Click for Table of Contents

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1976 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

COMMUNICATION

FROM

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

TRANSMITTING

THE 1976 ANNUAL REPORT OF THE BOARD, PURSUANT TO SECTION 201(c) OF THE SOCIAL SECURITY ACT, AS AMENDED

MAY 25, 1976.—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., May 24, 1976.

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

SIR: We have the honor to transmit to you the 1976 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 36th such report), in compliance with the provisions of section 201(c) of the Social Security Act.

Respectfully,

WILLIAM E. SIMON,
Secretary of the Treasury,
and Managing Trustee of the Trust Funds.

W. J. USERY, JR.,
Secretary of Labor.

DAVID MATHEWS,
Secretary of Health, Education, and Welfare.

JAMES B. CARDWELL,
Commissioner of Social Security.

Click on a Topic Below

CONTENTS

1976 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

The Federal Old-Age and Survivors Insurance Trust Fund, established on January 1, 1940, and the Federal Disability Insurance Trust Fund, established on August 1, 1956, are held by the Board of Trustees under the authority of Section 201(c) of the Social Security Act. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the Managing Trustee. The Commissioner of Social Security is Secretary of the Board. The Board of Trustees reports to the Congress once each year, in compliance with Section 201(c)(2) of the Social Security Act. This report is the annual report for 1976, the 36th such report.

HIGHLIGHTS

The more important developments since the 1975 annual report, discussed in more detail in later sections, are indicated below:

(a) The growth of the old-age, survivors, and disability insurance system during fiscal year 1975 was close to that predicted in the 1975 annual report. Income in fiscal 1975 amounted to $66.7 billion, up by 16 percent over fiscal 1974. Outgo totaled $64.7 billion, also up by 16 percent over fiscal 1974. The funds increased by $2.0 billion in fiscal 1975, to a level of $48.1 billion on June 30, 1975, an amount that was about equal to total outgo during the following 8 months. During fiscal year 1975, several changes affecting the operations of the trust funds occurred under the automatic increase provisions in the law. The first automatic cost-of-living benefit increase, determined to be 8.0 percent, became effective for June 1975. The published statement announcing the determination of the increase is shown in Appendix C. (This increase did not affect trust fund operations in fiscal year 1975, since June was the last month of the fiscal year and benefits for a given month are not paid until the following month.) The contribution and benefit base increased under the automatic provisions, from $13,200 to $14,100, effective January 1, 1975. The amount that a beneficiary may earn in a year and still receive all of his benefits under the retirement test (i.e., the annual exempt amount) also increased under the automatic provisions, from $2,400 to $2,520, effective January 1, 1975. The comparison of trust fund operations in fiscal year 1975 with operations in fiscal year 1974 is also affected by an 11-percent general benefit increase that became effective in two steps—the first, an interim increase of 7 percent effective for the 3 months March–May 1974, followed by the full 11-percent increase effective for June 1974.

(b) The number of persons receiving monthly benefits under the old-age, survivors, and disability insurance program totaled 31.4 million by the end of June 1975. An estimated 100 million workers had earnings in calendar year 1975 that were taxable and creditable toward benefits under the program.

(c) The trust funds earned interest of $2.8 billion during the fiscal year, equivalent to an effective annual rate of 6.5 percent on the total assets of the trust funds.

(d) Increases in the contribution and benefit base and in the annual exempt amount under the retirement test were determined in October 1975 under the automatic increase provisions in the law. The new amounts, effective for January 1, 1976, are $15,300 and $2,760, respectively. The published statement announcing the determination of these amounts is shown in Appendix D.

(e) An automatic cost-of-living benefit increase effective for June 1976 was determined to be 6.4 percent.

(f) Estimates of the future operations and status of the trust funds are shown in later sections under three alternative sets of assumptions for the period 1976–81. Under the intermediate set of these alternative assumptions, the projected outlays of the combined old-age and survivors insurance and disability insurance systems are estimated to exceed the tax income, according to the scheduled tax rates and estimated future increases in the contribution and benefit base, in every calendar year beginning with 1976. This annual deficit is estimated to be, on the average, 0.82 percent of taxable earnings over the 6-year period 1976–81. Assets of both the old-age and survivors insurance trust fund and the disability insurance trust fund are estimated to decline during this period; and, without legislation to provide additional financing, the assets of the disability insurance trust fund will be exhausted in 1979 and the assets of the old-age and survivors insurance trust fund will be exhausted in 1984.

(g) With regard to the long-range actuarial status of the system during the period 1976–2050, the projected outlays of the combined old-age and survivors insurance and disability insurance systems are estimated to exceed the tax income, according to the scheduled tax rates and estimated future increases in the contribution and benefit base, in every calendar year beginning with 1976. Estimates are shown based upon three alternative sets of assumptions. Under the intermediate set of these alternative assumptions, this annual deficit (i.e., the excess of outlays over tax income) is estimated to be, on the average, 1.91 percent of taxable earnings over the next 25-year period (1976–2000); 6.85 percent over the second 25-year period (2001–2025); and 15.14 percent over the third 25-year period (2026–2050). Over the entire 75-year period (1976–2050), the average annual deficit is estimated to be 7.96 percent of taxable payroll. These deficits, particularly for the period after the year 2000, should be interpreted with caution because they are based upon future benefit levels which are much higher, relative to preretirement earnings, than are currently prevailing benefit levels and which will not materialize if realistic legislation is enacted to redress the imbalance. These unrealistically high benefit levels result from the complex and apparently unintentional way in which future benefits are related to changes in wages and the Consumer Price Index.

(h) Because of the artificially high benefits projected under present law, it was believed that a more realistic picture of the future financial status of the system would result from study of a "modified theoretical system" which would provide approximately the same levels of benefits, relative to earnings, in the future as are currently provided. Accordingly, estimates of income and outgo have been prepared and are presented in the report for a "modified theoretical system" which would maintain through time the relationship between average awarded benefits and average earnings at the beginning of 1978. After retirement, disability, or death, benefits would continue to be increased, as under present law, to adjust for changes in the Consumer Price Index. Even under the "modified theoretical system" the projected outlays of the combined old-age and survivors insurance and disability insurance systems are estimated to exceed the tax income, according to the scheduled tax rates and estimated future increases in the contribution and benefit base, in every calendar year beginning with 1976. Under the intermediate set of the three alternative sets of assumptions, this annual deficit is estimated to be, on the average, 1.68 percent of taxable earnings over the next 25-year period (1976–2000); 3.81 percent over the second 25-year period (2001–2025); and 7.40 percent over the third 25-year period (2026–2050). Over the entire 75-year period (1976–2050), the average annual deficit is estimated to be 4.28 percent of taxable payroll.

(i) Social security coverage for public employees of the States and their political subdivisions is available only on a group voluntary basis through agreements between the Secretary of Health, Education, and Welfare and the individual States. After coverage of the employees of a State, or of a political subdivision of the State, has been in effect for at least 5 years, the State may give notice of its intention to terminate the coverage of such employees. The termination of coverage becomes effective 2 years after such notice is given, unless the State withdraws the notice of termination within the 2-year period. However, once the termination becomes effective, the decision is irrevocable and the same group of employees cannot be brought back into coverage again. In the past 4 years there has been an increasing trend in the termination of coverage for groups of State and local government employees. Despite this trend, the total number of employees becoming covered under new agreements in each year through 1975 has been larger than the number of employees for whom coverage was terminated during the year. However, this relationship may be reversed as a result of increased interest in the termination of coverage on the part of some larger groups of State and local government employees. Recently, notice has been given of the intention to terminate coverage of some of these larger groups of employees. The filing of such a notice by a State does not necessarily mean that coverage will be terminated because, as noted above, the State may withdraw the notice during the 2-year period before the termination becomes effective. The termination of coverage for any large number of State or local government employees would have an adverse effect on the status of the trust funds, especially in the short range. In fiscal year 1975, tax contributions received by the trust funds from workers employed by State and local governments and from such employers, under all of the coverage agreements in effect, amounted to $6.7 billion, or about 11 percent of total tax contributions in the year. The estimates presented in this report do not reflect the effects of any coverage terminations that may become effective in the future.

Social Security Amendments Since 1975 Report

Public Law 94–202, enacted January 2, 1976, amended provisions of the law governing hearings and judicial review and also included a provision to institute a single annual wage reporting system for both social security and Federal income tax purposes. Under the annual reporting provisions, employers will no longer be required to file quarterly reports of taxable wages paid to each employee, beginning with wages paid in calendar year 1978. Instead, the same annual report used for Federal income tax purposes (Form W–2) will also be used in determining eligibility for social security benefits and the amount of such benefits payable on individual earnings records.

The annual reporting provisions also make important changes in the method used to determine automatic increases in the contribution and benefit base and in the retirement test exempt amount. Under prior law, any new determination of such automatic increases was based on the increase in average taxable wages paid in the first calendar quarter of the year in which the latest determination was made to the first calendar quarter of the year in which the new determination is being made. Under the law as modified by Public Law 94–202, total annual wages, rather than first-quarter taxable wages, will be used in making automatic increase determinations.

In determining the base and the exempt amount for each year 1977–80, the amount of annual average wages in any given year 1978 or prior, as required for the determination, will be deemed to be 4 times the amount of average taxable wages in the first quarter of the given year. There will also be a 1-year shift in the measuring period for determining the increases for 1977 and later, since annual wage data will not become available until about 1 year later than first-quarter data under the quarterly reporting system. (Although annual reporting does not begin until 1978, the 1-year shift in the measuring period begins with the 1976 determination.) For example, the base for 1977—to be determined in 1976—is to be based on the increase in annual average wages from 1974 (deemed to be 4 times average taxable wages for the first quarter of 1974) to 1975 (deemed to be 4 times average taxable wages for the first quarter of 1975). Because of this 1-year shift, the percentage increase in average wages to be used in the determination of the base and the exempt amount for 1977 is the same as the percentage used in establishing the corresponding amounts for 1976.

The base and the exempt amount for any year after 1980 will be determined based on the increase in annual average wages from the year preceding the last year in which such a determination was made to the year immediately preceding the year in which a new determination is being made.

Nature of the Trust Funds

The Federal old-age and survivors insurance trust fund was established on January 1, 1940, as a separate account in the United States Treasury 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 disabled insured workers under age 65 and to their dependents.

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

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

The contribution rates applicable to taxable earnings in each of the calendar years 1937 and later, and the allocation of the rates to finance expenditures from each of the two trust funds, are shown in table 1. For 1977 and later, the contribution rates shown are the rates scheduled in the provisions of present law. The maximum amount of annual earnings taxable in each year, 1937–76, is also shown in table 1. Beginning with 1975, the maximum amount of earnings taxable in each year is determined in the preceding year under the automatic increase provisions in section 230 of the Social Security Act, unless modified by intervening Congressional action.

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

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

Calendar years	Maximum taxable amount of annual earnings	Contribution rates (percent of taxable earnings)					
		Employees and employers, each			Self-employed		
		OASDI	OASI	DI	OASDI	OASI	DI
Past experience:							
1937–49	$3,000	1.000	1.000	----	----	----	----
1950	3,000	1.500	1.500	----	----	----	----
1951–53	3,600	1.500	1.500	----	2.2500	2.2500	----
1954	3,600	2.000	2.000	----	3.0000	3.0000	----
1955–56	4,200	2.000	2.000	----	3.0000	3.0000	----
1957–58	4,200	2.250	2.000	0.250	3.3750	3.0000	0.3750
1959	4,800	2.500	2.250	.250	3.7500	3.3750	.3750
1960–61	4,800	3.000	2.750	.250	4.5000	4.1250	.3750
1962	4,800	3.125	2.875	.250	4.7000	4.3250	.3750
1963–65	4,800	3.625	3.375	.250	5.4000	5.0250	.3750
1966	6,600	3.850	3.500	.350	5.8000	5.2750	.5250
1967	6,600	3.900	3.550	.350	5.9000	5.3750	.5250
1968	7,800	3.800	3.325	.475	5.8000	5.0875	.7125
1969	7,800	4.200	3.725	.475	6.3000	5.5875	.7125
1970	7,800	4.200	3.650	.550	6.3000	5.4750	.8250
1971	7,800	4.600	4.050	.550	6.9000	6.0750	.8250
1972	9,000	4.600	4.050	.550	6.9000	6.0750	.8250
1973	10,800	4.850	4.300	.550	7.0000	6.2050	.7950
1974	13,200	4.950	4.375	.575	7.0000	6.1850	.8150
1975	14,100	4.950	4.375	.575	7.0000	6.1850	.8150
1976	15,300	4.950	4.375	.575	7.0000	6.1850	.8150
Changes scheduled in present law:							
1977	[1]	4.950	4.375	.575	7.0000	6.1850	.8150
1978–80	[1]	4.950	4.350	.600	7.0000	6.1500	.8500
1981–85	[1]	4.950	4.300	.650	7.0000	6.0800	.9200
1986–2010	[1]	4.950	4.250	.700	7.0000	6.0100	.9900
2011 and later	[1]	5.950	5.100	.850	7.0000	6.0000	1.0000

[1] Subject to automatic increase.

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

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

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

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

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

Section 231 of the Social Security Act authorizes reimbursement 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 wage credits to individuals who were interned during World War II at a place within the United States operated by the Federal government for the internment of persons of Japanese ancestry.

Section 201(i) of the Social Security Act authorizes the Managing Trustee to accept and deposit in the trust funds unconditional money gifts or bequests made for the benefit of the trust funds or any activity financed through such 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 payments from the trust funds for the cost of vocational rehabilitation services furnished to disabled persons receiving benefits because of their disability. The total amount of funds that may be made available in a fiscal year for payments for the costs of such services, including applicable administrative expenses of State agencies, may not exceed a specified percentage of the benefits certified for payment to these types of beneficiaries in the preceding year. This limitation on the amount to be made available was 1 percent in each of the fiscal years 1966 (when such amounts were first made available) through 1972 and 1¼ percent in fiscal year 1973. Under present law, the limitation is 1½ percent in fiscal years after 1973.

Congress has authorized expenditures from the trust funds for construction, rental, and lease or purchase contract of office buildings and related facilities for the Social Security Administration. Both the capital costs of construction financed directly from the trust funds and the rental, lease, or purchase contract costs of acquiring facilities are included in trust fund expenditures. In 1974, construction of several large facilities was begun under purchase contract authority, wherein initial capital costs are borne by the private sector. Under this method of facilities acquisition, trust fund expenditures for use and ultimate Government ownership of a facility are made over periods of from 10 to 30 years. Whatever the manner of acquisition, the net worth of facilities and other fixed capital assets is not carried in the statements of the operations of the trust funds presented in this report. This is because the value of fixed capital assets does not represent funds available for benefit or administrative expenditures, and therefore is not viewed as being a consideration in assessing the actuarial status of the funds.

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

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

Summary of the Operations of the Federal Old-Age and Survivors Insurance Trust Fund, Fiscal Year 1975

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, 1974, and ended on June 30, 1975, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2. Comparable amounts for fiscal year 1974 are also shown in the table.

The total assets of the old-age and survivors insurance trust fund amounted to $37,867 million on June 30, 1974. During fiscal year 1975, total receipts amounted to $58,757 million and total disbursements were $56,676 million. The assets of the trust fund amounted to $39,948 million at the end of fiscal year 1975, or $2,081 million more than at the beginning of the year.

Included in total receipts during fiscal year 1975 were $50,389 million representing contributions appropriated to the fund, and $5,898 million representing amounts received by the Secretary of the Treasury in accordance with State agreements for coverage of State and local government employees and deposited in the trust fund. As an offset, $270 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base.

TABLE 2.—STATEMENT OF OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING FISCAL YEARS 1974 AND 1975

[In thousands]

	Fiscal year 1974	Fiscal year 1975
Total assets of the trust fund, beginning of year	$36, 415, 896	$37, 867, 008
Receipts:		
Contributions:		
Appropriations	43, 857, 792	50, 389, 101
Deposits arising from State agreements	4, 989, 458	5, 897, 892
Gross contributions	48, 847, 250	56, 286, 993
Less payment into the Treasury for contributions subject to refund	392, 557	269, 650
Net contributions	48, 454, 693	56, 017, 343
Reimbursement from general fund of the Treasury for costs of:		
Noncontributory credits for military service	139, 000	140, 000
Payments to noninsured persons aged 72 and over:		
Benefit payments	265, 890	266, 349
Administrative expenses	3, 173	3, 477
Interest	33, 724	37, 497
Total reimbursement for payments to noninsured persons aged 72 and over	302, 788	307, 323
Interest:		
Interest on investments	2, 039, 660	2, 296, 908
Interest received from general fund of the Treasury on funds advanced in fiscal year 1973 from the old-age and survivors insurance trust fund to finance administrative expenses of the supplemental security income program	656	
Gross interest	2, 040, 317	2, 296, 908
Less interest on amount transferred to the supplemental security income general fund account due to adjustment in allocation of administrative expenses		2, 840
Less interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs	1, 054	1, 818
Less interest on amounts transferred to disability insurance trust fund due to adjustment in allocation of cost of vocational rehabilitation services	20	68
Net interest	2, 039, 243	2, 292, 182
Gifts	(1)	14
Total receipts	50, 935, 724	58, 756, 862
Disbursements:		
Benefit payments	47, 848, 838	54, 838, 818
Transfer to railroad retirement account	908, 585	981, 785
Payment for cost of vocational rehabilitation services for disabled beneficiaries:		
For the current fiscal year	3, 534	6, 766
Transfer to the disability insurance trust fund due to adjustment in allocation of cost for prior fiscal year	340	965
Total	3, 873	7, 731
Administrative expenses:		
Department of Health, Education, and Welfare	618, 506	723, 246
Treasury Department	87, 571	79, 239
Construction of facilities for Social Security Administration	4, 954	2, 409
Expenses of the Department of Health, Education, and Welfare for administration of vocational rehabilitation program for disabled beneficiaries	40	52
Transfer to the supplemental security income general fund account due to adjustment in allocation of administrative expenses		25, 506

See footnotes at end of table, p. 1.

TABLE 2.—STATEMENT OF OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING FISCAL YEARS 1974 AND 1975—Continued

[In thousands]

	Fiscal year 1974	Fiscal year 1975
Disbursements:—Continued		
Administrative expenses—Continued		
Interfund transfers due to adjustment in allocation of:		
Administrative expenses [2]	12,645	18,536
Costs of construction [2]	−353	−1,149
Gross administrative expenses	723,362	847,837
Less receipts from sale of supplies, materials, etc	47	114
Net administrative expenses	723,315	847,723
Total disbursements	49,484,611	56,676,057
Net addition to the trust fund	1,451,113	2,080,805
Total assets of the trust fund, end of year	37,867,008	39,947,814

[1] Gifts amounted to $174.78 in fiscal year 1974.
[2] A positive figure represents a transfer from the old-age and survivors insurance trust fund to the other social security trust funds. A negative figure represents a transfer to the old-age and survivors insurance trust fund from the other social security trust funds.

Net contributions amounted to $56,017 million, an increase of 15.6 percent over the amount for the preceding fiscal year. Growth in contribution income resulted primarily from (1) the higher level of taxable earnings, (2) the two increases in the maximum annual amount of earnings taxable—from $10,800 to $13,200 and from $13,200 to $14,100—that became effective on January 1, 1974, and January 1, 1975, respectively, and (3) the increase in the combined employer-employee contribution rate, allocated to finance the old-age and survivors insurance program, from 8.60 percent to 8.75 percent that became effective on January 1, 1974. Although the first increase in the maximum annual amount of earnings taxable, from $10,800 to $13,200, became effective in 1974, the first full fiscal year during which earnings between $10,800 and $13,200 were taxable was 1975. Similarly, although the increase in the combined employer-employee contribution rate allocated to finance the old-age and survivors insurance program, from 8.60 percent to 8.75 percent, became effective in 1974, the first full fiscal year during which the higher rate was operative was 1975.

Reference has been made in an earlier section to provisions of the Social Security Act under which the old-age and survivors insurance and disability insurance trust funds are to be reimbursed annually from the general fund of the Treasury for costs of granting noncontributory credits for military service. In accordance with Section 217(g), the Secretary of Health, Education, and Welfare made a determination in 1970 of the level annual appropriations to the trust funds necessary to amortize over a 44-year period, beginning in fiscal year 1972, the estimated total additional costs, for military service performed before 1957, arising from payments that have been made after August 1950 and that will be made in future years, taking into account the amounts of annual appropriations in fiscal years 1966–71 that have been deposited into the trust funds. The annual amounts resulting from this determination were $136 million for the old-age and survivors insurance trust fund and $49 million for the disability insurance trust fund. In accordance with Section 229(b), the Secretary determined that the old-age and survivors insurance trust fund should receive reimbursement of $4 million, and the disability insurance trust fund should receive reimbursement of $3 million, for additional costs attributable to noncontributory credit for military service performed after 1967. Thus, reimbursements amounting to $140 million for the old-age and survivors insurance trust fund, and to $52 million for the disability insurance trust fund, were received in December 1974.

Reference has also been made in an earlier section to provisions under which the old-age and survivors insurance trust fund is to be reimbursed annually from the general fund of the Treasury for costs of monthly payments to certain noninsured persons aged 72 and over who have less than three quarters of coverage. The reimbursement in fiscal year 1975 amounted to $307 million.

Again, reference has been made in an earlier section to provisions under which money gifts or bequests may be deposited in the old-age and survivors insurance and disability insurance trust funds. In fiscal year 1975, the old-age and survivors insurance trust fund received gifts amounting to about $14,500.

The remaining $2,292 million of receipts consisted of interest on the investments of the trust fund and net interest on amounts of interfund transfers arising out of adjustments in the allocation of administrative expenses, construction costs, and the cost of vocational rehabilitation services for the prior fiscal year, 1974.

Of the $56,676 million in total disbursements, $54,839 million was for benefit payments, an increase of 14.6 percent over the corresponding amount paid in fiscal year 1974. This increase was due to (1) the amendments enacted on December 31, 1973, which provided for a general increase in benefits of 11 percent effective in two steps—an interim increase of 7 percent effective for the 3 months March–May 1974, followed by the full 11-percent increase effective for June 1974—and (2) the expected growth in the total number of beneficiaries and in average benefit amounts resulting from the rising level of earnings. Although the interim benefit increase of 7 percent became effective in fiscal year 1974, the first full fiscal year during which resulting higher benefit levels were operative was 1975.

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 $926,200,000 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, 1974, 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 1975, together with interest to the date of transfer amounting to $55,585,000.

Expenditures of the old-age and survivors insurance program for the cost of vocational rehabilitation services amounted to about $7.7 million. These services were furnished to disabled adults—dependents of old-age beneficiaries and survivors of deceased insured workers—

who were receiving monthly benefits from the old-age and survivors insurance trust fund because of their disability.

The remaining $848 million of disbursements from the old-age and survivors insurance trust fund represents net administrative expenses. The expenses of administering the programs financed through the four trust funds—the old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance trust funds—are allocated and charged directly to each trust fund on the basis of provisional estimates. Similarly, the expenses of administering the supplemental security income program are also allocated and charged directly to the general fund of the Treasury on a provisional basis. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are effected by interfund transfers, including transfers between the old-age and survivors insurance trust fund and the supplemental security income general fund account, with appropriate interest allowances.

Net administrative expenses charged to the old-age and survivors insurance trust fund and to the disability insurance trust fund in fiscal year 1975 totaled $1,101 million. This amount represented 1.7 percent of contribution income and 1.8 percent of expenditures for benefit payments and payments for the cost of vocational rehabilitation services during the fiscal year. Corresponding percentages for each of the last 5 years for the system as a whole and for each trust fund separately are shown in table 3.

TABLE 3.—RELATIONSHIP OF NET ADMINISTRATIVE EXPENSES OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM TO CONTRIBUTION INCOME AND BENEFIT PAYMENTS, BY TRUST FUND, FISCAL YEARS 1971-75

	Total [1]—Total administrative expenses as a percentage of—		Old-age and survivors insurance trust fund—Administrative expenses as a percentage of—		Disability insurance trust fund [1]—Administrative expenses as a percentage of—	
Fiscal year	Total contribution income	Total benefit payments [2]	Contribution income	Benefit payments [2]	Contribution income	Benefit payments [1]
1971	2.0	2.1	1.7	1.8	4.2	5.6
1972	2.0	2.1	1.6	1.7	4.4	5.2
1973	2.0	1.9	1.6	1.6	4.5	4.7
1974	1.6	1.6	1.5	1.5	2.5	2.5
1975	1.7	1.8	1.5	1.5	3.4	3.3

[1] The percentages shown for fiscal years 1974 and 1975 reflect the effect of a change in the method of allocating administrative expenses among the 4 trust funds, which resulted in lower proportions allocated to the disability insurance trust fund. The percentages for fiscal year 1974 also reflect the effect of applying the modified method of allocating expenses retroactively to fiscal year 1973, with a resulting larger interfund transfer, in fiscal year 1974, to the disability insurance trust fund than would have otherwise occurred.

[2] In determining the percentage shown, payments for the cost of vocational rehabilitation services are included with benefit payments.

