

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING THE PERIOD JULY 1, 1959, TO DECEMBER 31, 1964

In the following statement of the expected operations and status of the trust funds during the period July 1, 1959, to December 31, 1964, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program remain unchanged throughout the period under consideration. The income and disbursements of the program, however, are affected by general economic conditions as well as by legislative provisions. Because it is difficult to foresee economic developments, the assumptions and the resulting estimates here presented are subject to some uncertainty. This statement of the expected operations of the trust funds should therefore be read with full recognition of the difficulties of estimating future trust fund income and disbursements under changing economic conditions.

Estimates are presented in table 11 to show the expected operations of the old-age and survivors insurance trust fund in fiscal years 1960-64. They are based on the assumption that business activity continues to expand, with a gradual but steady increase in employment and earnings through 1964. Figures on actual experience in earlier fiscal years are also presented. The increase in estimated income from contributions in fiscal years 1960-64 reflects the assumed uptrend in the levels of employment and earnings as well as the effect of the provisions of the 1958 amendments, which increased the scheduled tax rates and the maximum annual earnings taxable and creditable under the program. Benefit disbursements increase because of the amendments and also because of the long-range upward trend in the number of beneficiaries under the program.

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TABLE 11.—Operations of the old-age and survivors insurance trust fund, fiscal years 1937-64

[In millions]

Fiscal year	Transactions during period						Net in-crease in fund ⁴	Fund at end of period ⁴
	Income			Disbursements				
	Tax contributions ¹	Interest on invest-ments ²	Reim-burse-ment for addi-tional cost of noncon-tributory credit for military service	Benefit payments	Adminis-trative expenses ³	Transfers to railroad retire-ment account		
Past experience:								
1937-59.....	\$63,434	\$5,579	\$15	\$45,891	\$1,472	\$124	\$21,541	\$21,541
1941.....	688	56	-----	64	27	-----	653	2,398
1942.....	896	71	-----	110	27	-----	830	2,227
1943.....	1,150	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.....	1,459	163	(⁵)	426	41	-----	1,157	8,798
1948.....	1,616	191	1	512	47	-----	1,248	10,047
1949.....	1,690	230	2	607	53	-----	1,263	11,310
1950.....	2,106	257	4	727	57	-----	1,583	12,893
1951.....	3,120	287	4	1,498	70	-----	1,843	14,736
1952.....	3,594	334	4	1,882	85	-----	1,864	16,600
1953.....	4,067	387	-----	2,627	89	-----	1,766	18,366
1954.....	4,589	451	-----	3,276	80	-----	1,676	20,043
1955.....	5,087	448	-----	4,333	103	-----	1,068	21,141
1956.....	6,442	495	-----	5,361	124	-----	1,452	22,593
1957.....	6,540	561	-----	6,515	150	-----	436	23,029
1958.....	7,267	557	-----	7,875	166	-----	-216	22,813
1959.....	7,565	543	-----	9,049	206	124	-1,271	21,541
Estimated future experience:								
1960.....	9,585	514	-----	10,346	204	567	-1,018	20,524
1961.....	11,120	517	⁶ 172	11,086	200	278	245	20,769
1962.....	11,572	519	95	11,743	204	260	-21	20,748
1963.....	12,677	531	98	12,310	208	280	608	21,256
1964.....	14,381	558	95	12,795	214	275	1,750	23,006

¹ Beginning in 1953, include adjustments for refunds of contributions.

² Includes (1) profits on marketable investments, (2) for fiscal years 1954-58, interest transferred from the railroad retirement account, and (3) beginning in 1958, interest on administrative expenses reimbursed by the disability insurance trust fund.

³ Include administrative expenses, less receipts from sale of surplus materials, services, etc. For fiscal years 1954-62, include cost of construction of an office building for the Bureau of Old-Age and Survivors Insurance. Beginning fiscal year 1957, expenses incurred by the Department of Health, Education, and Welfare under the disability insurance program are initially charged to the old-age and survivors insurance trust fund. Reimbursements, including interest, are then made from the disability insurance trust fund in the following fiscal year.

⁴ Totals do not necessarily equal the sum of rounded components.

⁵ Less than \$500,000.

⁶ The budget for fiscal year 1961 did not provide for this reimbursement (see text for further details).

NOTE.—In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared January 1960.

Aggregate income of the old-age and survivors insurance trust fund is expected to exceed aggregate outgo in the 5-year period covering fiscal years 1960-64. During this period, there is an estimated net increase in the trust fund of \$1.5 billion. During the 5 fiscal years 1960-64, the old-age and survivors insurance trust fund will have a maximum estimated size that is 1.7 times the highest expected annual outgo during the 5-year period.

Estimates consistent with those shown on a fiscal-year basis in table 11 are presented in table 12 to show the progress of the old-age and survivors insurance trust fund on a calendar-year basis. During 1960-62, annual income and annual outgo of the trust fund are expected to be in close balance. With the rate increase scheduled to take place in 1963, total income is expected to exceed total disbursements and the upward trend in the size of the fund will be resumed.

