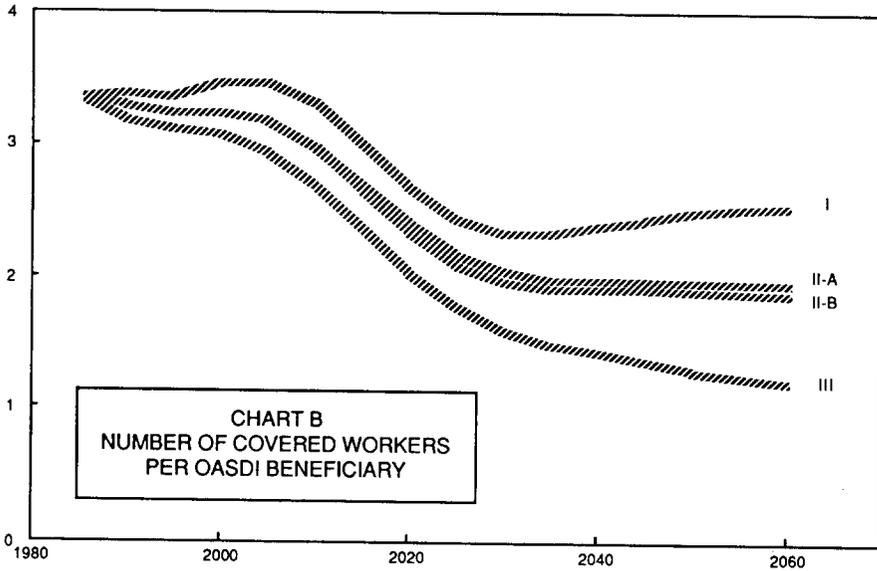
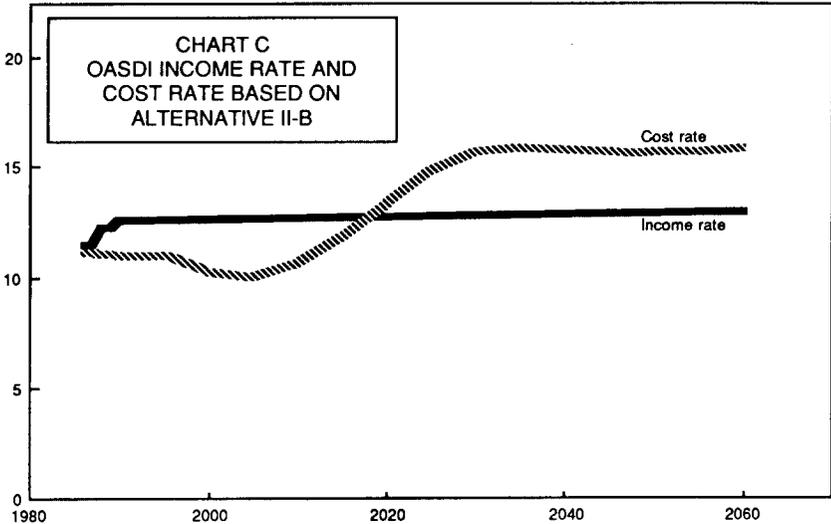


Chart C shows the estimated OASDI income and cost rates for the long-range projection period, based on the intermediate II-B assumptions. During the first three decades of this period, the estimates indicate that the income rate will generally exceed the cost rate, resulting in substantial actuarial surpluses each year. Beginning about 2020, the reverse is true, with the cost rate exceeding the income rate, thus resulting in substantial deficits. These actuarial surpluses and deficits do not reflect interest earnings, which result in trust fund growth continuing for about 15 years after the first actuarial deficits occur. The cost rate is estimated to increase rapidly after the first half of the 75-year projection period, primarily because the number of beneficiaries is projected to increase more rapidly than the number of covered workers.

The long-range OASDI actuarial deficit of 0.44 percent of taxable payroll, based on the intermediate II-B assumptions, consists of an average annual surplus of 2.12 percent of taxable payroll for the first 25-year subperiod, and average annual deficits of 0.89 and 2.56 percent for the second and third 25-year subperiods, respectively. Thus, in the absence of other changes, the long-range actuarial balance will tend to decline slowly in future annual reports, as the valuation period moves forward and near-term years of surplus are replaced by distant years of deficit. The actuarial deficits in the later years of the 75-year projection period are caused primarily by the demographic trends described above.



The table below presents a comparison of the average annual income and cost rates for the 75-year long-range projection period, based on the four sets of assumptions. The figures are expressed as percentages of taxable payroll. Based on the intermediate II-B assumptions, the OASDI program is in "close actuarial balance," because the estimated average income rate is between 95 and 105 percent of the average cost rate. The 0.44-percent deficit represents about 3 percent of the average cost rate.

Assumptions	Income rate	Cost rate	Actuarial balance
Optimistic.....	12.82	10.52	2.31
Intermediate II-A.....	12.92	12.64	.28
Intermediate II-B.....	12.96	13.40	-.44
Pessimistic.....	13.16	17.64	-4.49

Note: Income rate, cost rate, and actuarial balance are defined in the text.

