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THE 1967 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

LETTER

FROM

THE ACTING SECRETARY OF THE TREASURY, THE SECRETARY OF LABOR, THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE, THE COMMISSIONER OF SOCIAL SECURITY,

AND

SECRETARY, BOARD OF TRUSTEES

TRANSMITTING

THE 1967 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

FEBRUARY 28, 1967.—Referred to the Committee on Ways and Means and ordered to be printed

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE
AND DISABILITY INSURANCE TRUST FUNDS,
Washington, D.C., February 28, 1967.

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

SIR: We have the honor to transmit to you the 1967 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 27th such report), in compliance with the provisions of section 201(c) of the Social Security Act, as amended.

Respectfully,

JOSEPH W. BARR,
Acting Secretary of the Treasury and Acting Managing Trustee of the Trust Fund.

W. WILLARD WIRTZ,
Secretary of Labor.

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

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

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1967 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND

The Board of Trustees

The Federal old-age and survivors insurance trust fund, established on January 1, 1940, and the Federal disability insurance trust fund, established on August 1, 1956, are held by the Board of Trustees under the authority of section 201(c) of the Social Security Act, as amended. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the managing trustee. The Commissioner of Social Security is secretary of the Board.

Fiscal Year Highlights

Two amendments to the Social Security Act and related sections of the Internal Revenue Code, enacted July 30, 1965, went into effect on January 1, 1966. The maximum amount of annual earnings taxable and creditable toward benefits was increased from $4,800 to $6,600. In addition, contribution rates were increased as follows: Employees and employers, from 3.625 percent of taxable earnings to 3.85 percent each; the self-employed, from 5.4 to 5.8 percent. Because these increases were effective for only half the fiscal year 1966, their full impact on annual contribution receipts was not felt in that year.

During fiscal year 1966, both the receipts and the expenditures of the old-age and survivors insurance trust fund and the disability insurance trust fund surpassed those of any previous year. A record high number of workers—an estimated 81 million—had earnings in calendar year 1965 that were taxable and creditable toward benefits under the program. The number of persons receiving monthly benefits under the old-age, survivors, and disability insurance program increased by 1.6 million during the fiscal year, due in part to the 1965 amendments, and totaled 21.7 million on June 30, 1966.

The total assets of the old-age and survivors insurance trust fund at the end of June 1966 amounted to $19,872 million, representing a decrease of $308 million in assets from the $20,180 million in the fund at the end of June 1965. Total receipts of the old-age and survivors insurance trust fund in fiscal year 1966 amounted to $18,461 million, or about 12 percent more than in fiscal year 1965, whereas total disbursements during the same period amounted to $18,769 million, an increase of about 18 percent over fiscal year 1965.

Receipts of the old-age and survivors insurance trust fund consisted of $17,866 million in contributions and $595 million in interest. The

13-percent increase in contribution income resulted from the high levels of employment and taxable earnings, from new regulations and changes in reporting procedures of the Department of the Treasury that had the effect of accelerating the collection and reporting of tax contributions, and from the increases, noted above, in the contribution rates and in the maximum amount of taxable earnings.

Total disbursements consisted of $18,071 million for benefit payments, $254 million for administrative expenses, and $444 million transferred to the railroad retirement account under the financial interchange provisions. The 19-percent increase in benefit payments in fiscal year 1966 over the previous year was due primarily to (1) the growth in the number of persons receiving benefits; and (2) the general benefit increase provided by the 1965 amendments that was effective retroactively beginning with January 1965 and that was paid beginning in September 1965.

At the end of the fiscal year there were 19,851,000 persons receiving monthly benefits from the old-age and survivors insurance trust fund, about 7 percent more than a year earlier. Retirement beneficiaries numbered 14,607,000 and survivor beneficiaries numbered 5,243,000. Among the persons who were receiving benefits because of the 1965 amendments were 347,000 student children aged 18–21 of retired or deceased workers, 116,000 persons aged 72 and over who qualified under the transitional insured status provision, and 102,000 women aged 60–61 receiving actuarially reduced widow's benefits.

For the disability insurance trust fund, total disbursements exceeded total receipts in fiscal year 1966 by $321 million, thus decreasing the total assets of this fund from $2,007 million at the beginning of the fiscal year to $1,686 million at the end of the year.

Total receipts of the disability insurance trust fund in fiscal year 1966 amounted to $1,611 million, or about 30 percent higher than in fiscal year 1965 and were composed of $1,557 million in contributions and $54 million in interest. This increase was due to a larger allocation of contributions to the disability insurance trust fund effective January 1, 1966, as well as to the reasons, noted above, that resulted in an increase in contribution income to the old-age and survivors insurance trust fund.

Total disbursements of the disability insurance trust fund in fiscal year 1966 amounted to $1,931 million. Benefit payments of $1,721 million were 24 percent higher than in the previous year. The remaining disbursements consisted of $183 million in administrative expenses, $25 million transferred to the railroad retirement account, and $1 million in payments for the cost of vocational rehabilitation services furnished to disabled beneficiaries.

For the old-age and survivors insurance trust fund, estimates for the 5 fiscal years 1967–71 show that although both receipts and disbursements will increase steadily, the receipts will rise more rapidly, due to the increase in the maximum taxable earnings base in calendar year 1966, the scheduled rises in contribution rates in the law and the assumed upward trends in levels of employment and earnings. Consequently, at the end of fiscal year 1971, this trust fund will amount to an estimated $48.1 billion, or an increase of $28.2 billion in the 5-year period. Receipts during fiscal year 1971 are estimated to total $31.4 billion, and disbursements, $23.2 billion.

Medium-range estimates, based on the assumption that economic activity will continue to expand throughout the period 1967–85, show continued increases in receipts, disbursements, and assets of the old-age and survivors insurance trust fund. According to these estimates, if the provisions of present law are assumed to remain unchanged, the assets of the trust fund will rise rapidly, reaching a total of $299 billion at the end of calendar year 1985. On the other hand, if the maximum taxable earnings base and the benefit provisions of present law are assumed to be amended periodically so as to keep the program in line with changes in levels of average earnings, the assets of the trust fund will rise less rapidly, reaching a total of $211 billion by 1985.

Long-range cost estimates for the old-age and survivors insurance program indicate that the program has a positive actuarial balance. The level-cost of the program, estimated over a period of 75 years, ranges from 7.42 to 8.52 percent of taxable payroll. The intermediate-cost estimate is 7.91 percent of taxable payroll, as compared with the level-equivalent of the graded schedule of contributions of 8.80 percent of taxable payroll. There is thus a substantial favorable actuarial balance of 0.89 percent of taxable payroll.

According to estimates for the 5 fiscal years 1967–71, income of the disability insurance trust fund will rise more rapidly than disbursements due to the increases, effective in calendar year 1966, in the maximum taxable earnings base and in the contribution rate allocated to the fund and to the assumed upward trends in levels of employment and earnings. Consequently, this trust fund will amount to an estimated $3.0 billion by the end of fiscal year 1971, an increase of $1.3 billion in the 5-year period.

According to the medium-range estimates, the assets of the disability insurance trust fund will increase slowly, reaching $5.9 billion by the end of calendar year 1985, if provisions of present law are assumed to remain unchanged. If, on the other hand, the maximum taxable earnings base and the benefit provisions of present law are amended periodically to keep pace with average earnings, the medium-range estimates indicate that the assets of the fund will be exhausted in 1976.

According to long-range estimates for the disability insurance program, the level-cost, calculated over a 75-year period, ranges from 0.76 percent to 0.96 percent of taxable payroll. The intermediate-cost estimate is 0.85 percent of taxable payroll, as compared with the level contribution rate of 0.70 percent of taxable payroll. The board of trustees recommends that additional financing be made available to this fund through a small increase in the allocation of future contribution income to the disability insurance trust fund; namely, 0.15 percent of taxable payroll as to the combined employer-employee tax rate and 0.1125 percent of taxable self-employment income.

Social Security Amendments of 1965

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

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

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

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

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

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

(*c*) The minimum benefit for a family containing only one survivor beneficiary is $44 per month (except in the case of a widow who claims benefits at age 60 or 61).

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

3. The conditions under which persons may become eligible for benefits were liberalized (additional changes in eligibility require-

ments for benefits payable under the disability insurance program are described in item 4).

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

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

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

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

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

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

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

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

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

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

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

5. The earnings (retirement) test was amended, effective for taxable years ending after December 31, 1965. The provision for withholding benefits from beneficiaries whose earnings exceed $1,200 a year was changed so that benefits are withheld only when earnings exceed $1,500 a year. Also, $1 in benefits will be withheld for each $2 of earnings between $1,500 and $2,700, rather than between $1,200 and $1,700 as under the law in effect before the 1965 amendments ($1 in benefits will be withheld for each $1 of earnings above $2,700 instead of above $1,700). The maximum amount of wages that a beneficiary may earn in a month and still receive all of his benefit for that month regardless of his annual earnings was raised from $100 to $125.

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

7. Changes relating to the financing of the old-age, survivors, and disability insurance program were made with the intent of assuring that it will continue to be self-supporting. Under the new contribution rate schedule, the employee and employer rates each increased from the 3.625 percent of taxable earnings applicable in 1965 to 3.85 percent as of January 1, 1966. Future increases are scheduled to occur in 1967, 1969, and 1973, when the ultimate rate of 4.85 percent is reached. There are corresponding increases in the self-employed contribution rate. Under the schedule as in effect before the 1965 amendments, the employee and employer rates would have increased to 4.125 percent on January 1, 1966, with a final increase to 4.625 percent on January 1, 1968.

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

Social Security Amendments in 1966

The Tax Adjustment Act of 1966 (Public Law 89–368, approved March 15, 1966) amended both the Internal Revenue Code and the Social Security Act. The amendments made two changes in the old-age, survivors, and disability insurance program that are significant from a short-range cost standpoint.

The Internal Revenue Code was amended to require certain nonfarm self-employed persons to make estimated payments of their social security tax contributions on a quarterly basis effective for taxable years beginning after December 31, 1966. Under prior law, a nonfarm self-employed person was required to estimate and make quarterly installment payments only on his income tax and only if the estimated tax was at least $40. Under the change, the nonfarm self-employed person is required to make quarterly installment payments if the amount of his combined estimated income tax and social security tax is at least $40. The change results in a one-time addition to tax collections—namely, in the year of transition.

The second change, effective for months beginning October 1966, provides monthly payments of $35 to certain noninsured persons aged 72 or over (an eligible woman who is married to a man who qualifies receives a monthly payment of $17.50). Benefits to noninsured persons are reduced by the amount of any government pension, other than workmen's compensation or veteran's compensation, that the individual or his spouse is receiving or is eligible to receive. Also, benefits are not payable to persons receiving public assistance cash payments, or to persons residing outside of the 50 States and the District of Columbia. Expenditures for these benefits are made originally from the old-age and survivors insurance trust fund. However, the trust fund will bear only the cost represented by the relatively small amount of these benefits to be paid to persons with three or more quarters of coverage. The trust fund will be reimbursed, on an annual basis, for the remaining costs from general revenues. The first such reimbursement is authorized beginning in fiscal year 1969.

Nature of the Trust Funds

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

The major sources of receipts of these two funds are (1) amounts appropriated to each of them under permanent appropriation on the basis of contributions paid by workers and their employers, and by individuals with self-employment income, in work covered by the old-age, survivors, and disability insurance program and (2) amounts deposited in each of them representing contributions paid by workers employed by State and local governments and by such employers with respect to work covered by the program. All employees and their employers in employment covered by the program are required to pay contributions with respect to the wages of individual workers (cash tips, covered as wages beginning in 1966 under the 1965 amendments, are an exception to this; employees pay tax contributions with respect to cash tips, but employers do not). All covered self-employed persons are required to pay contributions with respect to their self-employment income. In general, beginning with calendar year 1966, an individual's contributions are computed on annual wages or self-employment income; or both wages and self-employment income combined, up to a maximum of $6,600, with the contributions being determined first on the wages and then on any self-employment income necessary to make up the $6,600.

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

Calendar years	Percent of taxable earnings	
	Employees and empolyer, each [1]	Self-employed
1966	3.85	5.8
1967–68	3.90	5.9
1969–72	4.40	6.6
1973 and after	4.85	7.0

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

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

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

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

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

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

Public Law 719, approved August 10, 1946, provided noncontributory survivor protection to certain veterans of World War II. The legislation provided, and until August 31, 1950, the old-age and survivors insurance trust fund received, reimbursement from the general fund of the Treasury for the additional costs arising from these provisions. Under Public Law 734, approved August 28, 1950, these additional costs arising after August 31, 1950, were borne by the trust fund. Public Law 881, approved August 1, 1956, provided that the old-age and survivors insurance trust fund would be reimbursed for all additional costs arising after August 31, 1950, from the 1946 provisions.

Public Law 881 also provided that (1) the old-age and survivors insurance trust fund would be reimbursed for all past and future additional expenditures resulting from the provisions that granted noncontributory $160 monthly wage credits to persons who served in the Armed Forces from September 16, 1940, through December 31, 1956; and (2) the disability insurance trust fund would be reimbursed for all additional expenditures after July 31, 1956, resulting from these provisions.

Public Law 85–840, approved August 28, 1958, broadened the provisions of prior law dealing with noncontributory wage credits of $160 for each month of active military service for the United States to provide such credits for certain American citizens who served in the Armed Forces of our allies during World War II. As in the case of the other noncontributory credit for military service, the trust funds will be reimbursed for the additional costs arising from these provisions.

A summary of the legislative history of the financing of credit for military service appears in appendix II.

Public Law 89–368, approved March 15, 1966, provided monthly cash benefits to certain persons aged 72 and over, almost all of whom were not eligible for benefits under the provisions of the old-age, survivors, and disability insurance program then in effect. Under the legislation, all payments are made initially from the old-age and survivors insurance trust fund, with later reimbursement from the general fund of the Treasury for the costs of payments to persons who have less than three quarters of coverage. A description of the legislative provisions governing the allocation of costs between the trust fund and the general fund of the Treasury appears in appendix II.

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

Under section 1106(b) of the Social Security Act, the Secretary of Health, Education, and Welfare is authorized to charge outside persons, agencies, and organizations for providing certain services not directly related to the old-age, survivors, and disability insurance program. The Social Security Administration has accumulated a unique body of information in the course of the administration of the program. Situations arise when it is in the public interest to use this information to perform certain services for outside parties, such as the preparation of statistical tabulations for research purposes, when such services can be performed without interfering unduly with the administration of the program. Such services could not properly be provided at the expense of the trust funds. Receipts derived from performance of these services are not credited to the trust funds, but rather are used as an offset to administrative expenses under the appropriations from Congress. Accordingly, such administrative expenses, and the offsetting receipts, do not appear in the financial statements of the trust funds.

Expenditures for benefit payments and administrative expenses under the old-age, survivors, and disability insurance program are paid out of the trust funds. All expenses incurred by the Department of Health, Education, and Welfare and by the Treasury Department in carrying out the provisions of title II of the Social Security Act, as amended, 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.

Public Law 89–97 (the 1965 amendments) provides for reimbursement from the trust funds for the cost of vocational rehabilitation services furnished to disability insurance beneficiaries and to disabled adults receiving benefits on the basis of disabilities that have continued since childhood. The total amount of funds that may be made available for purposes of reimbursement for such services may not, in any fiscal year, exceed 1 percent of the benefits certified for payment to these types of beneficiaries in the preceding year.

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

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

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

Public issues acquired by the funds may be sold at any time by the managing trustee at their market price. Special public-debt obligations issued for purchase by the trust funds may be redeemed at par plus accrued interest. Interest receipts and proceeds from the sale or redemption of obligations held in the trust funds are available for investment in the same manner as other receipts of the funds. Interest earned by the invested assets of the trust funds will provide income to meet a portion of future benefit disbursements. The role of interest in meeting future benefit payments is indicated in tables 20 and 21.

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

Summary of the Operations of the Federal Old-Age and Survivors Insurance Trust Fund, Fiscal Year 1966

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, 1965, and ended on June 30, 1966, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 1.

The total assets of the old-age and survivors insurance trust fund amounted to $20,180 million on June 30, 1965. These assets decreased to $19,872 million by the end of the fiscal year 1966, a decrease of $308 million.

TABLE 1.—*Statement of operations of the old-age and survivors insurance trust fund during the fiscal year 1966*

Total assets of the trust fund, June 30, 1965		$20,180,484,932.53
Receipts, fiscal year 1966:		
Tax contributions:		
Appropriations	$16,685,595,031.03	
Deposits arising from State agreements	1,392,431,084.00	
Gross tax contributions	18,078,026,115.03	
Less payment into the Treasury for taxes subject to refund	212,079,375.00	
Net tax contributions	17,865,946,740.03	
Interest:		
On investments	588,159,101.29	
On administrative expenses reimbursed from disability insurance trust fund	5,670,570.00	
On administrative expenses reimbursed from hospital insurance trust fund	927,855.00	
Total interest	594,757,526.29	
Total receipts	18,460,704,266.32	
Disbursements, fiscal year 1966:		
Benefit payments	18,071,453,201.74	
Transfers to railroad retirement account	443,820,000.00	
Administrative expenses:		
Department of Health, Education, and Welfare	448,802,773.05	
Treasury Department	44,087,257.70	
Construction of facilities for Social Security Administration	1,526,215.29	
Gross administrative expenses	494,416,246.04	
Less receipts from sale of surplus supplies, materials, etc	91,306.28	
Less reimbursement for administrative expenses:		
From disability insurance trust fund	178,429,911.00	
From hospital insurance trust fund	61,768,325.00	
Less reimbursement for construction:		
From disability insurance trust fund	357,682.00	
From hospital insurance trust fund	88,675.00	
Net administrative expenses	253,680,346.76	
Total disbursements	18,768,953,548.50	
Net addition to the trust fund		−308,249,282.18
Total assets of the trust fund, June 3, 19660		19,872,235,650.35

Net receipts of the trust fund during the fiscal year 1966 amounted to $18,461 million. Of this total, $16,686 million represented tax collections appropriated to the fund and $1,392 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, $212 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 $17,866 million, representing an increase of 13 percent over the amount for the preceding fiscal year. This increase resulted from (1) the high level of employment and taxable earnings; (2) the increase, from 6¾ percent to 7 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, 1966; (3) the increase in the maximum annual amount of earnings taxable from $4,800 to $6,600 that also went into effect on January 1, 1966; and (4) new regulations and changes in reporting procedures of the Department of the Treasury that had the effect of accelerating the collection and reporting of tax contributions. The remaining $595 million of receipts consisted of interest on the investments of the fund and on amounts transferred from the disability insurance and hospital insurance trust funds for reimbursement of administrative expenses.

Disbursements from the trust fund during the fiscal year 1966 totaled $18,769 million. Of this total, $18,071 million was for benefit payments, an increase of 19 percent over the corresponding amount paid in the fiscal year 1965. This increase was due principally to the 1965 amendments that liberalized the conditions under which persons can qualify for benefits and provided for a general increase in benefits effective for January 1965, with a resulting retroactive payment in September 1965 for the months January–August 1965. To a lesser extent, the expected growth in the number of beneficiaries as the program gradually matures also accounted for a part of the increase in benefit payments.

Public Law 234, approved October 30, 1951, amended the Railroad Retirement Act to provide a basis of coordinating the railroad retirement program with old-age and survivors insurance. A description of the legislative provisions governing the financial interchanges arising from the allocation of costs between the two systems is contained in appendix II. In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of $428,500,000 to the railroad retirement account from the old-age and survivors insurance trust fund would place this fund in the same position as of June 30, 1965, as it would have been if railroad employment had always been covered under the Social Security Act. This amount, together with interest thereon for fiscal year 1966 amounting to $15,320,000, was transferred to the railroad retirement account in June 1966.

