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ADDITIONAL INTEREST EARNINGS OF OASDI TRUST FUNDS RESULTING FROM CHANGED INTEREST RATE PROVIDED IN 1960 AMENDMENTS

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This note is the second in an annual series of notes that analyze the interest earnings of the OASDI Trust Funds with regard to the effect of statutory changes in the basis of determining the interest rate for special issues. *In summary, the change made by the 1960 Amendments has benefited the trust funds by about \$97 million in fiscal years 1961-65.*

The 1960 amendments provided that the rate for special issues would be based on the average market-yield rate, computed as of the end of the preceding month, for all marketable interest-bearing obligations not due or callable for at least 4 years. Comparison is made with the interest rate provided by the 1956 amendments, which was based on the average coupon rate of securities issued for at least 5 years, and with the interest rate provided by the 1939 amendments, which was based on the average coupon rate of all interest-bearing obligations. Table 1 shows the three interest rates, by months, from the effective date of the 1960 amendments to June 1965.

The special investments issued for the trust funds mature on June 30, and consist of one-year (or less) certificates, one- to five-year notes, and bonds with maturities up to 15 years. Generally, investments in notes and bonds are made only at the end of the fiscal year, on June 30. Special certificates are issued three times a month throughout the year. Investments are liquidated on the last day of the month to provide funds for benefit payments. Certificates are liquidated first, then notes and bonds in order of maturity date, with the lower interest rate issues redeemed first.

The pattern of investments in and redemptions of special issues has been studied during the period October 1960 through June 1965. With respect to special certificates issued during a fiscal year and maturing on June 30 next, interest earnings are included in this study only for certificates held at least one full month; that is, interest on certificates issued in a month and liquidated on the last day of that month is excluded. Thus, the estimates of the added interest earnings on these certificates are understated, and the amount of gain shown represents a minimum. As to longer-term issues in notes and bonds, interest earnings are based on the actual period that the securities were held, with liquidation assumed to occur on the last day of the month.

Table 2 summarizes the holdings in special issues as of October 31, 1960, and at the end of each of the fiscal years 1961-65. Because both trust funds have been decreasing over much of this period, it has been necessary to liquidate notes and bonds during the year, and these liquidations have been largely in issues at $2\frac{1}{2}\%$ and $2-5/8\%$. Receipts are high in the early part of the year, particularly in February and May, and thus funds are usually available for long-term investment on June 30. Most of the investments in the higher interest rate issues mature in 1975 or later, so that these issues will continue to be held, and the lower interest rate issues with earlier maturity dates will be liquidated first. At the end of October 1965, no notes were held by either fund, while the bonds with the earliest maturity date were $2-5/8\%$ 1968 bonds for the OASI Trust Fund and $2-5/8\%$ 1972 bonds for the DI Trust Fund.

Table 3 shows the effect of the 1960 change, by fiscal years and by type of special issue. In the first fiscal year, 1961, additional interest earnings were realized only on certificates. Investments on June 30, 1961, in notes and bonds at $3\frac{3}{4}\%$ that were held for the entire fiscal year 1962, resulted in substantial gains for that year. For the OASI Trust Fund, the entire investment was in bonds maturing in 1975 and 1976, while for the DI Trust Fund, a part of the investment was in 2-5 year notes, and the remainder was in bonds maturing annually from 1967 to 1976.

On June 30, 1962, most of the OASI funds available for investment were held in 1-year certificates, with a small amount in 2-year notes, which were liquidated during fiscal 1963. For the DI Trust Fund, the amount of $3\frac{3}{4}\%$ special issues maturing in each year from 1964 to 1976 was increased and bonds maturing in 1977 were added. During fiscal 1963, nearly one-third of the notes issued June 30, 1961 for the DI Trust Fund were liquidated.

On June 30, 1963, the only long-term investment for both funds was in $3\text{-}7/8\%$ bonds maturing June 30, 1977 and 1978. During the succeeding fiscal year, liquidations in the OASI Trust Fund were in $2\frac{1}{2}\%$ and $2\text{-}5/8\%$ bonds with maturity dates to June 30, 1966, while for the DI Trust Fund substantially all of the remaining $3\frac{3}{4}\%$ notes issued on June 30, 1961-62, as well as $2\frac{1}{2}\%$ and $2\text{-}5/8\%$ bonds, were liquidated.

On June 30, 1964, $4\text{-}1/8\%$ bonds maturing June 30, 1979 were issued for both funds. In addition, for the OASI Trust Fund, almost \$598 million in 2-year notes was issued on June 30, 1964, but was liquidated during the next month. Other liquida-

tions in the OASI Trust Fund during fiscal 1965 were in $2\frac{1}{2}\%$ and $2\text{-}5/8\%$ bonds maturing on June 30, 1966 and 1967. For the DI Trust Fund, liquidations consisted of the remaining $3\frac{3}{4}\%$ notes issued June 30, 1962; most of the $2\frac{1}{2}\%$ and $2\text{-}5/8\%$ bonds with maturity dates up to June 30, 1970; and a small portion of the $3\frac{3}{4}\%$ bonds issued on June 30, 1961 and 1962.

On June 30, 1965, for the OASI Trust Fund, \$1,080 million was invested in $4\text{-}1/8\%$ bonds maturing June 30, 1980; \$1,032 million in $4\text{-}1/8\%$ 2-year notes; and \$141 million in 1-year certificates. For the DI Trust Fund, the only investment on June 30, 1965 was in $4\text{-}1/8\%$ bonds maturing June 30, 1979 and 1980. As of the end of October 1965, the OASI Trust Fund held \$5.6 billion in $3\frac{3}{4}\%$, $3\text{-}7/8\%$, and $4\text{-}1/8\%$ bonds maturing 1975-80, so that these investments will probably continue to be held, while $2\text{-}5/8\%$ bonds with earlier maturities will be available for liquidation if necessary. The DI Trust Fund held about \$21 million in $3\frac{3}{4}\%$ bonds maturing 1972-75, and if necessary these bonds may be liquidated along with bonds at lower rates maturing at the same time.