I. THE BOARD OF TRUSTEES

The Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund are held by the Board of Trustees under the authority of section 201(c)(1) of the Social Security Act. The Board has five members, three of whom serve in an ex officio capacity: the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health and Human Services. The other two members, Mary Falvey Fuller and Suzanne Denbo Jaffe, are members of the public serving 4-year terms which began on September 28, 1984.

By law, the Secretary of the Treasury is designated as the Managing Trustee, and the Commissioner of Social Security is designated as the Secretary of the Board. The Board of Trustees reports to the Congress each year on the operations and status of the trust funds, in compliance with section 201(c)(2) of the Social Security Act. This annual report, for 1986, is the 46th such report.

II. SOCIAL SECURITY AMENDMENTS SINCE THE 1985 REPORT

Since the 1985 Annual Report was transmitted to the Congress on March 28, 1985, several laws affecting the OASDI program have been enacted. The legislative changes having a significant effect on the financial status of the program are described below.

Two laws (Public Law 99-155, enacted into law on November 14, 1985, and the Balanced Budget and Emergency Deficit Control Act of 1985, Public Law 99-177, enacted into law on December 12, 1985) included provisions which were designed to remedy certain problems in 1984 and 1985 involving the statutory limit on public debt. When the applicable public-debt limit was reached in each of those years, the Department of the Treasury was unable to follow the normal investment practices with respect to the assets of the trust funds. The specific provisions required (1) transfers amounting to \$382 million to be made from the general fund of the Treasury to the trust funds, on December 31, 1985, to replace the past and future interest income lost primarily because of the replacement of certain bonds with lower-yielding securities in some months of 1984, and (2) the restoration of the portfolio of long-term bonds that would have been held if the debt-limit problems in 1985 had not caused the premature redemption of some bonds.

The Balanced Budget and Emergency Deficit Control Act of 1985 also changed the accounting procedures of the Federal Government with respect to the Social Security trust funds. Effective with fiscal 1986, the financial operations of the OASI and DI Trust Funds are removed from the Federal Budget for most purposes. In calculating whether the Budget meets the deficit targets specified in the law, however, the operations of the trust funds are included. The financial effects of this accounting change are uncertain.

Detailed information regarding these laws can be found in documents prepared by and for the Congress. The actuarial estimates shown in this report reflect the effects of these amendments.

III. NATURE OF THE TRUST FUNDS

The Federal Old-Age and Survivors Insurance Trust Fund was established on January 1, 1940, as a separate account in the United States Treasury. All the financial operations of the OASI program are handled through this fund. The Federal Disability Insurance Trust Fund is another separate account in the United States Treasury; it was established on August 1, 1956. All the financial operations of the DI program are handled through this fund.

The major sources of receipts of these two funds are (1) amounts appropriated to each of them under permanent authority on the basis of contributions paid by workers, their employers, and individuals with self-employment income, in work covered by the OASDI program, and (2) amounts deposited in each of them representing contributions paid by or on behalf of workers employed by State and local governments and by such employers with respect to wages covered by the program. All employees, and their employers, in covered employment are required to pay contributions with respect to their wages. Employees are required to pay contributions with respect to all cash tips, but employers are required to pay contributions on only that part of tip income deemed to be wages under the Federal minimum-wage law. All self-employed persons are required to pay contributions with respect to their covered net earnings from self-employment. In addition to making the required employer contributions on the earnings of covered Federal employees, the Federal Government also pays amounts equivalent to the employer and employee contributions that would be paid on deemed wage credits attributable to military service performed after 1956 if such wage credits were covered wages.

In general, an individual's contributions, or taxes, are computed on annual wages or net earnings from self-employment, or both wages and net self-employment earnings combined, up to a specified maximum annual amount. The contributions are determined first on the wages and then on any net self-employment earnings, such that the total does not exceed the annual maximum amount. An employee who pays contributions on wages in excess of the annual maximum amount (because of employment with two or more employers) is eligible for a refund of the excess employee contributions. The monthly benefit amount to which an individual (or his or her spouse and children) may become entitled under the OASDI program is based on the individual's taxable earnings during his or her lifetime. In computing benefits for almost all persons who first become eligible to receive benefits in 1979 or later, the earnings in each year are indexed to take account of increases in average wage levels. The maximum amount of earnings on which contributions are payable in a year, and which is also the maximum amount of earnings creditable in that year for benefit-computation purposes, is called the contribution and benefit base.

The contribution rates, or tax rates, applicable in each calendar year, and the allocation of the rates between the two trust funds, are shown in table 1. For 1987 and later, the rates shown are those scheduled in present law. The contribution and benefit bases are also shown in table 1. The bases for 1975-78 were determined under the automatic-adjustment

provisions in section 230 of the Social Security Act. The bases for 1979-81 were specified in the law, as amended in 1977. The bases for 1982-86 were again determined under the automatic-adjustment provisions, as will be the bases in 1987 and later.