The remaining $254 million of disbursements from the old-age and survivors insurance trust fund represents net administrative expenses. The net amount of administrative expenses for the old-age and survivors insurance trust fund was considerably lower in fiscal year 1966 than it had been in recent previous years. This was due to two reimbursements that were made during the year from the disability insurance trust fund for expenses incurred by the Department of Health, Education, and Welfare under the disability insurance program, which were initially charged to the old-age and survivors insurance trust fund. The first reimbursement, made in December 1965, was for expenses incurred in fiscal year 1965. The second reimbursement, made in June 1966, represented a preliminary estimate of expenses incurred in fiscal year 1966. The purpose of the second reimbursement was to place expenses chargeable to the disability insurance trust fund on a current basis. This represents a change from the procedure in effect in prior years, under which reimbursement for expenses incurred in one fiscal year was made in the following fiscal year. On the other hand, the net amount of administrative expenses for the old-age and survivors insurance trust fund was larger than it would have been had it not included expenses incurred under the supplementary medical insurance program, reimbursement for which was not made until December 1966.

Expenses incurred under the hospital insurance program in fiscal year 1966 were initially charged to the old-age and survivors insurance trust fund. Reimbursement, with interest, was made from the hospital insurance trust fund prior to the close of the fiscal year, with the result that the net amount of administrative expenses of the old-age and survivors insurance trust fund was not affected.

TABLE 2.—*Relationship of net administrative expenses of the old-age, survivors, and disability insurance program to contribution income and benefit payments, by trust fund, fiscal years 1962–66*

Fiscal year	Total		Old-age and survivors insurance trust fund		Disability insurance trust fund	
	Total administrative expenses as a percentage of—		Administrative expenses as a percentage of—		Administrative expenses as a percentage of—	
	Total contribution income	Total benefit payments	Contribution income	Benefit payments	Contribution income	Benefit payments
1962	2.5	2.3	2.2	2.0	6.3	6.3
1963	2.3	2.2	2.0	1.9	6.2	5.7
1964	2.2	2.3	2.0	2.1	5.9	5.4
1965	2.2	2.2	1.9	1.9	6.7	5.5
1966	2.1	2.1	1.8	1.8	5.8	5.4

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

Net administrative expenses expressed as a percentage of contribution income and of benefit payments for each of the last 5 years is shown in table 2 for the old-age and survivors insurance and disability insurance trust funds combined, as well as for each trust fund separately. In order to make the method of calculating the percentages for fiscal year 1966 the same as the method used in prior years, the following adjustments were made in determining the net amount of administrative expenses on which the 1966 percentages are based. Only one (the first) reimbursement, rather than two, was assumed to have been made from the disability insurance trust fund to the old-age and survivors insurance trust fund. The net amount of administrative expenses for the old-age and survivors insurance trust fund was further adjusted to exclude the amount of expenses incurred under the supplementary medical insurance program. Moreover, the benefit payment figures on which the percentages for 1966 are based were adjusted to exclude the retroactive portion of the general benefit increase—provided by the 1965 amendments—that was paid in September 1965 but was attributable to months in fiscal year 1965. The benefit payment figures on which the percentages for fiscal year 1965 are based were adjusted to include this retroactive portion of the general benefit increase.

In table 3, the experience with respect to actual amounts of tax contributions and benefit payments in fiscal year 1966 and trust fund assets at the end of the year is compared with the estimates for fiscal year 1966 which appeared in the 1966 Annual Report of the Board of Trustees. Estimated benefit payments for each trust fund were quite close to the actual experience. The estimated tax contributions, as well as estimated assets, were about 6 percent less than the actual experience. This was due in part to the changes in the collection and reporting procedures of the Department of the Treasury, which had the one-time effect of adding, in fiscal year 1966, tax contributions that would otherwise not have been appropriated to the trust funds until fiscal year 1967. Another reason that estimated tax contributions were lower than the actual amount is that the levels of employment and taxable earnings were higher than had been anticipated.

The distribution of benefit payments in fiscal years 1965 and 1966, by type of beneficiary, is shown in table 4. Approximately 74 percent of the total benefit payments from the old-age and survivors insurance trust fund in the fiscal year 1966 was accounted for by monthly benefits to retired workers and their dependents and about 13 percent to aged survivors of deceased workers. Approximately 12 peicent of the benefit payments represented monthly benefits on behalf of children of deceased workers and monthly benefits to mothers who had children of deceased workers in their care. The balance of the benefits paid consisted of lump-sum death payments.

TABLE 3.—*Comparison of actual and estimated operations of the old-age and survivors insurance and disability insurance trust funds, fiscal year 1966*

[Dollar amounts in millions]

	Actual amount	Estimated amount published in 1966 report	Estimate as percentage of actual
Old-age and survivors insurance trust fund:			
Net tax contributions	$17,866	$16,856	94
Benefit payments	18,071	18,126	100
Assets, end of year	19,872	18,748	94
Disability insurance trust fund:			
Net tax contributions	1,557	1,467	94
Benefit payments	1,721	1,715	100
Assets, end of year	1,686	1,591	94

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

TABLE 4.—*Estimated distribution of benefit payments from the old-age and survivors insurance trust fund, by type of beneficiary and payment, fiscal years 1965 and 1966*

[Amounts in millions]

	1965		1966	
	Amount	Percent of total	Amount	Percent of total
Total	$15,225.9	100	$18,071.5	100
Monthly benefits	15,007.8	99	17,847.0	99
Retired workers and their dependents	11,496.3	76	13,332.3	74
Retired workers	10,061.9	66	11,675.0	65
Wives and husbands	1,283.5	8	1,447.3	8
Children	150.9	1	210.0	1
Survivors of deceased workers	3,511.5	23	4,514.7	25
Aged widows and widowers	1,825.3	12	2,269.7	13
Parents	33.0	(1)	35.7	(1)
Children	1,296.8	9	1,794.6	10
Widowed mothers caring for child beneficiaries	356.4	2	414.6	2
Lump-sum death payments	218.1	1	224.5	1

1 Less than 0.5 percent.

On June 30, 1966, about 21.7 million persons were receiving monthly benefits under the old-age, survivors, and disability insurance program. About 19.9 million of these persons were receiving monthly benefits from the old-age and survivors insurance trust fund. Average monthly family benefits on that date showed significant increases over the corresponding averages a year earlier, primarily because of the higher benefit rates provided by the 1965 amendments. This is illustrated, for selected beneficiary family groups, in table 5.

The assets of the old-age and survivors insurance trust fund at the end of fiscal year 1966 totaled $19,872 million, consisting of $17,909 million in the form of obligations of the U.S. Government, and $1,964 million in undisbursed balances. Table 6 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1965 and 1966.

The net decrease in the par value of the investments owned by the fund during the fiscal year 1966 amounted to $858 million. New securities at a total par value of $21, 414 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 fiscal year was $22,272 million. A summary of transactions for the fiscal year, by type of security, is presented in table 7.

TABLE 5.—*Estimated average monthly benefits for selected family groups receiving benefits under the old-age, survivors, and disability insurance program, end of fiscal years 1965 and 1966*

Beneficiary family group	Average monthly amount per family		Percentage increase in average monthly amount per family, 1966 from 1965
	June 30, 1965	June 30, 1966	
Retired worker only	$74	$80	8
Retired worker and wife (aged 62 and over) [1]	131	142	8
Aged widow only	68	74	9
Widowed mother and two children	194	219	13
Disabled worker only	89	96	8
Disabled worker, wife (under age 65),[2] and 1 or more children	194	211	9

[1] Excludes wife aged 62–64 with entitled children in her care.
[2] With entitled children in her care.

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 this provision, the general practice has been to spread the maturity dates for the holdings of special issues as nearly as practicable in equal amounts over a 15-year period. Thus, on June 30, 1966, special issues held by the old-age and survivors insurance trust fund were distributed in equal amounts of $1,080 million maturing in each of the years 1969–80 and in a smaller amount maturing in 1968 (table 6). In addition, $1,080 million was invested in 5-year notes bearing 4⅞ percent interest and maturing on June 30, 1971. These notes were acquired on June 30, 1966, under the following circumstances. If, on June 30, 1966, trust fund holdings of special issues were spread equally over a 15-year period, it would have been necessary for the Treasury to issue, for purchase by the trust fund, 15-year bonds maturing in 1981. Such issue—with more than 5 years to maturity—would have been required, under present law (31 U.S.C. 752), to bear an interest rate no higher than 4¼ percent. On the other hand, the application of section 201(d) of the Social Security Act, relating to the determination of the interest rate on special issues, resulted in a rate of 4⅞ percent. Accordingly, a sum of $1,080 million that would have been invested in bonds maturing in 1981 was, instead, invested in notes for the longest possible duration to maturity—that is, in 4⅞ percent notes maturing June 30, 1971. (Assets of the disability insurance trust fund amounting to some $158 million were similarly invested on June 30, 1966, in 4⅞ percent 5-year notes.)

TABLE 6.—*Assets of the old-age and survivors insurance trust fund, by type, at end of fiscal years 1965 and 1966*

	June 30, 1965		June 30, 1966	
	Par value	Book value [1]	Par value	Book value [1]
Investments in public-debt obligations:				
Public issues:				
Treasury bonds:				
2½-percent, 1964-69	$55,180,000	$52,584,741.24	$55,180,000	$53,201,347.68
2½-percent, 1967-72	250	250.00	250	250.00
2¾-percent, investment series B, 1975-80	1,064,902,000	1,065,169,635.24	1,064,902,000	1,065,050,686.20
3-percent, 1995	70,170,000	70,139,708.68	70,170,000	70,140,732.64
3¼-percent, 1978-83	60,200,000	59,139,597.92	60,200,000	59,198,783.12
3¼-percent, 1985	25,700,000	23,975,747.63	25,700,000	24,062,684.75
3½-percent, 1980	449,450,000	456,138,428.07	449,450,000	455,702,226.27
3½-percent, 1990	556,250,000	545,818,699.26	556,250,000	546,243,023.46
3½-percent, 1998	552,037,000	541,746,831.40	552,037,000	542,055,536.56
3¾-percent, 1968	7,000,000	7,000,000.00	7,000,000	7,000,000.00
3⅞-percent, 1968	17,450,000	17,450,000.00	17,450,000	17,450,000.00
3⅞-percent, 1974	24,500,000	24,474,006.41	24,500,000	24,476,791.49
4-percent, 1969	62,500,000	62,479,926.05	62,500,000	62,484,649.37
4-percent, 1970	15,000,000	14,937,695.30	15,000,000	14,951,289.02
4-percent, 1971	100,000,000	101,106,951.01	100,000,000	100,924,986.49
4-percent, 1973	38,000,000	37,707,792.70	38,000,000	37,743,942.10
4-percent, 1980	153,100,000	153,029,073.64	153,100,000	153,033,937.24
4⅛-percent, 1974	61,934,000	61,881,931.91	61,934,000	61,887,998.15
4⅛-percent, 1989-94	91,300,000	90,428,477.82	91,300,000	90,458,704.02
4¼-percent, 1974	6,352,000	6,367,585.92	6,352,000	6,365,821.44
4¼-percent, 1975-85	78,023,000	77,606,831.87	78,023,000	77,627,815.19
4¼-percent, 1987-92	33,000,000	35,350,616.73	33,000,000	35,244,173.69
Total public issues	3,522,048,250	3,504,534,528.80	3,522,048,250	3,505,305,378.88
Accrued interest purchased		15,756.96		
Total investments in public issues	3,522,048,250	3,504,550,285.76	3,522,048,250	3,505,305,378.88
Obligations sold only to this fund (special issues):				
Certificates of indebtedness:				
4⅛-percent, 1966	141,020,000	141,020,000.00		
Notes:				
4⅛-percent, 1967	1,032,019,000	1,032,019,000.00		
4⅞-percent, 1968			363,207,000	363,207,000.00
4⅞-percent, 1969			1,080,011,000	1,080,011,000.00
4⅞-percent, 1970			296,526,000	296,526,000.00
4⅞-percent, 1971			1,080,011,000	1,080,011,000.00
Bonds:				
2½-percent, 1968	412,011,000	412,011,000.00		
2⅝-percent, 1967	47,992,000	47,992,000.00		
2⅝-percent, 1968	668,000,000	668,000,000.00		
2⅝-percent, 1969	1,080,011,000	1,080,011,000.00		
2⅝-percent, 1970	1,080,011,000	1,080,011,000.00	783,485,000	783,485,000.00
2⅝-percent, 1971	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2⅝-percent, 1972	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2⅝-percent, 1973	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2⅝-percent, 1974	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2⅝-percent, 1975	919,934,000	919,934,000.00	919,934,000	919,934,000.00
3¾-percent, 1975	160,077,000	160,077,000.00	160,077,000	160,077,000.00
3¾-percent, 1976	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
3⅞-percent, 1977	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
3⅞-percent, 1978	658,444,000	658,444,000.00	658,444,000	658,444,000.00
4⅛-percent, 1978	421,567,000	421,567,000.00	421,567,000	421,567,000.00
4⅛-percent, 1979	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
4⅛-percent, 1980	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
Total obligations sold only to this fund (special issue)	15,261,174,000	15,261,174,000.00	14,403,350,000	14,403,350,000.00
Total investments in public-debt obligations	18,783,222,250	18,765,724,285.76	17,925,398,250	17,908,655,378.88
Undisbursed balances		1,414,760,646.77		1,963,580,271.47
Total assets		20,180,484,932.53		19,872,235,650.35

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

TABLE 7.—*Statement of transactions in public-debt securities for the old-age and survivors insurance trust fund during the fiscal year 1966*

[All amounts represent par values]

	Acquisitions	Dispositions
Obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
4⅛-percent, 1966	$3,084,282,000	$3,225,302,000
4¼-percent, 1966	1,178,967,000	1,178,967,000
4⅜-percent, 1966	3,287,265,000	3,287,265,000
4⅝-percent, 1966	286,205,000	286,205,000
4¾-percent, 1966	7,122,363,000	7,122,363,000
4⅞-percent, 1966	2,104,074,000	2,104,074,000
5-percent, 1966	1,530,785,000	1,530,785,000
Notes:		
4⅛-percent, 1967	0	1,032,019,000
4⅞-percent, 1968	363,207,000	0
4⅞-percent, 1969	1,080,011,000	0
4⅞-percent, 1970	296,526,000	0
4⅞-percent, 1971	1,080,011,000	0
Bonds:		
2½-percent, 1968	0	412,011,000
2⅝-percent, 1967	0	47,992,000
2⅝-percent, 1968	0	668,000,000
2⅝-percent, 1969	0	1,080,011,000
2⅝-percent, 1970	0	296,526,000
Total transactions	21,413,696,000	22,271,520,000

SUMMARY OF THE OPERATIONS OF THE FEDERAL DISABITITY INSURANCE TRUST FUND, FISCAL YEAR 1966

A statement of the income and disbursements of the Federal disability insurance trust fund during fiscal year 1966 and of the assets of the fund at the beginning and end of the fiscal year is presented in table 8.

The total assets of the disability insurance trust fund amounted to $2,007 million on June 30, 1965. These assets decreased by $321 million during the fiscal year, to $1,686 million at the end of the year.

Net receipts of the fund amounted to $1,611 million. Of this total, $1,458 million represented tax collections appropriated to the fund, and $114 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. As an offset, $16 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 $1,557 million, representing an increase of 32 percent over the amount for the preceding fiscal year.

TABLE 7.—*Statement of transactions in public-debt securities for the old-age and survivors insurance trust fund during the fiscal year 1966*

[All amounts represent par values]

	Acquisitions	Dispositions
Obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
4⅛-percent, 1966	$3,084,282,000	$3,225,302,000
4¼-percent, 1966	1,178,967,000	1,178,967,000
4⅜-percent, 1966	3,287,265,000	3,287,265,000
4⅝-percent, 1966	286,205,000	286,205,000
4¾-percent, 1966	7,122,363,000	7,122,363,000
4⅞-percent, 1966	2,104,074,000	2,104,074,000
5-percent, 1966	1,530,785,000	1,530,785,000
Notes:		
4⅛-percent, 1967	0	1,032,019,000
4⅞-percent, 1968	363,207,000	0
4⅞-percent, 1969	1,080,011,000	0
4⅞-percent, 1970	296,526,000	0
4⅞-percent, 1971	1,080,011,000	0
Bonds:		
2½-percent, 1968	0	412,011,000
2⅝-percent, 1967	0	47,992,000
2⅝-percent, 1968	0	668,000,000
2⅝-percent, 1969	0	1,080,011,000
2⅝-percent, 1970	0	296,526,000
Total transactions	21,413,696,000	22,271,520,000

SUMMARY OF THE OPERATIONS OF THE FEDERAL DISABITITY INSURANCE TRUST FUND, FISCAL YEAR 1966

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TABLE 8.—*Statement of operations of the disability insurance trust fund during the fiscal year 1966*

Total assets of the trust fund, June 30, 1965		$2,006,699,121.38
Receipts, fiscal year 1966:		
Tax contributions:		
Appropriations	$1,457,892,986.07	
Deposits arising from State agreements	114,354,574.56	
Gross tax contributions	1,572,247,560.63	
Less payment into the Treasury for taxes subject to refund	15,595,625.00	
Net tax contributions	1,556,651,935.63	
Interest:		
On investments	59,547,093.50	
Less interest on amounts transferred to old-age and survivors insurance trust fund for reimbursed administrative expenses	5,670,570.00	
Net interest	53,876,523.50	
Total receipts	1,610,528,459.13	
Disbursements, fiscal year 1966:		
Benefit payments	1,721,133,198.90	
Transfers to railroad retirement account	24,962,000.00	
Payments for cost of vocational rehabilitation services for beneficiaries, excluding administrative expenses of the Department of Health, Education, and Welfare	1,493,049.00	
Administrative expenses:		
Reimbursement to old-age and survivors insurance trust fund:		
For administrative expenses of the Department of Health, Education, and Welfare	178,429,911.00	
For construction of facilities for Social Security Administration	357,682.00	
Treasury Department	4,602,561.09	
Expenses of Department of Health, Education, and Welfare for administration of vocational rehabilitation program for beneficiaries	115,000.00	
Gross administrative expenses	183,505,154.09	
Less receipts from sales of surplus supplies, materials, etc.	26,459.56	
Net administrative expenses	183,478,694.53	
Total disbursements	1,931,066,942.43	
Net addition to the trust fund		−320,538,483.30
Total assets of the trust fund, June 30, 1966		1,686,160,638.08

This increase is accounted for, in part, by the same factors, described in the preceding section, that contributed to the increase in tax receipts of the old-age and survivors insurance trust fund and in part by the provision in the 1965 amendments that increased the portion of the contribution rate allocated to finance benefits from the disability insurance trust fund. Effective January 1, 1966, the allocated rate was increased from 0.25 percent each of taxable earnings to 0.35 percent each for employees and employers. For the self-employed, the allocated rate was increased from 0.375 percent to 0.525 percent. An additional $54 million of receipts consisted of net interest on the investments of the fund.

Disbursements from the fund during the fiscal year 1966 totaled $1,931 million. Of this total, $1,721 million was for benefit payments, an increase of 24 percent over the corresponding amount paid in the fiscal year 1965. This increase was due in part to provisions of the 1965 amendments and in part to the maturing of the disability program.

Public Law 880, approved August 1, 1956, provided for financial interchanges between the railroad retirement account and the disability insurance trust fund similar to those described in the preceding section relating to the old-age and survivors insurance trust fund.

The determination made as of June 30, 1965, required that a transfer of $24,100,000 be made from the disability insurance trust fund to the railroad retirement account. This amount, together with interest thereon for fiscal year 1966, amounting to $862,000, was transferred to the railroad retirement account in June 1966.

The remaining disbursements amounted to $183 million for administrative expenses and $1.5 million for the cost of vocational rehabilitation services furnished to disabled beneficiaries.

At the end of fiscal year 1966, some 1,887,000 persons were receiving monthly benefits from the disability insurance trust fund. The distribution of benefit payments in fiscal years 1965 and 1966, by type of benefit, is shown in table 9.

The assets of this fund at the end of fiscal year 1966 totaled $1,686 million, consisting of $1,463 million in the form of obligations of the U.S. Government, and $224 million in undisbursed balances. Table 10 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1965 and 1966.

The net decrease in the par value of the investments owned by the fund during the fiscal year amounted to $413 million. New securities at a total par value of $1,811 million were acquired during the fiscal year through the investment of receipts of the fund, 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 $2,224 million. A summary of transactions for the fiscal year, by type of security, is presented in table 11.

