Notes and Brief Reports

Trustees' Report on Old-Age and Survivors Insurance Trust Fund

The ninth annual report of the Board of Trustees of the old-age and survivors insurance trust fund, transmitted in compliance with section 201 of the Social Security Act, as amended, was received by Congress in April 1949. The report, submitted by the Board of Trustees, consisting of the Secretary of the Treasury, the Secretary of Labor, and the Federal Security Administrator, describes the operations of the Federal old-age and survivors insurance trust fund during the fiscal year ended June 30, 1948, discusses the expected receipts and disbursements of the fund in the 5 following fiscal years, and, in the section dealing with the actuarial status of the fund, presents long-range cost estimates.

Operations During 1947–48

The Trustees note that the trust fund operations were affected by the economic conditions that prevailed during the fiscal year 1948. In June 1948, civilian employment rose to an all-time peak of 61 million and nonagricultural employment to the unprecedented level of 52 million, unemployment was only 2.2 million, and average hourly earnings and the general price level rose substantially. In each quarter of the year total wage payments on which Federal insurance contributions and wage credits are based were higher than in the corresponding quarter of any earlier year. As a result, collections during the fiscal year 1948 amounted to $1,616 million, an increase of 11 percent over collections in the preceding year and the largest on record, although the contribution rates for employers and employees remained unchanged at 1 percent each. Additional receipts of the fund in the fiscal year 1948 consisted of $190 million in interest earned on investments and $700,000 transferred from general funds of the Treasury to meet the administrative costs of benefits payable to the survivors of certain World War II veterans in accordance with title II of the Social Security Act Amendments of 1946.

The report notes that disbursements from the trust fund during the fiscal year 1948 amounted to $559.1 million, of which $511.7 million was for benefit payments, and $47.5 million for administrative expenses of the insurance program. Benefit payments during the year exceeded benefit payments in the preceding year by 20 percent, reflecting primarily the increased number of persons drawing benefits. Approximately 70 percent of the benefit payments represented monthly payments to persons aged 65 or over—retired wage earners and their wives, and aged widows and parents of deceased wage earners. Nearly 24 percent represented monthly benefits on behalf of children of deceased or retired workers and payments to widows—practically all of them under age 65—who had children of deceased wage earners in their care. The balance of the benefits consisted almost entirely of lump-sum amounts to survivors who were not immediately entitled to monthly payments. At the end of June 1948, approximately 2.2 million persons were receiving monthly benefits as against 1.8 million persons a year earlier.

During the year, the fund's assets increased by $1,248 million to $10,047 million. These assets consisted of $9,937 million in obligations of the United States Government, and $109 million in uninvested balances ($35 million to the credit of the fund account and $74 million to the credit of the disbursing officer). At the end of June 1948, the investments held by the fund consisted of $2,227 million in Treasury bonds and $7,709 million in special certificates of indebtedness. Investments made for the fund during previous fiscal years consisted only of direct obligations of the United States purchased on original issue. During the fiscal year 1948, however, investments included for the first time purchases of outstanding obligations of the United States in the open market. The securities, purchased at a premium in the open market but yielding a higher rate of return than special securities issuable to the trust fund at the time such marketable issues were acquired, amounted to $589 million—$585 million at 2½ percent and $4 million at 2¼ percent. The corresponding par value of these purchases is approximately $583 million.

The Next 5 Years

In their year-by-year outline of the fund's expected operations and status during the next 5 years, the Trustees point out that both the receipts and the expenditures of the fund are substantially affected by general economic conditions. They present two alternative estimates of income and disbursements based on two sets of economic assumptions. Alternative I shows the effect of reasonably optimistic assumptions; alternative II, the effect of somewhat less optimistic assumptions. It is stated that since alternative II does not reflect the effect on income and disbursements if a deep depression should materialize during the next 5 years, the differences between the alternative estimates are not great. For both alternative I and alternative II, it is assumed that the present statutory coverage of old-age and survivors insurance will remain unchanged throughout the period under consideration. The computations of the tax income are based on present statutory rates of contribution, which are 1 percent each on employer and employee on taxable wages paid during the calendar years 1948 and 1949, 1½ percent each during the calendar years 1950 and 1951, and 2 percent each during calendar years 1952 and 1953.

Under the first set of assumptions, the fund's annual income is expected to increase each year, reaching $4.6 billion in the fiscal year 1953. Expenditures for that year are estimated at $984 million. The assets of the trust fund at the beginning of the fiscal year 1949 would amount to over 10 times the highest expected annual disbursements during the succeeding 5 fiscal years.