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

In table 4, the experience with respect to actual amounts of contributions and benefit payments in fiscal year 1975 is compared with the estimates for fiscal year 1975 which appeared in the 1974 and 1975 annual reports. 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 1975 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1975 does not reflect adjustments to contributions for fiscal year 1975 that were to be made after June 30, 1975. The actual experience for each trust fund was quite close, relatively, to the estimates.

TABLE 4.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, FISCAL YEAR 1975

[Amounts in millions]

	Old-age and survivors insurance trust fund		Disability insurance trust fund	
	Net contributions	Benefit payments	Net contributions	Benefit payments
Actual amount	$56,017	$54,839	$7,356	$7,630
Estimated amount published in 1975 report	$55,809	$54,927	$7,342	$7,636
Actual as percentage of estimate	100	100	100	100
Estimated amount published in 1974 report under alternative I [1]	$55,525	$55,808	$7,298	$7,462
Actual as percentage of estimate	101	98	101	102
Estimated amount published in 1974 report under alternative II [1]	$55,865	$55,808	$7,343	$7,462
Actual as percentage of estimate	100	98	100	102

[1] Two alternative sets of estimates based on different economic assumptions were published in the 1974 annual report. Estimates of benefit payments in fiscal year 1975 were the same under both sets of assumptions.

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

At the end of fiscal year 1975, about 31.4 million persons were receiving monthly benefits under the old-age, survivors, and disability insurance program. About 27.2 million of these persons were receiving monthly benefits from the old-age and survivors insurance trust fund. The distribution of benefit payments in fiscal years 1974 and 1975, 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 fiscal year 1975 was accounted for by monthly benefits to retired workers and their dependents and about 17 percent by monthly benefits to aged survivors and disabled widows or widowers of deceased workers. Approximately 10 percent of the benefit payments represented monthly benefits on behalf of children of deceased workers and monthly benefits to widowed mothers and fathers who had 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 1974 AND 1975

[Dollar amounts in millions]

	1974		1975	
	Amount	Percent of total	Amount	Percent of total
Total	$47,848.8	100	$54,838.8	100
Monthly benefits	47,533.0	99	54,495.7	99
Retired workers and their dependents	34,372.6	72	39,659.2	72
Retired workers	30,795.9	64	35,588.0	65
Wives and husbands	3,090.1	6	3,500.3	6
Children	486.6	1	570.8	1
Survivors of deceased workers	12,909.7	27	14,620.1	27
Aged widows and widowers	7,767.3	16	8,847.9	16
Disabled widows and widowers	129.3	(1)	157.8	(1)
Parents	47.7	(1)	49.2	(1)
Children	4,124.6	9	4,619.9	8
Widowed mothers and fathers caring for child beneficiaries	840.8	2	945.3	2
Noninsured persons aged 72 and over [2]	250.7	1	216.5	(1)
Lump-sum death payments	315.9	1	343.1	1

[1] Less than 0.5 percent.
[2] 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 $216 million, or somewhat less than 1/2 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 1975 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 1975 consisted of lump-sum death payments.

The assets of the old-age and survivors insurance trust fund at the end of fiscal year 1975 totaled $39,948 million, consisting of $39,879 million in the form of obligations of the U.S. Government or of federally sponsored agency obligations, and an undisbursed balance of $69 million. Table 6 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1974 and 1975.

TABLE 6.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1974 AND 1975

	June 30, 1974		June 30, 1975	
	Par value	Book value [1]	Par value	Book value [1]
Investments in public-debt obligations:				
Public issues:				
Treasury notes:				
6 percent, 1975	$17,450,000	$17,450,000.00		
6¼ percent, 1976	5,000,000	4,997,172.69	$5,000,000	$4,998,958.41
6½ percent, 1976	22,180,000	22,180,000.00	22,180,000	22,180,000.00
7 percent, 1975	50,000,000	49,966,666.52	50,000,000	49,990,195.88
7½ percent, 1976	90,500,000	90,338,097.70	90,500,000	90,415,810.90
8 percent, 1977	15,000,000	15,000,000.00	15,000,000	15,000,000.00
Treasury bonds:				
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	70,148,924.32	70,170,000	70,149,948.28
3¼ percent, 1978–83	60,200,000	59,672,264.72	60,200,000	59,731,449.92
3¼ percent, 1985	25,700,000	24,758,181.71	25,700,000	24,845,118.83
3½ percent, 1980	449,450,000	452,212,611.87	449,450,000	451,776,410.07
3½ percent, 1990	556,250,000	549,637,617.06	556,250,000	550,061,941.26
3½ percent, 1998	552,037,000	544,525,177.84	552,037,000	544,833,883.00
4 percent, 1980	153,100,000	153,072,846.04	153,100,000	153,077,709.64
4⅛ percent, 1989–94	91,300,000	90,700,513.62	91,300,000	90,730,739.82
4¼ percent, 1975–85	78,023,000	77,795,681.75	78,023,000	77,816,665.07
4¼ percent, 1987–92	33,000,000	34,392,629.43	33,000,000	34,286,186.43
6⅜ percent, 1984	31,500,000	31,961,671.02	31,500,000	31,916,260.74
7 percent, 1981	50,000,000	49,713,333.22	50,000,000	49,753,333.18
7½ percent, 1988–93	99,934,000	98,411,627.93	99,934,000	98,491,056.05
8¼ percent, 2000–05			17,450,000	17,354,556.72
8½ percent, 1994–99	6,352,000	6,531,829.12	6,352,000	6,524,611.84
Total investments in public issues	3,522,048,000	3,508,368,846.56	3,522,048,000	3,508,836,836.04
Obligations sold only to this fund (special issues):				
Notes:				
5⅝ percent, 1975	2,460,795,000	2,460,795,000.00		
5¾ percent, 1979	3,102,896,000	3,102,896,000.00	3,102,896,000	3,102,896,000.00
6⅛ percent, 1978	3,468,850,000	3,468,850,000.00	3,468,850,000	3,468,850,000.00
6½ percent, 1976	3,844,864,000	3,844,864,000.00	3,844,864,000	3,844,864,000.00
6⅝ percent, 1980	4,547,285,000	4,547,285,000.00	4,547,285,000	4,547,285,000.00
7⅝ percent, 1977	5,033,296,000	5,033,296,000.00	5,033,296,000	5,033,296,000.00
Bonds:				
5¾ percent, 1976	760,998,000	760,998,000.00		
3⅞ percent, 1977	1,080,011,000	1,080,011,000.00		
3⅞ percent, 1978	658,444,000	658,444,000.00		
4⅛ percent, 1978	421,567,000	421,567,000.00		
4⅛ percent, 1979	1,080,011,000	1,080,011,000.00	1,069,517,000	1,069,517,000.00
4⅛ percent, 1980	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
7⅜ percent, 1981			688,956,000	688,956,000.00
7⅜ percent, 1982			688,956,000	688,956,000.00
7⅜ percent, 1983			688,956,000	688,956,000.00
7⅜ percent, 1984			688,956,000	688,956,000.00
7⅜ percent, 1985			688,956,000	688,956,000.00
7⅜ percent, 1986			688,956,000	688,956,000.00
7⅜ percent, 1987			688,955,000	688,955,000.00
7⅜ percent, 1988			688,956,000	688,956,000.00
7⅜ percent, 1989			688,956,000	688,956,000.00
7⅜ percent, 1990			1,366,865,000	1,366,865,000.00
7⅝ percent, 1981	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7⅝ percent, 1982	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7⅝ percent, 1983	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7⅝ percent, 1984	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7⅝ percent, 1985	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7⅝ percent, 1986	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7⅝ percent, 1987	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7⅝ percent, 1988	677,909,000	677,909,000.00	677,909,000	677,909,000.00
7⅝ percent, 1989	677,909,000	677,909,000.00	677,909,000	677,909,000.00
Total obligations sold only to this fund (special issues)	33,640,216,000	33,640,216,000.00	35,815,375,000	35,815,375,000.00
Total investments in public-debt obligations	37,162,264,000	37,148,584,846.56	39,337,423,000	39,324,211,836.04

See footnotes at end of table, p. 16.

TABLE 6.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1974 AND 1975—Continued

	June 30, 1974		June 30, 1975	
	Par value	Book value [1]	Par value	Book value [1]
Investments in federally sponsored agency obligations:				
Participation certificates:				
Federal Assets Liquidation Trust-Government National Mortgage Association:				
5.10 percent, 1987	50, 000, 000	50, 000, 000. 00	50, 000, 000	50, 000, 000. 00
5.20 percent, 1982	100, 000, 000	100, 000, 000. 00	100, 000, 000	100, 000, 000. 00
Federal Assets Financing Trust-Government National Mortgage Association:				
6.05 percent, 1988	65, 000, 000	64, 834, 453. 51	65, 000, 000	64, 846, 641. 07
6.20 percent, 1988	230, 000, 000	230, 000, 000. 00	230, 000, 000	230, 000, 000. 00
6.40 percent, 1987	75, 000, 000	75, 000, 000. 00	75, 000, 000	75, 000, 000. 00
6.45 percent, 1988	35, 000, 000	35, 000, 000. 00	35, 000, 000	35, 000, 000. 00
Total investments in federally sponsored agency obligations	555, 000, 000	554, 834, 453. 51	555, 000, 000	554, 846, 641. 07
Total investments	37, 717, 264, 000	37, 703, 419, 300. 07	39, 892, 423, 000	39, 879, 058, 477. 11
Undisbursed balances		163, 589, 142. 13		68, 755, 382. 70
Total assets		37, 867, 008, 442. 20		39, 947, 813, 859. 81

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

The net increase in the par value of the investments owned by the fund during fiscal year 1975 amounted to $2,175 million. New securities at a total par value of $66,859 million were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was $64,684 million. Included in these amounts is $59,292 million in certificates of indebtedness that were acquired and redeemed within the fiscal year. In addition, $17 million in 6-percent notes maturing in May 1975 were exchanged for an equal amount of 8 1/4-percent bonds maturing in May 2005. Although the interest rate on bonds is generally limited to 4 1/4 percent by the provisions of 31 U.S.C. 752, amendments to these provisions authorize the issuance of bonds at rates of interest exceeding 4 1/4 percent, subject to certain restrictions. Public Law 92–5, enacted March 17, 1971, amended the provisions to authorize the issuance to the public and to Government accounts of up to a total of $10 billion in bonds at rates of interest exceeding 4¼ percent. Public Law 93–53, enacted July 1, 1973, further amended the provisions of 31 U.S.C. 752 by (1) removing the $10 billion limitation on the aggregate face amount of such bonds that may be issued and (2) limiting the amount of such bonds that may be held by the public at any one time to $10 billion.

The effective annual rate of interest earned by the assets of the old-age and survivors insurance trust fund during fiscal year 1975 was 6.5 percent. The interest rate on special issues purchased by the trust fund in June 1975 was 7⅝ percent, payable semiannually.

The 1956 amendments provided that the public-debt obligations issued for purchase by the old-age and survivors insurance trust fund and the disability insurance trust fund shall have maturities fixed with due regard for the needs of the funds. Under these amendments, the general practice in the past was to spread the maturity dates for the holdings of special issues as nearly as practicable in equal amounts over a 15-year period. As a result of this practice, the old-age and survivors insurance trust fund held special issues totaling $2,150 million, acquired before 1966, that consisted of $1,070 million maturing in 1979 and $1,080 million maturing in 1980 (table 6).

However, the interest rate on special issues acquired in June of each year 1966–75, as determined under section 201(d) of the Social Security Act, was higher than the maximum rate of 4¼ percent to which the interest rate on long-term issues (bonds) is generally limited. Thus, the former practice could not be followed until the enactment of Public Law 93–53 on July 1, 1973. Accordingly, the entire amounts available for investment in June of each year 1966–73 were invested in short-term issues (notes). As a result, the old-age and survivors insurance trust fund held $19,997 million in special issues consisting of 7-year notes that were distributed in varying amounts maturing on June 30 of each year 1976–80 (table 6).

On June 30, 1974, the investment practice in effect before 1966 was reinstated. As a result, the old-age and survivors insurance trust fund held $13,669 million in special issues at the end of June 1975 that were acquired in 1974 and 1975 and were distributed in virtually equal amounts of about $1,367 million maturing in each of the years 1981–1990 (table 6). The investment operations of the fund in fiscal years 1974 and earlier are described in the 1975, and earlier, annual reports.

Summary of the Operations of the Federal Disability Insurance Trust Fund, Fiscal Year 1975

A statement of the income and disbursements of the Federal disability insurance trust fund during fiscal year 1975, and of the assets of the fund at the beginning and end of the fiscal year is presented in table 7. Comparable amounts for fiscal year 1974 are also shown in the table.

The total assets of the disability insurance trust fund amounted to $8,253 million on June 30, 1974. During fiscal year 1975, total receipts amounted to $7,920 million and total disbursements were $7,982 million. The assets of the trust fund thus decreased $62 million during the year to a total of $8,191 million on June 30, 1975.

Included in total receipts were $6,616 million representing contributions appropriated to the fund, and $776 million representing amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. As an offset, $35 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base.

Net contributions amounted to $7,356 million, an increase of 18.0 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 (described in the preceding section), and in part by the provision in Public Law 93–233, enacted December 31, 1973, that increased the portion of the contribution rate allocated to finance benefits from the disability insurance trust fund. Effective January 1, 1974, the allocated rate for employees and employers was increased over a 15-year period. As a result of this practice, the old-age and survivors insurance trust fund held special issues totaling $2,150 million, acquired before 1966, that consisted of $1,070 million maturing in 1979 and $1,080 million maturing in 1980 (table 6).

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TABLE 7.—STATEMENT OF OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING FISCAL YEARS 1974 AND 1975

[In thousands]

	Fiscal year 1974	Fiscal year 1975
Total assets of the trust fund, beginning of year	$7,869,472	$8,252,865
Receipts:		
Contributions:		
Appropriations	5,651,996	6,615,691
Deposits arising from State agreements	632,646	775,875
Gross contributions	6,284,642	7,391,567
Less payment into the Treasury for contributions subject to refund	50,217	35,350
Net contributions	6,234,425	7,356,217
Reimbursement from general fund of the Treasury for costs of noncontributory credits for military service	52,000	52,000
Interest:		
Interest on investments	479,140	511,960
Interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs [1]	2,641	−372
Interest on amounts transferred from the old-age and survivors insurance trust fund due to adjustment in allocation of cost of vocational rehabilitation services	20	68
Net interest	481,800	511,656
Total receipts	6,768,225	7,919,873
Disbursements:		
Benefit payments	6,158,569	7,629,796
Transfer to railroad retirement account	22,327	28,514
Payment for cost of vocational rehabilitation services for disabled beneficiaries:		
For the current fiscal year	50,010	71,900
Less transfer from the old-age and survivors insurance trust fund due to adjustment in allocation of cost for prior fiscal year	340	965
Net payment for cost of vocational rehabilitation services	49,670	70,936
Administrative expenses:		
Department of Health, Education, and Welfare	185,814	227,270
Treasury Department	11,650	11,290
Construction of facilities for Social Security Administration	329	420
Expenses of the Department of Health, Education, and Welfare for administration of vocational rehabilitation program for disabled beneficiaries	560	548
Interfund transfers due to adjustment in allocation of:		
Administrative expenses [2]	−44,353	13,045
Costs of construction [2]	280	412
Gross administrative expenses	154,281	252,985
Less receipts from sale of surplus supplies, materials, etc	14	
Net administrative expenses	154,266	252,985
Total disbursements	6,384,833	7,982,231
Net addition to the trust fund	383,392	−62,358
Total assets of the trust fund, end of year	8,252,865	8,190,507

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

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

In addition, the trust fund received $52 million in December from the general fund of the Treasury, as reimbursement for the costs of noncontributory credits for military service.

The remaining $512 million of receipts consisted of interest on the investments of the fund, plus interest on amounts of interfund transfers.

Of the $7,982 million in total disbursements, $7,630 million was for benefit payments, an increase of 23.9 percent over the corresponding amount paid in the fiscal year 1974. This increase is accounted for by the same factors insofar as they apply to disabled-worker beneficiaries and their dependents, 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, 1974, required that a transfer of $26,900,000 be made from the disability insurance trust fund to the railroad retirement account. This amount was transferred to the railroad retirement account in June 1975, together with interest to the date of transfer amounting to $1,614,000.

The remaining disbursements amounted to $253 million for net administrative expenses and $71 million for the cost of vocational rehabilitation services furnished to disabled-worker beneficiaries and to those dependents of disabled workers who are receiving benefits on the basis of disabilities that have continued since childhood.

As stated in an earlier section, the total amount of funds that may be made available in a fiscal year for payment for the costs of vocational rehabilitation services may not exceed a specified percentage of the benefits certified for payment in the preceding year from the old-age and survivors insurance and disability insurance trust funds to disabled persons receiving benefits because of their disability. This limitation on the amounts to be made available was 1 percent in each fiscal year through 1972, 1¼ percent in fiscal year 1973, and 1½ percent in fiscal years 1974 and 1975. The following data show the relationship between the total amount of payments for the costs of such rehabilitation services for each fiscal year, 1971–75, and the corresponding amount of benefits paid in the prior fiscal year from the trust funds to disabled beneficiaries:

Fiscal year to which costs of rehabilitation services are charged	Amount of payments for costs of rehabilitation services [1] (in thousands)	Estimated amount of benefit payments in preceding fiscal year to disabled beneficiaries (in thousands)	Payments for costs of rehabilitation services as percent of preceding year's benefit payments
1971	$23,079	$2,464,004	0.94
1972	29,940	3,028,695	0.99
1973	37,464	3,629,590	1.03
1974	54,055	4,637,054	1.17
1975	83,206	5,547,407	1.50

[1] The amounts shown represent the expenditures for a fiscal year and differ from amounts expended in a fiscal year as shown in accounting statements of the trust funds on a cash basis. The amount shown for each fiscal year is subject to further change.

At the end of fiscal year 1975, some 4,125,000 persons were receiving monthly benefits from the disability insurance trust fund. The distribution of benefit payments in fiscal years 1974 and 1975, by type of beneficiary, is shown in table 8.

H.D. 94-505 O - 76 - 4

TABLE 8.—ESTIMATED DISTRIBUTION OF BENEFIT PAYMENTS FROM THE DISABILITY INSURANCE TRUST FUND, BY TYPE OF BENEFICARY, FISCAL YEARS 1974 AND 1975

[Dollar Amounts in millions]

	1974		1975	
	Amount	Percent of total	Amount	Percent of total
Total	$6,158.6	100	$7,629.8	100
Disabled workers	5,042.5	82	6,266.8	82
Wives and husbands	296.8	5	349.6	5
Children	819.3	13	1,013.4	13

The assets of this fund at the end of fiscal year 1975 totaled $8,191 million, consisting of $8,156 million in the form of obligations of the U.S. Government and an undisbursed balance of $35 million. Table 9 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1974 and 1975.

The net decrease in the par value of the investments owned by the fund during the fiscal year amounted to $37 million. New securities at a total par value of $8,498 million were acquired during the fiscal year through the investment of receipts, the reinvestment of funds made available from the redemption of securities, and the exchange of securities. The par value of securities redeemed or exchanged during the year was $8,535 million. Included in these amounts is $7,529 million in certificates of indebtedness that were acquired and redeemed within the fiscal year.

The effective annual rate of interest earned by the assets of the disability insurance trust fund during fiscal year 1975 was 6.8 percent. The interest rate on public-debt obligations issued for purchase by the trust fund in June 1975 was 7⅝ percent, payable semiannually.

The investment policy and practices described in the preceding section apply equally to investments of the assets of the disability insurance trust fund. A distribution of these investments by type of government security and date of maturity is shown in table 9.

TABLE 9.—ASSETS OF THE DISABILITY INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1974 AND 1975

	June 30, 1974		June 30, 1975	
	Par value	Book value [1]	Par value	Book value [1]
Investments in public-debt obligations:				
Public issues:				
Treasury notes:				
6 percent, 1975	$3,750,000	$3,750,000.00		
6 percent, 1978	2,000,000	2,003,350.68	$2,000,000	$2,002,592.04
6¼ percent, 1978	2,000,000	2,003,664.13	2,000,000	2,002,641.61
7½ percent, 1976	26,000,000	25,960,366.09	26,000,000	25,979,390.53
7¾ percent, 1977	14,000,000	13,984,397.66	14,000,000	13,989,457.94
8 percent, 1977	10,000,000	10,000,000.00	10,000,000	10,000,000.00
Treasury bonds:				
3½ percent, 1990	10,500,000	10,068,848.42	10,500,000	10,096,515.98
3½ percent, 1998	5,000,000	4,746,762.80	5,000,000	4,757,169.80
4 percent 1980	30,250,000	30,245,342.45	30,250,000	30,246,176.33
4⅛ percent, 1989–94	68,400,000	67,739,412.84	68,400,000	67,772,719.68
4¼ percent, 1975–85	20,795,000	20,779,645.42	20,795,000	20,780,509.73
4¼ percent, 1987-92	80,800,000	80,918,110.59	80,800,000	80,909,083.11
6⅜ percent, 1984	15,000,000	15,055,156.93	15,000,000	15,049,731.61
7½ percent, 1988–93	26,500,000	25,764,571.55	26,500,000	25,802,941.67
8¼ percent, 2000–05			3,750,000	3,729,489.26
Total investments in public issues	314,995,000	313,019,629.56	314,995,000	313,118,419.29

See footnote at end of table, p. 21.

TABLE 9.—ASSETS OF THE DISABILITY INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1974 AND 1975—Continued

	June 30, 1974		June 30, 1975	
	Par value	Book value [1]	Par value	Book value [1]
Obligations sold only to this fund (special issues):				
Notes:				
5⅝ percent, 1975	$583, 612, 000	$583, 612, 000. 00		
5¾ percent, 1979	1, 058, 617, 000	1, 058, 617, 000. 00	$1, 058, 617, 000	$1, 058, 617, 000. 00
6⅛ percent, 1978	1, 284, 249, 000	1, 284, 249, 000. 00	1, 284, 249, 000	1, 284, 249, 000. 00
6½ percent, 1976	1, 151, 608, 000	1, 151, 608, 000. 00	1, 102, 166, 000	1, 102, 166, 000. 00
6⅝ percent, 1980	943, 266, 000	943, 266, 000. 00	943, 266, 000	943, 266, 000. 00
7⅝ percent, 1977	1, 394, 466, 000	1, 394, 466, 000. 00	1, 394, 466, 000	1, 394, 466, 000. 00
Bonds:				
3⅞ percent, 1978	89, 570, 000	89, 570, 000. 00		
4⅛ percent, 1979	153, 632, 000	153, 632, 000. 00		
4⅛ percent, 1980	125, 606, 000	125, 606, 000. 00		
7⅜ percent, 1981			84, 338, 000	84, 338, 000. 00
7⅜ percent, 1982			84, 338, 000	84, 338, 000. 00
7⅜ percent, 1983			84, 338, 000	84, 338, 000. 00
7⅜ percent, 1984			84, 338, 000	84, 338, 000. 00
7⅜ percent, 1985			84, 338, 000	84, 338, 000. 00
7⅜ percent, 1986			84, 338, 000	84, 338, 000. 00
7⅜ percent, 1987			84, 338, 000	84, 338, 000. 00
7⅜ percent, 1988			84, 337, 000	84, 337, 000. 00
7⅜ percent, 1989			84, 337, 000	84, 337, 000. 00
7⅜ percent, 1990			206, 000, 000	206, 000, 000. 00
7⅝ percent, 1981	121, 663, 000	121, 663, 000. 00	121, 663, 000	121, 663, 000. 00
7⅝ percent, 1982	121, 663, 000	121, 663, 000. 00	121, 663, 000	121, 663, 000. 00
7⅝ percent, 1983	121, 663, 000	121, 663, 000. 00	121, 663, 000	121, 663, 000. 00
7⅝ percent, 1984	121, 663, 000	121, 663, 000. 00	121, 663, 000	121, 663, 000. 00
7⅝ percent, 1985	121, 663, 000	121, 663, 000. 00	121, 663, 000	121, 663, 000. 00
7⅝ percent, 1986	121, 663, 000	121, 663, 000. 00	121, 663, 000	121, 663, 000. 00
7⅝ percent, 1987	121, 663, 000	121, 663, 000. 00	121, 663, 000	121, 663, 000. 00
7⅝ percent, 1988	121, 663, 000	121, 663, 000. 00	121, 663, 000	121, 663, 000. 00
7⅝ percent, 1989	121, 663, 000	121, 663, 000. 00	121, 663, 000	121, 663, 000. 00
Total obligations sold only to this fund (special issues)	7, 879, 593, 000	7, 879, 593, 000. 00	7, 842, 771, 000	7, 842, 771, 000. 00
Total investments in public-debt obligations	8, 194, 588, 000	8, 192, 612, 629. 56	8, 157, 766, 000	8, 155, 889, 419. 29
Undisbursed balances		60, 251, 890. 80		34, 617, 377. 99
Total assets		8, 252, 864, 520. 36		8, 190, 506, 797. 28

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

Expected Operations and Status of the Trust Funds During the Period July 1, 1975, to December 31, 1981

In the following statement of the expected operations and status of the trust funds during the period July 1, 1975, to December 31, 1981, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program will remain unchanged throughout the period. The estimates shown in the various tables in this section reflect the effect of the 1976 legislation, 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. Economic conditions, of course, affect the levels of employment and taxable earnings; but under the automatic increase provisions in present law, economic conditions also directly affect benefits, the contribution and benefit base (i.e., the maximum annual amount of earnings taxable and creditable toward benefits), and the annual exempt amount under the retirement test (i.e., the maximum amount a beneficiary may earn in a year and still receive all of his benefits for the year).

