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1970 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

LETTER

FROM

BOARD OF TRUSTEES

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

TRANSMITTING

THE 1970 ANNUAL REPORT OF THE BOARD (30TH REPORT), PURSUANT TO THE PROVISIONS OF SECTION 201(c) OF THE SOCIAL SECURITY ACT, AS AMENDED

APRIL 2, 1970.—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., April 1, 1970.

The Speaker of the House of Representatives,
Washington, D.C.

Sir; We have the honor to transmit to you the 1970 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 30th such report), in compliance with the provisions of section 201(c) of the Social Security Act, as amended.

Respectfully,

David M. Kennedy,
Secretary of the Treasury,
and Managing Trustee of the Trust Funds.

George P. Shultz,
Secretary of Labor.

Robert H. Finch,
Secretary of Health, Education, and Welfare.

Robert M. Ball,
Commissioner of Social Security
and Secretary, Board of Trustees.

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1970 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

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

ADVISORY COUNCIL ON SOCIAL SECURITY

The Secretary of Health, Education, and Welfare on May 22, 1969, announced the appointment of an Advisory Council on Social Security in compliance with the provisions of section 706 of the Social Security Act. The Council, which consists of a Chairman and 12 members representing organizations of employers, and of employees, self-employed persons, and the public, is making a comprehensive study of the old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance programs.

The Council is required to review the status of the old-age and survivors insurance trust fund, the disability insurance trust fund, the hospital insurance trust fund, and the supplementary medical insurance trust fund in relation to the long-term commitments of the programs. The Council is reviewing the scope of coverage, the adequacy of benefits, and all other aspects of these four programs, including their impact on public assistance. The Council must submit its final report to the Congress and to the Board of Trustees of each of the trust funds no later than January 1, 1971, after which date the Council will cease to exist. The Council's report and recommendations with respect to the old-age, survivors, and disability insurance program will be included in the next annual report of the Board of Trustees.

FISCAL YEAR HIGHLIGHTS

Both benefit payments and contributions for the old-age and survivors insurance trust fund and the disability insurance trust fund continued to rise during fiscal year 1969, reaching higher levels than in any previous year. The number of persons receiving monthly benefits under the old-age, survivors, and disability insurance program increased to 24.9 million by the end of June 1969. There were an estimated 89 million workers who had earnings in calendar year 1968 that were taxable and creditable toward benefits under the program, another record high.

For the old-age and survivors insurance trust fund, contributions in fiscal year 1969 amounted to $25,953 million and were significantly larger—15 percent—than in the previous fiscal year, reflecting (1) the impact of the provision in the 1967 amendments that increased the amount of annual earnings taxable and creditable toward benefits from $6,600 to $7,800, effective on January 1, 1968, (2) the increase in the contribution rates for employees and employers, from 3.325 percent of taxable earnings to 3.725 percent each, and for the self-employed, from 5.0875 to 5.5875 percent, effective on January 1, 1969, and (3) the higher level of employment and taxable earnings. The increase in contributions would have been larger, however, had it not been for (1) a decrease in the portion of the total contribution rate that is allocated to the old-age and survivors insurance trust fund, effective on January 1, 1968, and (2) an acceleration in the schedule of transfers from the old-age and survivors insurance trust fund into the general fund of 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.

Total receipts of the old-age and survivors insurance trust fund amounted to $27,348 million in fiscal year 1969. In addition to contributions, receipts consisted of $1,014 million in interest and $382 million reimbursed from the general fund of the Treasury for the costs of (1) benefits based on noncontributory credits for military service and (2) payments to certain noninsured persons aged 72 and over who have less than three quarters of coverage.

Total disbursements from the old-age and survivors insurance trust fund in fiscal year 1969 amounted to $24,690 million. Of this amount, $23,732 million was paid out for benefits, an increase of about 14 percent over benefit payments in fiscal year 1968. This increase was due primarily to (1) the general benefit increase provided by the 1967 amendments that was effective beginning February 1968 and (2) the growth in the number of persons receiving benefits.

The remaining disbursements consisted of $491 million transferred to the railroad retirement account under the financial interchange provisions of the Railroad Retirement Act, $465 million for administrative expenses, and $1.8 million for the cost of vocational rehabilitation services furnished to disabled adults receiving benefits from the old-age and survivors insurance trust fund on the basis of a disability that, except in the case of disabled widows and widowers, has continued since childhood.

The excess of total income over total outgo, amounting to $2,658 million, increased the total assets of the old-age and survivors insurance trust fund from $25,533 million on June 30, 1968 to $28,191 million on June 30, 1969.

The number of persons receiving monthly benefits from the old-age and survivors insurance trust fund at the end of the fiscal year was 22,471,000, about 3 percent more than at the beginning of the year.

Some 15,738,000 of these persons were retired workers and their dependents, 6,098,000 were survivors of deceased workers, and 635,000 were noninsured persons aged 72 and over.

For the disability insurance trust fund, total receipts in fiscal year 1969 amounted to $3,705 million. Of this amount, contributions amounted to $3,532 million, nearly 31 percent more than in fiscal year 1968. This increase was partly due to the larger allocation of contributions to the disability insurance trust fund that went into effect on January 1, 1968, and was thus effective during all of fiscal year 1969. The remaining receipts consisted of $141 million in interest and $32 million reimbursed from the general fund of the Treasury for the costs of benefits based on noncontributory credits for military service.

Total disbursements from the disability insurance trust fund in fiscal year 1969 amounted to $2,613 million. Benefit payments of $2,443 million were about 17 percent higher than in the previous year. About $21 million was transferred to the railroad retirement account. The remaining disbursements were composed of $133 million for administrative expenses and $15 million for the cost of vocational rehabilitation services furnished to disabled beneficiaries.

The excess of total income over total outgo, amounting to $1,092 million, increased the total assets of the disability insurance trust fund from $2,585 million on June 30, 1968 to $3,678 million on June 30, 1969.

The number of disabled workers and their dependents receiving monthly benefits from the disability insurance trust fund increased to 2,407,000 by the end of fiscal year 1969, about 7 percent more than at the beginning of the year.

After the close of fiscal year 1969, Congress amended the Social Security Act, providing an across-the-board increase of 15 percent in benefit amounts payable under the old-age, survivors, and disability insurance program. Long-range cost estimates that had been recently completed showed a favorable actuarial balance of 1.16 percent of taxable payroll for the cash benefits program. This balance was sufficient to cover the cost of the 15-percent benefit increase without raising the total contribution rates under the schedule as in effect before the 1969 amendments. However, the allocation of contribution income between the old-age and survivors insurance and disability insurance trust funds was revised as a result of the 15-percent benefit increase, because the former trust fund showed a relatively large positive actuarial balance before the increase, while the latter trust fund was then in close balance. The revised allocation thus continued to reflect the intent of Congress that each of these two cash benefit programs be self-supporting on a long-range basis. The provisions of the 1969 amendments are described more fully in another section of this report, and their effects are taken into account in the actuarial cost estimates presented in this report.

For the old-age and survivors insurance trust fund, estimates for the 5 fiscal years 1970–74 show that although both receipts and disbursements will increase steadily, receipts will rise more rapidly, due to 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 1974, this trust fund will amount to an estimated $62.5 billion, or an increase of $34.4 billion in the 5-year period. Receipts during fiscal year 1974 are estimated to total $46 billion, and disbursements are estimated at $34.3 billion.

Medium-range estimates, based on the assumption that economic activity will continue to expand throughout the period 1970–85, 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 $282 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 $163 billion by 1985.

Long-range cost estimates for the old-age and survivors insurance program indicate that the program is in close actuarial balance. The level-cost of the program, estimated over a period of 75 years, ranges from 8.39 percent to 9.43 percent of taxable payroll. The intermediate-cost estimate is 8.86 percent of taxable payroll, as compared with the level-equivalent of the graded schedule of contributions of 8.78 percent of taxable payroll.

According to estimates for the 5 fiscal years 1970–74, income of the disability insurance trust fund will rise more rapidly than disbursements due to the increase, effective in calendar year 1970, 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 $12.2 billion by the end of fiscal year 1974, an increase of $8.5 billion in the 5-year period.

According to the medium-range estimates, the assets of the disability insurance trust fund will increase rapidly, reaching $44 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 rise less rapidly, reaching a total of $30 billion by 1985.

According to long-range estimates for the disability insurance program, the level-cost, calculated over a 75-year period, ranges from 0.94 percent to 1.27 percent of taxable payroll. The intermediate-cost estimate is 1.10 percent of taxable payroll, the same as the level contribution rate that is allocated to this trust fund.

Two health insurance programs for persons aged 65 and over are related to the old-age, survivors, and disability insurance program: the hospital insurance program, which provides protection against the costs of hospital and related care, and the supplementary medical insurance program, which provides protection against the costs of certain medical and other health services (principally physicians' services). Each of these programs is financed through the operation of a separate trust fund. Summary descriptions of the provisions of, as well as statements of financial operations and actuarial cost estimates for, these two programs are contained in separate reports of the Boards of Trustees of the trust funds of these programs.

Social Security Amendments of 1969

The Tax Reform Act of 1969 (Public Law 91–172, approved December 30, 1969) amended both the Internal Revenue Code and the Social Security Act. The amendments provide an increase in benefits that affects significantly both the immediate and long-range future levels of disbursements under the old-age, survivors, and disability insurance program. The schedule of contribution rates in prior law was retained, but the allocation of contribution income between the old-age and survivors insurance and disability insurance trust funds was revised to continue to reflect the intent that each of these two cash benefits programs be self-supporting.

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

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

 (*a*) Benefit amounts were increased by 15 percent, effective with benefits for January 1970. Except for certain beneficiaries aged 72 and over, the minimum primary insurance amount was increased from $55 to $64 per month. The maximum primary insurance amount of $218 that would have been payable under the law as in effect before the 1969 amendments was increased to $250.70.

 (*b*) The minimum full-rate benefit for a family containing only one survivor beneficiary is $64 per month (except in the case of a transitional insured widow aged 72 or over).

 (*c*) The limitation in prior law of $105 per month on the amount of the wife's or husband's benefit is eliminated.

 (*d*) Effective January 1970, monthly benefits for transitional insured persons aged 72 and over were raised from $40 to $46 in the case of a worker or widow beneficiary, and from $20 to $23 in the case of a wife beneficiary.

 (*e*) Effective January 1970, monthly benefits for transitional noninsured persons aged 72 and over were raised from $40 to $46 in the case of a single beneficiary, and from $60 to $69 in the case of a couple. As under prior law, all of these 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 those noninsured persons who have less than three quarters of coverage.

2. Changes relating to the financing of the old-age and survivors insurance program and the disability insurance program were made with the intent of assuring that each of these two programs will continue to be self-supporting.

Long-range cost estimates that were recently completed showed an actuarial balance of 1.16 percent of taxable payroll. This favorable balance was sufficient to cover the cost of the 15-percent benefit increase without raising contribution rates under the schedule as in effect before the 1969 amendments and to continue to maintain the old-age, survivors, and disability insurance system on a financially sound basis.

The amendments increased the portion of the contribution rate allocated to finance benefits from the disability insurance trust fund. Effective January 1, 1970, the allocated rate was increased from 0.475 percent to 0.55 percent each for employees and employers. For the self-employed, the allocated rate was increased from 0.7125 percent to 0.825 percent.

Table 1 presents an estimate of the effect, expressed as level-costs in percent of taxable earnings, of the changes in the old-age, survivors, and disability insurance program that were made by the 1969 amendments.

TABLE 1.—CHANGES IN ESTIMATED LEVEL-COSTS AS PERCENT OF TAXABLE EARNINGS, BY TYPE OF CHANGE, INTERMEDIATE-COST ESTIMATE, 4.75 PERCENT INTEREST

Item	Old-age and survivors insurance	Disability insurance	Total system
Total cost of program in effect before 1969 amendments [1]	7.76	.96	8.72
Effect of 15-percent increase in level of benefits	1.10	.14	1.24
Total cost after enactment of 1969 amendments [1]	8.86	1.10	9.96
Level-equivalent of graded tax schedule before 1969 amendments [2]	8.93	.95	9.88
Effect of revised allocation of contribution rate	-.15	+.15	0
Level-equivalent of graded tax schedule after enactment of 1969 amendments [2]	8.78	1.10	9.88
Actuarial balance	-.08	0	-.08

[1] Based on valuation date of Jan. 1, 1970. Taken into account are (a) lower contribution rate on self-employment income and on tips, as compared with combined employer-employee rate; (b) administrative expenses; (c) interest on trust funds on hand as of Dec. 31, 1969; (d) reimbursement for additional cost of noncontributory credits for military service; and (e) net cost of the financial interchange with the railroad retirement system.

