period. Thus, on June 30, 1967, special issues held by the old-age and survivors insurance trust fund were distributed in equal amounts of $1,080 million maturing in each of the years 1968–80 (table 7). In addition, $1,080 million was invested in 5-year notes bearing 4⅞ percent interest and maturing on June 30, 1971, and $2,720 million was invested in 7-year notes bearing 4¾ percent interest and maturing on June 30, 1974.

The 5-year notes were acquired on June 30, 1966, under the following circumstances. If, on June 30, 1966, trust-fund holdings of special issues were spread equally over a 15-year period, it would have been necessary for the Treasury to issue, for purchase by the trust fund, 15-year bonds maturing in 1981. Such issue—with more than 5 years to maturity—would have been required, under the then existing law (31 U.S.C. 752 and 753(a)), to bear an interest rate no higher than 4¼ percent. On the other hand, the application of section 201(d) of the Social Security Act, relating to the determination of the interest rate on special issues, resulted in a rate of 4⅞ percent. Accordingly, a sum of $1,080 million that would have been invested in bonds maturing in 1981 was, instead, invested in notes for the longest possible duration to maturity; that is, in 4⅞-percent notes maturing June 30, 1971. The 7-year notes were acquired on June 30, 1967, under similar circumstances; however, the law (31 U.S.C. 753(a)) limiting the maturity date for notes to not more than 5 years from date of purchase had been amended (Public Law 90–39, approved June 30, 1967), extending the limitation to 7 years. (Similarly, with respect to assets of the disability insurance trust fund at the end of fiscal year 1967, some $75 million was invested in 4⅞-percent 5-year notes maturing on June 30, 1971, and $309 million was invested in 4¾-percent 7-year notes maturing on June 30, 1974.)

Summary of the Operations of the Federal Disability Insurance Trust Fund, Fiscal Year 1967

A statement of the income and disbursements of the Federal disability insurance trust fund during fiscal year 1967 and of the assets of the fund at the beginning and end of the fiscal year is presented in table 9.

The total assets of the disability insurance trust fund amounted to $1,686 million on June 30, 1966. These assets increased by $335 million during the fiscal year, to $2,022 million at the end of the year.

TABLE 9.—STATEMENT OF OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING THE FISCAL YEAR 1967

Total assets of the trust fund, June 30, 1966		$1,686,160,638.08
Receipts, fiscal year 1967:		
Contributions:		
Appropriations	$2,085,603,195.41	
Deposits arising from State agreements	183,231,028.81	
Gross contributions	2,268,834,224.22	
Less payment into the Treasury for taxes subject to refund	19,437,375.00	
Net contributions	2,249,396,849.22	
Reimbursement from general fund of the Treasury for costs of noncontributory credits for military service	16,000,000.00	
Interest and profit:		
Interest and profit on investments	66,340,400.10	
Interest on amounts transferred from old-age and survivors insurance trust fund for reimbursement of—		
Administrative expenses	497,170.00	
Cost of vocational rehabilitation services	2,000.00	
Total interest and profit	66,839,570.10	
Total receipts	2,332,236,419.32	
Disbursements, fiscal year 1967:		
Benefit payments	1,860,789,067.34	
Transfers to railroad retirement account	30,634,000.00	
Payment for cost of vocational rehabilitation services for disabled beneficiaries:		
Gross payment	6,622,305.53	
Less reimbursement from old-age and survivors insurance trust fund	88,000.00	
Net payment	6,534,305.53	
Administrative expenses:		
Department of Health, Education, and Welfare	104,021,295.13	
Treasury Department	5,065,288.78	
Construction of facilities for Social Security Administration	216,408.00	
Expenses of the Department of Health, Education, and Welfare for administration of vocational rehabilitation program for disabled beneficiaries	299,000.00	
Gross administrative expenses	109,601,991.91	
Less receipts from sale of surplus supplies, materials, etc	16,671.63	
Less reimbursement from old-age and survivors insurance trust fund due to adjustment in allocation of administrative expenses for fiscal year 1966	10,751,385.00	
Net administrative expenses	98,833,935.28	
Total disbursements	1,996,791,308.15	
Net addition to the trust fund		335,445,111.17
Total assets of the trust fund, June 30, 1967		2,021,605,749.25

Net receipts of the fund amounted to $2,332 million. Of this total, $2,086 million represented tax collections appropriated to the fund, and $183 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. As an offset, $19 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base. Net contributions amounted to $2,249 million, representing an increase of about 45 percent over the amount for the preceding fiscal year.