Under the automatic provisions, benefits increase in accordance with increases in the Consumer Price Index (CPI). In the year immediately following each year in which an automatic benefit increase becomes effective, the contribution and benefit base, and the amount of earnings exempted from the withholding of benefits under the retirement test, automatically increase in proportion to the increase in average wages in covered employment. An automatic cost-of-living benefit increase of 8.0 percent, effective for June 1975, was established in May 1975, as described in Appendix C. As a result of this cost-of-living benefit increase, automatic increases in the contribution and benefit base, from $14,100 in 1975 to $15,300 in 1976, and in the annual exempt amount under the retirement test, from $2,520 in 1975 to $2,760 in 1976, were established in October 1975, as described in Appendix D. Another automatic cost-of-living benefit increase, effective for June 1976, has been determined to be 6.4 percent.

Statements about expected operations of the trust funds should be read with full recognition of the difficulties of estimating future income and outgo under changing economic conditions. Because of the uncertainty of future economic developments and because of the high degree of sensitivity of future trust fund income and outgo to assumed economic conditions, three alternative sets of estimates based on different economic assumptions are presented in this section.

Under the three sets of assumptions, designated as alternatives I, II, and III, the real level of economic activity is assumed to grow during the period 1976–81 at rates that differ among the three alternatives. Under alternatives I and II, the economy is expected to continue its recovery from the recession that began in 1974. The recovery is assumed to proceed at a moderate rate through 1981 under alternative II—the intermediate set of assumptions. Under the more optimistic assumptions of alternative I, the recovery is assumed to progress more rapidly after 1977. Under the more pessimistic assumptions of alternative III, economic growth is assumed to proceed more slowly after 1976.

The differences in assumed rates of change in economic activity under the three sets of assumptions are reflected in the assumed rates of growth in real gross national product (GNP) (see footnote 1 of table 10), and in the assumed rates of unemployment, for calendar years 1976–81 that are shown in table 10. The assumed increases in average wages in covered employment and the assumed future path of the CPI also differ among the three sets of assumptions, as shown in table 10.

In accordance with the assumptions shown in table 10, the estimates reflect the following changes that would occur, under the automatic provisions of the law, in each year 1977–81 (amounts for 1976 are also shown as a basis for comparison):

Year	General benefit increase [1] under alternative (percent)—			Contribution and benefit base [2]	Annual exempt amount under the retirement test [2]
	I	II	III		
1976	6.4	6.4	6.4	$15,300	$2,760
1977	5.9	5.9	5.9	16,500	3,000
1978	5.8	6.0	6.3	17,700	3,240
1979	5.3	5.8	6.3	19,200	3,480
1980	4.3	5.2	5.8	21,000	3,840
1981	4.0	4.8	5.0	22,800	4,200

[1] Effective with benefits for June of the stated year.
[2] The amounts, which become effective on Jan. 1 of the stated year, are the same for each year 1976–81 under all three sets of assumptions, because of the rounding procedures specified in the automatic increase provisions of the law.

TABLE 10.—ASSUMED PERCENTAGE INCREASE OVER PRIOR YEAR IN ANNUAL AVERAGE REAL GNP, IN ANNUAL AVERAGE WAGES, AND IN ANNUAL AVERAGE CPI, AND ASSUMED AVERAGE ANNUAL UNEMPLOYMENT RATE, UNDER THREE ALTERNATIVE SETS OF ASSUMPTIONS, CALENDAR YEARS 1975-81

Calendar year	Percentage increase in annual average—			Average annual unemployment rate (percent)
	Real GNP [1]	Wages	CPI	
Alternative I:				
1975	-2.0	6.8	9.1	8.5
1976	6.2	7.7	6.3	7.7
1977	5.7	8.5	6.0	6.9
1978	6.5	9.6	5.5	6.3
1979	6.5	9.1	5.0	5.6
1980	6.5	8.1	4.0	5.0
1981	5.5	6.8	4.0	4.5
Alternative II:				
1975	-2.0	6.8	9.1	8.5
1976	6.2	7.7	6.3	7.7
1977	5.7	8.5	6.0	6.9
1978	5.5	9.4	6.0	6.6
1979	5.5	8.5	5.5	6.2
1980	5.5	7.7	5.0	5.7
1981	5.5	6.7	4.5	5.2
Alternative III:				
1975	-2.0	6.8	9.1	8.5
1976	6.2	7.7	6.3	7.7
1977	4.0	8.0	6.0	7.6
1978	4.0	8.9	6.5	7.6
1979	4.0	7.9	6.0	7.6
1980	4.0	7.4	5.5	7.5
1981	4.0	6.6	5.0	7.4

[1] Based on GNP expressed in 1972 dollars (i.e., total output of goods and services adjusted for inflation since 1972).

The economic assumptions under alternative I for calendar years 1976 and 1977 are the same as the assumptions that appear on page 25 of the President's 1977 Budget. (However, the automatic benefit increase for June 1976, which was determined to be 6.4 percent after the Budget was completed, is lower than the 6.7 percent increase assumed for the Budget.) After 1977, the assumptions of alternative I are slightly more optimistic than the Budget assumptions. During the years 1978–81, the assumed annual percentage increases in real GNP and in average wages in covered employment under alternative I are slightly higher, on the average, than under the Budget assumptions. The rate of unemployment and the annual percentage increase in CPI during 1978–81 are, on the average, slightly lower under alternative I than under the Budget assumptions.

In preparing the intermediate set of assumptions (alternative II), the economic assumptions in the Budget for 1976 and 1977 were adopted without change, except for the automatic benefit increase for June 1976. For 1978–81, the assumed rate of growth in real GNP is somewhat lower than under alternative I. It is further assumed under alternative II that, although workers will regain the losses in real wages which occurred during the recession of 1974–75, the extent to which additional gains in real wages are realized during the assumed economic recovery will not be as great as under alternative I. Finally, under the intermediate assumptions, the projected increases in CPI are higher after 1977 than under alternative I.

The assumptions of alternative III are presented in this report in order to show estimates of the operations of the trust funds under a combination of less favorable economic conditions. While the growth of real GNP is assumed to continue, the assumptions of alternative III represent a slow-down in the rate of such growth. As a result, the assumed rate of unemployment remains well above 7 percent through

1981. It is also assumed that gains in average real wages will be smaller, and increases in CPI will be larger, than under the intermediate assumptions.

In interpreting the statements of expected trust fund operations that are presented in this section, it should again be emphasized that both future benefit levels and future amounts of contribution income are highly sensitive to assumed changes in economic conditions—e.g., growth in real GNP, changes in the CPI, levels of employment, and earnings levels. Estimates of the operations and status of the old-age and survivors insurance trust fund during calendar years 1976–81 are shown in table 11 for each of the three alternative sets of assumptions. Actual data for calendar year 1975 are also shown in the table. Under each alternative, it is assumed that employment and earnings will increase in every year through 1981. The number of persons with taxable earnings under the old-age, survivors, and disability insurance program is expected to increase from 100 million with such earnings during calendar year 1975 to about 118 million during calendar year 1981 under the intermediate assumptions. Under alternatives I and III, the number of persons with taxable earnings is estimated to reach 120 million and 114 million, respectively, by 1981. The total annual amount of taxable earnings is expected to increase from $665 billion in 1975 to $1,237 billion in 1981 under the intermediate assumptions. Under alternatives I and III, taxable earnings in 1981 are estimated to be $1,271 billion and $1,180 billion, respectively. These increases are due in part to the projected increases in average earnings and the accompanying automatic increases in the maximum taxable amount of annual earnings, as previously set forth.

TABLE 11.—ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING CALENDAR YEARS 1975–81 UNDER 3 ALTERNATIVE SETS OF ASSUMPTIONS

[Dollar amounts in billions]

Calendar year	Income	Disbursements	Net increase in fund	Fund at end of year	Fund at beginning of year as a percentage of disbursements during year
Alternative I:					
1975 [1]	$59.6	$60.4	−$0.8	$37.0	63
1976	65.1	67.9	−2.7	34.3	55
1977	73.3	75.3	−2.0	32.3	46
1978	81.3	83.5	−2.2	30.1	39
1979	90.5	91.5	−0.9	29.2	33
1980	100.1	99.8	0.4	29.5	29
1981	108.9	108.2	0.8	30.3	27
Alternative II:					
1975 [1]	59.6	60.4	−.8	37.0	63
1976	65.1	67.9	−2.7	34.3	55
1977	73.3	75.3	−2.0	32.3	46
1978	80.6	83.6	−3.0	29.3	39
1979	88.9	91.9	−3.1	26.3	32
1980	97.6	101.0	−3.4	22.8	26
1981	105.4	110.4	−5.0	17.9	21
Alternative III:					
1975 [1]	59.6	60.4	−0.8	37.0	63
1976	65.1	67.9	−2.7	34.3	55
1977	72.4	75.3	−2.9	31.4	46
1978	79.0	83.8	−4.8	26.6	37
1979	86.1	92.6	−6.5	20.1	29
1980	93.4	102.3	−8.9	11.2	20
1981 [2]	99.6	112.3	−12.6	−1.4	10

[1] Figures for 1975 represent actual experience.

[2] Figures for 1981 are theoretical because, under alternative III, it is estimated that the old-age and survivors insurance trust fund will be exhausted in 1981.

Note: Totals do not necessarily equal the sum of rounded components. The assumptions underlying the estimates are described in the accompanying text and in table 10.

The rise in estimated income shown in table 11 under each set of assumptions reflects the increases in estimated taxable earnings under the different alternatives, as described above. In addition, the estimated income is affected by the changes in allocation of the contribution rates between old-age and survivors insurance and disability insurance trust funds scheduled for January 1 of 1978 and 1981 (table 1).

Rising disbursements during calendar years 1976–81 reflect the effects of the assumed future automatic benefit increases previously shown, as well as the long-range upward trend in the numbers of beneficiaries and in the amounts of average monthly earnings underlying benefits payable under the program. In each calendar year during the period 1976–81, outgo from the old-age and survivors insurance trust fund is estimated to exceed income under alternatives II and III. Under alternative I, estimated outgo exceeds estimated income in every year except 1980 and 1981.

The assets of the trust fund at the beginning of calendar year 1975 were equal to about 63 percent of expenditures during the year 1975. By the beginning of 1976, the assets of the fund had declined to 55 percent of estimated expenditures in 1976. By the beginning of 1981, the fund's assets are estimated to decrease to 27 percent, 21 percent, and 10 percent of expenditures, under alternatives I, II and III, respectively. Furthermore, it is estimated that under alternative III, the old-age and survivors insurance trust fund will be exhausted in calendar year 1981. Theoretical figures showing the operations of the trust fund in calendar year 1981 under alternative III are presented in table 11 for informational purposes. Under the intermediate assumptions, it is estimated that the trust fund would be exhausted in 1984, 3 years later than under alternative III. Under the assumptions of alternative I, although income exceeds expenditures in 1980 and 1981, it is estimated that the assets of the trust fund will begin to decline again in 1984 and will continue to decline thereafter.

The growth in the number of beneficiaries in the past and the expected growth in the future are attributable in large measure to the rising number of aged persons who are eligible for and receiving old-age and survivors insurance benefits. The growth in the number of eligible persons since 1940 has been uninterrupted. This growth results partly from the increase in the aged population and partly from two other factors—(1) in each succeeding year a larger proportion of the persons attaining age 65 became eligible for benefits, and (2) the amendments during the period 1950–73 liberalized the eligibility provisions and extended coverage to new categories of employment.

In addition, there has been a growth in the proportion of eligible persons who receive benefits. This growth is due to several factors, among which are (1) the amendments enacted during the period 1950–73 which affect the conditions governing the receipt of benefits, and (2) the increasing percentage of eligible persons who are aged 72 and over and who therefore receive benefits regardless of earnings.

The expected operations and status of the disability insurance trust fund during calendar years 1976–81 under the three sets of assumptions are shown in table 12, together with figures on actual experience in 1975. Income will increase during calendar years 1976–81, under each alternative, reflecting the same factors, insofar as they apply to income to the disability insurance trust fund, that are reflected in the increase in income to the old-age and survivors insurance trust fund during the same period. Income will also rise as a result of the scheduled increases in the combined employee-employer contribution rate allocated for disability insurance, from 1.15 percent to 1.20 percent on January 1, 1978, and from 1.20 percent to 1.30 percent on January 1, 1981, and accompanying increases in contribution rates for self-employed persons. (These increases are exactly counterbalanced by decreases in the rates allocated for old-age and survivors insurance.) Disbursements will increase because of automatic benefit increases and because of increases in the numbers of beneficiaries and in the amounts of average monthly earnings on which benefits are based. Projected increases in the number of beneficiaries reflect assumed continued increases in disability incidence rates. Under all three sets of assumptions, disbursements are expected to exceed income in every year until the disability insurance trust fund is exhausted in 1979. Theoretical projections representing the operations of the trust fund in 1979–81 are shown in table 12 for informational purposes.

TABLE 12.—ESTIMATED OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING CALENDAR YEARS 1975–81 UNDER 3 ALTERNATIVE SETS OF ASSUMPTIONS

[Dollar amounts in billions]

Calendar year	Income	Disbursements	Net increase in fund	Fund at end of year	Fund at beginning of year as a percentage of disbursements during year
Alternative I:					
1975 [1]	$8.0	$8.8	−$0.8	$7.4	92
1976	8.7	10.3	−1.6	5.8	71
1977	9.7	11.7	−1.9	3.8	49
1978	11.1	13.2	−2.1	1.7	29
1979 [2]	12.3	14.9	−2.6	−0.9	12
1980 [2]	13.4	16.6	−3.2	−4.0	[3]
1981 [2]	15.7	18.4	−2.7	−6.7	[3]
Alternative II:					
1975 [1]	8.0	8.8	−0.8	7.4	92
1976	8.7	10.3	−1.6	5.8	71
1977	9.7	11.7	−1.9	3.8	49
1978	11.0	13.3	−2.2	1.6	29
1979 [2]	12.1	15.0	−2.9	−1.3	11
1980 [2]	13.1	16.8	−3.8	−5.0	[3]
1981 [2]	15.2	18.8	−3.6	−8.7	[3]
Alternative III:					
1975 [1]	8.0	8.8	−0.8	7.4	92
1976	8.7	10.3	−1.6	5.8	71
1977	9.6	11.7	−2.0	3.7	49
1978	10.8	13.3	−2.5	1.2	28
1979 [2]	11.7	15.1	−3.4	−2.2	8
1980 [2]	12.5	17.1	−4.6	−6.8	[3]
1981 [2]	14.3	19.1	−4.8	−11.6	[3]

[1] Figures for 1975 represent actual experience.
[2] Figures for 1979–81 are theoretical because it is estimated that the disability insurance trust fund will be exhausted in 1979.
[3] Fund exhausted in 1979.

Note: Totals do not necessarily equal the sum of rounded components. The assumptions underlying the estimates are described in the accompanying text and in table 10.

The expected operations and status of the old-age and survivors insurance and disability insurance trust funds, combined, during each calendar year 1976–81, under the three alternatives, are shown in table 13, together with figures on actual experience in 1975. Although the estimates under each of the three alternatives show that the disability insurance trust fund is exhausted in 1979, figures for each year 1979–81 are shown in table 13 for informational purposes. Without legislation changing the allocation of the contribution rates to each trust fund, none of the estimated income to the old-age and survivors insurance trust fund can be allocated to the disability insurance trust fund; thus, the figures shown in table 13 for 1979–81 are theoretical, representing arithmetical addition of the figures shown in tables 11 and 12.

TABLE 13.—ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, COMBINED, DURING CALENDAR YEARS 1975–81 UNDER 3 ALTERNATIVE SETS OF ASSUMPTIONS

[Dollar amounts ih billions]

Calendar year	Income	Disburse ments	Net increase in funds	Fund at end of year	Funds at beginning of year as a percentage of disbursements during year
Alternative I:					
1975[1]	$67.6	$69.2	−$1.5	$44.3	66
1976	73.8	78.2	−4.3	40.0	57
1977	83.0	86.9	−3.9	36.1	46
1978	92.4	96.7	−4.3	31.8	37
1979[2]	102.8	106.3	−3.5	28.3	30
1980[2]	113.6	116.4	−2.8	25.5	24
1981[2]	124.6	126.6	−2.0	23.5	20
Alternative II:					
1975[1]	67.6	69.2	−1.5	44.3	66
1976	73.8	78.2	−4.3	40.0	57
1977	83.0	86.9	−3.9	36.1	46
1978	91.6	96.8	−5.2	30.9	37
1979[2]	100.9	106.9	−5.9	25.0	29
1980[2]	110.6	117.8	−7.2	17.8	21
1981[2]	120.6	129.2	−8.6	9.2	14
Alternative III:					
1975[1]	67.6	69.2	−1.5	44.3	66
1976	73.8	78.2	−4.3	40.0	57
1977	82.1	87.0	−4.9	35.1	46
1978	89.8	97.1	−7.3	27.8	36
1979[2]	97.7	107.7	−9.9	17.9	26
1980[2]	105.9	119.4	−13.5	4.4	15
1981[2]	114.0	131.4	−17.5	−13.0	3

[1] Figures for 1975 represent actual experience.
[2] Because the disability insurance trust fund is exhausted in 1979 under each alternative, and because none of the estimated income to one trust fund can be allocated to the other trust fund, under present law, the figures for 1979–81 are theoretical, representing arithmethical addition of figures shown in tables 11 and 12.

Note: Totals do not necessarily equal the sum of rounded components. The assumptions underlying the estimates are described in the accompanying text and in table 10.

Expenditures in calendar year 1975, from both trust funds combined, were 10.65 percent of taxable earnings for the year—0.75 percent more than the combined employee-employer contribution rate of 9.90 percent. During calendar years 1976–81, expenditures from both trust funds, combined, are estimated to fluctuate within a relatively narrow range of 10.67–10.78 percent of taxable earnings, under the intermediate set of assumptions. These percentages, as well as the percentages under alternatives I and III, are shown in table 14 for both trust funds combined and for each trust fund separately. Table 14 also shows a comparison of each of the percentages with the corresponding combined employee-employer contribution rate. Since it is estimated that the disability insurance trust fund will be exhausted in 1979, the 1979–81 figures for that trust fund and for both trust funds combined, shown in table 14 for informational purposes, are theoretical. Similarly, the 1981 percentage for the old-age and survivors insurance trust fund under alternative III is also theoretical.

TABLE 14.—EXPENDITURES FROM THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS AS A PERCENTAGE OF TAXABLE PAYROLL COMPARED WITH COMBINED EMPLOYEE-EMPLOYER CONTRIBUTION RATES, FOR CALENDAR YEARS 1975-81 UNDER 3 ALTERNATIVE SETS OF ASSUMPTIONS

Calendar year	Old-age and survivors insurance trust fund			Disability insurance trust fund			Old-age and survivors insurance and disability insurance trust funds, combined		
	Expenditures as a percentage of taxable payroll [1]	Combined employee-employer contribution rate	Difference [2]	Expenditures as a percentage of taxable payroll [1]	Combined employee-employer contribution rate	Difference [2]	Expenditures as a percentage of taxable payroll [1]	Combined employee-employer contribution rate	Difference [2]
Alternative I:									
1975 [3]	9.29	8.75	−0.54	1.36	1.15	−0.21	10.65	9.90	−0.75
1976	9.36	8.75	−.61	1.42	1.15	−.27	10.78	9.90	−.88
1977	9.28	8.75	−.53	1.44	1.15	−.29	10.72	9.90	−.82
1978	9.19	8.70	−.49	1.46	1.20	−.26	10.65	9.90	−.75
1979	9.00	8.70	−.30	1.46	1.20	−.26	10.46	9.90	−.56
1980	8.83	8.70	−.13	1.47	1.20	−.27	10.30	9.90	−.40
1981	8.69	8.60	−.09	1.48	1.30	−.18	10.18	9.90	−.28
Alternative II:									
1975 [3]	9.29	8.75	−.54	1.36	1.15	−.21	10.65	9.90	−.75
1976	9.36	8.75	−.61	1.42	1.15	−.27	10.78	9.90	−.88
1977	9.28	8.75	−.53	1.44	1.15	−.29	10.72	9.90	−.82
1978	9.28	8.70	−.58	1.47	1.20	−.27	10.75	9.90	−.85
1979	9.21	8.70	−.51	1.50	1.20	−.30	10.71	9.90	−.81
1980	9.15	8.70	−.45	1.53	1.20	−.33	10.68	9.90	−.78
1981	9.12	8.60	−.52	1.55	1.30	−.25	10.67	9.90	−.77
Alternative III:									
1975 [3]	9.29	8.75	−.54	1.36	1.15	−.21	10.65	9.90	−.75
1976	9.36	8.75	−.61	1.42	1.15	−.27	10.78	9.90	−.88
1977	9.40	8.75	−.65	1.46	1.15	−.31	10.85	9.90	−.95
1978	9.49	8.70	−.79	1.51	1.20	−.31	11.00	9.90	−1.10
1979	9.55	8.70	−.85	1.56	1.20	−.36	11.11	9.90	−1.21
1980	9.63	8.70	−.93	1.61	1.20	−.41	11.24	9.90	−1.34
1981	9.73	8.60	−1.13	1.66	1.30	−.36	11.39	9.90	−1.49

[1] Percentage takes into account (1) the lower contribution rate payable by the self-employed compared with combined employee-employer rate (2) employee contributions subject to refund, and (3) that only the employee contribution is payable on tips taxable as wages. Expenditures are adjusted to exclude payments 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.

[2] Represents difference between tax contribution income and total outgo, as a percentage of taxable payroll, and therefore excludes the effects of other sources of income (principally interest income). Total income and outgo during 1975-81 are shown in tables 11-13.

[3] Percentages for 1975, though based on actual experience, are preliminary and subject to revision.

Estimates of the operations of the trust funds during calendar years 1976–81 have been presented in the preceding tables of this section under three different sets of economic assumptions because of the uncertainty of future economic developments. Under the provisions of the Social Security Act, it is required that estimates of the expected operations and status of the trust funds during the next 5 fiscal years be shown in this report. In accordance with these statutory provisions, detailed estimates of the expected operations and status of the trust funds during each fiscal year 1976–81 are shown in the remaining tables of this section for the intermediate set of assumptions (alternative II), only. Similar detailed estimates under the intermediate assumptions are also shown, as in previous annual reports, on a calendar year basis for the period 1976–81.

Data on the actual operations of the old-age and survivors insurance trust fund for selected years during the period 1940–75 [1], and estimates of the expected operations of the trust funds during 1976–81 under the intermediate set of assumptions, are shown in tables 15 and 16 on a fiscal year basis and a calendar year basis, respectively. Corresponding figures on the operations of the disability insurance trust fund during the period 1960–81 are shown in tables 17 and 18. Operations of both trust funds combined are shown in tables 19 and 20.

Expenditures as a percentage of taxable earnings for years prior to 1976, as well as the estimated percentages for 1976–81 under the intermediate assumptions, are shown in table 21 for both trust funds combined and for each trust fund separately. (Although the estimated percentages for 1976–81 have been shown in table 14, they are repeated in table 21 for comparison with past experience.)

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[1] Data relating to the operations of the two trust funds for years not shown in tables 15–18 are contained in earlier annual reports.

TABLE 15.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING SELECTED FISCAL YEARS 1940-75 AND ESTIMATED FUTURE OPERATIONS DURING FISCAL YEARS 1976-81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS

[In millions of dollars]

Fiscal year [1]	Transactions during period: Income: Total	Income: Contributions, less refunds	Income: Reimbursements from general fund of Treasury for costs of—: Noncontributory credits for military service	Reimbursements: Payments to noninsured persons aged 72 and over	Income: Interest on investments [2]	Disbursements: Total	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:												
1940	592	550			42	28	16		12		564	1,745
1945	1,434	1,310			124	267	240		27		1,167	6,613
1950	2,367	2,106	4		257	784	727		57		1,583	12,893
1955	5,525	5,087			438	4,427	4,333		103	−10	1,098	21,141
1960	10,360	9,843			517	11,073	10,270		202	600	−713	20,829
1965	16,443	15,857			586	15,962	15,226		300	436	482	20,180
1966	18,461	17,866			595	18,769	18,071		254	444	−308	19,872
1967	23,371	22,567	78		726	19,728	18,886	(3)	334	508	3,643	23,515
1968	23,640	22,662	78		899	21,622	20,737	(3)	447	438	2,018	25,533
1969	27,348	25,953	156	226	1,014	24,690	23,732	2	465	491	2,658	28,191
1970	31,746	29,955	78	364	1,350	27,321	26,267	1	474	579	4,425	32,616
1971	33,982	31,915	78	371	1,618	32,268	31,101	2	552	613	1,714	34,331
1972	37,917	35,711	137	351	1,719	35,849	34,541	2	582	724	2,068	36,399
1973	43,639	41,318	138	337	1,847	43,623	42,170	2	667	783	17	36,416
1974	50,936	48,455	139	303	2,039	49,485	47,849	4	723	909	1,451	37,867
1975	58,757	56,017	140	307	2,292	56,676	54,839	8	848	982	2,081	39,948
Estimated future experience [4]:												
1976	62,383	59,593	157	268	2,365	64,233	62,245	8	925	1,055	−1,850	38,098
July–September 1976	16,641	16,060			581	17,234	16,983	3	248		−593	37,505
1977	71,835	68,909	378	236	2,312	73,426	71,155	7	1,014	1,250	−1,591	35,914
1978	79,148	76,376	378	213	2,181	81,493	78,813	11	1,078	1,591	−2,345	33,569
1979	87,160	84,604	376	223	1,957	89,712	87,221	13	1,158	1,320	−2,552	31,017
1980	95,561	93,315	380	147	1,719	98,722	96,099	14	1,240	1,369	−3,161	27,856
1981	103,349	101,362	384	130	1,473	108,023	105,257	16	1,318	1,432	−4,674	23,182

[1] Under the Congressional Budget Act of 1974 (Public Law 93–344), fiscal years 1977 and later consist of the 12 mo. ending on Sept. 30 of each year. The act further provides that the calendar quarter July–September 1976 is a period of transition from fiscal year 1976, which ends on June 30, 1976, to fiscal year 1977, which begins on Oct. 1, 1976.

