

FEDERAL OLD-AGE AND SURVIVORS  
INSURANCE TRUST FUND

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LETTER

FROM THE

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

TRANSMITTING

PURSUANT TO LAW THE NINTH ANNUAL REPORT  
OF THE BOARD OF TRUSTEES OF THE  
FEDERAL OLD-AGE AND SURVIVORS  
INSURANCE TRUST FUND



APRIL 7 (legislative day, MARCH 18), 1949.—Referred to the Committee  
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## LETTER OF TRANSMITTAL

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BOARD OF TRUSTEES OF THE FEDERAL  
OLD-AGE AND SURVIVORS INSURANCE TRUST FUND,  
*Washington, D. C., January 3, 1949.*

The PRESIDENT OF THE SENATE,  
The SPEAKER OF THE HOUSE OF REPRESENTATIVES,  
*Washington, D. C.*

SIRS: We have the honor to transmit to you the Ninth Annual Report of the Board of Trustees of the Federal old-age and survivors insurance trust fund, in compliance with the provisions of section 201 (b) of the Social Security Act, as amended.

Respectfully,

JOHN W. SNYDER,  
*Secretary of the Treasury, and  
Managing Trustee of the Trust Fund.*  
MAURICE J. TOBIN,  
*Secretary of Labor.*  
OSCAR R. EWING,  
*Federal Security Administrator.*

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

## INTRODUCTORY STATEMENT

The Federal old-age and survivors insurance trust fund was established on January 1, 1940, under the provisions of section 201 of the Social Security Act, as amended. The fund is held by the Board of Trustees comprised of three ex officio members. The members of the Board are the Secretary of the Treasury, who is also the managing trustee; the Secretary of Labor; and the Federal Security Administrator.

This report, which is submitted jointly by the three trustees, describes the operations of the trust fund during the fiscal year ended June 30, 1948, the expected receipts and disbursements of the fund in the five fiscal years subsequent to that date, and the long-range actuarial status of the fund. It is the ninth annual report submitted by the Board of Trustees as required by the act.

Throughout the fiscal year, employment continued at a high level. Census Bureau estimates show that by the end of the year civilian employment had risen to 61 million, nonagricultural employment was 52 million, and there were 2.2 million unemployed. The general price level and average hourly earnings also rose substantially during the year.

These economic conditions affected both the receipts and the disbursements of the trust fund. Total wage payments on which contributions and wage credits are based were higher in each quarter than in the corresponding quarter of any prior year. As a result, contributions collected during the fiscal year were 11 percent above the collections in the preceding year and the largest on record. At the end of fiscal year 1948 there were 171,000 more persons receiving monthly benefits on the basis of their own wage records than at the end of fiscal year 1947; the corresponding increase from June 1946 to June 1947 was 166,000. The number of beneficiaries receiving benefits as wives or children of these primary beneficiaries increased by 55,000 as compared with 56,000 in the preceding year. The increase of 105,000 in number of survivors of deceased workers who were receiving benefits virtually equaled that for the preceding year.

The economic changes that have been produced by the war and its aftermath will have long-range effects on the financing of old-age and survivors insurance. These effects, resulting for example from higher money earnings in covered employment, shifts in the labor force, increased employment of women, and the deferred retirement of older workers, cannot be fully appraised at this time. In the present report, these developments are taken into account in the statements on the expected operations of the trust fund during the next 5 years

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and on the actuarial status of the trust fund; but there are many uncertainties, and these uncertainties are present, of course, in the estimates contained in the report.

### 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 workers and employers in employments covered by the Federal Insurance Contributions Act. The Federal Insurance Contributions Act requires all employees and employers, except those in specifically excluded employments, to pay contributions with respect to the wages of individual workers, disregarding amounts 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 act 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 Act 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.

Successive annual acts of Congress, however, extended the 1-percent rates from 1943 through 1947. The Social Security Act amendments of 1947 extend the 1-percent rates through 1949; at the end of 1949, accordingly, the 1-percent rates will have been in effect for 13 years. The amendments of 1947, however, provide that the rates shall rise to 1½ percent on January 1, 1950, and to 2 percent on January 1, 1952.