TABLE 9.—*Estimated distribution of benefit payments from the disability insurance trust fund, by type of beneficiary, fiscal years 1965 and 1966*

[Amounts in millions]

	1965		1966	
	Amount	Percent of total	Amount	Percent of total
Total	$1,392.2	100	$1,721.1	100
Disabled workers	1,111.2	80	1,350.3	78
Wives and husbands	84.0	6	104.4	6
Children	197.1	14	266.4	15

TABLE 10.—*Assets of the disability insurance trust fund, by type, at end of fiscal years 1965 and 1966*

	June 30, 1965		June 30, 1966	
	Par value	Book value [1]	Par value	Book value [1]
Investments in public-debt obligations:				
Public issues:				
Treasury bonds:				
3½-percent, 1990	$10,500,000	$9,819,840.38	$10,500,000	$9,847,507.94
3½-percent, 1998	5,000,000	4,653,099.80	5,000,000	4,663,506.80
3¾-percent, 1968	5,000,000	5,000,000.00	5,000,000	5,000,000.00
3⅞-percent, 1968	8,750,000	8,721,874.90	8,750,000	8,730,312.34
3⅞-percent, 1974	5,000,000	5,000,000.00	5,000,000	5,000,000.00
4-percent, 1969	26,000,000	25,985,068.39	26,000,000	25,988,581.75
4-percent, 1970	24,000,000	23,868,809.81	24,000,000	23,895,631.97
4-percent, 1972	4,000,000	3,965,604.84	4,000,000	3,970,661.16
4-percent, 1973	16,500,000	16,306,864.08	16,500,000	16,330,757.16
4-percent, 1980	30,250,000	30,237,837.53	30,250,000	30,238,671.41
4⅛-percent, 1974	10,000,000	10,023,623.84	10,000,000	10,020,871.52
4⅛-percent, 1989–94	68,400,000	67,439,651.28	68,400,000	67,472,958.12
4¼-percent, 1975–85	20,795,000	20,772,955.90	20,795,000	20,773,699.18
4¼-percent, 1987–92	80,800,000	80,999,357.80	80,800,000	80,990,330.36
Total public issues	314,995,000	312,794,588.55	314,995,000	312,923,489.71
Accrued interest purchased		7,608.70		
Total investments in public issues	314,995,000	312,802,197.25	314,995,000	312,923,489.71
Obligations sold only to this fund (special issues):				
Notes: 4⅞-percent, 1971			158,195,000	158,195,000.00
Bonds:				
2⅝-percent, 1970	33,732,000	33,732,000.00		
2⅝-percent, 1971	132,894,000	132,894,000.00		
2⅝-percent, 1972	132,894,000	132,894,000.00		
2⅝-percent, 1973	132,894,000	132,894,000.00		
2⅝-percent, 1974	132,894,000	132,894,000.00	77,006,000	77,006,000.00
2⅝-percent, 1975	132,894,000	132,894,000.00	132,894,000	132,894,000.00
3¾-percent, 1970	20,738,000	20,738,000.00		
3¾-percent, 1971	20,738,000	20,738,000.00		
3¾-percent, 1972	20,738,000	20,738,000.00		
3¾-percent, 1973	20,738,000	20,738,000.00		
3¾-percent, 1974	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3¾-percent, 1975	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3¾-percent, 1976	153,632,000	153,632,000.00	153,632,000	153,632,000.00
3¾-percent, 1977	153,632,000	153,632,000.00	153,632,000	153,632,000.00
3⅞-percent, 1978	153,632,000	153,632,000.00	153,632,000	153,632,000.00
4⅛-percent, 1979	153,632,000	153,632,000.00	153,632,000	153,632,000.00
4⅛-percent, 1980	125,606,000	125,606,000.00	125,606,000	125,606,000.00
Total obligations sold only to this fund (special issues)	1,562,764,000	1,562,764,000.00	1,149,705,000	1,149,705,000.00
Total investments in public-debt obligations	1,877,759,000	1,875,566,197.25	1,464,700,000	1,462,628,489.71
Undisbursed balances		131,132,924.13		223,532,148.37
Total assets		2,006,699,121.38		1,686,160,638.08

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

TABLE 11.—*Statement of transactions in public-debt securities for the disability insurance trust fund during the fiscal year 1966*

[All amounts represent par values]

	Acquisitions	Dispositions
Obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
4⅛-percent, 1966	$207,884,000	$207,884,000
4¼-percent, 1966	125,053,000	125,053,000
4⅜-percent, 1966	269,746,000	269,746,000
4⅝-percent, 1966	34,777,000	34,777,000
4¾-percent, 1966	625,616,000	625,616,000
4⅞-percent, 1966	234,023,000	234,023,000
5-percent, 1966	155,752,000	155,752,000
Notes: 4⅞-percent, 1971	158,195,000	0
Bonds:		
2⅝-percent, 1970	0	33,732,000
2⅝-percent, 1971	0	132,894,000
2⅝-percent, 1972	0	132,894,000
2⅝-percent, 1973	0	132,894,000
2⅝-percent, 1974	0	55,888,000
3¾-percent, 1970	0	20,738,000
3¾-percent, 1971	0	20,738,000
3¾-percent, 1972	0	20,738,000
3¾-percent, 1973	0	20,738,000
Total transactions	1,811,046,000	2,224,105,000

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING THE PERIOD JULY 1, 1966, TO DECEMBER 31, 1971

In the following statement of the expected operations and status of the trust funds during the period July 1, 1966 to December 31, 1971, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program remain unchanged throughout the period. The estimates shown in the various tables in this section reflect the effect of the 1966 amendments to the Social Security Act, as described in a previous section. The income and disbursements of the program, however, are affected by general economic conditions as well as by legislative provisions. 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 12.—*Operations of the old-age and survivors insurance trust fund, fiscal years 1937–71*

[In millions]

Fiscal year	Transactions during period								Fund at end of period [5]
	Income				Disbursements			Net increase in fund	
	Tax contributions, less refunds	Reimbursements from general fund of Treasury for costs of—		Interest on investments [2]	Benefit payments [3]	Administrative expenses [4]	Transfers to railroad retirement account		
		Noncontributory credits for military service	Payments to noninsured persons aged 72 and over [1]						
Past experience:									
1937–66	$158,578	$15	—	$9,371	$141,725	$3,281	$3,087	$19,872	$19,872
1941	688	—	—	56	64	27	—	653	2,398
1942	896	—	—	71	110	27	—	830	3,227
1943	1,130	—	—	87	149	27	—	1,041	4,268
1944	1,292	—	—	103	185	33	—	1,178	5,446
1945	1,310	—	—	124	240	27	—	1,167	6,613
1946	1,238	—	—	148	321	37	—	1,028	7,641
1947	1,459	(6)	—	163	426	41	—	1,157	8,798
1948	1,616	1	—	191	512	47	—	1,248	10,047
1949	1,690	3	—	230	607	53	—	1,263	11,310
1950	2,106	4	—	257	727	57	—	1,583	12,893
1951	3,120	4	—	287	1,498	70	—	1,843	14,736
1952	3,594	4	—	334	1,982	85	—	1,864	16,600
1953	4,097	—	—	387	2,627	89	—	1,766	18,366
1954	4,589	—	—	439	3,276	89	−12	1,676	20,043
1955	5,087	—	—	438	4,333	103	−10	1,098	21,141
1956	6,442	—	—	487	5,361	124	−7	1,452	22,593
1957	6,540	—	—	555	6,515	150	−5	436	23,029
1958	7,267	—	—	556	7,875	166	−2	−216	22,813
1959	7,565	—	—	543	9,049	206	124	−1,271	21,541
1960	9,843	—	—	517	10,270	202	600	−713	20,829
1961	11,293	—	—	531	11,185	236	332	72	20,900
1962	11,455	—	—	541	12,658	251	361	−1,274	19,626
1963	13,328	—	—	515	13,845	263	423	−687	18,939
1964	15,503	—	—	542	14,579	303	403	760	19,699
1965	15,857	—	—	586	15,226	300	436	482	20,180
1966	17,866	—	—	595	18,071	254	444	−308	19,872

See footnotes at end of table, p. 26.

TABLE 12.—*Operations of the old-age and survivors insurance trust fund, fiscal years 1937-71*—Continued

[In millions]

Fiscal year	Transactions during period: Income — Tax contributions, less refunds	Income — Reimbursements from general fund of Treasury for costs of— Noncontributory credits for military service	Income — Reimbursements from general fund of Treasury for costs of— Payments to noninsured persons aged 72 and over [1]	Income — Interest on investments [2]	Disbursements — Benefit payments [3]	Disbursements — Administrative expenses [4]	Disbursements — Transfers to railroad retirement account	Net increase in fund	Fund at end of period [5]
Estimated future experience:									
1967	$22,173	$156	----------	$713	$18,964	$348	$532	$3,199	$23,071
1968	23,357	78	----------	874	19,929	373	477	3,530	26,601
1969	25,541	78	$235	1,047	20,645	385	492	5,379	31,980
1970	28,474	78	346	1,337	21,491	398	483	7,863	39,843
1971	29,340	78	310	1,708	22,358	410	460	8,208	48,051

1 Under Public Law 89-368, the trust fund is reimbursed from the general fund of the Treasury for the cost of payments to beneficiaries with less than 3 quarters of coverage.

2 Includes net profits on marketable investments and, for 1958-67, interest on administrative expenses reimbursed by other social security trust funds (see footnote 4 below).

3 Beginning in 1967, includes relatively small amounts of payments for vocational rehabilitation services for disabled beneficiaries aged 18 and over who are entitled to child's benefits.

4 Receipts from sale of surplus supplies and materials are deducted from gross administrative expenses. Beginning in 1954, includes costs of construction of office space for the Social Security Administration. For years 1957-65, expenses incurred by the Department of Health, Education, and Welfare under the disability insurance program were initially charged to the old-age and survivors insurance trust fund; reimbursements, including interest, were then made from the disability insurance trust fund in the following fiscal year. For 1966, expenses incurred under the disability insurance program, the hospital insurance program, and the supplementary medical insurance program were initially charged to the old-age and survivors insurance trust fund; reimbursements, including interest, were made from the disability insurance trust fund and the hospital insurance trust fund in June 1966, and from the supplementary medical insurance trust fund in December 1966. Beginning in 1967, expenses incurred under each of the 4 programs are charged directly to the appropriate trust fund on a current basis.

5 Beginning with 1967, includes $100 million of investments in participation certificates (issued by the Federal National Mortgage Association).

6 Less than $500,000.

NOTE.—In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared in January 1967.

Estimates are presented in table 12 to show the expected operations of the old-age and survivors insurance trust fund in fiscal years 1967–71. They are based on the assumption that economic activity will expand throughout the period, with employment and earnings increasing steadily through 1971. Under this assumption, the estimated number of persons with taxable earnings under the old-age, survivors, and disability insurance program is expected to increase from 83.6 million during calendar year 1966 to 94.2 million during calendar year 1971; their taxable earnings are estimated to increase from $314 billion in 1966 to $379 billion in 1971. The increase in estimated income from contributions in fiscal years 1967–71 reflects the assumed upward trend in the levels of employment and earnings as well as the effect of the scheduled increases in contribution rates, effective on January 1, 1967 and January 1, 1969. Benefit disbursements increase because of the long-range upward trend in the number of beneficiaries and in the average monthly amount of benefits under the program. Aggregate income of the old-age and survivors insurance trust fund is expected to exceed aggregate outgo in the 5-year period covering fiscal years 1967–71. During this period, there is an estimated net increase in the trust fund of $28.2 billion.

Estimates consistent with those shown on a fiscal-year basis in table 12 are presented in table 13 to show the progress of the old-age and survivors insurance trust fund on a calendar-year basis. The trust fund is expected to increase in each of the 5 calendar years 1967–71, reaching about $51.5 billion on December 31, 1971.

TABLE 13.—*Operations of the old-age and survivors insurance trust fund, calendar years 1937–71*

[In millions]

Calendar year	Transactions during period								Fund at end of period
	Income				Disbursements			Net increase in fund	
	Tax contributions, less refunds	Reimbursements from general fund of Treasury for costs of—		Interest on investments	Benefit payments	Administrative expenses	Transfers to railroad retirement account		
		Noncontributory credits for military service	Payments to noninsured persons aged 72 and over						
Past experience:									
1937–66	$168,199	$93		$9,724	$150,941	$3,419	$3,087	$20,570	$20,570
1941	789			56	88	26		731	2,762
1942	1,012			72	131	28		926	3,688
1943	1,239			88	166	29		1,132	4,820
1944	1,316			107	209	29		1,184	6,005
1945	1,285			134	274	30		1,116	7,121
1946	1,295			152	378	40		1,029	8,150
1947	1,557	1		164	466	46		1,210	9,360
1948	1,685	3		281	556	51		1,362	10,722
1949	1,666	4		146	667	54		1,094	11,816
1950	2,667	4		257	961	61		1,905	13,721
1951	3,363	4		417	1,885	81		1,818	15,540
1952	3,819			365	2,194	88		1,902	17,442
1953	3,945			414	3,006	88		1,265	18,707
1954	5,163			447	3,670	92	−21	1,869	20,576
1955	5,713			454	4,968	119	−7	1,087	21,663
1956	6,172			526	5,715	132	−5	856	22,519
1957	6,825			556	7,347	162	−2	−126	22,393
1958	7,566			552	8,327	194	124	−528	21,864
1959	8,052			532	9,842	184	282	−1,724	20,141
1960	10,866			516	10,677	203	318	184	20,324
1961	11,285			548	11,862	239	332	−599	19,725
1962	12,059			526	13,356	256	361	−1,388	18,337
1963	14,541			521	14,217	281	423	143	18,480
1964	15,689			569	14,914	296	403	645	19,125
1965	16,017			593	16,737	328	436	−890	18,235
1966	20,580	78		644	18,267	256	444	2,335	20,570

Estimated future experience:									
1967	23,054	156		794	19,644	393	532	3,435	24,005
1968	23,776	78	$235	960	20,276	378	477	3,918	27,923
1969	27,598	78	346	1,192	21,095	393	492	7,234	35,157
1970	28,923	78	310	1,522	21,950	404	483	7,996	43,153
1971	29,752	78	276	1,902	22,829	416	460	8,303	51,456

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 12.

TABLE 14.—*Old-age and survivors insurance benefit payments, distributed by classification of beneficiaries, calendar years 1940–71*

[In millions]

Calendar year	Total benefit disbursements	Disbursed to old-age beneficiaries	Disbursed to dependents of old-age beneficiaries	Disbursed to survivors of deceased insured workers				Disbursed to noninsured persons aged 72 and over [1]
				Monthly benefits			Lump-sum payments	
				Total	Aged widows, dependent widowers, and dependent parents	Widowed mothers, dependent divorced wives, and dependent children		
Past experience: [2]								
1940	$35	$15	$2	$6	(3)	$6	$12	
1941	88	44	8	24	$3	21	13	
1942	131	65	11	40	6	34	15	
1943	166	79	14	55	10	45	18	
1944	209	97	17	73	15	59	22	
1945	274	126	22	100	21	79	26	
1946	378	189	33	128	29	99	28	
1947	466	245	43	149	38	111	29	
1948	556	300	52	172	49	122	32	
1949	667	373	64	197	62	134	33	
1950	961	557	95	277	92	185	33	
1951	1, 885	1, 135	186	507	165	342	57	
1952	2, 194	1, 328	212	592	201	390	63	
1953	3, 006	1, 884	291	744	260	483	87	
1954	3, 670	2, 340	358	880	317	563	92	
1955	4, 968	3, 253	495	1, 108	412	695	113	
1956	5, 715	3, 793	568	1, 244	486	758	109	
1957	7, 347	4, 888	799	1, 521	672	849	139	
1958	8, 327	5, 567	907	1, 720	777	943	133	
1959	9, 842	6, 548	1, 059	2, 063	946	1, 117	171	
1960	10, 677	7, 053	1, 143	2, 316	1, 085	1, 231	164	
1961	11, 862	7, 802	1, 230	2, 659	1, 262	1, 396	171	
1962	13, 356	8, 813	1, 349	3, 011	1, 504	1, 507	183	
1963	14, 217	9, 391	1, 403	3, 216	1, 645	1, 571	206	
1964	14, 914	9, 854	1, 427	3, 416	1, 787	1, 629	216	
1965	16, 737	10, 984	1, 558	3, 979	2, 076	1, 903	217	
1966	18, 267	11, 728	1, 645	4, 613	2, 386	2, 227	237	$44

Estimated future experience:								
1967	19,643	12,549	1,683	4,840	2,581	2,259	241	330
1968	20,275	12,984	1,671	5,067	2,748	2,319	247	306
1969	21,094	13,609	1,684	5,275	2,901	2,374	253	273
1970	21,949	14,244	1,700	5,504	3,071	2,433	259	242
1971	22,828	14,901	1,716	5,735	3,241	2,494	265	211

[1] Total benefit expenditures under Public Law 89-368; the trust fund is reimbursed from the general fund of the Treasury for the cost of payments to beneficiaries with less than 3 quarters of coverage.

[2] Partly estimated.

[3] Less than $500,000.

Table 14 shows the annual amount of benefit payments distributed by classification of beneficiaries for each of the calendar years 1940–71.

Benefit payments were 6.0 percent of taxable earnings for calendar year 1966, compared with 6.86 percent for calendar year 1965. This decline in the percentage occurred because total taxable earnings in 1966 under the newly-increased earnings base rose more rapidly than total benefit payments. Following a temporary period during which some one-time effects of the 1965 amendments will affect this percentage, the upward trend will be resumed beginning in 1969. It is estimated that, in 1971, benefit expenditures will be 6.17 percent of taxable earnings. Figures for all of the calendar years 1940–71 are shown in table 15.

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 workers aged 65 or over eligible for and receiving old-age (primary) benefits. The growth in the number of eligible workers aged 65 and over since 1940 has been uninterrupted. This growth results partly from the increase in the population at these ages and partly from two other factors—(1) in each passing year a larger proportion of the persons attaining age 65 has had fully insured status and (2) the amendments during the period 1950–65 liberalized the eligibility provisions and extended coverage to new categories of employment.

TABLE 15.—*Old-age and survivors insurance benefit payments as a percentage of taxable earnings,[1] calendar years, 1940–71*

Calendar year	Benefit payments as a percentage of taxable earnings [2]	Calendar year	Benefit payments as a percentage of taxable earnings [2]
Past experience:		Past experience—Continued	
1940	0.11	1957	4.20
1941	.21	1958	4.77
1942	.25	1959	5.03
1943	.27	1960	5.33
1944	.32	1961	5.85
1945	.44	1962	6.31
1946	.55	1963	6.52
1947	.59	1964	6.53
1948	.66	1965	6.86
1949	.82	1966	6.00
1950	1.10	Estimated future experience:	
1951	1.61	1967	6.02
1952	1.76	1968	5.98
1953	2.28	1969	6.02
1954	2.83	1970	6.09
1955	3.27	1971	6.17
1956	3.48		

[1] Percentage takes into account, for 1951 and later, (1) lower contribution rate payable by the self-employed compared with combined employer-employee rate, and (2) employee contributions subject to refund, and for 1966 and later, that only the employee tax is payable on tips taxable as wages.

[2] For 1963–66, percentages are preliminary and subject to revision when complete tabulation of taxable earnings is available. For 1966–71, percentages are based on sum of payments for benefits (excluding payments under Public Law 89–368 to certain noninsured persons aged 72 and over with less than 3 quarters of coverage, costs of which are financed from the general fund of the Treasury) and for vocational rehabilitation services.

In addition, there has been a growth in the proportion of eligible workers who receive benefits. In the early years of the program, a considerable proportion of the workers aged 65 and over who were eligible for old-age (primary) benefits remained in covered employment (or, if they had left covered employment, later returned to it) and therefore did not receive benefits. Since 1945, however, the proportion of eligible workers receiving retirement benefits has been increasing, except for temporary halts due to special circumstances resulting from the amendments of 1950 and 1954. In general, due to the increasing percentage of eligibles aged 72 or over, who receive benefits regardless of earnings, the upward trend in this proportion is expected to continue, although at a slower rate than in the past.

