

79th Congress }
2d Session }

SENATE COMMITTEE PRINT

SIXTH ANNUAL REPORT
OF THE
BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS
INSURANCE TRUST FUND



Printed for the use of the Committee on Finance

UNITED STATES
GOVERNMENT PRINTING OFFICE

86533

WASHINGTON : 1946

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SIXTH ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

INTRODUCTORY STATEMENT

This report is submitted to Congress in accordance with the requirement in section 201 of the Social Security Act, as amended, that the board of trustees of the Federal old-age and survivors insurance trust fund submit an annual report on the present and prospective operations and status of the trust fund. The present report, pertaining to the fiscal year ended June 30, 1945, the five fiscal years subsequent to that date, and the long-range actuarial status of the fund, is the sixth annual report which the board of trustees has submitted.

The Federal old-age and survivors insurance trust fund, which was established on January 1, 1940, is held by the board of trustees under authority of the Social Security Act. The three members of this board, each of whom serves in an ex officio capacity, are the Secretary of the Treasury, the Secretary of Labor, and the Chairman of the Social Security Board. The Secretary of the Treasury serves as managing trustee. The present document is a joint report by all three of the trustees.

The Nation was at war throughout the fiscal year 1944-45 covered by this report. Accordingly, the operations under the old-age and survivors insurance program on which this document reports have been substantially affected by the highly abnormal economic and other conditions accompanying prosecution of the war—abnormalities which provide an inadequate basis for forecasting future developments under the program.

The Nation is now facing the problems of reconversion from war to peace. These problems increase greatly the difficulties of reporting on the expected operation and status of the fund during the 5-year period from July 1, 1945, to June 30, 1950. The time which has elapsed since the termination of hostilities both in the European and Pacific theaters of war is as yet too brief to provide a basis for judging the full impact of reconversion on employment opportunities and take-home pay—a factor which will greatly influence old-age and survivors insurance finances in the period immediately ahead.

The war itself will probably cause long-run changes of a permanent character in various phases of our economy which will significantly affect the financing of old-age and survivors insurance. The influences of the war and of its termination, however, will be even more direct and marked on operations during the immediate 5-year period ahead, for which forecasts are required by law. The most important unknown factor is the intensity and duration of economic dislocations during the reconversion period. The preparation of this sixth annual

report therefore has been particularly difficult, and the estimates which it contains are presented with even greater reservations than would be necessary if the times were less abnormal.

NATURE OF THE TRUST FUND

Amounts accumulated under the old-age and survivors' insurance program are held in the Federal old-age and survivors' insurance trust fund, and financial operations under the program are handled through this fund. The primary source of the fund's receipts is amounts appropriated to it under permanent appropriation, on the basis of contributions paid by covered workers and their employers toward old-age and survivors' insurance. The Federal Insurance Contributions Act requires all employees and employers, excepting those in specifically excluded employments, to pay contributions with respect to individual wages up to but not in excess of \$3,000 per annum. These contributions are collected by the Bureau of Internal Revenue and are paid into the Treasury as internal-revenue collections. Sums equivalent to 100 percent of current collections (including taxes, interest, penalties, and additions to taxes) are transferred to the trust fund as such collections are received.

The Social Security Act of 1935 fixed the contribution rates for employees at 1 percent of taxable wages for the calendar years 1937, 1938, and 1939; employer rates were also fixed at 1 percent for the same period. The 1935 law provided that these rates should rise to 1½ percent on January 1, 1940, to 2 percent on January 1, 1943, to 2½ percent on January 1, 1946, and to 3 percent on January 1, 1949. The social-security amendments of 1939 modified this original schedule of contribution rates to provide that the rate of 1 percent each on employees and employers should continue in effect through 1942 but left the remainder of the schedule as originally enacted. The Revenue Act of 1942 provided that the 1-percent rates should continue through 1943. Public Law 211 of the Seventy-eighth Congress extended the 1-percent rates further through February 29, 1944, while the Revenue Act of 1943 extended the same rates throughout 1944. Public Law 495 of the Seventy-eighth Congress further continued the 1-percent rates throughout 1945, while the Revenue Act of 1945 extended them through 1946.

At the end of 1946, accordingly, the 1-percent rates of contribution will have been in effect for 10 years. Existing provisions of law provide for the 2½-percent rates to go into effect on January 1, 1947, and the 3-percent rates on January 1, 1949.

The second source from which receipts of the trust fund are derived is interest received on investments held by the fund. The investment procedures of the fund are described below.

A third potential source of revenue for the trust fund is provided in section 902 of the Revenue Act of 1943. This law amended section 201 of the Social Security Act and authorizes, as a Government contribution, the appropriation to the trust fund of such additional sums out of general revenues as may be required to finance the benefits and payments provided in title II of the Social Security Act. No appropriations have yet been made under this authorization.

Expenditures under the old-age and survivors insurance program are paid out of the trust fund. These expenditures include old-age

and survivors insurance benefits provided in title II of the Social Security Act and such reimbursements to the Treasury for administrative expenses incurred by the Social Security Board and the Treasury Department under the program as are authorized by section 201 (f) of the act. The Social Security Board certifies benefit payments to the managing trustee, who makes the payments from the trust fund in accordance therewith. Payments are made from an uninvested balance held in the fund to the account of the disbursing officer of the Treasury.

The Treasury is reimbursed from the trust fund for expenditures incurred by the Social Security Board and the Treasury Department in the administration of title II of the Social Security Act and the Federal Insurance Contributions Act. These reimbursements from the trust fund are made monthly, although their size is determined at 3-month intervals. Although limited to the amounts annually appropriated by Congress for such purposes, the cost of administering old-age and survivors insurance, thus, is not borne out of regular governmental revenues but out of the old-age and survivors insurance trust fund itself.