[2] Interest on investments includes net profits on marketable investments. Total administrative expenses exclude expenses for the period ending Dec. 31, 1939; for that period, appropriations to the old-age and survivors insurance trust fund (designated as the old-age reserve account prior to Jan. 1, 1940) were approximately equivalent to tax contributions collected by the Treasury Department less administrative expenses. Beginning in 1954, administrative expenses include costs of construction of office space for the Social Security Administration. Beginning in 1967, administrative expenses incurred under each of the 4 programs, old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance, are charged currently to the appropriate trust fund on an estimated basis, with a final adjustment, including interest, made in the following fiscal year. The amounts of these interest adjustments are included in interest on investments. For years prior to 1967, a description of the method of accounting for administrative expenses is contained in the 1970 Annual Report of the Board of Trustees.

[3] Less than $500,000.

[4] In interpreting the estimates, reference should be made to table 10 and the accompanying text which describe the underlying assumptions.

TABLE 16.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING SELECTED CALENDAR YEARS 1940–75 AND ESTIMATED FUTURE OPERATIONS DURING CALENDAR CALENDAR YEARS 1976–81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS

[In millions of dollars]

Calendar year	Transactions during period: Income: Total	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: Total	Disbursements: Benefit payments	Disbursements: Payments for vocational rehabilitation services	Disbursements: Administrative expenses	Disbursements: Transfers to railroad retirement account	Net increase in fund	Fund at end of period
Past experience:												
1940	368	325	—	—	43	62	35	—	26	—	306	2,031
1945	1,420	1,285	—	—	134	304	274	—	30	—	1,116	7,121
1950	2,928	2,667	4	—	257	1,022	961	—	61	—	1,905	13,721
1955	6,167	5,713	—	—	454	5,079	4,968	—	119	−7	1,087	21,663
1960	11,382	10,866	—	—	516	11,198	10,677	—	203	318	184	20,324
1965	16,610	16,017	—	—	593	17,501	16,737	—	328	436	−890	18,235
1966	21,302	20,580	78	—	644	18,967	18,267	(1)	256	444	2,335	20,570
1967	24,034	23,138	78	—	818	20,382	19,468	(1)	406	508	3,652	24,222
1968	25,040	23,719	156	226	939	23,557	22,642	1	476	438	1,483	25,704
1969	29,554	27,947	78	364	1,165	25,176	24,209	1	474	491	4,378	30,082
1970	32,220	30,256	78	371	1,515	29,848	28,796	2	471	579	2,371	32,454
1971	35,877	33,723	137	351	1,667	34,542	33,413	2	514	613	1,335	33,789
1972	40,050	37,781	138	337	1,794	38,522	37,122	2	674	724	1,528	35,318
1973	48,344	45,975	139	303	1,928	47,175	45,741	3	647	783	1,169	36,487
1974	54,688	52,081	140	307	2,159	53,397	51,618	5	865	909	1,291	37,777
1975	59,605	56,816	157	268	2,364	60,395	58,509	9	896	982	−790	36,987
Estimated future experience:												
1976	65,141	62,662	378	236	1,865	67,853	65,845	9	944	1,055	−2,711	34,276
1977	73,303	70,391	378	213	2,321	75,290	73,006	8	1,026	1,250	−1,987	32,289
1978	80,604	77,822	376	223	2,183	83,568	80,869	12	1,096	1,591	−2,964	29,325
1979	88,874	86,388	380	147	1,959	91,926	89,417	13	1,176	1,320	−3,052	26,273
1980	97,556	95,295	384	130	1,747	101,004	98,363	15	1,257	1,369	−3,448	22,825
1981	105,409	103,422	388	115	1,484	110,373	107,589	17	1,335	1,432	−4,964	17,861

[1] Less than $500,000.

Note: In interpreting the above, reference should be made to the footnotes in table 15.

TABLE 17.—OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING SELECTED FISCAL YEARS 1960-75 AND ESTIMATED FUTURE OPERATIONS DURING FISCAL YEARS 1976-81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS

[In millions of dollars]

Fiscal year [1]	Transactions during period: Income: Total	Income: Contributions, less refunds	Income: Reimbursements from general fund of Treasury for cost of noncontributory credits for military service	Income: Interest on investments [2]	Disbursements: Total	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 [3]:											
1960	1,034	987		47	533	528		32	—27	501	2,167
1965	1,237	1,175		62	1,495	1,392		79	24	—257	2,007
1966	1,611	1,557		54	1,931	1,721	1	183	25	—321	1,686
1967	2,332	2,249	16	67	1,997	1,861	7	99	31	335	2,022
1968	2,800	2,699	16	85	2,236	2,088	15	112	20	564	2,585
1969	3,705	3,532	32	141	2,613	2,443	15	133	21	1,092	3,678
1970	4,380	4,141	16	223	2,954	2,778	16	149	10	1,426	5,104
1971	4,911	4,569	16	325	3,606	3,381	21	190	13	1,305	6,408
1972	5,291	4,853	50	388	4,309	4,046	28	212	24	982	7,390
1973	5,947	5,461	51	435	5,467	5,162	39	247	20	479	7,869
1974	6,768	6,234	52	482	6,385	6,159	50	154	22	383	8,253
1975	7,920	7,356	52	512	7,982	7,630	71	253	29	—62	8,191
Estimated future experience [4]:											
1976	8,399	7,835	90	474	9,592	9,199	91	274	28	—1,193	6,997
July-September 1976	2,224	2,112		112	2,654	2,552	33	70		—430	6,567
1977	9,518	9,057	103	358	11,272	10,811	84	338	39	—1,754	4,813
1978	10,735	10,397	114	224	12,857	12,322	134	360	41	—2,122	2,691
1979	11,828	11,670	112	46	14,518	13,951	153	388	26	—2,690	1
1980 [5]	12,794	12,871	114	—191	16,350	15,734	175	419	22	—3,556	—3,555
1981 [5]	14,593	14,955	116	—478	18,285	17,623	198	443	21	—3,692	—7,247

[1] Under the Congressional Budget Act of 1974 (Public Law 93-344), fiscal years 1977 and later consist of the 12 mo ending on Sept. 30 of each year. The act further provides that the calendar quarter July-September 1976 is a period of transition from fiscal year 1976, which ends on June 30, 1976, to fiscal year 1977, which begins on Oct. 1, 1976.

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

[3] The financial operations of the disability insurance trust fund began in the latter half of fiscal year 1957.

[4] In interpreting the estimates, reference should be made to table 10 and the accompanying text which describe the underlying assumptions.

[5] Figures for 1980-81 are theoretical because the disability insurance trust fund is exhausted in fiscal year 1980.

TABLE 18.—OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING SELECTED CALENDAR YEARS 1960–75 AND ESTIMATED FUTURE OPERATIONS DURING CALENDAR YEARS 1976–81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS

[In millions of dollars]

Calender year	Transactions during period: Income: Total	Income: Contributions, less refunds	Income: Reimbursements from general fund of Treasury for cost of noncontributory credits for military service	Income: Interest on investments	Disbursements: Total	Disbursements: Benefit payments	Disbursements: Payments for vocational rehabilitation services	Disbursements: Administrative expenses	Disbursements: Transfers to railroad retirement account	Net increase in fund	Fund at end of period
Past experience:											
1960	1,063	1,010		53	600	568		36	—5	464	2,289
1965	1,247	1,188		59	1,687	1,573		90	24	—440	1,606
1966	2,079	2,006	16	58	1,947	1,781	3	137	25	133	1,739
1967	2,379	2,286	16	78	2,089	1,939	11	109	31	290	2,029
1968	3,454	3,316	32	106	2,458	2,294	16	127	20	996	3,025
1969	3,792	3,599	16	177	2,716	2,542	15	138	21	1,075	4,100
1970	4,774	4,481	16	277	3,259	3,067	18	164	10	1,514	5,614
1971	5,031	4,620	50	361	4,000	3,758	24	205	13	1,031	6,645
1972	5,572	5,107	51	414	4,759	4,473	29	233	24	813	7,457
1973	6,443	5,932	52	458	5,973	5,718	46	190	20	470	7,927
1974	7,378	6,826	52	500	7,196	6,903	54	217	22	182	8,109
1975	8,035	7,444	90	502	8,790	8,414	91	256	29	—754	7,354
Estimated future experience:											
1976	8,696	8,236	103	357	10,298	9,877	98	295	28	—1,602	5,752
1977	9,726	9,251	114	361	11,655	11,177	96	343	39	—1,929	3,823
1978	11,033	10,696	112	225	13,260	12,715	138	366	41	—2,227	1,596
1979 [1]	12,066	11,917	114	35	14,957	14,377	159	395	26	—2,891	—1,295
1980 [1]	13,070	13,145	116	—191	16,823	16,197	180	424	22	—3,753	—5,048
1981 [1]	15,180	15,538	120	—478	18,795	18,121	204	449	21	—3,615	—8,663

[1] Figures for 1979–81 are theoretical because the disability insurance trust fund is exhausted in calendar year 1979.

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

TABLE 19.—OPERATIONS OF THE OLD-AGE AND SURVIORS INSURANCE AND THE DISABILITY INSURANCE TRUST FUNDS, COMBINED, DURING SELECTED FISCAL YEARS 1960–75 AND ESTIMATED FUTURE OPERATIONS DURING FISCAL YEAR 1976–81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS

[In millions of dollars]

	Transactions during period											
	Income					Disbursements						
			Reimbursements from general fund of Treasury for costs of—									
Fiscal year	Total	Contributions, less refunds	Noncontributory credits for military service	Payments to noninsured persons aged 72 and over	Interest on investments	Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to railroad retirement account	Net increase in funds	Funds at end of period
Past experience:												
1960	11,394	10,830			564	11,606	10,798		234	574	−212	22,996
1965	17,681	17,032			648	17,456	16,618		379	459	224	22,187
1966	20,071	19,423			649	20,700	19,793	1	437	469	−629	21,558
1967	25,703	24,816	94		793	21,725	20,747	7	433	539	3,979	25,537
1968	26,440	25,362	94		984	23,859	22,825	16	560	458	2,581	28,118
1969	31,054	29,485	188	226	1,155	27,303	26,175	17	599	513	3,750	31,868
1970	36,127	34,096	94	364	1,572	30,275	29,045	18	623	589	5,852	37,720
1971	38,893	36,485	94	371	1,943	35,874	34,482	23	742	626	3,019	40,739
1972	43,208	40,564	187	351	2,107	40,158	38,587	29	794	749	3,050	43,789
1973	49,586	46,779	189	337	2,281	49,090	47,332	42	914	802	496	44,285
1974	57,704	54,689	191	303	2,521	55,869	54,007	54	878	931	1,835	46,120
1975	66,677	63,374	192	307	2,804	64,658	62,469	79	1,101	1,010	2,018	48,138
Estimated future experience:												
1976	70,782	67,428	247	268	2,839	73,825	71,444	98	1,200	1,083	−3,043	45,095
July–September 1976	18,865	18,172			693	19,888	19,535	35	318		−1,023	44,072
1977	81,353	77,966	481	236	2,670	84,698	81,966	92	1,352	1,289	−3,345	40,727
1978	89,883	86,773	492	213	2,405	94,350	91,135	145	1,438	1,632	−4,467	36,260
1979	98,988	96,274	488	223	2,003	104,230	101,172	166	1,546	1,346	−5,242	31,018
1980 [1]	108,355	106,186	494	147	1,528	115,072	111,833	189	1,659	1,391	−6,717	24,301
1981 [1]	117,942	116,317	500	130	995	126,308	122,880	214	1,761	1,453	−8,366	15,935

[1] Because the disability insurance trust fund is exhausted in fiscal year 1980 under the intermediate assumptions, and because none of the estimated income to 1 trust fund can be allocated to the other trust fund, under present law, the figures for 1980–81 are theoretical, representing arithmetical addition of figures shown in tables 15 and 17.

Note.—In interpreting the above, reference should be made to the footnotes in table 15.

TABLE 20.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND THE DISABILITY INSURANCE TRUST FUNDS, COMBINED, DURING SELECTED CALENDAR YEARS 1960–75 AND ESTIMATED FUTURE OPERATIONS DURING CALENDAR YEARS 1976–81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS

[In millions of dollars]

	Transactions during period											
	Income					Disbursements						
			Reimbursements from general fund of Treasury for costs of—									
Calendar year	Total	Contributions, less refunds	Noncontributory credits for military service	Payments to noninsured persons aged 72 and over	Interest on investments	Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to railroad retirement account	Net increase in funds	Funds at end of period
Past experience:												
1960	12,445	11,876			569	11,798	11,245		240	314	647	22,613
1965	17,857	17,205			651	19,187	18,311		418	459	−1,331	19,841
1966	23,381	22,585	94		702	20,913	20,048	3	393	469	2,467	22,308
1967	26,413	25,424	94		896	22,471	21,406	11	515	539	3,942	26,250
1968	28,493	27,034	188	226	1,045	26,015	24,936	17	603	458	2,479	28,729
1969	33,346	31,546	94	364	1,342	27,892	26,751	16	612	513	5,453	34,182
1970	36,993	34,737	94	371	1,791	33,108	31,863	20	635	589	3,886	38,068
1971	40,908	38,343	187	351	2,027	38,542	37,171	26	719	626	2,366	40,434
1972	45,622	42,888	189	337	2,208	43,281	41,595	30	907	749	2,341	42,775
1973	54,787	51,907	191	303	2,386	53,148	51,459	49	837	802	1,639	44,414
1974	62,066	58,907	192	307	2,660	60,593	58,521	59	1,082	931	1,472	45,886
1975	67,640	64,259	247	268	2,866	69,184	66,923	99	1,152	1,010	−1,544	44,342
Estimated future experience:												
1976	73,837	70,898	481	236	2,222	78,151	75,722	107	1,239	1,083	−4,314	40,028
1977	83,029	79,642	492	213	2,682	86,945	84,183	104	1,369	1,289	−3,916	36,112
1978	91,637	88,518	488	223	2,408	96,828	93,584	150	1,462	1,632	−5,191	30,921
1979 [1]	100,940	98,305	494	147	1,994	106,883	103,794	172	1,571	1,346	−5,943	24,978
1980 [1]	110,626	108,440	500	130	1,556	117,827	114,560	195	1,681	1,391	−7,201	17,777
1981 [1]	120,589	118,960	508	115	1,006	129,168	125,710	221	1,784	1,453	−8,579	9,198

[1] Because the disability insurance trust fund is exhausted in calendar year 1979 under the intermediate assumptions, and because none of the estimated income to one trust fund can be allocated to the other trust fund, under present law, the figures for 1979–81 are theoretical, representing arithmetical addition of figures shown in tables 16 and 18.

Note: In interpreting the above, reference should be made to the footnotes in table 15.

TABLE 21.—EXPENDITURES FROM THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS AS A PERCENTAGE OF TAXABLE PAYROLL FOR SELECTED CALENDAR YEARS 1960-75 AND ESTIMATED FUTURE PERCENTAGES FOR CALENDAR YEARS 1976-81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS

	Expenditures as a percentage of taxable payroll [1]		
Calendar year	Old-age and survivors insurance and disability insurance trust funds, combined	Old-age and survivors insurance trust fund	Disability insurance trust fund
Past experience:			
1960	5.89	5.59	0.30
1965	7.93	7.23	0.70
1966	6.88	6.24	0.64
1967	6.92	6.27	0.65
1968	7.03	6.35	0.67
1969	7.08	6.38	0.70
1970	8.12	7.32	0.81
1971	9.23	8.27	0.97
1972	9.15	8.13	1.01
1973	9.69	8.59	1.09
1974	9.72	8.56	1.16
1975	10.65	9.29	1.36
Estimated future experience [2]:			
1976	10.78	9.36	1.42
1977	10.72	9.28	1.44
1978	10.75	9.28	1.47
1979	10.71	9.21	1.50
1980	10.68	9.15	1.53
1981	10.67	9.12	1.55

[1] Percentage takes into account (1) the lower contribution rate payable by the self-employed compared with combined employee-employer rate, (2) employee contributions subject to refund, and (3) that for 1966 and later, only the employee contribution is payable on tips taxable as wages. Beginning in 1966, expenditures are adjusted to exclude payments 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. For 1971-75, percentages are preliminary and subject to revision.

[2] In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions.

Assets at the beginning of the year as a percentage of expenditures during the year for both trust funds combined is estimated to be about 57 percent for calendar year 1976. The percentage will drop each year, as the assets of the trust funds decline during the period 1976–81; and by calendar year 1981, the percentage is estimated to be 14 percent under the intermediate assumptions. The estimated percentage for each of the calendar years 1976–81 under the intermediate set of assumptions, as well as the actual percentages for earlier years, are shown in table 22 for both trust funds combined and for each trust fund separately. (Although the estimated percentages for 1976–81 have been shown in earlier tables in this section, they are repeated in table 22 for comparison with past experience.)

TABLE 22.—ASSETS, AT THE BEGINNING OF THE YEAR, AS A PERCENTAGE OF EXPENDITURES DURING THE YEAR, FOR THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM, BY TRUST FUND, FOR SELECTED CALENDAR YEARS 1960–75, AND ESTIMATED FUTURE PERCENTAGES FOR CALENDAR YEARS 1976–81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS

Calendar year	Assets, at the beginning of the year, as a percentage of expenditures during the year		
	Old-age and survivors insurance and disability insurance trust funds, combined	Old-age and survivors insurance trust fund	Disability insurance trust fund
Past experience:			
1960	186	180	304
1965	110	109	121
1966	95	96	83
1967	99	101	83
1968	101	103	83
1969	103	102	111
1970	103	101	126
1971	99	94	140
1972	93	88	140
1973	80	75	125
1974	73	68	110
1975	66	63	92
Estimated future experience [1]:			
1976	57	55	71
1977	46	46	49
1978	37	39	29
1979	29	32	11
1980	21	26	(2)
1981	14	21	(2)

[1] In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions.
[2] The disability insurance trust fund is exhausted in 1979.

The estimates in the tables in this section include the effects of various provisions to which reference has been made in earlier sections, namely, the provisions for (1) reimbursements to the trust funds from the general fund of the Treasury for the costs of granting noncontributory credits for military service and for the costs of monthly payments to certain noninsured persons aged 72 and over, and (2) financial interchanges between the railroad retirement account and the trust funds.

There has been increased interest on the part of some State and local government systems in terminating the voluntary agreements under which social security coverage is provided for their public employees. The termination of coverage for any large number of State and local government employees would have an adverse effect on the trust funds, especially in the short range. Notices of intention to terminate coverage of employees of various political subdivisions, including a few subdivisions with significantly large numbers of employees, have been filed by some of the States. In such cases, coverage will be terminated 2 years after the notice was filed, unless the State withdraws the notice during the 2-year period. The estimates presented in this section, and in the following sections of this report, do not reflect the effects of future terminations of coverage which may become effective as a result of such notices that have been filed and that are still pending.

As previously stated, the estimates presented in this section show substantial declines in the assets of both trust funds through 1981 under each of the three alternative sets of assumptions on which the estimates are based. As already noted, the estimates show that the assets of the disability insurance trust fund will be exhausted in 1979 under each alternative, and that the assets of the old-age and survivors insurance trust fund would be exhausted in 1981 under alternative III, and in 1984 under the intermediate assumptions. The expected substantial decline in the assets of the trust funds during 1976–81 was anticipated in the 1975 annual report and is attributable primarily to (1) the reduction in contribution income resulting from lower levels of employment and taxable earnings due to the recession that began in 1974; (2) the sharp upward movement in the CPI in 1974 and 1975, with the result that automatic benefit increases are larger than they would have otherwise been; and (3) the increasing number of disabled workers receiving disability insurance benefits.

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

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

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

On December 31, 1975, about 436,000 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 36,000 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 full-rate (i.e., not reduced for age) benefits solely because they had at least one disabled-child beneficiary in their care. Benefits paid from this trust fund to persons receiving benefits with respect to disability totaled $664 million in calendar year 1975. Similar figures are presented in table 23 to show the experience in each of the calendar years 1957–75.

Table 23 also shows the expected future experience in calendar years 1976–81, under the intermediate set of economic assumptions described in the preceding section. Total benefit payments from the old-age and survivors insurance trust fund with respect to disabled beneficiaries are estimated to increase from $750 million in calendar year 1976 to $1,387 million in calendar year 1981, under the intermediate assumptions.

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TABLE 23.—BENEFITS PAYABLE FROM THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND WITH RESPECT TO DISABLED BENEFICIARIES, CALENDAR YEARS 1957-81

[Beneficiaries in thousands; benefit payments in millions]

Calendar year	Disabled beneficiaries, end of year			Amount of benefit payments [1]		
	Total	Children [2]	Widows and widowers	Total	Children [2]	Widows and widowers [3]
Past experience:						
1957	34	34		$7	$7	
1958	59	59		23	23	
1959	94	94		41	41	
1960	117	117		59	59	
1961	138	138		74	74	
1962	163	163		89	89	
1963	183	183		101	101	
1964	200	200		113	113	
1965	214	214		134	134	
1966	228	228		147	147	
1967	243	243		163	163	
1968	275	256	19	212	198	$14
1969	301	270	31	249	214	35
1970	320	284	36	301	260	41
1971	338	298	40	363	307	56
1972	363	317	46	409	343	66
1973	384	333	51	492	417	75
1974	410	357	53	567	479	88
1975	436	377	59	664	560	104
Estimated future experience [4]:						
1976	463	399	64	750	636	114
1977	493	424	69	850	724	126
1978	524	450	74	970	828	142
1979	557	479	78	1,101	940	161
1980	591	509	82	1,242	1,065	177
1981	626	541	85	1,387	1,195	192

[1] Beginning in 1966, includes payments for vocational rehabilitation services.
[2] Reflects effect of including certain mothers. (See text.)
[3] Reflects the offsetting effect of lower benefits payable to disabled widows and widowers who continue to receive benefits past age 60 (62, for disabled widowers, prior to 1973) as compared to the higher nondisabled widow's (and widower's) benefits that would otherwise be payable.
[4] The estimates are based on the intermediate set of assumptions and reflect the resulting assumed changes under the automatic increase provisions, as described in the preceding section.

In calendar year 1975, 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 $9,169 million, of which $664 million, or 7.2 percent, represented payments from the old-age and survivors insurance trust fund. Similar figures for each of the calendar years 1957–75 and estimates for calendar years 1976–81, under the intermediate set of assumptions, are presented in table 24.

TABLE 24.—BENEFIT PAYMENTS UNDER THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM WITH RESPECT TO DISABLED BENEFICIARIES, BY TRUST FUND, CALENDAR YEARS 1957-81

[Dollar amounts in millions]

Calendar year	Total [1]	Benefit payments [1] from— Disability insurance trust fund [2]	Old-age and survivors insurance trust fund: Amount [3]	Old-age and survivors insurance trust fund: 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	2,523	2,311	212	8.4
1969	2,806	2,557	249	8.9
1970	3,386	3,085	301	8.9
1971	4,146	3,783	363	8.8
1972	4,911	4,502	409	8.3
1973	6,256	5,764	492	7.9
1974	7,524	6,957	567	7.5
1975	9,169	8,505	664	7.2
Estimated future experience [4]:				
1976	10,725	9,975	750	7.0
1977	12,123	11,273	850	7.0
1978	13,823	12,853	970	7.0
1979	15,637	14,536	1,101	7.0
1980	17,619	16,377	1,242	7.0
1981	19,712	18,325	1,387	7.0

[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 text), and to disabled widows and widowers (see footnote 3, table 23).
[4] The estimates are based on the intermediate set of assumptions, and reflect the resulting assumed changes under the automatic increase provisions, as described in the preceding section.