TABLE 12.—Operations of the old-age and survivors insurance trust fund, calendar years 1937-64

[In millions]

Calendar year	Transactions during period						Net increase in fund	Fund at end of period
	Income			Disbursements				
	Tax contributions	Interest on investments	Reimbursement for additional cost of noncontributory credit for military service	Benefit payments	Administrative expenses	Transfers to railroad retirement account		
Past experience:								
1937-58.....	\$59,109	\$5,310	\$15	\$41,070	\$1,377	\$124	\$21,864	\$21,864
1941.....	789	56		88	26		731	2,762
1942.....	1,012	72		131	28		926	3,688
1943.....	1,239	88		166	29		1,132	4,820
1944.....	1,816	107		209	29		1,184	6,005
1945.....	1,285	134		274	30		1,116	7,121
1946.....	1,295	152		378	40		1,029	8,150
1947.....	1,557	164	1	466	46		1,210	9,360
1948.....	1,685	281	3	556	51		1,362	10,722
1949.....	1,666	146	4	667	54		1,094	11,816
1950.....	2,667	257	4	961	61		1,905	13,721
1951.....	3,363	417	4	1,885	81		1,818	15,540
1952.....	3,819	365		2,194	88		1,902	17,442
1953.....	3,945	414		3,006	88		1,265	18,707
1954.....	5,163	463		3,670	92		1,869	20,576
1955.....	5,713	461		4,968	119		1,087	21,663
1956.....	6,172	531		5,715	132		856	22,519
1957.....	6,825	557		7,347	162		-126	22,393
1958.....	7,566	552		8,327	194	124	-528	21,864
Estimated future experience:								
1959.....	8,052	532		9,842	184	282	-1,724	20,141
1960.....	10,575	513	172	10,716	197	285	62	20,203
1961.....	11,391	518	95	11,415	202	278	109	20,312
1962.....	11,692	525	98	12,027	206	260	-178	20,134
1963.....	13,787	544	95	12,553	211	280	1,382	21,516
1964.....	14,519	583	90	13,000	215	275	1,702	23,218

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 11.

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Benefit disbursements will continue to increase over the next 5 calendar years as the number of beneficiaries under the program increases. Table 13 shows the annual amount of benefit payments distributed by classification of beneficiaries.

TABLE 13.—Old-age and survivors insurance benefit payments, distributed by classification of beneficiaries, calendar years 1940-64

[In millions]

Calendar year	Total benefit disbursements ¹	Disbursed to old-age beneficiaries	Disbursed to dependents of old-age beneficiaries	Disbursed to survivors of deceased insured workers			
				Monthly benefits			Lump-sum payments
				Total ¹	Aged widows, dependent widowers, and dependent parents	Widowed mothers, dependent divorced wives, and dependent children	
Past experience: ²							
1940.....	\$35.4	\$14.8	\$2.4	\$6.4	\$0.5	\$5.9	\$11.8
1941.....	88.1	43.6	7.6	23.6	2.7	20.9	13.3
1942.....	130.7	64.8	11.4	39.5	5.9	33.7	15.0
1943.....	165.9	79.1	13.9	55.2	9.9	45.2	17.8
1944.....	209.0	96.6	16.9	73.5	14.6	58.8	22.0
1945.....	273.9	125.8	22.3	99.6	21.0	78.6	26.1
1946.....	378.1	189.1	33.2	127.9	29.3	98.7	27.9
1947.....	466.2	244.7	42.9	149.1	38.3	110.8	29.5
1948.....	556.2	299.9	52.2	171.8	49.4	122.4	32.3
1949.....	667.2	372.9	64.5	196.6	62.2	134.3	33.2
1950.....	961.1	556.9	94.5	276.9	92.3	184.6	32.7
1951.....	1,885.2	1,134.9	186.1	506.8	164.5	342.3	37.3
1952.....	2,194.1	1,327.7	211.6	591.5	201.2	390.3	33.3
1953.....	3,006.3	1,884.2	291.1	743.5	280.2	463.4	37.5
1954.....	3,670.2	2,339.6	358.4	880.0	317.0	563.0	32.2
1955.....	4,068.2	2,552.9	494.9	1,107.5	412.2	695.4	112.9
1956.....	5,714.6	3,792.8	568.5	1,244.1	486.1	758.0	109.3
1957.....	7,347.3	4,888.4	799.4	1,520.7	671.7	849.0	138.8
1958.....	8,327.0	5,566.5	907.4	1,720.1	777.5	942.7	132.9
Estimated future experience:							
1959.....	9,842	6,553	1,059	2,062	945	1,117	168
1960.....	10,716	7,114	1,154	2,276	1,064	1,212	172
1961.....	11,415	7,530	1,218	2,485	1,184	1,301	183
1962.....	12,027	7,886	1,270	2,681	1,298	1,383	190
1963.....	12,553	8,177	1,315	2,863	1,403	1,460	198
1964.....	13,000	8,433	1,352	3,011	1,503	1,508	204

¹ Totals do not necessarily equal the sum of rounded components.

² Partly estimated.

Benefit expenditures expressed as a percentage of payroll will also continue to increase. Benefit payments were 4.77 percent of taxable earnings for calendar year 1958. It is estimated that by 1964 benefit expenditures from the old-age and survivors insurance trust fund will be 5.81 percent of taxable earnings. Figures for each of the calendar years 1960-64 are shown in table 14.

