

APPENDIXES

APPENDIX I. ASSUMPTIONS, METHODOLOGY, AND DETAILS OF LONG-RANGE COST ESTIMATES

The basic assumptions used in the long-range estimates for the old-age, survivors, and disability insurance system are described in this appendix.¹ Also given are more detailed data in connection with the results of these estimates.

POPULATION

Projections were made of the United States population (including overseas areas covered by the old-age, survivors, and disability insurance program) for future quinquennial years, by 5-year age groups and by sex. The starting point was the population on July 1, 1955, as estimated by the Bureau of the Census from the 1950 census and from births, deaths, and migration in 1950-55. This population estimate was increased to allow for probable underenumeration in the 1950 census. The projections used were developed before the results of the 1960 census became available; the long-range cost estimates were not revised because the effect is negligible.²

In the projections for both cost estimates it is assumed that mortality rates will decline until the year 2000. In the high-cost estimate, mortality rates for the year 2000 are about 50 percent of the 1953 level up to age 70, with the rates at the older ages showing somewhat smaller improvements. The low-cost estimate assumes less improvement in mortality than the high-cost estimate.

In the low-cost estimate, fertility rates are assumed to remain at about the level of recent years until 1975 and then decrease slowly until in 2045-50 they reach about the level required to maintain a stationary population. The high-cost fertility rates begin decreasing at once and in 2005-10 reach about the level required to maintain a stationary population. Both estimates assume a small amount of net immigration.

The low-cost estimate is based on high fertility and high mortality, while the high-cost estimate assumes low fertility and low mortality. This makes the high-cost population relatively much older than the low-cost population, which is reasonable in view of the fact that benefits to aged persons account for nearly 85 percent of the cost of the system. Complete details about the population projections are given in Actuarial Study No. 46, Social Security Administration.

¹ For more details as to the procedures followed in making the long-range cost estimates, see Actuarial Study No. 49, Social Security Administration, May 1959, which deals with the 1956 act but also indicates the modified procedures that were used in connection with estimates for the 1958 and 1960 acts.

² The 1960 census revealed a greater number of persons aged 65 and over than earlier estimates had indicated, with most of this excess at ages 65 to 74. However, since people in these age groups are subject to high mortality and will thus not survive for many years, this discrepancy will have little effect on the long-range population projections. The 1960 census reported 16,560,000 persons aged 65 and over, as compared with the 1960 estimates of 16,413,000 in the high-cost projection and 16,319,000 in the low-cost projection. (For comparability, the projection figures should be reduced by about 200,000 because they are as of July 1 instead of Apr. 1, and because they include Puerto Rico and several other geographic areas).

EMPLOYMENT

Assumptions as to the percentage of the population who have covered employment during a year were made for each age group by sex for each quinquennial year. Estimated percentages for 1960 were projected to decrease in the younger ages for males to allow for a greater utilization of schools. For males 25 and over, the proportions were assumed to increase very slightly except for the older ages where they were assumed constant. An increase was assumed for females except for the very young and very old ages. These increases are higher in the middle ages and are a continuation of trends in the past. Assumptions were also made about the percentage of covered workers in each age group who have four quarters of coverage during the year. These assumptions may be characterized as representing moderately full employment. A depression could substantially increase the cost, as shown in table 18 of the main text. But it is believed that any periods of low employment would be of short duration and would not have a significant long-range effect.

EARNINGS

Level average earnings at about the 1961 level were assumed for each sex. It was also assumed that within each sex group the earnings level would not rise on account of changes in the distribution of covered workers by occupation or industry.

In the past, average earnings have increased greatly, partly because of inflation, partly because of increased productivity, and partly because of the changed occupational composition of the labor force and related factors. If this trend continues and if the benefit formula is not changed the cost relative to payroll would be less than the estimates show because the formula provides a benefit that is a decreasing percentage of average wage as the average wage increases.

It is likely, however, that if average earnings increase, the benefit formula and the earnings base used for contributions will be modified accordingly. If benefit payments are increased in exactly the same ratio as the increase in average earnings, the year-by-year cost estimates of benefit payments expressed as a percentage of payroll would be unchanged. There would, however, be some increase in the level-premium cost because of the diminished relative value of interest earnings on the trust funds.

INSURED POPULATION

The term "insured" is used as meaning either fully or currently insured. Separate estimates of fully insured, currently insured, and both fully and currently insured have not been made, because almost all aged insured persons and almost all younger male insured persons are fully insured, and also because either fully or currently insured status generally gives eligibility to all young survivor benefits.

The percentages of insured persons by age and sex in various future years are estimated from the percentages of persons covered. It is evident that eventually almost all males in the country will be insured for old-age and survivor benefits; the ultimate percentage for aged males is estimated at 93 percent in the low-cost estimate and 96 percent in the high-cost estimate. For females there is much greater

uncertainty; it is estimated that the corresponding proportions for aged females will eventually be 62 percent in the low-cost estimate and 68 percent in the high-cost estimate. The liberalized requirements for attaining fully insured status which were provided by the 1960 and 1961 amendments will have the effect of increasing the insured population for the next several years. In the long run, however, all persons attaining retirement age will need 40 quarters of coverage—as under previous law—so that the effect is temporary in nature.