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 source of revenue for the trust fund is provided in section 902 of the Revenue Act of 1943. This act amended section 201 of the Social Security Act and authorizes 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.

The Social Security Act amendments of 1946 provide survivorship protection to certain World War II veterans for a period of 3 years following their discharge from the armed forces. Section 210 (d) of these amendments authorizes Federal appropriations to reimburse the Federal old-age and survivors insurance trust fund for such sums as are withdrawn to meet the additional cost (including administrative expenses) of the payments to survivors of World War II veterans under the amendments.

Public Law 642, enacted June 14, 1948, which amends the definition of the term "employee" as used in the Social Security Act, results in the exclusion from coverage of certain services previously held covered under title II of the act. While the amended definition is made retroactive to August 14, 1935, certain wage credits established under the former definition will remain credited to the individual's account. The law authorizes an appropriation to the trust fund from general revenues equal to the estimated total amount of benefits paid and to be paid under title II of the Social Security Act that would not have been paid had the amended definition been in effect beginning August 14, 1935.

Expenditures under the old-age and survivors insurance program are paid out of the trust fund. These expenditures for the fiscal year ended 1946 and previous years included 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 under the program as were authorized by section 201 (f) of the act. Successive acts of Congress have modified the procedures in accounting for these expenses. Thus, during fiscal year 1947 a portion, and during fiscal year 1948 a still larger share, of the program's administrative expenses were charged directly to the trust fund and not reimbursed from the fund as they had been in the preceding fiscal years. As a result of the Supplemental Federal Security Agency Appropriation Act, 1949, approved June 16, 1948, all expenses incurred by all offices of the Federal Security Agency in carrying out the provisions of title II of the Social Security Act, as amended, are now charged directly to the trust fund. Under the President's Reorganization Plan No. 2, effective July 16, 1946, the Federal Security Administrator certifies benefit payments to the managing trustee, who makes the payments from the trust fund in accordance therewith. Prior to July 16, 1946, certifications for payments were made by the Social Security Board. Payments are made from an uninvested balance held in the fund to the account of the disbursing officer of the Treasury.

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 semiannually on June 30 and December 31. These interest receipts are available

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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.

On June 30, 1948, there were about 11,000,000 persons aged 65 and over, a number equivalent to 7 percent of the total population. It is estimated that by the end of 50 years the number of persons aged 65 and over may be two to three times as large as on June 30, 1948, and represent from 10 to 16 percent of the population. The effect on 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 because, compared with the present situation, a much larger proportion of aged persons 50 years hence is expected to be eligible to receive benefits under the program. The future financial soundness of this system, with its rising rates of disbursements, 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 short-run fluctuations in total contribution and benefit amounts, 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 during any reversal in business activity.

SUMMARY OF OPERATIONS OF TRUST FUND, FISCAL YEAR 1948

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, 1947, and ended on June 30, 1948, 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 1948<sup>1</sup>

Total assets of the trust fund, June 30, 1947.....		\$8, 798, 389, 946. 73
Receipts, fiscal year 1948:		
Appropriations equivalent to contributions collected.....	\$1, 616, 162, 043. 92	
Transfers from general fund.....	700, 000. 00	
Interest on investments.....	190, 562, 313. 81	
Total receipts.....	<u>1, 807, 424, 357. 73</u>	
Disbursements, fiscal year 1948:		
Benefit payments.....	511, 675, 674. 33	
Administrative expenses.....	47, 457, 472. 24	
Total disbursements.....	<u>559, 133, 146. 57</u>	
Net addition to trust fund.....		1, 248, 291, 211. 16
Total assets of the trust fund, June 30, 1948.....		<u>10, 046, 681, 157. 89</u>

<sup>1</sup> On the basis of the Daily Statement of the U. S. Treasury.

The total receipts of the trust fund during the fiscal year 1948 amounted to \$1,807.4 million. Of this total, \$1,616.2 million 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 represented an 11-percent increase over appropriations in the preceding fiscal year. The additional \$191.3 million of receipts consisted of \$190.6 million of interest on investments of the fund and \$0.7 million transferred from general funds of the Treasury in accordance with section 210 (d) of the Social Security Act, as amended.

