Notes and Brief Reports

Trust Fund Operations, 1956*

All financial operations of the old-age and survivors insurance system[1] are carried on through the Federal old-age and survivors insurance trust fund. Amounts equivalent to 100 percent of current collections under the Federal Insurance Contributions Act and under chapter 21 of the Internal Revenue Code of 1954 are transferred by permanent appropriation to the trust fund on the basis of estimates made by the Secretary of the Treasury. Differences between these estimates and the contributions actually payable on the basis of reported earnings are adjusted periodically. Contributions received under voluntary agreements with States for the coverage of State and local government employees are deposited directly in the trust fund.

In 1956 the total contributions appropriated to and deposited in the old-age and survivors insurance trust fund—minus any reimbursements to the General Treasury for refund of excess employee tax collections—amounted to $6,172 million, 8.0 percent more than 1955 collections. The increase is largely the delayed result of the 1954 amendments to the Social Security Act that extended coverage, beginning January 1, 1955, to farmers and certain other self-employed groups. These newly covered persons paid contributions based on their earnings (for 1955) for the first time in 1956. A rise in the general wage level and normal population growth also played a part in increasing the total amount of contributions.

The invested assets of the trust fund earned $526 million in 1956, including $50,781 profit from the sales of securities on the open market. An additional $5 million in interest was received during the year under the financial interchange provisions of the 1951 amendments to the Railroad Retirement Act. The total amount earned in interest and profit on investments in 1956 was 15.1 percent higher than in the preceding year.

Expenditures for old-age and survivors insurance benefit payments amounted to $5,715 million and for administrative expenses to $132 million in 1956. Benefits were 15.0 percent higher than in 1955, and administrative expenses were 10.9 percent higher. Payments to women aged 62-64 (other than those entitled to benefits because they had an entitled child in their care) were first payable for November 1956; such payments were reflected in the monthly trust fund data only in the last month of 1956.

The total assets of the old-age and survivors insurance trust fund at the end of 1956 were $22,519 million, a net addition to the fund of $856 million during the year, compared with $1,087 million in 1955. Of these assets, $21,831 million was held in the form of Government securities and $689 million in cash.[2]

The unemployment insurance trust fund is composed of the 51 accounts for the State unemployment insurance programs, the railroad unemployment account, and, beginning December 1954, the Federal unemployment account. During 1956 the State accounts were credited with deposits of $1,504 million and interest of $200 million. Withdrawals for benefit payments amounted to $1,399 million, $48 million more than in 1955. The net balance in the State accounts at the end of the year was $8,546 million.

The balance in the railroad unemployment insurance account continued its long-range reduction from the 1948 peak of nearly $1 billion. In 1956, it dropped from $372 million at the beginning of the year to $332 million by September and to $317 million by the end of the year. As a result, the tax rate for 1957—tied by law to the size of the reserve the previous September—was raised another ½ of 1 percent of payroll from the 1956 rate of 1½ percent. Since the 1956 rate was itself three times the rate paid from 1948 through 1955, it was not unexpected that contributions reflected a similar upward trend. Deposits in 1956 (including the annual transfer from the railroad unemployment administration fund, $3 million in 1956) amounted to $57 million, more than three and one-half times the $16 million deposited in 1955. Interest earned in 1956, however, decreased along with the total size of the account (the bulk of which is, of course, held in the form of Government securities, with a minimum in cash). In 1956 the railroad account earned $8 million in interest; in 1955, $10 million; and in 1954, $14 million.

The Federal unemployment account, activated in December 1954,[3] passed its legal maximum of $200 million in June 1956. In the following month $33 million was distributed to the States in proportion to the size of their accounts. The one loan from the account—$3 million to Alaska in mid-1955—was repaid on December 28, 1956.[4] The account earned $4 million in interest during the year and stood at $206 million at the close of the year.

The total assets of the unemployment trust fund on December 31, 1956, amounted to $9,069 million, compared with $8,764 million at the end of the preceding year.

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1 Although the disability insurance trust fund was established by the 1956 amendments to the Social Security Act, payments into that fund did not begin until January 1957, and disbursements from it for disability benefit payments will not begin until July 1957.