This increase is accounted for, in part, by the same factors that contributed to the increase in tax receipts of the old-age and survivors insurance trust fund and in part by the provision in the 1965 amendments that increased the portion of the contribution rate allocated to finance benefits from the disability insurance trust fund. Effective January 1, 1966, the allocated rate for employees and employers was increased from 0.25 percent each of taxable earnings to 0.35 percent each. For the self-employed, the allocated rate was increased from 0.375 percent to 0.525 percent. Although these increases became effective in 1966, fiscal year 1967 was the first full year during which they were operative.

An additional $16 million, received in July 1966, represented the first annual reimbursement (for fiscal year 1966) from the general fund of the Treasury for the costs of noncontributory credits for military service.

The remaining $67 million of receipts consisted of net interest and profit on the investments of the fund.

Disbursements from the fund during the fiscal year 1967 totaled $1,997 million. Of this total, $1,861 million was for benefit payments, an increase of 8 percent over the corresponding amount paid in the fiscal year 1966. This increase is accounted for by the same factors, insofar as they apply to disabled-worker beneficiaries and their dependents, that resulted in the increase in benefit payments from the old-age and survivors insurance trust fund (described in the preceding section).

Provisions governing the financial interchanges between the railroad retirement account and the disability insurance trust fund are similar to those described in the preceding section relating to the old-age and survivors insurance trust fund. The determination made as of June 30, 1966, required that a transfer of $29,600,000 be made from the disability insurance trust fund to the railroad retirement account. This amount was transferred to the railroad retirement account in May 1967, together with interest to the date of transfer amounting to $1,034,000.

The remaining disbursements amounted to $99 million for net administrative expenses and $7 million for the net cost of vocational rehabilitation services furnished to disabled-worker beneficiaries and to those dependents of disabled workers who are receiving benefits on the basis of disabilities that have continued since childhood.

Section 222(d) of the Social Security Act, as amended, provides that the total amount of funds that may be made available for payment for the costs of vocational rehabilitation services, including applicable administrative expenses, in a fiscal year may not exceed 1 percent of the benefits certified for payment in the preceding year from the old-age and survivors insurance trust fund and the disability insurance trust fund to disabled persons receiving benefits because of their disability. The following table shows the relationship between the total amounts made available in fiscal years 1966 and 1967 for payment for the costs of such rehabilitation services and the corresponding amounts of benefit payments from the trust funds to disabled beneficiaries in fiscal years 1965 and 1966 respectively (amounts in thousands):

Fiscal year	Estimated amount of benefit payments in preceding fiscal year to disabled beneficiaries	Payment for costs of rehabiltation services [1]	
		Total	As percent of preceding year's benefit payments
1966	$1,220,337	$588	0.05
1967	1,483,662	[2] 9,643	.65

[1] Expenditures from the trust funds for payment for costs of rehabilitation services for disabled beneficiaries were first authorized under the 1965 amendments and began in fiscal year 1966. The amounts shown represent the expenditures for the fiscal year and differ from amounts shown in accounting statements of the trust funds on a cash basis.

[2] Preliminary figure (final figure will not exceed this amount).

At the end of fiscal year 1967, some 2,060,000 persons were receiving monthly benefits from the disability insurance trust fund. The distribution of benefit payments in fiscal years 1966 and 1967, by type of benefit, is shown in table 10.

TABLE 10.—ESTIMATED DISTRIBUTION OF BENEFIT PAYMENTS FROM THE DISABILITY INSURANCE TRUST FUND, BY TYPE OF BENEFICIARY, FISCAL YEARS 1966 AND 1967

[Amounts in millions]

	1966 [1]		1967	
	Amount	Percent of total	Amount	Percent of total
Total	$1,721.1	100	$1,860.8	100
Disabled workers	1,350.3	78	1,456.3	78
Wives and husbands	104.4	6	111.3	6
Children	266.4	15	293.1	16

[1] Benefit payments in 1966 include the portions of (1) the general benefit increase and (2) benefits to children aged 18 to 21 who qualified under the school-attendance provisions—both of which were provided by the 1965 amendments—that were paid in fiscal year 1966 but were attributable retroactively to months in fiscal year 1965.

The assets of this fund at the end of fiscal year 1967 totaled $2,022 million, consisting of $1,833 million in the form of obligations of the U.S. Government, and $189 million in undisbursed balances. Table 11 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1966 and 1967.