TABLE 14.—Old-age and survivors insurance benefit payments as a percentage ¹ of taxable earnings, calendar years 1940-64

Calendar year	Benefit payments as a percentage of taxable earnings	Calendar year	Benefit payments as a percentage of taxable earnings
Past experience:		Past experience—Continued	
1940.....	0.11	1953.....	2.28
1941.....	.21	1954.....	2.83
1942.....	.25	1955.....	3.26
1943.....	.27	1956.....	3.48
1944.....	.32	1957.....	4.20
1945.....	.44	1958.....	4.77
1946.....	.55	Estimated future experience:	
1947.....	.59	1959.....	5.08
1948.....	.66	1960.....	5.30
1949.....	.82	1961.....	5.49
1950.....	1.10	1962.....	5.64
1951.....	1.60	1963.....	5.74
1952.....	1.78	1964.....	5.81

¹ For years 1951 and later, percentage takes into account (1) lower contribution rate payable by the self-employed compared with combined employer-employee rate, and (2) employee contributions subject to refund.

² Preliminary, subject to revision on complete tabulation of taxable self-employment earnings for 1956-58 and of taxable wages for 1957-58.

The growth in the number of beneficiaries in the past and the expected growth in the future is attributable in large measure to the rising number of aged workers eligible for and receiving old-age (primary) benefits. This is illustrated in table 15 which contains an analysis of workers aged 65 and over eligible for old-age (primary) benefits by age attained as of the beginning of each of the calendar years 1941 through 1964.

The growth in the number of eligible workers aged 65 and over was gradual but uninterrupted during the calendar years 1941 to 1949, inclusive. This growth resulted partly from the increase in the population at these attained ages, but primarily from the fact that in each passing year a larger proportion of the persons attaining age 65 had fully insured status.

The marked increase in the number of workers eligible for benefits in 1951 was due to the liberalized insured-status provisions of the 1950 amendments to the Social Security Act. Although the same factors that contributed before 1951 to the growth in the number of eligible persons aged 65 and over have continued to be operative after 1950, the amendments in 1950, 1954, and 1956 which liberalized the insured-status provisions and extended coverage to new areas of employment have an even greater effect.

As is indicated in table 15, 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 January 1, 1945, however, the proportion of eligible workers receiving retirement benefits has been increasing except for temporary halts due to special circumstances resulting from the amendments of 1950 and 1954. In general, due to the increasing percentage of eligibles aged 72 or over who receive benefits regardless of earnings, the past upward trend in this proportion is expected to continue.

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TABLE 15.—Workers aged 65 and over eligible for and receiving old-age (primary) benefits, by attained age, calendar years 1941-64

[In thousands]

Beginning of calendar year	All workers aged 65 and over			Workers aged 65-69			Workers aged 70 and over		
	Number eligible for benefits ¹	Persons receiving benefits		Number eligible for benefits ¹	Persons receiving benefits		Number eligible for benefits ¹	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	166	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.....	4,786	3,222	67	2,418	1,300	54	2,368	1,922	81
1955.....	5,306	3,775	71	2,636	1,518	58	2,670	2,257	85
1956.....	5,879	4,474	76	2,821	1,744	62	3,058	2,729	89
1957.....	6,802	4,999	74	3,175	1,876	59	3,627	3,123	86
1958.....	7,394	5,931	80	3,377	2,257	67	4,017	3,675	91
1959 ²	7,803	6,608	85	3,471	2,475	71	4,332	4,133	95
Estimated future experience:									
1960.....	8,225	7,187	87	3,540	2,656	75	4,685	4,531	97
1961.....	8,620	7,565	88	3,599	2,703	75	5,021	4,862	97
1962.....	8,954	7,892	88	3,618	2,721	75	5,336	5,171	97
1963.....	9,224	8,161	88	3,613	2,721	75	5,611	5,440	97
1964.....	9,429	8,369	89	3,593	2,708	75	5,836	5,661	97

¹ Figures for 1941-59 are partly estimated. Females aged 62-64 eligible for old-age benefits are excluded from the table. No adjustments have been made to reflect changes arising from (1) provisions that subordinate the old-age and survivors and railroad retirement programs, and (2) noncontributory wage credits for military service.

² Data are as of Dec. 1, 1958.

As a result of the amendments in 1956, an insured woman worker aged 62-64 may elect to receive an actuarially reduced retirement benefit. (Table 15 excludes data relating to women aged 62-64.) On January 1, 1960, there were an estimated 750,000 women workers aged 62-64 eligible for old-age benefits, of whom about 343,000, or 46 percent, were drawing such benefits. It is estimated that on January 1, 1964, 50 percent of the 745,000 women workers aged 62-64 eligible for old-age benefits will be receiving such benefits.

The expected operations and status of the disability insurance trust fund during the next 5 fiscal years are presented in table 16 together with the figures on actual experience in earlier years. Income of the disability insurance trust fund is expected to exceed disbursements in each of the 5 fiscal years 1960-64. During this 5-year period, it is estimated that the disability insurance trust fund will increase by about \$2.3 billion and will have a maximum size that is 5.7 times the highest expected annual outgo during fiscal years 1960-64.