2 In day-to-day operations the cash balances of the trust fund are relatively small. At the end of each month, however, cash on hand is built up to meet the benefit payment checks that are to be issued at the beginning of the following month. December 1956 payments, for example, were $508 million.

3 Under Public Law 567 (83d Cong., 2d sess.), a $200-million reserve for emergency loans to the State unemployment insurance systems is to be accumulated from the excess of Federal unemployment tax collections over State and Federal employment security administrative expenses; any amount in excess of the $200 million is to be prorated among the States.

4 Alaska took out another loan on January 3, 1957, for $2.6 million (the legal maximum, based on the largest amount that it paid in benefits in any of the 4 preceding quarters).

Table 1.—*Investments of the social security trust funds, by type and earnings, end of December 1955 and 1956*

[In millions]

Type of investment	Old-age and survivors insurance trust fund		Unemployment trust fund	
	1956	1955	1956	1955
Total	$21,830.6	$21,101.9	$9,061.1	$8,753.5
Public issues:				
Treasury bonds:				
2⅜ percent	.5	---	---	---
2¼ percent	4.2	4.2	4.0	4.0
2½ percent	1,191.8	1,188.6	150.0	150.0
2¾ percent	1,081.9	1,081.9	760.0	760.0
3 percent	68.2	68.2	---	---
3¼ percent	45.1	45.1	50.0	50.0
Treasury notes, 2⅞ percent	131.0	30.0	---	---
Treasury certificates of indebtedness:				
2⅝ percent	34.1	20.0	---	---
3¼ percent	49.0	---	---	---
Net unamortized premium and discount [1]	[2] .9	[2] 1.2	.8	.9
Special issues (certificates of indebtedness):				
2⅜ percent	---	2,040.0	---	244.0
2¼ percent	---	16,622.7	---	7,544.7
2½ percent	19,223.8	---	7,827.6	---
2⅝ percent	---	---	268.6	---

[1] Refers only to the investments acquired above or below par value in open-market operations. "Premium" is the excess of the price paid in the open market over par value; "discount" is the amount by which the price paid is less than par value. The Treasury Department amortizes this positive or negative difference over the remaining life of the obligations. At any given time, the "net unamortized" figure represents a subtraction of the amount remaining to be written off between that time and maturity on issues bought at a premium from the amount still to be "written on" for issues bought at a discount.

[2] Includes $84,753 of interest purchased in 1955 and $247,333 in 1956.

Source: *Daily Statement of the U. S. Treasury* and unpublished Treasury releases.

Under the provisions of the Social Security Act, as amended, the Federal old-age and survivors insurance trust fund is administered by a Board of Trustees composed of the Secretary of the Treasury as Managing Trustee, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Commissioner of Social Security is Secretary of the Board.

The Managing Trustee invests the portion of the old-age and survivors insurance trust fund that, in his judgment, is not required currently for benefit payments and administrative expenses. The Social Security Act restricts permissible investments of the trust fund to interest-bearing obligations of the United States Government and to obligations guaranteed as to principal and interest by the United States. Obligations of these types may be acquired on original issue at par or by purchase of outstanding issues at market price, and they may be sold at market price. In addition, the Act authorizes issuance exclusively to the trust fund of public-debt obligations, which may be redeemed at par plus accrued interest.

Although the unemployment trust fund is composed of the separate State accounts, the railroad unemployment account, and the Federal unemployment account, investments are made by the Secretary of the Treasury for the fund as a unit. Interest earned on the fund's investments is distributed quarterly among all accounts on the basis of the average daily balance of each account. Permissible types of investments are the same as for the old-age and survivors insurance trust fund.