TABLE 11.—ASSETS OF THE DISABILITY INSURANCE TRUST FUND, BY TYPE, AT END OF FISCAL YEARS 1966 AND 1967

	June 30, 1966		June 30, 1967	
	Par value	Book value [1]	Par value	Book value [1]
Investments in public-debt obligations:				
Public issues:				
Treasury bonds:				
3½-percent, 1990	$10,500,000	$9,847,507.94	$10,500,000	$9,875,175.50
3½-percent, 1998	5,000,000	4,663,506.80	5,000,000	4,673,913.80
3¾-percent, 1968	5,000,000	5,000,000.00	5,000,000	5,000,000.00
3⅞-percent, 1968	8,750,000	8,730,312.34	8,750,000	8,738,749.78
3⅞-percent, 1974	5,000,000	5,000,000.00	5,000,000	5,000,000.00
4-percent, 1969	26,000,000	25,988,581.75	26,000,000	25,992,095.11
4-percent, 1970	24,000,000	23,895,631.97	24,000,000	23,922,454.13
4-percent, 1972	4,000,000	3,970,661.16	4,000,000	3,975,717.48
4-percent, 1973	16,500,000	16,330,757.16	16,500,000	16,354,650.24
4-percent, 1980	30,250,000	30,238,671.41	30,250,000	30,239,505.29
4⅛-percent, 1974	10,000,000	10,020,871.52	10,000,000	10,018,119.20
4⅛-percent, 1989–94	68,400,000	67,472,958.12	68,400,000	67,506,264.96
4¼-percent, 1975–85	20,795,000	20,773,699.18	20,795,000	20,774,442.46
4¼-percent, 1987–92	80,800,000	80,990,330.36	80,800,000	80,981,302.92
Total investments in public issues	314,995,000	312,923,489.71	314,995,000	313,052,390.87
Obligations sold only to this fund (special issues):				
Notes:				
4¾-percent, 1974			309,178,000	309,178,000.00
4⅞-percent, 1971	158,195,000	158,195,000.00	74,895,000	74,895,000.00
Bonds:				
2⅝-percent, 1974	77,006,000	77,006,000.00	77,006,000	77,006,000.00
2⅝-percent, 1975	132,894,000	132,894,000.00	132,894,000	132,894,000.00
3¾-percent, 1974	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3¾-percent, 1975	20,738,000	20,738,000.00	20,738,000	20,738,000.00
3¾-percent, 1976	153,632,000	153,632,000.00	153,632,000	153,632,000.00
3¾-percent, 1977	153,632,000	153,632,000.00	153,632,000	153,632,000.00
3⅞-percent, 1978	153,632,000	153,632,000.00	153,632,000	153,632,000.00
4⅛-percent, 1979	153,632,000	153,632,000.00	153,632,000	153,632,000.00
4⅛-percent, 1980	125,606,000	125,606,000.00	125,606,000	125,606,000.00
Total obligations sold only to this fund (special issues)	1,149,705,000	1,149,705,000.00	1,375,583,000	1,375,583,000.00
Total investments in public-debt obligations	1,464,700,000	1,462,628,489.71	1,690,578,000	1,688,635,390.87

[1] See footnote at end of table.

TABLE 11.—ASSETS OF THE DISABILITY INSURANCE TRUST FUND, BY TYPE, AT END OF FISCAL YEARS 1966 AND 1967—Continued

	June 30, 1966		June 30, 1967	
	Par value	Book value [1]	Par value	Book value [1]
Investments in federally-sponsored agency obligations:				
Agency securities:				
Federal home loan bank bonds:				
5⅞-percent, 1967			$18,000,000	$17,996,250.00
6-percent, 1967			26,000,000	25,995,666.65
6¼-percent, 1967			30,000,000	30,003,750.00
Federal National Mortgage Association debentures:				
5⅞-percent, 1968			10,000,000	9,996,354.20
Federal intermediate credit bank debentures:				
6.20-percent, 1967			10,000,000	10,000,000.00
Participation certificates:				
Federal assets liquidations trust,–Federal National Mortgage Association:				
5½-percent, 1972			50,000,000	50,000,000.00
Total investment in federally sponsored agency obligations			144,000,000	143,992,020.85
Total investments	$1,464,700,000	$1,462,628,489.71	1,834,578,000	1,832,627,411.72
Undisbursed balances		223,532,148.37		188,978,337.53
Total assets		1,686,160,638.08		2,021,605,749.25

[1] Par value, plus unamortized premium, less discount outstanding.

The net increase in the par value of the investments owned by the fund during the fiscal year amounted to $370 million. New securities at a total par value of $2,969 million were acquired during the fiscal year through the investment of receipts of the fund and the reinvestment of funds made available from the maturity or sale of securities. The par value of securities redeemed during the year was $2,565 million. In addition, $34 million of federally-sponsored agency securities were sold, providing additional income to the fund in the form of a profit amounting to about $100,000. A summary of transactions for the fiscal year, by type of security, is presented in table 12.