The managing trustee invests that portion of the trust fund which, in his judgment, is not required to meet current expenditures for benefits or administration. The Social Security Act restricts permissible investments of the trust fund to interest-bearing obligations of the United States Government or to obligations guaranteed as to both principal and interest by the United States. Regular obligations of these types may be acquired on original issue at par or by purchase of outstanding obligations at their market price. In addition, the Social Security Act authorizes the issuance of special obligations exclusively to the trust fund. Such special obligations are required to bear interest at a rate equal to the average rate of interest, computed as of the end of the calendar month next preceding the date of their issue, borne by all interest-bearing obligations of the United States forming a part of the public debt (where such average rate is not a multiple of one-eighth of 1 percent, the rate of interest on such special obligations is required to be the multiple of one-eighth of 1 percent next lower than such average rate).

Interest on regular obligations held by the trust fund is received by the fund at the time the interest becomes payable on the particular series held. Interest on special obligations is received annually on June 30. These interest receipts are available for investment in the same manner as other receipts of the fund. Regular obligations acquired by the fund may be sold at any time by the managing trustee at their market price. Special obligations may be redeemed at par plus accrued interest.

The trust fund serves, in part, as a reserve to meet a portion of the inevitable future long-term rise in benefit disbursements and is a safety factor against the first impacts which may result from an acceleration in the rate of this long-term rise. Benefit disbursements under the program are expected to increase markedly over a long period. Such a substantial increase is anticipated both because the number of persons aged 65 and over will be increasing for many decades and because an increasing proportion of such aged persons will be qualifying for benefits under the old-age and survivors insurance system.

At the beginning of 1940 there were about 9,000,000 persons aged 65 and over, equivalent to 6.8 percent of the total population. According to a "medium" set of carefully developed estimates, the number of persons aged 65 and over may increase to about 19,000,000, or perhaps 12 percent of the population, within 40 years. The effect of the finances of the old-age and survivors insurance system of this expected change in the number of aged persons will be even greater than may at first appear. This is because, compared with the present situation, a larger proportion of aged persons 40 years hence is expected to be eligible to receive benefits under the program. The future financial soundness of the system, with its rising rates of disbursements, must rest on higher contribution rates or on the provision of income from other sources, or both. Prudent financial management of this system is of the utmost importance to the millions of persons who are already within its scope and to the Nation as a whole.

The trust fund, furthermore, serves in part as a reserve against fluctuations in total contribution and benefit amounts, counteracting the financial effects of these fluctuations on the old-age and survivors insurance program and providing a margin of safety against relatively short-term contingencies to insure the payment of benefits without sharp changes in rates paid by contributors. These reserves will provide additional resources against a sudden increase in total benefit amounts or a sharp decline in contributions, both of which could occur simultaneously from any reversal in business activity.

SPECIAL INFLUENCES OF THE WAR ON THE TRUST FUND

The European hostilities came to an end on May 8, 1945, during the fiscal year covered by this report, and the Japanese phase ended shortly after the close of the fiscal year. All during the course of the war, and as a consequence thereof, the assets of the trust fund continued to increase more rapidly than had been anticipated for peacetime conditions. Contributions increased markedly from \$688,000,000 in the fiscal year 1941 to \$1,292,000,000 in the fiscal year 1944 and \$1,310,000,000 in the fiscal year 1945. These increases were the result of the greater volume and continuity of covered employment as well as of the rise in average earnings. Approximately 48,000,000 workers received taxable wages in calendar year 1944 as compared with only 35,000,000 in 1940 and about 32,000,000 in 1938.

Benefit payments during the war, on the other hand, have been less than were expected, because of wartime employment opportunities. Thousands of aged workers who were eligible for benefits and who would have claimed them in more normal times continued in their work because of the war. In addition, many persons already on the benefit rolls returned to covered employment and thus suspended temporarily their benefit status. At the end of June 1945, about 18 percent of the aged workers, wives, and widows with young children already on the benefit rolls were not in actual receipt of benefits, because they remained in covered employment.

In net terms, the permanent effect of the war on the actuarial status of the trust fund is not clear. There are many complex relationships—involving contributions, benefits, and insured status—which make it impossible to give a categorical answer to the question of whether the eventual over-all effect of the war will be to increase or decrease the assets of the fund.

The discussion below of several factors bearing on this question and of the relationships between contributions and benefit payments takes no account of the more-or-less permanent changes which may evolve from the war in the long-run level of wages, in the composition of the labor force and of the population, or in the characteristics of employment.

(a) *Increased employment, steadier work, and higher wages.*—The general availability of steady work during the war, at higher rates of wages, increased total earnings in covered employment. Average taxable wages rose from \$833 in the calendar year 1938 to \$932 in 1940 and \$1,379 in 1944; even with some reconversion drop-off during the latter part of the year, it is estimated that such average wages will be close to \$1,300 in 1945. As a consequence of this increase in average earnings as well as of the rise which took place in the number of workers in covered employment, aggregate contributions, which are levied as a percentage of pay roll, totaled almost \$1,300,000,000 in the fiscal year 1944 and slightly over this amount in the year 1945.

Such increases in wages and employment also have an obverse effect, in that the higher wage credits accumulating will increase future monthly benefits payable at death or retirement. Also, the tax rates applicable to these higher wage levels have been at the initial 1-percent rates established in the act, which are one-third of the rates now prescribed for later years. Therefore, while the war situation has resulted in a high wage base for contribution purposes, there has been created a more or less offsetting liability to be met over many years in the future when more and larger benefits will become due. The net ultimate effect of this item on the fund is indeterminate at this time.

(b) *Employment of women and other temporary workers.*—Several million women not usually in the labor market entered employments covered by the programs during the course of the war. Many other persons, both male and female, not regularly in covered occupations were also temporarily employed in such occupations. About 5 million covered workers, for instance, in the calendar year 1944, had no covered employment prior to that year, while the corresponding figures for 1942 and 1943 were much higher—about 8 million each year. These figures may be compared with about 4½ million workers who entered covered employment for the first time in 1940, a figure which includes some workers in employments to which coverage was extended for the first time in that year.