The expected operations and status of the disability insurance trust fund during the next 5 fiscal years are presented in table 16, together with the figures on actual experience in earlier years. Aggregate income of the disability insurance trust fund is expected to exceed aggregate outgo in the 5-year period covering fiscal years 1967–71. During this period there is an estimated net increase in the trust fund of $1.3 billion.

Estimates consistent with those shown on a fiscal-year basis in table 16 are presented in table 17 to show the progress of the disability insurance trust fund on a calendar-year basis. The trust fund is expected to increase in each of the 5 calendar years 1967–71, reaching about $3.0 billion on December 31, 1971.

The total amount of disability benefit payments will continue to increase over the next 5 calendar years as the number of beneficiaries and the average monthly benefit amount increase. Disability benefit expenditures as a percentage of taxable payroll will also increase—from 0.59 percent of taxable earnings for calendar year 1966 to an estimated 0.64 percent of taxable earnings in 1971, as shown in table 18.

TABLE 16.—*Operations of the disability insurance trust fund, fiscal years 1957–71*

[In millions]

Fiscal year	Transactions during period								Fund at end of period
	Income			Disbursements				Net increase in fund	
	Tax contributions, less refunds	Reimbursements from general fund of Treasury for cost of noncontributory credits for military service	Interest on investments [1]	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses [2]	Transfers to railroad retirement account		
Past experience:									
1957–66	$10,140		$474	$8,287	$1	$564	$77	$1,686	$1,686
1957	337		1			1		337	337
1958	926		16	168		12		762	1,099
1959	895		33	339		21		568	1,667
1960	987		47	528		32	−27	501	2,167
1961	1,022		61	704		36	5	337	2,504
1962	1,021		68	1,011		64	11	2	2,507
1963	1,077		67	1,171		67	20	−113	2,394
1964	1,143		65	1,251		68	19	−130	2,264
1965	1,175		62	1,392		79	24	−257	2,007
1966	1,557		54	1,721	1	183	25	−321	1,686
Estimated future experience:									
1967	2,210	$32	66	1,845	15	94	28	326	2,012
1968	2,301	16	81	1,965	15	112	21	286	2,298
1969	2,379	16	91	2,081	15	116	24	250	2,548
1970	2,457	16	101	2,190	16	117	26	225	2,773
1971	2,536	16	111	2,291	17	121	29	205	2,978

[1] Includes net profits on marketable investments and, for years 1958–66, adjustment for interest on administrative expenses reimbursed to the old-age and survivors insurance trust fund.

[2] For years 1957–65, expenses of the Department of Health, Education, and Welfare under the disability insurance program were initially charged to the old-age and survivors insurance trust fund; reimbursements, including interest, were then made from the disability insurance trust fund in the following fiscal year. For 1966, expenses incurred under the disability insurance program were initially charged to the old-age and survivors insurance trust fund; reimbursement, including interest, was made from the disability insurance trust fund in June 1966. Beginning in 1967, expenses incurred under the disability insurance program are charged directly to the trust fund on a current basis.

NOTE.—Reference should be made to the text which describes the underlying assumptions and limitations. Estimates were prepared in January 1967.

TABLE 17.—*Operations of the disability insurance trust fund, calendar years 1957–71*

[In millions]

Calendar year	Transactions during period								Fund at end of period
	Income			Disbursements				Net increase in fund	
	Tax contributions, less refunds	Reimbursements from general fund of Treasury for cost of noncontributory credits for military service	Interest on investments	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to railroad retirement account		
Past experience:									
1957–66	$11,099	$16	$506	$9,196	$3	$605	$77	$1,739	$1,739
1957	702		7	57		3		649	649
1958	966		25	249		12		729	1,379
1959	891		40	457		50	−22	447	1,825
1960	1,010		53	568		36	−5	464	2,289
1961	1,038		66	887		64	5	148	2,437
1962	1,046		68	1,105		66	11	−69	2,368
1963	1,099		66	1,210		68	20	−133	2,235
1964	1,154		64	1,309		79	19	−188	2,047
1965	1,188		59	1,573		90	24	−440	1,606
1966	2,006	16	58	1,781	3	137	25	133	1,739
Estimated future experience:									
1967	2,281	32	73	1,905	15	107	28	331	2,070
1968	2,343	16	86	2,024	15	114	21	271	2,341
1969	2,420	16	96	2,139	16	116	24	237	2,578
1970	2,496	16	106	2,243	17	119	26	213	2,791
1971	2,572	16	115	2,339	18	123	29	194	2,985

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 16.

TABLE 18.—*Disability insurance benefit payments as a percentage of taxable earnings,[1] calendar years 1957–71*

Calendar year	Benefit payments as a percentage of taxable earnings [2]	Calendar year	Benefit payments as a percentage of taxable earnings [2]
Past experience:		Past experience—Continued	
1957	0.03	1965	0.64
1958	.14	1966	.59
1959	.23	Estimated future experience:	
1960	.28	1967	.60
1961	.44	1968	.61
1962	.52	1969	.62
1963	.56	1970	.63
1964	.57	1971	.64

[1] Take into account (1) lower contribution rate payable by the self-employed compared with combined employer-employee rate, (2) employee contributions subject to refund, and (3) for 1966 and later, that only the employee tax is payable on tips taxable as wages.

[2] For 1963–66, percentages are preliminary and subject to revision when complete tabulation of taxable earnings is available. For 1966–71, percentages are based on sum of payments for benefits and for vocational rehabilitation services.

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. The estimates shown in tables 12, 13, 16, and 17 reflect the effect of future financial interchanges.

Reference has also been made previously to the provisions in Public Law 89–368, 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 3 quarters of coverage. The estimates in tables 12–15 reflect the effect of these provisions.

The estimates in tables 12–18 reflect the effect of the provision in the 1965 amendments 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.

Section 217(g) of the Social Security Act, as amended by the 1965 amendments, provides that the old-age and survivors insurance trust fund and the disability insurance trust fund shall be reimbursed from general revenues for past and future expenditures resulting from the provisions that granted noncontributory $160 monthly wage credits to persons who served in the Armed Forces at some time during the period September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 that granted survivor protection to certain World War II veterans for a period of 3 years after leaving service. A description of the legislative history of provisions relating to credit for military service, including the provisions for reimbursement for the additional costs arising from payments made before September 1950, is contained in appendix II.

The estimated total additional costs arising from payments that have been made after August 1950 as a result of noncontributory credits for military service, and that will be made in future years, are intended to be amortized by level annual appropriations to the trust funds over a 50-year period beginning with fiscal year 1966, according to a determination made by the Secretary of Health, Education, and Welfare in September 1965. (The annual amount of this determination for the old-age and survivors insurance trust fund was $87.4 million, and for the disability insurance trust fund, $18.4 million.) Periodically, the estimated amounts of annual payments will be refigured to reflect actual costs already incurred and revision in the estimates of future costs.

The first annual reimbursement, for fiscal year 1966 and amounting to $78 million for the old-age and survivors insurance trust fund and $16 million for the disability insurance trust fund, was received in July 1966. Like amounts have been appropriated by Congress for fiscal year 1967 and will be received by the trust funds in the early part of calendar year 1967. Moreover, the Budget Document of the United States for the fiscal year 1968 makes similar provision for the third such annual reimbursement. The estimates shown in the various tables in this section reflect the effect of past and future reimbursements.

Actuarial Status of the Trust Funds

Old-age, survivors, and disability insurance benefit payments will increase for many years—not only in dollars but also as a percentage of taxable payroll. Long-range estimates are needed, therefore, to show how much the cost is likely to increase and to indicate whether the scheduled tax rates are adequate.

The cost of benefits to aged persons, which constitute more than 80 percent of the total cost, will rise for several reasons. The U.S. population will, in the long run, almost certainly become relatively much older on the average. A relatively older population will tend to result from the fact that the present aged population is made up of the survivors from past periods when death rates were much higher than they are now. Another such factor is that, after the turn of the century, the larger birth cohorts of the 1940's, 1950's, and 1960's will be attaining retirement age. Thus, in the future, relatively more persons, both in total and in each cohort, will attain age 65 and older ages.

The cost of the program is closely related to the ratio of the population aged 65 and over (potential beneficiaries) to the population aged 20 to 64 (potential contributors). On June 30, 1966, this ratio was 18.3 percent. In a stationary population that would result if the deathr ates of the U.S. Life Tables for 1959–61 were applied to a constant annual number of births the ratio would be 25.4 percent, but such a situation is not likely to occur within the next century. Ultimately this ratio may become even greater than 25 percent because decreases in mortality below present rates would, in a stationary population, have the effect of increasing the proportion at the oldest ages.

Another reason for the increasing cost is that the proportion of the aged population eligible for and receiving benefits will increase. Some of the present persons aged 65 and over were not in covered employment long enough to obtain benefits, or, in the case of widows, their husbands were not sufficiently long in covered employment. Although the system began in 1937, many jobs were not covered until 1951 or 1955. It is estimated that the proportion of the aged populato a determination made by the Secretary of Health, Education, and Welfare in September 1965. (The annual amount of this determination for the old-age and survivors insurance trust fund was $87.4 million, and for the disability insurance trust fund, $18.4 million.) Periodically, the estimated amounts of annual payments will be refigured to reflect actual costs already incurred and revision in the estimates of future costs.

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Since the long-term future cost of the old-age, survivors, and disability insurance program will be affected by many factors that are difficult to determine, the assumptions used in the actuarial cost estimates may differ widely and yet be reasonable. The long-term cost estimates for the program (shown for 1980 and thereafter) are presented here on a range basis to indicate the plausible variation in future costs depending on the actual trends that develop for the various cost factors. Both the low- and high-cost estimates are based on assumptions that represent moderately full employment, with the average annual earnings remaining at about the level that prevailed in 1966; thus, changes slightly above and slightly below this level tend to offset each other over the long-range future period considered. Each estimate provides data on taxable payroll and contributions and on beneficiaries and benefit payments for every future year. The data are presented here for selected future years.

It is considered likely, although by no means certain, that actual costs as a percentage of taxable payroll will lie between the low- and high-cost figures. Also, a single estimate of costs is needed as a guide in considering proposed legislation and developing tax schedules intended to make the system self-supporting. For these reasons, an intermediate-cost estimate is prepared, in which numbers of beneficiaries, amount of benefit payments, and taxable payrolls are taken halfway between the low- and high-cost figures. The intermediate percentage-of-payroll figures are obtained by dividing total benefit payments by taxable payroll, each on the intermediate basis, and are therefore not exactly equal to the average of low- and high-cost percentage-of-payroll figures.

Table 19 shows benefit-payment costs for selected years and the corresponding level-costs over the next 75 years, expressed as percentages of taxable payroll, under each of the three estimates. The level cost of the program on this basis is the constant combined employer-employee tax rate that, together with a tax on the self-employed of about 75 percent of such combined rate (in the 1965 act a maximum self-employed tax rate of 7.0 percent was established), would exactly pay for future benefits and administrative expenses, after making allowance for the effect of the future interest earnings of the existing trust fund and for all other future interest earnings. All percentage-of-payroll figures are adjusted so that they represent the tax rate that employees and employers combined, and the self-employed at three-quarters of the combined rate, would have to pay in any given year to meet exactly the disbursements in that year.

TABLE 19.—*Estimated costs of old-age, survivors, and disability insurance benefit payments as percent of payroll,[1] 1966 level-earnings assumptions, 1980–2045*

[In percent]

Calendar year	Low-cost estimate	High-cost estimate	Intermediate-cost estimate [2]
	Old-age and survivors insurance benefits [3]		
1980	7.24	7.63	7.43
1985	7.66	8.14	7.89
1990	7.94	8.55	8.24
2000	7.44	8.37	7.89
2025	8.66	11.09	9.76
2045	8.56	11.76	9.96
Level-cost [4]	7.42	8.52	7.91
	Disability insurance benefits [3]		
1980	0.74	0.86	0.80
1985	.75	.88	.81
1990	.73	.88	.80
2000	.74	.93	.84
2025	.80	1.09	.93
2045	.82	1.11	.95
Level-cost [4]	.76	.96	.85

[1] Taking into account the lower contribution rate on self-employment income, on tips, and on multiple-employer "excess wages," as compared with the combined employer-employee rate.
[2] Based on the averages of the dollar contributions and dollar costs under the low- and high-cost estimates.
[3] Includes payments for vocational rehabilitation services.
[4] Level contribution rate, at an interest rate of 3.25 percent for-high cost, 3.75 percent for intermediate-cost, and 4.25 percent for low-cost, for benefits after 1966, taking into account interest on the trust fund on Dec. 31, 1966, future administrative expenses, the railroad retirement financial interchange provisions, and reimbursement for additional cost of noncontributory credit for military service.

Tables 20 and 21 show, for each set of estimates, the contributions, benefit payments, administrative expenses, amount paid to or received from the railroad retirement system, and the balance in the trust funds for selected years.

It should be emphasized that dollar figures projected for so many years into the future have only limited significance because of changes that are likely to occur in the general economy, as well as in the system itself. What is really the most significant are relative figures such as those in table 19, showing the benefit costs as a percentage of taxable payroll.

For old-age and survivors insurance, annual benefit payments as a percentage of payroll are less than or close to the scheduled tax rates in the early future years, but they eventually rise above the ultimate combined employer-employee rate of 9.0 percent for the high- and intermediate-cost assumptions. For disability insurance, the benefit payments are higher than the present combined employer-employee tax rate of 0.7 percent in all but the early years.

To measure the extent to which the financing arrangements of the system result in a surplus or deficiency, a level rate equivalent to the actual increasing contribution rates has been computed, taking into account future interest. The level-equivalent rate of contributions minus the level-cost of benefit payments and administrative costs expressed as a percentage of taxable payroll (after making allowance for the interest-earning effect of the existing trust fund), gives the amount by which the contribution rate in all years would have to be changed to put the system in exact long-range balance according to the estimate. A negative figure would indicate that an increase in the tax rate is needed to make the system self-supporting, while a positive figure would indicate that the system is overfinanced.

TABLE 20.—*Estimated progress of old-age and survivors insurance trust fund, 1966 level-earning assumption* [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Financial interchange [2]	Interest on fund	Fund at end of year
	Actual data					
1956	$6,172	$5,715	$132	$5	$526	[3] $22,519
1957	6,825	7,347	[4] 162	2	556	22,393
1958	7,566	8,327	[4] 194	−124	552	21,864
1959	8,052	9,842	184	−282	532	20,141
1960	10,866	10,677	203	−318	516	20,324
1961	11,285	11,862	239	−332	548	19,725
1962	12,059	13,356	256	−361	526	18,337
1963	14,541	14,217	281	−423	521	18,480
1964	15,689	14,914	296	−403	569	19,125
1965	16,017	16,737	328	−436	593	18,235
1966	20,658	18,267	256	−444	644	20,570
	Low-cost estimate					
1980	$34,373	$27,567	$449	−$105	$4,849	$124,853
1985	36,689	31,139	486	4	7,270	183,967
1990	39,232	34,514	523	52	10,016	251,272
2000	46,318	38,237	577	112	17,946	447,853
2025	63,533	61,097	865	147	65,411	1,611,481
	High-cost estimate					
1980	$33,682	$28,497	$514	−$155	$3,009	$100,561
1985	35,769	32,265	556	−46	4,159	136,815
1990	37,888	35,927	610	−7	5,239	170,718
2000	43,619	40,471	663	42	7,792	252,861
2025	53,140	65,479	963	67	16,425	521,752
	Intermediate-cost estimate					
1980	$34,028	$28,031	$482	−$130	$3,867	$112,430
1985	36,229	31,702	521	−21	5,582	159,609
1990	38,560	35,220	566	23	7,385	209,245
2000	44,969	39,355	620	77	12,205	344,138
2025	58,336	63,288	914	107	36,172	1,004,202

[1] Interest rates of 3.25 percent for high-cost, 3.75 percent for intermediate-cost, and 4.25 percent for low cost, were used in determining the level cost, but in developing the progress of the trust fund, varying rates in the early years were used, which, when averaged over a long period of time, are equivalent to such fixed rates.

[2] A positive figure indicates payment to the trust fund from the railroad retirement account; a negative figure indicates the reverse.

[3] Not including $60,000,000 in the railroad retirement account to the credit of the old-age and survivors insurance trust fund.

[4] These figures are artificially high because of the method of reimbursements between this trust fund and the disability insurance trust fund (and, likewise, the figure for 1959 is too low).

NOTE.—Contributions include reimbursement for additional cost of noncontributory credit for military service.

TABLE 21.—*Estimated progress of disability insurance trust fund, 1966 level-earnings assumption* [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Financial interchange [2]	Interest on fund	Fund at end of year
	Actual data					
1957	$702	$57	[3] $3		$7	$649
1958	966	249	[3] 12		25	1,379
1959	891	457	50	22	40	1,825
1960	1,010	568	36	5	53	2,289
1961	1,038	887	64	−5	66	2,437
1962	1,046	1,105	66	−11	68	2,368
1963	1,099	1,210	68	−20	66	2,235
1964	1,154	1,309	79	−19	64	2,047
1965	1,188	1,573	90	−24	59	1,606
1966	2,022	1,784	137	−25	58	1,739
	Low-cost estimate					
1980	$2,691	$2,837	$115	$15	$22	$701
1985	2,871	3,041	114	18	−33	−638
1990	3,070	3,183	112	18	(4)	(4)
2000	3,622	3,834	126	18	(4)	(4)
2025	4,953	5,642	185	18	(4)	(4)
	High-cost estimate					
1980	$2,637	$3,228	$144	$7	(5)	(5)
1985	2,800	3,501	155	8	(5)	(5)
1990	2,965	3,691	157	8	(5)	(5)
2000	3,412	4,521	190	8	(5)	(5)
2025	4,143	6,435	271	8	(5)	(5)
	Intermediate-cost estimate					
1980	$2,664	$3,032	$130	$11	(6)	(6)
1985	2,835	3,271	132	13	(6)	(6)
1990	3,017	3,438	134	13	(6)	(6)
2000	3,517	4,176	158	13	(6)	(6)
2025	4,548	6,039	228	13	(6)	(6)

[1] Interest rates of 3.25 percent for high-cost, 3.75 percent for intermediate-cost, and 4.25 percent for low cost were used in determining the level cost, but in developing the progress of the trust fund, varying rates in the early years were used, which, when averaged over a long period of time, are equivalent to such fixed rates.

[2] A positive figure indicates payment to the trust fund from the railroad retirement account; a negative figure indicates the reverse.

[3] These figures are artificially low because of the method of reimbursements between the trust fund and the old-age and survivors insurance trust fund (and, likewise, the figure for 1959 is too high).

[4] Fund exhausted in 1983.

[5] Fund exhausted in 1975.

[6] Fund exhausted in 1977.

NOTE.—Contributions include reimbursement for additional cost of noncontributory credit for military service and benefits include payments for vocational rehabilitation services.

The long-range balance of the system is shown by the following level-equivalent costs and contributions, expressed in percentages of taxable payroll, which are computed as of the beginning of calendar year 1967, at interest rates of 3.25 percent for high-cost, 3.75 percent for intermediate-cost, and 4.25 percent for low-cost:

[In percent of taxable payroll [1]]

Item	OASI	DI	Total
	Low-cost estimate		
Contributions	8.79	.70	9.49
Benefits [2]	7.42	.76	8.18
Actuarial balance	1.37	-.06	1.31
	High-cost estimate		
Contributions	8.82	.70	9.52
Benefits [2]	8.52	.96	9.48
Actuarial balance	.30	-.26	.04
	Intermediate-cost estimate		
Contributions	8.80	.70	9.50
Benefits [2]	7.91	.85	8.76
Actuarial balance	.89	-.15	.74

[1] Based on adjusted payroll that reflects the lower contribution rate on self-employment income, tips, and multiple-employer "excess wages", as compared with the combined employer-employee rate.
[2] Including adjustments (1) for interest on the existing trust fund, (2) for administrative expenses, (3) for the railroad retirement financial interchange provisions, and (4) for reimbursement of military-wage-credits cost. For DI, includes payments for vocational rehabilitation services.