TABLE 12.—STATEMENT OF TRANSACTIONS IN PUBLIC-DEBT AND IN FEDERALLY-SPONSORED AGENCY SECURITIES FOR THE DISABILITY INSURANCE TRUST FUND DURING THE FISCAL YEAR 1967

[All amounts represent par values]

	Acquisitions	Dispositions
Public-debt obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
4⅜ percent, 1967	$223,478,000	$223,478,000
4½ percent, 1967	221,614,000	221,614,000
4⅝ percent, 1967	129,867,000	129,867,000
4¾ percent, 1967	769,423,000	769,423,000
5 percent, 1967	545,114,000	545,114,000
5⅛ percent, 1967	360,643,000	360,643,000
5⅜ percent, 1967	197,898,000	197,898,000
Notes:		
4¾ percent, 1974	309,178,000	0
4⅞ percent, 1971	0	83,300,000
Total public-debt obligations sold only to this fund (special issues)	2,757,215,000	2,531,337,000

TABLE 12.—STATEMENT OF TRANSACTIONS IN PUBLIC-DEBT AND IN FEDERALLY-SPONSORED AGENCY SECURITIES FOR THE DISABILITY INSURANCE TRUST FUND DURING THE FISCAL YEAR 1967—Continued

[All amounts represent par values]

	Acquisitions	Dispositions
Federally-sponsored agency obligations:		
Agency securities:		
Federal home loan bank bonds:		
5⅞ percent, 1967	$18,000,000	0
6 percent, 1967	40,000,000	$14,000,000
6¼ percent, 1967	50,000,000	20,000,000
Federal National Mortgage Association debentures:		
5⅞ percent, 1968	10,000,000	0
Bank for cooperative debentures:		
5.95 percent, 1967	14,000,000	14,000,000
6¼ percent, 1967	20,000,000	20,000,000
Federal intermediate credit bank debentures:		
6.20 percent, 1967	10,000,000	0
Participation certificates:		
Federal assets liquidation trust, Federal National Mortgage Association:		
5½ percent, 1972	50,000,000	0
Total federally-sponsored agency obligations	212,000,000	68,000,000
Total transactions	2,969,215,000	2,599,337,000

Expected Operations and Status of the Trust Funds During the Period July 1, 1967, to December 31, 1972

In the following statement of the expected operations and status of the trust funds during the period July 1, 1967 to December 31, 1972, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program remain unchanged throughout the period. The estimates shown in the various tables in this section reflect the effect of the 1967 amendments to the Social Security Act, as described in a previous section. The income and disbursements of the program, however, are affected by general economic conditions as well as by legislative provisions. Because it is difficult to foresee economic developments, the assumptions and the resulting estimates here presented are subject to some uncertainty. This statement of the expected operations of the trust funds should therefore be read with full recognition of the difficulties of estimating future trust fund income and disbursements under changing economic conditions.

Table 13 presents data on the actual operations of the old-age and survivors insurance trust fund for selected fiscal years during the period 1937–67 [1] and also estimates of the expected operations of the trust fund in fiscal years 1968–72. The estimates are based on the assumption that economic activity will expand throughout the period, with employment and earnings increasing steadily through 1972. Under this assumption, the estimated number of persons with taxable earnings under the old-age, survivors, and disability insurance program is expected to increase from 86.7 million during calendar year 1967 to 96.6 million during calendar year 1972; their taxable earnings are estimated to increase from $329 billion in 1967 to $369 billion in 1968 and to $438 billion in 1972. The increase in estimated total taxable earnings and income from contributions in fiscal years 1968–72 reflects the assumed upward trend in the levels of employment and earnings, as well as the effects of the increase in the maximum amount of earnings taxable and creditable under the program, effective January 1, 1968, and the scheduled changes in contribution rates. Benefit disbursements increase primarily because of the recent amendments and partly because of the long-range upward trend in the number of beneficiaries and in the average monthly amount of benefits under the program. Aggregate income of the old-age and survivors insurance trust fund is expected to exceed aggregate outgo in the 5-year period covering fiscal years 1968–72. During this period, there is an estimated net increase in the old-age and survivors insurance trust fund of $25.2 billion.

[1] Data relating to the operations of the old-age and survivors insurance trust fund for years not shown in tables 13–16 are contained in the 1967 annual report of the Board of Trustees.