To have insured status for survivors' benefits, at least 6 quarters of recent covered employment are generally necessary; and to have insured status for purposes of retirement at age 65 or later, 40 quarters are required (except for persons already above or nearing that age). Married women with insured status, whose husbands are also retired, derive their old-age benefits either as primary beneficiaries from their own wage credits or as wives by reason of their husbands' credits, whichever results in the greater benefit rate. To the extent that women temporarily at work in covered employment are already married or will later marry, it may be expected that benefits for them will usually derive from their husbands' accounts rather than from their own. Furthermore, the employment of married women does not increase substantially the amount of survivors' protection afforded by the program, because survivors' benefits for children derive from the father's employment in most instances. Married women who became

insured during the war have a temporary insurance protection, however, in the form of a lump-sum payment in the event of death. It seems likely, on balance, that the contributions paid by married women and their employers during the war will result in a net gain to the fund.

Contributions paid by unmarried women also bring about a net increase in the fund, unless these women remain in covered employment long enough to gain fully insured status. Men who shift only temporarily from noncovered employments to covered employments and who do not attain fully insured status increase the fund more or less, depending on the proportion with families and the duration of their covered employment.

In summary, it may be said that the large influx into covered employment of men and women, not normally a part of the system, should result in a net addition to the fund if a large proportion of these persons return to noncovered employment or, in the case of married women, return to the home.

(c) *Deferred retirements and suspensions of benefits.*—With the need for maximum use of available manpower, many individuals above the age of 65 who were already eligible for retirement benefits remained on the job or returned to work and thereby deferred or interrupted their retirement. It is estimated that such persons totaled about 800,000 at the end of June 1945. Inasmuch as monthly benefits are not payable for months in which an individual earns \$15 or more in covered employment, and to the extent that these deferments and suspensions exceed those which, except for the war, would have taken place, there has been an obvious net increase in the assets of the fund. The monthly benefits that will be payable to those who deferred retirement will be greater in amount by reason of their being determined, partly at least, on the wartime high wage levels; the average length of time during which these individuals will receive benefits, however, will be decreased. The net result of the factors mentioned in this paragraph will probably be an increase in the fund.

(d) *Suspensions among survivors.*—Widows and children who have qualified for survivors benefits are not eligible to receive monthly benefits for the months in which they are in covered employment, and, in addition, children aged 16 and 17 are ineligible for benefits for the months in which they are not in school. The wartime tendency for widows and older children to find work in covered employment has resulted in a net gain to the fund, in the same way as that discussed in the preceding paragraph. Although the wartime employment of many of these widows and children has been only of a temporary character, the wage credits received during this period may increase their own protection later and thus have some effect on the fund in the opposite direction. For example, these credits, added to others earned later, may result in fully insured status for some covered workers who otherwise never could become fully insured without such credits.

(e) *Military service.*—Military service is not covered employment under the present law. As a consequence, those who entered the armed forces from covered employment ceased to pay contributions and have had decreasing protection. After a period of time in the service—in general, equal to the period previously worked in covered employment—they lose any established insured status. The board of trustees does not believe, however, that any advantage should accrue to the fund at the expense of the loss of coverage by persons

in the armed forces. It is of the opinion that such loss of coverage is an inequity which should be repaired. The President has already made recommendations to the Congress to extend coverage to military service with a view to preventing or correcting this loss in protection.

(f) *Governmental civilian employment.*—Public employment is excluded from coverage under the system. Well over 4,000,000 additional persons have worked in this type of employment at some time since the beginning of the war. As in the case of military service, those individuals with previous covered employment have had decreasing insurance protection under the system, and many have lost or will lose their insured status before they return to private employment; in any event, their average wage for benefit purposes is permanently lowered.

Wartime Government civilian employees have included a large proportion of married men with families. The married men who die while insured will have survivors benefits payable in smaller amounts than if they had not entered Government service; and those who remain in public employment for a sufficient period will have no survivors benefits payable because of the loss of their insured status prior to their death. In either case, the result will be a smaller outgo from the fund than otherwise. On the other hand, no contributions will be paid by Government workers while they are working in the public service. The contributions otherwise payable during this period might have exceeded the value of the added benefit rights. Consequently, for Government civilian employees, the net effect on the fund appears to be indeterminate. Steps should be taken, however, to remedy the loss of old-age and survivors insurance protection suffered by civilian workers temporarily employed by the Government during wartime.

SUMMARY OF OPERATIONS OF TRUST FUND, FISCAL YEAR 1945

A statement of the income and disbursements of the Federal old-age and survivors insurance trust fund in the fiscal year which began on July 1, 1944, and ended on June 30, 1945, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 1.

TABLE 1.—Statement of operations of the Federal old-age and survivors insurance trust fund during the fiscal year 1945¹

Total assets of the trust fund, June 30, 1944.....		\$5, 446, 390, 766. 54
Receipts, fiscal year 1945:		
Appropriations equivalent to		
contributions collected.....	\$1, 309, 919, 400. 41	
Interest on investments.....	123, 853, 998. 15	
Total receipts.....	<u>1, 433, 773, 398. 56</u>	
Disbursements, fiscal year 1945:		
Benefit payments.....	239, 833, 904. 85	
Reimbursements for administrative expenses.....	26, 949, 640. 56	
Total disbursements.....	<u>266, 783, 545. 41</u>	
Net addition to trust fund.....		<u>1, 166, 989, 853. 15</u>
Total assets of the trust fund, June 30, 1945.....		6, 613, 380, 619. 69

¹ On basis of Daily Statement of the U. S. Treasury.