The net addition to the investments of the old-age and survivors insurance trust fund in 1956 totaled $729 million, compared with $1,239 million in 1955. At the end of the year the fund's portfolio of Government securities amounted to $21,831 million and included Treasury bonds, notes, and certificates of indebtedness (table 1). The net amount of securities acquired by the unemployment trust fund during 1956 was $308 million, compared with $14 million in 1955. The fund's invested assets totaled $9,061 million at the end of 1956. Between them, the two social security trust funds acquired more than $1 billion in Government securities during 1956, and the sum of their total investments at the end of the year was slightly less than $31 billion. The sum represented 11.3 percent of the total interest-bearing public debt, compared with 10.7 percent at the end of 1955 (table 2).

The Social Security Act of 1935 required that the investments of the old-age reserve account (now the old-age and survivors insurance trust fund) earn at least 3 percent. The 1939 amendments removed all reference to a minimum yield except on "special obligations issued to the trust fund," which were required to bear the average rate of interest on the interest-bearing portion of the public debt, computed as of the end of the month next preceding the date of issue and rounded to the next lowest ⅛ of 1 percent if the average rate was not itself an exact multiple of ⅛ of 1 percent. The 1956 amendments changed the interest base to reflect the essentially long-term character of these investments. The rate is now "the average rate . . . borne by all *marketable* interest-bearing obligations of the United States . . . *not due or callable until after the expiration of five years* [italics added] from the date of original issue," computed as of the end of the month before and rounded to the *nearest* ⅛ of 1 percent. This provision, in effect, ties the interest rate of the trust fund's special issues to the average rate on Treasury bonds.

The special issues, under the 1956 amendments, "shall have maturities fixed with due regard for the needs" of the trust fund. In recent years, all special obligations issued to the trust fund have been 1-year special certificates of indebtedness. At one time the fund held, in addition to its marketable issues, only 5-year special Treasury notes, but the last series of these notes was issued in 1943 and matured on June 30, 1948. The 1956 amendments also changed the designation from "special obligations issued" to the trust fund to "public-debt obligations for purchase" by the trust fund, to emphasize that they are as much a part of the public debt as any other United States security issue.

At the start of 1956 the old-age and survivors insurance trust fund held special certificates of indebtedness that yield 2¼-percent and 2⅜-percent interest. In January, February, and March, 2¼-percent issues were redeemed to meet the obligations of the fund, and money coming into the fund was invested in 2⅜-percent issues. Starting in April, new acquisitions were made at 2½ percent from incoming funds, with redemption of the 2¼-percent issues continuing as needed. During the first half of the year the net balance of new investment was $941 million. In the June 30 "roll-over," when all the special certificates matured, they were reinvested at 2½ percent, and all certificates added in the remainder of the year were at that rate. During the latter half of 1956, special obligations redeemed exceeded those acquired by $212 million, thus bringing the total net acquisition for the year down to $729 million.

The new formula for the fund's interest rate (based on the average bond rate of the month before, rounded to the nearest ⅛ of 1 percent) was applied for the first time to special obligations acquired in October. From October through the rest of the year the rate continued as before at 2½ percent, but only because of the new rounding method. The average rate on Treasury bonds for the first 8 months was 2.485 percent and for the last 4 months 2.482 percent. Had the old rounding method (to the next lowest ⅛ of 1 percent) continued to be applied to the new interest base, the rate borne by special obligations acquired in October, November, and December would have been only 2⅜ percent. With the old interest base (the total interest-bearing public debt) and the old rounding method, special obligations issued to the fund in October would have borne interest at 2½ percent and in November and December at 2⅝ percent. Thus, in a period of generally rising interest rates, made manifest first, of course, in shorter-term issuances, the interest formula provided by the 1956 amendments results in a lower interest rate for the fund's special obligations than the previous formula. Conversely, in a period of falling rates, the new formula would place the fund among the last to be affected, along with the longest-term Treasury securities. The difference over the years between the average rate on the total interest-bearing debt and on the long-term bonds is indicated in table 3, with the computed average interest rate on all investments (special obligations and other) of the two trust funds. The long-term marketable securities had a higher average rate in the 16 years 1936–51. During the last 5 years, 1952–56, the average interest rate on the total debt took the lead, but by a smaller margin than for the reverse situation in many of the earlier years.