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TABLE 16.—Operations of the disability insurance trust fund, fiscal years 1957-64
[In millions]

Fiscal year	Transactions during period						Fund at end of period ⁴
	Income			Disbursements			
	Tax contributions ¹	Interest on investments ²	Reimbursement for additional cost of noncontributory credit for military service	Benefit payments	Administrative expenses ³	Transfers to railroad retirement account	
Past experience:							
1957-59.....	\$2,159	\$50	-----	\$508	\$35	-----	\$1,667
1957.....	337	1	-----	-----	1	-----	337
1958.....	926	16	-----	168	12	-----	762
1959.....	895	33	-----	339	21	-----	568
Estimated future experience:							
1960.....	978	48	-----	520	32	-\$26	500
1961.....	1,024	61	\$1	576	37	-2	475
1962.....	1,052	72	1	618	37	-1	471
1963.....	1,078	84	2	652	37	0	475
1964.....	1,114	97	2	682	38	1	492

¹ Adjusted for refunds.

² Includes profits on marketable investments.

³ Expenses of the Department of Health, Education, and Welfare under the disability insurance program are initially charged to the old-age and survivors insurance trust fund. Reimbursements, including interest, are then made from the disability insurance trust fund in the following fiscal year.

⁴ Totals do not necessarily equal the sum of rounded components.

⁵ The budget for fiscal year 1961 did not provide for this reimbursement (see text for further details).

NOTE.—Reference should be made to the text which describes the underlying assumptions and limitations. Estimates were prepared January 1960.

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Estimates consistent with those shown on a fiscal-year basis in table 16 are presented in table 17 to show the progress of the disability insurance trust fund on a calendar-year basis.

TABLE 17.—Operations of the disability insurance trust fund, calendar years 1957-64
[In millions]

Calendar year	Transactions during period						Net increase in fund	Fund at end of period
	Income			Disbursements				
	Tax contributions	Interest on investments	Reimbursement for additional cost of noncontributory credit for military service	Benefit payments	Administrative expenses	Transfers to railroad retirement account		
Past experience:								
1957-58.....	\$1,667	\$32		\$306	\$15		\$1,379	\$1,379
1957.....	702	7		57	3		649	649
1958.....	966	25		249	12		729	1,379
Estimated future experience:								
1959.....	891	40		457	50	-\$22	447	1,825
1960.....	1,007	53	\$1	550	37	-4	478	2,303
1961.....	1,037	66	1	599	36	-2	471	2,774
1962.....	1,063	78	2	635	37	-1	472	3,246
1963.....	1,090	91	2	668	38	0	477	3,723
1964.....	1,125	104	2	695	39	1	496	4,219

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 16.

The total amount of benefit payments under the disability insurance program will continue to increase over the next 5 calendar years as the number of beneficiaries increases. Benefit expenditures as a percentage of payroll will also continue to increase. Benefit payments were 0.14 percent of taxable earnings for calendar year 1958. It is estimated that in 1959 benefit expenditures will rise to 0.24 percent of payroll, reflecting the effect of the 1958 amendments. Figures for each of the calendar years 1957-64 are shown in table 18.

TABLE 18.—Disability insurance benefit payments as a percentage¹ of taxable earnings, calendar years 1957-64

Calendar year	Benefit payments as a percentage of taxable earnings	Calendar year	Benefit payments as a percentage of taxable earnings
Past experience:		Estimated future experience—Continued:	
1957.....	² 0.03	1961.....	
1958.....	² .14	1962.....	.30
Estimated future experience:		1963.....	.31
1959.....	.24	1964.....	.31
1960.....	.27		

¹ Takes into account (1) lower contribution rate payable by the self-employed compared with combined employer-employee rate, and (2) employee contributions subject to refund.

² Preliminary, subject to revision on complete tabulation of taxable wages and self-employment earnings for 1957-58.

Public Law 234, approved October 30, 1951, amended the Railroad Retirement Act to provide a new basis of coordinating the railroad retirement program with old-age and survivors insurance. A description of the legislative provisions governing the financial interchanges arising from the allocation of costs between the two systems is contained in appendix II. In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of \$274,600,000 to the railroad retirement account from the old-age and survivors insurance trust fund would place the old-age and survivors insurance trust fund in the same position as of June 30, 1958, as it would have been if railroad employment had always been covered under the Social Security Act. This sum together with interest thereon for fiscal year 1959, amounting to \$7,448,000, or a total of \$282,048,000 was transferred to the railroad retirement account in July 1959. The estimates shown in tables 11 and 12 reflect the effect of future interchanges between the railroad retirement account and the old-age and survivors insurance trust fund. The amount of \$567 million for fiscal year 1960 (table 12) is the total of the \$282 million referred to above and an estimated \$285 million assumed to be transferred in the latter part of June 1960 based on the financial interchange determination to be made as of June 30, 1959.

Public Law 880, approved August 1, 1956, provides for similar annual determinations and for financial interchanges between the railroad retirement account and the disability insurance trust fund. Upon completion of the first determination, it was established that, as of June 30, 1958, a transfer of \$21,400,000 from the railroad retirement account to the disability insurance trust fund was necessary. This amount, together with interest thereon for fiscal year 1959, totaling \$580,000, was transferred to the trust fund in July 1959. The estimates shown in tables 16 and 17 reflect the effect of future interchanges between the railroad retirement account and the disability insurance trust fund.

