respectively, for the country as a whole. All States spent less than $1.50 per capita for aid to the blind and less than $3 for aid to the permanently and totally disabled.

General assistance costs, which averaged $1.36 per inhabitant for the Nation, were less than those for old-age assistance in all States and less than those for aid to dependent children in all but three States. Relative variations among the States in per capita expenditures were considerably greater in general assistance, however, than in any of the other four programs. Thus, the cost of general assistance in Rhode Island was 380 times that in Alabama (1 cent). Almost half the States spent less than $1 per capita for general assistance, and only six States spent more than $3. There are two main reasons for these large variations: There is no Federal financial participation in the program, and in many States the program is a local responsibility without State financial or administrative responsibility. The distribution of States by amount of assistance expenditures per inhabitant for each of the assistance programs for the fiscal year 1953–54 is shown below.

| Expenditures per inhabitant | OAA | ADC | AB | APTD | GA |
|---|---|---|---|---|---|
| Total number of States | 53 | 53 | 53 | 42 | 53 |
| Less than $0.50 | 0 | 1 | 44 | 14 | 13 |
| 0.50–0.99 | 0 | 0 | 8 | 10 | 11 |
| 1.00–1.49 | 0 | 1 | 1 | 10 | 8 |
| 1.50–1.99 | 3 | 8 | 0 | 3 | 11 |
| 2.00–2.99 | 4 | 12 | 0 | 5 | 4 |
| 3.00–3.99 | 1 | 12 | 0 | 0 | 6 |
| 4.00–4.99 | 3 | 11 | 0 | 0 | 0 |
| 5.00–7.49 | 7 | 7 | 0 | 0 | 0 |
| 7.50–9.99 | 19 | 1 | 0 | 0 | 0 |
| 10.00–14.99 | 9 | 0 | 0 | 0 | 0 |
| 15.00–19.99 | 4 | 0 | 0 | 0 | 0 |
| 20.00 or more | 3 | 0 | 0 | 0 | 0 |

### *Vendor Payments for Medical Care*

Medical needs of recipients of public assistance may be met from public assistance funds either by including an amount for this purpose in the money payment to the recipient or by direct payment to the vendor of the medical service. Some agencies use both methods of payment. Federal participation in expenditures for medical care is limited to amounts within stated maximums on the total amount of aid for each recipient.[6] Before October 1950, Federal matching was restricted to medical costs met through money payments to recipients. Since that time, however, Federal funds have been available for payments to vendors also. Amounts paid to vendors for medical care are readily identifiable and are reported periodically by State agencies. Data on the amounts included for medical care in the direct payments to recipients have been obtained through special studies but are not reported periodically because of the obvious difficulty and expense of compiling such data on a continuing basis.

For all programs combined, vendor payments in the fiscal year ended June 1954 amounted to $175 million or $1.09 per inhabitant. The per capita expenditures for vendor payments for medical care, by program, are as follows:

| *Program* | *Expenditure per inhabitant for vendor payments* |
|---|---|
| Old-age assistance | $0.54 |
| Aid to dependent children | .10 |
| Aid to the blind | .02 |
| Aid to the permanently and totally disabled | .09 |
| General assistance | .34 |

Almost three-fourths of this amount came from funds for the four special types of public assistance; vendor payments, however, comprised only a small proportion—5 percent—of the total spent under these four programs. Expenditures for vendor payments from general assistance funds, on the other hand, represented about a fourth of the total spent under this program. In 13 States[7] payments to vendors of medical care accounted for more than half the total general assistance expenditures. Not all States are able to report the amount expended from general assistance funds for vendor medical payments for recipients of the special types of public assistance, but at least a tenth of all general assistance expenditures went for this purpose.

Table 2 shows a distribution of the States by size of per capita expenditures for vendor payments under each of the assistance programs. Per inhabitant expenditures to vendors of medical care were small except for old-age assistance and general assistance, where expenditures in a few States amounted to $2 or more.

[6] The current maximums are $55 in old-age assistance, aid to the blind, and aid to the permanently and totally disabled; in aid to dependent children the maximums are $30 for a needy adult caretaker, $30 for the first child, and $21 for each additional child in a family aided.

[7] Alaska, Arkansas, Colorado, Idaho, Iowa, Montana, Nebraska, Nevada, New Mexico, North Carolina, South Dakota, West Virginia, and Wyoming.

