# Notes and Brief Reports

## Special Issue Investmenrs of OASDI Trust Funds*

Ever since the inception of the old-age, survivors, and disability insurance system in 1937, the investments of its available funds have been restricted to interest-bearing obligations of the United States or obligations whose principal and interest are guaranteed by the United States. The latter category includes only a relatively small number of issues, and none have ever been purchased for the trust funds. The investments in the former category can be either in special issues—legally designated as "public debt obligations for purchase by the Trust Funds"—or in any other securities of the Federal Government, bought either on the open market or at issue. In the past, some regular issues have been purchased, both on the open market and at the time they were offered to the general public, but they have represented only a small proportion of the invested assets of the trust funds (16 percent on June 30, 1960). Most of the investments have thus been in special issues.

The statute has always made specific provision as to the interest rate that should be borne by special issues. The present law, however, does not provide for any specific maturity dates or schedules for these special issues but rather merely states that they "shall have maturities fixed with due regard for the needs of the Trust Funds." The maturity scheduling of the investments, as well as their interest rates, strongly affects the amounts received in interest earnings. If, for example, a substantial portion of the special issues were frozen in relatively low-rate, longer-term maturities at the beginning of a period of rising interest rates, the interest income of the trust funds might be substantially less than would otherwise have been the case.

### INTEREST BASIS

The Social Security Act of 1935 provided that the special issues for the old-age reserve account should bear an interest rate of 3 percent. The 1939 amendments changed the basis of the interest rate, effective January 1940, so that (because of rounding down to the next lower ⅛ of 1 percent) it was slightly less than the average coupon rate of all interest-bearing obligations of the United States—that is, the rate of interest borne by the obligations, on which the periodic (usually semiannual) coupons are based. Under the 1956 amendments (effective in October), these special issues carried an interest rate about equivalent—because of rounding to the nearest ⅛ of 1 percent—to the average *coupon* rate of all the longer-term (issued for 5 or more years) interest-bearing obligations of the United States.

Under the 1960 amendments, effective in October, these special issues bear an interest rate about equivalent (because of rounding to the nearest ⅛ of 1 percent) to the average *market-yield* rate of all longer-term (4 or more years to call or maturity from the end of the month preceding the month of issue of the special issues) interest-bearing obligations of the United States.

The interest rates for special issues at various periods beginning with January 1940, when the old-age and survivors insurance trust fund replaced the old-age reserve account,[1] have been as follows:

| *Period* | *Rate (percent)* |
|---|---|
| January 1940–August 1941 | 2½ |
| September 1941–April 1942 | 2⅜ |
| May 1942–July 1942 | 2¼ |
| August 1942–November 1942 | 2⅛ |
| December 1942–April 1943 | 2 |
| May 1943–July 1946 | 1⅞ |
| August 1946–September 1947 | 2 |
| October 1947–June 1951 | 2⅛ |
| July 1951–February 1953 | 2¼ |
| March 1953–May 1954 | 2⅜ |
| June 1954–August 1955 | 2¼ |
| September 1955–March 1956 | 2⅜ |
| April 1956–June 1958 | 2½ |
| July 1958–September 1960 | 2⅝ |
| October 1960 | 3⅝ |
| November 1960 | 3¾ |
| December 1960 | 4 |
| January 1961 | 3⅝ |

The special-issue interest rate was initially

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[1] The disability insurance trust fund began operations in January 1957.

2½ percent in 1940. As large volumes of long-term Government bonds were floated to finance the war effort, the rate gradually decreased and reached a low of 1⅞ percent in the period May 1943–July 1946. Thereafter it rose to a level of 2¼–2⅜ percent in the period July 1951–March 1956. There was then a gradual rise to 2⅝ percent for the months from July 1958 to September 1960, which was the last month before the new basis provided by the 1960 amendments went into effect.

For the first month in which the 1956 change in the interest basis was effective, there was no change in the rate actually made available to the trust fund. Under the conditions then prevailing, the new method of basing the rate on longer-term obligations rather than on all obligations produced a slightly lower unrounded rate, but the change in the rounding procedure produced a final result that was exactly the same as the previous basis would have produced. In most subsequent months the new interest basis produced a somewhat lower rate, however, than would have developed under the former basis. The difference was as much as ⅝ of 1 percent during January–July 1960.

The new basis under the 1960 amendments produced a sharp increase in the special-issue interest rate. The rate was 3⅝ percent for October, 3 ¾ percent for November, and 4 percent for December—all appreciably in excess of the 2 ⅝-percent rate in effect for September and the rates that would have been in effect under the old basis for October (2 ⅝ percent), November (2 ¾ percent), and December (2 ¾ percent).

The new interest basis for special issues will produce substantially increased interest income to the trust funds in the near future on new investments made. It should be noted, however, that the investments of the trust funds as of September 30, 1960, are spread out over a 15-year maturity schedule and bear fixed interest rates of either 2 ½ percent or 2 ⅝ percent, which will not be affected by the new basis.