Public Law 881, approved August 1, 1956, provides that the old-age and survivors insurance trust fund, and where appropriate the disability insurance trust fund, shall be reimbursed from general revenues for past and future expenditures resulting from the provisions that granted noncontributory \$160 monthly wage credits to persons who served in the Armed Forces from September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 that granted survivorship protection to certain World War II veterans for a period of 3 years after leaving service. In accordance with these provisions, the annual reimbursement is to be made up of two parts: (1) the additional costs arising from payments during the period September 1950 through June 1956, the total of which is to be amortized in annual installments over a 10-year period; and (2) the additional costs arising from payments made after June 30, 1956, to be repaid to each of the trust funds on a current basis. The estimates shown in the various tables in this section of the report reflect the effect of these reimbursements and are based on the assumption that the required appropriations will be made in fiscal year 1961 and thereafter. The budget for the fiscal year 1961 (p. M63) did not make any provision for such reimbursements, pending development of legislative proposals dealing with situations in which, under present law, payments are required to be made from general funds to both the rail-

road retirements account and to the trust funds on account of military service. The budget stated that—

the Federal Government should not, as required by the Railroad Retirement Act, pay more than the true cost of such benefits or pay to both the railroad retirement account and to the old-age, survivors, and disability insurance trust funds for the same military service benefits.

A description of the legislative history of provisions relating to credit for military service, including provisions for reimbursement for the additional costs arising from payments made before September 1950, is contained in appendix II.

As already indicated earlier in this section, forecasts of the income and disbursements of the trust funds involve many uncertainties. For that reason, estimates are presented in table 19 to show the effects on the operations and status of the old-age and survivors insurance trust fund in the unlikely event of a sharp reduction in the level of economic activity during calendar years 1960-64, with a relatively high rate of unemployment during the entire period. Under this assumption, contributions would be lower and benefit payments higher than estimated above under high employment conditions.

TABLE 19.—*Illustration showing the operations and status of the old-age and survivors insurance trust fund assuming the unlikely event of a sharply reduced level of economic activity, calendar years 1960-64*

[In millions]

Calendar year	Transactions during period						Net increase in fund	Fund at end of period
	Income			Disbursements				
	Tax contributions	Interest on investments	Reimbursement for additional cost of noncontributory credit for military service	Benefit payments	Administrative expenses	Transfers to railroad retirement account		
1960.....	\$10,200	\$506	\$172	\$10,869	\$203	\$285	-\$469	\$19,672
1961.....	10,091	482	95	11,813	208	290	-1,643	18,020
1962.....	9,683	432	98	12,531	210	295	-2,823	15,206
1963.....	10,973	371	95	12,992	214	330	-2,097	13,109
1964.....	11,352	313	90	13,330	217	345	-2,137	10,972

¹ The budget for fiscal year 1961 did not provide for this reimbursement. (See text for further details.)

NOTE.—In interpreting the above estimates, reference should be made to the accompanying text which explains the underlying assumptions.

The lower the level of employment during the next 5 years, the larger will be the volume of benefit payments to retired workers and to their eligible dependents. Under the hypothetical lower employment conditions it is estimated that larger proportions of eligible workers would 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 this assumption would considerably exceed that under high employment conditions. Moreover, it is expected that the average old-age (primary) benefit amount payable would be larger inasmuch as many of the more steadily employed higher paid older workers, who would not

withdraw from employment under the high employment conditions, would not be employed under these assumed conditions. The foregoing analysis also applies to insured women workers aged 62-64.

On the other hand, the larger the volume of employment, the larger will be the number of workers who are insured under the program and therefore the larger will be the number of deaths which will give rise to valid claims for survivor benefits. While favorable opportunities for employment will operate to 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 survivor benefits to forego them by working. Therefore the amount paid out for survivor benefits over the short-range future will not be affected significantly by variations in economic conditions.

ACTUARIAL STATUS OF THE TRUST FUNDS

Old-age, survivors, and disability insurance benefit payments will increase for many years—not only in dollars but also as a percentage of taxable payroll. Long-range estimates are needed to show how much the cost is likely to increase and to indicate whether the scheduled tax rates are adequate. This section presents cost estimates that are revisions of those in the previous report. Revision was made to reflect recent operating experience, especially in regard to the relatively new disability insurance program, and to use the 1959 earnings level (instead of 1956).

The cost of benefits to aged persons, which constitute almost 90 percent of the total cost, will rise for several reasons. The United States population cannot continue to increase indefinitely; births cannot continue indefinitely to exceed deaths. When a balance is reached or a reversal in the present trend occurs, the population as a whole will have become relatively much older. A relatively older population will also result because the present aged population is made up of the survivors from past periods when death rates were much higher than they are now; thus, in the future, relatively more persons will attain age 65 and older ages.

The cost of the program is thus closely related to the ratio of the population aged 65 and over (potential beneficiaries) to the population aged 20-64 (potential contributors). At present this ratio is 16.7 percent. In a stationary population with present death rates it would be 24.9 percent, but such a situation would be very unlikely to occur for many decades. It is expected that this ratio will eventually become even greater because of further decreases in mortality.