Long-Range Actuarial Status of the Trust Funds

SIGNIFICANCE OF LONG-RANGE COST ESTIMATES

Section 201(c) of the Social Security Act requires the Board of Trustees to report annually on the operation and status of the old-age and survivors insurance and disability insurance trust funds during the preceding fiscal year and the expected operation and status of the trust funds during the next ensuing five fiscal years. Such information for the fiscal year that ended June 30, 1975, and for the period July 1, 1975, to December 31, 1981, is presented in earlier sections of this report.

Section 201(c) of the Social Security Act also requires that the annual report of the Board of Trustees include a statement of the "actuarial status" of the trust funds; that is, estimated future benefits and administrative expenses in relation to both the estimated future income to the trust funds and the assets of the trust funds. Since 1965 this comparison has been made for the 75-year period beginning with the year of the report. In accordance with this practice, the statement of the actuarial status of the trust funds discussed herein pertains to the period 1976 through 2050.

A statement on the actuarial status of the trust funds must necessarily be made on the basis of the system incorporated in present law. Under that system, however, because of the complex and apparently unintentional way in which future benefits are related to future changes in wages and the Consumer Price Index, the benefits projected to materialize under certain assumptions regarding such changes reach unreasonably high levels for persons who first become entitled to benefits in the next century. Historically, legislative action has been taken to bring projected future income to and disbursements from the trust funds into balance, and it is clearly imperative that legislative changes be made to prevent these projected benefit levels from materializing. (This is discussed in more detail in the remainder of the report.) Consequently, the estimated future costs which result from a projection of these unreasonably high benefit levels should be interpreted with caution.

Throughout its history the old-age, survivors, and disability insurance program has been self-supporting and since the 1950's has been operated on what may be termed a current-cost financing basis. It is self-supporting in that the only source of funds to pay benefits and administrative expenses is the social security taxes collected from workers and their employers covered under the program (and the interest earned on the invested balances of the trust funds).[1] Under the current-cost method of financing, the amount of taxes collected each year is intended to be approximately equal to the benefits and administrative expenses paid during the year plus a small additional amount to maintain the trust funds at an appropriate contingency reserve level. The purpose of the trust fund under current-cost financing is to reflect all financial transactions and to absorb temporary differences between income and expenditures. Thus, whatever normal ratio of trust fund assets to expenditures is established, it can be expected that the funds will vary somewhat from that level from time to time as they absorb those fluctuations.

Since the inception of the old-age, survivors, and disability insurance program, past payroll taxes together with interest on the trust funds have been adequate to provide all past benefits and administrative expenses. Specifically, with respect to the old-age, survivors, and disability insurance program from 1937 through calendar year 1975, cumulative income to the trust funds amounted to $586 billion and cumulative disbursements were $542 billion. The balance of $44 billion was still in the trust funds at the end of calendar year 1975. Based upon projections made under the intermediate assumptions (alternative II), it is estimated that, during the calendar years 1976–1981, income to the trust funds will total $581 billion and disbursements will be $616 billion (see tables 13 and 19). This is a projected decrease in the trust funds of $35 billion during the period 1976–1981,

[1] In addition to social security taxes and interest earnings, the trust funds receive annual reimbursements from the general fund of the Treasury for certain costs, described in an earlier section, that are not financed by payroll taxes. In fiscal year 1975, such reimbursements amounted to $499 million, or about ¾ of 1 percent of the $66.7 billion in total income to the old-age, survivors, and disability trust funds.

which would reduce the trust funds to about $9 billion by the end of calendar year 1981. For purposes of illustration, the preceding figures are for the old-age and survivors insurance and disability insurance trust funds, combined, although these are independent trust funds and must be considered separately. As indicated in an earlier section of the report, the disability insurance trust fund is projected to be exhausted during 1979. These figures illustrate that under current financing procedures the assets of the trust funds play a relatively minor role; it is the ongoing collection of social security taxes which is the most important factor in providing benefits under the program.

The Congress, in setting future tax rates for the old-age, survivors, and disability insurance program, has normally followed the principle that estimated future income to the trust funds (including interest earnings on invested assets) should be equal to estimated future disbursements, taking into account both present and future participants in the program.

When estimated future disbursements and estimated future income over the 75-year valuation period are not in balance, an "actuarial deficit" or an "actuarial surplus" exists—depending upon whether disbursements are greater than income, or vice versa. The old-age, survivors, and disability insurance program has been in close actuarial balance throughout most of the program's existence. When there was an imbalance, i.e., an actuarial deficit or actuarial surplus, the Congress has acted in due course to revise either taxes, benefits, or both so as to bring the program into close actuarial balance over the 75-year valuation period. Therefore, it is essential to the sound financial operation of the old-age, survivors, and disability insurance program that periodic estimates be made of the estimated future income and outgo to ensure that they are still in balance, and, if not, to provide information to enable appropriate action to be taken to restore the balance.

Actual future income from social security taxes, and actual future expenditures for benefit payments and administrative expenses, will depend upon a large number of factors, including the following:

(*a*) Size and composition of the active working population, which depend in turn upon fertility rates, mortality rates, migration rates, labor force participation and unemployment rates, disability rates, retirement-age patterns, etc.

(*b*) Size and composition of the population which is receiving benefits and the level of benefits, and the level of earnings of the active working population, which depend in turn on the previously mentioned factors, as well as upon wage patterns, the Consumer Price Index, remarriage rates, etc.

It is obviously impossible to know what the future holds with respect to these demographic and economic factors which will determine the actual income and expenditures under the old-age, survivors, and disability insurance program during the next 75-year period. The best that can be done is to make assumptions as to the future behavior of these demographic and economic factors, and to make long-range estimates based upon such assumptions which will indicate the trend and general range of future income and outgo. Such estimates, and their underlying assumptions, if revised periodically in the light of developing trends, provide information which is essential for making informed policy decisions.

In reviewing long-range estimates based upon demographic and economic conditions postulated to exist in the middle of the next century, it would be well to keep in mind the following: Although the underlying assumptions for these long-range estimates may appear to be reasonable, based upon current understanding, in some cases the assumptions produce results so different from the current situation that attention should be directed toward the overall implications of these assumptions and not just toward their effect on the single issue of financing the old-age, survivors, and disability insurance program. For example, since the selection of particular demographic assumptions implies a certain future composition of the U.S. population, it is important to recognize that, if the population composition should change in accordance with these assumptions, it is likely to result in substantial changes in many of the nation's social and economic arrangements. Although beyond the scope of this report, it is desirable in order to view the long-range financing questions from a broader perspective, to analyze the possible implications on various aspects of 21st-century society of the many projections included herein.

LONG-RANGE COST ESTIMATES

As stated previously, the principal determinants of future income and expenditures—frequently referred to in this report as long-range cost estimates—under the old-age, survivors, and disability insurance program are: The type and level of benefits payable; the size and composition of the population which is receiving the benefits; and the size and characteristics, including the earnings levels, of the population generating the taxes used to provide such benefits. For the most part, these future determinants of income and expenditures cannot be known with certainty, and assumptions must be made as to the future behavior of relevant demographic and economic factors.

Demographic and economic assumptions

The basic demographic and economic assumptions, as well as the methodology, used in determining the long-range cost estimates presented in this report are described in Appendix A.

When projections are made for 75 years into the future, and involve social and economic forces—as well as natural forces such as mortality and fertility—it is not unlikely that actual experience will depart significantly from any particular path which may be postulated. Accordingly, cost estimates have been determined and are presented herein based upon three different sets of assumptions, designated as alternatives I, II, and III, in order to indicate the general range in which the cost estimates might reasonably be expected to fall.

Table 10 in an earlier section of the report summarizes, for the period 1976–1981, the assumptions made under these three alternative sets of assumptions with respect to increases in average annual wages and in the Consumer Price Index, and the average annual unemployment rate. The following table summarizes the factors which vary from one set of alternative assumptions to another, for the period 1982–2050. The variable factors include those which have the greatest impact on the estimates of future costs, yet have the lowest predictability, namely: the fertility rate, changes in wages and in the Consumer Price Index, and the resulting real wage changes. Except for unemployment rates, which were assumed to vary slightly among the three alternative sets of assumptions, all other factors such as mortality rates, migration rates, etc., which either have relatively less impact on the cost estimates or are more predictable, or both, have not been varied among the three alternative sets of assumptions.

VALUES OF SELECTED ECONOMIC AND DEMOGRAPHIC FACTORS FOR THE PERIOD 1982-2050 UNDER 3 ALTERNATIVE SETS OF ASSUMPTIONS

Alternative	Percentage increases in average annual— Wages	Consumer price index	Real wages [1]	Unemployment rate (percent)	Ultimate fertility rate [2]
I	5¼	3	2¼	4.5	2.3
II	5¾	4	1¾	5.0	1.9
III	6¼	5	1¼	[3] 5.5	1.7

[1] Expressed as the difference between percentage increases in average annual wages and average annual CPI.
[2] Average number of children born per woman in her lifetime.
[3] The ultimate rate of 5.5 percent is not attained until 1989.

The estimates under alternative I may be characterized as being more "optimistic" than the estimates under the "intermediate" (alternative II) assumptions. The estimates under alternative III may be characterized as being more "pessimistic" than the estimates under the intermediate assumptions.

While it does not seem unreasonable to assume that actual experience will fall within the range defined by alternatives I and III, particularly during the first 25 years of the projection period, there can be no guarantee that this will be the case because of the high degree of uncertainty in long-range economic forecasting. Estimates of future costs during the first half of the 75-year projection period are more predictable and fall within a narrower range than estimates of costs during the second half of the period. Even though estimates for the latter half of the period are less reliable, the preparation and presentation of long-range cost estimates, as modified periodically in the light of developing trends, can help to prevent surprising and unexpected results from materializing without warning.

In the first part of this section, long-range cost estimates based on the intermediate set of assumptions are presented in considerable detail and are compared with the cost estimates shown in the 1975 annual report that were based on the alternative labeled "central assumptions" in that report. Thereafter, cost estimates are shown in a more summarized form under all three alternative sets of assumptions so that appropriate comparisons can be made.

Benefit levels

The type and level of benefits which are payable under the old-age, survivors, and disability insurance program are extremely important determinants of the cost of the program. The long-range cost estimates presented in this report are based upon the benefits payable under present law, except as specifically noted otherwise.

Under traditional social insurance systems, the level of benefits payable upon the retirement, death, or disability of workers in the future is frequently dependent upon future changes in earnings levels.

Accordingly, although future benefit levels and costs under such systems are not readily predictable in absolute dollar amounts, they are generally predictable in relation to future earnings levels, i.e., expressed as a percentage of earnings.

This is not the case for the old-age, survivors, and disability insurance program under present law, which provides that benefits payable at retirement, death, or disability will be related in a complicated way to increases in both wages and the Consumer Price Index. The result is that the level of benefits payable in the future under present law is highly unpredictable, even in relation to future earnings.

In examining this matter it is helpful to consider the concept of the "replacement ratio," which may be defined as the ratio of the benefit amount payable at retirement to the worker's earnings just prior to retirement. The effect of various economic assumptions on replacement ratios under present law, and the resulting problems involved in estimating future benefit costs, are illustrated in the table shown below. Replacement ratios under various economic assumptions are shown in the table for workers at different earnings levels; namely, workers with maximum taxable earnings throughout their working life, workers with earnings equal to the median earnings of all workers in each year, and workers with "low" earnings, i.e., earnings equal to the minimum Federal wage level in each year. These examples are not intended to suggest that all workers fall neatly into one of these earnings categories, but rather to illustrate the instability of the benefit formula under present law. The replacement ratios shown in the table are based upon gross preretirement earnings. The replacement ratios could be substantially higher if benefit amounts, which are not subject to taxes, were related to preretirement earnings after taxes, especially in the case of workers at median or maximum earnings levels.

ILLUSTRATIVE REPLACEMENT RATIOS [1] FOR RETIRED MALE WORKERS AT SELECTED EARNINGS LEVELS, UNDER VARIOUS ECONOMIC ASSUMPTIONS

Earnings level	1975	Retirement at age 65 in 2050 under assumptions of: [2] 5–2 3/4	5–3	6–4	5 3/4–4
(1)	(2)	(3)	(4)	(5)	(6)
Worker without spouse:					
Maximum	0.29	0.33	0.38	0.43	0.47
Median	.42	.47	.53	.63	.69
Low	.62	.72	.84	1.02	1.12
Worker with spouse aged 65:					
Maximum	.43	.50	.56	.65	.71
Median	.63	.70	.80	.94	1.03
Low	.93	1.08	1.26	1.53	1.69

[1] The replacement ratios are based upon gross preretirement earnings. They could be substantially higher if benefit amounts, which are not subject to taxes, were related to preretirement earnings after taxes, especially in the case of workers at median or maximum earnings levels.

[2] The 2 figures shown in each set of assumptions represent assumed annual percentage increases in average wages and average CPI, respectively, during the period 1982–2050. During 1976–81, the assumed rates of change are those shown in table 10 under alternative II.

Column (2) of the table shows the replacement ratios for male workers retiring at age 65 in January 1975 at different earnings levels. The figures represent the ratio of the benefit payable for January 1975 to average monthly earnings in 1974. For example, the replacement ratio for a worker without a spouse retiring in January 1975 who has had maximum taxable earnings throughout his working life is 0.29, meaning that his benefit payable for January 1975 is 29% of his average monthly earnings in 1974.

When the automatic adjustment provisions were adopted in 1972, it was assumed, for purposes of determining future benefits and the costs thereof, that the ultimate average annual increase in wages would be 5 percent and the ultimate average annual increase in the Consumer Price Index would be 2¾ percent. (These were the assumptions used in the 1972 and 1973 Annual Reports of the Board of Trustees.) Based upon these assumptions for 1982 and later, and the economic assumptions shown in table 10 under alternative II for the period 1976–81, the replacement ratios for workers retiring at age 65 in January 2050 are shown in column (3) of the preceding text table. Column (4) of the table indicates the sample replacement ratios under the short-range economic assumptions specified in alternative II and long-range wage-CPI assumptions of 5 percent and 3 percent respectively, as used in the 1974 annual report.

For the 1975 annual report, the assumptions as to future changes in average wages and in the Consumer Price Index were considerably different from corresponding assumptions used in the 1972 annual report and were assumed to be 6 percent for wages and 4 percent for the CPI. These changes significantly increased projected future replacement ratios as illustrated by column (5) of the text table. The cost of such increased benefits was correspondingly higher and accounted for much of the increase in the actuarial deficit which was reported in the 1975 annual report as compared with that reported in the 1974 report.

In this annual report, for reasons stated earlier, cost estimates are being presented on the basis of three alternative sets of assumptions. Under the intermediate set of assumptions (alternative II) it has been assumed that after 1981, wages will increase at the rate of 5¾ percent and the CPI will increase at the rate of 4 percent. Under these assumptions, the projected benefits will increase in the future as illustrated in column (6) of the text table. A comparison of the figures in columns (2), (3), and (6) illustrates that currently projected benefit levels (shown in column (6)) are considerably different from the benefit levels which prevailed in 1975 (as illustrated in column (2)), and the benefit levels which would be projected today based upon the economic assumptions employed in the 1972–73 annual reports (as illustrated in column (3)).

Whereas the preceding table has been included to show the different levels of the replacement ratios under the various wage-CPI assumptions used in recent issues of the report, the following table is included to show the widely varying levels resulting from the range of such assumptions contained in this year's report.

TABLE 25.—REPLACEMENT RATIOS[1] FOR RETIRED MALE WORKERS AT SELECTED EARNINGS LEVELS UNDER ALTERNATIVES I, II, AND III[2]

Earnings level and year of retirement	Worker without spouse			Worker with spouse aged 65		
	Alternative I	Alternative II	Alternative III	Alternative I	Alternative II	Alternative III
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Low:						
1975	0.62	0.62	0.62	0.93	0.93	0.93
2000	.67	.78	.89	1.01	1.17	1.34
2025	.73	.99	1.32	1.09	1.48	1.98
2050	.75	1.12	1.66	1.12	1.69	2.49
Median:						
1975	.42	0.42	0.42	0.63	0.63	0.63
2000	.46	.52	.60	.68	.78	.89
2025	.48	.62	.81	.71	.93	1.21
2050	.48	.69	.97	.73	1.03	1.45
Maximum:						
1975	.29	.29	.29	.43	0.43	0.43
2000	.32	.37	.42	.48	.56	.63
2025	.34	.44	.55	.51	.65	.82
2050	.34	.47	.63	.52	.71	.95

[1] See text for definition of replacement ratio. It is assumed the worker retires at age 65 at the beginning of the year shown in col. (1).
[2] Alternatives I, II, and III are defined in the text.

A comparison of the figures for alternatives I and III shows that for a given individual the replacement ratios vary significantly under different wage-CPI assumptions. Under alternative III with its relatively high 5 percent CPI assumption and low real-wage differential (that is, the difference between the percentage increases in the average annual wages and the CPI) of 1¼ percent, the 1975 ratios increase by about 50 percent by the turn of the century, by about 100 percent by 2025, and by more than 100 percent by 2050. However, under alternative I with its relatively low 3 percent CPI assumption and high real-wage differential of 2¼ percent, those ratios increase by less than 20 percent over the entire 75-year period.

It is necessary that this report on the actuarial status of the trust funds be based on estimated future costs under present law, even though such projections, based upon the alternative II assumptions, result in future estimated replacement ratios of the magnitude illustrated in the preceding text table, and even though at the time that the automatic adjustment provisions were adopted in 1972 there apparently was no intention that replacement ratios should rise substantially from the levels then prevailing, and even though it seems clear that projected replacement ratios such as those associated with alternative II cannot be permitted to materialize.

However, for illustrative purposes, in addition to projections of future costs based on present law, cost projections have also been prepared on the basis of a "modified theoretical" old-age, survivors, and disability insurance system which would maintain through time the relationship between average awarded benefits and average earnings existing at the beginning of calendar year 1978. It is assumed that under this theoretical system, as under present law, benefits after retirement, death, or disability would be increased automatically to keep up with increases in the CPI. This modified theoretical system is assumed to apply to insured workers who retire, die, or become disabled after 1977. The projected cost of this modified theoretical system is presented later in this report in table 31, under all three alternative sets of assumptions.

Long-range cost estimates under present law

Basic to the discussion of the long-range cost estimates is the concept of expenditures as percent of taxable payroll. The expenditures consist of outgo from the trust funds. They include benefit payments; administrative expenses; interchanges between the old-age, survivors, and disability insurance trust funds and the railroad retirement trust fund (including the reflection of net income from that fund); and payments for vocational rehabilitation services for disability beneficiaries. The payroll consists of the total earnings which are subject to social security taxes after adjustment to reflect the lower contribution rates on self-employed income, tips, and multiple-employer "excess wages"; this adjustment is made so as to facilitate both the calculation of tax income (which is thereby the product of the combined employer-employee tax rate and the payroll) and the comparison of expenditure percentages with tax rates.

Table 26 contains the projected expenditures of the old-age, survivors, and disability insurance system under present law based on the intermediate set of assumptions. (Projected expenditures are shown under these assumptions as well as under two alternative sets of assumptions in table 29.)

TABLE 26.—ESTIMATED EXPENDITURES OF OLD-AGE, SURVIVORS AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL FOR SELECTED YEARS, 1985-2050 UNDER ALTERNATIVE II

[In percent]

Calendar year	Expenditures as percent of taxable payroll[1]			Tax rate in law	Difference
	Old-age and survivors insurance	Disability insurance	Total		
1985	9.46	1.70	11.16	9.90	−1.26
1990	9.98	2.08	12.06	9.90	−2.16
1995	10.37	2.52	12.89	9.90	−2.99
2000	10.48	2.93	13.41	9.90	−3.51
2005	10.90	3.43	14.33	9.90	−4.43
2010	12.10	3.89	15.99	9.90	−6.09
2015	14.18	4.22	18.40	11.90	−6.50
2020	16.89	4.40	21.29	11.90	−9.39
2025	19.68	4.41	24.09	11.90	−12.19
2030	21.67	4.36	26.03	11.90	−14.13
2035	22.61	4.43	27.04	11.90	−15.14
2040	22.84	4.61	27.45	11.90	−15.55
2045	23.13	4.79	27.92	11.90	−16.02
2050	23.72	4.87	28.59	11.90	−16.69
25-yr averages:					
1976–2000	9.79	2.02	11.81	9.90	−1.91
2001–25	14.00	3.95	17.95	11.10	−6.85
2026–50	22.47	4.57	27.04	11.90	−15.14
75-yr average: 1976–2050	15.42	3.51	18.93	10.97	−7.96

[1] Expenditures and payroll are calculated under the intermediate set of assumptions (alternative II) which incorporates ultimate annual increases of 5¾ percent in average earnings and 4 percent in CPI, an ultimate unemployment rate of 5 percent, and an ultimate fertility rate of 1.9 children per woman. (See the text for further detail.) Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

Under the intermediate set of assumptions the cost of the old-age and survivors insurance program is projected to increase slowly during the remainder of this century. After the turn of the century two effects combine to cause the expenditures to increase very rapidly. One is that the replacement ratio continues to increase. The second is that workers born during the period of very high birth rates, from post-World-War-II years through the late 1950's and into the 1960's, reach retirement age and begin to receive benefits.

During the last years of the projection period the expenditures continue to increase but at a much slower rate, thereby reflecting both the decelerated increases in the replacement ratios and the low birth rates of the 1970's.

Table 27 compares the average tax rate in present law with the average expenditures (as percent of taxable payroll) of the old-age, survivors, and disability insurance system projected under the intermediate set of assumptions for three successive periods of 25 years beginning in 1976. A similar comparsion is made for the entire 75-year period 1976–2050. According to these calculations the old-age, survivors, and disability insurance system is estimated to be underfinanced over the customary long-range 75-year period by an average annual amount equivalent to 7.96 percent of taxable payroll.

TABLE 27.—COMPARISON OF EXPENDITURES AND TAXES FOR OLD-AGE, SURVIVORS AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL UNDER ALTERNATIVE II

[In percent]

Item	Average for period		
	Old-age and survivors insurance	Disability insurance	Total
1st 25-yr period (1976–2000):			
Expenditures as percent of taxable payroll [1]	9.79	2.02	11.81
Tax rate in law	8.56	1.34	9.90
Difference	−1.23	−.68	−1.91
2d 25-yr period (2001–25):			
Expenditures as percent of taxable payroll [1]	14.00	3.95	17.95
Tax rate in law	9.52	1.58	11.10
Difference	−4.48	−2.37	−6.85
3d 25-yr period (2026–50):			
Expenditures as percent of taxable payroll [1]	22.47	4.57	27.04
Tax rate in law	10.20	1.70	11.90
Difference	−12.27	−2.87	−15.14
Total 75-yr period (1976–2050):			
Expenditures as percent of taxable payroll [1]	15.42	3.51	18.93
Tax rate in law	9.43	1.54	10.97
Difference	−5.99	−1.97	−7.96

[1] Expenditures and payroll are calculated under the intermediate set of assumptions which incorporates ultimate annual increases of 5¾ percent in average earnings and 4 percent in CPI, an ultimate unemployment rate of 5 percent, and an ultimate fertility rate of 1.9 children per woman. (See the text for further detail.) Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

Over the first 25-year period the cost would exceed taxes by an average annual amount equivalent to 1.91 percent of taxable payroll, over the second 25-year period by 6.85 percent, and over the third 25-year period by 15.14 percent. In all cases the underfinancing is more pronounced for the disability insurance program than for the old-age and survivors insurance program when viewed as a proportion of the cost of each program.

As stated earlier in the report, the high cost of the old-age, survivors, and disability insurance program projected to occur after the turn of the century, indicated in tables 26 and 27, is due partially to unintended results in the automatic benefit adjustment provisions enacted in 1972. These provisions, under the economic assumptions currently being utilized in making projections, cause future projected benefits to increase substantially from the levels of wage replacement established by benefits currently paid under the program, resulting in unreasonably high benefits for persons first becoming eligible for benefits in the next century. Thus the costs which are projected to occur after the turn of the century as presented in table 26 are unlikely to materialize and should be interpreted accordingly. It may also be said that the figures in table 27 regarding the projected expenditures after the year 2000, including the projected difference of 7.96 percent between expenditures and income for the 75-year period (sometimes referred to as the "actuarial deficit") are similarly misleading. Likewise, the figures shown in table 28 regarding the change from the 1975 Trustees Report to the current report in the estimated 75-year average expenditures are somewhat misleading and have limited value; however, they are shown to provide continuity with the prior and future reports.

The intermediate set of assumptions underlying the results in tables 26 and 27 differ in several important respects from the central set of assumptions used in last year's report. The effect on the long-range cost of changing from last year's assumptions to this year's assumptions is summarized in table 28. (Projections of the long-range cost based on assumptions similar to those incorporated in the central set of assumptions which was used in last year's report are shown in Appendix B.)