The 1956 amendments did not affect the interest formula of the unemployment trust fund—a fund of essentially different character and purpose from the old-age and survivors insurance trust fund. The formula remained the same as the "old" formula for the old-age and survivors insurance trust fund. The unemployment insurance trust fund therefore acquired special obligations in 1956 at the same rates as the old-age and survivors insurance trust fund through October. Acquisitions in November and December were at 2⅝ percent. The net total acquired in 1956 amounted to $308 million. Of the total investments of $30,892 million in the portfolios of both funds

Table 2.—*Investments of social security trust funds and interest-bearing public debt at end of specified period, 1936–56*

[Amounts in millions]

At end of—	Interest-bearing public debt	Social security trust fund investments			
		Total amount	Percent of public debt	Old-age and survivors insurance trust fund	Unemployment trust fund
1936	$33,699	$64	0.2		$64
1937	36,715	1,138	3.1	$513	625
1938	38,899	1,926	5.0	862	1,064
1939	41,445	2,944	7.1	1,435	1,509
1940	44,458	3,962	8.9	2,016	1,945
1941	57,451	5,468	9.5	2,736	2,732
1942	107,308	7,342	6.8	3,655	3,687
1943	164,508	9,874	6.0	4,779	5,095
1944	228,891	12,546	5.5	5,967	6,579
1945	275,694	14,563	5.3	7,054	7,508
1946	257,649	15,643	6.1	8,079	7,564
1947	254,205	17,371	6.8	9,268	8,102
1948	250,579	19,052	7.6	10,556	8,496
1949	255,019	19,424	7.6	11,728	7,696
1950	254,283	20,970	8.2	13,331	7,639
1951	257,070	23,444	9.1	15,017	8,427
1952	265,293	25,983	9.8	16,960	9,023
1953	272,881	27,836	10.2	18,291	9,545
1954	275,731	28,602	10.4	19,863	8,740
1955	277,799	29,855	10.7	21,102	8,754
1956:					
June	269,883	30,744	11.4	22,043	8,701
December	274,219	30,892	11.3	21,831	9,061

Source: *Daily Statement of the U. S. Treasury* and other Treasury Department releases.

Table 3.—*Average interest rate on social security trust fund investments, total interest-bearing public debt, and long-term marketable debt at the end of specified period, 1936–56*

At end of—	Computed average interest rate (percent)			
	Total interest-bearing public debt	Long-term marketable U. S. obligations	Old-age and survivors insurance trust fund investments	Unemployment trust fund investments
1936	2.570	3.088		2.50
1937	2.568	3.059	3.00	2.50
1938	2.586	2.978	3.00	2.50
1939	2.598	2.915	3.00	2.50
1940	2.566	2.868	2.84	2.50
1941	2.409	2.751	2.66	2.49
1942	2.059	2.675	2.44	2.24
1943	1.956	2.421	2.22	1.89
1944	1.919	2.326	2.20	1.91
1945	1.965	2.323	2.14	1.93
1946	2.057	2.307	2.04	1.94
1947	2.144	2.296	2.09	2.05
1948	2.216	2.310	2.20	2.16
1949	2.208	2.316	2.20	2.16
1950	2.209	2.359	2.19	2.16
1951	2.308	2.322	2.20	2.18
1952	2.353	2.320	2.30	2.30
1953	2.414	2.393	2.41	2.41
1954	2.291	2.480	2.29	2.30
1955	2.490	2.485	2.31	2.31
1956:				
June	2.576	2.485	2.52	2.53
December	2.671	2.482	2.52	2.53

Source: *Daily Statement of the U. S. Treasury* and other Treasury Department releases.

at the end of the year, $27,320 million or 88.4 percent (the same proportion as in the 2 preceding years) was invested in special obligations—$27,051 million at 2½ percent and the $269 million of the unemployment trust fund at 2⅝ percent (table 1).

The old-age and survivors insurance trust fund also acquired a net total of $168 million in marketable Government obligations in 1956. Of these, $101 million was in Treasury notes, $63 million in Treasury certificates of indebtedness (not to be confused with the special certificates of indebtedness issued by the Treasury to various trust and other funds), and $4 million in Treasury bonds. The fund invested in April $500,000 in the 2⅜-percent bonds of 1958, which it had not held before. Other bond transactions were among the several 2½-percent issues, of which the fund previously had held varying amounts.