[2] Adjusted to reflect lower contribution rate on self-employment income and on tips, as compared with combined employer-employee rate.

NATURE OF THE TRUST FUNDS

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

The major sources of receipts of these two funds are (1) amounts appropriated to each of them under permanent appropriation on the basis of contributions paid by the workers and their employers, and by individuals with self-employment income, in work covered by the old-age, survivors, and disability insurance program and (2) amounts deposited in each of them representing contributions paid by workers employed by State and local governments and by such employers with respect to work covered by the program. All employees, and their employers, in employment covered by the program are required to pay contributions with respect to the wages of individual workers (cash tips, covered as wages beginning in 1966 under the 1965 amendments, are an exception to this; employees pay contributions with respect to cash tips, but employers do not). All covered self-employed persons are required to pay contributions with respect to their self-employment income. In general, beginning with calendar year 1968, 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 $7,800, with the contributions being determined first on the wages and then on any self-employment income necessary to make up the annual maximum amount.

The contribution rate for old-age, survivors, and disability insurance for employees and their employers of 3.8 percent each that was in effect in calendar year 1968 increased to 4.2 percent each on January 1, 1969; the contribution rate for the self-employed increased from 5.8 percent to 6.3 percent. The contribution rates that have been in effect since 1937 and the maximum amount of annual earnings to which the rates applied are shown in appendix II.

The following table shows the contribution rates scheduled in the present law:

Calendar years	Percent of taxable earnings: Employees and employers, each [1]	Percent of taxable earnings: Self-employed
1969–70	4.2	6.3
1971–72	4.6	6.9
1973 and after	5.0	7.0

[1] Only the employee contribution is paid on tips that are taxable as wages.

Under section 201(b) of the Social Security Act, the contribution rate allocated to the disability insurance trust fund of 0.475 percent each for employees and employers, in effect in calendar years 1968 and 1969, increased to 0.55 percent each on January 1, 1970. For the self-employed, the allocation rate increased from 0.7125 percent, in effect in calendar years 1968 and 1969, to 0.825 percent in calendar year 1970.

Except for amounts received by the Secretary of the Treasury under State agreements (to effectuate coverage under the program for State and local government employees) and deposited directly in the trust funds, all contributions are collected by the Internal Revenue Service and deposited in the general fund of the Treasury as internal revenue collections; then, on an estimated basis, the contributions received are immediately and automatically appropriated to the trust funds. The exact amount of contributions received is not known initially since old-age, survivors, disability, and hospital insurance contributions and individual income taxes are not separately identified in collection reports received by the Treasury Department 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 contributions he paid on such excess wages. The amount of contributions subject to refund for any period is a charge against each of the trust funds in the ratio in which the amount was appropriated to or deposited in such trust funds for that period.

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

The income and expenditures of the trust funds are also affected by the provisions of the Railroad Retirement Act which provide for a system of coordination and financial interchange between the railroad retirement program and the old-age, survivors, and disability insurance program. A description of the legislative provisions governing the allocation of costs between the two programs appears in appendix II.

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

Section 228 of the Social Security Act provides monthly cash benefits to certain persons aged 72 and over, almost all of whom are not eligible for cash benefits under other provisions of the old-age, survivors, and disability insurance program. Under section 228, all payments are made initially from the old-age and survivors insurance trust fund, with later reimbursement, with interest, from the general fund of the Treasury for the costs, including administrative expenses, of payments to persons who have less than three quarters of coverage. The reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest allowances, as the actual experience develops and is analyzed. 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 violating the confidentiality of the records or 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 equal to the cost of providing them; in some instances, the receipts are credited to the trust funds to counterbalance administrative expenses already paid from the trust funds (in which case such amount is netted out of the figures on administrative expenses in the financial statements of the trust funds), while in other instances such receipts are not credited to the trust funds, and the applicable administrative expenses are met directly from them. Accordingly, such administrative expenses, and the offsetting receipts, do not have any effect on 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 and of the Internal Revenue Code relating to the collection of contributions are charged to the trust funds. The Secretary of Health, Education, and Welfare certifies benefit payments to the managing trustee, who makes the payment from the respective trust funds in accordance therewith.

Section 222(d) of the Social Security Act provides for reimbursement from the trust funds for the cost of vocational rehabilitation services furnished to disabled persons receiving benefits because of their disability. The total amount of funds that may be made available for purposes of 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 costs of such construction are included as part of administrative expenses in the financial statements of operations of the trust funds as set forth in subsequent sections of this report. The net worth of the resulting facilities—like the net worth of all other capital assets—is not carried as an asset in such statements.

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

In addition, the Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust funds. 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, if earlier.

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

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

Summary of the Operations of the Federal Old-Age and Survivors Insurance Trust Fund, Fiscal Year 1969

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, 1968, and ended on June 30, 1969, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2.

The total assets of the old-age and survivors insurance trust fund amounted to $25,533 million on June 30, 1968. These assets increased to $28,191 million by the end of the fiscal year 1969, an increase of $2,658 million.

Net receipts of the trust fund during the fiscal year 1969 amounted to $27,348 million. Of this total $24,166 million represented contributions appropriated to the fund and $2,260 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, $473 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. (This amount consisted of two transfers—one, made in January 1969 and amounting to $236 million, represented refunds on 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.

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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 adverse fluctuations in total income and expenditures.

Summary of the Operations of the Federal Old-Age and Survivors Insurance Trust Fund, Fiscal Year 1969

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TABLE 2.—STATEMENT OF OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING THE FISCAL YEAR 1969

Total assets of the trust fund, June 30, 1968	$25,532,903,561.29
Receipts, fiscal year 1969:	
Contributions:	
Appropriations	24,165,802,239.38
Deposits arising from State agreements	2,260,117,250.99
Gross contributions	26,425,919,490.37
Less payment into the Treasury for contributions subject to refund	473,182,500.00
Net contributions	25,952,736,990.37
Reimbursement from general fund of the Treasury for costs of—	
Noncontributory credits for military service	156,000,000.00
Payments to noninsured persons aged 72 and over:	
Benefit payments	198,528,000.00
Administrative expenses	12,880,000.00
Interest	14,137,000.00
Total reimbursement for payments to noninsured persons aged 72 and over	225,545,000.00
Interest:	
Interest on investments	1,013,912,236.57
Interest on amounts of interfund transfers for reimbursement of administrative expenses and construction costs	207,980.00
Gross interest	1,014,120,216.57
Less interest on amounts transferred to disability insurance trust fund for reimbursement of cost of vocational rehabilitation services	40,483.00
Net interest	1,014,079,733.57
Total receipts	27,348,361,723.94
Disbursements, fiscal year 1969:	
Benefit payments	23,732,010,292.51
Transfers to railroad retirement account	491,482,000.00
Reimbursements to disability insurance trust fund for cost of vocational rehabilitation services for disabled beneficiaries for:	
Fiscal year 1968	725,000.00
Fiscal year 1969	1,081,000.00
Administrative expenses:	
Department of Health, Education, and Welfare	406,204,545.83
Treasury Department	56,024,409.78
Construction of facilities for Social Security Administration	6,583,037.98
Gross administrative expenses	468,811,993.59
Less receipts from sale of surplus supplies, materials, etc	59,340.60
Less reimbursement due to adjustment in allocation of administrative expenses for fiscal year 1968, transferred from—	
Disability insurance trust fund	5,142.00
Hospital insurance trust fund	2,508,484.00
Supplementary medical insurance trust fund	325,099.00
Less reimbursement from hospital insurance and supplementary medical insurance trust funds for costs of construction for fiscal year 1968	885,910.00
Net administrative expenses	465,028,017.99
Total disbursements	24,690,326,310.50
Net addition to the trust fund	2,658,035,413.44
Total assets of the trust fund, June 30, 1969	28,190,938,974.73

Net contributions amounted to $25,953 million, an increase of 15 percent over the amount for the preceding fiscal year. Growth in contribution income resulted from (1) the increase in the maximum annual amount of earnings taxable from $6,600 to $7,800 that became effective on January 1, 1968, (2) the increase from 6.65 percent to 7.45 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, 1969, and (3) the higher level of employment and taxable earnings. The increase in net contributions would have been larger had it not been for (1) the acceleration in the schedule of refund transfers into the Treasury and (2) the decrease in the combined employer-employee contribution rate from 7.10 percent to 6.65 percent that became effective on January 1, 1968 (this decrease being exactly counterbalanced by increases in the contribution rate for hospital insurance from 1.0 percent to 1.2 percent and in the rate allocated for disability insurance from 0.70 percent to 0.95 percent). Although such increase in the earnings base and decrease in the contribution rate became effective in 1968, the first full fiscal year during which they were operative was 1969.

Reference has been made in an earlier section to provisions under which the old-age and survivors insurance and disability insurance trust funds are to be reimbursed annually from the general fund of the Treasury for costs of granting noncontributory credits for military service performed before 1957. In accordance with these provisions, the Secretary of Health, Education, and Welfare determined, in September 1965, that the annual amounts due were $87.4 million for the old-age and survivors insurance trust fund and $18.4 million for the disability insurance trust fund. Two annual reimbursements were made during fiscal year 1969 to the two trust funds; each of the annual reimbursements amounted to $78 million for the old-age and survivors insurance trust fund, and to $16 million for the disability insurance trust fund. For each trust fund, the first of these reimbursements was received in July 1968, and the second was received in December 1968. The latter reimbursement represents an acceleration in the schedule of annual reimbursements.

Reference has also been made in an earlier section to provisions under which the old-age and survivors insurance trust fund is to be reimbursed annually from the general fund of the Treasury for costs of monthly payments to certain noninsured persons aged 72 and over who have less than three quarters of coverage. The first of these annual reimbursements, received in December 1968, amounted to $225,545,000 and represented reimbursement for costs initially expended from the old-age and survivors insurance trust fund in fiscal year 1967.

The remaining $1,014 million of receipts consisted of interest on the investments of the trust fund and net interest on amounts of interfund transfers among the four trust funds, old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance.

Disbursements from the trust fund during the fiscal year 1969 totaled $24,690 million. Of this total, $23,732 million was for benefit payments, an increase of 14 percent over the corresponding amount paid in the fiscal year 1968. This increase was due primarily to the 1967 amendments which provided for a general increase in benefits effective for February 1968 and which also liberalized some of the conditions under which persons can qualify for benefits. (Fiscal year 1969 was the first full fiscal year during which these provisions of the 1967 amendments were operative.) Another factor that contributed to the increase in benefit payments from fiscal year 1968 to fiscal year 1969 was the expected growth in the total number of beneficiaries as the program gradually matures.

Reference has been made in an earlier section to provisions of the Railroad Retirement Act which coordinate the railroad retirement and the old-age and survivors insurance programs and which govern the financial interchanges arising from the allocation of costs between the two systems. In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of $472,400,000 to the railroad retirement account from the old-age and survivors insurance trust fund would place this trust fund in the same position as of June 30, 1968, as it would have been if railroad employment had always been covered under the Social Security Act. This amount was transferred to the railroad retirement account in June 1969, together with interest to the date of transfer amounting to $19,082,000.

Expenditures of the old-age and survivors insurance program, in the form of reimbursement to the disability insurance trust fund, for the cost of vocational rehabilitation services amounted to $1,806,000. These services were furnished to disabled adults—dependents of old-age beneficiaries and survivors of deceased insured workers—who were receiving monthly benefits from the old-age and survivors insurance trust fund. Practically all of these beneficiaries had disabilities that have continued since childhood. (Related administrative expenses of the Department of Health, Education, and Welfare, amounting to $40,000, are included in the net administrative expenses of the trust fund.)

The remaining $465 million of disbursements from the old-age and survivors insurance trust fund represents net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds on the basis of provisional estimates. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses for prior periods are effected by interfund transfers, with appropriate interest allowances. Net administrative expenses charged to both the old-age and survivors insurance trust fund and the disability insurance trust fund in fiscal year 1969 totaled $599 million and represented 2.0 percent of contribution income and 2.3 percent of benefit payments during the fiscal year. Similar figures for each of the last 5 years for the system as a whole, as well as for each trust fund separately, are shown in table 3.