As shown in Table 3, the additional interest earnings during the 5 fiscal years since the change was made have aggregated \$97 million, and for fiscal year 1966 are estimated to be about \$45 million.

Table 4 makes a similar comparison using the interest rates under the 1939 amendments. A slightly smaller gain is shown, due to the fact that the 1939 rate has equaled or exceeded the 1956 rate during all of the period except the 5 months April-August 1963.

Table 1

EFFECTIVE INTEREST RATES COMPARED WITH RATES UNDER PROVISIONS
OF 1956 AMENDMENTS AND 1939 AMENDMENTS

	<u>Period</u>	<u>Effective Rate</u>	<u>1956 Rate</u>	<u>1939 Rate</u>	
1960	October	3.625%	2.625%	3.125%	
	November	3.750	2.750	3.125	
	December	4.000	2.750	3.125	
1961	January	3.625	2.750	3.125	
	February	3.750	2.750	3.000	
	March	3.625	2.750	3.000	
	April	3.750	2.875	3.000	
	May	3.625	2.875	3.000	
	June	3.750	2.875	3.000	
	July-August	3.875	2.875	3.000	
	September	4.000	2.875	3.000	
	October-November	3.875	2.875	3.000	
	December	4.000	3.000	3.000	
	1962	January-February	4.000	3.000	3.125
March		3.875	3.000	3.125	
April		3.750	3.000	3.125	
May-June		3.750	3.125	3.125	
July		3.875	3.125	3.125	
August		4.000	3.125	3.125	
September		4.000	3.125	3.250	
October		3.875	3.125	3.250	
November		3.750	3.125	3.250	
December		3.750	3.250	3.250	
1963		January-February	3.750	3.250	3.250
		March	3.875	3.250	3.250
	April-August	3.875	3.375	3.250	
	September-October	4.000	3.375	3.375	
	November	4.125	3.375	3.375	
	December	4.000	3.375	3.375	
1964	January	4.125	3.375	3.375	
	February-March	4.125	3.500	3.500	
	April	4.250	3.500	3.500	
	May-December	4.125	3.500	3.500	
1965	January	4.125	3.500	3.500	
	February-June	4.125	3.625	3.625	

Table 2

INVESTMENTS IN SPECIAL ISSUES HELD ON VARIOUS DATES
(in millions)

Type of Investment	Oct. 31 1960	June 30				
		1961	1962	1963	1964	1965
OASI Trust Fund						
Total	\$15,816	\$16,200	\$15,074	\$14,221	\$14,799	\$15,261
Certificates	167	441	1,080	—	—	141
Notes	1,934	1,387	257	—	598	1,032
Bonds	13,715	14,372	13,737	14,221	14,201	14,088
2-1/2%	4,825	4,560	3,925	2,671	1,324	412
2-5/8%	8,890	8,572	8,572	8,572	8,397	8,116
3-3/4%	—	1,240	1,240	1,240	1,240	1,240
3-7/8%	—	—	—	1,738	1,738	1,738
4-1/8%	—	—	—	—	1,502	2,582
DI Trust Fund						
Total	\$ 2,092	\$ 2,299	\$ 2,304	\$ 2,165	\$ 1,903	\$ 1,563
Certificates	232	34	1	6	—	—
Notes	386	464	336	84	1	—
Bonds	1,474	1,801	1,967	2,076	1,901	1,563
2-1/2%	188	188	188	142	30	—
2-5/8%	1,287	1,287	1,287	1,287	1,092	698
3-3/4%	—	327	493	493	493	432
3-7/8%	—	—	—	154	154	154
4-1/8%	—	—	—	—	133	279

Table 3

ADDITIONAL INTEREST EARNINGS, EFFECTIVE RATE OVER
RATE PROVIDED BY 1956 AMENDMENTS
(in thousands)

<u>Fiscal Year</u>	<u>Certificates</u>	<u>Notes</u>	<u>Bonds</u>	<u>Total</u>
		OASI Trust Fund		
1961	\$1,227	—	—	\$ 1,227
1962	1,621	—	\$10,851	12,472
1963	1,148	\$ 324	10,851	12,323
1964	1,090	—	19,543	20,633
1965	939	311	28,928	30,178
Total	6,025	635	70,173	76,833
		DI Trust Fund		
1961	\$1,447	—	—	\$ 1,447
1962	585	\$ 679	\$2,859	4,123
1963	229	570	3,895	4,694
1964	51	193	4,663	4,907
1965	50	3	5,188	5,241
Total	2,362	1,445	16,605	20,412

Table 4

ADDITIONAL INTEREST EARNINGS, EFFECTIVE RATE OVER
RATE PROVIDED BY 1939 AMENDMENTS
(in thousands)

<u>Fiscal Year</u>	<u>Certificates</u>	<u>Notes</u>	<u>Bonds</u>	<u>Total</u>
	OASI Trust Fund			
1961	\$1,032	—	—	\$ 1,032
1962	1,502	—	\$ 9,301	10,803
1963	1,329	\$ 324	9,301	10,954
1964	1,090	—	20,166	21,256
1965	939	311	29,551	30,801
Total	5,892	635	68,319	74,846
	DI Trust Fund			
1961	\$1,016	—	—	\$ 1,016
1962	521	\$ 582	\$ 2,451	3,554
1963	240	494	3,487	4,221
1964	51	168	4,447	4,666
1965	50	3	5,016	5,069
Total	1,878	1,247	15,401	18,526