TABLE 28.—CHANGES IN LONG-RANGE EXPENDITURES OF OLD-AGE, SURVIVORS AND DISABILITY INSURANCE PROGRAM AS PERCENT OF TAXABLE PAYROLL, BY REASON FOR CHANGE

[In percent]

Item	Old-age and survivors insurance	Disability insurance	Total
Estimates in last year's report: [1]			
Average-current-cost	13.29	2.97	16.26
Trust fund cost	−0.11	−0.02	−0.13
Average expenditures as percent of taxable payroll	13.18	2.95	16.13
Changes in estimated expenditures due to changes in:			
Economic assumptions	+1.04	+0.20	+1.24
Demographic assumptions	+0.60	+.09	+0.69
Disability assumptions	.00	+.33	+.33
All other factors	+.60	−.06	+.54
Total change in estimated expenditures	+2.24	+.56	+2.80
New estimated expenditures as percent of taxable payroll [2]	15.42	3.51	18.93

[1] The average-current-cost represents the arithmetic average of the expenditures as percent of taxable payroll from 1975–2049 augmented by the cost of increasing the funds on hand at the beginning of 1975 to the level of one year's expenditures by the end of 2049. This additional cost is defined as the trust fund cost. Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

[2] Expenditures and payroll are calculated under the intermediate set of assumptions which incorporates ultimate annual increases of 5¾ percent in average earnings and 4 percent in CPI, an ultimate unemployment rate of 5 percent, and an ultimate fertility rate of 1.9 children per woman. (See the text for further detail.) Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

The major factors underlying the cost estimates shown herein under alternative II that differ from those underlying the cost estimates under the central set of assumptions used in last year's report are summarized below.

The assumption regarding the ultimate level of the real-wage differential was changed from 2 percent to 1¾ percent. In conjunction with the retention of the assumption of an annual increase in the average CPI of 4 percent, this real-wage differential implies a change in the ultimate annual increases in average wages from 6 percent to 5¾ percent. In addition, the real-wage differentials for the short-range period average less than those in last year's report, thus adding to the long-range cost of the program.

The total fertility rate was assumed to reach an ultimate level of 1.9 children per woman as opposed to the ultimate rate of 2.1 children per woman assumed last year. In addition, slight changes were made in the assumptions with respect to mortality rates and migration levels, based on more recent experience.

The number of persons insured for disability was projected to be a slightly smaller proportion of the fully insured population than was projected last year. The disability termination rates used in preparing the estimates in this year's report are based on the mortality and recovery experience of the disability program during the years 1968-1974. These rates are lower than the ones used in preparing last year's estimates. Over the 75-year projection period the rates at which persons become entitled to disabled-worker benefits were projected to average about 6 percent higher than those projected for last year's report.

The number of workers in covered employment was projected to be a larger proportion of the population than in last year's report. Average old-age benefits were projected to increase faster than in previous reports in order to reflect the tendency in the historical averages to reflect percentage increases in excess of both legislated benefit increases and increases attributable to the higher replacement ratios reflected in newly-awarded benefits. Various factors contribute to this tendency; among them are the effect of post-entitlement earnings on average benefits and the method by which actuarially-reduced benefits are increased to reflect general legislated increases as well as increases resulting from the automatic provisions in present law.

In last year's report, some of the figures included a "trust fund cost," representing the amount necessary to increase the assets of the trust funds to the level of one year's expenditures by the end of the 75-year valuation period. This trust fund cost has been eliminated from the presentation of expenditure estimates throughout this report to facilitate the presentation of the wide variety of figures which are shown, and to permit explicit recognition to be given to the build-up and maintenance of the trust fund.

At the time of developing any financing provisions, it will be necessary to determine the desired level of the trust funds and the point in time at which such level is to be attained, so that adequate provision can be made in the revised tax rates. For example, if it were considered appropriate to provide for increasing the old-age and survivors and the disability insurance trust funds to the level of one year's expenditures by the end of the 75-year valuation period, the trust funds would require an additional amount of income equivalent to 0.27 percent of taxable payroll.

The overall result of the changes described above is to increase the estimated average expenditures as percent of taxable payroll over the 75-year period from 16.13 percent to 18.93 percent. A more detailed description of the assumptions used in this year's cost estimates, and the rationale for their selection, can be found in Appendix A of this report.

The results in tables 26, 27, and 28 should be read with full recognition of the uncertainties involved in the projection of economic and demographic factors over long-range periods as discussed above.

In addition, due to the sensitivity of future benefit levels under present law to changes in the long-range economic assumptions, these results are subject to wide variation. An indication of the degree of variation possible is shown in table 29 which presents cost estimates under alternatives I, II, and III.

TABLE 29.—ESTIMATED EXPENDITURES OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL UNDER ALTERNATIVES I, II, AND III, FOR SELECTED YEARS, 1985–2050

[In percent]

Calendar year	Expenditures as percent of taxable payroll [1]		
	Alternative I [2]	Alternative II [2]	Alternative III [2]
1985	10.39	11.16	11.96
1990	11.09	12.06	13.05
1995	11.58	12.89	14.30
2000	11.68	13.41	15.32
2005	11.99	14.33	16.95
2010	12.80	15.99	19.63
2015	14.06	18.40	23.46
2020	15.54	21.29	28.17
2025	16.75	24.09	33.10
2030	17.21	26.03	37.15
2035	17.04	27.04	40.05
2040	16.56	27.45	42.06
2045	16.30	27.92	43.98
2050	16.34	28.59	46.02
25-yr averages:			
1976–2000	10.93	11.81	12.79
2001–25	13.83	17.95	22.81
2026–50	16.73	27.04	40.82
75-yr average: 1976–2050	13.83	18.93	25.47

[1] Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.
[2] The alternative I, II, and III sets of assumptions are defined in the text.

The wide variation in the expenditures as percent of taxable payroll translates into a variation in the difference between those expenditures and the tax rates in present law as shown in table 30. Table 30 shows that in the first 25-year period from 1976 through 2000, the difference between expenditures and taxes varies from 1.03 to 2.89 percent of taxable payroll. From 2001 through 2025 the variation is from 2.73 to 11.71, and for the final 25 years, 2026–2050, the difference varies from 4.83 to 28.92 percent of taxable payroll.

TABLE 30.—COMPARISON OF ESTIMATED EXPENDITURES AND TAXES FOR OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM UNDER PRESENT LAW AS PERCENT OF TAXABLE PAYROLL UNDER ALTERNATIVES I, II, AND III

[In percent]

Item	Average for period—		
	Alternative I[1]	Alternative II[1]	Alternative III[1]
1st 25-yr period (1976–2000):			
Expenditures as percent of taxable payroll[2]	10.93	11.81	12.79
Tax rate in law	9.90	9.90	9.90
Difference	−1.03	−1.91	−2.89
2d 25-yr period (2001–25):			
Expenditures as percent of taxable payroll[2]	13.83	17.95	22.81
Tax rate in law	11.10	11.10	11.10
Difference	−2.73	−6.85	−11.71
3d 25-yr period (2026–50):			
Expenditures as percent of taxable payroll[2]	16.73	27.04	40.82
Tax rate in law	11.90	11.90	11.90
Difference	−4.83	−15.14	−28.92
Total 75-yr period (1976–2050):			
Expenditures as percent of taxable payroll[2]	13.83	18.93	25.47
Tax rate in law	10.97	10.97	10.97
Difference	−2.86	−7.96	−14.50

[1] The assumptions specified in alternative I, II, and III are described in the text.
[2] Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

In both tables 29 and 30, it can be seen that the largest variations in the expenditures and in the difference between the expenditures and taxes materialize in the latter part of the 75-year projection period. This characteristic is primarily due to the automatic benefit adjustment provisions in present law which were described previously. Therefore, the projected expenditures shown in these tables after the year 2000 should be interpreted carefully.

Long-range cost estimates under a modified theoretical system

As stated previously, it is unlikely that the expenditures projected under present law and current economic assumptions will be allowed to materialize, since they result from the unreasonably high awarded benefits that are produced by the complex relationship between such benefits and future changes in wages and the Consumer Price Index. Consequently, based on the assumption that it would be useful for long-range financial planning to illustrate the general trends in the expenditures for a system under which the previously mentioned relationship is more stable, cost projections have been prepared on the basis of a "modified theoretical" old-age, survivors, and disability insurance system which would maintain through time the relationship between average awarded benefits and average earnings existing at the beginning of calendar year 1978. It is assumed that under this theoretical system, as under present law, benefits after retirement, death, or disability would be increased automatically to keep up with increases in the CPI. This modified theoretical system is assumed to apply to insured workers who retire, die, or become disabled after 1977. The projected cost of this modified theoretical system is presented in table 31, under all three alternative sets of assumptions.

TABLE 31.—ESTIMATED EXPENDITURES OF A MODIFIED THEORETICAL OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM [1] AS PERCENT OF TAXABLE PAYROLL UNDER ALTERNATIVES I, II, AND III, FOR SELECTED YEARS, 1985–2050

[In percent]

Calendar year	Expenditures as percent of taxable payroll [2]		
	Alternative I [3]	Alternative II [3]	Alternative III [3]
1985	10.52	11.12	11.73
1990	11.35	11.85	12.39
1995	11.94	12.44	12.98
2000	12.06	12.56	13.12
2005	12.20	12.84	13.48
2010	12.81	13.69	14.48
2015	13.86	15.09	16.13
2020	15.18	16.84	18.21
2025	16.27	18.47	20.22
2030	16.62	19.39	21.54
2035	16.35	19.59	22.09
2040	15.78	19.35	22.12
2045	15.42	19.20	22.18
2050	15.37	19.25	22.34
25-yr averages:			
1976–2000	11.13	11.58	12.09
2001–25	13.73	14.91	15.93
2026–50	15.98	19.30	21.88
75-yr average: 1976–2050	13.61	15.25	16.63

[1] See text for brief description of theoretical system.
[2] Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.
[3] The alternative I, II, and III sets of assumptions are defined in the text.

It may be observed from table 31 that the long-range cost of the modified theoretical old-age, survivors, and disability insurance system would be much less sensitive than the present law system to changes in the basic assumptions. Much of the variation of the long-range costs shown in table 31 is due to the different fertility assumptions used in the three alternative projections. This is demonstrated in Appendix A under the various sensitivity tests. It can also be noted from the table that the overall level of estimated expenditures is reduced as a result of eliminating the "excess" benefits which stem from rising replacement rates.

Table 32 compares the estimated cost under the modified theoretical system with the average tax rate for successive 25-year periods and for the entire valuation period. Under alternatives I, II, and III, the actuarial imbalance over the customary 75-year period would be reduced to a range of about 2.64 to 5.66 percent of taxable payroll. This table also illustrates that the variation in the estimated program deficit would be reduced if the modified theoretical system were in effect.

Table 32 demonstrates that over the next 25-year period the expenditures as percent of taxable payroll under the modified theoretical old-age, survivors, and disability insurance system would exceed the taxes scheduled in present law under each set of assumptions. These costs are analogous to those projected under present law, which are shown in table 30. Table 32 shows that in the first 25-year period from 1976 through 2000, the difference between expenditures and taxes varies from 1.23 to 2.19 percent of taxable payroll. From 2001 through 2025 the variation is 2.63 to 4.83, and for the final 25 years, 2026–2050, the difference varies from 4.08 to 9.98 percent of taxable payroll.

TABLE 32.—COMPARISON OF EXPENDITURES AND TAXES FOR A MODIFIED THEORETICAL OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM [1] AS PERCENT OF TAXABLE PAYROLL UNDER ALTERNATIVES I, II, AND III

[In percent]

Item	Average for period		
	Alternative I [2]	Alternative II [2]	Alternative III [2]
1st 25-yr period (1976-2000):			
Expenditures as percent of taxable payroll [3]	11.13	11.58	12.09
Tax rate in law	9.90	9.90	9.90
Difference	−1.23	−1.68	−2.19
2d 25-yr period (2001-25):			
Expenditures as percent of taxable payroll [3]	13.73	14.91	15.93
Tax rate in law	11.10	11.10	11.10
Difference	−2.63	−3.81	−4.83
3d 25-yr period (2026-50):			
Expenditures as percent of taxable payroll [3]	15.98	19.30	21.88
Tax rate in law	11.90	11.90	11.90
Difference	−4.08	−7.40	−9.98
Total 75-yr period (1976-2050):			
Expenditures as percent of taxable payroll [3]	13.61	15.25	16.63
Tax rate in law	10.97	10.97	10.97
Difference	−2.64	−4.28	−5.66

[1] See text for brief description of theoretical system.
[2] The alternative I, II, and III sets of assumptions are defined in the text.
[3] Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

ESTIMATED OPERATIONS AND STATUS OF THE TRUST FUNDS UNDER THE SYSTEM AS MODIFIED BY THE PRESIDENT'S FINANCING PROPOSALS

The President has proposed increases in the contribution rates payable under the old-age, survivors, and disability insurance program, in order to strengthen the financing of the program over the near term. Under the President's proposals, contribution rates would be increased, effective January 1, 1977, as shown in the following table:

Calendar year	Contribution rates (percent of taxable earnings)					
	Present law			Proposal [1]		
	OASDI	OASI	DI	OASDI	OASI	DI
Employees and employers, each:						
1976	4.950	4.375	0.575	4.950	4.375	0.575
1977	4.950	4.375	.575	5.250	4.550	.700
1978-80	4.950	4.350	.600	5.250	4.525	.725
1981-85	4.950	4.300	.650	5.250	4.475	.775
1986-2010	4.950	4.250	.700	5.250	4.425	.825
2011 and later	5.950	5.100	.850	6.250	5.275	.975
Self-employed:						
1976	7.000	6.185	.815	7.000	6.185	.815
1977	7.000	6.185	.815	7.900	6.845	1.055
1978-80	7.000	6.150	.850	7.900	6.810	1.090
1981-85	7.000	6.080	.920	7.900	6.735	1.165
1986-2010	7.000	6.010	.990	7.900	6.660	1.240
2011 and later	7.000	6.000	1.000	9.400	7.935	1.465

[1] The increases in contribution rates for employees and employers were proposed in the President's 1977 Budget. The President's Message on Older Americans later expanded the proposal to include increases in the OASDI contribution rates for the self-employed to about 150 percent of the rates for employees.

Estimates of the operations and status of the old-age and survivors insurance and disability insurance trust funds, combined, under the program as modified by the President's financing proposals are shown in table 33 for calendar years 1976–81. Estimates are shown in the table for each of the three alternative sets of assumptions that have been described in an earlier section. The estimates reflect only the effects of the proposed increases in contribution rates; no other changes in the provisions of present law are assumed.

Corresponding estimates of the operations and status of the old-age and survivors insurance trust fund and of the disability insurance trust fund through calendar year 1981 are shown in tables 34 and 35 respectively, under the system as modified by the President's financing proposals.

Enactment of the President's financing proposals would reduce the long-range average annual deficit of the old-age, survivors, and disability insurance system over the next 75 years by 0.69 percent of taxable payroll—0.59 percent due to the increase in the contribution rate for employees and employers and 0.10 percent due to the increase in the contribution rate for self-employed persons. As a result, under the intermediate assumptions, the 75-year average annual deficit would be 7.27 percent of taxable payroll based on the benefit structure in present law, and 3.59 percent based on the modified theoretical system described in an earlier section. (Under the modified theoretical system, the benefit structure would be revised in order to stabilize through time the relationship between benefits and earnings.)

TABLE 33.—ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, COMBINED, UNDER THE SYSTEM AS MODIFIED BY THE PRESIDENT'S PROPOSED INCREASES IN CONTRIBUTION RATES, DURING CALENDAR YEARS 1975–81, UNDER THREE ALTERNATIVE SETS OF ASSUMPTIONS

[Amounts in billions]

Calendar year	Income	Disbursements	Net increase in fund	Fund at end of year	Fund at beginning of year as a percentage of disbursements during year
Alternative I:					
1975 [1]	$67.6	$69.2	−$1.5	$44.3	66
1976	73.8	78.2	−4.3	40.0	57
1977	87.6	86.9	0.7	40.7	46
1978	98.5	96.7	1.8	42.5	42
1979	110.1	106.3	3.9	46.4	40
1980	122.1	116.3	5.8	52.2	40
1981	134.6	126.5	8.1	60.2	41
Alternative II:					
1975 [1]	67.6	69.2	−1.5	44.3	66
1976	73.8	78.2	−4.3	40.0	57
1977	87.6	86.9	0.7	40.7	46
1978	97.7	96.8	0.9	41.6	42
1979	108.1	106.8	1.3	42.9	39
1980	119.0	117.8	1.2	44.2	36
1981	130.3	129.1	1.2	45.4	34
Alternative III:					
1975 [1]	67.6	69.2	−1.5	44.3	66
1976	73.8	78.2	−4.3	40.0	57
1977	86.6	87.0	−0.4	39.6	46
1978	95.8	97.1	−1.3	38.3	41
1979	104.7	107.6	−2.9	35.5	36
1980	114.0	119.3	−5.3	30.2	30
1981	123.3	131.4	−8.1	22.1	23

[1] Figures for 1975 represent actual experience.

Note.—Totals do not necessarily equal the sum of rounded components. The President's proposed increases in contribution rates are described in the accompanying text. The assumptions underlying the estimates are described in an earlier section.

TABLE 34.—ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND UNDER THE SYSTEM AS MODIFIED BY THE PRESIDENT'S PROPOSED INCREASES IN CONTRIBUTION RATES, DURING CALENDER YEARS 1975–81, UNDER THREE ALTERNATIVE SETS OF ASSUMPTIONS

[Amounts in billions]

Calendar year	Income	Disbursements	Net increase in fund	Fund at end of year	Fund at beginning of year as a percentage of disbursements during year
Alternative I:					
1975 [1]	$59.6	$60.4	−$0.8	$37.0	63
1976	65.1	67.9	−2.7	34.3	55
1977	76.0	75.3	0.7	35.0	46
1978	84.9	83.4	1.5	36.5	42
1979	94.9	91.4	3.4	39.9	40
1980	105.2	99.8	5.5	45.4	40
1981	114.8	108.1	6.7	52.1	42
Alternative II:					
1975 [1]	59.6	60.4	−0.8	37.0	63
1976	65.1	67.9	−2.7	34.3	55
1977	76.0	75.3	0.7	35.0	46
1978	84.2	83.5	0.7	35.7	42
1979	93.1	91.9	1.3	36.9	39
1980	102.5	101.0	1.6	38.5	37
1981	111.2	110.3	0.8	39.3	35
Alternative III:					
1975 [1]	59.6	60.4	−0.8	37.0	63
1976	65.1	67.9	−2.7	34.3	55
1977	75.1	75.3	−0.2	34.1	46
1978	82.6	83.8	−1.2	32.8	41
1979	90.2	92.5	−2.3	30.5	35
1980	98.2	102.3	−4.0	26.5	30
1981	105.2	112.2	−7.0	19.5	24

[1] Figures for 1975 represent actual experience.

Note.—Totals do not necessarily equal the sum of rounded components. The President's proposed increases in contribution rates are described in the accompanying text. The assumptions underlying the estimates are described in an earlier section.

TABLE 35.—ESTIMATED OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND UNDER THE SYSTEM AS MODIFIED BY THE PRESIDENT'S PROPOSED INCREASES IN CONTRIBUTION RATES, DURING CALENDAR YEARS 1975–81, UNDER THREE ALTERNATIVE SETS OF ASSUMPTIONS

[Amounts in billions]

Calendar year	Income	Disbursements	Net increase in fund	Fund at end of year	Fund at beginning of year as a percentage of disbursements during year
Alternative I:					
1975 [1]	$8.0	$8.8	−$0.8	$7.4	92
1976	8.7	10.3	−1.6	5.8	71
1977	11.6	11.7	(2)	5.7	49
1978	13.6	13.2	0.4	6.1	43
1979	15.3	14.8	0.4	6.5	41
1980	16.9	16.6	0.3	6.8	39
1981	19.7	18.4	1.4	8.2	37
Alternative II:					
1975 [1]	8.0	8.8	−0.8	7.4	92
1976	8.7	10.3	−1.6	5.8	71
1977	11.6	11.7	(2)	5.7	49
1978	13.5	13.2	0.2	6.0	43
1979	15.0	14.9	(3)	6.0	40
1980	16.5	16.8	−0.3	5.7	36
1981	19.1	18.8	0.3	6.0	30
Alternative III:					
1975 [1]	8.0	8.8	−0.8	7.4	92
1976	8.7	10.3	−1.6	5.8	71
1977	11.5	11.7	−0.2	5.6	49
1978	13.2	13.3	−0.1	5.5	42
1979	14.5	15.1	−0.6	4.9	37
1980	15.8	17.0	−1.3	3.7	29
1981	18.1	19.1	−1.0	2.6	19

[1] Figures for 1975 represent actual experience.
[2] Disbursements exceed income by less than $50,000,000.
[3] Income exceeds disbursements by less than $50,000,000.

Note.—Totals do not necessarily equal the sum of rounded components. The President's proposed increases in contribution rates are described in the accompanying text. The assumptions underlying the estimates are described in an earlier section.

Conclusion

The short-range actuarial cost estimates indicate that the assets of the old-age and survivors insurance and disability insurance trust funds will decline during the period 1976–1981, under each of the three alternative sets of assumptions presented in this report. Without legislation to provide additional financing, the assets of the disability insurance trust fund will be exhausted in 1979 under all three alternative sets of assumptions. Similarly, the assets of the old-age and survivors insurance trust fund will be exhausted in 1981 under the most pessimistic set of alternatives, in 1984 under the intermediate set, and sometime after 1984 under the most optimistic set of assumptions.

The Board recommends that prompt action be taken to strengthen the financing of the old-age, survivors, and disability insurance system over the near term by means of appropriate increases in the tax rates. The Board opposes the use of additional general revenue financing for the old-age, survivors, and disability insurance program. The Board recommends against an increase in the taxable earnings base, other than increases which will occur automatically as average wages in covered employment increase, as a means of producing additional income because of the effect this would have on increased benefits and expenditures in future years.

The long-range actuarial cost estimates indicate that for every year in the future, under present law, the estimated expenditures will exceed the estimated income from taxes. This excess increases with time and is estimated to average about 1.9 percent of taxable payroll over the next 25-year period (1976–2000) based upon the intermediate cost estimates. Under more optimistic assumptions this excess of expenditures over income is projected to average 1.0 percent of taxable payroll, and under more pessimistic assumptions this excess is projected to average 2.9 percent of taxable payroll. Therefore, all alternative long-range cost estimates presented in this report indicate that over the remainder of this century the old-age, survivors, and disability insurance program will require additional revenues.

The long-range cost of the old-age, survivors, and disability insurance program projected to occur after the turn of the century will substantially exceed the taxes scheduled in present law. Although those projected costs are highly sensitive to variations in the demographic and economic assumptions, all reasonable assumptions indicate that there will be significant excesses of expenditures over income. Estimates have been presented in this report under three alternative sets of assumptions indicating a broad range within which actual future experience may fall; however, no assurance can be given that these estimates define the broadest possible range of variation in the long-range cost estimates.

The Board recognized in the 1975 annual report, as it does in this report, that the high cost of the old-age, survivors, and disability insurance program projected to occur after the turn of the century is partially due to unintended results in the automatic benefit adjustment provisions enacted in 1972. These provisions, under the economic assumptions currently being utilized in making projections, cause future projected benefits to increase substantially from the levels of wage replacement established by benefits currently paid under the program, resulting in unreasonably high benefits for persons first becoming eligible for benefits in the next century. Accordingly, the costs which are projected to occur after the turn of the century should be interpreted with caution and in light of the likelihood that legislation will be enacted to prevent these projected benefit levels from materializing. The Board is in full concurrence with the intent of the 1975 Advisory Council on Social Security that the benefit structure be revised in a responsible manner. The Board recommends the adoption of a specific plan as soon as possible in order to improve the predictability of future benefit levels and to reduce the long-range cost of the system.

The Board also recommends that the development of additional plans to further strengthen the long-range financing of the old-age, survivors, and disability insurance program be given high priority.

APPENDIX A.—STATEMENT OF ASSUMPTIONS, METHODOLOGY, AND DETAILS OF LONG-RANGE COST ESTIMATES

The basic assumptions and methodology used in the long-range cost estimates of the old-age, survivors, and disability insurance system are described in this appendix. Some detailed results are also. presented, along with an analysis of the sensitivity of the cost estimates to changes in selected assumptions.

The cost estimates were prepared under three different sets of basic assumptions, designated as alternatives, I, II, and III. The assumptions comprising each alternative have been both summarized and described in detail in an earlier section entitled "Demographic an Economic Assumptions." They will not be resummarized here but will be discussed within the context of the discussion of methodology. Within that latter discussion it will be assumed that all comments pertain to the cost estimates under each of the three alternatives unless specifically stated otherwise.

The first part of this appendix covers the assumptions and methodology underlying the cost estimates, as well as the results themselves. The second part deals with the sensitivity of the estimates to changes in particular assumptions.

ASSUMPTIONS, METHODOLOGY, AND RESULTS

Population

Projections were made of the United States population (including persons overseas covered by the old-age, survivors, and disability insurance program) by age and sex for future years to 2050. The starting point was the population on July 1, 1975, as estimated by the Bureau of the Census from the 1970 Census and from births, deaths, and migration in 1970–75. This population estimate (which included an adjustment for net census undercount) was augmented by the population in the geographical areas not covered by the estimate of the Bureau of the Census but covered by the old-age, survivors, and disability insurance system.

In the population projections it was assumed that through 2050 mortality rates will continue to follow the general trends established over the period 1950–1973. This results in an overall reduction in mortality rates of about 15 percent from 1973 to 2050. In addition, the projections assumed an annual net immigration of 400,000 persons.