TABLE 1.—CONTRIBUTION AND BENEFIT BASE AND CONTRIBUTION RATES

Calendar years	Contribution and benefit base	Contribution rates (percent)					
		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	.8250
1971.....	7,800	4.600	4.050	.550	6.9000	6.0750	.8250
1972.....	9,000	4.600	4.050	.550	6.9000	6.0750	.8250
1973.....	10,800	4.850	4.300	.550	7.0000	6.2050	.7950
1974.....	13,200	4.950	4.375	.575	7.0000	6.1850	.8150
1975.....	14,100	4.950	4.375	.575	7.0000	6.1850	.8150
1976.....	15,300	4.950	4.375	.575	7.0000	6.1850	.8150
1977.....	16,500	4.950	4.375	.575	7.0000	6.1850	.8150
1978.....	17,700	5.050	4.275	.775	7.1000	6.0100	1.0900
1979.....	22,900	5.080	4.330	.750	7.0500	6.0100	1.0400
1980.....	25,900	5.080	4.520	.560	7.0500	6.2725	.7775
1981.....	29,700	5.350	4.700	.650	8.0000	7.0250	.9750
1982.....	32,400	5.400	4.575	.825	8.0500	6.8125	1.2375
1983.....	35,700	5.400	4.775	.625	8.0500	7.1125	.9375
1984 ¹	37,800	5.700	5.200	.500	11.4000	10.4000	1.0000
1985 ¹	39,600	5.700	5.200	.500	11.4000	10.4000	1.0000
1986 ¹	42,000	5.700	5.200	.500	11.4000	10.4000	1.0000
Rates scheduled in present law:							
1987 ¹	(²)	5.700	5.200	.500	11.4000	10.4000	1.0000
1988-89 ¹	(²)	6.060	5.530	.530	12.1200	11.0600	1.0600
1990-99.....	(²)	6.200	5.600	.600	12.4000	11.2000	1.2000
2000 and later.....	(²)	6.200	5.490	.710	12.4000	10.9800	1.4200

¹See text for description of tax credits.

²Subject to automatic adjustment.

In 1984 only, an immediate credit of 0.3 percent of taxable wages was allowed against the OASDI contributions paid by employees, resulting in an effective contribution rate of 5.4 percent (as compared to the employer rate of 5.7 percent). The appropriations of contributions to the trust funds, however, were based on a combined employee-employer rate of 11.4 percent, as if the credit for employees did not apply. Similar credits of 2.7 percent, 2.3 percent, and 2.0 percent are allowed against the combined OASDI and Hospital Insurance (HI) contributions on net earnings from self-employment in 1984, 1985, and 1986-89, respectively. The appropriations of contributions to the trust funds, however, are based on the contribution rates, before adjustment for the credit, that apply in each year. After 1989, self-employed persons will be allowed a

deduction, for purposes of Federal income taxes, equal to half of the combined OASDI and HI contributions payable, but this will not affect appropriations to the trust funds.

All contributions, except for amounts received under State agreements for coverage under the program, are collected by the Internal Revenue Service and deposited in the general fund of the Treasury. The exact amount of contributions received is not known initially because amounts paid under the OASDI and HI programs and individual income taxes are not separately identified in collection reports received by the Internal Revenue Service.

Amounts representing the estimated total collections of OASDI contributions by the IRS for each month are credited to the OASI and DI Trust Funds on the first day of the month. Because these estimated collections are credited to the trust funds on the first of the month, instead of throughout the month as contributions are actually received, the trust funds pay interest to the general fund to reimburse it for the interest costs attributable to these advance transfers. Periodic adjustments (principal only) are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable as determined from reported earnings. Adjustments are also made to account for any refunds to employees (with more than one employer) who paid contributions on wages in excess of the contribution and benefit base.

Beginning in 1984, a portion (not more than one-half) of OASDI benefits is subject to Federal income taxation under certain circumstances. The proceeds from this taxation of benefits are credited to the trust funds, in advance, on an estimated basis, at the beginning of each calendar quarter, with no reimbursement to the general fund for interest costs attributable to the advance transfers. Subsequent adjustments are made based on the actual amounts as shown on annual income tax records. The amounts appropriated from the general fund of the Treasury are allocated to the OASI and DI Trust Funds on the basis of the income taxes paid on the benefits from each fund. (A special provision applies to benefits paid to non-resident aliens. A flat-rate tax, usually 15 percent, is withheld from the benefits before they are paid and, therefore, remains in the trust funds.)

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

The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust funds. The Act provides that these obligations shall bear interest at a rate equal to the average market yield (computed 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 4 years from the end of such calendar month.