# Fifteenth Trustees Report on OASI Trust Fund

*The Board of Trustees of the old-age and survivors insurance trust fund recently submitted to Congress its fifteenth annual report on the operations of the trust fund for the fiscal year 1953-54 and, as required by statute, its estimate of projected fund operations during the next 5 years, as well as an analysis of the actuarial status of the fund. The Board of Trustees is composed of the Secretary of Labor, the Secretary of the Treasury, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is the Managing Trustee of the Fund, and the Commissioner of Social Security is the Secretary of the Board. Excerpts from their report follow.*

### *Summary and Conclusion*

During the past 5 fiscal years, the contribution income of the trust fund has increased substantially for a number of reasons. In addition to a rise in earnings levels and the normal uptrend in the labor force, contribution rates increased in 1950 and 1954; moreover, coverage was extended to additional employments and the maximum limit on taxable earnings was raised in 1951. A further extension of coverage and another increase in the taxable earnings limit, both effective on January 1, 1955, will materially raise trust fund receipts in the immediate future. With the growth of the trust fund, interest received on investments has also increased.

Trust fund disbursements have risen even more sharply than contribution income. Basic factors in this increase are the long-term growth in the aged population and, more significantly, the lengthening period during which workers have had an opportunity to earn the quarters of coverage required to be insured. More immediate causes have been the amendments to the Social Security Act which have extended the program's coverage, lowered the requirements for eligibility to benefits, increased the benefits payable, and liberalized the retirement test. Still further increases in benefit disbursements will result from the 1954 amendments.

Despite this rise in benefit disbursements, it is estimated that aggregate income from contributions and interest on investments of the trust fund during the 5-year period immediately ahead will be wholly sufficient to meet aggregate disbursements of the old-age and survivors insurance program during this period. Long-range actuarial studies, moreover, show that, on the basis of high employment assumptions, the level-premium cost at 2.4 percent interest ranges from 6.80 to 8.75 percent of payroll, depending on the combination of cost assumptions selected.

Under legislation enacted in 1946, the trust fund was reimbursed out of general revenues for noncontributory benefit payments arising from credit for military service. As a result of legislation enacted in 1950, 1952, and 1953, all noncontributory benefit payments after August 1950 on account of credit for military service have been made from the trust fund with no provision for reimbursement. The Board of Trustees believes that these additional costs should not be borne by the trust fund out of the regular social security tax collections. Instead, it believes that they are a proper charge against the general fund of the Treasury, just as are other costs of maintaining the Armed Forces.

## *Social Security Act Amendments of 1954*

The 1954 amendments[1] to the Social Security Act (Public Law 761, approved September 1, 1954) will have very substantial effects on both the immediate and long-range future levels of income and disbursements of the trust fund. The amendments afford coverage to virtually all employed persons not previously under the program and not protected under another Federal retirement system. Benefit amounts payable to both present and future beneficiaries were increased substantially. Provision was made to protect the benefit rights of insured workers during periods of prolonged total disability. The schedule of contribution rates was revised to continue to reflect the intent that the system be self-supporting. *The changes in estimated level-premium cost resulting from the several program changes are shown in table 1.*

[1] For fuller details, see "Social Security Act Amendments of 1954," *Social Security Bulletin*, September 1954.

## *Fiscal-Year Highlights*

Contribution rates under old-age and survivors insurance rose on Jan-

**Table 1.—*Changes in estimated level-premium costs of benefit payments as percentage of payroll, by type of change, intermediate-cost estimate, 2.4 percent interest***

| Item | Level-premium cost (percent) |
|---|---|
| Cost of system under 1952 amendments [1] | 6.74 |
| Effect of changes: | |
| Extension of coverage | −.17 |
| Raising earnings base to $4,200 | −.15 |
| Increase in benefits [2] | +.86 |
| Liberalization of retirement test | +.21 |
| Putting test on annual basis | (+.04) |
| Increase in exempt amount | (+.08) |
| Decrease in exemption age | (+.16) |
| Making test applicable to all employment | (−.07) |
| Elimination of lowest years of earnings | +.14 |
| "Disability freeze" provision | +.07 |
| Cost of system under 1954 amendments [1] | 7.70 |

[1] Includes adjustments for (a) lower contribution rate for self-employed compared with employer-employee rate; (b) interest on the trust fund existing on December 31, 1954; and (c) administrative expenses.