Disbursements from the trust fund during the fiscal year 1948 totaled \$559.1 million, of which \$511.7 million consisted of benefit payments, and \$47.5 million 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 1947 by 20 percent, the increase reflecting primarily the larger number of persons drawing benefits. A summary of receipts and disbursements of the old-age and survivors insurance trust fund during each of the 8 years from July 1, 1940, through June 30, 1948, is presented in table 2.

TABLE 2.—Operations of the old-age and survivors insurance trust fund by specified period, Jan. 1, 1940, to June 30, 1948

[In millions]

	Fiscal year ended in—								
	1940 <sup>1</sup>	1941	1942	1943	1944	1945	1946	1947	1948
Receipts:									
Assets transferred from old-age reserve account on Jan. 1, 1940	\$1,724								
Appropriations equivalent to contributions collected	( <sup>2</sup> )	\$688	\$896	\$1,130	\$1,292	\$1,310	\$1,238	\$1,460	\$1,617
Interest on investments	42	56	71	87	103	124	148	163	191
Total receipts <sup>4</sup>	1,767	744	967	1,218	1,395	1,434	1,386	1,623	1,807
Disbursements:									
Benefit payments <sup>5</sup>	10	64	110	149	185	240	321	426	512
Administrative expenses	12	27	27	27	33	27	37	41	47
Total disbursements <sup>4</sup>	22	91	137	177	217	267	358	466	559
Total assets at end of period <sup>4</sup>	1,745	2,398	3,227	4,268	5,446	6,613	7,641	8,798	10,047

<sup>1</sup> January–June 1940, fund having been established in place of old-age reserve account on Jan. 1, 1940.  
<sup>2</sup> Appropriations equivalent to contributions collected became effective July 1, 1940; appropriations authorized under sec. 201 (a) of the Social Security Act of 1935 were made prior to Jan. 1, 1940.

<sup>3</sup> Includes \$375,000 for fiscal year 1947 and \$700,000 for fiscal year 1948 to meet the additional costs of administering benefits payable to survivors of certain World War II veterans as defined in title II of the Social Security Act amendments of 1946.

<sup>4</sup> Totals do not necessarily represent the sum of rounded components.

<sup>5</sup> Based on checks cashed and returned to the Treasury.

<sup>6</sup> Includes some reimbursements applicable to outlays in other fiscal years.

<sup>7</sup> Adjusted for overreimbursements in prior years.

The ratio of administrative expenditures of the fund to contributions collected and benefits paid is shown in table 3.



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**TABLE 3.—Relationship of administrative charges against old-age and survivors insurance trust fund to old-age and survivors insurance contributions and benefit payments**

Fiscal year	Administrative charges against the OASI trust fund as a percentage of—		Fiscal year	Administrative charges against the OASI trust fund as a percentage of—	
	OASI contributions collected	Benefit checks cashed		OASI contributions collected	Benefit checks cashed
1941.....	3.9	41.7	1945.....	2.1	11.2
1942.....	3.0	24.3	1946.....	3.0	11.7
1943.....	2.4	18.4	1947.....	2.8	9.6
1944.....	2.5	17.7	1948.....	2.9	9.3

The distribution of benefit payments in fiscal years 1947 and 1948 by type of benefit is shown in table 4. Approximately 70 percent of the total benefit payments from the fund in the fiscal year 1948 were accounted for by monthly benefits to persons aged 65 or over—retired wage earners and their wives, and aged widows and parents of deceased wage earners. Approximately 24 percent of the 1948 benefit payments represented monthly benefits on behalf of children of deceased or retired workers and payments to widows—practically all of them under age 65—who had children of deceased wage earners in their care. The balance of the benefits paid in the fiscal year 1948 consisted almost entirely of lump-sum amounts in cases where no survivor of an insured wage earner dying after 1939 was immediately entitled to monthly benefits.

The total of \$511.7 million paid in benefits during fiscal year 1948 includes \$2.3 million for additional monthly benefits and \$1.2 million for additional lump sums paid under section 210 to survivors of certain deceased World War II veterans. Under the provisions of the Social Security Act Amendments of 1946, the trust fund will be reimbursed or these payments to the survivors of veterans.