On the basis of the less optimistic economic assumptions of alternative II, it is estimated that income will rise to slightly more than $4 billion in the fiscal year 1953 and that disbursements will be $1,086 million. Under these conditions, the assets of the trust fund at the beginning of the 5-year period would amount to 9.3 times the highest expected annual disbursements during the period. Estimates of income under both sets of economic assumptions exclude authorized appropriations to the trust fund under Public Law 642 (80th Cong., 2d sess.), enacted June 14, 1948, which amends the definition of "employee" as used in the Social Security Act to exclude from coverage certain services previously held covered under title II of the act.

While the amended definition is made retroactive to August 14, 1935, certain wage credits established under the former definition will remain credited to the individual's account. The law authorizes an appropriation to the trust fund from general revenues equal to the estimated total amount of benefits paid and to be paid under title II of the act that would not have been paid had the amended definition been in effect beginning August 14, 1935. Since an estimate of this amount had not been completed at the time the report was submitted, it is not reflected in the income of the trust fund under either set of economic assumptions. Estimates of disbursements under both sets of assumptions include benefit payments to survivors of certain World War II veterans in accordance with title II of the Social Security Act Amendments of 1946.

Year-by-year estimates of expenditures from the fund, on the basis of the two sets of economic assumptions, are as follows:

Fiscal year	Expenditures (in millions) under—	
	Alternative I	Alternative II
1949	$656	$656
1950	745	745
1951	826	914
1952	905	1,016
1953	984	1,086

The Trustees indicate the reservations to be attached to these 5-year estimates and point out the influence of future employment and wage levels on the operations of the old-age and survivors insurance program—particularly on expenditures for retirement benefits. Special emphasis is laid on the steady growth in the number of workers potentially eligible for primary benefits. This growth results in part from the increase in the aged population, but in even greater measure from the fact that with each passing year an increasingly larger proportion of the persons who reach age 65 are fully insured under the program.

Long-Range Costs

In the seventh annual report of the Board, new cost illustrations were presented, taking into account the foreseeable effects of the war and the brief postwar period to the date of that report. In the Board's eighth annual report, no essential changes were made in these cost estimates other than to allow for the new contribution schedule introduced in the Social Security Act Amendments of 1947. The long-range cost estimates in the present report (the ninth) show little change from those prepared for the seventh and eighth reports, since the past year's experience has not indicated a need for their modification.

The report summarizes recent developments and some of their implications for future long-run trends in several factors of actuarial significance, including population, birth-rate trends, mortality rates, marital and family composition, covered employment experience, remarriage rates, employment of beneficiaries, and average wages in covered employment.

The Trustees present basic series regarding future beneficiaries and estimated costs, based on "high" economic assumptions (intended to represent close to full employment with average annual wages at about the level prevailing in 1944–46), and on "low" economic assumptions (intended to represent employment conditions similar to those prevailing in 1940–42). The report indicates that actual future experience will probably be closer to the high than to the low economic assumptions and will very likely be even above the high economic assumptions in view of the current level of wage and business activity and the established national policy of maintaining conditions conducive to full employment. Within each of the two sets of assumptions there is further subdivision into a low-cost example and a high-cost example, reflecting possible variations in such factors as mortality, fertility, retirement rates, and movement between covered and noncovered employment. Four alternative cost series are thus derived that include estimates of the number of beneficiaries to the year 2000 and illustrative projections of benefit payments, contribution income, and the relation of the two for each decennial year to 2000.

In the year 2000, benefit payments are estimated to be $3.8 billion under the lowest of the series and $8.5 billion under the highest. The ratio of benefits to pay rolls ranges from 4.2 to 10.5 percent (table 1). The estimated level premium cost of the program into perpetuity varies, under the four alternative illustrations, from 3.0 to 7.0 percent. The long-range cost figures presented are the same as those in the seventh and eighth Trustees' reports. They are lower than the estimated cost of the program when it was adopted in 1939, due largely to the rapid increase in employment and wage levels caused by the war.

The report includes a special

Table 1.—*Long-range cost of benefits as a percent of pay rolls under varying assumptions*

Calendar year	Benefits as percent of pay roll			
	Low-cost assumptions		High-cost assumptions	
	High employment	Low employment	High employment	Low employment
	Level wage assumptions			
1960	1.8	3.1	2.5	3.7
1970	2.6	4.0	3.7	5.2
1980	3.3	5.0	5.2	7.2
1990	4.0	5.7	6.9	9.2
2000	4.2	5.8	8.1	10.5
1946 to 2000 [1]	2.9	4.3	4.6	6.2
In perpetuity [2]	3.0	4.4	5.3	7.0
	Rising wage assumptions [3]			
2000	3.4	4.2	6.6	7.7
In perpetuity	2.5	(4)	(4)	6.0

[1] Average or level cost without interest for the 55-year period.
[2] Level cost (based on discounting at 2-percent interest) of benefit payments after 1945 and in perpetuity, taking into account accumulated funds through 1945.
[3] Assuming annual increase of 1 percent in average wages.
[4] Not shown in Trustees 'report.

computation to show the effect on costs in the year 2000 of a 1-percent annual increase in average wages compounded. Under this assumption the lowest cost in that year is 3.4 percent and the highest is 7.7 percent of taxable pay rolls. Thus the cost of benefits relative to contributions per year would be decreased by about 20 to 25 percent under the assumed percentage rise in average wages with the present benefit provisions. Continuation of past long-run wage trends would tend to lower the costs of the present benefit formula, but benefits paid to beneficiaries would steadily diminish in relation to current wage levels.