TABLE 3.—RELATIONSHIP OF NET ADMINISTRATIVE EXPENSES OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM TO CONTRIBUTION INCOME AND BENEFIT PAYMENTS, BY TRUST FUND, FISCAL YEARS 1965–69

Fiscal year	Total administrative expenses as a percentage of—		Old-age and survivors insurance trust fund, administrative expenses as a percentage of—		Disability insurance trust fund, administrative expenses as a percentage of—	
	Total contribution income	Total benefit payments	Contribution income	Benefit payments	Contribution income	Benefit payments
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
1967	1.8	2.2	1.6	1.9	4.4	5.3
1968	2.2	2.5	2.0	2.2	4.2	5.4
1969	2.0	2.3	1.8	2.0	3.8	5.5

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

In table 4, the experience with respect to actual amounts of contributions and benefit payments in fiscal year 1969 and trust fund assets at the end of the year is compared with the estimates for fiscal year 1969 which appeared in the 1968 and 1969 annual report of the Board of Trustees. Reference was made in an earlier section to the appropriation of contributions to the trust funds on an estimated basis, with subsequent periodic adjustments to account for differences from the amounts of contributions actually payable on the basis of reported earnings. In interpreting the figures in table 4, it should be noted that the "actual" amount of contributions in fiscal year 1969 reflect the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1969 does not reflect adjustments to contributions for fiscal year 1969 that were to be made after June 30, 1969. The estimates for each trust fund were quite close, relatively, to the actual experience.

TABLE 4.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, FISCAL YEAR 1969

[Dollar amounts in millions]

		Comparison of actual experience with estimates for fiscal year 1969 published in—			
		1969 report		1968 report	
	Actual amount	Estimated amount	Estimates as percentage of actual	Estimated amount	Estimates as percentage of actual
Old-age and survivors insurance trust fund:					
Net contributions [1]	$26,190	$26,475	101	$25,902	99
Benefit payments	23,732	23,711	100	23,711	100
Assets, end of year [1]	28,428	28,734	101	28,377	100
Disability insurance trust fund:					
Net contributions [1]	3,565	3,592	101	3,514	99
Benefit payments	2,443	2,434	100	2,521	103
Assets, end of year [1]	3,711	3,740	101	3,556	96

[1] The actual amounts have been adjusted to exclude the effect of the 2d transfer into the Treasury for refunds of contributions, resulting from the accelerated schedule, in order that the actual experience be presented on a basis consistent with the basis on which the estimates shown in the 1968 and 1969 annual reports were prepared.

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

The distribution of benefit payments in fiscal years 1968 and 1969, by type of beneficiary, is shown in table 5. Approximately 72 percent of the total benefit payments from the old-age and survivors insurance trust fund in the fiscal year 1969 was accounted for by monthly benefits to retired workers and their dependents and about 14 percent by monthly benefits to aged survivors and disabled widows or widowers of deceased workers. Approximately 12 percent 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.

TABLE 5.—ESTIMATED DISTRIBUTION OF BENEFIT PAYMENTS FROM THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE OF BENEFICIARY AND PAYMENT, FISCAL YEARS 1968 AND 1969

[Amounts in millions]

	1968		1969	
	Amount	Percent of total	Amount	Percent of total
Total	$20,737.1	100	$23,732.0	100
Monthly benefits	20,481.0	99	23,441.3	99
Retired workers and their dependents	14,887.1	72	16,989.8	72
Retired workers	13,114.4	63	14,992.7	63
Wives and husbands	1,539.2	7	1,735.7	7
Children	233.5	1	261.5	1
Survivors of deceased workers	5,273.2	25	6,128.8	26
Aged widows and widowers	2,795.7	13	3,257.2	14
Disabled widows and widowers [1]	.7	(2)	32.8	(2)
Parents	35.3	(2)	36.8	(2)
Children	2,000.6	10	2,309.0	10
Widowed mothers caring for child beneficiaries	441.0	2	493.0	2
Noninsured persons aged 72 and over [3]	320.7	2	322.6	1
Lump-sum death payments	256.0	1	290.7	1

[1] Benefits were effective for months beginning February 1968, and disbursements from the trust fund were first made to these beneficiaries in March 1968.
[2] Less than 0.5 percent.
[3] The trust fund is reimbursed from the general fund of the Treasury for the costs of payments to beneficiaries with less than 3 quarters of coverage.

Benefit payments to noninsured persons aged 72 and over amounted to $323 million, or about 1 percent of total benefit payments from the trust fund. Reference has been made in an earlier section to the legislative provisions governing reimbursement from the general fund of the Treasury for the costs of such payments to persons who have fewer than three quarters of coverage. About 98 percent of the total amount of the payments made in fiscal year 1969 to noninsured persons aged 72 and over went to persons with fewer than three quarters of coverage.

The balance of the benefits paid during fiscal year 1969 consisted of lump-sum death payments.

On June 30, 1969, about 24.9 million persons were receiving monthly benefits under the old-age, survivors, and disability insurance program. About 22.5 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 little change from the corresponding averages a year earlier. This is illustrated, for selected beneficiary family groups, in table 6.

TABLE 6.—ESTIMATED AVERAGE MONTHLY BENEFITS FOR SELECTED FAMILY GROUPS RECEIVING BENEFITS UNDER THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM, END OF FISCAL YEARS 1968 AND 1969

Beneficiary family group	Average monthly amount per family	
	June 30, 1968	June 30, 1969
Retired worker alone (no dependents receiving benefits)	$94	$96
Retired worker and wife, aged 62 and over, both receiving benefits [1]	165	168
Aged widow alone	86	87
Widowed mother and 2 children	258	256
Disabled worker alone (no dependents receiving benefits)	109	110
Disabled worker, wife (under age 65 [2]), and 1 or more children	239	238

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

The assets of the old-age and survivors insurance trust fund at the end of fiscal year 1969 totaled $28,191 million, consisting of $26,220 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations, and $1,971 million in undisbursed balances. Table 7 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1968 and 1969.

TABLE 7.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT END OF FISCAL YEARS 1968 AND 1969

	June 30, 1968		June 30, 1969	
	Par value	Book value[1]	Par value	Book value[1]
INVESTMENTS IN PUBLIC-DEBT OBLIGATIONS				
Public issues:				
Treasury notes:				
5¾ percent, 1975	$7,000,000	$7,055,958.35	$7,000,000	$7,047,458.39
6 percent, 1975	17,450,000	17,450,000.00	17,450,000	17,450,000.00
6¼ percent, 1976			5,000,000	4,988,244.09
6½ percent, 1976			22,180,000	22,180,000.00
Treasury bonds:				
2½ percent, 1964–69	55,180,000	54,434,560.56	33,000,000	32,849,819.29
2½ percent, 1967–72	250	250.00	250	250.00
2¾ percent, investment series B, 1975–80	1,064,902,000	1,064,902,000.00	1,064,902,000	1,064,902,000.00
3 percent, 1995	70,170,000	70,142,780.56	70,170,000	70,143,804.52
3¼ percent, 1978–83	60,200,000	59,317,153.52	60,200,000	59,376,338.72
3¼ percent, 1985	25,700,000	24,236,558.99	25,700,000	24,323,496.11
3½ percent, 1980	449,450,000	454,829,822.67	449,450,000	454,393,620.87
3½ percent, 1990	556,250,000	547,091,671.86	556,250,000	547,515,996.06
3½ percent, 1998	552,037,000	542,672,946.88	552,037,000	542,981,652.04
3⅞ percent, 1974	24,500,000	24,482,361.65	24,500,000	24,485,146.73
4 percent, 1969	62,500,000	62,494,096.01	57,500,000	57,498,819.33
4 percent, 1970	15,000,000	14,978,476.46	15,000,000	14,992,070.18
4 percent, 1971	100,000,000	100,561,057.45	100,000,000	100,379,092.93
4 percent, 1973	38,000,000	37,816,240.90	38,000,000	37,852,390.30
4 percent, 1980	153,100,000	153,043,664.44	153,100,000	153,048,528.04
4⅛ percent, 1974	61,934,000	61,900,130.63	61,934,000	61,906,196.87
4⅛ percent, 1989–94	91,300,000	90,519,156.42	91,300,000	90,549,382.62
4¼ percent, 1974	6,352,000	6,362,292.48	6,352,000	6,360,528.00
4¼ percent, 1975–85	78,023,000	77,669,781.83	78,023,000	77,690,765.15
4¼ percent, 1987–92	33,000,000	35,031,287.61	33,000,000	34,924,844.57
Total public issues	3,522,048,250	3,506,992,249.27	3,522,048,250	3,507,840,444.81
Accrued interest purchased				121,447.48
Total investments in public issues	3,522,048,250	3,506,992,249.27	3,522,048,250	3,507,961,892.29
Obligations sold only to this fund (special issues):				
Notes:				
4¾ percent, 1974	2,720,279,000	2,720,279,000.00	2,720,279,000	2,720,279,000.00
4⅞ percent, 1969	1,080,011,000	1,080,011,000.00		
4⅞ percent, 1970	296,526,000	296,526,000.00	296,526,000	296,526,000.00
4⅞ percent, 1971	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
5⅝ percent, 1975	2,460,795,000	2,460,795,000.00	2,460,795,000	2,460,795,000.00
6½ percent, 1976			3,844,864,000	3,844,864,000.00
Bonds:				
2⅝ percent, 1970	783,485,000	783,485,000.00	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 issues)	19,221,217,000	19,221,217,000.00	21,986,070,000	21,986,070,000.00
Total investments in public-debt obligations	22,743,265,250	22,728,209,249.27	25,508,118,250	25,494,031,892.29

TABLE 7.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT END OF FISCAL YEARS 1968 AND 1969—Continued

	June 30 1968		June 30 1969	
	Par value	Book value [1]	Par value	Book value [1]
INVESTMENTS IN FEDERALLY-SPONSORED AGENCY OBLIGATIONS				
Agency securities:				
Federal National Mortgage Association debentures:				
5⅛ percent, 1969	25,000,000	25,027,931.14	25,000,000	25,000,000.00
5¾ percent, 1970	20,000,000	19,969,999.99	20,000,000	19,983,333.31
5⅞ percent, 1968	10,000,000	9,999,479.24		
6 percent, 1969	41,500,000	41,512,248.19	41,500,000	41,503,602.31
Participation certificates:				
Federal Assets Liquidation Trust—Government National Mortgage Association:				
5.10 percent, 1987	50,000,000	50,000,000.00	50,000,000	50,000,000.00
5.20 percent, 1982	100,000,000	100,000,000.00	100,000,000	100,000,000.00
5½ percent, 1972	50,000,000	50,000,000.00	50,000,000	50,000,000.00
Federal Assets Financing Trust, Government National Mortgage Association:				
6 percent, 1971	35,000,000	35,000,000.00	35,000,000	35,000,000.00
6.05 percent, 1988	65,000,000	64,761,328.15	65,000,000	64,773,515.71
6.20 percent, 1988			230,000,000	230,000,000.00
6.40 percent, 1987	75,000,000	75,000,000.00	75,000,000	75,000,000.00
6.45 percent, 1988	35,000,000	35,000,000.00	35,000,000	35,000,000.00
Total investments in federally-sponsored agency obligations	506,500,000	506,270,986.71	726,500,000	726,260,451.33
Total investments	23,249,765,250	23,234,480,235.98	26,234,618,250	26,220,292,343.62
Undisbursed balances		2,298,423,325.31		1,970,646,631.11
Total assets		25,532,903,561.29		28,190,938,974.73

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

The net increase in the par value of the investments owned by the fund during the fiscal year 1969 amounted to $2,985 million. New securities at a total par value of $32,069 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 $29,084 million. A summary of transactions for the fiscal year, by type of security, is presented in table 8.

TABLE 8.—STATEMENT OF TRANSACTIONS IN PUBLIC-DEBT AND IN FEDERALLY-SPONSORED AGENCY SECURITIES FOR OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING THE FISCAL YEAR 1969

[All amounts represent par values]

	Acquisitions	Dispositions
Public-debt obligations:		
Public issues:		
Treasury notes:		
6¼ percent, 1976	$5,000,000	
6½ percent, 1976	22,180,000	
Treasury bonds:		
2½ percent, 1969		$22,180,000
4 percent, 1969		5,000,000
Total public issues	27,180,000	27,180,000

TABLE 8.—STATEMENT OF TRANSACTIONS IN PUBLIC-DEBT AND IN FEDERALLY-SPONSORED AGENCY SECURITIES FOR OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING THE FISCAL YEAR 1969—Continued

[All amounts represent par values]

	Acquisitions	Dispositions
Public-debt obligations—Continued		
Obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
5¼ percent, 1969	2,876,015,000	2,876,015,000
5⅜ percent, 1969	3,223,273,000	3,223,273,000
5½ percent, 1969	3,847,447,000	3,847,447,000
5⅝ percent, 1969	2,121,331,000	2,121,331,000
6 percent, 1969	2,297,175,000	2,297,175,000
6⅛ percent, 1969	6,025,459,000	6,025,459,000
6¼ percent, 1969	5,412,907,000	5,412,907,000
6½ percent, 1969	2,163,560,000	2,163,560,000
Notes:		
4⅞ percent, 1969		1,080,011,000
6½ percent, 1976	3,844,864,000	
Total obligations sold only to this fund (special issues)	31,812,031,000	29,047,178,000
Total public-debt obligations	31,839,211,000	29,074,358,000
Federally-sponsored agency obligations:		
Agency securities:		
Federal National Mortgage Association debentures:		
5⅞ percent, 1968		10,000,000
Federal Assets Financing Trust-Government National Mortgage Association:		
6.20 percent, 1988	230,000,000	
Total federally-sponsored agency obligations	230,000,000	10,000,000
Total transactions	32,069,211,000	29,084,358,000

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, 1969, the old-age and survivors insurance trust fund held special issues, totaling $11,880 million, that were distributed by year of maturity, 1970–80, in equal amounts of $1,080 million each (table 7). In addition, $10,106 million was invested in 5- and 7-year notes, of varying amounts, maturing on June 30 of each year, 1971 and 1974–76. (Similarly, with respect to assets of the disability insurance trust fund at the end of fiscal year 1969, $2,051 million was invested in 5- and 7-year notes, of varying amounts, maturing on June 30 of each year, 1971 and 1974–76.)