**TABLE 4.—Estimated distribution of Treasury disbursements for benefit payments under the old-age and survivors insurance program, by type of benefit, fiscal years 1947 and 1948**

[In millions]

Type of benefit	1947		1948	
	Amount	Percent of total	Amount	Percent of total
Total.....	1 \$425.6	100	1 \$511.7	100
Monthly benefits.....	397.1	93	480.4	94
Primary (retired wage earners 65 or over).....	219.2	51	272.4	53
Wife's (wives 65 or over of primary beneficiaries).....	35.8	8	44.2	9
Widow's (widows 65 or over of wage earners).....	32.5	8	41.9	8
Parent's (parents 65 or over of deceased wage earners).....	1.3	(2)	1.8	(2)
Child's (dependents of retired wage earners).....	2.6	1	3.3	1
Child's (dependents of deceased wage earners).....	72.0	17	81.5	16
Widow's current (widows of wage earners with child beneficiary).....	33.6	8	35.3	7
Lump-sum benefits (no survivor of deceased wage earner immediately entitled to monthly benefits or wage earner died before 1940).....	28.5	7	31.3	6

<sup>1</sup> Includes additional benefits of \$2.9 million for fiscal year 1947 and \$3.5 million for fiscal year 1948 paid under sec. 210 to survivors of certain deceased World War II veterans. Amount is reimbursable to trust fund from the general fund of the Treasury.

<sup>2</sup> Less than 0.5 percent.

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At the end of the fiscal year 1948, approximately 2.2 million persons in 1.5 million families were receiving monthly benefits at an annual rate of \$509 million. At the end of the preceding fiscal year, the monthly benefit rolls included 1.8 million persons in about 1.2 million families to whom monthly benefits were being paid at an annual rate of \$421 million. The average monthly benefit in current payment status for different types of family groups as of June 30, 1948, was as follows: Retired male worker only, \$25.60; retired worker and wife, \$39.90; retired female worker only, \$20; widow (aged 65 and over) only, \$20.50; widowed mother and one child, \$35; widowed mother and two children, \$49.20; and widowed mother and three or more children, \$52.60.

The total assets of the old-age and survivors insurance trust fund, as reported in the eighth annual report of the Board of Trustees, amounted to \$8,798 million on June 30, 1947. These assets increased to \$10,047 million by the end of the fiscal year 1948, as the result of an excess of receipts over disbursements amounting to \$1,248 million during the fiscal year. Table 5 shows a comparison of the total assets of the trust fund and their distribution at the end of the fiscal years 1947 and 1948. The assets of the fund at the end of the fiscal year 1948 consisted of \$9,937 million in the form of obligations of the United States Government, \$35 million to the credit of the fund account, and \$75 million to the credit of the disbursing officer.

TABLE 5.—Assets of Federal old-age and survivors insurance trust fund, by type, at end of fiscal years 1947 and 1948<sup>1</sup>

	June 30, 1947, principal cost <sup>2</sup>	June 30, 1948	
		Par value	Principal cost <sup>2</sup>
<b>Investments:</b>			
Treasury bonds (public issues):			
2¼-percent bonds of 1959-62.....		\$4,205,000	\$4,222,974.87
2½-percent bonds of 1962-67.....	\$49,000,000.00	58,650,000	58,909,070.33
2½-percent bonds of 1963-68.....	100,000,000.00	116,480,000	116,777,993.79
2½-percent bonds of 1964-69.....	50,000,000.00	83,654,000	84,116,525.45
2½-percent bonds of 1965-70.....	400,000,000.00	455,447,500	456,062,334.34
2½-percent bonds of 1966-71.....	295,000,000.00	305,677,500	305,848,805.58
2½-percent bonds of 1967-72.....	744,334,250.00	1,197,023,250	1,201,841,552.46
Total Treasury bonds.....	1,638,334,250.00	2,221,137,250	2,227,779,256.82
<b>Special issues:</b>			
Treasury notes:			
1½-percent notes: Maturing June 30, 1948.....	1,109,000,000.00		
Certificates of indebtedness:			
2½-percent certificates: Maturing June 30, 1949.....		7,709,000,000	7,709,000,000.00
2-percent certificates: Maturing June 30, 1948.....	5,995,000,000.00		
Total special issues.....	7,104,000,000.00	7,709,000,000	7,709,000,000.00
Total investments.....	8,742,334,250.00	9,930,137,250	9,936,779,256.82
<b>Uninvested balances:</b>			
To credit of fund account.....	7,305,145.01		35,014,860.78
To credit of disbursing officer.....	48,750,551.72		74,887,040.29
Total assets.....	8,798,389,946.73		10,046,681,157.89

<sup>1</sup> On basis of the Daily Statement of the U. S. Treasury.  
<sup>2</sup> Gross purchase price less amount paid for accrued interest.  
<sup>3</sup> Includes \$18,686.80 accrued interest paid on investments.