91–877 O—68——5

TABLE 13.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, SELECTED FISCAL YEARS 1937–72

[In millions]

Fiscal year	Transactions during period							Net increase in fund	Fund at end of period
	Income				Disbursements				
	Contributions, less refunds	Reimbursements from general fund of Treasury for costs of—		Interest on investments[2]	Benefit payments[3]	Administrative expenses[4]	Transfers to railroad retirement account		
		Noncontributory credits for military service	Payments to noninsured persons aged 72 and over[1]						
Past experience:									
1937–67	$181,145	$93		$10,096	$160,610	$3,614	$3,595	$23,515	$23,515
1940	550			42	16	12		564	1,745
1945	1,310			124	240	27		1,167	6,613
1950	2,106	4		257	727	57		1,583	12,893
1955	5,087			438	4,333	103	−10	1,098	21,141
1960	9,843			517	10,270	202	600	−713	20,829
1961	11,293			531	11,185	236	332	72	20,900
1962	11,455			541	12,658	251	361	−1,274	19,626
1963	13,328			515	13,845	263	423	−687	18,939
1964	15,503			542	14,579	303	403	760	19,699
1965	15,857			586	15,226	300	436	482	20,180
1966	17,866			595	18,071	254	444	−308	19,872
1967	22,567	78		726	18,886	334	508	3,643	23,515
Estimated future experience:									
1968	23,036	78		890	20,742	457	450	2,355	25,870
1969	25,902	78	$226	982	23,712	457	512	2,507	28,377
1970	28,701	78	354	1,152	24,638	478	619	4,550	32,927
1971	31,461	90	355	1,447	25,632	501	601	6,619	39,546
1972	34,668	91	304	1,863	26,648	521	582	9,175	48,721

1 Under sec. 228 of the Social Security Act, as amended, the trust fund is reimbursed from the general fund of the Treasury for the cost of payments to beneficiaries with less than 3 quarters of coverage.

2 Includes net profits on marketable investments and, for 1958–68, adjustment for interest on administrative-expense transfers between the old-age and survivors insurance trust fund and the other social security trust funds (see footnote 4 below).

3 Beginning in 1967, includes relatively small amounts of payments for vocational rehabilitation services furnished to disabled persons receiving benefits from the trust fund because of their disability.

4 Total excludes administrative expenses for the period ending Dec. 31, 1939; for that period, appropriations to the old-age and survivors insurance trust fund (designated as the old-age reserve account prior to Jan. 1, 1940) were approximately equivalent to tax contributions collected by the Treasury Department less administrative expenses. Beginning in 1954, includes costs of construction of office space for the Social Security Administration. For years 1957–65, expenses incurred by the Department of Health, Education, and Welfare under the disability insurance program were initially charged to the old-age and survivors insurance trust fund; reimbursements, including interest, were then made from the disability insurance trust fund in the following fiscal year. For 1966, expenses incurred under the disability insurance program, the hospital insurance program, and the supplementary medical insurance program were initially charged to the old-age and survivors insurance trust fund; reimbursements, including interest, were made from the disability insurance trust fund and the hospital insurance trust fund in June 1966, and from the supplementary medical insurance trust fund in December 1966. Beginning in 1967, expenses incurred under each of the 4 programs are charged directly to the appropriate trust fund on a current (preliminary) basis, with a final adjustment made in the following fiscal year.

Note: In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared in January 1968.

Estimates consistent with those shown on a fiscal-year basis in table 13 are presented in table 14 to show the progress of the old-age and survivors insurance trust fund on a calendar-year basis. The trust fund is expected to increase in each of the 5 calendar years 1968–72, reaching about $52.0 billion on December 31, 1972.

TABLE 14.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, SELECTED CALENDAR YEARS 1937–72

[In millions]

Calendar year	Transactions during period								
	Income				Disbursements				
	Contributions, less refunds	Reimbursements from general fund of Treasury for costs of—		Interest on investments	Benefit payments	Administrative expenses	Transfers to railroad retirement account	Net increase in fund	Fund at end of period
		Noncontributory credits for military service	Payments to noninsured persons aged 72 and over						
Past experience:									
1937–67	$191,337	$171		$10,542	$170,409	$3,826	$3,595	$24,222	$24,222
1940	325			43	35	26		306	2,031
1945	1,285			134	274	30		1,116	7,121
1950	2,667	4		257	961	61		1,905	13,721
1955	5,713			454	4,968	119	−7	1,087	21,663
1960	10,866			516	10,677	203	318	184	20,324
1961	11,285			548	11,862	239	332	−599	19,725
1962	12,059			526	13,356	256	361	−1,388	18,337
1963	14,541			521	14,217	281	423	143	18,480
1964	15,689			569	14,914	296	403	645	19,125
1965	16,017			593	16,737	328	436	−890	18,235
1966	20,580	78		644	18,267	256	444	2,335	20,570
1967	23,138	78		818	19,468	406	508	3,652	24,222
Estimated future experience:									
1968	23,760	78	$226	936	22,664	469	450	1,417	25,639
1969	27,670	78	354	1,067	24,166	467	512	4,024	29,663
1970	29,195	90	355	1,300	25,127	491	619	4,703	34,366
1971	33,433	91	304	1,655	26,146	511	601	8,225	42,591
1972	35,205	102	255	2,135	27,162	530	582	9,423	52,014

Note: In interpreting the above experience, reference should be made to the footnotes in table 13.