The circumstances under which the 7-year notes maturing on June 30, 1976, were acquired in June 1969 were similar to those under which the other 5- and 7-year notes had been acquired. Briefly, the interest rate on special issues acquired in June 1969, as determined under section 201(d) of the Social Security Act, was 6½ percent, while the interest rate on long-term issues is limited to 4¼ percent. Therefore, the established pattern of spreading the maturities equally over a 15-year period could not be followed, and the entire available amount was invested in 6½ percent 7-year notes, the longest-term issue possible at the prescribed interest rate. A fuller description of these investment operations is contained in the 1968 annual report.

Summary of the Operations of the Federal Disability Insurance Trust Fund, Fiscal Year 1969

A statement of the income and disbursements of the Federal disability insurance trust fund during fiscal year 1969 and of the assets of the fund at the beginning and end of the fiscal year is presented in table 9.

The total assets of the disability insurance trust fund amounted to $2,585 million on June 30, 1968. By the end of fiscal year 1969 the assets amounted to $3,678 million, an increase of $1,092 million.

TABLE 9.—STATEMENT OF OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING THE FISCAL YEAR 1969

Total assets of the trust fund, June 30, 1968	$2, 585, 396, 067. 49
Receipts, fiscal year 1969:	
Contributions:	
Appropriations	3, 251, 306, 156. 83
Deposits arising from State agreements	337, 398, 240. 03
Gross contributions	3, 588, 704, 396. 86
Less payment into the Treasury for contributions subject to refund	56, 270, 000. 00
Net contributions	3, 532, 434, 396. 86
Reimbursement from general fund of the Treasury for costs of noncontributory credits for military service	32, 000, 000. 00
Interest:	
Interest on investments	140, 806, 608. 92
Interest on amounts of interfund transfers for reimbursement of administrative expenses and construction costs	13, 175. 00
Interest on amounts of reimbursement for cost of vocational rehabilitation services transferred from old-age and survivors insurance trust fund	40, 483. 00
Total interest	140, 860, 266. 92
Total receipts	3, 705, 294, 663. 78
Disbursements, fiscal year 1969:	
Benefit payments	2, 443, 436, 935. 39
Transfers to railroad retirement account	21, 328, 000. 00
Payment for cost of vocational rehabilitation services for disabled beneficiaries:	
Gross payment	16, 697, 177. 35
Less reimbursements from old-age and survivors insurance trust fund for—	
Fiscal year 1968	725, 000. 00
Fiscal year 1969	1, 081, 000. 00
Net payment	14, 891, 177. 35
Administrative expenses:	
Department of Health, Education, and Welfare	125, 264, 632. 00
Treasury Department	6, 864, 485. 42
Expenses of the Department of Health, Education, and Welfare for administration of vocational rehabilitation program for disabled beneficiaries	348, 000. 00
Construction of facilities for Social Security Administration	1, 296, 960. 00
Reimbursement to old-age and survivors insurance trust fund due to adjustment in allocation of administrative expenses for fiscal year 1968	5, 142. 00
Gross administrative expenses	133, 779, 219. 42
Less receipts from sale of surplus supplies, materials, etc	18, 731. 82
Less reimbursement from hospital insurance and supplementary medical insurance trust funds for costs of construction in fiscal year 1968	241, 090. 00
Less reimbursement from old-age and survivors insurance trust fund for administration of vocational rehabilitation program for fiscal year 1969	24, 000. 00
Net administrative expenses	133, 495, 397. 60
Total disbursements	2, 613, 151, 510. 34
Net addition to the trust fund	1, 092, 143, 153. 44
Total assets of the trust fund, June 30, 1969	3, 677, 539, 220. 93

Net receipts of the fund amounted to $3,705 million. Of this total, $3,251 million represented contributions appropriated to the fund, and $337 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. As an offset, $56 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. (As in the case of the old-age and survivors insurance trust fund, two refund transfers were made during the year—amounting to $23 million and $33 million, respectively—as a result of the acceleration in the schedule of refund transfers into the Treasury.) Net contributions amounted to $3,532 million, representing an increase of 31 percent over the amount for the preceding fiscal year.

This increase is accounted for, in part, by the same factors, insofar as they apply to contributions of the disability insurance trust fund, that accounted for the increase in contributions to the old-age and survivors insurance trust fund, and in part by the provision in the 1967 amendments that increased the portion of the contribution rate allocated to finance benefits from the disability insurance trust fund. Effective January 1, 1968, the allocated rate for employees and employers was increased from 0.35 percent of taxable earnings each to 0.475 percent each. For the self-employed, the allocated rate was increased from 0.525 percent to 0.7125 percent. (Although the increase in the allocated rate became effective in 1968, the first full fiscal year during which it was operative was 1969.)

In addition, under an accelerated schedule of annual payments, the trust fund received two reimbursements from the general fund of the Treasury, each amounting to $16 million, as reimbursement for the costs of noncontributory credits for military service.

The remaining $141 million of receipts consisted of interest on the investments of the fund and interest on amounts of interfund transfers.

Disbursements from the fund during the fiscal year 1969 totaled $2,613 million. Of this total, $2,443 million was for benefit payments, an increase of 17 percent over the corresponding amount paid in the fiscal year 1968. This increase is accounted for by the same factors that resulted in the increase in benefit payments from the old-age and survivors insurance trust fund (described in the preceding section).

Provisions governing the financial interchanges between the railroad retirement account and the disability insurance trust fund are similar to those referred to in the preceding section relating to the old-age and survivors insurance trust fund. The determination made as of June 30, 1968, required that a transfer of $20,500,000 be made from the disability insurance trust fund to the railroad retirement account. This amount was transferred to the railroad retirement account in June 1969, together with interest to the date of transfer amounting to $828,000.

The remaining disbursements amounted to $133 million for net administrative expenses and $15 million for the net cost of vocational rehabilitation services furnished to disabled-worker beneficiaries and to those dependents of disabled workers who are receiving benefits on the basis of disabilities that have continued since childhood.

Section 222(d) of the Social Security Act provides that the total amount of funds that may be made available for payment for the costs of vocational rehabilitation services, including applicable administrative expenses of State agencies, in a fiscal year may not exceed 1 percent of the benefits certified for payment in the preceding year from the old-age and survivors insurance trust fund and the disability insurance trust fund to disabled persons receiving benefits because of their disability. The following table shows the relationship between the total amount made available in each fiscal year, 1966–69, for payment for the costs of such rehabilitation services and the corresponding amount of benefits paid in the prior fiscal year from the trust funds to disabled beneficiaries:

[Dollar amounts in thousands]

Fiscal year	Estimated amount of benefit payments in preceding fiscal year to disabled beneficiaries	Payment for costs of rehabilitation services [1]	
		Total	As percent of preceding year's benefit payments
1966	$1,220,300	$473	0.04
1967	1,483,700	10,056	.68
1968	1,600,700	16,000	1.00
1969	1,803,700	18,037	1.00

[1] Expenditures from the trust funds for payment for costs of rehabilitation services for disabled beneficiaries were first authorized under the 1965 amendments and began in fiscal year 1966. The amounts shown represent the expenditures for a fiscal year and differ from amounts expended in a fiscal year as shown in accounting statements of the trust funds on a cash basis.

At the end of fiscal year 1969, some 2,407,000 persons were receiving monthly benefits from the disability insurance trust fund. The distribution of benefit payments in fiscal years 1968 and 1969, by type of benefit, is shown in table 10.

TABLE 10.—ESTIMATED DISTRIBUTION OF BENEFIT PAYMENTS FROM THE DISABILITY INSURANCE TRUST FUND BY TYPE OF BENEFICIARY, FISCAL YEARS 1968 AND 1969

[Dollar amounts in millions]

	1968		1969	
	Amount	Percent of total	Amount	Percent of total
Total	$2,088.4	100	$2,443.4	100
Disabled workers	1,636.6	78	1,929.3	79
Wives and husbands	121.3	6	135.5	6
Children	330.5	16	378.7	15

The assets of this fund at the end of fiscal year 1969 totaled $3,678 million, consisting of $3,491 million in the form of obligations of the U.S. Government or of federally sponsored agency obligations and $187 million in undisbursed balances. Table 11 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1968 and 1969.

TABLE 11.—ASSETS OF THE DISABILITY INSURANCE TRUST FUND, BY TYPE, AT END OF FISCAL YEARS 1968 AND 1969

	June 30, 1968		June 30, 1969	
	Par value	Book value[1]	Par value	Book value[1]
INVESTMENTS IN PUBLIC-DEBT OBLIGATIONS				
Public issues:				
Treasury notes:				
5¾ percent, 1975	$10,000,000	$10,091,234.87	$10,000,000	$10,079,762.01
6 percent, 1975	3,750,000	3,750,000.00	3,750,000	3,750,000.00
Treasury bonds:				
3½ percent, 1990	10,500,000	9,902,843.06	10,500,000	9,930,510.62
3½ percent, 1998	5,000,000	4,684,320.80	5,000,000	4,694,727.80
3⅞ percent, 1974	5,000,000	5,000,000.00	5,000,000	5,000,000.00
4 percent, 1969	26,000,000	25,995,608.47	26,000,000	25,999,121.83
4 percent, 1970	24,000,000	23,949,276.29	24,000,000	23,976,098.45
4 percent, 1972	4,000,000	3,980,773.80	4,000,000	3,985,830.12
4 percent, 1973	16,500,000	16,378,543.32	16,500,000	16,402,436.40
4 percent, 1980	30,250,000	30,240,339.17	30,250,000	30,241,173.05
4⅛ percent, 1974	10,000,000	10,015,366.88	10,000,000	10,012,614.56
4⅛ percent, 1989–94	68,400,000	67,539,571.80	68,400,000	67,572,878.64
4¼ percent, 1975–85	20,795,000	20,775,185.74	20,795,000	20,775,929.02
4¼ percent, 1987–92	80,800,000	80,972,275.47	80,800,000	80,963,247.99
Total investments in public issues	314,995,000	313,275,339.67	314,995,000	313,384,330.49
Obligations sold only to this fund (special issues):				
Notes:				
4¾ percent, 1974	309,178,000	309,178,000.00	309,178,000	309,178,000.00
4⅞ percent, 1971	7,138,000	7,138,000.00	6,486,000	6,486,000.00
5⅝ percent, 1975	583,612,000	583,612,000.00	583,612,000	583,612,000.00
6½ percent, 1976			1,151,608,000	1,151,608,000.00
Bonds:				
2⅝ percent, 1974	77,006,000	77,006,000.00	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, 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)	1,891,438,000	1,891,438,000.00	3,042,394,000	3,042,394,000.00
Total investments in public-debt obligations	2,206,433,000	2,204,713,339.67	3,357,389,000	3,355,778,330.49
INVESTMENTS IN FEDERALLY-SPONSORED AGENCY OBLIGATIONS				
Agency securities:				
Federal National Mortgage Association debentures:				
5¾ percent, 1970	20,000,000	19,969,999.99	20,000,000	19,983,333.31
5⅞ percent, 1968	10,000,000	9,999,479.24		
Participation certificates:				
Federal assets liquidation trust—Government National Mortgage Association:				
5½ percent, 1972	50,000,000	50,000,000.00	50,000,000	50,000,000.00
Federal assets financing trust—Government National Mortgage Association:				
6.30 percent, 1971	15,000,000	15,000,000.00	15,000,000	15,000,000.00
6.35 percent, 1970	50,000,000	50,000,000.00	50,000,000	50,000,000.00
Total investments in federally sponsored agency obligations	145,000,000	144,969,479.23	135,000,000	134,983,333.31
Total investments	2,351,433,000	2,349,682,818.90	3,492,389,000	4,490,761,663.80
Undisbursed balances		235,713,248.59		186,777,557.13
Total assets		2,585,396,067.49		3,677,539,220.93

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

The net increase in the par value of the investments owned by the fund during the fiscal year amounted to $1,141 million. New securities at a total par value of $4,925 million were acquired during the fiscal year through the investment of receipts of the fund and the reinvestment of funds made available from the maturity of securities. The par value of securities redeemed during the year was $3,784 million. A summary of transactions for the fiscal year, by type of security, is presented in table 12.