Income is also affected by provisions of the Social Security Act for (1) transfers between the general fund of the Treasury and the OASI and DI Trust Funds for any adjustments to prior payments for the cost arising from the granting of noncontributory wage credits for military service prior to 1957, according to periodic determinations made by the Secretary of Health and Human Services; (2) annual reimbursements from the general fund of the Treasury to the OASI Trust Fund for any costs arising from the special monthly cash payments to certain uninsured persons—i.e., those who attained age 72 before 1968 and who generally are not eligible for cash benefits under other provisions of the OASDI program; and (3) the receipt of unconditional money gifts or bequests made for the benefit of the trust funds or any activity financed through the funds.

The major expenditures of the OASI and DI Trust Funds are for (1) OASDI benefit payments, net of any reimbursements from the general fund of the Treasury for unnegotiated benefit checks, and (2) expenses incurred by the Department of Health and Human Services and by the Department of the Treasury in administering the OASDI program and the provisions of the Internal Revenue Code relating to the collection of contributions. Such administrative expenses include expenditures for construction, rental and lease, or purchase of office buildings and related facilities for the Social Security Administration. The Social Security Act does not permit expenditures from the OASI and DI Trust Funds for any purpose not related to the payment of benefits or administrative costs for the OASDI program.

The expenditures of the trust funds are also affected by (1) costs of vocational rehabilitation services furnished as an additional benefit to disabled persons receiving cash benefits because of their disabilities where such services contributed to their successful rehabilitation, and (2) the provisions of the Railroad Retirement Act which provide for a system of coordination and financial interchange between the Railroad Retirement program and the Social Security programs. Under these provisions, transfers between the Railroad Retirement program's Social Security Equivalent Benefit Account and the trust funds are made on an annual basis in order to place each trust fund in the same position in which it would have been if railroad employment had always been covered under Social Security.

The net worth of facilities and other fixed capital assets is not carried in the statements of the operations of the trust funds presented in this report. This is because the value of fixed capital assets does not represent funds available for the payment of benefits or administrative expenditures, and therefore is not considered in assessing the actuarial status of the trust funds.

The Social Security Act authorizes borrowing among the OASI, DI, and HI Trust Funds when necessary “to best meet the need for financing the benefit payments” from the three funds. The timing and amounts of the loans are largely at the discretion of the Managing Trustee, although no loans can be made after 1987. Loans may not be made from a trust fund if its assets (excluding any amounts borrowed) represent less than 10 percent of its current annual rate of expenditures. The law also specifies that interest on borrowed amounts will be paid monthly at a rate “equal to the rate which the lending Trust Fund would earn on the amount involved if the loan were an investment” and provides certain criteria for repaying outstanding amounts owed.

In this report, the assets of a trust fund include any amounts owed to other trust funds. The assets of a trust fund to which amounts are owed do not include such amounts. This procedure is followed because borrowed amounts are available for the payment of benefits or other obligations of the borrowing fund, while such amounts are not readily available to the lending fund.

**IV. SUMMARY OF THE OPERATIONS OF THE OLD-AGE AND
SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST
FUNDS, FISCAL YEAR 1985**

A. OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

A statement of the income and disbursements of the Federal Old-Age and Survivors Insurance Trust Fund in fiscal year 1985 and of the assets of the fund at the beginning and end of the fiscal year is presented in table 2.

TABLE 2.—STATEMENT OF OPERATIONS OF THE OASI TRUST FUND
DURING FISCAL YEAR 1985
[In thousands]

Total assets, September 30, 1984.....		\$27,569,589
Receipts:		
Contributions:		
Appropriations:		
Employment taxes.....	\$154,931,435	
Tax credits.....	2,846,564	
Total appropriations.....	157,777,999	
Deposits arising from State agreements.....	17,650,892	
Payments from general fund of the Treasury representing employee- employer contributions on deemed wage credits for military service in 1985.....	326,000	
Gross contributions.....	175,754,890	
Less payment to the general fund of the Treasury for contributions subject to refund.....	450,157	
Net contributions.....		175,304,734
Income from taxation of benefit payments:		
Withheld from benefit payments to non-resident aliens.....	73,680	
All other, not subject to withholding.....	3,077,000	
Total income from taxation of benefits.....		3,150,680
Reimbursement from general fund of the Treasury for costs of payments to uninsured persons who attained age 72 before 1968:		
Benefit payments.....	85,666	
Administrative expenses.....	739	
Interest.....	18,573	
Total reimbursement.....		104,978
Investment income and interest adjustments:		
Interest on investments.....	3,535,333	
Interest on transfers from the general fund account for the Supplemental Security Income program due to adjustment in allocation of administra- tive expenses.....	2,288	
Interest on reimbursement from general fund for unnegotiated checks.....	76,500	
Gross investment income and interest adjustments.....	3,614,120	
Less interest on interfund loans from DI and HI Trust Funds.....	1,571,324	
Less interest on general fund advance tax transfers.....	721,743	
Less interest on interfund transfers due to adjustment in allocation of administrative expenses.....	237	
Net investment income and interest adjustments.....		1,320,816
Gifts.....		125
Total receipts.....		179,881,333

TABLE 2.—STATEMENT OF OPERATIONS OF THE OASI TRUST FUND
DURING FISCAL YEAR 1985 (Cont.)
[In thousands]