The estimated numbers of persons insured for disability benefits are lower than those insured for old-age and survivor benefits because of the more restrictive insured status provisions for disability benefits.

AGED BENEFICIARIES

Old-age beneficiaries are estimated from the aged insured population. The proportions, by age and sex, of the insured population that were receiving benefits at the beginning of 1961 were adjusted for the effect of the 1960 and 1961 amendments to the retirement test and to the insured status requirements. These proportions were projected to increase slightly, following the trends in the past.

Wives aged 62 and over of male old-age beneficiaries are estimated by using census data and mortality projections. These potential wife beneficiaries, after adjustment for eligibility to benefits on their own account, are assumed to claim benefits as soon as they are eligible.

To estimate widow beneficiaries the proportions of widows in the female aged population are projected according to mortality assumptions and adjusted for both eligibility to benefits on their own account and insurance status of their deceased husbands. The uninsured eligible widows are also assumed to claim benefits as soon as these are available.

It can be observed that the assumed wife and widow beneficiaries consist of the uninsured potential beneficiaries. In actual practice, some of the insured potential beneficiaries also receive a residual benefit consisting of the excess of the potential wife's or widow's benefit over their own old-age benefit. These residual benefits, although not giving rise to additional aged beneficiaries, are considered in the cost of the particular type of dependent or survivor benefit concerned.

The minor category of parent beneficiaries is estimated as a constant proportion of aged persons not eligible for any other benefit. The insignificant effect of the retirement test as it applies to wife's, widow's, and parent's benefits is ignored. No estimates are made for benefits for dependent husbands and widowers since their cost is relatively negligible.

Appendix table 1 shows the estimated numbers of aged beneficiaries. By the year 2050, the numbers of beneficiaries in the low-cost estimate slightly exceed those under the high-cost estimate. This is because the low-cost population is much larger—not only at the working ages but also, although to a smaller degree, at the older ages.

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APPENDIX TABLE I.—Estimated monthly retirement beneficiaries in current-payment status,¹ 1970-2050

[In thousands]

Calendar year	Old-age beneficiaries		Wives of old-age beneficiaries ²	Aged widows ³	Dependent parents	Total
	Male	Female				
Actual data for end of year						
1950.....	1,469	302	502	306	14	2,593
1951.....	1,819	459	634	370	19	3,302
1952.....	2,052	592	724	434	21	3,823
1953.....	2,438	784	865	511	22	4,621
1954.....	2,803	972	983	596	24	5,378
1955.....	3,252	1,222	1,144	701	25	6,344
1956.....	3,572	1,540	1,376	913	27	7,428
1957.....	4,198	1,999	1,779	1,095	29	9,101
1958.....	4,617	2,303	1,979	1,233	30	10,162
1959.....	4,937	2,589	2,123	1,394	35	11,077
1960.....	5,217	2,845	2,236	1,544	36	11,877
1961.....	5,765	3,160	2,368	1,697	37	13,027
Low-cost estimate						
1970.....	6,948	4,557	2,638	2,677	32	16,852
1980.....	8,580	6,298	3,090	3,686	32	21,686
2000.....	10,517	9,057	3,087	4,589	25	27,275
2050.....	23,651	23,392	5,296	8,291	44	60,674
High-cost estimate						
1970.....	7,477	5,253	2,886	2,453	32	18,101
1980.....	9,933	7,650	3,642	3,153	32	24,410
2000.....	14,323	11,754	4,166	4,158	22	34,423
2050.....	25,011	22,883	4,900	5,173	30	57,997

¹ Persons qualifying both for old-age benefits and for wife's, widow's, husband's, widower's, and parent's benefits are shown only as old-age beneficiaries. Minimum retirement age was 65 until November 1956, when it was lowered to 62 for women, and until August 1961, when it was also reduced to 62 for men. Actual data as of the end of the year (except for 1958 that is given as of the end of November); estimated data as of the middle of the year. Excluding effect of railroad financial interchange provisions.

² Including dependent husbands and including wives of any age with child beneficiaries in their care (both relatively small categories).

³ Including dependent widowers.

BENEFICIARIES UNDER RETIREMENT AGE

Young wives and children of retired workers are estimated by reference to pertinent ratios to male old-age beneficiaries, as derived from recent actual data.

Child survivor beneficiaries are obtained from estimates of total paternal orphans in the country in future years. The projected child population by age groups is multiplied by the probability of the father having died, using distributions of age of fathers at birth of child and using death rates consistent with the population projections. The numbers of paternal orphans are then adjusted to eliminate orphans of uninsured men and to include the small numbers of orphans of insured women and of eligible disabled orphans aged 18 and over. Mother survivor beneficiaries are estimated by assuming a constant ratio of mothers to children, a little below the recent actual ratio in the low-cost estimate, and a little above it in the high-cost estimate. The numbers of lump-sum death payments are estimated by multiplying the estimated insured population by death rates consistent with the survival rates used in the population projections.