TABLE 12.—STATEMENT OF TRANSACTIONS IN PUBLIC-DEBT AND IN FEDERALLY-SPONSORED AGENCY OBLIGATIONS FOR THE DISABILITY INSURANCE TRUST FUND DURING THE FISCAL YEAR 1969

[All amounts represent par values]

	Acquisitions	Dispositions
Public-debt obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
5¼ percent, 1969	$313,571,000	$313,571,000
5⅜ percent, 1969	585,078,000	585,078,000
5½ percent, 1969	532,208,000	532,208,000
5⅝ percent, 1969	260,023,000	260,023,000
6 percent, 1969	341,752,000	341,752,000
6⅛ percent, 1969	746,954,000	746,954,000
6¼ percent, 1969	714,316,000	714,316,000
6½ percent, 1969	279,861,000	279,861,000
Notes:		
4⅞ percent, 1971		652,000
6½ percent, 1976	1,151,608,000	
Total public-debt obligations sold only to this fund (special issues)	4,925,371,000	3,774,415,000
Federally-sponsored agency obligations:		
Agency securities:		
Federal National Mortgage Association debentures: 5⅞ percent, 1968		10,000,000
Total federally-sponsored agency obligations		10,000,000
Total transactions	4,925,371,000	3,784,415,000

Expected Operations and Status of the Trust Funds During the Period July 1, 1969 to December 31, 1974

In the following statement of the expected operations and status of the trust funds during the period July 1, 1969 to December 31, 1974, 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 1969 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 13 presents data on the actual operations of the old-age and survivors insurance trust fund for selected fiscal years during the period 1937–69[1] and also estimates of the expected operations of the trust fund in fiscal years 1970–74. The estimates are based on the assumption that employment and earnings will increase each year through 1974. 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 92.2 million during calendar year 1969 to 101.1 million during calendar year 1974; their taxable earnings are estimated to increase from $402 billion in 1969 to $502 billion in 1974. The increase in estimated total taxable earnings and income from contributions in fiscal years 1970–74 reflects the assumed upward trend in the levels of employment and earnings, as well as the scheduled changes in contribution rates. Benefit disbursements increase primarily because of the recent amendments and partly because of the long-range upward trend in the numbers of beneficiaries and in the average monthly amounts 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 1970–74. During this period, there is an estimated net increase in the old-age and survivors insurance trust fund of $34.4 billion.

[1] Data relating to the operations of the old-age and survivors insurance trust fund for years not shown in tables 13–16 are contained in the 1967 annual report of the Board of Trustees.

TABLE 13.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, SELECTED FISCAL YEARS 1937–74

[In millions]

Fiscal year	Transactions during period: Income: 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
Past experience:									
1937–69	$229,760	$327	$226	$12,010	$205,082	$4,527	$4,524	$28,191	$28,191
1940	550			42	16	12		564	1,745
1945	1,310			124	240	27		1,167	6,613
1950	2,106	4		257	727	57		1,583	12,893
1955	5,087			438	4,333	103	−10	1,098	21,141
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
1967	22,567	78		726	18,886	334	508	3,643	23,515
1968	22,662	78		899	20,737	447	438	2,018	25,533
1969	25,953	156	226	1,014	23,734	465	491	2,658	28,191
Estimated future experience:									
1970	29,774	78	364	1,315	26,357	495	523	4,156	32,347
1971	32,582	78	371	1,477	29,708	524	562	3,714	36,060
1972	35,861	108	343	1,813	30,847	547	629	6,102	42,162
1973	39,180	109	316	2,207	31,960	576	617	8,659	50,821
1974	42,826	110	266	2,817	33,084	601	608	11,726	62,547

[1] Under sec. 228 of the Social Security Act, 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 1958–70, adjustment for interest on administrative-expense transfers between the old-age and survivors insurance trust fund and the other social security trust funds (see footnote 4 below).

[3] Beginning in 1967, includes relatively small amounts of payments for vocational rehabilitation services furnished to disabled persons receiving benefits from the trust fund because of their disability.

[4] Total excludes admintisrative expenses for the period ending Dec. 31, 1939; for that period, appropriations to the old-age and survivors insurance trust fund (designated as the old-age reserve account prior to Jan. 1, 1940) were approximately equivalent to tax contributions collected by the Treasury Department less administrative expenses. Beginning in 1954, 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 (preliminary) basis, with a final adjustment made in the following fiscal year.

Note: In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared in January 1970.

Estimates consistent with those shown on a fiscal-year basis in table 13 are presented in table 14 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 calendar years 1970–74, reaching $66.1 billion on December 31, 1974.

TABLE 14.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, SELECTED CALENDAR YEARS 1937–74

[In millions]

Calendar year	Transactions during period: Income: 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	Income: Interest on investments	Disbursements: Benefit payments	Disbursements: Administrative expenses	Disbursements: Transfers to railroad retirement account	Net increase in fund	Fund at end of period
Past experience:									
1937–69	$243,003	$405	$590	$12,647	$217,262	$4,776	$4,524	$30,082	$30,082
1940	325			43	35	26		306	2,031
1945	1,285			134	274	30		1,116	7,121
1950	2,667	4		257	961	61		1,905	13,721
1955	5,713			454	4,968	119	—7	1,087	21,663
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
1967	23,138	78		818	19,468	406	508	3,652	24,222
1968	23,719	156	226	939	22,643	476	438	1,483	25,704
1969	27,947	78	364	1,165	24,210	474	491	4,378	30,082
Estimated future experience:									
1970	29,991	78	371	1,396	28,799	503	523	2,011	32,093
1971	34,562	108	343	1,645	30,288	536	562	5,272	37,365
1972	36,386	109	316	2,010	31,414	562	629	6,216	43,581
1973	41,334	110	266	2,512	32,518	589	617	10,498	54,079
1974	43,372	111	225	3,164	33,641	616	608	12,007	66,086

Note: In interpreting the above experience, reference should be made to the footnotes in table 13.

Table 15 shows the annual amount of benefit payments distributed by classification of beneficiaries for selected calendar years during the period 1940–74.

TABLE 15.—BENEFIT PAYMENTS FROM THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, DISTRIBUTED BY CLASSIFICATION OF BENEFICIARIES, SELECTED CALENDAR YEARS 1940–74

[In millions]

Calendar year	Total benefit disbursements	Monthly benefits disbursed to old-age beneficiaries and their dependents			Disbursed to survivors of deceased insured workers				Disbursed to noninsured persons aged 72 and over [1]
					Monthly benefits				
		Total	Old-age beneficiaries	Dependents of old-age beneficiaries	Total	Aged or disabled widows and widowers, and aged parents	Widowed mothers, dependent divorced wives, and dependent children	Lump-sum payments	
Past experience: [2]									
1940	$35	$17	$15	$2	$6	([3])	$6	$12	------------
1945	274	148	126	22	100	$21	79	26	------------
1950	961	651	557	95	277	92	185	33	------------
1955	4,968	3,748	3,253	495	1,108	412	695	113	------------
1960	10,677	8,196	7,053	1,143	2,316	1,085	1,231	164	------------
1961	11,862	9,032	7,802	1,230	2,659	1,262	1,396	171	------------
1962	13,356	10,162	8,813	1,349	3,011	1,504	1,507	183	------------
1963	14,217	10,795	9,391	1,403	3,216	1,645	1,571	206	------------
1964	14,914	11,281	9,854	1,427	3,416	1,787	1,629	216	------------
1965	16,737	12,542	10,984	1,558	3,979	2,076	1,903	217	------------
1966	18,267	13,373	11,727	1,645	4,613	2,386	2,227	237	$44
1967	19,468	14,048	12,371	1,677	4,854	2,579	2,275	252	314
1968	22,642	16,203	14,277	1,926	5,840	3,154	2,686	269	330
1969	24,209	17,393	15,383	2,010	6,219	3,407	2,812	291	305
Estimated future experience:									
1970	28,797	20,770	18,432	2,338	7,421	4,110	3,311	296	310
1971	30,286	21,918	19,522	2,396	7,797	4,380	3,417	302	269
1972	31,412	22,793	20,376	2,417	8,085	4,597	3,488	308	226
1973	32,516	23,631	21,193	2,438	8,382	4,823	3,559	314	189
1974	33,639	24,480	22,018	2,462	8,682	5,049	3,633	320	157

[1] Total benefit expenditures under sec. 228 of the Social Security Act; 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.

Benefit payments were 6.12 percent of taxable earnings for calendar year 1969 and are estimated to increase to 6.95 percent in 1970 and to 6.97 percent in 1971. The percentage will decline somewhat after 1971 as the effect of rising taxable earnings offsets the gradual long-term rise in the amount of benefit payments. Figures for selected calendar years during the period 1940–74 are shown in table 16.

TABLE 16.—OLD-AGE AND SURVIVORS INSURANCE BENEFIT PAYMENTS AS A PERCENTAGE OF TAXABLE EARNINGS,[1] SELECTED CALENDAR YEARS 1940–74

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	1966	6.01
1945	.44	1967	5.99
1950	1.10	1968	6.11
1955	3.27	1969	6.12
1960	5.33	Estimated future experience:	
1961	5.85	1970	6.95
1962	6.31	1971	6.97
1963	6.52	1972	6.95
1964	6.53	1973	6.93
1965	6.92	1974	6.88

[1] Percentage takes into account, for 1951 and later, (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 contribution is payable on tips taxable as wages.

[2] For 1966–69, percentages are preliminary and subject to revision when complete tabulation of taxable earnings is available. For 1966–74, percentages are based on sum of payments for benefits (excluding payments under sec. 228 of the Social Security Act 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.

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 who are eligible for and receiving old-age (primary) benefits. The growth in the number of eligible workers 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 1950–67 liberalized the eligibility provisions and extended coverage to new categories of employment.

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 who were eligible for old-age (primary) benefits remained in, or returned to, covered employment 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 17, 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 1970–74. During this period there is an estimated net increase in the trust fund of $8.5 billion.

TABLE 17.—OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND, FISCAL YEARS 1957–74

[In millions]

Fiscal year	Transactions during period: Income: Contributions, less refunds	Income: Reimbursements from general fund of Treasury for cost of noncontributory credits for military service	Income: Interest on investments [1]	Disbursements: Benefit payments	Disbursements: Payments for vocational rehabilitation services	Disbursements: Administrative expenses [2]	Disbursements: Transfers to railroad retirement account	Net increase in fund	Fund at end of period
Past experience:									
1957–69	$18,621	$64	$767	$14,679	$38	$908	$149	$3,678	$3,678
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
1967	2,249	16	67	1,861	7	99	31	335	2,022
1968	2,699	16	85	2,088	15	112	20	564	2,585
1969	3,532	32	141	2,443	15	133	21	1,092	3,678
Estimated future experience:									
1970	4,113	16	216	2,798	19	158	18	1,351	5,029
1971	4,656	16	302	3,191	23	166	17	1,587	6,616
1972	4,870	23	385	3,356	27	176	21	1,698	8,314
1973	5,078	23	481	3,507	28	188	22	1,837	10,151
1974	5,312	23	590	3,649	30	197	23	2,026	12,177

[1] Includes net profits on marketable investments and, for 1958–70, adjustment for interest on administrative-expense transfers between the disability insurance trust fund and the old-age and survivors insurance trust fund (see footnote 2 below).

[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 (preliminary) basis, with a final adjustment made in the following fiscal year.

Note: Reference should be made to the text which describes the underlying assumptions and limitations. Estimates were prepared in January 1970.

Estimates consistent with those shown on a fiscal-year basis in table 17 are presented in table 18 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 calendar years 1970–74, reaching about $12.9 billion on December 31, 1974.

TABLE 18.—OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND, CALENDAR YEARS 1957–74

[In millions]

Calendar year	Transactions during period								
	Income			Disbursements					
	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	Net increase in funds	Fund at end of period
Past experience:									
1957–69	$20,299	$80	$866	$15,972	$45	$979	$149	$4,100	$4,100
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
1967	2,286	16	78	1,939	11	109	31	290	2,029
1968	3,316	32	106	2,294	16	127	20	996	3,025
1969	3,599	16	177	2,542	15	138	21	1,075	4,100
Estimated future experience:									
1970	4,452	16	259	3,072	21	169	18	1,447	5,547
1971	4,735	23	344	3,274	25	171	17	1,615	7,162
1972	4,940	23	433	3,435	27	182	21	1,731	8,893
1973	5,150	23	536	3,578	29	192	22	1,888	10,781
1974	5,378	24	650	3,714	30	199	23	2,086	12,867

Note: In interpreting the above experience, reference should be made to the footnotes in table 17.