Another reason for the increasing cost is that the proportion of the aged population receiving benefits will increase. Many of the present persons aged 65 and over were not in covered employment long enough to obtain benefits, or, in the case of widows, their husbands were not sufficiently long in covered employment. Although the system began in 1937, many jobs were not covered until 1951 or 1955. It is estimated that the proportion of the aged population eligible for some type of benefit under the system will increase from the present level of about 73 percent to between 92 and 97 percent by the end of the century.

Because the actual cost could reasonably vary over a wide range, three complete sets of estimates are made—low cost, intermediate

cost, and high cost. The cost estimates are based on high employment and 1959-level earnings assumptions. Each provides estimates of such items as taxable and creditable payroll, contributions, beneficiaries, benefit payments, and administrative expenses for every future year. The data are presented here for selected future years. All figures are assumed to remain constant after 2050.

It is considered likely, although by no means certain, that actual costs as a percentage of payroll will lie between the low-cost and high-cost figures. The intermediate-cost estimates of beneficiaries, benefit payments, and payrolls are taken halfway between the low-cost and high-cost figures. The intermediate percentage-of-payroll figures are obtained by dividing total benefit payments by taxable payroll, each on the intermediate basis, and are therefore not exactly equal to the average of low-cost and high-cost percentages.

Table 20 shows benefit payment costs for selected years and the level-premium cost, all expressed as percentages of payroll, under each of the three estimates. The level-premium cost is that constant combined employer-employee tax rate that, together with a tax on the self-employed at 75 percent of such combined rate, would exactly pay for all future benefits and administrative expenses, after making allowance for the effect of the existing trust fund and for future interest earnings. All percent-of-payroll figures are adjusted so that they represent the tax rate that employees and employers combined, and the self-employed at three-quarters of the combined rate, would have to pay in any given year to meet exactly the benefit disbursements in that year. Tables 21 and 22 show, for each set of estimates, the contributions, benefit payments, administrative expenses, amount paid to or received from the railroad retirement system, and the balance in the trust funds for selected years.

TABLE 20.—Estimated costs of old-age, survivors, and disability insurance system as percent of payroll,¹ high employment and 1959 level earnings assumptions, 1970-2050

[In percent]

Calendar year	Low-cost estimate	High-cost estimate	Intermediate-cost estimate ²
Old-age and survivors insurance benefits			
1970.....	6.60	6.93	6.77
1980.....	7.49	8.51	7.99
1990.....	7.69	9.74	8.66
2000.....	6.90	9.85	8.25
2025.....	7.78	12.98	9.94
2050.....	9.86	14.82	11.78
Level-premium cost ³	7.35	9.61	8.38
Disability insurance benefits			
1970.....	0.25	0.41	0.33
1980.....	.27	.47	.37
1990.....	.23	.43	.32
2000.....	.22	.46	.35
2025.....	.28	.54	.39
2050.....	.32	.58	.42
Level-premium cost ³28	.46	.35

¹ Taking into account the lower contribution rate for the self-employed, as compared with the combined employer-employee rate.

² Based on the average of the dollar costs under the low-cost and high-cost estimates.

³ Level-premium contribution rate, at 3-percent interest rate, for benefits after 1959, taking into account interest on the trust fund on Dec. 31, 1959, future administrative expenses, the railroad retirement financial interchange provisions, and the lower contribution rates payable by the self-employed.

THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND 31

TABLE 21.—Estimated progress of old-age and survivors insurance trust fund, high employment and 1959 level earnings assumptions, 3 percent interest basis ¹

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses ²	Financial inter-change ³	Interest on fund	Fund at end of year ⁴
Actual data						
1951.....	\$3,367	\$1,885	\$81	-----	\$417	\$15,540
1952.....	3,819	2,194	88	-----	365	17,442
1953.....	3,945	3,006	88	-----	414	18,707
1954.....	5,163	3,670	92	-----	468	20,576
1955.....	5,713	4,968	119	-----	461	21,663
1956.....	6,172	5,715	132	-----	531	22,519
1957.....	6,825	7,347	162	-----	557	22,393
1958.....	7,566	8,327	194	-\$124	552	21,864
Low-cost estimate						
1970.....	\$20,061	\$15,576	\$197	-\$87	\$1,396	\$50,016
1980.....	23,821	21,001	242	37	3,024	105,120
1990.....	28,414	25,695	289	113	4,879	168,779
2000.....	34,065	27,639	329	113	7,938	275,639
2025.....	46,142	42,218	467	113	25,096	863,424
High-cost estimate						
1970.....	\$19,951	\$16,275	\$229	-\$207	\$1,147	\$41,002
1980.....	22,833	22,872	279	-55	2,099	71,893
1990.....	25,759	29,511	334	39	2,049	68,327
2000.....	28,888	33,484	375	39	1,127	36,219
2025.....	32,655	49,880	493	39	(⁵)	(⁵)
Intermediate-cost estimate						
1970.....	\$20,066	\$15,925	\$213	-\$147	\$1,272	\$45,517
1980.....	23,327	21,937	261	-9	2,571	88,833
1990.....	27,087	27,602	312	76	3,477	118,995
2000.....	31,477	30,561	352	76	4,550	156,522
2025.....	39,398	46,050	480	76	9,167	311,219

¹ At 3 percent, except 2.6 percent in 1959, 2.7 percent in 1960, 2.8 percent in 1961, and 2.9 percent in 1962.