DISABLED BENEFICIARIES AND THEIR DEPENDENTS

Future numbers of persons receiving monthly disability benefits based on their own earnings records are estimated by applying disability prevalence rates (by age and sex) to the population insured for disability benefits. Prevalence rates may be defined as the proportions of the relevant population (population insured for disability in this case) that has a specific characteristic (receiving disability benefits in this case).

The prevalence rates in current use were developed from disability incidence rates based on the so-called 165 percent modification of class 3 rates (which includes increasingly higher percentages for ages above 45). This 165-percent modification corresponds roughly to life insurance company experience during the early 1930's. These rates were reduced by 10 percent to account for the fact that unlike the general definition in insurance company policies, disability is not presumed to be total and of expected long-continued duration after 6 months' duration. Rather, permanence must be proved at the time.

The original estimates of the cost of the disability insurance system (prepared at the time of the 1956 amendments) assumed, for high cost, incidence rates based on the 165 percent modification of class 3 rates. For low cost, the rates were assumed to be 25 percent of those used in the high cost estimate. These incidence rates are basically those in current use except for a narrowing of the range between low and high to reflect the operating experience analyzed up to now. This experience has shown the actual incidence rates to fall roughly midrange between the high incidence and low incidence originally assumed.

Benefit termination rates because of death and recovery in current use are those used in the original disability insurance cost estimate: i.e., class 3 rates for high cost and 1924-27 German social insurance experience for low cost estimate.

The prevalence rates resulting from the above incidence and termination rates are adjusted to reflect current operating experience and then used to calculate the numbers of beneficiaries in the future. These prevalence rates are thus based on the incidence and termination rates originally assumed, as corrected to reflect the latest available experience. The modified methodology followed allows a prompt reflection, in the estimated cost, of any changes in the program's experience.

In accordance with current data the prevalence rates for females are assumed to be about 75 percent of those used for male workers.

Appendix table 2 shows the estimates of number of beneficiaries under the minimum retirement age (including disability insurance beneficiaries and their dependents).

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APPENDIX TABLE 2.—*Estimated monthly beneficiaries under minimum retirement age in current-payment status¹ and number of deaths resulting in lump-sum death payments, 1970-2050*

[In thousands]

Calendar year	Children ²	Widowed mothers	Disability beneficiaries			Total monthly beneficiaries	Lump-sum death cases
			Workers	Wives ³	Children ⁴		
Actual data for end of year							
1950.....	700	169				869	200
1951.....	846	204				1,050	414
1952.....	939	229				1,168	438
1953.....	1,053	254				1,307	512
1954.....	1,161	272				1,432	516
1955.....	1,276	292				1,568	567
1956.....	1,341	301				1,642	547
1957.....	1,502	328	150			1,980	689
1958.....	1,606	354	239	12	18	2,228	1,657
1959.....	1,754	376	334	48	78	2,590	1,822
1960.....	1,845	401	455	77	155	2,934	779
1961.....	1,989	428	618	118	291	3,444	813
Low-cost estimate							
1970.....	2,406	527	966	189	540	4,628	1,066
1980.....	2,793	602	1,058	205	584	5,242	1,342
2000.....	3,505	772	1,370	255	671	6,573	1,799
2050.....	4,551	844	2,690	402	838	9,325	3,912
High-cost estimate							
1970.....	2,078	431	1,166	216	584	4,475	1,061
1980.....	2,169	402	1,281	223	530	4,605	1,322
2000.....	2,374	401	1,636	256	556	5,223	1,833
2050.....	3,023	393	2,205	302	616	6,539	3,215

¹ See footnote 1 of appendix table 1 for definition of minimum retirement age. Does not include wives under age 62 of old-age beneficiaries; includes disability beneficiaries aged 62 to 64, and spouses aged 62 and over of disability beneficiaries. For actual data, as of December (except for 1958—November); for estimated future data, as of middle of year. Excluding effect of railroad financial interchange provisions.

² Children of retired and deceased workers.

³ Spouses of disabled workers, including some such spouses aged 62 and over.

⁴ Children of disabled workers.

⁵ January through November 1958.

⁶ December 1958 through December 1959.

AVERAGE BENEFITS AND TOTAL BENEFIT PAYMENTS

Average benefits in the various benefit categories were interpolated between the sizes of current benefit awards, estimated from recent claims data, and the sizes of ultimate benefits computed. The latter were determined as though the 1961 earnings level would be in effect throughout the entire working life of all workers with respect to whom benefits are being paid. Total benefit payments are in dollar amounts, shown in tables B and C, and as a percentage of payroll, in table A.

The cost for old-age, survivor, and disability benefits combined, as a percentage of payroll, is eventually about three times the 1960 figure for the high-cost estimate, as shown in tables 14, 17, and A, and two times as high for the low-cost estimate. The significant upward cost trend is temporarily reversed around the year 2000, at which time a significant part of the aged population consists of survivors of persons born in the 1930's, when birth rates were low.

ADMINISTRATIVE EXPENSES

Assumed administrative expenses for old-age, survivors, and disability insurance are based on two factors—the number of persons having any covered employment in the given year and the number of monthly beneficiaries.