In accordance with the provisions of section 201 (c) of the Social Security Act, as amended, the managing trustee invested during fiscal year 1948 that portion of the assets of the trust fund which, in his judgment, was not required to meet current withdrawals. This 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 acquired through purchase of outstanding obligations in the open market or on original issue at par. Investments made for the fund during previous fiscal years consisted only of direct obligations of the United States purchased on original issue. During the current fiscal year, however, investments included, for the first time, purchases of outstanding obligations of the United States in the open market.

The net increase in the investments owned by the fund during the fiscal year 1948 amounted to \$1,194 million. New securities totaling \$8,948 million 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 \$7,754 million; they included \$1,109 million of 1½ percent special Treasury notes; \$350 million of 2½ percent special certificates of indebtedness; and \$6,295 million of 2 percent special certificates of indebtedness.

Of the new securities acquired, \$8,359 million were in the form of special certificates of indebtedness, \$650 million of which were redeemed during the year and \$7,709 million of which mature on June 30, 1949. These certificates were acquired at par, \$300 million bearing an interest rate of 2 percent and the balance an interest rate of 2½ 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 \$589 million of securities acquired during the fiscal year were Treasury bonds—\$585 million at 2½ percent and \$4 million at 2¼ percent—purchased at a premium in the open market but yielding a higher rate of return than special securities issuable to the trust fund at the time such marketable issues were acquired. The corresponding par value of these purchases is approximately \$583 million. The asset value of these bonds, carried on the books of the Treasury Department and shown in this report, is the principal cost—gross purchase price less amount paid for accrued interest—at time of acquisition.

The average rate of interest on the interest-bearing public debt, which determines the interest rate 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 1948 the average rate of interest on the public debt rose slightly: The rate was 2.182 percent on June 30, 1948, as compared with 2.107 percent on June 30, 1947. Because the rate exceeded 2½ percent during September 1947 but remained less than 2½ percent during the remainder of the fiscal year, the interest rate on all special issues acquired after the first quarter of the fiscal year increased to 2½ percent compared with 2 percent at which special issues were acquired during the previous fiscal year and during the first quarter of the current year.

## STATEMENT OF THE EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING FISCAL YEARS 1949-53

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 operations and status of the trust fund during the next ensuing five fiscal years. The Board is required to include in the report 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, rates of contributions, transfers from the general funds of the Treasury to meet the additional cost of benefits payable to survivors of certain deceased World War II veterans, and interest earnings of the fund. The disbursements from the fund depend on the number of persons among those eligible for benefits who apply for and receive benefits, the amounts of benefit to which they are entitled on the basis of past earnings, and the mortality rates among covered workers and beneficiaries. Consequently, both the income and the disbursements of the fund are substantially affected by the general economic conditions.

In this as in previous reports the Board presents two sets of estimates of income and disbursements based on alternative economic assumptions. Alternative I shows the effect of reasonably optimistic assumptions; alternative II, the effect of somewhat less optimistic assumptions. Because alternative II does not reflect the effect on income and disbursements should a deep depression materialize during the next 5 years, the differences between the two estimates are not great.

For both alternative I and alternative II, it is assumed that present statutory coverage of old-age and survivors insurance will remain unchanged throughout the period under consideration. The computations of 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 1948 and 1949, 1½ percent each during the calendar years 1950 and 1951, and 2 percent each during the calendar years 1952 and 1953.

The two sets of estimates of the income and disbursements of the trust fund for each of the five fiscal years 1949 to 1953, together with the resulting assets of the fund at the beginning and the end of each year, are presented in table 6. In addition, the figures for actual experience in fiscal years 1941 to 1948 are shown.

