Notes and Brief Reports

Payments Into OASI Trust Fund From Contributions*

In the 20 years from January 1, 1937, through December 31, 1956, almost $45 billion was paid into the old-age and survivors insurance trust fund and its predecessor, the old-age reserve account, from the contributions of covered individuals and employers. These payments have been referred to, variously and—sometimes erroneously—interchangeably, as taxes, contributions, appropriations, and transfers. The pupose of this note is to distinguish among these terms with respect to income of the reserve account and the trust fund and to indicate the legislative and other historical developments involved.

Seeking to avoid certain legal tax problems that had led to the verdict in May 1935 that the first Railroad Retirement Act (of 1934) was unconstitutional, Congress provided in the Social Security Act of 1935 for annual appropriations from general funds to the old-age reserve account. The concept was that of an annual premium required to maintain an insurance reserve on a strict actuarial basis. Title II, section 201(a), of the 1935 act therefore stated:

> There is hereby authorized to be appropriated to the Account for each fiscal year, beginning with the fiscal year ending June 30, 1937, an amount sufficient as an annual premium to provide for the payments required under this title, such amount to be determined on a reserve basis in accordance with accepted actuarial principles, and based upon such tables of mortality as the Secretary of the Treasury shall from time to time adopt, and upon an interest rate . . .

Title VIII of the act established a wage tax on employees and an excise tax on employers. These taxes were to be "paid into the Treasury of the United States as internal revenue collections" and there commingled with other general funds.

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No relationship between the tax collections from covered employers and employees and the appropriations to the reserve account was specified in the 1935 act. The estimates of appropriations prepared for the Senate Finance Committee that considered the original Social Security Act were calculated, however, as "the estimated net proceeds of the taxes called for by the contributory plan, after deduction of the estimated expenses of administering the plan." [1]

For the period January 1937–June 1940 tax collections, also referred to as employer and employee contributions, amounted to $141.3 million more than the total of the amounts appropriated annually to the reserve account under the 1935 act. The following tabulation shows, for fiscal and calendar years, the annual differences between tax collections (contributions) and appropriations.

[In millions]

Year	Tax collections	Appropriations
	Amount, fiscal year	
Total	[1] $1,846	$1,705
1936–37	194	265
1937–38	514	500
1938–39	530	390
1939–40	605	550
	Amount, calendar year	
Total	$2,172	$2,030
1937	493	765
1938	474	360
1939	568	580
1940	637	325

[1] Includes $3 million reported as collected in the fiscal year 1940–41 but not credited to the trust fund for that year, since it was actually collected in the fiscal year 1939–40.

[1] Otto C. Richter, "Actuarial Basis of Federal Old-Age Insurance," *Law and Contemporary Problems*, April 1936. Mr. Richter was one of the actuarial consultants to the Committee on Economic Security that drafted the law and prepared the estimates. The quoted passage continues: "In this connection it should be pointed out that, while the provisions of the Social Security Act do not require Congress to appropriate the proceeds of these taxes to the Old-Age Reserve Account, it was assumed, for the purposes of these estimates that the amount of the annual appropriations to the reserve would be determined on this basis."

The administrative expenses of the program were paid from the general funds of the Treasury through December 31, 1939. Although there has been no exact accounting of the total cost of administration in these early years, figures are available on the expenses of the Social Security Board and the Treasury Department.[2] For fiscal years 1935–36 through 1939–40, these agencies spent $75.6 million from general funds for old-age insurance administration. Additional expenses were incurred by the Post Office Department and the Civil Service Commission, although just how much was spent is not known.[3] Beginning July 1940, virtually all administrative expenses are paid out of the trust fund.

Other payments from general funds include about $1.0 million in tax refunds for the 4 fiscal years 1936–37 through 1939–40 and $36.8 million in the fiscal years 1940–41 through 1951–52. Thus, offsetting items of at least $113.4 million reduced the difference between tax collections and annual appropriations through June 1940 ($141.3 million) to no more than $27.9 million. Against this amount, there have been and will continue to be offsetting items in the form of nonreimbursable administrative expenses of the program.