The unemployment trust fund has acquired no public issues since November 1953. Investments of this fund in other than special obligations must be at interest rates at least equal to the rates payable on special obligations.

The Treasury also manages several other social insurance and related trust funds. The principal ones are the railroad retirement account and the civil service retirement fund. In 1956 the total receipts of the railroad retirement account amounted to $727 million; contributions were $626 million and interest was $101 million.[5] Railroad retirement benefits of $630 million were paid out in 1956; administrative expenses totaled $7 million. At the end of the year the total assets of the account were $3,641 million; of this total, $3,585 million was invested and $56 million was undisbursed cash balance. The interest rate for this fund's investments is set by law at 3 percent.

In previous years the total invested assets of the railroad retirement account have been in the form of 3-percent special Treasury notes maturing at intervals of 1–5 years. In 1956, for the first time, $6 million was invested in public marketable issues (Treasury bonds) bearing interest ranging from 2¼ percent to 3 percent. The discount at which these securities were acquired was presumably sufficient to bring the return on all of them up to 3 percent for the duration of the period for which they may be held.

Contributions to the civil service retirement fund totaled $1,120 million in 1956, and interest earned $212 million. Benefits and refunds of $552 million were paid during 1956. The administrative expenses of the civil service retirement program are chargeable not to the fund but to the General Treasury. At the end of the year the invested assets of the fund totaled $7,256 million.

At the end of 1956, all types of special Government obligations outstanding amounted to $45,639 million, 17 percent of the outstanding interest-bearing Federal debt. Together, the two social security funds held 60 percent of all special obligations, the same proportion as in 1955. Most of the remainder was held by other trust funds, including the civil service retirement fund (16 percent), the several veterans' insurance funds (15 percent), and the railroad retirement account (8 percent).

[5] This amount excludes $5.2 million transferred to the old-age and survivors insurance trust fund under the financial interchange provisions of the Railroad Retirement Act.

Survivor Benefit Protection for Federal Judges*

Public Law No. 973, approved August 3, 1956, established a system of survivor benefits for Federal judges. In many respects it is like the system of survivor benefits provided for Members of Congress in the Civil Service Retirement Act before the 1956 amendments to that act.

There is no formal retirement system for the Federal judges themselves, since a judge holds office for life unless he resigns or is removed. A judge with 10 years of service may resign at age 70 and continue to receive the salary he was receiving when he resigned. Rather than resign on salary, most judges retire from regular active duty and continue to perform their duties to the extent that they are able to do so.

Participation in the system of survivor benefits is by voluntary election, but election must be made before February 3, 1957, or within 6 months after taking office. Judges contribute 3 percent of salary. After a judge resigns on salary or retires from regular active duty, he continues to make contributions; on his death the same survivor benefits are paid as if he had remained fully active as a judge. The justices of the Supreme Court are excluded; annuities are already provided for their widows on a noncontributory basis.

When a judge dies after at least 5 years of service for which contributions were made, his widow receives an annuity. It begins immediately if she has a dependent child or is over age 50 but otherwise it begins when she reaches age 50, and it terminates upon her death or remarriage. The amount is 1¼ percent of the average salary during the last 5 years of service, multiplied by years of credited service, with a maximum of 37½ percent of the average salary. Nonjudicial Government service that is not credited toward another annuity may be counted, but the part of the annuity based on service in the executive department or service of more than 15 years as an employee of Congress is only ¾ of 1 percent of the average judicial salary times the years of such earlier service.

Child survivor benefits are paid to children under age 18 or regardless of age if they are incapable of self-support because of mental or physical disability. When the widowed mother is present, each child receives $30 a month; the maximum combined amount for all children is $75. When there is no widowed mother present, each child receives $40 a month (with no maximum on total family benefits).

Service before the judge became covered by the system is credited if he pays the contributions for the past service with interest. Alternatively, credit may be given for the past service by reducing the annuity by 10

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