Table 15 shows the annual amount of benefit payments distributed by classification of beneficiaries for selected calendar years during the period 1940–72.

TABLE 15.—BENEFIT PAYMENTS FROM THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, DISTRIBUTED BY CLASSIFICATION OF BENEFICIARIES, SELECTED CALENDAR YEARS 1940–72

[In millions]

Calendar year	Total benefit disbursements	Disbursed to old-age beneficiaries	Disbursed to dependents of old-age beneficiaries	Disbursed to survivors of deceased insured workers: Monthly benefits: Total	Disbursed to survivors of deceased insured workers: Monthly benefits: Aged or disabled widows and widowers, and aged parents	Disbursed to survivors of deceased insured workers: Monthly benefits: Widowed mothers, dependent divorced wives, and dependent children	Disbursed to survivors of deceased insured workers: Lump-sum payments	Disbursed to noninsured persons aged 72 and over [1]
Past experience: [2]								
1940	$35	$15	$2	$6	(3)	$6	$12	----
1945	274	126	22	100	$21	79	26	----
1950	961	557	95	277	92	185	33	----
1955	4,968	3,253	495	1,108	412	695	113	----
1960	10,677	7,053	1,143	2,316	1,085	1,231	164	----
1961	11,862	7,802	1,230	2,659	1,262	1,396	171	----
1962	13,356	8,813	1,349	3,011	1,504	1,507	183	----
1963	14,217	9,391	1,403	3,216	1,645	1,571	206	----
1964	14,914	9,854	1,427	3,416	1,787	1,629	216	----
1965	16,737	10,984	1,558	3,979	2,076	1,903	217	----
1966	18,267	11,728	1,645	4,613	2,386	2,227	237	$44
1967	19,468	12,374	1,677	4,854	2,579	2,275	252	311
Estimated future experience:								
1968	22,663	14,407	1,870	5,784	3,120	2,664	261	341
1969	24,164	15,481	1,933	6,175	3,380	2,795	269	306
1970	25,124	16,210	1,954	6,427	3,577	2,850	275	258
1971	26,143	16,979	1,970	6,695	3,776	2,919	281	218
1972	27,159	17,746	1,991	6,954	3,976	2,978	286	182

[1] Total benefit expenditures under sec. 228 of the Social Security Act, as amended; the trust fund is reimbursed from the general fund of the Treasury for the cost of payments to beneficiaries with less than 3 quarters of coverage.

[2] Partly estimated.

[3] Less than $500,000.

Benefit payments were 6.02 percent of taxable earnings for calendar year 1967 and are estimated to increase to 6.36 percent in 1969. The percentage will remain relatively constant for the next 3 years as the effect of rising taxable earnings offsets the gradual long-term rise in the amount of benefit payments. Figures for selected calendar years during the period 1940–72 are shown in table 16.

The growth in the number of beneficiaries in the past and the expected growth in the future are attributable in large measure to the rising number of workers who are eligible for and receiving old-age (primary) benefits. The growth in the number of eligible workers since 1940 has been uninterrupted. This growth results partly from the increase in the population at these ages and partly from two other factors: (1) in each passing year a larger proportion of the persons attaining age 65 has had fully insured status and (2) the amendments during the period 1950–67 liberalized the eligibility provisions and extended coverage to new categories of employment.

TABLE 16.—OLD-AGE AND SURVIVORS INSURANCE BENEFIT PAYMENTS AS A PERCENTAGE OF TAXABLE EARNINGS,[1] SELECTED CALENDAR YEARS 1940–72

Calendar year	Benefit payments as a percentage of taxable earnings[2]	Calendar year	Benefit payments as a percentage of taxable earnings[2]
Past experience:		Past experience—Continued	
1940	0.11	1965	6.88
1945	.44	1966	6.05
1950	1.10	1967	6.02
1955	3.27	Estimated future experience:	
1960	5.33	1968	6.22
1961	5.85	1969	6.36
1962	6.31	1970	6.36
1963	6.52	1971	6.36
1964	6.53	1972	6.35

[1] Percentage takes into account, for 1951 and later, (1) lower contribution rate payable by the self-employed compared with combined employer-employee rate; (2) employee contributions subject to refund; and (3) for 1966 and later, that only the employee tax is payable on tips taxable as wages.