[2] Primarily reflects effect of new benefit formula and conversion table, but also includes effect of revised minimum and maximum benefit provisions and the minor changes in insured status provisions

**Table 2.—*Operations of the Federal old-age and survivors insurance trust fund, fiscal years 1937–59*** [1]

[In millions]

| Fiscal year | Transactions during period: Income: Appropriations [2] | Income: Interest on investments [3] | Disbursements: Benefit payments | Disbursements: Administrative expenses [4] | Net increase in fund [5] | Fund at end of period [5] |
|---|---|---|---|---|---|---|
| Past experience: | | | | | | |
| 1937–54 | $30,548 | $2,975 | $12,759 | $722 | $20,043 | $20,043 |
| 1941 | 688 | 56 | 64 | 27 | 653 | 2,398 |
| 1942 | 896 | 71 | 110 | 27 | 830 | 3,227 |
| 1943 | 1,130 | 87 | 149 | 27 | 1,041 | 4,268 |
| 1944 | 1,292 | 103 | 185 | 33 | 1,178 | 5,446 |
| 1945 | 1,310 | 124 | 240 | 27 | 1,167 | 6,613 |
| 1946 | 1,238 | 148 | 321 | 37 | 1,028 | 7,641 |
| 1947 | 1,460 | 163 | 426 | 41 | 1,157 | 8,798 |
| 1948 | 1,617 | 191 | 512 | 47 | 1,248 | 10,047 |
| 1949 | 1,694 | 239 | 607 | 53 | 1,263 | 11,310 |
| 1950 | 2,110 | 257 | 727 | 57 | 1,583 | 12,893 |
| 1951 | 3,124 | 287 | 1,498 | 70 | 1,843 | 14,736 |
| 1952 | 3,598 | 334 | 1,982 | 85 | 1,864 | 16,600 |
| 1953 | 4,097 | 387 | 2,627 | 89 | 1,766 | 18,366 |
| 1954 | 4,589 | 451 | 3,276 | 89 | [6] 1,675 | 20,043 |
| Estimated future experience: [1] | | | | | | |
| 1955 | 5,259 | 463 | 4,376 | 108 | 1,238 | 21,281 |
| 1956 | 6,239 | 488 | 5,361 | 118 | 1,248 | 22,529 |
| 1957: | | | | | | |
| Alternative I | 6,848 | 513 | 5,970 | 126 | 1,265 | 23,794 |
| Alternative II | 6,264 | 505 | 6,102 | 127 | 540 | 23,069 |
| 1958: | | | | | | |
| Alternative I | 7,247 | 539 | 6,482 | 121 | 1,183 | 24,977 |
| Alternative II | 6,274 | 508 | 6,765 | 119 | −102 | 22,967 |
| 1959: | | | | | | |
| Alternative I | 7,596 | 563 | 6,950 | 116 | 1,093 | 26,070 |
| Alternative II | 6,278 | 498 | 7,300 | 112 | −636 | 22,331 |

[1] See text, pp. 23–24, for description of assumptions used. Estimates were prepared February 1955.

[2] Include insurance contributions, adjusted for refunds, and transfers from general funds equivalent to additional payments arising from the extension of survivors insurance protection to certain veterans of World War II (Social Security Act Amendments of 1946).

[3] Includes (1) profits on marketable investments amounting to $183,668 in 1949 and $8,934 in 1950; and (2) interest transferred from the Railroad Retirement Account.

[4] Include administrative expenses, less receipts for sale of surplus material, services, etc. For fiscal years 1944 and 1945, represent charges against trust fund; administrative expenses, after adjustment for bookkeeping transfers, were about $30 million in fiscal year 1944 and $29 million in fiscal year 1945. Include cost of construction of an office building for the Bureau of Old-Age and Survivors Insurance.

[5] Totals do not necessarily equal the sum of rounded components.

[6] Excludes net adjustment of approximately $0.8 million which was allocable to prior years.

Table 3.—*Treasury disbursements for benefit payments, distributed by classification of beneficiaries, fiscal years 1941–59* [1]

[In millions]