The total receipts of the trust fund during the fiscal year 1945 amounted to 1,433.8 million dollars. Of this total, 1,309.9 million dollars represented the sum of the amounts equal to contributions received under the Federal Insurance Contributions Act and covered into the Treasury, which were appropriated to the trust fund during the year under the continuing appropriation in section 201 (a) of the Social Security Act, as amended. The total amount appropriated exceeded that appropriated in the preceding fiscal year by 1.4 percent. The additional 123.9 million dollars of receipts consisted of interest received on investments of the fund.

Disbursements from the trust fund during the fiscal year 1945 totaled 266.8 million dollars, of which 239.8 million dollars consisted of benefit payments and 26.9 million dollars of reimbursements to the general fund of the Treasury for administrative expenses of the insurance program. The total amount paid from the fund in the form of benefits during the fiscal year exceeded benefits paid in the fiscal year 1944 by 30 percent, reflecting the larger number of beneficiaries on the rolls. The figure for reimbursements for administrative expenses during the fiscal year is less than actual outlays for administration during the year, since it includes an adjustment for overreimbursements in prior fiscal years; hence, it is not comparable with corresponding figures for preceding years.

A summary of receipts, disbursements, and changes in the assets of the old-age and survivors insurance trust fund during each fiscal year since it was established on January 1, 1940, is presented in table 2.

TABLE 2.—Operations of the old-age and survivors insurance trust fund, by specified period, January 1, 1940, to June 30, 1945

[In millions]

	Fiscal year ended in—					
	1940 ¹	1941	1942	1943	1944	1945
Receipts:						
Assets transferred from old-age reserve account on Jan. 1, 1940.....	\$1,724.4					
Appropriations equivalent to contributions collected.....		\$688.1	\$895.6	\$1,130.5	\$1,292.1	\$1,309.9
Interest on investments.....	42.5	56.0	71.0	87.4	103.2	123.9
Total receipts.....	1,766.9	744.1	966.6	1,217.9	1,395.3	1,433.8
Disbursements:						
Benefit payments ²	9.9	64.4	110.2	149.3	184.6	239.8
Reimbursements for administrative expense.....	12.3	26.8	26.8	27.5	³ 32.6	⁴ 26.9
Total disbursements.....	22.2	91.2	137.0	176.8	217.2	266.8
Total assets at end of period.....	1,744.7	2,397.6	3,227.2	4,268.3	5,446.4	6,613.4

¹ January to June 1940, fund having been established in place of old-age reserve account on Jan. 1, 1940.

² Amount of checks cashed and returned to Treasury.

³ Includes some reimbursements applicable to outlays in other fiscal years.

⁴ Adjusted for overreimbursements in prior years.

The distribution of benefit payments, by type of benefit, in fiscal years 1944 and 1945 is shown in table 3. About 60 percent of the amounts paid from the fund as benefit payments in the fiscal year 1945 were accounted for by monthly benefits to persons age 65 or over—retired wage earners and their wives and aged widows and

parents of deceased wage earners. This proportion was about the same as in the preceding year but with a slightly smaller proportion during 1945 in the form of primary benefits. Approximately 29 percent of the 1945 payments represented monthly benefit payments on behalf of children of deceased or retired workers and payments to widows who had children of deceased wage earners in their care; most of these widows were under age 65. The balance of the benefits paid in the fiscal year 1945 consisted almost entirely of lump-sum amounts paid in cases where no survivor of an insured wage earner dying after 1939 was immediately entitled to monthly benefits.

TABLE 3.—*Estimated distribution of Treasury disbursements for benefits under the old-age and survivors insurance program, by type of benefit, fiscal years 1944 and 1945*

Type of benefit	1944		1945	
	Amount (in mil- lions)	Percent of total	Amount (in mil- lions)	Percent of total
Total	\$184.6	100	\$239.8	100
Monthly benefits	165.6	90	214.1	89
Primary (retired wage earners 65 or over)	86.8	47	109.1	46
Wife's (wives 65 or over of primary beneficiaries)	13.9	8	17.8	7
Widow's (widows 65 or over of wage earners)	11.4	6	16.9	7
Parent's (parents 65 or over of deceased wage earners)7	(¹)	.8	(¹)
Child's (dependents of retired or deceased wage earners)	35.1	19	46.6	19
Widow's current (widows of wage earners with child beneficiary)	17.7	10	22.9	10
Lump-sum benefits (no survivor of deceased wage earner entitled to monthly benefits or wage earner died before 1940)	19.0	10	25.7	11

¹ Less than 0.5 percent.

² Includes \$45,200,000 paid to children of deceased insured wage earners and \$1,400,000 paid to children of primary beneficiaries.

At the end of the fiscal year 1945, approximately 1,106,000 persons were receiving monthly benefits, amounting to \$242,000,000 on an annual basis. At the end of the preceding fiscal year, the monthly benefit rolls included 846,000 persons to whom monthly benefits were being paid at an annual rate of \$184,000,000. The average monthly benefit in force for different types of family groups in the middle of the fiscal year 1945 was as follows: Retired worker only (with no eligible dependent), \$23; retired worker and wife, \$37.60; widow (aged 65 or over) only, \$20.20; widow and one child, \$34.20; widow and two children, \$47.40; and widow and three or more children, \$50.40.

The total assets of the old-age and survivors insurance trust fund, as reported in the fifth annual report of the board of trustees, amounted to \$5,446,000,000 on June 30, 1944. These assets increased to \$6,613,000,000 by the end of the fiscal year 1945, as the result of an excess of receipts over disbursements amounting to \$1,167,000,000 during the fiscal year. Table 4 compares the total assets of the trust fund and their distribution, by type, at the end of the fiscal years 1944 and 1945. The assets of the fund at the end of the fiscal year 1945 consisted of \$6,546,000,000 in the form of obligations of the United States Government, \$32,000,000 to the credit of the fund account, and \$35,000,000 to the credit of the disbursing officer.