RAILROAD RETIREMENT FINANCIAL INTERCHANGE

A financial interchange between the old-age, survivors, and disability insurance system and the railroad retirement system is provided, as explained in appendix II. The purpose of this interchange is to place the old-age and survivors insurance and the disability insurance trust funds in the same position they would have been in if railroad employment were, and always had been, covered employment.

Because of the relatively older age distribution of railroad workers, the transfer is currently in favor of the railroad retirement system. But it is estimated that eventually the low-cost factors in respect to railroad employment—higher average wage, lower percentage of females, and more wives and widows of railroad workers receiving old-age, survivors, and disability insurance benefits on their own earnings records, rather than on the record of the railroad worker—will shift the transfer the other way. The long-range effect is relatively insignificant insofar as old-age, survivors, and disability insurance costs are concerned, but the current estimates indicate a small net gain to the railroad retirement system over the entire period of these estimates.

INTEREST RATES

The 1960 amendments revised the basis for determining the interest rate on public-debt obligations issued for purchase by the trust funds (special issues), which constitute a major portion of the investments of the trust funds. Under previous law, the interest rate on special obligations was related to the average coupon rate on all outstanding marketable obligations of the United States not due or callable for at least 5 years from the original issue date. Under present law, this interest rate is based on the average market yield of all such marketable obligations not due or callable for 4 more years from the time of the issuance of the special obligations.

This change will have the immediate effect of gradually increasing the interest income of the trust funds as compared with the previous basis. The ultimate effect is expected to be only a slight increase in the interest income of the system since, over the long run, coupon rates on new long-term Government obligations tend to follow (both up and down) the average market yield on all outstanding long-term issues.

The gain in the immediate future and the small possible long-run advantage of the new interest basis are reflected in the cost estimates by using a level interest rate of 3.25 percent for the level-premium calculations (as against 3.02 percent formerly). This rate is the overall equivalent of the varying interest rates, developed on a year-by-year basis, used in the development of the progress of the trust funds. These varying interest rates have been estimated from the existing maturity schedule of special issues and from assumed average market-yield rates on long-term Government obligations.

APPENDIX II. LEGISLATIVE HISTORY AFFECTING THE TRUST FUNDS ¹

BOARD OF TRUSTEES

From January 1, 1940, when the Federal old-age and survivors insurance trust fund was established, through July 15, 1946, the three members of the Board of Trustees, who served in an ex officio capacity, were the Secretary of the Treasury, the Secretary of Labor, and the Chairman of the Social Security Board. On July 16, 1946, under the Reorganization Plan No. 2 of 1946, the Federal Security Administrator became ex officio member of the Board of Trustees in place of the Chairman of the Social Security Board, which agency was abolished. On April 11, 1953, the Reorganization Plan No. 1 of 1953, creating the Department of Health, Education, and Welfare, went into effect, and the Office of Federal Security Administrator was abolished. The functions of the Administrator as ex officio member of the Board of Trustees were taken over by the Secretary of Health, Education, and Welfare. The remaining membership of the Board has not changed since it was first established. Since the establishment of the fund the Secretary of the Treasury has been managing trustee. The Social Security Act Amendments of 1950 designated the Commissioner for Social Security—since April 11, 1953, the Commissioner of Social Security—as Secretary of the Board of Trustees. Under the Social Security Amendments of 1956, the Board of Trustees of the Federal old-age and survivors insurance trust fund was also made the Board of Trustees of the Federal disability insurance trust fund. The Social Security Amendments of 1960 provide that the Board of Trustees shall meet not less frequently than once each 6 months. These amendments also eliminated 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).

CONTRIBUTION RATES

The Social Security Act of 1935 fixed the contribution rates for employees and their employers at 1 percent each on taxable wages for the calendar years 1937-39, and provided for higher rates thereafter. However, subsequent acts of Congress extended the 1-percent rates through calendar year 1949. On January 1, 1950, the rates rose to 1½ percent each for employees and employers, as provided by the Social Security Act Amendments of 1947. In accordance with the Social Security Act Amendments of 1950, the 1½-percent rates remained in effect through calendar year 1953, and, on January 1, 1954, rose to 2 percent each for employees and employers. These rates remained in effect through December 31, 1956. In accordance with the Social Security Amendments of 1956, the 2-percent rates rose to 2¼ percent each on January 1, 1957, and remained in effect through calendar year 1958. On January 1, 1959, the rates rose to 2½ percent each, and on January 1, 1960, to 3 percent each, as provided by the Social Security

¹ Amendments to the Social Security Act and to related sections of the Internal Revenue Code were made during the period 1930-59. The more important changes made in 1950-58 that are significant from an actuarial standpoint are described in app. II of the 21st Annual Report of the Board of Trustees. The more important changes contained in the 1960 and 1961 amendments are described in the main body of the present report.