[2] For 1964–67, percentages are preliminary and subject to revision when complete tabulation of taxable earnings is available. For 1966–72, percentages are based on sum of payments for benefits (excluding payments under sec. 228 of the Social Security Act, as amended, to certain noninsured persons aged 72 and over with less than 3 quarters of coverage, costs of which are financed from the general fund of the Treasury) and for vocational rehabilitation services.

In addition, there has been a growth in the proportion of eligible workers who receive benefits. In the early years of the program, a considerable proportion of the workers who were eligible for old-age (primary) benefits remained in covered employment (or, if they had left covered employment, later returned to it) and therefore did not receive benefits. Since 1945, however, the proportion of eligible workers receiving retirement benefits has been increasing, except for temporary halts due to special circumstances resulting from the amendments of 1950 and 1954. In general, due to the increasing percentage of eligibles aged 72 or over, who receive benefits regardless of earnings, the upward trend in this proportion is expected to continue, although at a slower rate than in the past.

The expected operations and status of the disability insurance trust fund during the next 5 fiscal years are presented in table 17, together with the figures on actual experience in earlier years. Aggregate income of the disability insurance trust fund is expected to exceed aggregate outgo in the 5-year period covering fiscal years 1968–72. During this period there is an estimated net increase in the trust fund of $4.8 billion.

TABLE 17.—OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND, FISCAL YEARS 1957–72

[In millions]

Fiscal year	Transactions during period: Income: Contributions, less refunds	Income: Reimbursements from general fund of Treasury for cost of noncontributory credits for military service	Income: Interest on investments [1]	Disbursements: Benefit payments	Disbursements: Payments for vocational rehabilitation services	Disbursements: Administrative expenses [2]	Disbursements: Transfers to railroad retirement account	Net increase in fund	Fund at end of period
Past experience:									
1957–67	$12,390	$16	$541	$10,147	$8	$662	$107	$2,022	$2,022
1957	337		1			1		337	337
1958	926		16	168		12		762	1,099
1959	895		33	339		21		568	1,667
1960	987		47	528		32	−27	501	2,167
1961	1,022		61	704		36	5	337	2,504
1962	1,021		68	1,011		64	11	2	2,507
1963	1,077		67	1,171		67	20	−113	2,394
1964	1,143		65	1,251		68	19	−130	2,264
1965	1,175		62	1,392		79	24	−257	2,007
1966	1,557		54	1,721	1	183	25	−321	1,686
1967	2,249	16	67	1,861	7	99	31	335	2,022
Estimated future experience:									
1968	2,742	16	80	2,118	15	114	20	571	2,592
1969	3,514	16	125	2,521	17	134	19	964	3,556
1970	3,655	16	173	2,658	20	132	22	1,012	4,568
1971	3,819	19	226	2,784	21	137	25	1,097	5,665
1972	3,990	19	282	2,904	22	143	29	1,193	6,858

[1] Includes net profits on marketable investments and, for 1958–68, adjustment for interest on administrative-expense transfers between the disability insurance trust fund and the old-age and survivors insurance trust fund (see footnote 2 below).

[2] For years 1957–65, expenses of the Department of Health, Education, and Welfare under the disability insurance program were initially charged to the old-age and survivors insurance trust fund; reimbursements, including interest, were then made from the disability insurance trust fund in the following fiscal year. For 1966, expenses incurred under the disability insurance program were initially charged to the old-age and survivors insurance trust fund; reimbursement, including interest, was made from the disability insurance trust fund in June 1966. Beginning in 1967, expenses incurred under the disability insurance program are charged directly to the trust fund on a current (preliminary) basis, with a final adjustment made in the following fiscal year.

Note: Reference should be made to the text which describes the underlying assumptions and limitations. Estimates were prepared in January 1968.

Estimates consistent with those shown on a fiscal year basis in table 17 are presented in table 18 to show the progress of the disability insurance trust fund on a calendar year basis. The trust fund is expected to increase in each of the 5 calendar years 1968–72, reaching about $7.3 billion on December 31, 1972.