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TABLE 4.—Assets of Federal old-age and survivors insurance trust fund, by type, at end of fiscal years 1944 and 1945 ¹

	June 30, 1944	June 30, 1945
Total assets.....	\$5, 446, 390, 766. 54	\$6, 613, 380, 619. 69
Total investments.....	5, 408, 870, 130. 00	6, 546, 281, 050. 00
Public issues.....	643, 370, 130. 00	1, 238, 681, 050. 00
Treasury bonds:		
2½-percent bonds of 1962-67.....	49, 000, 000. 00	49, 000, 000. 00
2½-percent bonds of 1963-68.....	100, 000, 000. 00	100, 000, 000. 00
2½-percent bonds of 1964-69.....	50, 000, 000. 00	50, 000, 000. 00
2½-percent bonds of 1965-70.....	² 400, 035, 880. 00	400, 000, 000. 00
2½-percent bonds of 1966-71.....		295, 000, 000. 00
2½-percent bonds of 1967-72.....	44, 334, 250. 00	³ 344, 681, 050. 00
Special issues.....	4, 765, 500, 000. 00	5, 307, 600, 000. 00
Treasury notes.....	4, 385, 500, 000. 00	3, 659, 600, 000. 00
2½-percent notes:		
Maturing June 30, 1945.....	725, 900, 000. 00	
Maturing June 30, 1946.....	319, 200, 000. 00	319, 200, 000. 00
2¾-percent notes: Maturing June 30, 1946.....	603, 000, 000. 00	603, 000, 000. 00
2¼-percent notes:		
Maturing June 30, 1946.....	228, 000, 000. 00	228, 000, 000. 00
Maturing June 30, 1947.....	450, 400, 000. 00	450, 400, 000. 00
2½-percent notes: Maturing June 30, 1947.....	240, 000, 000. 00	240, 000, 000. 00
2-percent notes: Maturing June 30, 1947.....	459, 000, 000. 00	459, 000, 000. 00
1½-percent notes:		
Maturing June 30, 1947.....	251, 000, 000. 00	251, 000, 000. 00
Maturing June 30, 1948.....	1, 109, 000, 000. 00	1, 109, 000, 000. 00
Certificates of indebtedness:		
1½-percent certificates of indebtedness.....	380, 000, 000. 00	1, 648, 000, 000. 00
Maturing June 30, 1945.....	380, 000, 000. 00	
Maturing June 30, 1946.....		1, 648, 000, 000. 00
Uninvested balances.....	37, 520, 636. 54	67, 099, 569. 69
To credit of fund account.....	16, 136, 282. 27	32, 007, 240. 42
To credit of disbursing officer.....	21, 384, 354. 27	35, 092, 329. 27

¹ On basis of Daily Statement of U. S. Treasury.

² Includes \$35,880 accrued interest paid on investments.

³ Includes \$346,800 accrued interest paid on investments.

That portion of the assets of the trust fund not required in his judgment for the meeting of current withdrawals was invested by the managing trustee during the fiscal year 1945, in accordance with the provisions of section 201 (c) of the Social Security Act, as amended. That section provides that direct obligations of the United States Government as well as obligations guaranteed as to both principal and interest by the United States may be purchased for the trust fund and that regular obligations may be acquired through purchase of outstanding obligations in the open market as well as on original issue at par. Investments made for the fund during the fiscal year, however, as in previous years, consisted only of direct obligations of the United States purchased on original issue.

The net increase in the investments owned by the fund during the fiscal year 1945 amounted to \$1,137,000,000. New securities totaling \$2,723,000,000 were acquired through the investment of receipts accruing to the fund and the reinvestment of securities maturing during the year. Securities redeemed during the year totaled \$1,586,000,000, including \$726,000,000 of 2½-percent special Treasury notes which matured on June 30, 1945, and \$860,000,000 of 1½-percent special certificates of indebtedness maturing on June 30, 1945, which were redeemed at various times throughout the year.

Of the new securities acquired, \$2,128,000,000 were in the form of special certificates of indebtedness, \$480,000,000 of which matured on

June 30, 1945, and \$1,648,000,000 of which mature on June 30, 1946. These certificates were acquired at par and bear an interest rate of 1½ percent, this rate being determined by the average rate of interest on the interest-bearing public debt which prevailed at the end of the month preceding the date of issue of these securities. The remaining \$595,000,000 of securities acquired during the fiscal year were 2½-percent publicly offered Treasury bonds, \$295,000,000 of the 1966-71 series, and \$300,000,000 of the 1967-72 series. The investment transactions of the trust fund during the fiscal year 1945 are summarized in table 5.

TABLE 5.—*Investment transactions of the old-age and survivors insurance trust fund, fiscal year 1945*¹

Purchases.....	\$2, 723, 346, 800
Special issues: Certificates of indebtedness.....	2, 128, 000, 000
Public issues: Treasury bonds.....	² 595, 346, 800
Redemptions.....	1, 585, 900, 000
Special issues:	
Treasury notes.....	725, 900, 000
Certificates of indebtedness.....	860, 000, 000
Net increase in investments.....	1, 137, 446, 800

¹ As recorded in Daily Statement of U. S. Treasury.

² Includes \$346,800 accrued interest paid on investments.

The average rate of interest on the interest-bearing public debt, which determines the rates at which special obligations are issued to the old-age and survivors insurance trust fund, varies with changes in the composition of the public debt and with changes in the particular rates of interest on different classes of securities. During the fiscal year 1945 the average rate of interest on the public debt fluctuated within fairly narrow limits and was 1.94 percent on June 30, 1945, as compared with 1.93 percent on June 30, 1944. Because of this small variation, the interest rate on all special issues acquired during the fiscal year continued to be 1½ percent, the same rate at which special issues were acquired during the previous fiscal year. The average interest rate on all investment holdings of the fund declined in about the same degree in the fiscal year 1945 as it did in the previous fiscal year; it was 2.13 percent as of June 30, 1945, as compared with 2.19 percent on June 30, 1944, and 2.26 percent on June 30, 1943.