| Fiscal year | Total benefit disbursements [2] | Disbursed to old-age beneficiaries | Disbursed to dependents of old-age beneficiaries | Disbursed to survivors of deceased insured workers: Monthly benefits: Total [2] | Monthly benefits: Aged widows, dependent widowers, and dependent parents | Monthly benefits: Widowed mothers, dependent divorced wives, and children | Lump-sum payments |
|---|---|---|---|---|---|---|---|
| Past disbursements: [3] | | | | | | | |
| 1941 | $64.3 | $31.4 | $5.3 | $15.3 | $1.5 | $13.8 | $12.3 |
| 1942 | 110.3 | 54.9 | 9.6 | 31.6 | 4.1 | 27.5 | 14.1 |
| 1943 | 149.3 | 72.4 | 12.7 | 47.5 | 7.9 | 39.6 | 16.7 |
| 1944 | 184.6 | 86.8 | 15.2 | 63.6 | 12.1 | 51.5 | 19.0 |
| 1945 | 239.8 | 109.1 | 19.2 | 85.8 | 17.7 | 68.1 | 25.7 |
| 1946 | 320.5 | 153.9 | 27.2 | 113.4 | 24.7 | 88.7 | 26.0 |
| 1947 | 425.6 | 219.2 | 38.4 | 139.4 | 33.8 | 105.6 | 28.5 |
| 1948 | 511.7 | 272.4 | 47.5 | 160.5 | 43.7 | 116.8 | 31.3 |
| 1949 | 607.0 | 333.0 | 57.7 | 184.0 | 55.6 | 128.4 | 32.2 |
| 1950 | 727.3 | 412.6 | 71.2 | 209.4 | 69.3 | 140.2 | 34.0 |
| 1951 | 1,498.1 | 891.1 | 148.0 | 413.5 | 134.3 | 279.2 | 45.5 |
| 1952 | 1,982.4 | 1,191.4 | 193.5 | 539.2 | 179.2 | 360.0 | 58.3 |
| 1953 | 2,627.5 | 1,624.6 | 253.0 | 673.6 | 232.7 | 441.0 | 76.3 |
| 1954 | 3,275.6 | 2,068.5 | 318.6 | 798.3 | 283.0 | 515.3 | 90.2 |
| Estimated future disbursements: [1] | | | | | | | |
| 1955 | 4,376 | 2,820 | 435 | 1,020 | 382 | 638 | 101 |
| 1956 | 5,361 | 3,526 | 548 | 1,175 | 452 | 723 | 112 |
| 1957: | | | | | | | |
| Alternative I | 5,970 | 3,954 | 611 | 1,284 | 511 | 773 | 121 |
| Alternative II | 6,102 | 4,071 | 626 | | | | |
| 1958: | | | | | | | |
| Alternative I | 6,482 | 4,290 | 660 | 1,406 | 578 | 828 | 126 |
| Alternative II | 6,765 | 4,541 | 692 | | | | |
| 1959: | | | | | | | |
| Alternative I | 6,950 | 4,589 | 704 | 1,527 | 650 | 877 | 130 |
| Alternative II | 7,300 | 4,900 | 743 | | | | |

[1] See text, pp. 23–24, for description of assumptions used. Estimates were prepared February 1955.

[2] Totals do not necessarily equal the sum of rounded components.

[3] Partly estimated.

uary 1, 1954, from 1½ percent to 2 percent each on employers and employees and from 2¼ percent to 3 percent on self-employed persons, in accordance with the contribution schedule provided in the Federal Insurance Contributions Act. This rise was the second scheduled increase to go into effect, the first—from 1 percent to 1½ percent on employers and employees—having become effective on January 1, 1950. The next increase—from 2 percent to 2½ percent on employers and employees—is scheduled to occur on January 1, 1960.

In June 1954, the total number of beneficiaries under the program was 6,469,000, or 16 percent more than the number in June 1953. There were 4,578,000 retirement beneficiaries (old-age beneficiaries and their entitled wives, dependent husbands, and young children), an increase of 18 percent, and 1,891,000 survivor beneficiaries, an increase of 12 percent from 1 year earlier. The estimated number of persons in covered employment during some or all of calendar year 1954 was about 61 million, or about the same number as in calendar year 1953.

Total disbursements of the old-age and survivors insurance trust fund in fiscal year 1954 were $3,364 million.[2] Total receipts were $5,040 million. The net addition of $1,675 million raised the total assets of the trust fund on June 30, 1954, to $20.0 billion.

The disbursements of the fund in fiscal year 1954 included $3,276 million for benefits and $89 million for administrative expenses. The receipts included $4,589 million in contributions and $451 million in interest on investments.

Both disbursements and receipts showed an increase over fiscal year 1953. Disbursements rose $647 million or 24 percent, and receipts, $556 million or 12 percent. The increase in disbursements was the combined result of the coverage extensions and the liberalized eligibility and benefit provisions included in the 1950 amendments and the long-term growth of the aged population and the proportion of the aged eligible for benefits. The rise in trust fund receipts is accounted for chiefly by the increase in the contribution rate which went into effect on January 1, 1954.

[2] For details of trust fund operations in 1953–54, see the *Bulletin*, April 1955.