The 1939 amendments created, as of January 1, 1940, the old-age and survivors insurance trust fund and transferred to it all assets of the former old-age reserve account. The amendments also changed the financial basis of the program by tying appropriations directly to tax collections, beginning with the fiscal year 1940–41. Section 201(a) of title II was amended to read: "There is here-

[2] *Transactions of the Actuarial Society of America, 1946*, pages 88–90.

[3] The Post Office Department carried almost the entire burden of the initial registration of employers and employees under the old-age insurance program, taking on the task of handling the distribution and return of employer forms in about 9 days and the distribution of 26 million employee forms in about 3 weeks. The cost to the Government, as employer, of covering under the civil-service retirement system those employees whose salaries for administering this social insurance program are reimbursable from the trust fund makes up most of the administrative expenses that were not in the past paid from the trust fund.

Table 1.—*Payments into the old-age reserve account and the old-age and survivors insurance trust fund from contributions by employers, employees, and the self-employed, fiscal years 1936–37 through 1956–57* [1]

[In millions, rounded independently]

Fiscal year	Gross appropriations	Deposits by States	Total gross appropriations and deposits	Refunds of employee overpayments	Net appropriations and deposits			
					Total	From employer contributions	From employee contributions	From self-employed contributions
Total	$48,121	$730	$48,851	$249	$48,602	$23,470	$23,221	$1,912
1936–37	265	----------	265	----------	265	132	132	----------
1937–38	500	----------	500	----------	500	250	250	----------
1938–39	390	----------	390	----------	390	195	195	----------
1939–40	550	----------	550	----------	550	275	275	----------
1940–41	688	----------	688	----------	688	344	344	----------
1941–42	896	----------	896	----------	896	448	448	----------
1942–43	1,130	----------	1,130	----------	1,130	565	565	----------
1943–44	1,292	----------	1,292	----------	1,292	646	646	----------
1944–45	1,310	----------	1,310	----------	1,310	655	655	----------
1945–46	1,238	----------	1,238	----------	1,238	619	619	----------
1946–47	1,459	----------	1,459	----------	1,459	730	730	----------
1947–48	1,616	----------	1,616	----------	1,616	808	808	----------
1948–49	1,690	----------	1,690	----------	1,690	845	845	----------
1949–50	2,106	----------	2,106	----------	2,106	1,053	1,053	----------
1950–51	3,120	1	3,120	----------	3,120	1,560	1,560	----------
1951–52	3,569	26	3,594	----------	3,594	1,672	1,672	250
1952–53	4,086	43	4,130	33	4,097	1,989	1,956	152
1953–54	4,537	92	4,630	40	4,589	2,218	2,178	193
1954–55	5,040	99	5,138	51	5,087	2,405	2,354	328
1955–56	6,337	172	6,508	66	6,442	3,000	2,934	508
1956–57 [2]	6,301	297	6,598	[3] 58	6,540	3,058	3,000	[4] 481

[1] For 1936–37 to 1939–40 total appropriations are less than total tax collections (contributions) by $141.3 million. For July 1940–December 1950 equals taxes collected; from January 1951 to date equals amounts appropriated (estimated tax collections). Excludes transfers from general funds totaling $15.4 million appropriated in the fiscal years 1946–47 to 1950–51 to meet costs of benefits payable to survivors of certain World War II veterans. For the calendar years 1937–49, employer-employee tax rate was 1 percent each on first $3,000 of wages; for 1950, employer-employee rate was 1½ percent each on first $3,000; for 1951–53, employer-employee rate was 1½ percent each and the rate for the self-employed was 2¼ percent on first $3,600 of earnings; for 1954, employer-employee rate was 2 percent each and the rate for the self-employed 3 percent on first $3,600; beginning 1955, employer-employee rate was 2 percent each and the rate for the self-employed 3 percent on first $4,200.

[2] Preliminary.

[3] Includes $4.1 million adjustment for estimated refunds, not allocated to specific earlier year.