Alternative I, which shows a relatively large increase in trust-fund assets, is based on the assumption that a high level of employment and earnings is maintained through calendar year 1953. Weekly earnings and average annual taxable wages are assumed to increase, but at a slower rate than hourly wage rates because of the continued gradual shortening of the workweek. Unemployment is assumed to remain at a low level. Benefit disbursements are assumed to increase substantially, primarily because of the long-range upward trend in the number of beneficiaries.

Under alternative I, aggregate income during the period of five fiscal years ending in 1953 would amount to \$16.5 billion, including \$14.9 billion in contributions and appropriations and \$1.6 billion in

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interest. Aggregate disbursements for the period would be about \$4.1 billion, with the highest expected annual disbursement about \$984 million. The trust fund at the beginning of the fiscal year 1949 would amount to about 10.2 times the highest expected annual disbursement during the succeeding five fiscal years.

The other set of estimates, alternative II, is based on the assumption of an economic readjustment beginning in early 1951. The adjustment period, however, is assumed to be brief and recovery fairly rapid. It is assumed that during the adjustment period there will be a substantial increase in unemployment and in short-term and part-time employment, and that the long-time upward trend in wage rates will be interrupted for about 2 years, with subsequent gains in average hourly earnings less rapid than under alternative I. As a result, estimated covered pay rolls during fiscal years 1951-53, and therefore estimated contributions, are lower under alternative II than under alternative I. Estimated benefit disbursements, on the other hand, increase more rapidly under alternative II than under alternative I because a 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 1949-53 under alternative II would amount to \$14.8 billion, including \$13.2 billion in contributions and appropriations and \$1.5 billion in interest. Aggregate disbursements would be \$4.4 billion, with the highest expected annual disbursement about \$1,085 million. The trust fund at the beginning of the fiscal year 1949 would amount to about 9.3 times the highest expected annual disbursements during the period.

The 1946 amendments to title II of the Social Security Act provide survivors insurance protection for a limited period to certain veterans of World War II. Specific provision is made in this legislation authorizing appropriations, out of general revenues, to the trust fund of amounts necessary to meet the additional cost of these benefits. These disbursements are clearly in the nature of reimbursable transactions, independently financed and employing the trust fund primarily as a practical mechanism for facilitating coordination of these benefit payments with potential survivors benefits under the old-age and survivors insurance program. Disbursements arising from these amendments, and reimbursements therefor, are included in the amounts shown in tables 6 and 7.

The 1946 amendments to the Railroad Retirement Act, contained in Public Law 572, establish a system of survivors insurance and, in effect, amend the present survivors insurance system contained in title II of the Social Security Act. Under both systems, eligibility for and the amount of benefits payable to survivors, in general, will be based on an insured worker's combined earnings record under the two programs. As a result of this coordination, some survivors will become eligible under old-age and survivors insurance who otherwise would not have become eligible; on the other hand, some survivors who would have become eligible under old-age and survivors insurance will instead receive railroad survivors benefits. In addition, some survivors who in any event would have been eligible under old-age and survivors insurance will now receive larger benefits. Although no specific provision is contained in these amendments for the allocation of costs between the two systems, the legislation states that, not later

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than January 1, 1950, a joint report should be made setting forth the actual experience under each system and recommending such legislation as deemed advisable for the equitable distribution, between the two systems, of the financial burdens arising from awarded claims. It is believed, however, that the net additional disbursements, if any, will not constitute a serious drain on the trust fund during the five fiscal years 1949-53.

TABLE 6.—Operations of the Federal old-age and survivors insurance trust fund, fiscal years 1941-53, subject to the assumptions and limitations stated in the text<sup>1</sup>

[In millions]