## *Fiscal Years 1955–59*

Estimates for the 5 fiscal years 1955–59 show a further increase in the receipts and disbursements of the fund. According to these estimates, at the end of fiscal year 1959 the trust fund will amount to $22.3 to $26.1 billion, depending on the economic assumptions used, with receipts in that fiscal year of $6.8 to $8.2 billion, and disbursements of $7.1 to $7.4 billion. At the beginning of fiscal year 1955, the trust fund amounted to about 2⅔ times the highest expected annual disbursements during the 5 fiscal years 1955–59.

Both the income and disbursements of the trust fund not only depend on the legislative provisions but they are also affected by general economic conditions. Because it is difficult to foresee economic developments, the assumptions on which the estimates here presented are based are subject to many uncertainties. The statement of the expected operations of the trust fund should be read with full recognition of the difficulties of estimating future trust fund income and disbursements under changing economic conditions.

*In the tables relating to the operations of the trust fund during the next 5 years* single estimates are given for fiscal years 1955 and 1956, but for fiscal years 1957–59 two sets of estimates are presented based on alternative economic assumptions. The present statutory provisions relating to old-age and survivors insurance are assumed to remain unchanged throughout the period under consideration. Alternative I shows the effect of assumptions postulating a relatively high level of economic activity; alternative II shows the effect of the assumptions of a somewhat lower level of economic activity.

In alternative I it is assumed that employment and earnings will be maintained at a high level through calendar year 1959. Hourly wage rates, and therefore weekly earnings and average annual taxable wages, are assumed to increase not only in accordance with long-time trends but also because of steady improvements in economic conditions. The earnings of the self-employed are assumed to follow a similar pattern. Unemployment is assumed to remain at a low level. Benefit disbursements are assumed to increase substantially, primarily because of the long-range upward trend in the number of beneficiaries, and partly because of the effect of the 1954 amendments which become effective in fiscal year 1955.

The other set of estimates for fiscal years 1957–59, alternative II, is based on the assumption of a sharp contraction in industrial activity in the latter half of calendar year 1956 with a slow recovery beginning in the first half of calendar year 1959. As a result, estimated taxable payrolls and earnings of the self-employed in the periods affecting tax collections during fiscal years 1957–59, and therefore estimated contributions, are lower under alternative II than under alternative I. Estimated benefit disbursements, on the other hand, are higher under alternative II than under alternative I because a larger number of older workers withdraw from or are unable to find jobs in covered employment.

Under alternative I, income is estimated to exceed disbursements in each of the 5 fiscal years 1955–59. Under alternative II, income is estimated to exceed disbursements during the 3 years 1955–57; during each of the years 1958 and 1959, disbursements are estimated to exceed income. The net increase in the trust fund during the 5-year period is estimated at about $6.0 billion under alternative I and about $2.3 billion under alternative II.

Over the short range the amount paid out for survivors' benefits will not be affected significantly by variations in economic conditions. While favorable opportunities for employment will operate to increase the number of insured persons, and hence increase the number of new death claims, such a high employment situation will tend to have counterbalancing effects such as that of inducing many of the widows and older children eligible for survivors' benefits to forego them by working. On balance, the amount paid out for survivors' benefits over the next few years will differ so little whether the economic conditions of alternative I or alternative II are assumed that a single set of estimates is deemed appropriate for both alternatives (*table 3*).

On the other hand, the lower the level of employment during the next 5 years the larger will be the volume of benefit payments to retired workers who have attained age 65, and to their eligible dependents. As is indicated in *table 4*, a considerable proportion of the workers aged 65 and over who were eligible for old-age (primary) benefits in the past remained in covered employment (or, if they left covered employment, later returned to it) and did not receive benefits. Since fiscal year 1945, however, this proportion has decreased as the number of retired workers receiving benefits increased relatively more rapidly than the number eligible for old-age benefits.