Amendments of 1958. Beginning January 1, 1951—the effective date of extension of coverage to self-employed persons—the rates of tax on self-employment income have been equal to 1½ times the corresponding employee rates, except that beginning in 1962 the resulting rates for the self-employed are rounded to the nearest tenth of 1 percent. The tax rates that have been in effect since 1937 and the maximum amount of annual earnings to which the rates applied are shown in the following table:

Calendar years	Maximum taxable amount of annual earnings	Percent of taxable earnings	
		Employees and employers, each	Self-employed
1937-49.....	\$3,000	1	-----
1950.....	3,000	1½	-----
1951-53.....	3,600	1½	2¼
1954.....	3,600	2	3
1955-56.....	4,200	2	3
1957-58.....	4,200	2¼	3¾
1959.....	4,800	2½	3¾
1960-61.....	4,800	3	4½
1962.....	4,800	3½	4.7

SPECIAL REFUNDS OF EMPLOYEE CONTRIBUTIONS

With respect to wages paid before 1951, refunds to employees who worked for more than one employer during the course of a year and paid contributions on such wages in excess of the statutory maximum were made from general revenues. With respect to wages paid after 1950, these refunds are paid from the Treasury account for refunding internal revenue collections. The Social Security Act Amendments of 1950 directed the managing trustee to pay from time to time from the old-age and survivors insurance trust fund into the Treasury, as repayments to the account for refunding internal revenue collections, the amount estimated by him to be contributions which are subject to refund with respect to wages paid after 1950. The Social Security Amendments of 1956 provided for similar repayments from the disability insurance trust fund.

CREDITS FOR MILITARY SERVICE

The Social Security Act Amendments of 1946 provided survivor-insurance protection to certain World War II veterans for a period of 3 years following their discharge from the Armed Forces. Federal appropriations were authorized to reimburse the Federal old-age and survivors insurance trust fund for such sums as were withdrawn to meet the additional cost (including administrative expenses) of such payments. The 1950 amendments, which provided noncontributory \$160 monthly wage credits to persons who served in the Armed Forces during World War II, and the 1952, 1953, 1955, and 1956 amendments which provided similar noncontributory credits on account of active military or naval service from July 25, 1947, through December 31, 1956, charged to the old-age and survivors insurance trust fund not only the additional costs arising from these credits but also, beginning September 1950, those additional costs arising under the 1946 amendments. The 1956 amendments provided contributory coverage for

military personnel beginning January 1, 1957. In addition, these amendments authorized that the old-age and survivors insurance trust fund and, where appropriate, the disability insurance trust fund be reimbursed from general revenues for expenditures after August 1950 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.

COORDINATION OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE
AND RAILROAD RETIREMENT PROGRAM

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. This legislation provides that the railroad wage credits of workers who die or retire with less than 10 years of railroad employment shall be transferred to the old-age and survivors insurance system. These amendments did not affect workers who acquire 10 years or more of railroad service. That is, the survivors of over-10-year railroad workers will, as under the 1946 amendments to the Railroad Retirement Act, receive benefits under one program or the other based on combined wage records, while retirement benefits will be payable under both systems to individuals with 10 or more years of railroad service who also qualify under old-age and survivors insurance.

With respect to the allocation of costs between the two systems, Public Law 234 required the Railroad Retirement Board and the Secretary of Health, Education, and Welfare to—

determine, no later than January 1, 1954, the amount which would place the Federal old-age and survivors insurance trust fund in the same position in which it would have been at the close of the fiscal year ending June 30, 1952, if service as an employee after December 31, 1936, had been included in the term "employment" as defined in the Social Security Act and in the Federal Insurance Contributions Act.

The two agencies completed a series of joint actuarial studies and analyses required by this provision. The results show that the addition of \$488 million to the old-age and survivors insurance trust fund would place it in the same position as of June 30, 1952, as it would have been if railroad employment had always been covered under the Social Security Act.

There is no authority in the law that would have permitted the transfer of the \$488 million from the railroad retirement account to the trust fund, but the legislation provides that beginning with fiscal year 1953, and for each fiscal year thereafter, annual interest payments on this amount (less any offsets described below) were to be transferred from the railroad retirement account to the trust fund.

The legislation further provides that at the close of the fiscal year 1953, and each fiscal year thereafter, annual reimbursements are to be effected between the railroad retirement account and the trust fund in such amounts as would, taking into consideration the amount determined for the period through June 30, 1952, place the trust fund at the end of the year in the same position in which it would have been if railroad employment were covered under the Social Security Act. If the reimbursement is from the trust fund to the railroad retirement account, the Secretary of Health, Education, and Welfare may offset

the amount of such reimbursement against the amount determined for the period through June 30, 1952.

The Social Security Amendments of 1956 amended Public Law 234 to provide for similar annual determinations and financial interchanges between the railroad retirement account and the newly created disability insurance trust fund, beginning with the fiscal year ending June 30, 1958.