STATEMENT OF THE EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE FISCAL YEARS 1946-50

The board of trustees is required, under the provisions of section 201 (b) of the Social Security Act, as amended, to report each year to the Congress on the expected operation and status of the trust fund during the next ensuing 5 fiscal years. The report is required to include estimates of both the income and the disbursements of the trust fund in each of the 5 years.

The income of the fund depends on the amount of taxable pay rolls in covered employment and the rates of contributions, and on the interest earnings of the fund. The disbursements from the fund depend not only on the number of persons eligible for benefits but also on the proportion of these eligible persons who apply for and receive benefits instead of continuing to work in covered employ-

ments. Consequently, both the income and the disbursements of the fund are intimately related to economic conditions.

This report presents two sets of estimates based on alternative assumptions as to economic developments during the five fiscal years from July 1, 1945, to June 30, 1950. One assumption represents employment and earnings conditions which may be expected in the event the transition from a war to a peace economy is completed with a minimum of economic maladjustment. The estimates based on this assumption yield a relatively large increase in trust fund assets. The other assumption represents conditions which might occur if the remaining stages of reconversion are slow and accompanied by moderately severe business and industrial dislocation. This assumption results in estimates yielding a smaller increase in trust fund assets.

For both sets of estimates, it is assumed that the present statutory coverage of old-age and survivors insurance will remain unchanged throughout the period under consideration. The computations related to tax income are based on present statutory rates of contribution, which are 1 percent each on employer and employee on wages paid during the calendar years 1945 and 1946, 2½ percent during the calendar years 1947 and 1948, and 3 percent during the calendar years 1949 and 1950.

The two sets of estimates of the income and disbursements of the trust fund for each of the five fiscal years 1946 to 1950, together with the resulting assets of the fund at the beginning and the end of each fiscal year, are presented in table 6. In addition, figures for actual experience in the fiscal years 1941 to 1945 are shown.

TABLE 6.—Operations of the Federal old-age and survivors insurance trust fund, fiscal years 1941-50, subject to the assumptions and limitations stated in the text¹

Fiscal year	Fund beginning of year	Transactions during year							Fund at end of year
		Income			Disbursements			Net increase in fund	
		Total	Contributions ²	Interest on investments	Total	Benefit payments	Administrative expenses		
Past experience:									
1941	\$1,745	\$744	\$688	\$56	\$91	\$64	\$27	\$653	\$2,398
1942	2,398	966	895	71	137	110	27	829	3,227
1943	3,227	1,218	1,131	87	177	149	28	1,041	4,268
1944	4,268	1,395	1,292	103	217	185	32	1,178	5,446
1945	5,446	1,434	1,310	124	267	240	27	1,167	6,613
Estimated future experience:									
1946	6,613	1,275	1,128	147	358	323	35	917	7,530
1947:									
Alternative I	7,530	1,724	1,562	162	442	407	35	1,282	8,812
Alternative II	7,530	1,570	1,410	160	518	481	37	1,052	8,582
1948:									
Alternative I	8,812	3,260	3,075	194	515	480	35	2,754	11,566
Alternative II	8,812	2,922	2,735	187	605	569	36	2,317	10,899
1949:									
Alternative I	11,566	3,713	3,465	248	585	549	36	3,128	14,694
Alternative II	10,899	3,180	2,949	231	691	654	37	2,489	13,388
1950:									
Alternative I	14,694	4,440	4,128	312	654	618	36	3,786	18,480
Alternative II	13,388	3,719	3,438	281	760	723	37	2,959	16,347

¹ In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions and their uncertainties. Alternative I assumes an orderly reconversion with a rapid return to a high level of employment; alternative II assumes a longer and more difficult period of reconversion.

² Amounts equal to contributions are automatically appropriated to the trust fund. Estimates for fiscal years 1946-50 are based on statutory rates of 1 percent each on employers and employees in calendar years 1945 and 1946, 2½ percent each in 1947 and 1948, and 3 percent each in 1949 and 1950.

³ Represent charges against trust fund in respective fiscal years; actual administrative expenditures were about \$36,000,000 in fiscal year 1944 and about \$29,000,000 in fiscal year 1945.

At the end of 1945, it appears that the major proportion of the problems of physical reconversion has been solved. In alternative I it is assumed that the remaining phases of the transition from a war- to a peace-time economy follow in an orderly manner. Despite some immediate increase, unemployment is assumed to decline to a fairly low level within 2 years after the date of Japan's surrender.

Pay rolls are assumed in alternative I to decline substantially in fiscal year 1946 because of the temporary rise in unemployment, the shift of workers from war industries to lower-paid employment in consumer-goods industries, and the decline in hours of work accompanied by the termination of overtime payments. With the completion of reconversion, pay rolls are assumed to increase above the levels to which they fall during the reconversion period and by the end of the 5-year period to reach a level slightly above the peak wartime fiscal year.

Benefit disbursements under alternative I are assumed to increase considerably during each phase of reconversion, because a substantial number of older workers and also many widows with young children leave the labor market and either become entitled to benefits or resume receipt of benefits temporarily suspended on account of their employment during the war. It is assumed, nevertheless, that a rather large number of persons eligible for retirement benefits remain in employment.

Under alternative I, aggregate income during the period of 5 fiscal years ending in 1950 would amount to 14.4 billion dollars, including 13.3 billion dollars in contributions and 1.1 billion dollars in interest. Aggregate disbursements for the period would be about 2.6 billion dollars, with the highest expected annual disbursement about 0.7 billion dollars. The trust fund at the beginning of the fiscal year 1946 would amount to 10.1 times the highest expected annual disbursement during the succeeding period of 5 fiscal years.