Conclusions

In their conclusion the Trustees point out that benefit disbursements for old-age and survivors insurance will continue to rise throughout the present century and that by 1970 they will probably be four to six times their current level. Contributions paid by employers and employees are expected to be wholly sufficient to meet the disbursements of the old-age and survivors insurance program in each of the 5 fiscal years immediately ahead.

The present tax rate of 1 percent each on employers and employees is scheduled to apply through 1949. Under the Social Security Act Amendments of 1947, the rate will rise to 1½ percent on January 1, 1950, and to 2 percent for the calendar year 1952 and thereafter. As in their previous reports the Trustees express the view that prudent management of the finances of the trust fund requires emphasis on the long-range relationships between the disbursements and the income of the fund. They repeat that the 3–7-percent level premium cost of benefits now provided, assuming level wages, is lower than earlier level premium cost figures.

The Trustees point out that the war and the postwar adjustments, as well as the recovery from the depression of the early thirties, have been accompanied by important changes in many of the factors which determine the relationship between benefits and contributions under the program. The increased level of earnings and the expanded employment in covered occupations are among the more important factors which have led to a reduction in illustrative costs measured as a percent of pay roll. The present cost figures are predicated on the maintenance of level wage rates. Past experience, however, indicates that the level of income and earnings in the Nation is likely to rise in the future. Increases in the past, though somewhat uneven, have on the whole been persistent over the decades. Taking into account a long-term tendency for wages to rise, the range of the level premium cost might be reduced from 3–7 percent to 2½–6 percent. The Trustees, however, state that:

> The factors which, in large part, account for the anticipated favorable financial position of the program in the period immediately ahead, and for the reduction shown in the figures on the long-range cost as a percent of pay roll, at the same time have seriously impaired the adequacy of benefits based on present benefit provisions. From the first quarter of 1940, when monthly benefits began to be paid, to the middle of 1948, the cost of living rose 72 percent, while the average primary benefit paid rose 15 percent. From a study made in 1946, it has been estimated that in one large eastern city a little more than a third of all aged beneficiaries who were retired either were receiving public assistance or, on the basis of their meager resources, probably could have qualified for it. The inadequacies of the benefits paid will become increasingly pronounced unless the benefit formula is adjusted upward to reflect the rise in wages, national income, and living standards.

In closing, the Trustees call attention to the *Annual Reports* of the Federal Security Agency and the Social Security Board, which point out that there are many inadequacies and gaps in present coverage and benefit provisions of the old-age and survivors insurance program—gaps which in large measure have developed or been intensified by war and postwar conditions. The Trustees note that similar views were expressed by the Advisory Council on Social Security in its report to the Senate Committee on Finance on April 8, 1948. It is their opinion that there is urgent need for a review of the financial provisions and policy of the old-age and survivors insurance program as well as the benefit formula, the coverage of the system, and the scope of protection afforded, in order to develop a total program more nearly in accord with current and prospective conditions.

Coverage of Agricultural Workers Under Unemployment Insurance

Some types of agricultural employment have been covered by the California unemployment insurance law since January 1, 1936, although the rules and regulations distinguishing between covered and exempt types of agricultural employment have since been modified several times. The present regulation, which has been upheld by the California Supreme Court, became effective on June 1, 1945. In view of the current interest in extending coverage under the Social Security Act to agricultural labor, the following summary of California's experience is of interest.

During 1947, some 42,000 agricultural workers—about 1 out of every 7—were protected against the risk of unemployment by the State law. These workers were employed by 1,700 employers who would not have been subject to taxes on the wages paid to these workers if coverage under the State law were no broader than that under the Federal act. No such large group of agricultural workers is similarly insured against loss of work in any other State. The workers were employed in larger employing units than are customarily found in agriculture in most States; on the average, each agricultural employer subject to the law employed about 24 workers. During the year, these workers received about $5 million in benefits during periods when they were out of work through no fault of their own.

While extension of coverage to agricultural workers has been regarded as entailing significant administrative difficulties, the California agency states that obtaining reports and collecting taxes have been no more difficult in agriculture than in other types of employment. The problems have been the same as those in similar seasonal work. There has been some

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