Reviewing the historic trends in the total fertility rate in this country provides little assistance to those who wish to estimate its future course. That rate had decreased from a post-World-War I level of about 3.3 children per woman to a Great-Depression level of about 2.1, only to rise again to about 3.7 in 1957 and then fall to its 1974 level of about 1.8. It is estimated that the fertility rate in 1975 was only slightly lower than in 1974, still approximately 1.8 children per woman.

History has shown that fertility rates are highly dependent on such changeable and unpredictable factors as social attitudes and economic conditions. Since this fact precludes forecasting long-range fertility rates with any great degree of certainty, it was decided that a range of projected values would be preferable to a single estimate. The choice of a suitable lower limit of such range is facilitated somewhat by the fact that such limit must be somewhat greater than zero.

On the other hand, the upper limit is much less predictable. With due consideration given to recent social attitudes and developments, a range of 1.7 to 2.3 children per woman was chosen. By way of comparison it may be noted that the Bureau of the Census used an ultimate total fertility rate range of 1.7 to 2.7 children per woman in their latest series of population projections.[1] Included in both ranges is the theoretical replacement rate, that is, the total fertility rate which in the absence of migration would eventually result in the equality of the number of births and the number of deaths in the same period. This rate, equal to 2.1 children per woman, was used as the fertility assumption in last year's report. Also included in both ranges is the ultimate rate of 1.9 children per woman which is the assumption used in the intermediate set of assumptions in this report.

In each projection, the total fertility rate was initially assumed to decrease from its current level of 1.8 to a level of 1.75 children per woman in fiscal year 1977. The rate was then projected by the cohort method to reach its ultimate value in a gradual manner. Alternatives I, II, and III specify ultimate total fertility rates of 2.3, 1.9, and 1.7 children per woman, respectively. In each case, the ultimate central birth rates were assumed to be first experienced by the 1970-born cohort of females, or by fiscal year 2005, whichever occurred first. On this basis, the yearly total fertility rates under alternatives I and II reach their ultimate values in fiscal year 2005 while the alternative ultimate rate of 1.7 is achieved by fiscal year 1984.

Appendix table A presents the projected population by broad age groups under alternatives I, II, and III.

APPENDIX TABLE A.—PROJECTIONS OF THE U.S. POPULATION BY BROAD AGE GROUPS

Year	Population (in thousands) as of July 1				65 and over as—	
	Under 20	20 to 64	65 and over	Total	Percent of total	Ratio to 20 to 64
Alternative I[1]—2.3 ultimate fertility:						
1985	72,427	141,645	26,891	240,962	11.2	0.190
1990	75,150	147,571	28,975	251,695	11.5	.196
1995	79,330	152,405	30,244	261,979	11.5	.198
2000	82,858	157,810	30,470	271,138	11.2	.193
2005	84,229	164,830	30,857	279,916	11.0	.187
2010	85,581	170,826	32,963	289,370	11.4	.193
2015	88,046	174,078	37,268	299,392	12.4	.214
2020	91,517	175,119	42,470	309,106	13.7	.243
2025	94,832	175,170	47,922	317,924	15.1	.274
2030	97,239	177,041	51,758	326,038	15.9	.292
2035	99,352	182,290	52,415	334,057	15.7	.288
2040	102,025	188,958	51,368	342,352	15.0	.272
2045	105,337	195,349	50,263	350,949	14.3	.257
2050	108,695	200,100	51,090	359,885	14.2	.255

See footnote at end of table.

[1] U.S. Bureau of the Census, *Current Population Reports*, Series P–25, No. 601, "Projections of the Population of the United States: 1975–2050." U.S. Government Printing Office, Washington, D.C. 1975.

APPENDIX TABLE A.—PROJECTIONS OF THE U.S. POPULATION BY BROAD AGE GROUPS—Continued

Year	Population (in thousands) as of July 1				65 and over as—	
	Under 20	20 to 64	65 and over	Total	Percent of total	Ratio to 20 to 64
Alternative II[1]—1.9 ultimate fertility:						
1985	70,711	141,645	26,891	239,247	11.2	0.190
1990	70,919	147,571	28,975	247,464	11.7	.196
1995	71,931	152,401	30,244	254,576	11.9	.198
2000	72,262	157,528	30,470	260,259	11.7	.193
2005	71,049	163,137	30,857	265,043	11.6	.189
2010	69,918	166,664	32,963	269,545	12.2	.198
2015	69,517	166,815	37,268	273,599	13.6	.223
2020	69,700	164,473	42,470	276,643	15.4	.258
2025	69,753	160,655	47,922	278,331	17.2	.298
2030	69,243	157,749	51,758	278,750	18.6	.328
2035	68,555	157,281	52,415	278,251	18.8	.333
2040	68,158	157,639	51,365	277,162	18.5	.326
2045	68,075	157,608	50,052	275,735	18.2	.318
2050	67,996	156,374	49,861	274,232	18.2	.319
Alternative III[1]—1.7 ultimate fertility:						
1985	69,857	141,645	26,891	238,392	11.3	.190
1990	68,808	147,571	28,975	245,354	11.8	.196
1995	68,237	152,401	30,244	250,882	12.1	.198
2000	66,982	157,390	30,470	254,842	12.0	.194
2005	64,548	162,295	30,857	257,701	12.0	.190
2010	62,361	164,590	32,963	259,913	12.7	.200
2015	60,839	163,193	37,268	261,300	14.3	.228
2020	59,784	159,174	42,470	261,428	16.2	.267
2025	58,649	153,493	47,922	260,063	18.4	.312
2030	57,140	148,381	51,758	257,279	20.1	.349
2035	55,576	145,364	52,415	253,356	20.7	.361
2040	54,283	142,975	51,365	248,623	20.7	.359
2045	53,247	140,231	49,948	243,426	20.5	.356
2050	52,245	136,627	49,249	238,122	20.7	.360

[1] See text for definitions of alternatives I, II, and III.

Employment

Estimates of the percentage of the population that has covered employment during a year were made by age and sex for future years under alternatives I, II, and III. For men, under the intermediate (alternative II) assumptions, the latest estimated average percentages (1971–73) were projected to increase for teenagers and those aged 20–24, to decrease slightly for those aged 25–59, and to decrease significantly for those aged 60 and over (thus reflecting the trend toward earlier retirement). Under the alternative I assumptions, the corresponding percentages show the same trend, except for the percentages for those aged 25–34 which were projected to increase slightly. Under alternative III, the trend is the same as under alternative II except for the percentages for those aged 20–24 which were projected to decrease slightly. Under all three alternatives, the corresponding percentages for women were assumed to increase except for those women aged 60 and over for whom a decrease was projected.

As measured by the age-adjusted labor force participation rate for ages 16 and over, the projected ultimate covered employment for the intermediate set of assumptions is equivalent to a decrease from the 1975 rate of about 1 percent for men and an increase over that rate of about 22 percent for women. On the average, the ultimate assumed labor force participation rates for women are about 73 percent of those for men. These rates were determined on the basis of historical data of the last fifteen years or so during which time the unemployment rate had averaged about 5 percent, which is the rate assumed under alternative II. In the projection of the covered workers under alternatives I and III, changes in the labor force participation rates resulting from changing the assumed ultimate unemployment rate from 5 percent to 4.5 percent and 5.5 percent (under alternatives I and III, respectively) were reflected.

Insured population

The term "insured" as used herein means fully-insured; the number of persons who are currently-insured only is relatively small and can be disregarded for long-range cost analysis purposes. The number of insured persons as a percent of population was projected by age and sex based on both recent experience and the covered-worker projections. Under each alternative the ultimate percentage is estimated to be 95 percent for aged men and 85 percent for aged women. This difference reflects the difference in the labor force participation of men and women. The variations in the unemployment rate among the three alternative assumptions have only a negligible effect on these percentages although they resulted in differences at the lower ages.

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. They, too, were projected on the basis of both recent experience and the corresponding covered-worker projections.

Old-age and survivors insurance beneficiaries

Since several types of benefits are payable under the old-age and survivors insurance program, the numbers of beneficiaries have been projected by the type of benefit received. Old-age beneficiaries were projected on the basis of the aged insured population. The proportions, by age and sex, of the insured population who were receiving benefits at the beginning of 1975 were projected to increase gradually on the basis of past trends which were adjusted for changes in the earnings test and in the level of unemployment. The resulting proportions thereby imply gradual increases in the implicit retirement rates.

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 for their own old-age benefits, were assumed to claim benefits as soon as they became 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.

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

Child-survivor benefits were obtained from estimates of orphans in the country in future years. The projected child population, by age group, was multiplied by the probability of being an orphan. These probabilities were derived by using distributions of age of parent at birth of child and death rates consistent with the population projections. The number of orphans was then adjusted to eliminate orphans of uninsured deceased parents, and to include the eligible disabled orphans aged 18 and over. For nondisabled children aged 18–21 a further reduction was made to exclude those not attending school.

Mother-survivor beneficiaries were estimated by extrapolating the present ratio of such beneficiaries to child-survivor beneficiaries excluding those non-disabled children 18–21 who were attending school. Such extrapolation reflects projected fertility and female labor force participation rates. Benefits payable to father-survivor beneficiaries were estimated in a similar manner.

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 their own old-age benefits 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 to 64, 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.

Several minor categories of beneficiaries were projected on the basis of past trends in their gross numbers. Parents were projected by assuming a decrease from a level of 21,000 at the beginning of 1976 to an ultimate level of 7,000 in 1990 under the intermediate set of assumptions. Similarly, husband beneficiaries were projected to decrease from their level of 7,000 at the beginning of 1976 to an ultimate level of 5,000 in 1995. Widower beneficiaries were projected to remain at their current level of about 3,000.

It may 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. Estimates of such residual benefits, although not giving rise to additional aged beneficiaries, were incorporated into the projections of both the wife's and widow's benefits. The insignificant effect of the retirement test as it applies to wife's and widow's as well as parent's benefits was ignored.

Appendix table B shows the estimated number of beneficiaries in the old-age and survivors insurance program.

APPENDIX TABLE B.—OLD-AGE AND SURVIVORS INSURANCE BENEFICIARIES WITH MONTHLY BENEFITS IN CURRENT-PAYMENT STATUS UNDER ALTERNATIVES I, II, AND III

[In thousands]

	Retired workers and dependents [1]			Survivors of deceased workers [1]				
Calendar year	Old-age	Wives [2]	Children	Mothers [3]	Children	Widows [4]	Parents	Total
Actual data (as of June 30):								
1970	13,066	2,651	535	514	2,673	3,151	29	22,619
1971	13,604	2,673	556	523	2,745	3,287	28	23,416
1972	14,181	2,706	578	536	2,847	3,433	27	24,308
1973	14,880	2,756	602	548	2,887	3,575	25	25,273
1974	15,589	2,806	619	565	2,908	3,706	24	26,217
1975	16,210	2,836	633	568	2,905	3,823	22	26,997

See footnotes at end of table.

APPENDIX TABLE B.—OLD-AGE AND SURVIVORS INSURANCE BENEFICIARIES WITH MONTHLY BENEFITS IN CURRENT-PAYMENT STATUS UNDER ALTERNATIVES I, II, AND III—Continued

[In thousands]

Calendar year	Retired workers and dependents [1]			Survivors of deceased workers [1]				Total
	Old-age	Wives [2]	Children	Mothers [3]	Children	Widows [4]	Parents	
ALTERNATIVE I [5]								
Projection (as of June 30):								
1985	21,177	2,962	583	652	2,996	3,836	8	32,214
1990	23,408	2,993	465	693	3,097	3,733	7	34,396
1995	24,703	2,968	355	832	3,392	3,636	7	35,893
2000	25,326	2,826	358	947	3,742	3,590	7	36,796
2005	26,478	2,586	396	1,018	3,949	3,596	7	38,030
2010	29,204	2,426	476	1,060	3,971	3,671	7	40,815
2015	33,703	2,399	583	1,102	4,018	3,709	7	45,521
2020	39,231	2,374	675	1,150	4,168	3,724	7	51,329
2025	44,627	2,359	735	1,192	4,363	3,671	7	56,954
2030	47,919	2,305	734	1,224	4,506	3,635	7	60,330
2035	48,790	2,168	700	1,250	4,589	3,549	7	61,053
2040	47,986	2,010	665	1,281	4,676	3,514	7	60,139
2045	47,636	1,897	674	1,320	4,813	3,492	7	59,839
2050	48,630	1,906	720	1,364	4,995	3,496	7	61,118
ALTERNATIVE II [5]								
Projection (as of June 30):								
1985	21,353	2,994	591	645	2,974	3,836	8	32,401
1990	23,487	3,013	468	658	3,010	3,733	7	34,376
1995	24,836	3,003	359	744	3,173	3,636	7	35,758
2000	25,454	2,856	354	789	3,337	3,590	7	36,387
2005	26,616	2,613	373	798	3,391	3,596	7	37,394
2010	29,366	2,450	430	787	3,311	3,671	7	40,022
2015	33,901	2,419	503	778	3,253	3,709	7	44,570
2020	39,458	2,391	572	771	3,258	3,724	7	50,181
2025	44,874	2,376	622	762	3,284	3,671	7	55,596
2030	48,161	2,321	620	751	3,273	3,634	7	58,767
2035	49,012	2,181	592	745	3,234	3,547	7	59,318
2040	48,178	2,020	561	742	3,198	3,489	7	58,195
2045	47,437	1,899	560	743	3,188	3,410	7	57,244
2050	47,369	1,869	575	741	3,192	3,341	7	57,094
ALTERNATIVE III [5]								
Projection (as of June 30):								
1985	21,474	3,013	597	643	2,963	3,836	8	32,534
1990	23,615	3,034	473	654	2,967	3,733	7	34,483
1995	24,959	3,022	362	726	3,062	3,636	7	35,774
2000	25,575	2,872	349	759	3,137	3,590	7	36,289
2005	26,751	2,627	359	760	3,115	3,596	7	37,215
2010	29,536	2,469	413	745	2,988	3,671	7	39,829
2015	34,104	2,436	471	732	2,887	3,709	7	44,346
2020	39,690	2,404	522	729	2,835	3,724	7	49,911
2025	45,120	2,388	567	694	2,795	3,671	7	55,242
2030	48,392	2,331	566	673	2,732	3,634	7	58,335
2035	49,222	2,189	539	657	2,653	3,547	7	58,814
2040	48,369	2,028	512	643	2,579	3,477	7	57,615
2045	47,433	1,903	504	631	2,524	3,371	7	56,373
2050	46,827	1,852	508	620	2,488	3,263	7	55,565

[1] Excludes the effect of the railroad financial interchange.
[2] Includes dependent husband beneficiaries.
[3] Includes father beneficiaries
[4] Includes dependent widower beneficiaries.
[5] See text for definitions of alternatives I, II, and III.

Lump-sum death payments

The numbers of lump-sum death payments were estimated by multiplying the insured population by the death rates used in the population projections.

Disability insurance beneficiaries

The future number of persons receiving monthly disability benefits based on their own earnings was estimated by the application of disability incidence and termination rates which were developed from past experience. The population insured for disability (by sex and age) was multiplied by the incidence rates to arrive at the number of newly entitled disabled workers. To obtain the number of disabled-worker beneficiaries these newly entitled disabled workers were projected through the use of termination rates based on the mortality and recovery experience of the system during 1968–74.

The assumed incidence rates depend on age, sex, and the calendar year of exposure to disability. They were based on estimated rates for 1973, adjusted for the effect of the 1973 change in the waiting period, smoothed to reflect the relative age-sex distributions experienced over a six-year period, and updated to reflect the increases in awarded disability benefits through calendar year 1975. Although the reasons for the increases in incidence rates experienced over the past decade are not yet fully understood, it was assumed that the trend experienced through the end of calendar year 1975 will not be reversed. Future incidence rates were assumed to increase gradually over the period 1975–86 to a level about 33% higher than that estimated for 1975, and to remain at that level thereafter. This level of extrapolated incidence rates, based primarily on the experience of some Western European countries with disability cash benefit programs that are more mature than our own, represents our best opinion at this time as to the course of future incidence rates under the disability insurance program.

The number of child beneficiaries entitled under the disability insurance program was projected as a proportion of the disabled male beneficiaries, allowing for future projected changes in fertility.

The number of wife beneficiaries under this program was projected as a proportion of child beneficiaries after allowing for projected future changes in fertility and female labor force participation rates.

Appendix table C shows the projected number of beneficiaries in the disability insurance program.

APPENDIX TABLE C.—DISABILITY INSURANCE BENEFICIARIES WITH MONTHLY BENEFITS IN CURRENT-PAYMENT STATUS UNDER ALTERNATIVES I, II, AND III [1]

[In thousands]

Calendar year	Workers	Wives [2]	Children	Total
Actual data (as of June 30):				
1970	1,436	271	861	2,568
1971	1,561	293	934	2,788
1972	1,737	327	1,028	3,092
1973	1,925	364	1,127	3,416
1974	2,098	391	1,203	3,692
1975	2,363	429	1,333	4,125
ALTERNATIVE I [3]				
Projection (as of June 30):				
1985	4,033	596	1,788	6,417
1990	4,623	642	1,855	7,120
1995	5,246	718	1,903	7,867
2000	6,078	816	2,024	8,918
2005	7,014	933	2,228	10,175
2010	7,779	1,025	2,482	11,286
2015	8,177	1,066	2,718	11,961
2020	8,215	1,065	2,871	12,151
2025	7,954	1,029	2,864	11,847
2030	7,714	1,001	2,768	11,483
2035	7,808	1,013	2,764	11,585
2040	8,179	1,061	2,878	12,118
2045	8,613	1,118	3,052	12,783
2050	8,853	1,148	3,162	13,163

See footnotes at end of table.

APPENDIX TABLE C.—DISABILITY INSURANCE BENEFICIARIES WITH MONTHLY BENEFITS IN CURRENT-PAYMENT STATUS UNDER ALTERNATIVES I, II, AND III [1]—Continued

[In thousands]

Calendar year	Workers	Wives [2]	Children	Total
ALTERNATIVE II [3]				
Projection (as of June 30):				
1985	4,031	596	1,745	6,372
1990	4,618	643	1,753	7,014
1995	5,240	708	1,727	7,675
2000	6,070	796	1,765	8,631
2005	7,001	901	1,878	9,780
2010	7,751	980	2,022	10,753
2015	8,120	1,013	2,138	11,271
2020	8,110	1,008	2,198	11,316
2025	7,773	964	2,152	10,889
2030	7,414	919	2,044	10,377
2035	7,316	909	1,994	10,219
2040	7,406	920	2,007	10,333
2045	7,502	932	2,045	10,479
2050	7,450	926	2,048	10,424
ALTERNATIVE III [3]				
Projection (as of June 30):				
1985	4,023	596	1,724	6,343
1990	4,623	646	1,706	6,975
1995	5,251	708	1,649	7,608
2000	6,075	787	1,640	8,502
2005	7,000	884	1,708	9,592
2010	7,720	959	1,802	10,481
2015	8,080	989	1,869	10,938
2020	8,079	979	1,886	10,944
2025	7,702	932	1,829	10,463
2030	7,274	883	1,720	9,877
2035	7,073	859	1,655	9,587
2040	7,026	855	1,640	9,521
2045	6,962	847	1,637	9,446
2050	6,774	824	1,605	9,203

[1] Excludes the effect of the railroad financial interchange.
[2] Includes dependent husband beneficiaries.
[3] See text for definition of alternatives I, II, and III.

Annual increases in average wages and in the Consumer Price Index

The importance of the assumptions as to future increases in average wages and the Consumer Price Index (CPI) results from the automatic adjustment provisions in the present law. These provisions require that the benefit table be adjusted to keep up with increases in the CPI and that the taxable earnings base, as well as the exempt amount in the retirement test, be adjusted to keep up with increases in average wages.

The ultimate percentage increases in average annual wages under alternatives I, II, and III are 5¼ percent, 5¾ percent, and 6¼ percent, respectively. The corresponding increases in the average annual CPI are 3 percent, 4 percent, and 5 percent, respectively. The respective differences of 2¼ percent, 1¾ percent, and 1¾ percent represent a measure of the increase in average annual real wages; it is referred to somewhat loosely herein as the percentage increase in average annual real wages or, more briefly, as the real-wage differential. These interrelated assumptions were developed as stated below.

For alternative II, the CPI was assumed to increase at an annual rate of 4 percent which is slightly higher (by approximately ½ of one precent) than the average over the last 30 years. This level was selected since the trends over the last 60 years indicate a tendency for the CPI to increase slowly with time. Moreover, current outlook does not support a cessation or reversal of these trends. Although the long-term average of the annual CPI increases is highly speculative, 4 percent is considered a reasonable choice in view of today's expectations. The assumption of a real-wage differential was based on the trend in real wages over the last 20-25 years. The sum of this differential and the percentage increase in the average annual CPI yielded the assumed percentage increase in the average annual wage of 5¾ percent.

For alternatives I and III the ultimate real-wage differentials of 2¼ percent and 1¼ percent were chosen as so to be ½ of 1 percent higher and lower respectively than the 1¾ percent real-wage differential utilized in alternative II. Similarly, the ultimate percentage increases in the average annual CPI of 3 percent under alternative I and 5 percent under alternative III were chosen so as to be one percent lower and higher respectively than the 4 percent assumption utilized in alternative II. These assumptions yielded assumed ultimate percentage increases in average annual wages of 5¼ percent and 6¼ percent for alternatives I and III, respectively, as compared with the 5¾ percent assumptions utilized in alternative II.

The short-range wage-CPI assumptions for all three alternatives are the ones described in the section of this report dealing with the expected operations of the trust funds through 1981.

Average benefits

The average benefit for new old-age beneficiaries—that is, the average awarded old-age benefit—was projected by simulating the present-law automatic adjustment provisions for workers at various earnings levels. The average benefit for all old-age beneficiaries—that is, the new beneficiaries cited above as well as those earlier retirees still receiving benefits—was projected on the basis of the distribution of those beneficiaries by year of award, the average awarded benefit, and the increases in that benefit between the year of award and the current year. The average benefit for all other persons receiving monthly benefits from the old-age and survivors insurance trust fund was projected to increase at the same rate as the average old-age benefit. The average benefit for persons receiving monthly benefits from the disability insurance trust fund was similarly developed based on the average disabled-worker benefit which was, in turn, projected in a manner analogous to that of the average old-age benefit.

Benefit payments

Total benefit payments were calculated as the product of the number of beneficiaries and their corresponding average benefits. These values were adjusted to reflect retroactive payments.

Administrative expenses

It was assumed that future administrative expenses would be 1.5 percent of benefit payments for old-age and survivors insurance and 4.0 percent of benefit payments for disability insurance. These percentages include the allocation of funds to be used to rehabilitate disabled beneficiaries under the beneficiary rehabilitation program enacted in 1965.

Railroad retirement financial interchange

The effect of the financial interchange was evaluated on the basis of trends similar to those used for old-age, survivors, and disability insurance direct costs. This results in a small long-range loss to the old-age, survivors, and disability insurance system.

Sensitivity of Cost Estimates to Change in Selected Assumptions

While the estimates under alternatives I, II, and III provide an indication of the variation that would result from different combinations of assumptions, they cannot be used to determine the effect on the long-range cost of changes in a single assumption, due to the complex interrelationships between the assumed variables themselves. For this reason, this section of Appendix A is devoted to an analysis of the sensitivity of the long-range cost estimates to changes in selected assumptions. The intermediate assumptions underlie all of the sensitivity analyses shown herein; only the factor being tested is varied from its counterpart in the intermediate set of assumptions.

Sensitivity to mortality improvement assumptions

Appendix table D shows the average expenditures under both present law and the modified theoretical system in combination with three distinct assumptions as to the improvement in mortality. Those three are: no improvement in mortality rates from the level experienced in 1973; improvement of approximately 15 percent as assumed in alternatives I, II, and III; and improvement of approximately 30 percent.

APPENDIX TABLE D.—ESTIMATED LONG-RANGE EXPENDITURES OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM AS PERCENT OF TAXABLE PAYROLL, UNDER ALTERNATIVE II AND UNDER VARIOUS MORTALITY IMPROVEMENT ASSUMPTIONS

[In percent]

System [3]	Average expenditures as percent of taxable payroll [1] under ultimate mortality improvement of— [2]		
	0 percent	15 percent	30 percent
25 yr period:			
Present law	11.70	11.81	11.92
Modified theoretical	11.48	11.58	11.68
50 yr period:			
Present law	14.53	14.89	15.26
Modified theoretical	12.92	13.24	13.57
75 yr period:			
Present law	18.08	18.93	19.78
Modified theoretical	14.56	15.25	15.94

[1] Payroll is adjusted to take 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] The rate of mortality improvement refers to the ratio of the age-adjusted death rate in the year 2050 to that in 1973. The 15-percent improvement in mortality was used in alternatives I, II, and III.

[3] See text for discussion of present law versus modified theoretical systems.

Under both present law and the modified theoretical system there is a similar variation in cost associated with identical changes in levels of mortality. Under either system, over the next 25, 50, and 75 years the expenditures shown in the table reflect increases of about 1 percent, 2½ percent, and 4½ to 4¾ percent, respectively, for every 15 percent improvement in the ultimate mortality rates. That the cost increases with greater improvement in mortality is largely due to the distribution of improvement by age. Mortality at the very young ages and at the ages over 55 is projected to improve relatively more than at the in-between ages. This factor, in conjunction with a fertility rate which is below the rate which would ultimately result in zero population growth, results in an increase in the average size of the aged population in relation to the working-age population, thus increasing the cost of the program.