Many persons in occupations newly covered by the 1950 amendments became fully insured for the first time in 1952. Since these newly insured persons were fairly regularly employed, relatively few filed applications for old-age (primary) benefits. This depressed the proportion of all eligible persons in receipt of such benefits on January 1, 1953, to a lower level. A similar situation is expected on January 1, 1957, when many persons fairly regularly employed in occupations newly covered by the 1954 amendments will be insured. In general, however, the past upward trend in this proportion is expected to continue even under the favorable employment conditions assumed in alternative I. Contributing to this expected increase are the changes in

**Table 4.—*Workers eligible for and receiving old-age (primary) benefits by attained age, fiscal years 1941–59*** [1]

[Numbers in thousands]

| Middle of fiscal year (Jan. 1) | All workers aged 65 and over | | | Workers aged 65–69 | | | Workers aged 70 and over | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number eligible for benefits [2] | Persons receiving benefits | | Number eligible for benefits [2] | Persons receiving benefits | | Number eligible for benefits [2] | Persons receiving benefits | |
| | | Number | Percent of number eligible | | Number | Percent of number eligible | | Number | Percent of number eligible |
| Past experience: | | | | | | | | | |
| 1941 | 548 | 112 | 20 | 376 | 85 | 23 | 172 | 28 | 16 |
| 1942 | 680 | 200 | 29 | 445 | 134 | 30 | 235 | 66 | 28 |
| 1943 | 831 | 260 | 31 | 522 | 153 | 29 | 309 | 107 | 35 |
| 1944 | 1,016 | 306 | 30 | 608 | 156 | 26 | 408 | 151 | 37 |
| 1945 | 1,244 | 378 | 30 | 708 | 167 | 24 | 536 | 211 | 39 |
| 1946 | 1,469 | 518 | 35 | 805 | 212 | 26 | 664 | 306 | 46 |
| 1947 | 1,637 | 702 | 43 | 868 | 271 | 31 | 769 | 430 | 56 |
| 1948 | 1,813 | 875 | 48 | 930 | 325 | 35 | 883 | 550 | 62 |
| 1949 | 1,990 | 1,048 | 53 | 1,000 | 380 | 38 | 990 | 668 | 67 |
| 1950 | 2,164 | 1,286 | 59 | 1,069 | 474 | 44 | 1,095 | 812 | 74 |
| 1951 | 3,139 | 1,771 | 56 | 1,663 | 721 | 43 | 1,476 | 1,050 | 71 |
| 1952 | 3,504 | 2,278 | 65 | 1,825 | 942 | 52 | 1,679 | 1,337 | 80 |
| 1953 | 4,366 | 2,644 | 61 | 2,260 | 1,055 | 47 | 2,106 | 1,589 | 75 |
| 1954 | 4,801 | 3,222 | 67 | 2,424 | 1,301 | 54 | 2,377 | 1,921 | 81 |
| Estimated future experience: [1] | | | | | | | | | |
| 1955 | 5,190 | 3,775 | 73 | 2,560 | 1,505 | 59 | 2,630 | 2,270 | 86 |
| 1956 | 5,660 | 4,440 | 78 | 2,700 | 1,695 | 63 | 2,960 | 2,745 | 93 |
| 1957: | | | | | | | | | |
| Alternative I | 6,295 | 4,910 | 78 | 2,905 | 1,785 | 61 | 3,390 | 3,125 | 92 |
| Alternative II | 6,275 | 5,040 | 80 | 2,890 | 1,900 | 66 | 3,385 | 3,140 | 93 |
| 1958: | | | | | | | | | |
| Alternative I | 6,645 | 5,240 | 79 | 2,980 | 1,840 | 62 | 3,665 | 3,400 | 93 |
| Alternative II | 6,570 | 5,485 | 83 | 2,920 | 2,060 | 71 | 3,650 | 3,425 | 94 |
| 1959: | | | | | | | | | |
| Alternative I | 6,950 | 5,530 | 80 | 3,015 | 1,870 | 62 | 3,935 | 3,660 | 93 |
| Alternative II | 6,820 | 5,835 | 86 | 2,910 | 2,145 | 74 | 3,910 | 3,690 | 94 |

[1] See text, pp. 23–24, for assumptions used. Estimates were prepared February 1955. No adjustments have been made to reflect changes arising from (1) provisions that coordinate the old-age and survivors insurance and railroad retirement programs, and (2) wage credits for military service.

[2] Figures for 1941–54 are partly estimated.

the retirement test contained in the 1954 amendments—notably the reduction from 75 to 72 in the age at which benefits are paid without regard to earnings—which become effective in calendar year 1955.

If the lower employment conditions assumed in alternative II should materialize, it is expected that larger proportions of eligible workers will be obliged to leave employment especially at ages 65–69. Hence, despite a slightly smaller number of eligible workers, the number receiving old-age (primary) benefits under alternative II would considerably exceed that under alternative I. Moreover, it is expected that the average old-age (primary) benefit amount payable under alternative II would exceed the average under alternative I, inasmuch as many of the more steadily employed, and therefore higher paid, older workers who would not withdraw from employment under the conditions of alternative I would not be employed under the conditions of alternative II. In consequence, alternative II would result in a substantially higher volume of benefit payments to old-age (primary) beneficiaries and their dependents.