[4] Includes deduction of a de-appropriation of $50 million applicable to unspecified years before 1954–55.

by appropriated to the Trust Fund for the fiscal year ending June 30, 1941, and for each fiscal year thereafter, out of any moneys in the Treasury not otherwise appropriated, amounts equivalent to 100 per centum of the taxes (including interest, penalties, and additions to the taxes) received under the Federal Insurance Contributions Act and covered into the Treasury." (These amendments provided that subchapter A of chapter 9 of the Internal Revenue Code (employment by others than carriers) "may be cited as the Federal Insurance Contributions Act.")

Thus, the 1939 legislation removed the legal basis for differences between tax collections (contributions) and appropriations. From July 1940 through 1950, contributions to the trust fund consisted, with one exception, solely of the taxes actually received from employees and employers in covered private employment and appropriated in full to the fund. The exception, instituted, under the 1946 amendments, by the addition of section 210 to title II,[4] consisted of transfers of appropriations of general funds to cover the cost of additional payments arising from the extension of the survivor protection of old-age and survivors insurance to certain World War II veterans. The trust fund received eight such transfers, totaling $15.4 million, between June 1947 and September 1951. Since these transfers were from the general funds of the Treasury and cannot be attributed either to employees or employers, they have been excluded from tables 1 and 2.

The first substantial extension of coverage was made by the 1950 amendments to the act and gave rise to two new types of payments to the trust fund. With the coverage of employees of State and local governments (mainly on an elective basis) as of January 1, 1951, a contribution item, "deposits arising from State agreements," was set up. The first such deposit was made in May 1951. It, and all subsequent deposits, included both the employee share and the share of the governmental unit as employer. (The 1950 amendments also extended coverage to Federal employees not covered by other Federal retirement systems. The employee and employer (Government) contributions, however, are received and accounted for with all other employee and employer taxes under the program.)

Coverage of the majority of the nonfarm self-employed added the second new type of contribution. Self-employment earnings were covered beginning January 1, 1951, and the tax was first payable with the Federal income tax for 1951, generally in early 1952. The self-employment tax was set at 1½ times the employee tax rate.

The 1950 amendments once again changed the appropriation basis for the trust fund: The newly amended section 201(a) provided for appropriation of 100 percent of the estimated taxes due on wages and self-employment income earned in 1951 and later. The Secretary of the Treasury was authorized to make the estimate by "applying the applicable rates of tax" to the wages and the self-employment income certified by the Federal Security Administrator on the basis of records that he was directed to establish and maintain from reports and returns made by employers and the self-employed to the Commissioner of Internal Revenue. The section specified that the appropriated amounts "shall be transferred from time to time from the general fund in the Treasury to the Trust Fund on the basis of estimates by the Secretary of the taxes . . . paid to or deposited into the Treasury; and proper adjustments shall be made in amounts subsequently transferred to the extent prior estimates were in excess of or were less than the amounts of the taxes." The law provided that taxes on wages earned before 1951 that were received by the Treasury after 1950 should continue, through December 31, 1952, to be appropriated directly to the trust fund as actually

[4] Angela J. Murray, "Social Security Amendments of 1946," *Social Security Bulletin*, September 1946.

received. No appropriations or adjustments are made for such taxes received after 1952.

Employee tax overpayments now usually occur as the result of employment in the course of a year by more than one employer, each of whom withholds the tax on the wages he pays, up to the maximum covered amount. Overpayment may also occur in employment by a single employer as the result of erroneous deductions. Under the Social Security Act of 1935, the first $3,000 received by an employee from each of his employers was subject to the employee as well as the employer tax and was creditable for purposes of benefit computation. Wage records show wages of $9,000, $12,000, and even higher for 1937, 1938, and 1939—the only years in which this provision was effective. No monthly payments were ever made under the 1935 benefit formula. Even under the present law, however, when a starting date of December 31, 1936, is used in computing benefits, all creditable wages for 1937–39 are included in the computation, but if inclusion of these wages yields an average monthly wage of more than $250 the average must be reduced to that amount. It is evident that the additional wage credits received because of multiple employment in 1937–39 could have a considerable, favorable effect on the benefit payable.

The original refund provision pertained only to erroneous payments. The 1939 amendments provided that, beginning in 1940, only the first $3,000 of the employee's total wages in the calendar year could be counted for benefit purposes and that the employee could properly be taxed for only that amount. Refunds could be claimed on employee taxes on wages in excess of $3,000.