## MATURITY SCHEDULING

In the early years of operation of the old-age and survivors insurance trust fund (and its predecessor, the old-age reserve account), the special issues were for periods of 5 years when issued at the end of a fiscal year or for the period up to the end of the fourth following fiscal year when issued during a fiscal year. Beginning at the close of the fiscal year 1943–44, special issues were "rolled over" annually or, in other words, were reissued at the beginning of each fiscal year and so had a maturity length of 1 year at most. All special issues acquired before June 30, 1944, were allowed to mature according to their original maturity dates (except when advance redemption was necessary to provide cash for the operations of the program). Under the 1956 amendments the needs of the trust fund were to be considered in determining the maturities of the special issues purchased, and the Treasury Department then established the policy of spreading out the maturity dates of the special issues of the trust funds, to be accomplished over a period of years.

At the end of the fiscal year 1957–58, the special issues of the old-age and survivors insurance trust fund were subdivided as follows: about 56 percent in 1-year obligations and 44 percent approximately equally divided into nine groups of issues maturing at the end of 2–10 years. The same general situation also prevailed for the disability insurance trust fund at that time, except that 67 percent of the special issues were in 1-year issues and 33 percent about equally spread over issues maturing in 2–10 years.

At the end of fiscal years 1958–59 and 1959–60, the situation was somewhat different; in general, the special issues of both trust funds were equally spread over issues maturing at the end of each year for the next 15 years.

Thus, the present maturity pattern is one equally spread over 15 years. This spread has been accomplished, on the whole, by making any new investments in special issues within the fiscal year for only the period up to the end of the fiscal year. Any redemptions necessary in the year to meet current disbursements have been made first from the issues of less than 1 year's duration and then, if there are no such fractional-year issues, from the full-year special issues that mature at the earliest date.

At the end of the fiscal year, all fractional-year issues and the regular full-year issues maturing at that time have been reinvested in full-year issues that, when added to the existing full-year issues, result as closely as possible in a uniform maturity distribution over the next 15 years. To accomplish this result, of course, the initial issues have been in 15-year obligations, in order to "match" the annual amounts of the other 14 series of full-year issues that had previously been purchased, and then any amounts still available have been spread over all special issues of the 15 years so as to have more or less equal amounts maturing each year.

The experience from June 30, 1959, to June 30, 1960, is an example of how this procedure has operated. The old-age and survivors insurance trust fund on the earlier date had special issues that were divided almost equally into 15 durations (actually $1,133 million for each of the durations 2–15 and $1,365 million for duration 1). During the fiscal year 1959–60 the trust fund decreased, although not continuously, by about $700 million and some special issues had to be redeemed in advance of their established maturity date. The redemption was made not only for fractional-year issues acquired during the year but also for some of the full-year issues maturing at the end of the fiscal year and for some maturing at the end of the next fiscal year.

As a result, at the end of the fiscal year 1959–60, the full-year issues maturing at the end of the fiscal year 1960–61 had dropped to $764 million, while all the later-duration issues were still in the amount of $1,133 million for each year of maturity. The amount available for reinvestment on June 30, 1960, was $920 million, all of which was placed in special issues with a 15-year duration since this amount was less than the uniform level of $1,133 million for previous issues of 2–14 years' duration at that time.

In contrast, the disability insurance trust fund grew during the fiscal year 1959–60 by about $500 million, and at the end of the year the uniform amounts of $100.5 million for special issues with durations 2–15 at the beginning of the year (the amount for duration 1 then was slightly higher—about $126.5 million) had not been changed. The amount available for investment on June 30, 1960, from both fractional-year and full-year special issues that then became due, was far in excess of the uniform amount of the special issues for durations 1–14 (at that time). As a result, special issues of all durations were acquired in such a fashion that there would be virtually a uniform amount for each of the 15 durations—that is, about $132.9 million for durations 2–15 and $156.9 million for duration 1.

# Family Benefits in Current-Payment Status, June 30, 1960*

During the year ended June 30, 1960, the number of families receiving monthly benefits under the old-age, survivors, and disability insurance program increased by almost 809,000. At the end of the fiscal year, monthly benefits were being paid to at least one person in 10.5 million families (table 1). Retired-worker families, which made up 74 percent of the total, numbered 7.8 million—about 517,000 more than a year earlier. The number of survivor families increased 196,000 to 2.4 million and represented 22 percent of all beneficiary families. An increase of 96,000 brought the number of disabled-worker families to 371,000 at the close of the year. The disabled workers in these beneficiary families were aged 50–64; benefits for disabled workers under age 50 (provided by the 1960 amendments) were first payable for November 1960.

## MODERATE RISE IN AVERAGE BENEFITS

Average family benefits at the end of June 1960 showed moderate increases from the corresponding averages of a year earlier. The reasons were (1) the growing proportion of benefits computed on the basis of earnings after 1950 and (2) the increasing number computed under the provisions of the 1954 amendments that permit, in the computation of the average monthly wage, the dropping of as many as 5 years of lowest covered earnings and, in addition, any period of total disability.

Payments to retired workers without dependents also receiving benefits averaged $79.20 for men and $59.30 for women. Among families consisting of a retired worker and his aged wife, the average was $123.40. The average bene-

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