## *Actuarial Status of the Trust Fund*

On June 30, 1954, there were about 13,800,000 persons aged 65 and over in the United States, a number equivalent to 8.4 percent of the total population. It is estimated that by the end of the century the number of persons aged 65 and over may be double that on June 30, 1954, and represent from 10 to 13 percent of the population. The effect on the finances of the old-age and survivors insurance system of this expected change in the number of aged persons will be even greater than may at first appear, because, compared with the present situation, a much larger proportion of aged persons 50 years hence is expected to be eligible to receive benefits under the program. The future financial soundness of this system, with its rising rate of disbursements, is of the utmost importance to the millions of persons who are already within its scope and to the Nation as a whole.

*Table 5* shows the cost of benefits as a percentage of payroll through the year 2050 and gives the level-premium cost of the program.[3] The level-premium cost ranges from 6.74 to 8.91 percent of payroll, depending upon the combination of assumptions selected. This long-range cost measure is, by definition, the level-premium contribution rate required to support the system into perpetuity based on discounting at interest and assuming that benefit payments and taxable payrolls remain level after the year 2050 (actually the relationship between benefits and payroll is virtually constant after about 2020). If such a level rate were adopted, relatively large accumulations in the trust fund would result, and in consequence also sizable eventual income from interest. Even though such a method of financing is not followed, this concept may nevertheless be used as a convenient measure of long-range costs. This cost concept takes into account the heavy deferred load.

## *Reality of the Trust Fund*

Public discussion of the investment aspects of the old-age and survivors insurance program sometimes reveals a serious misunderstanding of the nature and significance of the trust fund operations. The Board of Trustees believes that it has a responsibility to correct any misapprehensions among persons who look to the old-age and survivors insurance program for basic protection against income loss because of retirement or death.

The charge has been made that the requirement of existing law that the receipts of the old-age and survivors insurance trust fund which are not currently needed for disbursements of the program shall be invested in Government securities constitutes a misuse of the funds. It is suggested that this type of investment permits the Government to use social security tax collections to finance ordinary Government expenditures, and that hence such collections will not be available to pay social security benefits in future years. It is said that the securities represent IOU's issued by the Government to itself and that the Government will have to tax people a second time for social security to redeem these IOU's.

[3] The assumptions used in the long-range actuarial section of this Report and the figures presented are given in more detail in *Long-Range Cost Estimates for the Old-Age and Survivors Insurance System, 1954* (Actuarial Study No. 39, Division of the Actuary).

The investment of the assets of the trust fund in Federal obligations, as required by law, is not a misuse of the money contributed under the insurance program by covered employees, employers, and self-employed persons. These contributions are permanently appropriated by law to the Federal old-age and survivors insurance trust fund which is separate from the general funds of the United States Treasury. All the assets of this fund are kept available and may be used only for the payment of the benefits and administrative expenses of the insurance program.

**Table 5.**—*Estimated costs of old-age and survivors insurance system as percent of payroll, 1960–2050*

[Based on high-employment assumptions]

| Calendar year | Low-cost estimate | High-cost estimate | Intermediate-cost estimate[1] |
|---|---|---|---|
| | Benefit cost in year (percent) | | |
| 1960 | 4.04 | 4.63 | 4.33 |
| 1970 | 5.57 | 6.39 | 5.98 |
| 1980 | 6.79 | 7.90 | 7.34 |
| 1990 | 7.55 | 9.15 | 8.32 |
| 2000 | 7.24 | 9.31 | 8.22 |
| 2025 | 8.05 | 12.28 | 9.88 |
| 2050 | 7.89 | 11.92 | 9.48 |
| | Level-premium cost[2] (percent) | | |
| 2¼ percent interest | 6.89 | 8.91 | 7.82 |
| 2.4 percent interest | 6.80 | 8.75 | 7.70 |
| 2½ percent interest | 6.74 | 8.64 | 7.62 |

[1] Based on average of the dollar costs under the low-cost and high-cost estimates.
[2] Level-premium contribution rate for benefit payments after 1954, taking into account interest on the trust fund on December 31, 1954, future administrative expenses, and the lower contribution rates payable by the self-employed.