Disbursements:		
Benefit payments:		
Gross benefit payments.....	\$166,211,625	
Less collected overpayments.....	789,845	
Less reimbursement for unnegotiated checks.....	111,800	
Net benefit payments.....		\$165,309,981
Transfer to the Railroad Retirement "Social Security Equivalent Benefit Account".....		2,310,169
Payment for costs of vocational rehabilitation services for disabled beneficiaries.....		426
Administrative expenses:		
Department of Health and Human Services.....	1,430,426	
Department of the Treasury.....	154,507	
Construction of facilities for Social Security Administration.....	4,693	
Gross administrative expenses.....	1,589,627	
Less reimbursements from general fund of the Treasury for costs of furnishing information on deferred vested pension benefits.....	481	
Less receipts from sales of supplies, materials, etc.....	98	
Net administrative expenses.....		1,589,047
Total disbursements.....		169,209,622
Partial repayment of interfund loans:		
To DI Trust Fund.....		2,540,000
To HI Trust Fund.....		1,824,000
Total repayment.....		4,364,000
Net increase in assets¹.....		6,307,711
Total assets², September 30, 1985.....		33,877,300

¹Equals total receipts, less total expenditures, less interfund loan repayments.

²Assets include amounts, totaling \$13,154,523,025.38, lent to the OASI Trust Fund from the DI and HI Trust Funds.

Note: Totals do not necessarily equal the sums of rounded components.

The total assets of the OASI Trust Fund amounted to \$27,570 million on September 30, 1984. During fiscal year 1985, total receipts amounted to \$179,881 million, and total disbursements were \$169,210 million. In addition, amounts totaling \$4,364 million were transferred to the DI and HI Trust Funds as partial repayments on interfund loans. The assets of the OASI Trust Fund thus increased by \$6,308 million during the year, to a total of \$33,877 million on September 30, 1985.

Included in total receipts during fiscal year 1985 were \$157,778 million representing contributions appropriated to the fund (including transfers of \$2,847 million from the general fund of the Treasury to offset the tax credits allowed against contributions due on earnings of employees and self-employed persons). Also included in total receipts were \$17,651 million representing amounts received by the Secretary of the Treasury in accordance with State agreements for coverage of State and local government employees and deposited in the trust fund. Another \$326 million was received from the general fund of the Treasury representing payment for the contributions that would have been paid on estimated deemed wage credits for military service in 1985 if such credits had been considered to be covered wages. As an offset, \$450 million was transferred from the trust fund to the general fund of the Treasury for the estimated amount of refunds to employees who worked for more than one employer during a year and paid contributions on wages in excess of the contribution and benefit base.

Net contributions (including the general fund payments for tax credits and deemed military-service wage credits) amounted to \$175,305 million, an increase of 12.0 percent over the amount in the preceding fiscal year. This level of growth in contribution income resulted primarily from the effects of (1) increased covered employment and earnings; (2) the increase in the OASI contribution rates for employees, employers, and self-employed persons that became effective on January 1 of 1984; and (3) the increases in the contribution and benefit base that became effective on January 1 of each year 1984 and 1985. (Table 1 in the preceding section shows the contribution rates and the contribution and benefit bases that became effective for 1984 and 1985.)

Income from the taxation of benefits amounted to \$3,151 million, of which almost 98 percent represented amounts credited to the OASI Trust Fund in advance, on an estimated basis, at the beginning of each calendar quarter. The remaining 2 percent of the total income from taxation of benefits represented amounts withheld from the benefits paid to non-resident aliens.

Special payments are made to uninsured persons who either attained age 72 before 1968, or who attained age 72 after 1967 and had 3 quarters of coverage for each year after 1966 and before the year of attainment of age 72. The costs associated with providing such payments to persons having fewer than 3 quarters of coverage are reimbursable from the general fund of the Treasury. Accordingly, a reimbursement of \$105 million was transferred to the OASI Trust Fund in fiscal year 1985, as required by section 228 of the Social Security Act. The reimbursement reflected the costs of payments made in fiscal year 1983 and adjustments in the costs of payments made in prior fiscal years.

Receipts totaling \$1,321 million consisted of (1) interest earned on the investments of the trust fund; (2) net interest arising from the revised allocation of administrative expenses among the trust funds and the general fund account for the Supplemental Security Income program; (3) interest on reimbursement to the trust funds for unnegotiated checks (see below); less (4) interest paid on outstanding amounts owed to the DI and HI Trust Funds as a result of interfund borrowing; less (5) reimbursement to the general fund for interest costs resulting from the advance transfer of contributions.

The remaining \$124,727 of receipts consisted of gifts received under the provisions authorizing the deposit of money gifts or bequests in the trust funds.