The other set of estimates, alternative II, is based on the assumption that the remaining stages of the transition from a war- to a peace-time economy take place much more slowly than under alternative I and are accompanied by a substantial amount of unemployment and short-term and part-time employment. Employment conditions, moreover, are assumed to improve at a slower rate than under alternative I.

In each of the 5 years, pay rolls are assumed to be lower under alternative II than under alternative I, because, in addition to a higher level of unemployment, a shorter workweek is assumed and a smaller proportion of workers is assumed to be employed in manufacturing. Throughout the 5-year period, taxable wages are estimated to remain substantially below the peak wartime fiscal year despite small gains over the level to which they decline in the reconversion period. Benefit disbursements under alternative II, on the other hand, increase more rapidly than under alternative I, because a much larger number of older workers withdraw from, or are unable to find jobs in, covered employment.

The aggregate income of the fund for the five fiscal years 1946-50 under alternative II would amount to 12.7 billion dollars, including 11.7 billion dollars in contributions and 1.0 billion dollars in interest. Aggregate disbursements would be 2.9 billion dollars, with the highest expected annual disbursement about 0.8 billion dollars. The trust

fund at the beginning of the period would amount to about 8.7 times the highest expected annual disbursements during the period.

The estimates of benefit disbursements, like the estimates of contributions, are dependent upon economic developments and so have a considerable range of possible variation. The number of workers in covered employment, their distribution among different classes of workers (e. g., older workers, very young workers, women, workers not previously engaged in covered employment, etc.), and the level of wages will all have a decided effect upon the amount of benefit payments to be anticipated.

In general, 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 survivors benefits. However, the amount paid out for survivors benefits will not be affected significantly by variations in economic conditions. 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 survivors benefits to forego them by working in covered employment. On balance, the amount paid out for survivors benefits will differ so little whether the economic conditions of alternative I or alternative II are assumed that a single set of estimates is deemed appropriate for both alternatives.

TABLE 7.—Treasury disbursements for benefit payments, distributed by classifications of beneficiaries, fiscal years 1941–50, subject to the assumptions and limitations stated in the text ¹

[In millions]

Fiscal year	Total benefit disbursements	Disbursed to primary beneficiaries	Disbursed to wives and children of primary beneficiaries	Disbursed to survivors of deceased insured workers			
				Monthly benefits			Lump sum payments
				Total	Aged widows and parents	Younger widows and children	
Past disbursements: ²							
1941.....	\$64.3	\$31.4	\$5.3	\$15.3	\$1.5	\$13.8	\$12.3
1942.....	110.2	54.9	9.6	31.6	4.1	27.5	14.1
1943.....	149.3	72.4	12.7	47.5	7.9	39.6	16.7
1944.....	184.6	86.8	15.2	63.6	12.1	51.5	19.0
1945.....	239.8	109.1	19.2	85.8	17.7	68.1	25.7
Estimated future disbursements:							
1946.....	323	158	27	113	25	88	25
1947:							
Alternative I.....	407	206	37	} 138	} 33	} 105	} 26
Alternative II.....	481	271	46				
1948:							
Alternative I.....	480	246	45	} 162	} 42	} 120	} 27
Alternative II.....	569	323	57				
1949:							
Alternative I.....	549	282	51	} 187	} 53	} 134	} 29
Alternative II.....	654	372	66				
1950:							
Alternative I.....	618	319	59	} 211	} 65	} 146	} 29
Alternative II.....	723	410	73				

¹ In interpreting the estimates in this table, reference should be made to the accompanying text, which describes the underlying assumptions.

² Partly estimated.

On the other hand, the lower the level of employment during the next 5 years, the larger will be the volume of benefit payments to retired workers who have attained age 65 and to their wives and children. As is indicated in table 8, a considerable proportion of the workers aged 65 and over who were eligible for primary benefits in the past remained in covered employment (or, if they left covered employment later returned to it) and did not receive benefits. During the course of fiscal year 1945, however, this proportion began to decrease, since, largely because of cut-backs in war production, many of these older workers withdrew from covered employment. After the ending of hostilities in August 1945, the volume of such withdrawals was accelerated; thus, in the first 5 months of fiscal year 1946, 90,000 older workers were awarded primary benefits, as contrasted with 48,000 in the corresponding period of fiscal year 1945 and 35,000 in the corresponding period of fiscal year 1944. This represents the effect of an increased rate of withdrawal on the part of older workers, which may be expected to continue for some time to come, with a consequent decrease in the proportion of older workers remaining in covered employment and an increase in the proportion in receipt of primary benefits.

TABLE 8.—*Wage earners eligible for and receiving primary benefits, by attained age of wage earners, fiscal years 1941-50, subject to the assumptions and limitations stated in the text*¹

Middle of fiscal year (Jan. 1)	All wage earners age 65 and over			Wage earners 65 to 69			Wage earners age 70 and over		
	Number eligible for bene- fits ²	Persons receiv- ing benefits		Number eligible for bene- fits ²	Persons receiv- ing benefits		Number eligible for bene- fits ²	Persons receiv- ing benefits	
		Num- ber	Propor- tion of total number eligible		Num- ber	Propor- tion of total number eligible		Num- ber	Propor- tion of total number eligible
Actual experience:	<i>Thou- sands</i>	<i>Thou- sands</i>	<i>Percent</i>	<i>Thou- sands</i>	<i>Thou- sands</i>	<i>Percent</i>	<i>Thou- sands</i>	<i>Thou- sands</i>	<i>Percent</i>
1941.....	554	112	20	390	85	22	164	28	17
1942.....	698	200	29	478	134	28	220	66	30
1943.....	838	260	31	551	153	28	287	107	37
1944.....	1,010	306	30	629	156	25	381	151	40
1945.....	1,184	378	32	699	167	24	485	211	44
Estimated future experi- ence:									
1946.....	1,361	535	39	760	209	28	601	326	54
1947:									
Alternative I....	1,527	687	45	812	250	31	715	437	61
Alternative II....	1,507	850	56	797	357	45	710	493	69
1948:									
Alternative I....	1,663	807	49	856	282	33	807	525	65
Alternative II....	1,617	1,046	65	825	445	54	792	601	76
1949:									
Alternative I....	1,775	905	51	893	309	35	882	596	68
Alternative II....	1,701	1,173	69	850	504	59	851	669	79
1950:									
Alternative I....	1,891	1,003	53	927	330	36	964	673	70
Alternative II....	1,802	1,264	70	882	529	60	920	735	80

¹ In interpreting the estimates in this table, reference should be made to the accompanying text, which describes the underlying assumptions.