The total amount of disability benefit payments will continue to increase as the numbers of beneficiaries and the average monthly benefit amounts increase. Disability benefit expenditures as a percentage of taxable payroll will also increase —from 0.65 percent of taxable earnings for calendar year 1969 to an estimated 0.75 percent of taxable earnings in 1970 and to 0.77 percent in 1971–74, as shown in table 19.

TABLE 19.—DISABILITY INSURANCE BENEFIT PAYMENTS AS A PERCENTAGE OF TAXABLE EARNINGS,[1] CALENDAR YEARS 1957–74

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	1967	0.61
1958	.14	1968	.63
1959	.23	1969	.65
1960	.28		
1961	.44	Estimated future experience:	
1962	.52	1970	.75
1963	.55	1971	.77
1964	.57	1972	.77
1965	.65	1973	.77
1966	.59	1974	.77

[1] Percentage takes 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 contribution is payable on tips taxable as wages.
[2] For 1966–69, percentages are preliminary and subject to revision when complete tabulation of taxable earnings is available. For 1966–74, 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 13, 14, 17, and 18 reflect the effect of future financial interchanges.

Reference has also been made previously to the provisions of section 228 of the Social Security Act under which benefits are paid initially from the old-age and survivors insurance trust fund to certain noninsured persons aged 72 and over, with later reimbursement from the general fund of the Treasury for the costs of payments to those in this group who have less than 3 quarters of coverage. The estimates in tables 13–16 reflect the effect of these provisions.

The estimates in tables 13–19 reflect the effect of the provisions in section 222(d) of the Social Security Act authorizing expenditures from the old-age and survivors insurance and disability insurance trust funds for the cost of vocational rehabilitation services furnished to disabled beneficiaries.

Reference has been made in earlier sections to statutory provisions of the Social Security Act authorizing annual reimbursements from the general fund of the Treasury to the old-age and survivors insurance and disability insurance trust funds for costs of granting noncontributory credits for military service. The estimates shown in the various tables in this section reflect the effect of past and expected future reimbursements.

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 constitutes about 80 percent of the total cost, will rise for several reasons. The U.S. population is, in the long run, expected to 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, when measured as a percentage of taxable payroll, is closely related to the ratio of the population aged 65 and over (potential beneficiaries) to the population aged 20–64 (potential contributors). On January 1, 1970, this ratio was 18.2 percent. In a stationary population that would result if the death rates 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 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 did not work long enough in covered employment to be insured. Although the system began in 1937, many jobs were first covered in 1951 and 1955. It is estimated that the proportion of the aged population eligible for some type of cash benefit under the system will increase from a level of about 90 percent on January 1, 1970, to between 94 and 95 percent in 1980 and between 96 and 98 percent by the end of the century.

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-cost and high-cost estimates are based on the assumption of a 3.8-percent unemployment rate, with average annual earnings remaining at about the level that prevailed in 1969. Thus, changes slightly above and slightly below this level of unemployment would tend to offset each other over the long-range future period considered. This assumption as to the unemployment rate is made only for purposes of these actuarial cost estimates and is not intended to be an official Government forecast of this factor. If the unemployment rate were assumed to be somewhat lower, there would be relatively little effect on the resulting cost estimates.

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-cost 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-cost 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-cost and high-cost percentage-of-payroll figures.

Table 20 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 (subject to a maximum self-employed tax rate of 7.0 percent), 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 20.—ESTIMATED COSTS OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE BENEFIT PAYMENTS AS PERCENT OF PAYROLL [1], 1969 LEVEL-EARNINGS ASSUMPTION, 1980–2040

[In percent]

Calendar year	Low-cost estimate	High-cost estimate	Intermediate-cost estimate [2]
	Old-age and survivors insurance benefits [3]		
1980	7.99	8.31	8.15
1985	8.60	9.01	8.80
1990	9.05	9.61	9.32
2000	8.70	9.63	9.15
2025	10.24	12.85	11.43
2040	10.05	13.50	11.56
Level-cost [4]	8.39	9.43	8.86
	Disability insurance benefits [3]		
1980	0.88	1.09	.99
1985	.93	1.17	1.05
1990	.95	1.22	1.08
2000	1.01	1.36	1.18
2025	1.09	1.58	1.32
2040	1.14	1.62	1.34
Level-cost [4]	.94	1.27	1.10

[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-cost and high-cost estimates.

[3] Includes payments for vocational rehabilitation services.

[4] Level contribution rate, at an interest rate of 4.25 percent for high-cost, 4.75 percent for intermediate-cost, and 5.25 percent for low-cost, for benefits after 1969, taking into account interest on the trust fund on Dec. 31, 1969, future administrative expenses, the railroad retirement financial interchange provisions, and reimbursement for additional cost of noncontributory credit for military service.

Tables 21 and 22 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.

TABLE 21.—ESTIMATED PROGRESS OF OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, 1969 LEVEL-EARNINGS ASSUMPTION [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses [2]	Financial interchange [3]	Interest on fund	Fund at end of year
			Actual data			
1958	$7,566	$8,327	$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
1967	23,216	19,468	406	508	818	24,222
1968	24,101	22,642	476	438	939	25,704
			Low-cost estimate			
1980	$42,436	$38,009	$580	$630	$4,464	$95,614
1985	45,138	43,509	625	585	6,326	131,381
1990	48,177	48,883	671	524	7,937	163,051
1995	52,175	53,027	712	437	9,658	197,928
2000	56,758	55,308	743	338	12,209	250,473
			High-cost estimate			
1980	$41,724	$38,874	$649	$668	$3,065	$79,909
1985	44,324	44,748	703	620	3,738	95,302
1990	46,981	50,567	756	536	3,822	96,371
1995	50,287	55,129	802	445	3,421	86,390
2000	53,930	58,184	839	345	2,863	73,321
			Intermediate-cost estimate			
1980	$42,080	$38,442	$614	$649	$3,726	$87,630
1985	44,734	44,129	664	602	4,932	112,857
1990	47,578	49,726	714	530	5,675	128,435
1995	51,231	54,074	757	441	6,167	139,395
2000	55,344	56,748	791	341	6,898	156,527
2025	72,031	92,411	1,163	54	9,281	203,119

[1] Interest rates of 4.25 percent for high-cost, 4.75 percent for intermediate-cost, and 5.25 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. The projected values in this table are slightly different from those in the previously published cost estimates for the 1969 amendments (as contained in H. Rept. 91-700) due to refinements made in the financial interchange projections.

[2] These figures fluctuate in a nonsignificant manner from year to year, because of the method of reimbursement between this trust fund and the other 3 social security trust funds.

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

Note: Contributions include reimbursement for additional cost of noncontributory credit for military service and for special payments to persons aged 72 or over and benefits include payments for vocational rehabilitation services and special payments to persons aged 72 or over.

TABLE 22.—ESTIMATED PROGRESS OF DISABILITY INSURANCE TRUST FUND, 1969 LEVEL-EARNINGS ASSUMPTION [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses [2]	Financial interchange [3]	Interest on fund	Fund at end of year
Actual data:						
1958	$966	$249	$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
1967	2,302	1,950	109	31	78	2,029
1968	3,348	2,311	127	20	106	3,025
Low-cost estimate:						
1980	5,265	4,205	155	$20	1,116	23,295
1985	5,610	4,747	155	18	1,673	34,354
1990	5,989	5,153	162	9	2,356	48,074
1995	6,487	5,685	175	1	3,228	65,592
2000	7,059	6,492	196	−3	4,311	87,271
High-cost estimate:						
1980	5,180	5,121	197	$29	475	12,096
1985	5,510	5,847	212	25	498	12,518
1990	5,844	6,433	226	19	449	11,237
1995	6,257	7,175	246	13	318	7,929
2000	6,715	8,238	279	9	43	984
Intermediate-cost estimate:						
1980	5,222	4,663	176	$25	776	17,578
1985	5,559	5,299	184	22	1,020	23,057
1990	5,917	5,792	194	14	1,281	28,788
1995	6,372	6,431	210	7	1,566	35,046
2000	6,887	7,364	238	3	1,843	41,017
2025	8,946	10,702	342	−11	1,981	43,704

[1] Interest rates of 4.25 percent for high-cost, 4.75 percent for intermediate-cost, and 5.25 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. The projected values in this table are slightly different from those in the previously published cost estimates for the 1969 amendments (as contained in H. Rept. 91–700), due to refinements made in the financial interchange projections.

[2] These figures fluctuate in a nonsignificant manner from year to year, because of the method of reimbursement between this trust fund and the old-age and survivors insurance trust fund.

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

Note.—Contributions include reimbursement for additional cost of noncontributory credit for military service. Benefits include payments for vocational rehabilitation services.

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 are really most significant are relative figures such as those in table 20, 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 the scheduled tax rates in the early future years, but they eventually rise above the ultimate combined employer-employee rate of 8.90 percent. The excess income in the early years in addition to the interest earned by the fund, will be enough to finance the excess outgo in later years. For disability insurance, annual benefit payments as a percentage of taxable payroll are lower than the level allocation of 1.10 percent until 1990 (and higher thereafter) according to the intermediate-cost estimate; under the low-cost estimate, the benefit cost is below the allocation until after 2000, while under the high-cost estimate the benefit cost is above the allocation for all years after 1980.

To measure the extent to which the financing arrangements of the system result in a surplus or deficiency, a level contribution 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.

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 1970, at interest rates of 4.25 percent for high-cost, 4.75 percent for intermediate-cost, and 5.25 percent for low-cost:

[In percent of taxable payroll [1]]

Item	OASI	DI	Total
LOW-COST ESTIMATE			
Contributions	8.77	1.10	9.87
Benefits [2]	8.39	.94	9.33
Actuarial balance	.38	.16	.54
HIGH-COST ESTIMATE			
Contributions	8.79	1.10	9.89
Benefits [2]	9.43	1.27	10.70
Actuarial balance	−.64	−.17	−.81
INTERMEDIATE-COST ESTIMATE			
Contributions	8.78	1.10	9.88
Benefits [2]	8.86	1.10	9.96
Actuarial balance	−.08	-------------	−.08

[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. Includes payments for vocational rehabilitation services.

After the 1969 amendments, the Old-Age, Survivors, and Disability Insurance system as a whole is in substantial actuarial balance (there is a negative balance of 0.08 percent of taxable payroll on the intermediate-cost basis, which is within the acceptable limit of variation). The Old-Age and Survivors Insurance portion is in substantial actuarial balance (there is a negative balance of 0.08 percent of taxable payroll on the intermediate-cost basis), while the Disability Insurance portion is in exact actuarial balance.

If the intermediate-cost estimate had been based on a higher interest rate than 4.75 percent (which is the current average being earned by the total investments of the trust funds), but considerably below the prevailing market rate of interest on long-term Government obligations, which was about 7.25 percent in December 1969, the actuarial balance of the total program would have been higher. Thus, for example, the use of a 5 percent interest rate would increase the actuarial balance of the program by about 0.05 percent of taxable payroll, and a 5¼ percent interest rate would increase it by 0.10 percent of taxable payroll. Similarly, using a 4.75 percent interest rate, a change in the assumed earnings level from that prevailing in 1969 to that prevailing in 1970 would increase the actuarial balance by 0.20 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 actuarial 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 1969. 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 23 and 24 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 at an average annual rate of 1¾ percent and with the average total earnings of covered workers increasing at an annual rate of 4 percent (somewhat higher increases are assumed in the first few years).

TABLE 23.—ESTIMATED PROGRESS OF TRUST FUNDS, INCREASING EARNINGS ASSUMPTION, FIXED EARNINGS BASE, AND EQUIVALENT 4.75-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					
1980	$54,590	$40,348	$774	$590	$6,852	$162,009
1985	63,679	47,350	945	518	12,231	281,899
	Disability insurance trust fund					
1980	$6,766	$4,870	$228	$14	$1,183	$27,426
1985	7,898	5,773	261	9	1,855	44,388

[1] On the same basis as used to develop the trust funds for the long-range intermediate cost estimates in tables 21 and 22.

[2] Includes reimbursement for additional cost of noncontributory credits for military service and for old-age and survivors trust fund includes reimbursement from the General Treasury for the cost of special benefits to certain persons aged 72 and over.