The old-age, survivors, and disability insurance system as a whole is overfinanced by a substantial amount (0.74 percent of payroll on the intermediate-cost basis). The old-age and survivors insurance portion of the system is overfinanced by a substantial amount (0.89 percent of payroll on the intermediate-cost basis). However, the disability insurance portion has a lack of actuarial balance (0.15 percent of payroll on the intermediate-cost basis) that is well above the margin of variation inherent in these cost estimates.

If the intermediate-cost estimate had been based on a higher interest rate than 3.75 percent (which is somewhat above the current average being earned by the total investments of the trust funds, although considerably below the prevailing market rate of interest on long-term Government obligations, which was 5 percent in December 1966 and 4⅝ percent in January 1967), the actuarial balance of the total program would have been considerably improved. Thus, for example, the use of a 4-percent interest rate would increase the actuarial balance of the program by about 0.05 percent of taxable payroll.

If the experience exactly follows the assumptions, future computations would show a gradual increase in the actuarial balance (or lack of balance) under the intermediate-cost estimate for both the old-age and survivors insurance system and the disability insurance system. The reason for this is that interest accumulations increase any surplus in the system, but the failure to accumulate all interest income that would have been earned in an exactly balanced system increases any deficit. In the case of a surplus, the excess contributions actually earn interest, while a deficit grows because of the absence of the annual interest that would have been earned if the contributions required for balance had been paid.

Continuing study of the emerging experience under the program provides a basis for prompt changes in the tax rate or other changes that may be necessary to keep the system from growing excessively out of acturial balance in either direction.

It is important to note that these estimates are made on the assumption that earnings will remain at about the level prevailing in 1966. If earnings levels rise, as they have in the past, the benefits and the taxable earnings base under the program will undoubtedly be modified. In fact, if all other assumed cost factors are closely followed by the experience, then increasing wage levels will automatically generate positive actuarial balances that can be used to increase benefit levels without changing the financing provisions. If such changes are made concurrently and proportionately with changes in general earnings levels, and if the experience follows all the other assumptions, the future year-by-year costs of the system as a percentage of taxable payroll would be the same as those shown. However, the existing trust fund accumulated in the past, and its interest earnings, will represent a smaller proportion of the future taxable payrolls than if earnings were not to increase in future years. As a result, since interest earnings of the trust fund will play a relatively smaller role in the financing of the system, the "net" level-cost—taking into account benefit payments, administrative expenses, and interest on the existing trust fund—would be somewhat higher. However, the level-cost might not rise this much, or might even decline, if benefit adjustments do not fully reflect rising earnings. Again, the effect of such events can be observed in ample time to make any needed changes in the contribution schedule or any other appropriate changes in the system.

This analysis includes the benefits and contributions in respect to all persons anticipated to be covered in the future under present statutory provisions and not merely (*a*) the benefits to be paid to workers who have been covered by the system in the past and to their dependents and survivors, (*b*) the future taxes to be paid by, and with respect to, such workers and (*c*) the existing trust funds. An insurance company must set up reserves equal to all currently accrued liabilities, since it cannot compel individuals to become new policyholders and must be in a position at any time so that in the future it can pay all benefits that will become due with respect to its present and past policyholders, using only its present assets and the future premiums to be paid by present policyholders. In analyzing the actuarial condition of a compulsory social insurance system that will continue indefinitely, the income and outgo with respect to new entrants should properly be included, thus obviating the need to set up reserves for all currently accrued liabilities.

A discussion of the assumptions under which these estimates have been made is presented in appendix I.

Medium-Range Cost Estimates

The preceding sections have presented both short-range cost estimates (for the next 5 years) and long-range cost estimates (for many decades into the future) for the old-age, survivors, and disability insurance system. This section presents medium-range cost estimates covering a period of 15 to 20 years that take into account possible variations in economic factors, such as level of earnings and level of employment, as well as variations in demographic factors.

Tables 22 and 23 present two medium-range projections based on different assumptions. For both projections, it is assumed that economic activity will have normal expansion throughout the period, with employment increasing steadily and with the average total earnings of covered workers increasing at an annual rate of 3 percent (somewhat higher increases are assumed in the first 5 years). Under present circumstances, it would appear that this 3-percent rate of increase is on the low side.

In the first projection (table 22), the maximum taxable earnings base is assumed to remain at $6,600 per year, while for the second one (table 23), the base is assumed to be kept up to date; i.e., changed periodically so as to cover about the same proportion of total earnings that was covered in 1967 by the $6,600 base. These assumptions imply that, for the first projection, only about three-eighths of the 73-percent increase in average earnings that is estimated to occur in 1967–85 will be taxable under the program, due to the dampening effect of the fixed maximum taxable earnings base. For the second projection, the entire 73-percent increase will be taxable because of the assumed constant updating of the taxable earnings base.

TABLE 22.—*Estimated progress of trust funds, increasing earnings assumption, fixed earnings base, and equivalent 3.75 percent interest rate basis* [1]

[In millions]

Calendar year	Contributions [2]	Benefit payments [3]	Administrative expenses	Financial interchange [4]	Interest on fund	Fund at year end
	Old-age and survivors insurance trust fund					
1975	$37,591	$25,716	$491	−$263	$3,348	$100,580
1980	43,110	29,544	590	−43	6,430	187,281
1985	48,105	33,550	692	96	10,429	298,874
	Disability insurance trust fund					
1975	$2,939	$2,760	$152	−$7	$122	$3,653
1980	3,370	3,171	161	15	153	4,548
1985	3,760	3,481	175	23	200	5,932

[1] On the same basis as used to develop the trust funds for the long-range intermediate cost estimates in tables 20 and 21.
[2] Includes reimbursement for additional cost of noncontributory credits for military service.
[3] For the old-age and survivors insurance trust fund, does not include the special payments to persons aged 72 and over that are reimbursable from the General Treasury. For the disability insurance trust fund, includes payments for vocational rehabilitation services.
[4] A positive figure indicates payment to the trust funds from the railroad retirement account; a negative figure indicates the reverse.

TABLE 23.—*Estimated progress of trust funds, increasing earnings and benefits assumptions, variable earnings base, and equivalent 3.75 percent interest rate basis* [1]

[In millions]

Calendar year	Contributions [2]	Benefit payments [3]	Administrative expenses	Financial interchange [4]	Interest on fund	Fund at year end
	Old-age and survivors insurance trust fund					
1975	$42,886	$33,536	$601	$-403	$2,590	$79,011
1980	53,976	44,514	765	-194	4,775	140,754
1985	66,615	58,366	959	-36	7,292	211,221
	Disability insurance trust fund					
1975	$3,353	$3,692	$184	$4	$7	$297
1980	4,218	4,815	206	16	[5]	[5]
1985	5,202	6,022	243	22	[5]	[5]

[1] On the same basis as used to develop the trust funds for the long-range intermediate cost estimates in tables 20 and 21.
[2] Includes reimbursement for additional cost of noncontributory credits for military service.
[3] For the old-age and survivors insurance trust fund, does not include the special payments to persons aged 72 and over that are reimbursable from the General Treasury. For the disability insurance trust fund, includes payments for vocational rehabilitation services.
[4] A positive figure indicates payment to the trust funds from the railroad retirement account; a negative figure indicates the reverse.
[5] Fund exhausted in 1976.

It is assumed for the first projection that all provisions of the law would remain as they were after the 1965 amendments. This projection is based on dynamic earnings-level assumptions and static benefit-provision assumptions. However, over the 19-year period covered by the estimates, changes will undoubtedly be made. The purpose of this estimate is to indicate the size of the financial commitments of present law, even though it is recognized that the law itself will undoubtedly be changed during the period. The extent and timing of these changes are of course, unpredictable.

It is assumed for the second projection that the maximum taxable earnings base and the benefit provisions of the law are amended periodically so that the relationships among total earnings, taxable earnings and benefit expenditures during each of the years 1967–85 are the same as those shown in the long-range intermediate-cost estimates prepared on level-earnings assumptions. The cost estimate shown in table 23 is, therefore, very similar to the long-range cost estimate if costs are considered in terms of percentages of taxable payroll, but it has the advantage of presenting dollar figures of a more realistic magnitude. This projection, accordingly, is based on dynamic earnings-level assumptions, combined with an assumption that the law is frequently amended to keep the system fully up to date.

As shown in tables 22 and 23, according to the medium-range estimates, the old-age and survivors insurance trust fund grows steadily through the 19-year period—reaching about $187 billion in 1980 in the first projection and about $141 billion in the second one. For 1985, the corresponding figures for the balance in the trust fund are $299 billion and $211 billion, respectively. In 1985, estimated contribution income exceeds benefit outgo by about 43 percent under the assumptions of dynamic earnings-level conditions and static benefit provisions, but by only 14 percent under the "double dynamic" assumptions basis.

The disability insurance trust fund, according to the first projection, increases slowly—reaching about $4.5 billion in 1980 and about $5.9 billion in 1985. According to the second projection, with the "double dynamic" assumptions, the fund is exhausted in the year 1976.

CONCLUSION

The current long-range actuarial cost estimates for the old-age, survivors, and disability insurance program as a whole indicate that the program is overfinanced by a substantial amount. The actuarial balance of each of the two parts of the program—old-age and survivors insurance and disability insurance—is, however, differently effected.

According to the intermediate-cost estimate, the old-age and survivors insurance program has a substantial favorable actuarial balance of 0.89 percent of taxable payroll on a level-cost basis computed over the next 75 years. On the other hand, the disability insurance program shows a lack of actuarial balance of 0.15 percent of taxable payroll.

The Board of Trustees recommends that there be an increase in the allocation of future income to the disability insurance trust fund. Specifically, the portion of the combined employer-employee contribution rate that would go to the disability insurance trust fund should be 0.85 percent of taxable payroll, while for the self-employed rate the corresponding figure should be 0.6375 percent. The increased allocation to the disability insurance trust fund would not affect the actuarial balance of the old-age, survivors, and disability insurance system as a whole, but it would make for a more reasonable and equitable subdivision of the income between the two parts of the system.

For the present program, following this increased allocation to the disability insurance trust fund, the actuarial balance of the old-age and survivors insurance portion of the system would, according to the intermediate-cost estimate, be 0.74 percent of taxable payroll, while the disability insurance portion of the system would be in exact actuarial balance. Thus, after the increase in allocation, on the basis of the present long-range cost estimates, not only would the present program as a whole have a substantial actuarial balance, but also each of the two parts of the system would have a satisfactory actuarial balance. It may be noted that, under conditions of actuarial balance, the system will have sufficient income from contributions (based on the tax schedule now in the law) and from interest earnings on investments to meet the cost of the benefit payments and administrative expenses over the 75-year period covered by the cost estimates.

The Board of Trustees had repeatedly recommended, in prior reports, that appropriations authorized under section 217(g) of the Social Security Act be made from general revenues to reimburse the trust funds for the additional costs incurred with respect to benefits based on noncontributory credit for military service. The Board is pleased to state that, during the period since the release of its last annual report, Congress has enacted the first two such appropriations.

APPENDIXES

APPENDIX I. ASSUMPTIONS, METHODOLOGY, AND DETAILS OF LONG-RANGE COST ESTIMATES

The basic assumptions used in the long-range estimates for the old-age, survivors, and disability insurance system are described in this appendix.[1] Also given are more detailed data in connection with the results of these estimates.

Population

Projections were made of the U.S. population (including overseas areas covered by the old-age, survivors, and disability insurance program) for future quinquennial years, by 5-year age groups and by sex. The starting point was the population on July 1, 1965, as estimated by the Bureau of the Census from the 1960 census and from births, deaths, and migration in 1960–65. This population estimate was increased to allow for probable underenumeration in the 1960 census and adjusted for differences in the geographical areas covered by the estimate of the Bureau of the Census and those covered by the old-age, survivors, and disability insurance system.

In the projections for both cost estimates it is assumed that mortality rates will decline until the year 2000. In the high-cost estimates, mortality rates for the year 2000 are, on the average, about 73 percent of the 1959–61 level. The mortality is projected to decrease by about 40–55 percent at the younger ages, but with the rates at the older ages showing somewhat smaller improvements. The low-cost estimate assumes exactly half of the improvement in mortality used in the high-cost estimate.

In the low-cost estimate, fertility rates are assumed to decrease slowly until reaching a level in 1985 roughly equivalent to about 83 percent of the average rates prevailing in the period 1960–65. The high-cost fertility rates decrease more rapidly and reach an ultimate rate in 2010 equivalent to about 68 percent of the 1960–65 experience. Both estimates assume a small amount of net immigration.

The low-cost estimate is based on high fertility and high mortality, while the high-cost estimate assumes low fertility and low mortality. This makes the high-cost population relatively much older than the low-cost population, which is reasonable in view of the fact that benefits to aged persons account for more than 80 percent of the cost of the system. Complete details about the population projections are given in Actuarial Study No. 62, Social Security Administration.

Employment

Assumptions as to the percentage of the population who have covered employment during a year were made for each age group by sex for each quinquennial year. The estimated percentages for 1965 for males were projected to increase slightly (so as to reflect some decrease in the unemployment rate over that prevailing in 1965), except for the older ages where they were assumed to decrease for both the low-cost and high-cost assumptions (thus recognizing the possibility of higher retirement rates). An increase was assumed for females, except for the very old ages; these increases are higher in the middle ages and are a continuation of trends in the past.

All the foregoing assumptions may be characterized as representing moderately full employment. A depression could substantially increase the cost, but it is believed that any periods of low employment would be of short duration and would not have a significant long-range effect.

Earnings

Level average earnings at about the 1966 level were assumed for each sex. This assumption implies that within each sex group the earnings level would not

[1] A more detailed discussion of the procedures followed in making the long-range cost estimates will be published in Actuarial Study No. 64, Social Security Administration. A detailed discussion of the cost estimates for the 1965 act can be found in Actuarial Study No. 63.

rise on account of changes in the distribution of covered workers by occupation or industry.

In the past, average earnings have increased greatly, partly because of inflation, partly because of increased productivity, and partly because of the changed occupational composition of the labor force and related factors. If this trend continues and if the benefit formula is not changed, the cost relative to payroll would be less than the estimates show because the formula provides a benefit that is a decreasing percentage of average wage as the average wage increases.

It is likely, however, that if average earnings increase, the benefit formula and the earnings base used for contributions will be modified.

If benefit payments are increased in exactly the same ratio as the increase in average earnings, the year-by-year cost estimates of benefit payments expressed as a percentage of payroll would be unchanged. There would, however, be some increase in the level-premium cost because of the diminished relative value of interest earnings on the trust funds.

Insured population

The term 'insured' is used as meaning fully insured, since the number of persons who are currently insured only is relatively small and can be disregarded for long-range cost analysis purposes. The percentages of insured persons by age and sex in various future years are estimated from the percentages of persons covered. It is evident that eventually almost all males in the country will be insured for old-age and survivor benefits; the ultimate percentage for aged males is estimated at 96 percent in the low-cost estimate and 98 percent in the high-cost estimate. For females there is much greater uncertainty; it is estimated that the corresponding proportions for aged females will eventually be 70 percent in the low-cost estimate and 75 percent in the high-cost estimate (the differential reflecting the range possible because of women moving in and out of the labor market and whether thereby they do or do not obtain insured status).

The estimated numbers of persons insured for disability benefits are lower than those insured for old-age and survivor benefits because of the more restrictive insured status provisions for disability benefits.

Aged beneficiaries

Old-age beneficiaries are estimated from the aged insured population. The proportions, by age and sex, of the insured population that were receiving benefits at the beginning of 1965 were projected to increase slightly in the high-cost estimate, following the trends in the past—thus, reflecting the assumed gradual increase in the retirement rates. In the low-cost estimate, the rates were assumed to remain at the 1965 level, which reflects the most recent tendency for a leveling-off in this factor.

Wives aged 62 and over of male old-age beneficiaries were estimated by using census data and mortality projections. These potential wife beneficiaries, after adjustment for eligibility to benefits on their own account, were assumed to claim benefits as soon as they are eligible, even if this occurred at ages 62–64, when they would have to take reduced benefits. The experience to date indicates that in the vast majority of the cases such immediate claiming of wife's benefits does occur.

To estimate widow beneficiaries the proportions of widows in the female aged population were projected according to mortality assumptions and adjusted for both eligiblity to benefits on their own account and for the insured status of their deceased husbands. These uninsured eligible widows were assumed to claim benefits as soon as available even if this occurred at ages 60 and 61, when they would have to take reduced benefits.

It can be observed that the assumed wife and widow beneficiaries consist of the uninsured potential beneficiaries. In actual practice, some of the insured potential beneficiaries also receive a residual benefit consisting of the excess of the potential wife's or widow's benefit over their own old-age benefit. These residual benefits, although not giving rise to additional aged beneficiaries, were considered in the cost of the particular type of dependent or survivor benefit concerned.

The minor category of parent beneficiaries is estimated as a constant proportion of aged persons not eligible for any other benefit. The insignificant effect of the retirement test as it applies to wife's, widow's, and parent's benefits was ignored. No estimates were made for benefits to dependent husbands and widowers since their cost is relatively negligible.

Appendix table 1 shows the estimated numbers of aged beneficiaries.

Beneficiaries under retirement age

Young wives and children of retired workers were estimated by reference to their ratios to male old-age beneficiaries, as derived from recent actual data and projected according to the population fertility and mortality assumptions.

Child-survivor beneficiaries were obtained from estimates of total paternal orphans in the country in future years. The projected child population by age groups was multiplied by the probability of being a paternal orphan. These probabilities were derived by using distributions of age of fathers at birth of child and death rates consistent with the population projections. The number of paternal orphans was then adjusted to eliminate orphans of uninsured men, to add the small numbers of orphans of insured women and to include the eligible disabled orphans aged 18 and over. For the nondisabled children aged 18–21, a further reduction was made to exclude those not attending school. Mother survivor beneficiaries are estimated by assuming a constant ratio of mothers to children, after excluding those aged 18–21 who are attending school. The numbers of lump-sum death payments were estimated by multiplying the insured population by death rates used in the population projections.

Disabled beneficiaries and their dependents

Future numbers of persons receiving monthly disability benefits based on their own earnings records are estimated by applying disability prevalence rates (by age and sex) to the population insured for disability benefits. Prevalence rates may be defined as the proportion of the relevant population (population insured for disability in this case) that has a specific characteristic (receiving disability benefits in this case).

APPENDIX TABLE 1.—*Monthly retirement beneficiaries in current-payment status,*[1] *1955–2025*

[In thousands]

Calendar year	Old-age beneficiaries		Wives of old-age beneficiaries [2]	Aged widows [3]	Dependent parents	Total
	Male	Female				
	Actual data					
1955	3,252	1,222	1,144	701	25	6,344
1956	3,572	1,540	1,376	913	27	7,428
1957	4,198	1,999	1,779	1,095	29	9,101
1958	4,617	2,303	1,979	1,233	30	10,162
1959	4,937	2,589	2,123	1,394	35	11,077
1960	5,217	2,845	2,236	1,544	36	11,877
1961	5,765	3,160	2,368	1,697	37	13,027
1962	6,244	3,494	2,510	1,859	37	14,145
1963	6,497	3,766	2,561	2,011	37	14,872
1964	6,657	4,011	2,587	2,159	36	15,451
1965	6,872	4,276	2,614	2,371	35	16,168
	Low-cost estimate					
1980	9,013	7,567	2,912	3,473	32	22,997
1985	9,833	8,840	2,970	3,632	31	25,306
1990	10,578	10,075	3,041	3,557	30	27,281
2000	11,125	11,514	2,838	3,501	28	29,006
2025	18,204	18,989	3,646	5,356	28	46,223
	High-cost estimate					
1980	9,619	7,931	3,103	3,441	33	24,127
1985	10,643	9,323	3,209	3,583	32	26,790
1990	11,639	10,697	3,280	3,547	31	29,194
2000	12,616	12,607	3,050	3,623	29	31,925
2025	21,280	22,039	3,782	4,838	23	51,962

[1] Persons qualifying both for old-age benefits and for wife's, widow's, husband's, widower's, and parent's benefits are shown only as old-age beneficiaries. Minimum retirement age was 65 until November 1956, when it was lowered to 62 for women, and until August 1961, when it was also reduced to 62 for men, except that for widows it was further lowered to 60 in September 1965. Actual data as of the end of the year (except for 1958—November); estimated data as of the middle of the year. Excluding effect of railroad financial interchange provisions.