Fiscal year	Fund at beginning of year <sup>2</sup>	Transactions during year						Fund at end of year	
		Income			Disbursements				Net increase in fund
		Total	Appropriations <sup>3</sup>	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	967	896	71	137	110	27	830	3,227
1943.....	3,227	1,218	1,130	87	177	149	27	1,041	4,268
1944.....	4,268	1,395	1,292	103	217	185	433	1,178	5,446
1945.....	5,446	1,434	1,310	124	267	240	427	1,167	6,613
1946.....	6,613	1,386	1,238	148	358	321	37	1,028	7,641
1947.....	7,641	1,623	1,460	163	466	426	41	1,157	8,798
1948.....	8,798	1,807	1,617	191	539	512	47	1,248	10,047
Estimated future experience:									
1949.....	10,047	1,985	1,757	228	656	602	54	1,329	11,376
1950.....	11,376	2,686	2,424	262	745	688	57	1,941	13,317
1951:									
Alternative I.....	13,317	3,285	2,977	308	826	768	58	2,459	15,776
Alternative II.....	13,317	2,708	2,406	302	914	853	61	1,794	15,111
1952:									
Alternative I.....	15,776	3,908	3,543	365	905	847	58	3,003	18,779
Alternative II.....	15,111	3,343	2,998	345	1,016	957	59	2,327	17,438
1953:									
Alternative I.....	18,779	4,634	4,200	434	984	925	59	3,650	22,429
Alternative II.....	17,438	4,062	3,663	399	1,086	1,027	59	2,976	20,414

<sup>1</sup> In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Alternative I assumes a continuing high level of employment and earnings throughout the period; alternative II assumes a moderate decline in both employment and earnings with a fairly rapid recovery. Estimates were prepared September 1948.

<sup>2</sup> Totals shown in this and other columns do not necessarily equal the sum of rounded components.

<sup>3</sup> Include 100 percent of contributions which are automatically appropriated to the trust fund, and reimbursements equivalent to any additional payments arising from the extension of survivors insurance protection to certain veterans of World War II (Social Security Act amendments of 1946). Estimated contributions for fiscal years 1949-53 are based on statutory rates of 1 percent each on employers and employees in calendar years 1948 and 1949, 1½ percent each in 1950 and 1951, and 2 percent each thereafter.

<sup>4</sup> Represent charges against trust fund in respective fiscal years: administrative expenses after adjustment for bookkeeping transfers, were about \$30,000,000 in fiscal year 1944 and about \$29,000,000 in fiscal year 1945.

Public Law 642, enacted June 14, 1948, which amends the definition of the term "employee" as used in the Social Security Act, results in the exclusion from coverage of certain services previously held covered under title II of the act. While the amended definition is made retroactive to August 14, 1935, certain wage credits established under the former definition will remain credited to the individual's account. The law authorizes an appropriation to the trust fund from general revenues equal to the estimated total amount of benefits paid and to be paid under title II of the Social Security Act that would not have been paid had the amended definition been in effect beginning August 14, 1935. Since this estimate has not yet been completed,

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the appropriations shown in table 6 exclude any income from this source.

Benefit disbursements during the next 5 years, like contributions, are dependent to a considerable extent 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, over the short range 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 over the next few years 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).

**TABLE 7.—Treasury disbursements for benefit payments, distributed by classification of beneficiaries, fiscal years 1941-53, subject to the assumptions and limitations stated in the text<sup>1</sup>**

[In millions]

Fiscal year	Total benefit disbursements <sup>2</sup>	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	
<b>Past disbursements:<sup>3</sup></b>							
1941.....	\$64.3	\$31.4	\$5.3	\$15.3	\$1.5	\$13.8	\$12.3
1942.....	110.3	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
1946.....	320.5	153.9	27.2	113.4	24.7	88.7	26.0
1947.....	425.6	219.2	38.4	139.4	33.8	105.6	28.5
1948.....	511.7	272.4	47.5	160.5	43.7	116.8	31.3
<b>Estimated future disbursements:</b>							
1949.....	602	328	57	185	56	129	32
1950.....	688	381	65	209	69	140	33
1951.....							
Alternative I.....	768	427	73	} 233	84	149	35
Alternative II.....	853	500	85				
1952.....							
Alternative I.....	847	471	81	} 258	100	158	37
Alternative II.....	957	565	97				
1953.....							
Alternative I.....	925	514	89	} 283	117	166	39
Alternative II.....	1,027	601	104				

<sup>1</sup> In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared September 1948.

<sup>2</sup> Totals do not necessarily equal the sum of rounded components.

<sup>3</sup> 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, to their aged wives, and to their 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 years 1945-48, however, this proportion began to decrease—slowly at first and then accelerating—as the volume of withdrawals of older workers from covered employment increased. The withdrawal of older workers may be expected to continue for some time to come at rates approximately equivalent to those currently being experienced, even under the favorable employment conditions assumed under alternative I, with a consequent increase in the proportion in receipt of primary benefits.