[3] For the old-age and survivors insurance trust fund, includes the special payments to certain persons aged 72 and over that are reimbursable from the General Treasury. Includes payments for vocational rehabilitation services.

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

TABLE 24.—ESTIMATED PROGRESS OF TRUST FUNDS, INCREASING EARNINGS AND BENEFITS ASSUMPTIONS, VARIABLE EARNINGS BASE, AND EQUIVALENT 4.75 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					
1980	$66,523	$59,585	$958	$926	$5,179	$123,128
1985	86,830	85,656	1,289	1,095	7,028	162,943
	Disability insurance trust fund					
1980	$8,237	$7,216	$282	$34	$949	$22,036
1985	10,759	10,256	356	39	1,300	29,743

[1] On the same basis as used to develop the trust funds for the long-range intermediate cost estimates in tables 21 and 22

[2] Includes reimbursement for additional cost of noncontributory credits for military service and for old-age and survivors trust fund includes reimbursements from the General Treasury for the cost of special benefits to certain persons aged 72 and over.

[3] For the old-age and survivors insurance trust fund, includes the special payments to certain persons aged 72 and over that are reimbursable from the General Treasury. Includes payments for vocational rehabilitation services.

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

In the first projection (table 23), the maximum taxable earnings base is assumed to remain at $7,800 per year, while for the second one (table 24), the base is assumed to be kept up-to-date—that is, changed periodically so as to cover about the same proportion of total earnings that was covered in 1971 by the $7,800 base. These assumptions imply that, for the first projection, only about three-sevenths of the 97-percent increase in average earnings that is estimated to occur in 1970–85 will be taxable under the program, due to the dampening effect of the fixed maximum taxable earnings base. For the second projection, the entire 97-percent increase will be taxable because of the assumed constant up-dating of the taxable earnings base.

It is assumed for the first projection that all provisions of the law would remain as they were after the 1969 amendments. This projection is based on dynamic earnings-level assumptions and static benefit-provision assumptions. However, over the 16-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 1970–85 are the same as those shown in the long-range intermediate-cost estimates prepared on level-earnings assumptions. The cost estimate shown in table 24 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 23 and 24, according to the medium-range estimates, the old-age and survivors insurance trust fund grows steadily through the 16-year period—reaching $162 billion in 1980 in the first projection and $123 billion in the second one. For 1985, the corresponding figures for the balance in the trust fund are $282 billion and $163 billion, respectively. In 1985, estimated contribution income exceeds benefit outgo by about 34.5 percent under the assumptions of dynamic earnings-level conditions and static benefit provisions, but by only 1.4 percent under the "double dynamic" assumptions basis.

The disability insurance trust fund, according to the first projection, increases rapidly—reaching about $27 billion in 1980 and about $44 billion in 1985. According to the second projection, with the "double dynamic" assumptions, the fund increases less rapidly reaching $22 billion in 1980 and $30 billion in 1985.

Actuarial Analysis of Benefit Disbursements From the Federal Old-Age and Survivors Insurance Trust Fund With Respect to Disabled Beneficiaries

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

On December 31, 1969, about 309,000 persons were receiving monthly benefits from the old-age and survivors insurance trust fund with respect to disability. In addition to disabled beneficiaries, this total includes 26,000 mothers. These mothers—wives under age 65 of retired-worker beneficiaries and widows of deceased insured workers—met all other qualifying requirements and were receiving benefits solely because they had at least one disabled-child beneficiary in their care. Benefits paid from this trust fund to this class of beneficiaries totaled $254 million in calendar year 1969, or 0.065 percent of taxable earnings for that year. Similar figures are presented in table 25 to show the past experience in each of the calendar years 1957–69.

Table 25 also shows the expected future experience in calendar years 1970–74. Total benefit payments from the old-age and survivors insurance trust fund with respect to disabled beneficiaries will increase from $325 million (or 0.079 percent of taxable payroll) in calendar year 1970, to $409 million (or 0.084 percent) in 1974.

TABLE 25.—BENEFITS PAYABLE FROM THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND WITH RESPECT TO DISABLED BENEFICIARIES, CALENDAR YEARS 1957–74

[Beneficiaries in thousands; benefit payments in millions]

Calendar year	Disabled beneficiaries, end of year			Amount of benefit payments [1]			Benefit payments [1] as a percentage of taxable earnings [2]		
	Total	Children [3]	Widows and widowers	Total	Children [3]	Widows and widowers	Total	Children [3]	Widows and widowers
Past experience:									
1957	34	34		$7	$7		0.004	0.004	
1958	59	59		23	23		.013	.013	
1959	94	94		41	41		.021	.021	
1960	117	117		59	59		.030	.030	
1961	138	138		74	74		.036	.036	
1962	163	163		89	89		.042	.042	
1963	183	183		101	101		.046	.046	
1964	200	200		113	113		.050	.050	
1965	214	214		134	134		.055	.055	
1966	228	228		147	147		.049	.049	
1967	243	243		163	163		.051	.051	
1968	278	256	22	213	198	$15	.058	.054	.004
1969	309	270	39	254	214	40	.065	.055	.010
Estimated future experience:									
1970	330	284	46	325	271	54	.079	.066	.013
1971	347	297	50	347	289	58	.081	.067	.013
1972	364	311	53	368	307	61	.082	.068	.014
1973	380	324	56	389	325	64	.083	.070	.014
1974	396	338	58	409	343	66	.084	.070	.014

[1] Beginning in 1966, includes payments for vocational rehabilitation services.

[2] Percentage takes 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 contribution is payable on tips taxable as wages.

[3] Reflects effect of including a relatively small number (about 26,000 at the end of 1969) of mothers—wives under age 65 of retired-worker beneficiaries and widows of deceased insured workers—who met all other qualifying requirements and were receiving benefits solely because they had at least 1 disabled-child beneficiary in their care.

In calendar year 1969, benefit payments (including expenditures for vocational rehabilitation services) with respect to disabled persons from the old-age and survivors insurance trust fund and from the disability insurance trust fund (including payments from the latter fund to all dependents of disabled-worker beneficiaries) totaled $2,811 million, of which $254 million, or 9.0 percent, represented payments from the old-age and survivors insurance trust fund. Similar figures for all of the calendar years 1957–74 are presented in table 26.

TABLE 26.—BENEFIT PAYMENTS UNDER THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM WITH RESPECT TO DISABLED BENEFICIARIES, BY TRUST FUND, CALENDAR YEARS 1957–74

[In millions]

		Benefit payments [1] from—		
			Old-age and survivors insurance trust fund	
Calendar year	Total [1]	Disability insurance trust fund [2]	Amount [3]	As a percentage of total benefit payments with respect to disabled beneficiaries
Past experience:				
1957	$64	$57	$7	11.1
1958	272	249	23	8.5
1959	498	457	41	8.2
1960	627	568	59	9.4
1961	961	887	74	7.7
1962	1,194	1,105	89	7.4
1963	1,311	1,210	101	7.7
1964	1,422	1,309	113	8.0
1965	1,707	1,573	134	7.9
1966	1,932	1,784	147	7.6
1967	2,113	1,950	163	7.7
1968	2,524	2,311	213	8.5
1969	2,811	2,557	254	9.0
Estimated future experience:				
1970	3,419	3,094	325	9.5
1971	3,646	3,299	347	9.5
1972	3,830	3,462	368	9.6
1973	3,996	3,607	389	9.7
1974	4,153	3,744	409	9.8

[1] Beginning in 1966, includes payments for vocational rehabilitation services.
[2] Benefit payments to disabled workers and their dependents.
[3] Benefit payments to disabled children aged 18 and over, to certain mothers (see footnote 3, table 25), and, beginning in 1968, to disabled widows and widowers.

The long-range level-cost of benefits to disabled workers and their dependents under the disability insurance program is estimated at 1.10 percent of taxable payroll, according to the intermediate-cost estimate. Similarly, the estimated long-range level-cost of benefits with respect to disabled beneficiaries under the old-age and survivors insurance program is estimated at 0.13 percent of taxable payroll (table 27), or about 11 percent of the combined level-cost of 1.23 percent of taxable payroll for benefits with respect to disabled beneficiaries under the old-age and survivors insurance and disability insurance programs. These estimates include expenditures for vocational rehabilitation services, which, over the long-range period of the cost estimates, are expected to be offset by lower benefit payment due to shorter durations of disabilities.

TABLE 27.—ESTIMATED COSTS OF DISABILITY BENEFIT PAYMENTS UNDER OLD-AGE AND SURVIVORS INSURANCE PROGRAM AS PERCENT OF PAYROLL [1], 1969 LEVEL-EARNINGS ASSUMPTION

[In percent]

	Low-cost estimate	High-cost estimate	Intermediate-cost estimate [2]
Disabled children aged 18 or over [3]	0.10	0.10	0.10
Disabled widows and widowers aged 50 or over	.02	.04	.03
Total	.12	.14	.13

[1] Taking into account the lower contribution rate on self-employment income, on tips, and on multiple-employer "excess wages," as compared with combined employer-employee rate.
[2] Based on the average of dollar contributions and dollar costs under the low- and high-cost estimates.
[3] Including the related mother's and wife's benefits.

The cost of benefits to disabled children aged 18 and over of deceased or retired workers (including the related mother's and wife's benefits) is projected to increase in the future from the 1969 level of 0.05 percent of taxable payroll to an ultimate level of 0.11 percent. No significant difference is projected between the low-cost and high-cost estimates as a result of changes in the mortality rates of workers, since an eligible child may qualify either as a dependent of a retired worker or as a survivor of a deceased worker. Moreover, the proportion of persons in the population with childhood disabilities should be expected to remain stable. This occurs because most of their disabling conditions are of a congenital nature.

The cost of benefits to disabled widows and widowers aged 50 and over is projected to increase rapidly and then to level off at about 0.03 percent of taxable payroll. Initially, the cost will increase rapidly because of additional disabled widows and widowers coming on to the rolls each year. However, since the reduction in benefits is permanent, there will be, later, the offsetting effect of lower benefits that will be paid to disabled widows who continue to receive benefits past age 60 (and to disabled widowers past age 62) as compared to the higher nondisabled widow's (and widower's) benefit that would have been otherwise paid. Wide relative variation in cost is projected between the low-cost estimate and the high-cost estimate. This is due to differences in projected future mortality of insured workers and to differences in projected disability prevalence rates among eligible widows and widowers.

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 in close actuarial balance.

According to the intermediate-cost estimate, the old-age and survivors insurance program has a small negative actuarial balance (namely, —0.08 percent of taxable payroll on a level-cost basis computed over the next 75 years), which is within an acceptable margin of variation for the intermediate-cost estimate considering the long-range nature of the estimates. The disability insurance program shows exact actuarial balance.

These long-range cost estimates show that the system, as modified by the 1969 amendments, continues to be financed on an actuarially sound basis. Both the old-age and survivors insurance programs and the disability insurance program will have sufficient income from contributions (based on the tax schedule and taxable earnings base now in the law) and from investments to meet the cost of benefit payments and administrative expenses both for the next 15 to 20 years and for the distant future.

The Board of Trustees believes that the increase in the contribution rates for the old-age, survivors, and disability insurance program that is scheduled to go into effect on January 1, 1971, need not be as large as is provided (i.e., for the combined employer-employee rate, from 8.4 percent to 9.2 percent). The total contribution rate for old-age, survivors, and disability insurance and hospital insurance could well be left unchanged (i.e., a combined employer-employee rate of 10.4 percent for 1971, as against 9.6 percent for 1970), but a larger portion allocated to the hospital insurance program. If this were done, it would be necessary to have a somewhat higher ultimate contribution rate for the cash benefits program than would otherwise be the case.

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 average percentages for 1963–67 for males were projected to increase slightly (so as to reflect some decrease in the unemployment rate over that prevailing in the period), 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.

The foregoing assumptions are consistent with the assumptions as to the average unemployment rate in the future. A depression lasting several years could substantially increase the cost, but it is believed that any periods of low employment would be of relatively short duration and would have virtually no long-range cost effect.

[1] A more detailed discussion of the procedures followed in making the long-range cost estimates can be found in Actuarial Study No. 69, Social Security Administration.

Earnings

Level average earnings at about the 1969 level were assumed for each sex. This assumption implies that within each sex group the earnings level would not rise on account of changes in the distribution of covered workers by occupation or industry.

In the past, average earnings have increased substantially, partly because of inflation, and partly because of increased productivity, although other factors such as hours worked and unemployment have also had an effect. 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 taxable 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 1968 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 about the 1968 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 eligibility for 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. For ages 50–59 the disabled widow beneficiaries were estimated from the eligible widows by using disability prevalence rates.

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.