Sensitivity to ultimate total fertility rate assumptions

Appendix table E shows average expenditures over periods of 25, 50, and 75 years based on ultimate total fertility rates of 1.5, 1.7, 1.9, 2.1, and 2.3 children per woman; all other assumptions are the same as those included in the intermediate set. The table shows the cost under present law as well as under the modified theoretical system previously discussed.

APPENDIX TABLE E.—ESTIMATED LONG-RANGE EXPENDITURES OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM AS PERCENT OF TAXABLE PAYROLL, UNDER ALTERNATIVE II AND UNDER VARIOUS FERTILITY ASSUMPTIONS

[In percent]

System [3]	Average expenditures as percent of taxable payroll [1] assuming ultimate total fertility rate of— [2]				
	1.5	1.7	1.9	2.1	2.3
25 yr period:					
Present law	11.78	11.79	11.81	11.81	11.84
Modified theoretical	11.54	11.56	11.58	11.58	11.60
50 yr period:					
Present law	15.27	15.08	14.89	14.70	14.56
Modified theoretical	13.55	13.40	13.24	13.10	12.99
75 yr period:					
Present law	20.84	19.83	18.93	18.16	17.53
Modified theoretical	16.64	15.90	15.25	14.69	14.24

[1] Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.
[2] The total fertility rate is expressed in terms of children per woman. See text for further details of fertility projection. All other assumptions are given by alternative II.
[3] See text for discussion of present law versus modified theoretical systems.

As shown in appendix table E, over a 75-year period average expenditures as percent of payroll of the old-age, survivors, and disability insurance system are highly sensitive to changes in fertility assumptions under both the present-law and the modified theoretical systems.

Over the first 25-year period the average expenditures under either system would be lower if based on lower fertility and higher if based on higher fertility; however, the opposite effect exists over the entire 75-year period. The reason for this reversal of effect is that, under lower fertility, for example, the lower number of child's benefits that would be payable during the 25-year period is not offset by a lower number of workers, since the workers in that period are affected by earlier fertility and not by the fertility assumptions of the early years of the projection period. Later in the projection period, however, the size of the working population is affected relatively more than the beneficiary population so that the lower number of workers results in a decrease in the size of the payroll and hence an increase in the expenditures expressed as a percentage of payroll.

It is significant to note from this table that, for the next 25-year period regardless of future fertility, the average expenditures of the old-age, survivors, and disability insurance system will be significantly higher than the tax rate of 9.9 percent of taxable payroll scheduled in present law. The excess of the expenditures over the tax rate ranges from 1.88 to 1.94 percentage points under present law and from 1.64 to 1.70 percentage points under the modified theoretical system.

Sensitivity to Consumer Price Index assumptions

Appendix table F shows the average expenditures over periods of 25, 50, and 75 years under assumptions of annual CPI increases of 2 percent, 4 percent, and 6 percent. In each case the ultimate real-wage differential is assumed to be 1¾ percent yielding percentage increases in average annual wages of 3¾ percent, 5¾ percent and 7¾ percent, respectively. The table indicates the expenditures under both present law and the modified theoretical system.

APPENDIX TABLE F.—ESTIMATED LONG-RANGE EXPENDITURES OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM AS PERCENT OF TAXABLE PAYROLL, UNDER ALTERNATIVE II AND UNDER VARIOUS CONSUMER PRICE INDEX ASSUMPTIONS

[In percent]

System [3]	Average expenditures as percent of taxable payroll [1] assuming ultimate earnings-CPI increases of—[2]		
	3¾—2	5¾—4	7¾—6
25 yr period:			
Present law	11.77	11.81	11.88
Modified theoretical	11.80	11.58	11.38
50 yr period:			
Present law	13.80	14.89	16.08
Modified theoretical	13.58	13.24	12.96
75 yr period:			
Present law	16.12	18.93	21.98
Modified theoretical	15.67	15.25	14.92

[1] Payroll is adjusted to take 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] The initial value in each pair refers to the assumed annual percentage increase after 1981 in average earnings. The 2d value refers to the assumed annual percentage increases after 1982 in CPI. The assumptions used in the 1976–81 period were adjusted appropriately. All other assumptions are given by alternative II.

[3] See text for discussion of present law versus modified theoretical systems

As shown in appendix table F the average expenditures of the old-age, survivors, and disability insurance system over a 75-year period under present law are highly sensitive to changes in CPI assumptions. However, under the modified theoretical system those expenditures would be significantly less sensitive to CPI assumptions.

Under that system the average expenditures as a percent of payroll decrease slightly with increases in the CPI. This is due in large part to the specific assumptions used in this case in which there is a lag between the increases in earnings and the assumed increases in average awarded benefits. Normally, costs are computed as a percent of the taxable payroll in the year, while awarded benefits normally are based on earnings in years prior to retirement.

A significant element in appendix table F is that, for the next 25-year period, the average expenditures of the old-age, survivors, and disability insurance system will be essentially the same (11.38 to 11.88 percent of taxable payroll) regardless of the CPI assumption or of a possible modification in the procedure for computing benefits.

Sensitivity to average real earnings assumptions

Appendix table G shows the average expenditures over periods of 25, 50, and 75 years under assumptions of real-wage differentials of 1 percent, 1¾ percent and 2½ percent. In each case the annual increases in the CPI are assumed to be 4 percent, thereby yielding annual increases in average earnings of 5 percent, 5¾ percent, and 6½ percent, respectively. The table shows the expenditures under present law as well as under the modified theoretical system.

APPENDIX TABLE G.—ESTIMATED LONG-RANGE EXPENDITURES OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM AS PERCENT OF TAXABLE PAYROLL, UNDER ALTERNATIVE II AND UNDER VARIOUS REAL EARNINGS ASSUMPTIONS

[In percent]

System [3]	Average expenditures as percent of taxable payroll [1] under ultimate earnings-CPI increases of [2]—		
	5—4	5¾—4	6½—4
25-yr period:			
Present law	12.66	11.81	11.04
Modified theoretical	12.07	11.58	11.12
50-yr period:			
Present law	17.33	14.89	12.89
Modified theoretical	13.97	13.24	12.58
75-yr period:			
Present law	23.68	18.93	15.42
Modified theoretical	16.18	15.25	14.43

[1] Payroll is adjusted to take 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] The initial value in each pair refers to the assumed annual percentage increases after 1981 in average earnings. The 2d value refers to the assumed annual percentage increases after 1982 in CPI. The difference in the 2 values is approximately the annual increase in real earnings. The assumptions used in the 1976–1981 period were adjusted appropriately. All other assumptions are given by alternative II.

[3] See text for discussion of present law versus modified theoretical systems.

As shown in appendix table G, over a 75-year period the average expenditures of the old-age, survivors, and disability insurance system under present law are highly sensitive to changes in the real-wage differential, whereas under the modified theoretical system they are significantly less sensitive to such changes.

Under present law over the next 25-year period the average expenditures would vary by about 1.1 percent of taxable payroll for every percent change in the real-wage differential. However, under the modified theoretical system those expendituers would only vary by about 0.6 percent of taxable payroll for every one percent change in the real-wage differential. In all cases the average expenditures over the next 25 years are higher than the tax rate in present law of 9.9 percent of taxable payroll that is scheduled for the period. The execss of the expenditures over the tax rate ranges from 1.14 to 2.76 percentage points under present law and from 1.22 to 2.17 percentage points under the modified theoretical system.

APPENDIX B.—LONG-RANGE COST ESTIMATES UNDER PRESENT LAW BASED ON ASSUMPTIONS SIMILAR TO THOSE USED IN THE 1975 REPORT

This appendix is intended to show estimates of the long-range cost of the old-age, survivors, and disability insurance program under present law based on assumptions similar to those incorporated in the central set of assumptions used in the 1975 report. The following chart shows a comparison of the principal economic and demographic assumptions for 1982–2050 included in the central set of assumptions used in last year's report with those included in the intermediate set of assumptions (alternative II) used in this year's report.

VALUES ASSUMED FOR SELECTED ECONOMIC AND DEMOGRAPHIC FACTORS FOR THE PERIOD 1982–2050

[In percent]

	Percentage increases in average annual—			Unemployment rate	Ultimate fertility rate [2]
	Wages	Consumer Price Index	Real wages [1]		
1975 trustees report (central assumptions)	6	4	2	5	2.1
1976 trustees report (intermediate assumptions)	5¾	4	1¾	5	1.9

[1] Expressed as the difference between percentage increases in average annual wages and average annual CPI.
[2] Average number of children born per woman in her lifetime

The assumptions underlying the estimates in this appendix are the following. For those factors specified in the above chart, the ones identified as central assumptions have been used herein. For all other factors, the assumptions incorporated in the previously mentioned intermediate set (alternative II) have been used herein; in particular, this applies with respect to the assumptions for 1976–81 which correspond to those in the above chart (see table 10 in the body of this report).

The major differences between the assumptions underlying the estimates in this appendix and those underlying the estimates in last year's report are the same as those identified in the discussion of table 28 in the body of this report. In terms of their effect on the cost estimates, the most notable ones are the projections of higher increases in the average old-age benefit, of higher rates at which persons become entitled to disabled-worker benefits, and of lower rates at which disabled-worker beneficiaries recover or die.

Under the assumptions specified above, the expenditures (as a percent of payroll) of the old-age, survivors, and disability insurance system under present law are projected to be the values shown in the following table (which is presented in the same format as table 26 in the body of this report).

APPENDIX TABLE—ESTIMATED EXPENDITURES OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL FOR SELECTED YEARS, 1985–2050 UNDER ASSUMPTIONS SIMILAR TO THOSE USED IN THE 1975 REPORT

[In percent]

Calendar year	Expenditures as percent of taxable payroll [1]			Tax rate in law	Difference
	Old-age and survivors insurance	Disability insurance	Total		
1985	9.46	1.70	11.16	9.90	−1.2
1990	9.79	2.04	11.83	9.90	−1.92
1995	10.07	2.45	12.52	9.90	−2.62
2000	10.07	2.82	12.89	9.90	−2.99
2005	10.33	3.27	13.60	9.90	−3.70
2010	11.29	3.65	14.94	9.90	−5.04
2015	13.00	3.91	16.91	11.90	−5.01
2020	15.21	4.03	19.24	11.90	−7.34
2025	17.40	3.98	21.38	11.90	−9.48
2030	18.77	3.89	22.66	11.90	−10.76
2035	19.19	3.93	23.12	11.90	−11.22
2040	19.01	4.06	23.07	11.90	−11.17
2045	18.94	4.22	23.16	11.90	−11.26
2050	19.25	4.28	23.53	11.90	−11.63
25-yr averages:					
1976–2000	9.65	1.99	11.64	9.90	−1.74
2001–25	12.85	3.68	16.53	11.10	−5.43
2026–50	18.88	4.05	22.93	11.90	−11.03
75-yr average: 1976–2050	13.80	3.24	17.04	10.97	−6.07

[1] Expenditures and payroll are calculated under assumptions of an ultimate annual increase of 6 percent in average earnings and an ultimate fertility rate of 2.1 children per woman; all other assumptions are the same as those incorporated in the intermediate set defined in the body of this report. Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

This table shows that, as under the intermediate set of assumptions, the expenditures are projected to increase slowly during the remainder of the century, very rapidly shortly after the turn of the century, and much more slowly during the last years of the projection period. (See the discussion of table 26 in the body of this report.)

The table also shows that, for the 75-year projection period, the average expenditures are estimated to be 6.07 percentage points higher than the average tax rate. This figure is comparable to the actuarial deficit reported in last year's report after it is adjusted to eliminate the trust fund cost (see the discussion of table 28 in the body of this report). The deficit reported last year was 5.32 percent of payroll; after adjustment for the trust fund cost of 0.13 percent of payroll (see table 28), it becomes 5.19 percent of payroll. This last figure differs from 6.07 because of the net effect of the changes in assumptions cited above.

APPENDIX C.—DETERMINATION AND ANNOUNCEMENT OF SOCIAL SECURITY BENEFIT INCREASES [1]

Pursuant to authority contained in section 215(i) of the Social Security Act (42 U.S.C. 415(i)), as amended by section 3 of Public Law 93–233, enacted December 31, 1973, and in section 1617 of the Social Security Act (42 U.S.C. 1382f), I hereby determine and announce a cost-of-living increase of 8.0 percent in benefits under the Social Security Act, title II effective June 1975 and title XVI effective July 1975; that the following revised table of benefits is deemed to appear in section 215(a) of the Act; that, with respect to benefits for transitional insured persons aged 72 and over entitled under section 227 of the Act (42 U.S.C. 427) and for uninsured persons aged 72 and over entitled under section 228 of the Act (42 U.S.C. 428), the amounts $69.60 and $34.80 are established in lieu of the respective amounts of $64.40 and $32.20, that appear in sections 227 and 228 of the Act; that, regarding the additional amount of the supplemental security income benefit with respect to essential persons payable under section 211 of Public Law 93–66, as amended, the amount of $946 is established in lieu of the amount of $876 that appears in section 211(a)(1)(A) of that law; and that, with respect to income limitations under the program of supplemental security income for the aged, blind, and disabled, the amounts of $1,892.40 and $2,839.20 are established in lieu of the respective amounts of $1,752 and $2,628 that appear in sections 1611(a)(1)(A), 1611(a)(2)(A), 1611(b)(1), and 1611(b)(2) of the Act.

Automatic Benefit Increase Determination

Section 215(i) of the Social Security Act requires that, when certain conditions are met in the first calendar quarter of a year, the Secretary shall determine that a cost-of-living increase in benefits and income limitations is due. That section further specifies a formula which automatically determines the amount of any cost-of-living increase in benefits and income limitations, based on the Consumer Price Index reported by the Department of Labor.

Section 215(i)(2)(A) of the Act provides that the Secretary shall determine each year, beginning with 1975, whether there is a cost-of-living computation quarter in such year. If he so determines, such subsection also provides that he shall, effective with June of that year, increase benefits for individuals entitled under sections 227 and 228 of the Act, and that he shall increase the primary insurance amounts of all other individuals entitled to benefits under title II of the Act (excluding primary insurance amounts determined under section 215(a)(3)). The subsection further provides that the percentage of increase in benefits shall be equal to the percentage of

[1] This statement was published in the Federal Register for May 22, 1975 (Vol. 40, No. 100, pp. 22289–90).

increase by which the Consumer Price Index for the cost-of-living computation quarter exceeds the Index for the most recent prior base quarter or cost-of-living computation quarter.

Section 215(i)(1) of the Act defines a base quarter as a calendar quarter ending on March 31 in each year after 1974, or any other calendar quarter in which occurs the effective month of a general benefit increase. This subsection of the Act also defines a cost-of-living computation quarter as a base quarter in which the Consumer Price Index prepared by the Department of Labor exceeds by not less than 3 percent such Index in the last prior cost-of-living computation quarter or, if later, the most recent calendar quarter in which a general benefit increase was effective. This subsection of the Act further provides that the Consumer Price Index for a base quarter or a cost-of-living computation quarter shall be the arithmetical mean of such Index for the 3 months in such quarter.

Under the provisions of the Act described above, the first possibl e cost-of-living computation quarter was the calendar quarter endin g March 31, 1975. The Consumer Price Index prepared by the Department of Labor for each month in that quarter was: for January 1975, 156.1; for February 1975, 157.2; for March 1975, 157.8. The arithmetical mean for the calendar quarter ending March 31, 1975, is thus 157.0. This result is to be compared to the most recent calendar quarter in which a general benefit increase was effective. The most recent such quarter was the quarter ending June 30, 1974. (Public Law 93–233, enacted December 31, 1973, provided for a general benefit increase effective June 1974. See section 3(i) of Public Law 93–233 and section 215(i)(3) of the Social Security Act, as amended.) The Consumer Price Index prepared by the Department of Labor for each month in that quarter was: for April 1974, 143.9; for May 1974, 145.5; for June 1974, 146.9. The arithmetical mean for the calendar quarter ending June 30, 1974, is thus 145.4. Comparing this result to the arithmetical mean for the calendar quarter ending March 31, 1975, yields an increase of 8.0 percent. Thus, since the percentage of increase in the Consumer Price Index from the calendar quarter ending June 30, 1974, to the calendar quarter ending March 31, 1975, exceeds 3 percent, the quarter ending March 31, 1975, is a cost-of-living computation quarter. Consequently, a cost-of-living benefit increase of 8.0 percent is effective for benefits under title II of the Act for June 1975.

Title II Benefits

In accordance with section 215(i)(2)(D)(iv) of the Act, the primary insurance amounts and the maximum family benefits shown in columns IV and V, respectively, of the revised benefit table set forth in this announcement were obtained by increasing by 8.0 percent the corresponding amounts shown in the benefit table heretofore established by Public Law 93–233. (So much of the table as applies to average monthly wages of $1,101 through $1,175 does not appear in the table as amended by P.L. 93–233, but results from the operation of section 215(i)(2)(D)(v), section 230 of the Social Security Act, as amended, and P.L. 93–233, particularly, section 3(i) of P.L. 93–233.) With respect to benefits for persons entitled under sections 227 and 228 of the Act, the amounts of $64.40 and $32.20 heretofore established, were increased by 8.0 percent to obtain the new amounts of $69.60 and $34.80, respectively. The table extensions referred to in section 215(i)(2)(D)(v) will be published concurrent with the publication of a contribution and benefit base determination pursuant to section 230(a).

TITLE XVI BENEFITS

Section 1617 of the Social Security Act provides that, whenever the benefits under title II are increased as a result of a determination made under section 215(i), the amounts in sections 1611(a)(1)(A), 1611(a)(2)(A), 1611(b)(1), and 1611(b)(2) of the Social Security Act and in section 211(a)(1)(A) of Public Law 93–66, shall be increased, effective with months after the month in which the title II increase is effective, and that such percentage of increase shall be the same as the percentage of increase by which the title II benefits are increased (and rounded, when not a multiple of $1.20, to the next higher multiple of $1.20).

In accordance with section 1617, benefit amounts under the program of supplemental security income for the aged, blind, and disabled and the maximum amounts of income, other than income excluded under section 1612(b), under the program of supplemental security income for the aged, blind, and disabled, of $1,752 and $2,628 heretofore established are increased effective July 1975, by 8.0 percent to obtain the new amounts of $1,892.40 and $2,839.20, respectively. With respect to the amount of the additional supplemental security income benefit with respect to essential persons payable under section 211(a)(1)(A) of Public Law 93–66, as amended, the amount of $876 heretofore established is increased by 8.0 percent to obtain the new amount of $946.

(Catalog of Federal Domestic Assistance Programs Nos. 13.802–5, and 13.807 Social Security Programs.)

Dated: May 14, 1975

CASPAR W. WEINBERGER,
Secretary.

(The revised table of benefits that followed the above announcement in the Federal Register is not reproduced here because of its length.)

APPENDIX D.—DETERMINATION AND ANNOUNCEMENT OF SOCIAL SECURITY CONTRIBUTION AND BENEFIT BASE AND RETIREMENT TEST EXEMPT AMOUNT FOR 1976 [1]

Pursuant to authority contained in sections 203(f)(8) and 230 of the Social Security Act (42 U.S.C. 403(f)(8) and 430), as amended by section 3 (j) and (k) of Public Law 93–233, enacted December 31, 1973, I hereby determine and announce that the contribution and benefit base with respect to remuneration paid in, and taxable years beginning in 1976 shall be $15,300 and the monthly exempt amount under the retirement test shall be $230 with respect to taxable years ending in calendar year 1976.

There follows a statement of the actuarial bases employed in arriving at the amounts of $230 and $15,300 for the retirement test monthly exempt amount and the contribution and benefit base, respectively, for the calendar year 1976.

In determining each of the 1976 amounts, the law specifies a formula which automatically produces a mathematical result based upon reported statistics.

Section 203(f)(8) of the Act provides that the retirement test monthly exempt amount for 1976 shall be equal to the 1975 amount of $210 multiplied by the ratio of (1) the average amount, per employee, of the taxable wages of all employees reported under the prorgam for the first calendar quarter of 1975 to (2) the average amount of such wages reported for the first calendar quarter of 1974. The section further provides that if the amount so determined is not a multiple of $10, it shall be rounded to the nearest multiple of $10.

Similarly, section 230 of the Act provides that the contribution and benefit base for 1976 shall be equal to the 1975 amount of $14,100 multiplied by the ratio of (1) the average amount, per employee, of the taxable wages of all employees reported under the program for the first calendar quarter of 1975 to (2) the average amount of such wages reported for the first calendar quarter of 1974. The section further provides that if the amount so determined is not a multiple of $300, it shall be rounded to the nearest multiple of $300.

The data used to make the necessary computations of such average taxable wages were derived from reports submitted to the Social Security Administration of taxable wages paid to employees by their employers. Each quarter, taxable wages are posted to the record of earnings of each individual employee for whom wages were reported. These records are referred to hereinafter as Summary Earnings Records. As the wages were posted to the Summary Earnings Records, the data were tabulated on a 100-percent basis to obtain the total amount of reported taxable wages and the total number of employees for whom such wages were reported.

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[1] This statement was published in the Federal Register for Oct. 30, 1975 (Vol. 40, No. 210, pp. 50556–7).

Because of the requirement in the law that the foregoing determinations be made on or before November 1, 1975, the tabulated data on taxable wages reported for the first calendar quarter of 1975 were necessarily limited to those wages that were reported and posted to the Summary Earnings Records by the end of the quarterly updating operations completed in September 1975. In order that the required ratio referred to above be based on data reflecting comparable reporting and posting periods, the tabulated data on taxable wages reported for the first calendar quarter of 1974 were limited to those wages that were reported and posted to the Summary Earnings Records by the end of the quarterly updating operations completed in September 1974.

About 71.1 million employees had taxable wages reported for the first calendar quarter of 1974 that were posted to the Summary Earnings Records by the end of September 1974, and the average amount of their taxable wages was $2,007.69 per employee. The corresponding number of employees and average amount of taxable wages for the first calendar quarter of 1975 were 70.6 million and $2,157.73, respectively. The ratio of average taxable wages reported for the first quarter of 1975 to average taxable wages reported for the first quarter of 1974 is therefore 1.074733.

Multiplying the 1975 retirement test monthly exempt amount of $210 by the ratio of 1.074733 produces the amount of $225.69, which must then be rounded to $230. Accordingly, the retirement test exempt amount for taxable years ending in calendar year 1976 is $230 on a monthly basis, or $2,760 on an annual basis.

Multiplying the 1975 contribution and benefit base of $14,100 by the ratio of 1.074733 produces the amount of $15,153.74, which must then be rounded to $15,300. Accordingly, the contribution and benefit base for remuneration paid in, and taxable years beginning in, calendar year 1976 is $15,300.

The following is an extension of the Table for Determining Primary Insurance Amount and Maximum Family Benefits provided in section 215(a) of the Social Security Act. This extension reflects the new higher average monthly wage and related benefit amounts now possible under the increased contribution and benefit amounts promulgated herein effective January 1976 in accordance with section 215(i) of the Act.

TABLE FOR DETERMINING PRIMARY INSURANCE AMOUNT AND MAXIMUM FAMILY BENEFITS BEGINNING JANUARY 1976

I		II	III		IV	V
(Primary insurance benefit under 1939 Act, as modified)		(Primary insurance amount effective for June 1974)	(Average monthly wage)		(Primary insurance amount)	(Maximum family benefits)
If an individual's primary insurance benefit (as determined under subsec. (d)) is—		Or his primary insurance amount (as determined under subsec. (c)) is—	Or his average monthly wage (as determined under subsec. (b)) is—		The amount referred to in the preceding paragraphs of this subsection shall be—	And the maximum amount of benefits payable (as provided in sec. 203(a)) on the basis of his wages and self-employment income shall be—
At least—	But not more than—		At least—	But not more than—		
			$1, 176	$1, 180	$523. 80	$916. 70
			1, 181	1, 185	524. 80	918. 40
			1, 186	1, 190	525. 80	920. 20
			1, 191	1, 195	526. 80	921. 90
			1, 196	1, 200	527. 80	923 70
			1, 201	1, 205	528. 80	925. 40
			1, 206	1, 210	529. 80	927. 20
			1, 211	1, 215	530. 80	928. 90
			1, 216	1, 220	531. 80	930. 70
			1, 221	1, 225	532. 80	932. 40
			1, 226	1, 230	533. 80	934. 20
			1, 231	1, 235	534. 80	935. 90
			1, 236	1, 240	535. 80	937. 70
			1, 241	1, 245	536. 80	939. 40
			1, 246	1, 250	537. 80	941. 20
			1, 251	1, 255	538. 80	942. 90
			1, 256	1, 260	539. 80	944. 70
			1, 261	1, 265	540. 80	946. 40
			1, 266	1, 270	541. 80	948. 20
			1, 271	1, 275	542. 80	949. 90

(Catalog of Federal Domestic Assistance Programs Nos. 13.802.5, and 13.807 Social Security Programs.)

Dated: October 22, 1975.

DAVID MATHEWS,
Secretary.