² Figures for 1941-45 are partly estimated.

During the war the unusual conditions that prevailed operated to create maximum employment of aged workers. Especially favorable employment opportunities were caused by the withdrawal of younger workers into the armed forces coincident with a demand for increased personnel in industry. In addition, large numbers of older persons who otherwise would have retired because of health or for other reasons continued at work. During peacetime, however, even under the favorable employment conditions of alternative I, the number of workers aged 65 or over will be a substantially smaller proportion of the total number of workers.

If the lower employment conditions assumed in alternative II should materialize, it is expected that even larger proportions of eligible workers will be obliged to leave covered employment, even at ages 65 to 69. The result is that, despite a slightly smaller number of eligible workers, the number receiving primary benefits under alternative II would considerably exceed that under alternative I. Moreover, it is expected that the average primary benefit amount payable under alternative II would exceed the average under alternative I, inasmuch as many of the more steadily employed and therefore higher-paid older workers who would not withdraw from covered employment under the conditions of alternative I would not be employed under the conditions of alternative II. In consequence, alternative II would result in a substantially higher volume of benefit payments to primary beneficiaries and their wives and children.

Table 8 contains an analysis of workers eligible for primary benefits according to attained age for the middle (January 1) of each of the fiscal years 1941 through 1950. For attained ages 65 to 69, the growth in the number of eligible workers is gradual but uninterrupted under both alternatives. This growth results partly from the increase in the population at these attained ages but primarily from the fact that with each passing year a larger proportion of the persons attaining age 65 have fully insured status. In the calendar year 1940, a worker attaining age 65 would not have been fully insured if he had left covered employment more than 1½ or 2 years previous to his attainment of age 65—for example, due to permanent total disability—but in the calendar year 1950 numerous persons attaining age 65 will be fully insured even though they left covered employment before the age of 60.

The aging of the program has an even greater effect on the number fully insured at attained ages 70 and over. This number is expected to increase more than fivefold between January 1, 1941, and January 1, 1950, even under the lower employment assumptions of alternative II. At the latter date, the number eligible at these attained ages should comprise more than one-half of the total number of eligible persons. Moreover, the average age of all eligible persons within the age group 70 and over will be continuously increasing.

The estimates presented above result in a net increase in the trust fund during the 5-year period of about \$12,000,000,000 under alternative I and about \$10,000,000,000 under alternative II. Although a range in the estimated net additions to the fund within which actual experience may fall is thus indicated, it by no means represents the maximum possible range of variation. For example, it is entirely possible that an even higher level of postwar business activity may result than has been assumed under alternative I. In this case the amount of contribution income would probably be greater than has been estimated; in addition, the proportion of workers aged 65 and

over remaining in employment could be greater than that anticipated under alternative I—even though less than during wartime—and benefit payments correspondingly lower. The total result would be an even greater growth in the trust fund than has been estimated under alternative I. On the other hand, a larger volume of unemployment and a lower level of production than assumed in alternative II would lead to smaller net increases in the fund, due both to lower contribution and interest income and to higher benefit payments resulting from increased retirement.

Furthermore, no attempt has been made to illustrate the effect on the trust fund of marked changes in prices or wage rates. Such changes would substantially affect the dollar amount of contribution income, while having relatively little effect on benefit payments, and thus could produce much larger variations from the figures shown in table 6 than the other factors cited.

ACTUARIAL STATUS OF THE TRUST FUND

The board of trustees is required by section 201 (b) of the Social Security Act to report each year on the actuarial status of the trust fund. The present section discusses that status. Under old-age and survivors insurance, benefits accrue to the aged and to orphaned children and their widowed mothers surviving deceased wage earners. Thus, certain basic cost factors must be recognized in analysis of the costs of the program. These include (a) population; (b) mortality; (c) family composition; (d) years of credited employment prior to qualification for benefits; (e) remarriage of widowed beneficiaries; (f) employment of widowed beneficiaries, older children, and aged; and (g) income in covered employment and its distribution among calendar quarters (as affected by a changing workweek, changing productivity, effectiveness of collective bargaining, long-term trends, cyclical changes, etc.).

(a) *Population.*—Population development depends upon the progress of the existing population as changed by future births, deaths, immigration, and emigration. The 1940 census showed some 600,000 more persons aged 65 and over than had been indicated as probable by the 1930 census and later deaths and migration. The under-registration of children probably continued into the 1940 census. The Bureau of the Census has made comprehensive reports on the errors and biases believed present in the latest enumeration.

Birth rates declined for a number of years, due to the increasing percentage of the population past the childbearing ages, the increasing proportion at the middle ages where childbearing is less frequent, and changed attitudes toward the size of the family. However, the long decline of birth rates lasting into the thirties has been reversed since 1937. There also appears to be a marked increase in the rate of first births and a more moderate increase in the rate of second births, tending to increase both the proportion of the insured population with dependents and the number of dependents. This increases the amount of insurance for survivors benefits under old-age and survivors insurance. The diminution in the proportion of large families has had only a limited effect upon benefits under this program, since aggregate benefits for a family are not increased for children beyond the fourth child in the absence of a mother drawing benefits, nor beyond the third child with the mother drawing benefits.