APPENDIX TABLE 1.—MONTHLY RETIREMENT BENEFICIARIES IN CURRENT-PAYMENT STATUS[1] 1958-2000

[In thousands]

Calendar year	Old-age beneficiaries		Wives of old-age beneficiaries[2]	Aged widows[3]	Dependent parents	Total
	Male	Female				
Actual data:						
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	6,825	4,276	2,614	2,371	35	16,121
1966	7,034	4,624	2,640	2,602	35	16,935
1967	7,161	4,859	2,645	2,770	34	17,469
1968	7,310	5,111	2,646	2,938	32	18,037
Low-cost estimate:						
1980	9,027	7,662	2,849	3,651	33	23,222
1985	9,830	8,731	2,948	3,858	34	25,401
1990	10,575	9,753	3,056	3,858	35	27,277
1995	11,013	10,503	3,003	3,963	35	28,517
2000	11,128	10,994	2,865	3,909	34	28,930
High-cost estimate:						
1980	9,482	8,008	2,987	3,524	34	24,035
1985	10,513	9,329	3,120	3,657	35	26,654
1990	11,496	10,612	3,244	3,681	36	29,069
1995	12,176	11,626	3,242	3,723	34	30,801
2000	12,512	12,358	3,071	3,894	32	31,867

[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 lowtered 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 and disabled widows and widowers aged 50 and over.

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 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 were estimated by assuming a constant ratio of mothers to children, after excluding maternal orphans and 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

The future number of persons receiving monthly disability benefits based on their own earnings is estimated by the application of incidence and termination rates. These rates were developed from the most recent experience data available from the operations of the disability insurance system. The population insured for disability (by sex, age, and cost assumption) is multiplied by the incidence rates to arrive at the number of new cases of disabled workers. These in turn are projected through the use of mortality and recovery rates to obtain the number of beneficiaries.

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

APPENDIX TABLE 2.—MONTHLY BENEFICIARIES UNDER MINIMUM RETIREMENT AGE IN CURRENT-PAYMENT STATUS[1] AND NUMBER OF DEATHS RESULTING IN LUMP-SUM DEATH PAYMENTS, 1958-2000

[In thousands]

Calendar year	Children[2]	Widowed mothers	Disability beneficiaries			Total monthly benefi-ciaries	Lump-sum death cases
			Workers	Wives[3]	Children[4]		
Actual data:							
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
1966	2,739	488	1,097	220	654	5,197	1,060
1967	2,873	496	1,194	235	713	5,511	1,134
1968	3,009	505	1,295	253	787	5,849	1,218
Low-cost estimate:							
1980	3,347	519	1,702	291	929	6,788	1,563
1985	3,471	542	1,836	310	960	7,119	1,652
1990	3,779	598	1,947	325	977	7,626	1,812
1995	4,019	639	2,121	350	1,022	8,151	1,923
2000	4,187	671	2,409	393	1,117	8,777	2,044
High-cost estimate:							
1980	3,235	489	2,076	357	1,140	7,297	1,519
1985	3,214	484	2,278	374	1,197	7,547	1,636
1990	3,326	500	2,445	395	1,260	7,926	1,748
1995	3,381	505	2,692	426	1,360	8,364	1,860
2000	3,364	500	3,069	479	1,528	8,940	1,970

[1] See footnote 1 of app. table 1 for definition of minimum retirement age. Does not include wives under age 62 of old-age beneficiaries; including 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.

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 1969 earnings level were in effect throughout the entire working life of all workers with respect to whom benefits are being paid. The values were later adjusted to take into account the effect of the 1969 amendments. 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 1970 as shown in tables 15 and 18 is projected to increase by about 45 percent in the low-cost estimate and by about 90 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 aged population consists of persons born in the 1930's, when birth rates were low.

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 higher average wage of railroad employees and the increasing proportion of wives and widows of railroad workers receiving old-age, survivors, and disability insurance benefits on their own earnings records, rather 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 4.75 percent was assumed. This is somewhat above the average yield of the total investments of the old-age and survivors insurance trust fund as of December 31, 1969 (4.66 percent), but is below the corresponding rate for the disability insurance trust fund (5.40 percent); the rate applicable for new investments for both trust funds for December 1969 was 7¼ percent. The interest rates for the low-cost and high-cost estimates were assumed at 5.25 percent and 4.25 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

[1] Amendments to the Social Security Act and to related sections of the Internal Revenue Code were made during the period 1939–69. 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 23rd annual report, the changes made in 1964 are described in the 25th annual report, and the more important changes contained in the amendments made in 1965 and in 1966 are described in the 1967 annual report. The more important changes contained in the 1967 amendments are described in the 1969 annual report. The more important changes contained in the amendments made in 1969 are described in the main body of the present report.

eventually the higher average wage of railroad employees and the increasing proportion of wives and widows of railroad workers receiving old-age, survivors, and disability insurance benefits on their own earnings records, rather 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 4.75 percent was assumed. This is somewhat above the average yield of the total investments of the old-age and survivors insurance trust fund as of December 31, 1969 (4.66 percent), but is below the corresponding rate for the disability insurance trust fund (5.40 percent); the rate applicable for new investments for both trust funds for December 1969 was 7¼ percent. The interest rates for the low-cost and high-cost estimates were assumed at 5.25 percent and 4.25 percent, respectively.

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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 effect through December 31, 1956.

In accordance with the Social Security Amendments of 1956, which provided for the creation of the Federal disability insurance trust fund, the 2-percent rates were increased to 2¼ percent each on January 1, 1957, in order to finance the new disability benefits under the expanded old-age, survivors, and disability insurance (OASDI) program. These rates 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, and to 3.9 percent each on January 1, 1967. As provided by the Social Security Amendments of 1967, the rates decreased to 3.8 percent each on January 1, 1968 (this drop was exactly counterbalanced by an increase in the contribution rate for hospital insurance), and then increased to 4.2 percent each on January 1, 1969.

Beginning on January 1, 1966, coverage was extended to include cash tips, with only the employee's share of the contributions payable (the employer is exempted from payment of contributions on cash tips).

Beginning January 1, 1951—the effective date of extension of coverage to self-employed persons—the contribution rates on self-employment income have been approximately equal to 1½ times the corresponding employee rates.

The Social Security Amendments of 1956 provided that beginning January 1, 1957, from the total contribution income based on the foregoing rates, contributions at the rate of 0.25 percent each for employees and employers, and 0.375 percent for the self-employed, should be allocated to the disability insurance trust fund. In accordance with the Social Security Amendments of 1965, this allocation for the disability insurance (DI) program 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. As provided by the Social Security Amendments of 1967, the rates allocated for the DI program increased to 0.475 percent each for employees and employers and 0.7125 for the self-employed, on January 1, 1968.

The contribution rates that have been in effect since 1937, as well as the rates that have been allocated (after 1956) for payment of benefits from the disability insurance trust fund and the maximum amount of annual earnings to which the rates applied, are shown in appendix table 3.

APPENDIX TABLE 3.—CONTRIBUTION RATES AND MAXIMUM TAXABLE AMOUNT OF ANNUAL EARNINGS, CALENDAR YEARS 1937–69

Calendar years	Maximum taxable amount of annual earnings	Contribution rates (percent of taxable earnings): OASDI: Employees and employers, each	OASDI: Self-employed	DI [1]: Employees and employers, each	DI [1]: 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	0.250	0.3750
1959	4,800	2.500	3.750	.250	.3750
1960–61	4,800	3.000	4.500	.250	.3750
1962	4,800	3.125	4.700	.250	.3750
1963–65	4,800	3.625	5.400	.250	.3750
1966	6,600	3.850	5.800	.350	.5250
1967	6,600	3.900	5.900	.350	.5250
1968	7,800	3.800	5.800	.475	.7125
1969	7,800	4.200	6.300	.475	.7125

[1] Included in total OASDI rate.

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 the general fund of the Treasury. 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 the general fund of the Treasury 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 1965 amendments provided a new basis of reimbursement to the trust funds from the general fund of the Treasury for the foregoing expenditures. Under the new basis, annual appropriations to the trust funds from the general fund of the Treasury are authorized, beginning with 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.

The 1967 amendments provided that, after December 31, 1967, the covered earnings of a person on active duty in the uniformed services (including active duty for training) are deemed to be $300 more than his basic pay in a calendar quarter, except that the deemed additional covered earnings are $100 when his basic pay in a calendar quarter is $100 or less, and $200 when his basic pay in a quarter is over $100 but is not over $200. Annual appropriations from the general fund of the Treasury are authorized to reimburse the trust funds for the additional costs of paying the benefits resulting from these deemed additional earnings.

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.

Payments for cost of vocational rehabilitation services.—The Social Security Amendments of 1965 provided for payments from the old-age and survivors insurance and disability insurance 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 Social Securiity Amendments of 1967 broadened the categories of disabled beneficiaries by providing payments from the old-age and survivors insurance trust fund for the cost of vocational rehabilitation services furnished to disabled widows, prior to attaining age 60, and to disabled widowers prior to attaining age 62. 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. The statutory provisions authorizing payments from the trust funds for the cost of vocational rehabilitation services are set forth in appendix III.

Investments.—Since the inception of the program, provision has been made for the investment of funds which are not required to meet current disbursements. As provided in the Social Security Act, 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; or the funds may be invested in certain federally-sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. These obligations may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price. 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 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-eight 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 December 30, 1969

(Sec. 201, sec. 217, sec. 218(e)(1), (h), and (j), sec. 222(d), sec. 228, sec. 229, 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 there after, 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)(A) 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, (B) 0.70 of 1 per centum of the wages (as so defined) paid after December 31, 1965, and before January 1, 1968, and so reported, (C) 0.95 of 1 per centum of the wages (as so defined) paid after December 31, 1967, and before January 1, 1970, and so reported, and (D) 1.10 per centum of the wages (as so defined) paid after December 31, 1969, 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) (A) 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, (B) 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, and before January 1, 1968, (C) 0.7125 of 1 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1967, and before January 1, 1970, and (D) 0.825 of 1 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1969, 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 mainted 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 April 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 also include an actuarial analysis of the benefit disbursements made from the Federal Old-Age and Survivors Insurance Trust Fund with respect to disabled beneficiaries. 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, acutally 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 subchapter III of chapter 83 of title 5, United States Code, 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 subchapter III 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 subchapter III of chapter 83 of title 5, United States Code, 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).

Gratuitious 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), or

(C) entitled to widow's insurance benefits under section 202(e) prior to attaining age 60, or

(D) entitled to widower's insurance benefits under section 202(f) prior to attaining age 62,

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, the benefits under section 202(e) for widows and surviving divorced wives who have not attained age 60 and are under a disability, the benefits under section 202(f) for widowers who have not attained age 62, and the benefits under section 223, which were 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 of 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 $46.

(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 $46 and the amount of the wife's benefit for such month shall be $23.

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) $23.

(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 amount of any periodic benefits under governmental pension systems for which the husband is eligible for such month, over (ii) $46, 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) $23.

(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, X, XIV, or XVI, or part A of title IV, 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.

BENEFITS IN CASE OF MEMBERS OF THE UNIFORMED SERVICES

SEC. 229. (a) For purposes of determining entitlement to and the amount of any monthly benefit for any month after December 1967, 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 individual, and for purposes of section 216(i)(3), such individual shall be deemed to have been paid, in each calendar quarter occurring after 1967 in which he was paid wages for service as a member of a uniformed service (as defined in section 201(m)) which was included in the term "employment" as defined in section 210(a) as a result of the provisions of section 210(l), wages (in addition to the wages actually paid to him for such service) of—

(1) $100 if the wages actually paid to him in such quarter for such services were $100 or less,

(2) $200 if the wages actually paid to him in such quarter for such services were more than $100 but not more than $200, or

(3) $300 in any other case.

(b) There are authorized to be appropriated to the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, and the Federal Hospital Insurance Trust Fund annually, as benefits under this title and part A of title XVIII are paid after December 1967, such sums as the Secretary determines to be necessary to meet (1) the additional costs, resulting from subsection (a), of such benefits (including lump-sum death payments), (2) the additional administrative expenses resulting therefrom, and (3) any loss in interest to such trust funds resulting from the payment of such amounts. Such additional costs shall be determined after any increases in such benefits arising from the application of section 217 have been made.

ADVISORY COUNCIL ON SOCIAL SECURITY

SEC. 706. (a) During 1969 (but not before February 1, 1969) and every fourth year thereafter (but not before February 1 of such fourth year), 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 a Chairman and 12 other persons, appointed by the Secretary without regard to the provisions of title 5, United States Code, governing appointments in the competitive service. 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 5703 of title 5, United States Code, for persons in the Government employed intermittently.

(d) Each such Council shall submit reports (including any interim reports such Council may have issued) 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.

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