² Beginning with 1957, the actual figures are somewhat overstated because this trust fund currently bears the administrative expenses of the disability insurance system and is later reimbursed therefor by the disability trust fund.

³ A positive figure indicates payment to the trust fund from the railroad retirement account; a negative figure indicates the reverse.

⁴ Not including amounts in the railroad retirement account to the credit of the old-age and survivors insurance trust fund. In millions of dollars, these amounted to \$377 for 1953, \$284 for 1954, \$163 for 1955, \$60 for 1956, and nothing for 1957 and thereafter.

⁵ Fund exhausted in 2008.

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TABLE 22.—Estimated progress of disability insurance trust fund, high employment and 1959 level earnings assumptions, 3 percent interest basis ¹

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses ²	Financial inter-change ³	Interest on fund	Fund at end of year
Actual data						
1957.....	\$702	\$57	\$3	-----	\$7	\$649
1958.....	966	249	12	-----	25	1,379
Low-cost estimate						
1970.....	\$1,213	\$582	\$26	-----	\$283	\$10,013
1980.....	1,419	743	30	\$4	593	20,696
1990.....	1,672	754	33	5	1,055	36,665
2000.....	2,002	896	40	5	1,760	60,968
2025.....	2,714	1,524	59	5	4,853	167,197
High-cost estimate						
1970.....	\$1,206	\$954	\$33	-\$6	\$204	\$7,127
1980.....	1,360	1,262	39	-2	319	10,979
1990.....	1,515	1,290	42	-1	462	15,966
2000.....	1,698	1,552	49	-1	684	23,520
2025.....	1,921	2,076	58	-1	1,235	42,283
Intermediate-cost estimate						
1970.....	\$1,209	\$768	\$30	-\$3	\$244	\$8,590
1980.....	1,390	1,002	33	1	457	15,808
1990.....	1,593	1,022	38	2	760	26,365
2000.....	1,850	1,224	45	2	1,224	42,312
2025.....	2,317	1,800	59	2	3,048	104,882

¹ At 3 percent, except 2.6 percent in 1959, 2.7 percent in 1960, 2.8 percent in 1961, and 2.9 percent in 1962.
² The actual figures are somewhat understated because the old-age, survivors and insurance trust fund currently bears the administrative expenses of this program and is later reimbursed therefor by this fund.
³ A positive figure indicates payment to the trust fund from the railroad retirement account; a negative figure indicates the reverse.

Annual benefit payments as a percentage of payroll are less than the scheduled tax rates in the early years (with a few exceptions), but—except under the low-cost disability estimate—eventually rise well above the ultimate scheduled combined employer-employee tax rate of 8½ percent for old-age and survivors insurance and one-half percent for disability insurance. To measure the extent to which the financing arrangements of the system result in a surplus or deficiency, a level rate equivalent to the actual increasing contribution rates has been computed, taking into account future interest. The level-premium equivalent of contributions minus the level-premium equivalent of benefit and administrative costs, after making allowance for the effect of the existing trust fund, gives the amount by which the contribution rate in all years would have to be changed to put the system in exact long-range balance according to the estimate. A negative figure indicates that an increase is needed. The figures

shown below, in percentages of payroll, are computed on a 3 percent interest basis as of the beginning of calendar year 1960:

Item	Low cost	High cost	Intermediate cost
Old-age and survivors insurance			
Contributions ¹	8.20	8.14	8.18
Benefit cost ²	7.35	9.61	8.38
Net difference.....	.85	-1.47	-.20
Disability insurance			
Contributions ¹	0.50	0.50	0.50
Benefit cost ²26	.46	.35
Net difference.....	.24	.04	.15

¹ Based on adjusted payroll that reflects the lower contribution rate for the self-employed as compared with the combined employer-employee rate.

² Including adjustments (a) to reflect lower contribution rate for the self-employed as compared with the combined employer-employee rate; (b) for interest on existing trust fund; (c) for administrative expenses; and (d) for the railroad retirement financial interchange provisions.

In view of the very long-range nature of these projections and the many variable factors involved, the deficiency for the old-age and survivors insurance system under the intermediate-cost estimate is so small that the system may be considered in approximate actuarial balance; on a 3½ percent interest basis (well below current market yields on long-term Government securities), instead of the above deficiency of 0.20 percent of payroll, there would be a surplus of 0.04 percent. The disability insurance system is more than in actuarial balance under all three estimates. The estimates contained in the previous report showed about the same results for the old-age and survivors insurance portion of the program. On the other hand, the disability insurance system was shown to be in almost exact balance. The more favorable current status of the disability insurance trust fund arises from a detailed analysis of actual operating experience that recently became available. Further discussion of this matter is presented in appendix I.