Of the \$169,210 million in total disbursements, \$165,310 million was for net benefit payments, excluding collected overpayments of \$790 million and the reimbursement of \$112 million for unnegotiated benefit checks. (This reimbursement represented the estimated value of all OASI benefit checks issued prior to April 1985 which had not been negotiated within 6 months of issuance, less the reimbursements received in fiscal years 1983 and 1984. An additional amount of \$76.5 million representing interest on this reimbursement was also transferred, as noted previously.) The amount of net benefit payments in fiscal year 1985 represents an increase of 6.1 percent over the corresponding amount in fiscal year 1984. This increase was due primarily to (1) the automatic cost-of-living

benefit increase of 3.5 percent which became effective for December 1984 under the automatic-adjustment provisions in section 215(i) of the Social Security Act, (2) an increase in the total number of beneficiaries, and (3) an increase in the average benefit amount resulting from the rising level of earnings.

As described in the preceding section, certain provisions of the Railroad Retirement Act coordinate the Railroad Retirement and OASI programs and govern the financial interchanges arising from the allocation of costs between the two programs. Prior to fiscal year 1985, transfers were made between the trust funds and the Railroad Retirement Account. Public Law 98-76 established the Social Security Equivalent Benefit Account (SSEBA) and specified that financial-interchange transfers in fiscal years after 1984 are to be made to or from this account. In accordance with those provisions of the Railroad Retirement Act governing financial interchanges, the Railroad Retirement Board and the Secretary of Health and Human Services determined that a transfer of \$2,154 million to the SSEBA from the OASI Trust Fund would place this trust fund in the same position as of September 30, 1984, in which it would have been if railroad employment had always been covered under the Social Security Act. A total amount of \$2,310 million was transferred to the SSEBA in June 1985, including interest to the date of transfer amounting to \$156 million.

Expenditures of the OASI program for the costs of vocational rehabilitation services amounted to \$425,553. Rehabilitation services were furnished to disabled adults (children of old-age beneficiaries and survivors of deceased insured workers) who were receiving monthly benefits from the OASI Trust Fund because of their disabilities. Reimbursement by the trust funds for such services is limited to certain cases where a return to substantial gainful activity results (at least in part) from the rehabilitation services.

The remaining \$1,589 million of disbursements from the OASI Trust Fund represents net administrative expenses. The expenses of administering the programs financed through the four trust funds (the OASI, DI, HI, and Supplementary Medical Insurance Trust Funds) are allocated and charged directly to each trust fund on the basis of provisional estimates. Similarly, the expenses of administering the Supplemental Security Income program are also allocated and charged directly to the general fund of the Treasury on a provisional basis. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses for prior periods are effected by interfund transfers and transfers between the OASI Trust Fund and the general fund account for the Supplemental Security Income program, with appropriate interest adjustments.

Section 1131 of the Social Security Act authorizes annual reimbursements from the general fund of the Treasury to the OASI Trust Fund for additional administrative expenses incurred as a result of furnishing information on deferred vested benefits to pension plan participants, as required by the Employee Retirement Income Security Act of 1974 (Public Law 93-406). The reimbursement in fiscal year 1985 amounted to \$481,266.

Net administrative expenses charged to the OASI and DI Trust Funds in fiscal year 1985 totaled \$2,192 million. (The operations of the DI Trust Fund are presented in detail in the next subsection.) This amount represented 1.1 percent of contribution income and 1.2 percent of expenditures for benefit payments. Corresponding percentages for each trust fund separately and for the OASDI program as a whole are shown in table 3 for each of the last 5 years.

TABLE 3.—NET ADMINISTRATIVE EXPENSES AS A PERCENTAGE OF CONTRIBUTION INCOME AND OF BENEFIT PAYMENTS, BY TRUST FUND, FISCAL YEARS 1981-85

Fiscal year	OASI Trust Fund		DI Trust Fund		Total	
	Contribution income	Benefit payments	Contribution income	Benefit payments	Contribution income	Benefit payments
1981.....	1.1	1.1	3.2	2.4	1.3	1.2
1982.....	1.2	1.1	2.7	3.3	1.4	1.3
1983.....	1.1	1.0	3.5	3.8	1.4	1.3
1984.....	1.0	1.0	3.6	3.3	1.3	1.3
1985.....	.9	1.0	3.6	3.2	1.1	1.2

Reference has been made in an earlier section to provisions of the Social Security Act authorizing interfund borrowing among the OASI, DI, and HI Trust Funds. In fiscal year 1983, \$17,519 million was lent to the OASI Trust Fund under these provisions—\$12,437 million from the HI Trust Fund and \$5,081 million from the DI Trust Fund. Under the automatic-repayment provisions of the law, \$1,824 million was repaid from the OASI Trust Fund to the HI Trust Fund in January 1985. In addition, \$2,540 million (or roughly one-half of the amount owed) was repaid to the DI Trust Fund at that time, although not required by law. Thus, the amounts still owed to the HI and DI Trust Funds at the end of the year were \$10,613 million and \$2,541 million, respectively.