[2] Including dependent husbands and including wives of any age with child beneficiaries in their care (both relatively small categories).

[3] Including dependent widowers.

The prevalence rates were developed from assumed disability incidence and termination rates. The incidence rates were based on the so-called 165 percent modification of class 3 rates (which includes increasingly higher percentages for ages above 45). This 165 percent modification corresponds roughly to life insurance company experience during the early 1930's. These rates were reduced by 10 percent to account for the fact that unlike the general definition in insurance company policies, disability is not presumed to be total and of expected long-continued duration after 6 months' duration. Rather, the likelihood of the disability being of a long-continued and indefinite-nature condition must be proved at the time. To take into consideration the fact that according to the 1965 amendments the disability should be expected to last at least 12 months instead of being of a long-continued duration, the final prevalence rates were increased by 1.5 percent relatively.

The original estimates of the cost of the disability insurance system (prepared at the time of the 1956 amendments) assumed, for high cost, incidence rates based on the 165 percent modification of class 3 rates. For low cost, the rates were assumed to be 25 percent of those used in the high cost estimate. These incidence rates are basically those in current use except for a narrowing of the range between low and high to reflect the operating experience analyzed up to now. This experience has shown the actual incidence rates to fall roughly mid-range between the high incidence and low incidence originally assumed.

Benefit termination rates because of death and recovery in current use are those used in the original disability insurance cost estimate—i.e., class 3 rates for high cost and 1924–27 German social insurance experience for low cost estimate.

The prevalence rates resulting from the above incidence and termination rates were adjusted to reflect current operating experience and the new definition in the 1965 amendments and then used to calculate the numbers of beneficiaries in the future. These future prevalence rates are thus based on the incidence and termination rates originally assumed, but they are adjusted to reflect the latest available experience. The modified methodology that has been followed allows for a prompt reflection, in the estimated cost, of any changes in the experience of the program.

In accordance with current experience the prevalence rates for females were assumed to be about 80 percent of those for male workers.

Appendix table 2 shows the estimates of number of beneficiaries under the minimum retirement age (including disability insurance beneficiaries and their dependents).

Average benefits and total benefit payments

Average benefits in the various benefit categories were interpolated between the sizes of current benefit awards, estimated from recent claims data, and the sizes of the ultimate benefits computed. The latter were determined as though the 1966 earnings level were in effect throughout the entire working life of all workers with respect to whom benefits are being paid. Total benefit payments are shown in dollar amounts, in tables 20 and 21, and as a percentage of payroll, in table 19.

The combined cost of old-age, survivors, and disability benefits (expressed as a percentage of taxable payroll) in 1966 as shown in tables 15 and 18 is projected to increase by about 40 percent in the low-cost estimate and by about 95 percent in the high-cost estimate, according to table 19. The significant upward cost trend is temporarily reversed around the year 2000, at which time a significant part of the age population consists of survivors of persons born in the 1930's, when birth rates were low.

APPENDIX TABLE 2.—*Monthly beneficiaries under minimum retirement age in current-payment status* [1] *and number of deaths resulting in lump-sum death payments, 1955-2025*

[In thousands]

Calendar year	Children [2]	Widowed mothers	Disability beneficiaries: Workers	Disability beneficiaries: Wives [3]	Disability beneficiaries: Children [4]	Total monthly beneficiaries	Lump-sum death cases
			Actual data				
1955	1,276	292				1,568	567
1956	1,341	301				1,642	547
1957	1,502	328	150			1,980	689
1958	1,606	354	238	12	18	2,228	[5] 657
1959	1,754	376	334	48	78	2,590	[6] 822
1960	1,845	401	455	77	155	2,934	779
1961	1,989	428	618	118	291	3,444	813
1962	2,160	452	741	147	387	3,887	865
1963	2,230	462	827	168	457	4,144	969
1964	2,298	471	894	179	490	4,332	1,011
1965	2,535	472	988	193	558	4,746	990
			Low-cost estimate				
1980	3,217	508	1,438	252	813	6,228	1,446
1985	3,291	523	1,521	254	820	6,409	1,579
1990	3,538	567	1,576	263	823	6,767	1,698
2000	3,817	611	1,898	318	935	7,579	1,944
2025	5,333	801	2,799	491	1,328	10,752	2,895
			High-cost estimate				
1980	3,106	475	1,652	290	936	6,459	1,491
1985	3,065	465	1,770	295	953	6,548	1,630
1990	3,168	481	1,839	306	987	6,781	1,747
2000	3,025	482	2,242	370	1,192	7,311	1,981
2025	4,001	529	3,198	524	1,691	9,943	3,009

[1] See footnote 1 of appendix table 1 for definition of minimum retirement age. Does not include wives under age 62 of old-age beneficiaries; includes disability beneficiaries aged 62–64, and spouses aged 62 and over of disability beneficiaries. For actual data, as of December (except for 1958—November); for estimated future data, as of middle of year. Excluding effect of railroad financial interchange provisions.
[2] Children of retired and deceased workers.
[3] Spouses of disabled workers, including some such spouses aged 62 and over.
[4] Children of disabled workers.
[5] January through November 1958.
[6] December 1958 through December 1959.

Administrative expenses

Assumed administrative expenses for old-age, survivors, and disability insurance are based on two factors—the number of persons having any covered employment in the given year and the number of monthly beneficiaries.

Railroad retirement financial interchange

A financial interchange between the old-age, survivors, and disability insurance system and the railroad retirement system is provided, as explained in appendix II. The purpose of this interchange is to place the old-age and survivors insurance and the disability insurance trust funds in the same position they would have been in if railroad employment were, and always had been, covered employment.

Because of the relatively older age distribution of railroad workers, the transfer is currently in favor of the railroad retirement system. But it is estimated that eventually the low-cost factors in respect to railroad employment—higher average wage, lower percentage of females, and more wives and widows of railroad workers receiving old-age, survivors, and disability insurance benefits on their own earnings records, rather than on the record of the railroad worker—will shift the transfer the other way. The long-range effect is relatively insignificant insofar as old-age, survivors, and disability insurance costs are concerned, but the current estimates indicate a small net gain to the railroad retirement system over the entire period of these estimates.

Interest rate

The 1960 amendments revised the basis for determining the interest rate on public-debt obligations issued for purchase by the trust funds (special issues), which constitute a major portion of the investments of the trust funds. Under previous law, the interest rate on special obligations was related to the average coupon rate on all outstanding marketable obligations of the United States not due or callable for at least 5 years from the original issue date. Under present law, this interest rate is based on the average market yield of all such marketable obligations not due or callable for 4 or more years from the time of the issuance of the special obligations.

This change will have the immediate effect of gradually increasing the interest income of the trust funds as compared with the previous basis. The ultimate effect is expected to be only a slight increase in the interest income of the system since, over the long run, coupon rates on new long-term Government obligations tend to follow (both up and down) the average market yield on all outstanding long-term issues.

For the intermediate-cost estimate a level interest rate of 3.75 percent was assumed. This is somewhat above the average yield of the total investments of both trust funds as of January 1, 1967 (3.66 percent), but is below the rate applicable for new investments in January 1967 (4⅝ percent). The interest rate for the low-cost and high-cost estimates was assumed at 4.25 percent and 3.25 percent, respectively.

APPENDIX II. LEGISLATIVE HISTORY AFFECTING THE TRUST FUNDS [1]

Board of Trustees.—From January 1, 1940, when the Federal old-age and survivors insurance trust fund was established, through July 15, 1946, the three members of the Board of Trustees, who served in an ex officio capacity, were the Secretary of the Treasury, the Secretary of Labor, and the Chairman of the Social Security Board. On July 16, 1946, under Reorganization Plan No. 2 of 1946, the Federal Security Administrator became ex officio member of the Board of Trustees in place of the Chairman of the Social Security Board, which agency was abolished. On April 11, 1953, Reorganization Plan No. 1 of 1953, creating the Department of Health, Education, and Welfare, went into effect, and the office of Federal Security Administrator was abolished. The functions of the Administrator as ex officio member of the Board of Trustees were taken over by the Secretary of Health, Education, and Welfare. The remaining membership of the Board has not changed since it was first established. Since the establishment of the fund, the Secretary of the Treasury has been managing trustee. The Social Security Act Amendments of 1950 designated the Commissioner for Social Security—since April 11, 1953, the Commissioner of Social Security—as Secretary of the Board of Trustees.

Under the Social Security Amendments of 1956, the functions of the Board of Trustees have related to both the Federal old-age and survivors insurance trust fund and the Federal disability insurance trust fund. The Social Security Amendments of 1960 eliminated the so-called three-times rule (requiring the Board of Trustees to report to the Congress whenever it expects that in the course of the next 5 fiscal years either of the trust funds will exceed three times the highest annual expenditures from such fund anticipated during that 5-year period). The Social Security Amendments of 1965 provide that the Board of Trustees shall meet not less frequently than once each calendar year.

Contribution rates.—The Social Security Act of 1935 fixed the contribution rates for employees and their employers at 1 percent each on taxable wages for the calendar years 1937–39, and provided for higher rates thereafter. However, subsequent acts of Congress extended the 1-percent rates through calendar year 1949. On January 1, 1950, the rates rose to 1½ percent each for employees and employers, as provided by the Social Security Act Amendments of 1947. In accordance with the Social Security Act Amendments of 1950, the 1½-percent rates remained in effect through calendar year 1953, and, on January 1, 1954, rose to 2 percent each for employees and employers. These rates remained in

[1] Amendments to the Social Security Act and to related sections of the Internal Revenue Code were made during the period 1939–66. The more important changes made in 1950–58 that are significant from an actuarial standpoint are described in appendix II of the 21st Annual Report of the Board of Trustees. The more important changes contained in the 1960 and 1961 amendments are described in the main body of the 23d Annual Report, and the changes made in 1964 are described in the 25th Annual Report. The more important changes contained in the amendments made in 1965 and in 1966 are described in the main body of the present report.

Interest rate

The 1960 amendments revised the basis for determining the interest rate on public-debt obligations issued for purchase by the trust funds (special issues), which constitute a major portion of the investments of the trust funds. Under previous law, the interest rate on special obligations was related to the average coupon rate on all outstanding marketable obligations of the United States not due or callable for at least 5 years from the original issue date. Under present law, this interest rate is based on the average market yield of all such marketable obligations not due or callable for 4 or more years from the time of the issuance of the special obligations.

This change will have the immediate effect of gradually increasing the interest income of the trust funds as compared with the previous basis. The ultimate effect is expected to be only a slight increase in the interest income of the system since, over the long run, coupon rates on new long-term Government obligations tend to follow (both up and down) the average market yield on all outstanding long-term issues.

For the intermediate-cost estimate a level interest rate of 3.75 percent was assumed. This is somewhat above the average yield of the total investments of both trust funds as of January 1, 1967 (3.66 percent), but is below the rate applicable for new investments in January 1967 (4⅝ percent). The interest rate for the low-cost and high-cost estimates was assumed at 4.25 percent and 3.25 percent, respectively.

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Contribution rates.—The Social Security Act of 1935 fixed the contribution rates for employees and their employers at 1 percent each on taxable wages for the calendar years 1937–39, and provided for higher rates thereafter. However, subsequent acts of Congress extended the 1-percent rates through calendar year 1949. On January 1, 1950, the rates rose to 1½ percent each for employees and employers, as provided by the Social Security Act Amendments of 1947. In accordance with the Social Security Act Amendments of 1950, the 1½-percent rates remained in effect through calendar year 1953, and, on January 1, 1954, rose to 2 percent each for employees and employers. These rates remained in

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[1] Amendments to the Social Security Act and to related sections of the Internal Revenue Code were made during the period 1939–66. The more important changes made in 1950–58 that are significant from an actuarial standpoint are described in appendix II of the 21st Annual Report of the Board of Trustees. The more important changes contained in the 1960 and 1961 amendments are described in the main body of the 23d Annual Report, and the changes made in 1964 are described in the 25th Annual Report. The more important changes contained in the amendments made in 1965 and in 1966 are described in the main body of the present report.

effect through December 31, 1956. In accordance with the Social Security Amendments of 1956, the 2-percent rates rose to 2¼ percent each on January 1, 1957, and remained in effect through calendar year 1958. On January 1, 1959, the rates rose to 2½ percent each, and on January 1, 1960, to 3 percent each, as provided by the Social Security Amendments of 1958. These rates remained in effect through December 31, 1961. In accordance with the Social Security Amendments of 1961, the 3-percent rates rose, on January 1, 1962, to 3⅛ percent each for employees and employers, and on January 1, 1963, to 3⅝ percent each. These rates remained in effect through December 31, 1965. In accordance with the Social Security Amendments of 1965, the rates rose to 3.85 percent each for employees and employers on January 1, 1966. Beginning on January 1, 1966, coverage was extended to include cash tips, taxable as wages, with only the employee's share of the tax contributions payable (the employer is exempted from payment of tax contributions on cash tips).

Beginning January 1, 1951—the effective date of extension of coverage to self-employed persons—the rates of tax on self-employment income have been equal to 1½ times the corresponding employee rates, except that beginning in 1962 the resulting rates for the self-employed are rounded to the nearest tenth of 1 percent.

The tax rates that have been in effect since 1937 and the maximum amount of annual earnings to which the rates applied are shown in the following table:

Calendar years	Maximum taxable amount of annual earnings	Percent of taxable earnings	
		Employees and employers, each	Self-employed
1937–49	$3,000	1.000	
1950	3,000	1.500	
1951–53	3,600	1.500	2.250
1954	3,600	2.000	3.000
1955–56	4,200	2.000	3.000
1957–58	4,200	2.250	3.375
1959	4,800	2.500	3.750
1960–61	4,800	3.000	4.500
1962	4,800	3.125	4.700
1963–65	4,800	3.625	5.400
1966	6,600	3.850	5.800

Special refunds of employee contributions.—With respect to wages paid before 1951, refunds to employees who worked for more than one employer during the course of a year and paid contributions on such wages in excess of the statutory maximum were made from general revenues. With respect to wages paid after 1950, these refunds are paid from the Treasury account for refunding internal revenue collections. The Social Security Act Amendments of 1950 directed the managing trustee to pay from time to time from the old-age and survivors insurance trust fund into the Treasury, as repayments to the account for refunding internal revenue collections, the amount of contributions which are subject to refund with respect to wages paid after 1950. The Social Security Amendments of 1956 provided for similar repayments from the disability insurance trust fund.

Credits for military service.—The Social Security Act Amendments of 1946 provided survivor-insurance protection to certain World War II veterans for a period of 3 years following their discharge from the Armed Forces. Federal appropriations were authorized to reimburse the old-age and survivors insurance trust fund for such sums as were withdrawn to meet the additional cost (including administrative expenses) of such payments. The 1950 amendments, which provided noncontributory $160 monthly wage credits to persons who served in the Armed Forces during World War II, and the 1952, 1953, 1955, and 1956 amendments, which provided similar noncontributory credits on account of active military or naval service from July 25, 1947, through December 31, 1956, charged to the old-age and survivors insurance trust fund not only the additional costs arising from these credits but also, beginning September 1950, those additional costs arising under the 1946 amendments. The 1956 amendments provided contributory coverage for military personnel beginning January 1, 1957. In addition, these amendments authorized that the old-age and survivors insurance trust fund, and, where appropriate, the disability insurance trust fund be reimbursed from general revenues for expenditures after August 1950 resulting from the provisions that granted noncontributory $160 monthly wage credits to persons who served in the Armed Forces from September 16, 1940 through December 31, 1956, and from the provisions enacted in 1946. The existing statutory provisions that authorize the granting of noncontributory credits for military service and the financing of these credits are set forth in appendix III.

Payments to certain noninsured persons aged 72 and over.—Public Law 89-368, the Tax Adjustment Act of 1966, approved March 15, 1966, amended the Social Security Act to provide monthly payments, effective with benefits for October 1966, to certain noninsured persons aged 72 and over. Under the legislation, all payments are made initially from the old-age and survivors insurance trust fund. Provision is made for reimbursement from the general fund of the Treasury to the trust fund in each fiscal year, beginning in fiscal year 1969, on account of payments during the second preceding fiscal year to persons with less than 3 quarters of coverage. The reimbursement also includes the additional administrative expenses resulting from such payments and the loss of interest resulting from such payments and expenses. The statutory provisions authorizing payments to noninsured persons aged 72 and over and the financing of these payments are set forth in appendix III.

Coordination of old-age, survivors, and disability insurance and railroad retirement programs.—Public Law 234, approved October 30, 1951, amended the Railroad Retirement Act to provide a basis for coordinating the railroad retirement program with old-age and survivors insurance. This legislation provides that the railroad wage credits of workers who die or retire with less than 10 years of railroad employment shall be transferred to the old-age and survivors insurance system. These amendments did not affect workers who acquire 10 years or more of railroad service. That is, the survivors of over-10-year railroad workers will, as under the 1946 amendments to the Railroad Retirement Act, receive benefits under one program or the other based on combined wage records, while retirement benefits will be payable under both systems to individuals with 10 or more years of railroad service who also qualify under old-age and survivors insurance.

With respect to the allocation of costs between the two systems, Public Law 234 required the Railroad Retirement Board and the Secretary of Health, Education, and Welfare to "determine, no later than January 1, 1954, the amount which would place the Federal old-age and survivors insurance trust fund in the same position in which it would have been at the close of the fiscal year ending June 30, 1952, if service as an employee after December 31, 1936, had been included in the term 'employment' as defined in the Social Security Act and in the Federal Insurance Contributions Act."

The two agencies completed a series of joint actuarial studies and analyses required by this provision. The results show that the addition of $488 million to the old-age and survivors insurance trust fund would place it in the same position as of June 30, 1952, as it would have been if railroad employment had always been covered under the Social Security Act.

There is no authority in the law that would have permitted the transfer of the $488 million from the railroad retirement account to the trust fund, but the legislation provides that beginning with fiscal year 1953, and for each fiscal year thereafter, annual interest payments on this amount were to be transferred from the railroad retirement account to the trust fund.

The legislation further provides that at the close of the fiscal year 1953, and each fiscal year thereafter, annual reimbursements are to be effected between the railroad retirement account and the trust fund in such amounts as would, taking into consideration the amount determined for the period through June 30, 1952, place the trust fund at the end of the year in the same position in which it would have been if railroad employment were covered under the Social Security Act. If the reimbursement is from the trust fund to the railroad retirement account, the Secretary of Health, Education, and Welfare may offset the amount of such reimbursement against the amount determined for the period through June 30, 1952.

The Social Security Amendments of 1956 amended Public Law 234 to provide for similar annual determinations and financial interchanges between the railroad retirement account and the newly created disability insurance trust fund, beginning with the fiscal year ending June 30, 1958.

Investments.—Since the inception of the program, the Social Security Act has provided for the investment of funds which are not required to meet current disbursements. The funds may be invested only in interest-bearing obligations of the U.S. Government or in obligations guaranteed as to both principal and interest by 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. In addition, the Social Security Act authorizes the issuance of public-debt obligations for purchase by the trust funds. (These public-debt obligations, issued for purchase by the trust funds, have been referred to in the law in the past as "special obligations"; more popularly they are referred to as "special issues".)

The Social Security Act of 1935 specified that special issues should bear interest at the rate of 3 percent per annum, and that other obligations could be acquired only on such terms as to provide an investment yield of at least 3 percent per annum. The Social Security Act Amendments of 1939 provided that the special issues should bear interest at a rate equal to the average rate of interest, computed as of the end of the calendar month next preceding the date of their issue, borne by all interest bearing obligations of the United States forming a part of the public debt, such average rate being rounded down to the next lower one-eighth of 1 percent. The 1939 amendments also eliminated the requirement that obligations other than special obligations could be acquired only on such terms as to provide an investment yield of at least 3 percent per annum.