If the experience exactly follows the assumptions, the deficiency would gradually increase under the high-cost or intermediate-cost estimate for the old-age and survivors insurance system, while the surplus would increase under the low-cost estimate for old-age and survivors insurance and under all the estimates for disability insurance. Any deficit or surplus in the contribution schedule (as compared with the required level-premium tax rate) gradually increases through the years because of the effect of interest accumulations. In the case of a surplus, the excess contributions actually earn interest, while a deficit grows because of annual interest that would have been earned if the proper contributions had been paid. With continuing study of the emerging experience under the program, there will be ample time to make any changes in the tax rate that may be necessary to keep the system in actuarial balance.

It is important to note that these estimates are made on the assumption that earnings levels will remain at their present magnitude into the indefinite future. If earnings levels continue to rise, as they have

in the past, the benefits and taxable earnings base under the program will undoubtedly be modified. If such changes would be made concurrently and proportionately with changes in general earnings levels, the future year-by-year costs of the system as a percentage of taxable payroll would be the same as those shown. However, the existing trust fund accumulated in the past, and its interest earnings, will represent a smaller proportion of the future taxable payrolls than if earnings were not to increase in future years. As a result, since interest earnings of the trust fund will play a relatively smaller role in the financing of the system, the net level-premium cost—taking into account benefit payments, administrative expenses, and interest on the existing trust fund—would be somewhat higher. If benefits would be modified to reflect changes in earnings levels although not in full but rather only in part, or with a time lag, a still different cost situation would develop. Again, the effect of such changes can be observed in ample time to make any needed changes in the contribution schedule.

This analysis includes the benefits and contributions in respect to all persons anticipated to be covered in the future under present legislative provisions. There would be a large deficiency if account were taken only of the benefits to be paid to workers who have been covered by the system in the past and to their dependents and survivors, the future taxes to be paid by such workers, and the existing trust funds. In a private insurance company it is necessary to set up reserves equal to all currently accrued liabilities, since the company cannot compel individuals to become new policyholders and must be in a position at any time to pay all benefits which will become payable with respect to its present and past policyholders using only its present assets and the premiums to be paid by present policyholders. In analyzing the actuarial condition of a compulsory social insurance system which will continue indefinitely, however, the income and benefits with respect to new entrants can properly be included, thus obviating the need to set up reserves for all currently accrued liabilities.

A discussion of the assumptions under which these estimates have been made is presented in appendix I.

CONCLUSION

Both the contribution income and the disbursements of the old-age and survivors insurance trust fund have been increased substantially during the past 5 fiscal years. The increase in the contribution income resulted partly from the rise in earnings levels and the normal growth of the labor force and partly from the increases in contribution rates in 1954 and 1959, the extension of coverage to additional types of employment by the 1954 and 1956 amendments, and the increases in the maximum limit on taxable earnings in 1955 and 1959.

Old-age and survivors insurance trust fund disbursements, however, 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 acquire the quarters of coverage required to be insured. More immediate causes have been the amendments to the Social Security Act during 1950-58, which ex-

tended the program's coverage, lowered the requirements for eligibility to benefits for persons who retire (and for the survivors of individuals who die) in the early years of the program, reduced the minimum retirement age of women from 65 to 62, increased the benefits payable, and liberalized the retirement test.

As a result of the rapid rise in disbursements, the outgo of the old-age and survivors insurance trust fund exceeded its income by \$216 million in fiscal year 1958 and by \$1,271 million in fiscal year 1959. The assets of the trust fund were, of course, available to cover this excess of outgo over income in both years. Under the contribution schedule as revised by the Social Security Amendments of 1958, however, total receipts are expected to exceed total disbursements in the 5 fiscal year period 1960-64.

Long-range cost estimates show that the old-age and survivors insurance program is in close actuarial balance. In other words, the system will have sufficient income from contributions based on the tax schedule now in the law and from interest earned on investments to meet payments for benefits and administrative expenses over the long-range future.

Aggregate income of the disability insurance trust fund during the period immediately ahead will continue to be wholly sufficient to meet aggregate disbursements and in fact will build up a substantial fund. Long-range cost estimates show that the disability insurance program is more than in actuarial balance.

In its 19th annual report, the Board of Trustees presented its comments on the report of the Advisory Council on Social Security Financing. The Board expressed full or partial agreement with certain of the Council's recommendations that would necessitate changes in the law. Modified in accordance with the views of the Board, the proposed changes in the law are as follows:

(1) The so-called three times rule (requiring the Board of Trustees to report to the Congress whenever it expects that in the course of the next 5 fiscal years either of the trust funds will exceed three times the highest annual expenditures from such fund anticipated during that 5-year period) should be eliminated from the law.

(2) The law should be amended to state that the Board of Trustees shall meet not less frequently than once each 6 months.

(3) In order to permit the flexibility which occasional special circumstances might require, the law should be amended to allow the purchase of marketable securities only when such purchase would be in the public interest.

(4) The statutory formula fixing the interest rate on special Federal obligations issued for purchase by the trust funds should be changed so that the interest rate on such issues will approximate the average market yield on marketable Federal obligations that are due or callable 3 or more years from the time when the special obligation is issued.

An administration bill (H.R. 9148) incorporating these recommended changes was introduced in the Congress in September 1959.