APPENDIX III. STATUTORY PROVISIONS, AS OF SEPTEMBER 13, 1960, CREATING THE TRUST FUNDS, DEFINING THE DUTIES OF THE BOARD OF TRUSTEES, AND PROVIDING FOR ADVISORY COUNCILS ON SOCIAL SECURITY FINANCING

(Sec. 201 and sec. 218 (e), (h), and (j) of the Social Security Act as amended and sec. 116 of the Social Security Amendments of 1956 as amended)

FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND FEDERAL DISABILITY INSURANCE TRUST FUND

SEC. 201. (a) There is hereby created on the books of the Treasury of the United States a trust fund to be known as the "Federal Old-Age and Survivors Insurance Trust Fund." The Federal Old-Age and Survivors Insurance Trust Fund shall consist of the securities held by the Secretary of the Treasury for the Old-Age Reserve Account and the amount standing to the credit of the Old-Age Reserve Account on the books of the Treasury on January 1, 1940, which securities and amount the Secretary of the Treasury is authorized and directed to transfer to the Federal Old-Age and Survivors Insurance Trust Fund, and, in addition, such amounts as may be appropriated to, or deposited in, the Federal Old-Age and Survivors Insurance Trust Fund, as hereinafter provided. There is hereby appropriated to the Federal Old-Age and Survivors Insurance 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—

(1) the taxes (including interest, penalties, and additions to the taxes) received under subchapter A of chapter 9 of the Internal Revenue Code of 1939 (and covered into the Treasury) which are deposited into the Treasury by collectors of internal revenue before January 1, 1951; and

(2) the taxes certified each month by the Commissioner of Internal Revenue as taxes received under subchapter A of chapter 9 of such Code which are deposited into the Treasury by collectors of internal revenue after December 31, 1950, and before January 1, 1953, with respect to assessments of such taxes made before January 1, 1951; and

(3) the taxes imposed by subchapter A of chapter 9 of such Code with respect to wages (as defined in section 1426 of such Code), and by chapter 21 of the Internal Revenue Code of 1954 with respect to wages (as defined in section 3121 of such Code) re-reported to the Commissioner of Internal Revenue pursuant to section 1420(c) of the Internal Revenue Code of 1939 after December 31, 1950, or to the Secretary of the Treasury or his

delegates pursuant to subtitle F of the Internal Revenue Code of 1954 after December 31, 1954, as determined by the Secretary of the Treasury by applying the applicable rates of tax under such subchapter or chapter 21 to such wages, which wages shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of wages established and maintained by such Secretary in accordance with such reports, less the amounts specified in clause (1) of subsection (b) of this section; and

(4) the taxes imposed by subchapter E of chapter 1 of the Internal Revenue Code of 1939, with respect to self-employment income (as defined in section 481 of such Code), and by chapter 2 of the Internal Revenue Code of 1954 with respect to self-employment income (as defined in section 1402 of such Code) reported to the Commissioner of Internal Revenue on tax returns under such subchapter or to the Secretary of the Treasury or his delegate on tax returns under subtitle F of such Code, as determined by the Secretary of the Treasury by applying the applicable rate of tax under such subchapter or chapter to such self-employment income, which self-employment income shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of self-employment income established and maintained by the Secretary of Health, Education, and Welfare in accordance with such returns, less the amounts specified in clause (2) of subsection (b) of this section.

The amounts appropriated by clauses (3) and (4) shall be transferred from time to time from the general fund in the Treasury to the Federal Old-Age and Survivors Insurance Trust Fund, and the amounts appropriated by clauses (1) and (2) of subsection (b) shall be transferred from time to time from the general fund in the Treasury to the Federal Disability Insurance Trust Fund, such amounts to be determined on the basis of estimates by the Secretary of the Treasury of the taxes, specified in clauses (3) and (4) of this subsection, 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 taxes specified in such clauses (3) and (4) of this subsection.

There is hereby created on the books of the Treasury of the United States a trust fund to be known as the "Federal Disability Insurance Trust Fund." The Federal Disability Insurance Trust Fund shall consist of such amounts as may be appropriated to, or deposited in, such fund as provided in this section. There is hereby appropriated to the Federal Disability Insurance Trust Fund for the fiscal year ending June 30, 1957, and for each fiscal year thereafter, out of any moneys in the Treasury not otherwise appropriated, amounts equivalent to 100 per centum of—

(1) One-half of 1 per centum of the wages (as defined in section 3121 of the Internal Revenue Code of 1954) paid after December 31, 1956, and reported to the Secretary of the Treasury or his delegate pursuant to subtitle F of the Internal Revenue Code of 1954, which wages shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of wages established and maintained by such Secretary in accordance with such reports; and

(2) Three-eighths of 1 per centum of the amount of self-employment income (as defined in section 1402 of the Internal Revenue Code of 1954) reported to the Secretary of the Treasury or his delegate on tax returns under subtitle F of the Internal Revenue Code of 1954 for any taxable year beginning after December 31, 1956, which self-employment income shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of self-employment income established and maintained by the Secretary of Health, Education, and Welfare in accordance with such returns.

(c) With respect to the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (hereinafter in this title called the "Trust Funds") there is hereby created a body to be known as the Board of Trustees of the Trust Funds (hereinafter in this title called the "Board of Trustees") which Board of Trustees shall be composed of the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare, all ex officio. The Secretary of the Treasury shall be the Managing Trustee of the Board of Trustees (hereinafter in this title called the "Managing Trustee"). The Commissioner of Social Security shall serve as Secretary of the Board of Trustees. The Board of Trustees shall meet not less frequently than once each six months. It shall be the duty of the Board of Trustees to—

- (1) Hold the Trust Funds;
- (2) Report to the Congress not later than the first day of March of each year on the operations and status of the Trust Funds during the preceding fiscal year and on their expected operation and status during the next ensuing five fiscal years;
- (3) Report immediately to the Congress whenever the Board of Trustees is of the opinion that the amount of either of the Trust Funds is unduly small;
- (4) Recommend improvements in administrative procedures and policies designed to effectuate the proper coordination of the old-age and survivors insurance and Federal-State unemployment compensation program; and
- (5) Review the general policies followed in managing the Trust Funds, and recommend changes in such policies, including necessary changes in the provisions of the law which govern the way in which the Trust Funds are to be managed.