In the fiscal years 1940–41 through 1951–52 a total of $36.8 million was refunded to employees for tax overpayments on wages paid in the calendar years 1940–50. These refunds were paid from the general funds of the Treasury; no compensating deductions were made from the trust fund, which had received the tax payments. It was not until the 1950 amendments that provision was made to reimburse the general funds of the Treasury for the amount of employee refunds. Such reimbursement was not retroactive but began with refunds of overpayments on 1951 wages. The new provision (now section 201 (g)(2)) directed the Managing Trustee "to pay from time to time from the trust fund into the Treasury the amount estimated by him as taxes which are subject to refund" and to adjust these amounts as later returns indicated necessary. Reimbursements of estimated refunds have been transferred from the trust fund to the Treasury's general funds on an annual basis; beginning in 1952, each transfer pertains to employee overpayments in the preceding year. These reimbursements are the only items subtracted from gross appropriations and State deposits to yield a net contribution figure. To tie in with the gross figure, they are usually subtracted from the employee contributions for the year in which the Treasury is reimbursed. In data prepared for certain special use—national income accounting, for example—refunds are deducted from employee contributions for the preceding year, the year in which the wages were earned and the overpayment was made.

Table 2.—*Payments into the old-age reserve account and the old-age and survivors insurance trust fund from contributions by employers, employees, and the self-employed, calendar years 1937–56* [1]

[In millions, rounded independently]

Calendar year	Gross appropriations	Deposits by States	Total gross appropriations and deposits	Refunds of employee overpayments	Net appropriations and deposits: Total	From employer contributions	From employee contributions	From self-employed contributions
Total	$44,378	$589	$44,967	$249	$44,718	$21,761	$21,512	$1,445
1937	765		765		765	382	382	
1938	360		360		360	180	180	
1939	580		580		580	290	290	
1940	325		325		325	162	162	
1941	789		789		789	395	395	
1942	1,012		1,012		1,012	506	506	
1943	1,239		1,239		1,239	620	620	
1944	1,316		1,316		1,316	658	658	
1945	1,285		1,285		1,285	643	643	
1946	1,295		1,295		1,295	648	648	
1947	1,557		1,557		1,557	778	778	
1948	1,685		1,685		1,685	842	842	
1949	1,666		1,666		1,666	833	833	
1950	2,667		2,667		2,667	1,334	1,334	
1951	3,355	9	3,363		3,363	1,682	1,682	
1952	3,814	38	3,852	33	3,819	1,852	1,819	149
1953	3,918	67	3,986	40	3,945	1,875	1,834	236
1954	5,119	95	5,214	51	5,163	2,497	2,446	221
1955	5,661	118	5,779	66	5,713	2,730	2,664	319
1956 [2]	5,968	262	6,230	[3] 58	6,172	2,855	2,797	520

[1] For fiscal years 1936–37 to 1939–40 total appropriations are less than total tax collections (contributions) by $141.3 million; for July 1940–December 1950 equals taxes collected; from January 1951 to date equals amounts appropriated (estimated tax collections). Excludes transfers from general funds totaling $15.4 million appropriated in the fiscal years 1946–47 to 1950–51 to meet costs of benefits payable to survivors of certain World War II veterans. For calendar years 1937–49, employer-employee tax rate was 1 percent each on first $3,000 of wages; for 1950, employer-employee rate was 1½ percent each on first $3,000; for 1951–53, employer-employee rate was 1½ percent each and the rate for the self-employed was 2¼ percent on first $3,600 of earnings; for 1954, employer-employee rate was 2 percent each and the rate for the self-employed was 3 percent on first $3,600; beginning 1955, employer-employee rate was 2 percent each and the rate for the self-employed 3 percent on first $4,200.

[2] Preliminary.

[3] Includes $4.1 million adjustment for estimated refunds, not allocated to specific earlier year.

Staff in Public Child Welfare Programs, 1956 *

Each year in the past decade has witnessed a growth in the number of employees in the child welfare programs of State and local agencies. The level of education of employees in professional positions has risen in terms of both the proportion having a college degree and the proportion having full professional training in social work. The numerical increase in personnel has resulted

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