In table 4, the actual amounts of contributions and benefit payments in fiscal year 1985 are compared to the corresponding estimated amounts which appeared in the 1984 and 1985 Annual Reports. The estimates shown are the ones based on the alternative II-B set of assumptions from each report. Actual OASI and DI contributions were reasonably close, relatively, to the estimates shown in both the 1984 and 1985 Annual Reports. Actual DI benefit payments in fiscal year 1985 were significantly above the 1984 estimate but somewhat below the 1985 estimate. This variation resulted primarily from an unusual pattern of retroactive DI benefit payments in 1984 and 1985, and the consequent difficulties in projecting future levels of such payments.

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 1985 reflects the aforementioned adjustments to contributions for prior fiscal years. The "estimated" contributions in fiscal year 1985 also include the adjustments for prior years, but on an estimated basis.

TABLE 4.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE OASI AND DI TRUST FUNDS, FISCAL YEAR 1985
[Amounts in millions]

	OASI Trust Fund		DI Trust Fund	
	Net contributions	Benefit payments ¹	Net contributions	Benefit payments ¹
Actual amount	\$175,305	\$165,310	\$16,876	\$18,648
Estimated amount published in 1984 report	\$177,131	\$168,048	\$17,012	\$18,017
Actual as percentage of estimate.....	99.0	98.4	99.2	103.5
Estimated amount published in 1985 report	\$175,100	\$166,835	\$16,773	\$19,122
Actual as percentage of estimate.....	100.1	99.1	100.6	97.5

¹Includes payments for vocational rehabilitation services furnished to disabled persons receiving benefits because of their disabilities.

At the end of fiscal year 1985, about 36.9 million persons were receiving monthly benefits under the OASDI program. About 33.0 million of these persons were receiving monthly benefits from the OASI Trust Fund. The distribution of benefit payments (before reflecting the reimbursement for unnegotiated checks) in fiscal years 1984 and 1985, by type of beneficiary, is shown in table 5. Approximately 77 percent of the total benefit payments from the OASI Trust Fund in fiscal year 1985 represented monthly benefits to retired workers and their spouses and children, and about 17 percent represented monthly benefits to aged survivors and disabled widows and widowers of deceased workers. Approximately 6 percent of the benefit payments represented monthly benefits on behalf of children of deceased workers and monthly benefits to widowed mothers and fathers who had such children in their care.

TABLE 5.—ESTIMATED DISTRIBUTION OF BENEFIT PAYMENTS FROM THE OASI TRUST FUND, BY TYPE OF BENEFICIARY OR PAYMENT, FISCAL YEARS 1984 AND 1985
[Amounts in millions]

	Fiscal year 1984		Fiscal year 1985	
	Amount	Percentage of total	Amount	Percentage of total
Total.....	\$155,846	100.0	\$165,422	100.0
Monthly benefits	155,632	99.9	165,215	99.9
Retired workers and auxiliaries	119,366	76.6	127,062	76.8
Retired workers	108,495	69.6	115,524	69.8
Wives and husbands.....	9,731	6.2	10,400	6.3
Children	1,141	.7	1,138	.7
Survivors of deceased workers	36,192	23.2	38,093	23.0
Aged widows and widowers	26,475	17.0	28,402	17.2
Disabled widows and widowers	380	.2	418	.3
Parents	54	(¹)	51	(¹)
Children	7,803	5.0	7,750	4.7
Widowed mothers and fathers caring for child beneficiaries	1,478	.9	1,472	.9
Uninsured persons generally aged 72 before 1968	74	(¹)	60	(¹)
Lump-sum death payments	214	.1	207	.1

¹Less than 0.05 percent.

Note: Totals do not necessarily equal the sums of rounded components.

The assets of the OASI Trust Fund at the end of fiscal year 1985 totaled \$33,877 million, consisting of \$30,968 million in U.S. Government obligations and an undisbursed balance of \$2,910 million. Table 6 shows the total assets of the fund and their distribution at the end of each fiscal year 1984 and 1985.