The report provided for in paragraph (2) above shall include a statement of the assets of, and the disbursements made from, the Trust Funds during the preceding fiscal year, an estimate of the expected future income to, and disbursements to be made from, the Trust Funds during each of the next ensuing five fiscal years, and a statement of the actuarial status of the Trust Funds. Such reports shall be printed as a House document of the session of the Congress to which the report is made.

(d) It shall be the duty of the Managing Trustee to invest such portion of the Trust Funds as is not, in his judgment, required to meet current withdrawals. Such investments may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purposes such obligations may be acquired (1) on original issue at the issue price, or (2) by purchase of outstanding obligations

at the market price. The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of public-debt obligations for purchase by the Trust Funds. Such obligations issued for purchase by the Trust Funds shall have maturities fixed with due regard for the needs of the Trust Funds and shall bear interest at a rate equal to the average market yield (computed by the Managing Trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States then forming a part of the public debt which are not due or callable until after the expiration of four years from the end of such calendar month; except that where such average market yield is not a multiple of one-eighth of 1 per centum, the rate of interest of such obligations shall be the multiple of one-eighth of 1 per centum nearest such market yield. The Managing Trustee may purchase other interest-bearing obligations of the United States or obligations guaranteed as to both principal and interest by the United States, on original issue or at the market price, only where he determines that the purchase of such other obligations is in the public interest.

(e) Any obligations acquired by the Trust Funds (except public-debt obligations issued exclusively to the Trust Funds) may be sold by the Managing Trustee at the market price, and such public-debt obligations may be redeemed at par plus accrued interest.

(f) The interest on, and the proceeds from the sale or redemption of, any obligations held in the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund shall be credited to and form a part of the Federal Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund, respectively.

(g)(1) The Managing Trustee is directed to pay from the Trust Funds into the Treasury the amounts estimated by him and the Secretary of Health, Education, and Welfare which will be expended, out of moneys appropriated from the general funds in the Treasury, during a three-month period by the Department of Health, Education, and Welfare and the Treasury Department for the administration of titles II and VIII of this Act and subchapter E of chapter 1 and subchapter A of chapter 9 of the Internal Revenue Code of 1939, and chapters 2 and 21 of the Internal Revenue Code of 1954. Such payments shall be covered into the Treasury as repayments to the account for reimbursement of expenses incurred in connection with the administration of titles II and VIII of this Act and subchapter E of chapter 1 and subchapter A of chapter 9 of the Internal Revenue Code of 1939, and chapters 2 and 21 of the Internal Revenue Code of 1954. There are hereby authorized to be made available for expenditure, out of either or both of the Trust Funds, such amounts as the Congress may deem appropriate to pay the cost of administration of this title. After the close of each fiscal year, the Secretary of Health, Education, and Welfare shall analyze the costs of administration of this title incurred during such fiscal year in order to determine the portion of such costs which should have been borne by each of the Trust Funds and shall certify to the Managing Trustee the amount, if any, which should be transferred from one to the other of such Trust Funds in order to insure that each of the Trust Funds has borne its proper share of the

costs of administration of this title incurred during such fiscal year. The Managing Trustee is authorized and directed to transfer any such amount from one to the other of such Trust Funds in accordance with any certification so made.

(2) The Managing Trustee is directed to pay from time to time from the Trust Funds into the Treasury the amount estimated by him as taxes which are subject to refund under section 6413(c) of the Internal Revenue Code of 1954 with respect to wages (as defined in section 1426 of the Internal Revenue Code of 1939 and section 3121 of the Internal Revenue Code of 1954) paid after December 31, 1950. Such taxes shall be determined on the basis of the records of wages established and maintained by the Secretary of Health, Education, and Welfare in accordance with the wages reported to the Commissioner of Internal Revenue pursuant to section 1420(c) of the Internal Revenue Code of 1939 and to the Secretary of the Treasury or his delegate pursuant to subtitle F of the Internal Revenue Code of 1954, and the Secretary shall furnish the Managing Trustee such information as may be required by the Trustee for such purpose. The payments by the Managing Trustee shall be covered into the Treasury as repayments to the account for refunding internal revenue collections. Payments pursuant to the first sentence of this paragraph shall be made from the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund in the ratio in which amounts were appropriated to such Trust Funds under clause (3) of subsection (a) of this section and clause (1) of subsection (b) of this section.

(3) Repayments made under paragraph (1) or (2) shall not be available for expenditures but shall be carried to the surplus fund of the Treasury. If it subsequently appears that the estimates under either such paragraph in any particular period were too high or too low, appropriate adjustments shall be made by the Managing Trustee in future payments.