When the Treasury pays back money borrowed from the trust fund, the public will not be taxed a second time for social security. If taxes are levied to redeem the securities held by the trust fund, these taxes will not be levied for the purpose of paying social security benefits. Rather, they will be levied for the purposes for which the money was originally borrowed, such as the costs arising out of World War II. Taxes would have to be raised to pay back the money borrowed to cover the cost of the war, whether the obligations were held by the trust fund or by other investors. The fact that the trust fund, rather than other possible investors, holds part of the Federal debt does not change the purpose for which these taxes must be levied. Since all the social security contributions are permanently appropriated to the trust fund, they are not available to the Treasury to redeem Federal obligations held by the trust fund.

The operation of old-age and survivors insurance trust fund investment is similar to the investment of premiums collected by a private insurance company. A private company uses part of its current premium receipts for payments to beneficiaries and for operating expenses. The balance of its receipts is invested in income producing assets. Such investments are commonly limited by State law to the safest forms of investment so that policyholders will be assured that their claims against the company will be satisfied when they become due. Government securities ordinarily represent a considerable part of these investments. The purpose of investing these receipts is, of course, to obtain earnings that will help meet the future costs of the insurance and thus reduce the premiums the policyholders would otherwise have to pay for their insurance.

Social security tax collections are handled in much the same way. Investments of the trust fund, however, are limited by law to only one type—securities issued by the Federal Government. There are two principal reasons for such a restriction. One is similar to the motivation of State legislation dealing with investments of private insurance companies: it is designed to ensure the safety of the fund. Government securities constitute the safest form of investment. The second reason is that it keeps this publicly operated program from investing reserve funds in competitive business ventures. Such investments by the trust fund would be completely out of harmony with accepted concepts of the proper scope of a governmental activity. The securities held by the trust fund perform the same function as those held by a private insurance company. They can be readily converted into cash when needed to meet disbursements, and the earnings on these investments make possible a lower rate of contributions than would otherwise be required.

In investing its receipts in Government securities the trust fund, as a separate entity, is a lender and the United States Treasury is a borrower. The trustees of the fund receive and hold securities issued by the Treasury as evidence of these loans. These Government obligations are assets of the fund and liabilities of the United States Treasury which must pay interest on the money borrowed and repay the principal when the securities mature.

In other words, the Treasury borrows from a number of sources. It borrows from individuals, mutual savings banks, insurance companies, and various other classes of investors; and it borrows from the old-age and survivors insurance trust fund. The securities held by the fund are backed by the full faith and credit of the United States, as are all public debt securities; they are just as good as the public debt securities held by other investors.

The purchase of Federal obligations by the trust fund from the Treasury does not increase the national debt. The national debt is increased only when and to the extent to which the Federal Government's expenditures exceed receipts from taxes levied to meet those expenditures. When such a deficit occurs, the Treasury must borrow sufficient money to meet the deficit by selling Federal securities. The volume of the securities sold to meet a deficit is not increased by the purchase of such obligations by the trust fund. The purchase of Federal obligations by the trust fund in a period when the Treasury has no deficit to meet would result only in a direct or indirect transfer of Federal debt from other investors to the trust fund. The total amount of the public debt would remain unchanged.

# Medical Advisory Committee on the Disability Freeze*

A significant cooperative endeavor was launched in February of this year when the Commissioner of Social Security appointed a Medical Advisory Committee to assist him and the Bureau of Old-Age and Survivors Insurance in implementing the "disability freeze" provision of the 1954 amendments to the Social Security Act.[1] This Committee,[2] composed of members of the medical and related professions having a common interest in the problems of the disabled, was formed to provide consultation on medical policies involved in securing disability determinations for individuals eligible to have their old-age and survivors insurance rights preserved under the new law.

The functions of the Committee have been defined by the Bureau in cooperation with the chairman and members of the Committee. A major Committee objective is to provide technical advice in formulating medical guides and standards to promote equal consideration for disabled individuals in all parts of the Nation. State agencies and the Bureau of Old-Age and Survivors Insurance will use these guides and standards in evaluating the severity and duration of disabling conditions.

The Medical Advisory Committee is representative of experience in a variety of specialized fields of medical practice, public and private medical administration, and social welfare services. Hence, another important phase of the Committee's work is bringing viewpoints of medical and other professional groups to the attention of responsible administrative officials and helping to interpret policies and methods of operation to the public broadly.

The Committee convened with representatives of the Department of

*Prepared by Arthur E. Hess, Assistant Director, Division of Disability Operations, Bureau of Old-Age and Survivors Insurance.

[1] See the *Bulletin*, September 1954, pages 11–12.

[2] For the establishment of the Committee and its membership, see the *Bulletin*, April 1955, page 7.