TABLE 6.—ASSETS OF THE OASI TRUST FUND, BY TYPE, AT END OF FISCAL YEAR, 1984 AND 1985

	September 30, 1984	September 30, 1985
Obligations sold only to the trust funds (special issues):		
Certificates of indebtedness:		
10.375 percent, 1986	—	\$8,209,540,000.00
12.75 percent, 1985	\$6,671,094,000.00	—
Bonds:		
10.375 percent, 1989	—	129,852,000.00
10.375 percent, 1990	—	2,057,101,000.00
10.375 percent, 1991	—	1,865,345,000.00
10.375 percent, 1992	—	565,186,000.00
10.375 percent, 1993	—	565,186,000.00
10.375 percent, 1994	—	565,186,000.00
10.375 percent, 1995	—	565,186,000.00
10.375 percent, 1996	—	565,186,000.00
10.375 percent, 1997	—	565,186,000.00
10.375 percent, 1998	—	565,186,000.00
10.375 percent, 1999	—	565,186,000.00
10.375 percent, 2000	—	2,057,101,000.00
10.75 percent, 1989	154,934,000.00	—
10.75 percent, 1990	1,022,231,000.00	—
10.75 percent, 1991	1,022,231,000.00	—
10.75 percent, 1992	1,022,231,000.00	1,022,231,000.00
10.75 percent, 1993	1,022,231,000.00	1,022,231,000.00
10.75 percent, 1994	1,022,231,000.00	1,022,231,000.00
10.75 percent, 1995	1,022,231,000.00	1,022,231,000.00
10.75 percent, 1996	1,022,231,000.00	1,022,231,000.00
10.75 percent, 1997	1,022,230,000.00	1,022,230,000.00
10.75 percent, 1998	1,022,230,000.00	1,022,230,000.00
13.75 percent, 1985	3,770,272,000.00	—
13.75 percent, 1988	371,341,000.00	—
13.75 percent, 1989	1,336,981,000.00	—
13.75 percent, 1990	469,684,000.00	—
13.75 percent, 1991	469,684,000.00	191,756,000.00
13.75 percent, 1992	469,684,000.00	469,684,000.00
13.75 percent, 1993	469,684,000.00	469,684,000.00
13.75 percent, 1994	469,684,000.00	469,684,000.00
13.75 percent, 1995	469,684,000.00	469,684,000.00
13.75 percent, 1996	469,684,000.00	469,684,000.00
13.75 percent, 1997	469,685,000.00	469,685,000.00
13.75 percent, 1998	469,685,000.00	469,685,000.00
13.75 percent, 1999	1,491,915,000.00	1,491,915,000.00
Total investments	27,223,772,000.00	30,967,503,000.00
Undisbursed balances	345,816,750.91	2,909,796,915.90
Total assets	27,569,588,750.91	33,877,299,915.90

Note: Special issues are always purchased at par value. Therefore, book value and par value are the same for each special issue, and the common value is shown above.

All securities held by the OASI Trust Fund are special issues (i.e., securities sold only to the trust funds). These are of two types: short-term certificates of indebtedness and long-term bonds. The certificates of indebtedness are issued through the investment of receipts not required to meet current expenditures, and they mature on the next June 30 following the date of issue. Special-issue bonds, on the other hand, are normally acquired only when the certificates of indebtedness mature on June 30. The amount of bonds acquired on June 30 is equal to the amount of certificates of indebtedness maturing, less amounts required to meet expenditures on that day.

The amount of securities acquired during fiscal year 1985 exceeded the amount redeemed by \$3,744 million. New securities with a total par value of \$204,910 million were acquired during the fiscal year. The par value of securities redeemed during the fiscal year was \$201,166 million.

Included in these amounts are \$186,181 million in certificates of indebtedness that were acquired, and \$184,642 million in certificates of indebtedness that were redeemed.

The securities held by the OASI and DI Trust Funds are included in the Federal debt that is subject to a statutory limit on the total amount outstanding. In September 1985, the amount of outstanding Federal debt reached the applicable limit before legislation to raise the limit was enacted into law. Normal investment procedures therefore could not be followed in that month. As a result, \$6,041 million in 10.375-percent bonds were redeemed in September so that benefits could be paid on time. Legislation enacted after September 1985 permitted the restoration of these bonds, as well as bonds redeemed after September due to continuation of the debt-limit problem.

As another result of the debt-limit problem, \$2,143 million in tax receipts could not be invested in September. (This amount of receipts is included in the undisbursed balance of \$2,910 million shown in table 6.) The legislation mentioned above permitted the delayed investment of these (and subsequent) tax receipts at the appropriate interest rates. An adjustment to account for lost interest earnings was made through normal administrative procedures. As a result of the actions described in this and the previous paragraph, the portfolio of long-term bonds held by the OASI Trust Fund as of December 31, 1985, was the same as it would have been if the debt limit had been raised before September.¹

The effective annual rate of interest earned by the assets of the OASI Trust Fund during the 12 months ending on June 30, 1985, was 12.4 percent. (This period is used, rather than the fiscal year, because interest on special issues is paid semiannually on June 30 and December 31.) The interest rate on special issues purchased by the trust fund in June 1985 was 10.375 percent, payable semiannually. Special-issue bonds with a total par value of \$18,729 million were purchased in June 1985.

Section 201(d) of the Social Security Act provides that the public-debt obligations issued for purchase by the OASI and DI Trust Funds shall have maturities fixed with due regard for the needs of the funds. The usual practice in the past has been to spread the holdings of special issues, as of each June 30, so that the amounts maturing in each of the next 15 years are approximately equal. Accordingly, the amounts and maturity dates of the special-issue bonds purchased on June 30, 1985, were selected in such a way that the total holdings of special issues were spread evenly over the 15-year period 1986-2000.

¹Because of a similar debt-limit problem in 1984, approximately \$5,078 million in bonds was redeemed in September and October of that year in order to pay benefits on time. This disinvestment of bonds resulted in a potential long-term loss of interest when the funds were later reinvested at a lower interest rate. As a result of the legislation mentioned above, the OASI Trust Fund received \$372 million in December 1985 to compensate for that loss. The payment is subject to adjustment in June 1986.