If the lower employment conditions assumed in alternative II should materialize, it is expected that still larger proportions of eligible workers will be obliged to leave covered employment, even at ages 65-69. Hence, 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 by age attained as of the middle (January 1) of each of the fiscal years 1941 through 1953. The growth in the number of eligible workers aged 65-69 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 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 a permanent disability—but in the calendar year 1953 numerous persons attaining age 65 will be fully insured even though they left covered employment after reaching age 56.

Although the number of eligible workers aged 65-69 is expected to treble between January 1, 1941, and January 1, 1953, 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 nearly eightfold during this period, even under the lower-employment assumptions of alternative II. At the latter date, the number eligible at these attained ages should comprise more than half of the total number of eligible persons.



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TABLE 8.—Wage earners eligible for and receiving primary benefits by attained age of wage earners, fiscal years 1941-53, subject to the assumptions and limitations stated in the text<sup>1</sup>

Middle of fiscal year (January 1)	All wage earners aged 65 and over			Wage earners aged 65-69			Wage earners aged 70 and over		
	Number eligible for benefits <sup>1</sup>	Persons receiving benefits—		Number eligible for benefits <sup>2</sup>	Persons receiving benefits—		Number eligible for benefits <sup>2</sup>	Persons receiving benefits—	
		Number	Proportion of total number eligible		Number	Proportion of total number eligible		Number	Proportion of total number eligible
Actual experience:	<i>Thous.</i>	<i>Thous.</i>	<i>Pct.</i>	<i>Thous.</i>	<i>Thous.</i>	<i>Pct.</i>	<i>Thous.</i>	<i>Thous.</i>	<i>Pct.</i>
1941.....	548	112	20	376	85	23	172	28	16
1942.....	680	200	29	445	134	30	235	66	28
1943.....	831	260	31	522	153	29	309	107	35
1944.....	1,016	306	30	608	156	26	408	151	37
1945.....	1,253	378	30	708	167	24	545	211	39
1946.....	1,465	518	35	794	212	27	671	306	46
1947.....	1,653	702	42	860	271	32	793	430	54
1948.....	1,817	875	48	920	325	35	897	550	61
Estimated future ex- perience:									
1949.....	1,970	1,050	53	975	380	38	995	670	67
1950.....	2,115	1,195	56	1,025	420	41	1,090	775	71
1951:									
Alternative I...	2,260	1,320	58	1,075	455	42	1,185	865	73
Alternative II...	2,225	1,510	68	1,050	575	55	1,175	935	80
1952:									
Alternative I...	2,400	1,435	60	1,125	485	43	1,275	950	75
Alternative II...	2,335	1,710	73	1,080	665	62	1,255	1,045	83
1953:									
Alternative I...	2,540	1,550	61	1,170	515	44	1,370	1,035	76
Alternative II...	2,445	1,805	74	1,110	685	62	1,335	1,120	84

<sup>1</sup> In interpreting the estimates in this table reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared September 1948.

<sup>2</sup> Figures for 1941-48 are partly estimated.

The estimates presented above result in a net increase in the trust fund during the 5-year period of about \$12.4 billion under alternative I and about \$10.4 billion under alternative II. It is entirely possible under alternative I that the amount of contribution income may be greater and benefit payments lower than has been estimated. The total result would be an even greater growth in the trust fund than is indicated under this alternative. On the other hand, lower contribution and interest income together with higher benefit payments than shown under alternative II, would lead to smaller net increases in the trust fund.

ACTUARIAL STATUS OF THE TRUST FUND

Section 201 (b) of the Social Security Act requires the Board of Trustees to present each year a statement of the actuarial status of the trust fund. In the seventh annual report of the Board, new cost illustrations were presented taking into account the foreseeable effects of the war and the brief postwar period to the date of that report. In the previous report, the eighth, no essential changes were made in these cost estimates other than to allow for the new contribution schedule introduced in the Social Security Act amendments of 1947. The past year's experience has not indicated a need to modify these estimates, although the work of revision is necessarily a continuous process.