In recognition of the long-term character of the commitments of the trust funds, the Social Security Amendments of 1956 provided that the special issues should have maturities fixed with due regard for the needs of the funds, and that they should bear interest at a rate equal to the average rate of interest borne by all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable for 5 or more years from the date of original issue, such average rate being rounded to the nearest one-eighth of 1 percent. For several years preceding the enactment of the 1956 amendments, the special issues had a maximum duration from issue to maturity of 1 year. As a result of the provisions of the 1956 amendments described above, the maximum duration to maturity of the special issues was lengthened to 15 years.

The Social Security Amendments of 1960 provided that special issues acquired after enactment should 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 their issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable for 4 or more years from the time the special obligations are issued, such average market yield being rounded to the nearest one-eighth of 1 percent.

Appendix III. Selected Statutory Provisions Relating to the Trust Funds, as of June 30, 1966

(Sec. 201, sec. 217, sec. 218(e)(1), (h), and (j), sec. 222(d), sec. 228, and sec. 706 of the Social Security Act as amended)

FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND FEDERAL DISABILITY INSURANCE TRUST FUND

Sec. 201. (a) There is hereby created on the books of the Treasury of the United States a trust fund to be known as the "Federal Old-Age and Survivors Insurance Trust Fund". The Federal Old-Age and Survivors Insurance Trust Fund shall consist of the securities held by the Secretary of the Treasury for the Old-Age Reserve Account and the amount standing to the credit of the Old-Age Reserve Account on the books of the Treasury on January 1, 1940, which securities and amount the Secretary of the Treasury is authorized and directed to transfer to the Federal Old-Age and Survivors Insurance Trust Fund, and, in addition, such amounts as may be appropriated to, or deposited in, the Federal Old-Age and Survivors Insurance Trust Fund as hereinafter provided. There is hereby appropriated to the Federal Old-Age and Survivors Insurance Trust Fund for the fiscal year ending June 30, 1941, and for each fiscal year thereafter, out of any moneys in the Treasury not otherwise appropriated, amounts equivalent to 100 per centum of—

(1) the taxes (including interest, penalties, and additions to the taxes) received under subchapter A of chapter 9 of the Internal Revenue Code of 1939 (and covered into the Treasury) which are deposited into the Treasury by collectors of internal revenue before January 1, 1951; and

(2) the taxes certified each month by the Commissioner of Internal Revenue as taxes received under subchapter A of chapter 9 of such Code which are deposited into the Treasury by collectors of internal revenue after December 31, 1950, and before January 1, 1953, with respect to assessments of such taxes made before January 1, 1951; and

(3) the taxes imposed by subchapter A of chapter 9 of such Code with respect to wages (as defined in section 1426 of such Code), and by chapter 21 (other than sections 3101(b) and 3111(b)) of the Internal Revenue Code of 1954 with respect to wages (as defined in section 3121 of such Code) reported to the Commissioner of Internal Revenue pursuant to section 1420(c) of the Internal Revenue Code of 1939 after December 31, 1950, or to the Secretary of the Treasury or his delegates pursuant to subtitle F of the Internal Revenue Code of 1954 after December 31, 1954, as determined by the Secretary of the Treasury by applying the applicable rates of tax under such subchapter or chapter 21 (other than sections 3101(b) and 3111(b)) to such wages, which wages shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of wages established and maintained by such Secretary in accordance with such reports, less the amounts specified in clause (1) of subsection (b) of this section; and

(4) the taxes imposed by subchapter E of chapter 1 of the Internal Revenue Code of 1939, with respect to self-employment income (as defined in section 481 of such Code), and by chapter 2 (other than section 1401(b)) of the Internal Revenue Code of 1954 with respect to self-employment income (as defined in section 1402 of such Code) reported to the Commissioner of Internal Revenue on tax returns under such subchapter or to the Secretary of the Treasury, or his delegate on tax returns under subtitle F of such Code, as determined by the Secretary of the Treasury by applying the applicable rate of tax under such subchapter or chapter (other than section 1401(b)) to such self-employment income, which self-employment income shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of self-employment income established and maintained by the Secretary of Health, Education, and Welfare in accordance with such returns, less the amounts specified in clause (2) of subsection (b) of this section.

The amounts appropriated by clauses (3) and (4) shall be transferred from time to time from the general fund in the Treasury to the Federal Old-Age and Survivors Insurance Trust Fund, and the amounts appropriated by clauses (1) and (2) of subsection (b) shall be transferred from time to time from the general fund in the Treasury to the Federal Disability Insurance Trust Fund, such amounts to be determined on the basis of estimates by the Secretary of the Treasury of the taxes, specified in clauses (3) and (4) of this subsection, paid to or deposited into the Treasury; and proper adjustments shall be made in amounts subsequently transferred to the extent prior estimates were in excess of or were less than the taxes specified in such clauses (3) and (4) of this subsection.

(b) There is hereby created on the books of the Treasury of the United States a trust fund to be known as the "Federal Disability Insurance Trust Fund". The Federal Disability Insurance Trust Fund shall consist of such amounts as may be appropriated to, or deposited in, such fund as provided in this section. There is hereby appropriated to the Federal Disability Insurance Trust Fund for the fiscal year ending June 30, 1957, and for each fiscal year thereafter, out of any moneys in the Treasury not otherwise appropriated, amounts equivalent to 100 per centum of—

(1) ½ of 1 per centum of the wages (as defined in section 3121 of the Internal Revenue Code of 1954) paid after December 31, 1956, and before January 1, 1966, and reported to the Secretary of the Treasury or his delegate pursuant to subtitle F of the Internal Revenue Code of 1954, and 0.70 of 1 per centum of the wages (as so defined) paid after December 31, 1965, and so reported, which wages shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of wages established and maintained by such Secretary in accordance with such reports; and

(2) ⅜ of 1 per centum of the amount of self-employment income (as defined in section 1402 of the Internal Revenue Code of 1954) reported to the Secretary of the Treasury or his delegate on tax returns under subtitle F of the Internal Revenue Code of 1954 for any taxable year beginning after December 31, 1956, and before January 1, 1966, and 0.525 of 1 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1965, which self-employment income shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of self-employment income established and maintained by the Secretary of Health, Education, and Welfare in accordance with such returns.

(c) With respect to the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (hereinafter in this title called the "Trust Funds") there is hereby created a body to be known as the Board of Trustees of the Trust Funds (hereinafter in this title called the "Board of Trustees") which Board of Trustees shall be composed of the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare, all ex officio. The Secretary of the Treasury shall be the Managing Trustee of the Board of Trustees (hereinafter in this title called the "Managing Trustee"). The Commissioner of Social Security shall serve as Secretary of the Board of Trustees. The Board of Trustees shall meet not less frequently than once each calendar year. It shall be the duty of the Board of Trustees to—

(1) Hold the Trust Funds;

(2) Report to the Congress not later than the first day of March of each year on the operation and status of the Trust Funds during the preceding fiscal year and on their expected operation and status during the next ensuing five fiscal years;

(3) Report immediately to the Congress whenever the Board of Trustees is of the opinion that the amount of either of the Trust Funds is unduly small;

(4) Recommend improvements in administrative procedures and policies designed to effectuate the proper coordination of the old-age and survivors insurance and Federal-State unemployment compensation program; and

(5) Review the general policies followed in managing the Trust Funds, and recommend changes in such policies, including necessary changes in the provisions of the law which govern the way in which the Trust Funds are to be managed.

The report provided for in paragraph (2) above shall include a statement of the assets of, and the disbursements made from, the Trust Funds during the preceding fiscal year, an estimate of the expected future income to, and disbursements to be made from, the Trust Funds during each of the next ensuing five fiscal years, and a statement of the actuarial status of the Trust Funds. Such report shall be printed as a House document of the session of the Congress to which the report is made.

(d) It shall be the duty of the Managing Trustee to invest such portion of the Trust Funds as is not, in his judgment, required to meet current withdrawals. Such investments may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purpose such obligations may be acquired (1) on original issue at the issue price, or (2) by purchase of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of public-debt obligations for purchase by the Trust Funds. Such obligations issued for purchase by the Trust Funds shall have maturities fixed with due regard for the needs of the Trust Funds and shall bear interest at a rate equal to 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; except that where such average market yield is not a multiple of one-eighth of 1 per centum, the rate of interest of such obligations shall be the multiple of one-eighth of 1 per centum nearest such market yield. The Managing Trustee may purchase other interest-bearing obligations of the United States or obligations guaranteed as to both principal and interest by the United States, on original issue or at the market price, only where he determines that the purchase of such other obligations is in the public interest.

(e) Any obligations acquired by the Trust Funds (except public-debt obligations issued exclusively to the Trust Funds) may be sold by the Managing Trustee at the market price, and such public-debt obligations may be redeemed at par plus accrued interest.

(f) The interest on, and the proceeds from the sale or redemption of, any obligations held in the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund shall be credited to and form a part of the Federal Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund, respectively.

(g)(1)(A) There are authorized to be made available for expenditure, out of any or all of the Trust Funds (which for purposes of this paragraph shall include also the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund established by title XVIII), such amounts as the Congress may deem appropriate to pay the costs of the part of the administration of this title and title XVIII for which the Secretary of Health, Education, and Welfare is responsible. During each fiscal year or after the close of such fiscal year (or at both times), the Secretary of Health, Education, and Welfare shall analyze the costs of administration of this title and title XVIII during the appropriate part or all of such fiscal year in order to determine the portion of such costs which should be borne by each of the Trust Funds and shall certify to the Managing Trustee the amount, if any, which should be transferred among such Trust Funds in order to assure that each of the Trust Funds bears its proper share of the costs incurred during such fiscal year for the part of the administration of this title and title XVIII for which the Secretary of Health, Education, and Welfare is responsible. The Managing Trustee is authorized and directed to transfer any such amount (determined under the preceding sentence) among such Trust Funds in accordance with any certification so made.

(B) The Managing Trustee is directed to pay from the Trust Funds into the Treasury the amounts estimated by him which will be expended, out of moneys appropriated from the general funds in the Treasury, during each calendar quarter by the Treasury Department for the part of the administration of this title and title XVIII for which the Treasury Department is responsible and for the administration of chapters 2 and 21 of the Internal Revenue Code of 1954. Such payments shall be covered into the Treasury as repayment to the account for reimbursement of expenses incurred in connection with such administration of this title and title XVIII and chapters 2 and 21 of the Internal Revenue Code of 1954.

(2) The Managing Trustee is directed to pay from time to time from the Trust Funds into the Treasury the amount estimated by him as taxes imposed under section 3101(a) which are subject to refund under section 6413(c) of the Internal Revenue Code of 1954 with respect to wages (as defined in section 1426 of the Internal Revenue Code of 1939 and section 3121 of the Internal Revenue Code of 1954) paid after December 31, 1950. Such taxes shall be determined on the basis of the records of wages established and maintained by the Secretary of Health, Education, and Welfare in accordance with the wages reported to the Commissioner of Internal Revenue pursuant to section 1420(c) of the Internal Revenue Code of 1939 and to the Secretary of the Treasury or his delegate pursuant to subtitle F of the Internal Revenue Code of 1954, and the Secretary shall furnish the Managing Trustee such information as may be required by the Trustee for such purpose. The payments by the Managing Trustee shall be covered into the Treasury as repayments to the account for refunding internal revenue collections. Payments pursuant to the first sentence of this paragraph shall be made from the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund in the ratio in which amounts were appropriated to such Trust Funds under clause (3) of subsection (a) of this section and clause (1) of subsection (b) of this section.

(3) Repayments made under paragraph (1) or (2) shall not be available for expenditures but shall be carried to the surplus fund of the Treasury. If it subsequently appears that the estimates under either such paragraph in any particular period were too high or too low, appropriate adjustments shall be made by the Managing Trustee in future payments.

(h) Benefit payments required to be made under section 223, and benefit payments required to be made under subsection (b), (c), or (d) of section 202 to individuals entitled to benefits on the basis of the wages and self-employment income of an individual entitled to disability insurance benefits, shall be made only from the Federal Disability Insurance Trust Fund. All other benefit payments required to be made under this title (other than section 226) shall be made only from the Federal Old-Age and Survivors Insurance Trust Fund.

BENEFITS IN CASE OF VETERANS

SEC. 217. (a) (1) For purposes of determining entitlement to and the amount of any monthly benefit for any month after August 1950, or entitlement to and the amount of any lump-sum death payment in case of a death after such month, payable under this title on the basis of the wages and self-employment income of any World War II veteran, and for purposes of section 216(i) (3), such veteran shall be deemed to have been paid wages (in addition to the wages, if any, actually paid to him) of $160 in each month during any part of which he served in the active military or naval service of the United States during World War II. This subsection shall not be applicable in the case of any monthly benefit or lump-sum death payment if—

(A) a larger such benefit or payment, as the case may be, would be payable without its application; or

(B) a benefit (other than a benefit payable in a lump sum unless it is a commutation of, or a substitute for, periodic payments) which is based, in whole or in part, upon the active military or naval service of such veteran during World War II is determined by any agency or wholly owned instrumentality of the United States (other than the Veterans' Administration) to be payable by it under any other law of the United States or under a system established by such agency or instrumentality. The provisions of clause (B) shall not apply in the case of any monthly benefit or lump-sum death payment under this title if its application would reduce by $0.50 or less the primary insurance amount (as computed under section 215 prior to any recomputation thereof pursuant to subsection (f) of such section) of the individual on whose wages and self-employment income such benefit or payment is based. The provisions of clause (B) shall also not apply for purposes of section 216(i) (3).

(2) Upon application for benefits or a lump-sum death payment on the basis of the wages and self-employment income of any World War II veteran, the Secretary of Health, Education, and Welfare shall make a decision without regard to clause (B) of paragraph (1) of this subsection unless he has been notified by some other agency or instrumentality of the United States that, on the basis of the military or naval service of such veteran during World War II, a benefit described in clause (B) of paragraph (1) has been determined by such agency or instrumentality to be payable by it. If he has not been so notified, the Secretary of Health, Education, and Welfare shall then ascertain whether some other agency or wholly owned instrumentality of the United States has decided that a benefit described in clause (B) of paragraph (1) is payable by it. If any such agency or instrumentality has decided, or thereafter decides, that such a benefit is payable by it, it shall so notify the Secretary of Health, Education, and Welfare, and the Secretary shall certify no further benefits for payment or shall recompute the amount of any further benefits payable, as may be required by paragraph (1) of this subsection.

(3) Any agency or wholly owned instrumentality of the United States which is authorized by any law of the United States to pay benefits, or has a system of benefits which are based, in whole or in part, on military or naval service during World War II, shall, at the request of the Secretary of Health, Education, and Welfare, certify to him, with respect to any veteran, such information as the Secretary deems necessary to carry out his functions under paragraph (2) of this subsection.

(b)(1) Any World War II veteran who died during the period of three years immediately following his separation from the active military or naval service of the United States shall be deemed to have died a fully insured individual whose primary insurance amount is the amount determined under section 215(c). Notwithstanding section 215(d), the primary insurance benefit (for purposes of section 215(c)) of such veteran shall be determined as provided in this title as in effect prior to the enactment of this section, except that the 1 per centum addition provided for in section 209(e)(2) of this Act as in effect prior to the enactment of this section shall be applicable only with respect to calendar years prior to 1951. This subsection shall not be applicable in the case of any monthly benefit or lump-sum death payment if—

(A) a larger such benefit or payment, as the case may be, would be payable without its application;

(B) any pension or compensation is determined by the Veterans' Administration to be payable by it on the basis of the death of such veteran;

(C) the death of the veteran occurred while he was in the active military or naval service of the United States; or

(D) such veteran has been discharged or released from the active military or naval service of the United States subsequent to July 26, 1951.

(2) Upon an application for benefits or a lump-sum death payment on the basis of the wages and self-employment income of any World War II veteran, the Secretary of Health, Education, and Welfare shall make a decision without regard to paragraph (1)(B) of this subsection unless he has been notified by the Veterans' Administration that pension or compensation is determined to be payable by the Veterans' Administration by reason of the death of such veteran. The Secretary of Health, Education, and Welfare shall thereupon report such decision to the Veterans' Administration. If the Veterans' Administration in any such case has made an adjudication or thereafter makes an adjudication that any pension of compensation is payable under any law administered by it, it shall notify the Secretary of Health, Education, and Welfare, and the Secretary shall certify no further benefits for payment, or shall recompute the amount of any

further benefits payable, as may be required by paragraph (1) of this subsection to any individual, not exceeding the amount of any accrued pension or compensation payable to him by the Veterans' Administration, shall (notwithstanding the provisions of section 3101 of title 38, United States Code) be deemed to have been paid to him by such Administration on account of such accrued pension or compensation. No such payment certified by the Secretary of Health, Education, and Welfare, and no payment certified by him for any month prior to the first month for which any pension or compensation is paid by the Veterans' Administration shall be deemed by reason of this subsection to have been an erroneous payment.

(c) In the case of any World War II veteran to whom subsection (a) is applicable, proof of support required under section 202(h) may be filed by a parent at any period prior to July 1951 or prior to the expiration of two years after the date of the death of such veteran, whichever is the later.

(d) For the purposes of this section—

(1) The term "World War II" means the period beginning with September 16, 1940, and ending at the close of July 24, 1947.

(2) The term "World War II veteran" means any individual who served in the active military or naval service of the United States at any time during World War II and who, if discharged or released therefrom, was so discharged or released under conditions other than dishonorable after active service of ninety days or more or by reason of a disability or injury incurred or aggravated in service in line of duty; but such term shall not include any individual who died while in the active military or naval service of the United States if his death was inflicted (other than by an enemy of the United States) as lawful punishment for a military or naval offense.

(e)(1) For purposes of determining entitlement to and the amount of any monthly benefit or lump-sum death payment payable under this title on the basis of the wages and self-employment income of any veteran (as defined in paragraph (4)), and for purposes of section 216(i)(3), such veteran shall be deemed to have been paid wages (in addition to the wages, if any, actually paid to him) of $160 in each month during any part of which he served in the active military or naval service of the United States on or after July 25, 1947, and prior to January 1, 1957. This subsection shall not be applicable in the case of any monthly benefit or lump-sum death payment if—

(A) a larger such benefit or payment, as the case may be, would be payable without its application; or

(B) a benefit (other than a benefit payable in a lump sum unless it is a commutation of, or a substitute for, periodic payments) which is based, in whole or in part, upon the active military or naval service of such veteran on or after July 25, 1947, and prior to January 1, 1957, is determined by any agency or wholly owned instrumentality of the United States (other than the Veterans' Administration) to be payable by it under any other law of the United States or under a system established by such agency or instrumentality.

The provisions of clause (B) shall not apply in the case of any monthly benefit or lump-sum death payment under this title if its application would reduce by $0.50 or less the primary insurance amount (as computed under section 215 prior to any recomputation thereof pursuant to subsection (f) of such section) of the individual on whose wages and self-employment income such benefit or payment is based. The provisions of clause (B) shall also not apply for purposes of section 216(i)(3). In the case of monthly benefits under this title for months after December 1956 (and any lump-sum death payment under this title with respect to a death occurring after December 1956) based on the wages and self-employment income of a veteran who performed service (as a member of a uniformed service) to which the provisions of section 210(l)(1) are applicable, wages which would, but for the provisions of clause (B), be deemed under this subsection to have been paid to such veteran with respect to his active military or naval service performed after December 1950 shall be deemed to have been paid to him with respect to such service notwithstanding the provisions of such clause, but only if the benefits referred to in such clause which are based (in whole or in part) on such service are payable solely by the Army, Navy, Air Force, Marine Corps, Coast Guard, Coast and Geodetic Survey or Public Health Service.

(2) Upon application for benefits or a lump-sum death payment on the basis of the wages and self-employment income of any veteran, the Secretary of Health, Education, and Welfare shall make a decision without regard to clause (B) of paragraph (1) of this subsection unless he has been notified by some other agency

or instrumentality of the United States that, on the basis of the military or naval service of such veteran on or after July 25, 1947, and prior to January 1, 1957, a benefit described in clause (B) of paragraph (1) has been determined by such agency or instrumentality to be payable by it. If he has not been so notified, the Secretary of Health, Education, and Welfare shall then ascertain whether some other agency or wholly owned instrumentality of the United States has decided that a benefit described in clause (B) of paragraph (1) is payable by it. If any such agency or instrumentality has decided, or thereafter decides, that such a benefit is payable by it, it shall so notify the Secretary of Health, Education, and Welfare, and the Secretary shall certify no further benefits for payment or shall recompute the amount of any further benefits payable, as may be required by paragraph (1) of this subsection.