(h) Benefit payments required to be made under section 223, and benefit payments required to be made under subsection (b), (c), or (d) of section 202 to individuals entitled to benefits on the basis of the wages, and self-employment income of an individual entitled to disability insurance benefits shall be made only from the Federal Disability Insurance Trust Fund. All other benefit payments required to be made under this title shall be made only from the Federal Old-Age and Survivors Insurance Trust Fund.

PAYMENTS AND REPORTS BY STATES

SEC. 218. (e) Each agreement under this section shall provide—

(1) that the State will pay to the Secretary of the Treasury, at such time or times as the Secretary of Health, Education, and Welfare may by regulations prescribe, amounts equivalent to the sum of the taxes which would be imposed by sections 3101 and 3111 of the Internal Revenue Code of 1954 if the services of employees covered by the agreement constituted employment as defined in section 3121 of such code; and

(2) that the State will comply with such regulations relating to payments and reports as the Secretary of Health, Education, and Welfare may prescribe to carry out the purposes of this section.

DEPOSITS IN TRUST FUNDS; ADJUSTMENTS

SEC. 218. (h)(1) All amounts received by the Secretary of the Treasury under an agreement made pursuant to this section shall be deposited in the Trust Funds in the ratio in which amounts are appropriated to such Funds pursuant to subsections (a)(3) and (b)(1) of section 201.

(2) If more or less than the correct amount due under an agreement made pursuant to this section is paid with respect to any payment of remuneration, proper adjustments with respect to the amounts due under such agreement shall be made, without interest, in such manner and at such times as may be prescribed by regulations of the Secretary of Health, Education, and Welfare.

(3) If an overpayment cannot be adjusted under paragraph (2), the amount thereof and the time or times it is to be paid shall be certified by the Secretary of Health, Education, and Welfare to the Managing Trustee, and the Managing Trustee, through the Fiscal Service of the Treasury Department and prior to any action thereon by the General Accounting Office, shall make payment in accordance with such certification. The Managing Trustee shall not be held personally liable for any payment or payments made in accordance with a certification by the Secretary of Health, Education, and Welfare.

FAILURE TO MAKE PAYMENTS

SEC. 218. (j) In case any State does not make, at the time or times due, the payments provided for under an agreement pursuant to this section, there shall be added, as part of the amounts due, interest at the rate of 6 per centum per annum from the date due until paid, and the Secretary of Health, Education, and Welfare may, in his discretion, deduct such amounts plus interest from any amounts certified by him to the Secretary of the Treasury for payment to such State under any other provision of this Act. Amounts so deducted shall be deemed to have been paid to the State under such other provision of this Act. Amounts equal to the amounts deducted under this subsection are hereby appropriated to the Trust Funds in the ratio in which amounts are deposited in such Funds pursuant to subsection (h) (1).

ADVISORY COUNCIL ON SOCIAL SECURITY FINANCING

SEC. 116. (a) There is hereby established an Advisory Council on Social Security Financing for the purpose of reviewing the status of the Federal Old-Age and Survivors Insurance Trust Fund and of the Federal Disability Insurance Trust Fund in relation to the long-term commitments of the old-age, survivors, and disability insurance program.

(b) The Council shall be appointed by the Secretary after February 1957 and before January 1958 without regard to the civil service laws and shall consist of the Commissioner of Social Security, as chairman, and of twelve other persons who shall, to the extent possible, represent employers and employees in equal numbers, and self-employed persons and the public.

(c) (1) The Council is authorized to engage such technical assistance, including actuarial services, as may be required to carry out its functions, and the Secretary shall in addition, make available

to the Council such secretarial, clerical, and other assistance and such actuarial and other pertinent data prepared by the Department of Health, Education, and Welfare as it may require to carry out such functions.

(2) Members of the Council, while serving on business of the Council (inclusive of travel time), shall receive compensation at rates fixed by the Secretary, but not exceeding \$50 per day; and shall be entitled to receive actual and necessary traveling expenses and per diem in lieu of subsistence while so serving away from their places of residence.

(d) The Council shall make a report of its findings and recommendations (including recommendations for changes in the tax rates in sections 1401, 3101, and 3111 of the Internal Revenue Code of 1954) to the Secretary of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, such report to be submitted not later than January 1, 1959, after which date such Council shall cease to exist. Such findings and recommendations shall be included in the annual report of the Board of Trustees to be submitted to the Congress not later than March 1, 1959.

(e) During 1963, 1966, and every fifth year thereafter, the Secretary shall appoint an Advisory Council on Social Security Financing, with the same functions, and constituted in the same manner, as prescribed in the preceding subsections of this section. Each such Council shall report its findings and recommendations, as prescribed in subsection (d), not later than January 1, of the second year after the year in which it is appointed, after which date such Council shall cease to exist, and such report and recommendations shall be included in the annual report of the Board of Trustees to be submitted to the Congress not later than the March 1 following such January 1.

(f) The Advisory Council appointed under subsection (e) during 1963 shall, in addition to the other findings and recommendations it is required to make, include in its report its findings and recommendations with respect to extensions of the coverage of the old-age, survivors, and disability insurance program, the adequacy of benefits under the program, and all other aspects of the program.