(3) Any agency or wholly owned instrumentality of the United States which is authorized by any law of the United States to pay benefits, or has a system of benefits which are based, in whole or in part, on military or naval service on or after July 25, 1947, and prior to January 1, 1957, shall, at the request of the Secretary of Health, Education, and Welfare, certify to him, with respect to any veteran, such information as the Secretary deems necessary to carry out his functions under paragraph (2) of this subsection.

(4) For the purposes of this subsection, the term "veteran" means any individual who served in the active military or naval service of the United States at any time on or after July 25, 1947, and prior to January 1, 1957, and who, if discharged or released therefrom, was so discharged or released under conditions other than dishonorable after active service of ninety days or more or by reason of a disability or injury incurred or aggravated in service in line of duty; but such term shall not include any individual who died while in the active military or naval service of the United States if his death was inflicted (other than by an enemy of the United States) as lawful punishment for a military or naval offense.

(f)(1) In any case where a World War II veteran (as defined in subsection (d)(2)) or a veteran (as defined in subsection (e)(4)) has died or shall hereafter die, and his widow or child is entitled under the Civil Service Retirement Act of May 29, 1930, as amended, to an annuity in the computation of which his active military or naval service was included, clause (B) of subsection (a)(1) or clause (B) of subsection (e)(1) shall not operate (solely by reason of such annuity) to make such subsection inapplicable in the case of any monthly benefit under section 202 which is based on his wages and self-employment income; except that no such widow or child shall be entitled under section 202 to any monthly benefit in the computation of which such service is included by reason of this subsection (A) unless such widow or child after December 1956 waives his or her right to receive such annuity, or (B) for any month prior to the first month with respect to which the Civil Service Commission certifies to the Secretary of Health, Education, and Welfare that (by reason of such waiver) no further annuity will be paid to such widow or child under such Act of May 29, 1930, as amended, on the basis of such veteran's military or civilian service. Any such waiver shall be irrevocable.

(2) Whenever a widow waives her right to receive such annuity such waiver shall constitute a waiver on her own behalf; a waiver by a legal guardian or guardians, or, in the absence of a legal guardian, the person (or persons) who has the child in his care, of the child's right to receive such annuity shall constitute a waiver on behalf of such child. Such a waiver with respect to an annuity based on a veteran's service shall be valid only if the widow and all children, or, if there is no widow, all the children, waive their rights to receive annuities under the Civil Service Retirement Act of May 29, 1930, as amended, based on such veteran's military or civilian service.

(g)(1) In September 1965, and in every fifth September thereafter up to and including September 2010, the Secretary shall determine the amount which, if paid in equal installments at the beginning of each fiscal year in the period beginning—

(A) with the July 1, 1965, in the case of the first such determination, and

(B) with the July 1 following the determination in the case of all other such determinations,

and ending with the close of June 30, 2015, would accumulate, with interest compounded annually, to an amount equal to the amount needed to place each of the Trust Funds and the Federal Hospital Insurance Trust Fund in the same position at the close of June 30, 2015, as he estimates they would otherwise be in at the close of that date if section 210 of this act as in effect prior to the Social Security Act Amendments of 1950, and this section, had not been enacted. The rate of interest to be used in determining such amount shall be the rate determined under section 201(d) for public-debt obligations which were or could have been issued for purchase by the Trust Funds in the June preceding the September in which such determination is made.

(2) There are authorized to be appropriated to the Trust Funds and the Federal Hospital Insurance Trust Fund—

(A) for the fiscal year ending June 30, 1966, an amount equal to the amount determined under paragraph (1) in September 1965, and

(B) for each fiscal year in the period beginning with July 1, 1966, and ending with the close of June 30, 2015, an amount equal to the annual installment for such fiscal year under the most recent determination under paragraph (1) which precedes such fiscal year.

(3) For the fiscal year ending June 30, 2016, there is authorized to be appropriated to the Trust Funds and the Federal Hospital Insurance Trust Fund such sums as the Secretary determines would place the Trust Funds and the Federal Hospital Insurance Trust Fund in the same position in which they would have been at the close of June 30, 2015, if section 210 of this Act, as in effect prior to the Social Security Act Amendments of 1950, and this section, had not been enacted.

(4) There are authorized to be appropriated to the Trust Funds and the Federal Hospital Insurance Trust Fund annually, as benefits under this title and part A of title XVIII are paid after June 30, 2015, such sums as the Secretary determines to be necessary to meet the additional costs, resulting from subsections (a), (b), and (e), of such benefits (including lump-sum death payments).

Gratuitous Wage Credits for American Citizens Who Served in the Armed Forces of Allied Countries

(h)(1) For the purposes of this section, any individual who the Secretary finds—

(A) served during World War II (as defined in subsection (d)(1)) in the active military or naval service of a country which was on September 16, 1940, at war with a country with which the United States was at war during World War II;

(B) entered into such active service on or before December 8, 1941;

(C) was a citizen of the United States throughout such period of service or lost his United States citizenship solely because of his entrance into such service;

(D) had resided in the United States for a period or periods aggregating four years during the five-year period ending on the day of, and was domiciled in the United States on the day of, such entrance into such active service; and

(E)(i) was discharged or released from such service under conditions other than dishonorable after active service of ninety days or more or by reason of a disability or injury incurred or aggravated in service in line of duty, or

(ii) died while in such service,

shall be considered a World War II veteran (as defined in subsection (d)(2)) and such service shall be considered to have been performed in the active military or naval service of the United States.

(2) In the case of any individual to whom paragraph (1) applies, proof of support required under section 202 (f) or (h) may be filed at any time prior to the expiration of two years after the date of such individual's death or the date of the enactment of this subsection, whichever is the later.

PAYMENTS AND REPORTS BY STATES

SEC. 218. (e)(1) Each agreement under this section shall provide—

(A) that the State will pay to the Secretary of the Treasury, at such time or times as the Secretary of Health, Education, and Welfare may by regulations prescribe, amounts equivalent to the sum of the taxes which would be imposed by sections 3101 and 3111 of the Internal Revenue Code of 1954 if the services of employees covered by the agreement constituted employment as defined in section 3121 of such Code; and

(B) that the State will comply with such regulations relating to payments and reports as the Secretary of Health, Education, and Welfare may prescribe to carry out the purposes of this section.

DEPOSITS IN TRUST FUND; ADJUSTMENTS

SEC. 218. (h)(1) All amounts received by the Secretary of the Treasury under an agreement made pursuant to this section shall be deposited in the Trust Funds and the Federal Hospital Insurance Trust Fund in the ratio in which amounts are appropriated to such Funds pursuant to subsection (a)(3) of section 201, subsection (b)(1) of such section, and subsection (a)(1) of section 1817, respectively.

(2) If more or less than the correct amount due under an agreement made pursuant to this section is paid with respect to any payment of remuneration, proper adjustments with respect to the amounts due under such agreement shall be made, without interest, in such manner and at such times as may be prescribed by regulations of the Secretary of Health, Education, and Welfare.

(3) If an overpayment cannot be adjusted under paragraph (2), the amount thereof and the time or times it is to be paid shall be certified by the Secretary of Health, Education, and Welfare to the Managing Trustee, and the Managing Trustee, through the Fiscal Service of the Treasury Department and prior to any action thereon by the General Accounting Office, shall make payment in accordance with such certification. The Managing Trustee shall not be held personally liable for any payment or payments made in accordance with a certification by the Secretary of Health, Education, and Welfare.

FAILURE TO MAKE PAYMENTS

SEC. 218. (j) In case any State does not make, at the time or times due, the payments provided for under an agreement pursuant to this section, there shall be added, as part of the amounts due, interest at the rate of 6 per centum per annum from the date due until paid, and the Secretary of Health, Education, and Welfare may, in his discretion deduct such amounts plus interest from any amounts certified by him to the Secretary of the Treasury for payment to such State under any other provision of this Act. Amounts so deducted shall be deemed to have been paid to the State under such other provision of this Act. Amounts equal to the amounts deducted under this subsection are hereby appropriated to the Trust Funds in the ratio in which amounts are deposited in such Funds pursuant to subsection (h)(1).

COSTS OF REHABILITATION SERVICES FROM TRUST FUNDS

SEC. 222. (d)(1) For the purpose of making vocational rehabilitation services more readily available to disabled individuals who are—

(A) entitled to disability insurance benefits under section 223, or

(B) entitled to child's insurance benefits under section 202(d) after having attained age 18 (and are under a disability), to the end that savings will result to the Trust Funds as a result of rehabilitating the maximum number of such individuals into productive activity, there are authorized to be transferred from the Trust Funds such sums as may be necessary to enable the Secretary to pay the costs of vocational rehabilitation services for such individuals (including (i) services during their waiting periods, and (ii) so much of the expenditures for the administration of any State plan as is attributable to carrying out this subsection); except that the total amount so made available pursuant to this subsection in any fiscal year may not exceed 1 percent of the total of the benefits under section 202(d) for children who have attained age 18 and are under a disability, and the benefits under section 223, which are certified for payment in the preceding year. The selection of individuals (including the order in which they shall be selected) to receive such services shall be made in accordance with criteria formulated by the Secretary which are based upon the effect the provision of such services would have upon the Trust Funds.

(2) In the case of each State which is willing to do so, such vocational rehabilitation services shall be furnished under a State plan for vocational rehabilitation services which—

(A) has been approved under section 5 of the Vocational Rehabilitation Act,

(B) provides that, to the extent funds provided under this subsection are adequate for the purpose, such services will be furnished, to any individual in the State who meets the criteria prescribed by the Secretary pursuant to paragraph (1), with reasonable promptness and in accordance with the order of selection determined under such criteria, and

(C) provides that such services will be furnished to any individual without regard to (i) his citizenship or place of residence, (ii) his need for financial assistance except as provided in regulations of the Secretary in the case of maintenance during rehabilitation, or (iii) any order of selection which would otherwise be followed under the State plan pursuant to section 5(a)(4) of the Vocational Rehabilitation Act.

(3) In the case of any State which does not have a plan which meets the requirements of paragraph (2), the Secretary may provide such services by agreement or contract with other public or private agencies, organizations, institutions, or individuals.

(4) Payments under this subsection may be made in installments, and in advance or by way or reimbursement, with necessary adjustments on account of overpayments or underpayments.

(5) Money paid from the Trust Funds under this subsection to pay the costs of providing services to individuals who are entitled to benefits under section 223 (including services during their waiting periods), or who are entitled to benefits under section 202(d) on the basis of the wages and self-employment income of such individuals shall be charged to the Federal Disability Insurance Trust Fund, and all other money paid out from the Trust Funds under this subsection shall be charged to the Federal Old-Age and Survivors Insurance Trust Fund. The Secretary shall determine according to such methods and procedures as he may deem appropriate—

(A) the total cost of the services provided under this subsection, and

(B) subject to the provisions of the preceding sentence, the amount of such cost which should be charged to each of such Trust Funds.

(6) For the purposes of this subsection the term "vocational rehabilitation services" shall have the meaning assigned to it in the Vocational Rehabilitation Act, except that such services may be limited in type, scope, or amount in accordance with regulations of the Secretary designed to achieve the purposes of this subsection.

BENEFITS AT AGE 72 FOR CERTAIN UNINSURED INDIVIDUALS

Eligibility

SEC. 228. (a) Every individual who—

(1) has attained the age of 72,

(2) (A) attained such age before 1968, or (B) has not less than 3 quarters of coverage, whenever acquired, for each calendar year elapsing after 1966 and before the year in which he attained such age,

(3) is a resident of the United States (as defined in subsection (e)), and is (A) a citizen of the United States or (B) an alien lawfully admitted for permanent residence who has resided in the United States (as defined in section 210(i)) continuously during the 5 years immediately preceding the month in which he files application under this section, and

(4) has filed application for benefits under this section,

shall (subject to the limitations in this section) be entitled to a benefit under this section for each month beginning with the first month after September 1966 in which he becomes so entitled to such benefits and ending with the month preceding the month in which he dies. No application under this section which is filed by an individual more than 3 months before the first month in which he meets the requirements of paragraphs (1), (2), and (3) shall be accepted as an application for purposes of this section.

Benefit Amount

(b)(1) Except as provided in paragraph (2), the benefit amount to which an individual is entitled under this section for any month shall be $35.

(2) If both husband and wife are entitled (or upon application would be entitled) to benefits under this section for any month, the amount of the husband's benefit for such month shall be $35 and the amount of the wife's benefit for such month shall be $17.50.

Reduction for Governmental Pension System Benefits

(c)(1) The benefit amount of any individual under this section for any month shall be reduced (but not below zero) by the amount of any periodic benefit under a governmental pension system for which he is eligible for such month.

(2) In the case of a husband and wife only one of whom is entitled to benefits under this section for any month, the benefit amount, after any reduction under paragraph (1), shall be further reduced (but not below zero) by the excess (if any) of (A) the total amount of any periodic benefits under governmental pension systems for which the spouse who is not entitled to benefits under this section is eligible for such month, over (B) $17.50.

(3) In the case of a husband and wife both of whom are entitled to benefits under this section for any month—

(A) the benefit amount of the wife, after any reduction under paragraph (1), shall be further reduced (but not below zero) by the excess (if any) of (i) the total mount of any periodic benefits under governmental pension systems for which the husband is eligible for such month, over (ii) $35, and

(B) the benefit amount of the husband, after any reduction under paragraph (1), shall be further reduced (but not below zero) by the excess (if any) of (i) the total amount of any periodic benefits under governmental pension systems for which the wife is eligible for such month, over (ii) $17.50.

(4) For purposes of this subsection, in determining whether an individual is eligible for periodic benefits under a governmental pension system—

(A) such individual shall be deemed to have filed application for such benefits,

(B) to the extent that entitlement depends on an application by such individual's spouse, such spouse shall be deemed to have filed application, and

(C) to the extent that entitlement depends on such individual or his spouse having retired, such individual and his spouse shall be deemed to have retired before the month for which the determination of eligibility is being made.

(5) For purposes of this subsection, if any periodic benefit is payable on any basis other than a calendar month, the Secretary shall allocate the amount of such benefit to the appropriate calendar months.

(6) If, under the foregoing provisions of this section, the amount payable for any month would be less than $1, such amount shall be reduced to zero. In the case of a husband and wife both of whom are entitled to benefits under this section for the month, the preceding sentence shall be applied with respect to the aggregate amount so payable for such month.

(7) If any benefit amount computed under the foregoing provisions of this section is not a multiple of $0.10, it shall be raised to the next higher multiple of $0.10.

(8) Under regulations prescribed by the Secretary, benefit payments under this section to an individual (or aggregate benefit payments under this section in the case of a husband and wife) of less than $5 may be accumulated until they equal or exceed $5.

Suspension for Months in Which Cash Payments Are Made Under Public Assistance

(d) The benefit to which any individual is entitled under this section for any month shall not be paid for such month if—

(1) such individual receives aid or assistance in the form of money payments in such month under a State plan approved under title I, IV, X, XIV, or XVI, or

(2) such individual's husband or wife receives such aid or assistance in such month, and under the State plan the needs of such individual were taken into account in determining eligibility for (or amount of) such aid or assistance,

unless the State agency administering or supervising the administration of such plan notifies the Secretary, at such time and in such manner as may be prescribed in accordance with regulations of the Secretary, that such payments to such individual (or such individual's husband or wife) under such plan are being terminated with the payment or payments made in such month.

Suspension Where Individual Is Residing Outside the United States

(e) The benefit to which any individual is entitled under this section for any month shall not be paid if, during such month, such individual is not a resident of the United States. For purposes of this subsection, the term "United States" means the 50 States and the District of Columbia.

Treatment as Monthly Insurance Benefits

(f) For purposes of subsections (t) and (u) of section 202, and of section 1840, a monthly benefit under this section shall be treated as a monthly insurance benefit payable under section 202.

Annual Reimbursement of Federal Old-Age and Survivors Insurance Trust Fund

(g) There are authorized to be appropriated to the Federal Old-Age and Survivors Insurance Trust Fund for the fiscal year ending June 30, 1969, and for each fiscal year thereafter, such sums as the Secretary of Health, Education, and Welfare deems necessary on account of—

(1) payments made under this section during the second preceding fiscal year and all fiscal years prior thereto to individuals who, as of the beginning of the calendar year in which falls the month for which payment was made, had less than 3 quarters of coverage,

(2) the additional administrative expenses resulting from the payments described in paragraph (1), and

(3) any loss in interest to such Trust Fund resulting from such payments and expenses,

in order to place such Trust Fund in the same position at the end of such fiscal year as it would have been in if such payments had not been made.

Definitions

(h) For purposes of this section—

(1) The term "quarter of coverage" includes a quarter of coverage as defined in section 5(l) of the Railroad Retirement Act of 1937.

(2) The term "governmental pension system" means the insurance system established by this title or any other system or fund established by the United States, a State, any political subdivision of a State, or any wholly owned instrumentality of any one or more of the foregoing which provides for payment of (A) pensions, (B) retirement or retired pay, or (C) annuities or similar amounts payable on account of personal services performed by any individual (not including any payment under any workmen's compensation law or any payment by the Veterans' Administration as compensation for service-connected disability or death).

(3) The term "periodic benefit" includes a benefit payable in a lump sum if it is a commutation of, or a substitute for, periodic payments.

(4) The determination of whether an individual is a husband or wife for any month shall be made under subsection (h) of section 216 without regard to subsections (b) and (f) of section 216.

ADVISORY COUNCIL ON SOCIAL SECURITY

SEC. 706. (a) During 1968 and every fifth year thereafter, the Secretary shall appoint an Advisory Council on Social Security for the purpose of reviewing the status of the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, the Federal Hospital Insurance Trust Fund, and the Federal Supplementary Medical Insurance Trust Fund in relation to the long-term commitments of the old-age, survivors, and disability insurance program and the programs under parts A and B of title XVIII, and of reviewing the scope of coverage and the adequacy of benefits under, and all other aspects of, these programs, including their impact on the public assistance programs under this Act.

(b) Each such Council shall consist of the Commissioner of Social Security, as Chairman, and 12 other persons, appointed by the Secretary without regard to the civil service laws. The appointed members shall, to the extent possible, represent organizations of employers and employees in equal numbers, and represent self-employed persons and the public.

(c)(1) Any Council appointed hereunder is authorized to engage such technical assistance, including actuarial services, as may be required to carry out its functions, and the Secretary shall, in addition, make available to such Council such secretarial, clerical, and other assistance and such actuarial and other pertinent data prepared by the Department of Health, Education, and Welfare as it may require to carry out such functions.

(2) Appointed members of any such Council, while serving on business of the Council (inclusive of travel time), shall receive compensation at rates fixed by the Secretary, but not exceeding $100 per day and, while so serving away from their homes or regular places of business, they may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by section 5 of the Administrative Expenses Act of 1946 (5 U.S.C. 73b–2) for persons in the Government employed intermittently.

(d) Each such Council shall submit reports of its findings and recommendations to the Secretary not later than January 1 of the second year after the year in which it is appointed, and such reports and recommendations shall thereupon be transmitted to the Congress and to the Board of Trustees of each of the Trust Funds. The reports required by this subsection shall include—

(1) a separate report with respect to the old-age, survivors, and disability insurance program under title II and of the taxes imposed under sections 1401(a), 3101(a), and 3111(a) of the Internal Revenue Code of 1954,

(2) a separate report with respect to the hospital insurance program under part A of title XVIII and of the taxes imposed by sections 1401(b), 3101(b), and 3111(b) of the Internal Revenue Code of 1954, and

(3) a separate report with respect to the supplementary medical insurance program established by part B of title XVIII and of the financing thereof.

After the date of the transmittal to the Congress of the reports required by this subsection, the Council shall cease to exist.