TABLE 18.—OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND, CALENDAR YEARS 1957–72

[In millions]

Calendar year	Transactions during period								Fund at end of period
	Income			Disbursements					
	Contributions, less refunds	Reimbursements from general fund of Treasury for cost of noncontributory credits for military service	Interest on investments	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to railroad retirement account	Net increase in fund	
Past experience:									
1957–67	$13,384	$32	$583	$11,135	$14	$714	$107	$2,029	$2,029
1957	702		7	57		3		649	649
1958	966		25	249		12		729	1,379
1959	891		40	457		50	−22	447	1,825
1960	1,010		53	568		36	−5	464	2,289
1961	1,038		66	887		64	5	148	2,437
1962	1,046		68	1,105		66	11	−69	2,368
1963	1,099		66	1,210		68	20	−133	2,235
1964	1,154		64	1,309		79	19	−188	2,047
1965	1,188		59	1,573		90	24	−440	1,606
1966	2,006	16	58	1,781	3	137	25	133	1,739
1967	2,286	16	78	1,939	11	109	31	290	2,029
Estimated future experience:									
1968	3,299	16	102	2,374	16	129	20	878	2,907
1969	3,570	16	149	2,589	18	134	19	975	3,882
1970	3,719	19	200	2,720	20	134	22	1,042	4,924
1971	3,883	19	254	2,846	21	140	25	1,124	6,048
1972	4,051	21	312	2,964	22	146	29	1,223	7,271

Note: In interpreting the above experience, reference should be made to the footnotes in table 17.

The total amount of disability benefit payments will continue to increase over the next 5 calendar years as the number of beneficiaries and the average monthly benefit amount increase. Disability benefit expenditures as a percentage of taxable payroll will also increase—from 0.61 percent of taxable earnings for calendar year 1967 to an estimated 0.70 percent of taxable earnings in 1969–72, as shown in table 19.

TABLE 19.—DISABILITY INSURANCE BENEFIT PAYMENTS AS A PERCENTAGE OF TAXABLE EARNINGS,[1] CALENDAR YEARS 1957–72

Calendar year	Benefit payments as a percentage of taxable earnings [2]	Calendar year	Benefit payments as a percentage of taxable earnings [2]
Past experience:		Past experience—Continued	
1957	0.03	1966	0.59
1958	.14	1967	.61
1959	.23	Estimated future experience:	
1960	.28	1968	.67
1961	.44	1969	.70
1962	.52	1970	.70
1963	.56	1971	.70
1964	.57	1972	.70
1965	.65		

[1] Percentage takes into account (1) lower contribution rate payable by the self-employed compared with combined employer-employee rate; (2) employee contributions subject to refund; and (3) for 1966 and later, that only the employee tax is payable on tips taxable as wages.

[2] For 1964–67, percentages are preliminary and subject to revision when complete tabulation of taxable eranings is available. For 1966–72, percentages are based on sum of payments for benefits and for vocational rehabilitation services.

Reference has been made in earlier sections to the financial interchanges between the railroad retirement account and the two trust funds, under the provisions of the Railroad Retirement Act. The estimates shown in tables 13, 14, 17, and 18 reflect the effect of future financial interchanges.

Reference has also been made previously to the provisions of section 228 of the Social Security Act, as amended, under which benefits are paid initially from the old-age and survivors insurance trust fund to certain noninsured persons aged 72 and over, with later reimbursement from the general fund of the Treasury for the costs of payments to those in this group who have less than 3 quarters of coverage. The estimates in tables 13–16 reflect the effect of these provisions.

The estimates in tables 13–19 reflect the effect of the provisions in section 222(d) of the Social Security Act, as amended, authorizing expenditures from the old-age and survivors insurance and disability insurance trust funds for the cost of vocational rehabilitation services furnished to disabled beneficiaries.

Reference has been made in earlier sections to statutory provisions of the Social Security Act authorizing annual reimbursements from the general fund of the Treasury to the old-age and survivors insurance and disability insurance trust funds for costs of granting noncontributory credits for military service. The reimbursements for fiscal year 1967, amounting to $78 million for the old-age and survivors insurance trust fund and $16 million for the disability insurance trust fund, were received in July 1967. Like amounts have been appropriated by Congress for fiscal year 1968, and it is assumed that the reimbursements will be received by the trust funds in July 1968. More-over, the Budget Document of the United States for the fiscal year 1969 makes similar provision for another reimbursement to each trust fund. The estimates shown in the various tables in this section reflect the effect of past reimbursements and assume that future reimbursements will be made in similar fashion.

Actuarial Status of the Trust Funds

Old-age, survivors, and disability insurance benefit payments will increase for many years—not only in dollars but also as a percentage of taxable payroll. Long-range estimates are needed, therefore, to show how much the cost is likely to increase and to indicate whether the scheduled tax rates are adequate.

The cost of benefits to aged persons, which constitute more than 80 percent of the toal cost, will rise for several reasons. The U.S. population will, in the long run, almost certainly become relatively much older on the average. A relatively older population will tend to result from the fact that the present aged population is made up of the survivors from past periods when death rates were much higher than they are now. Another such factor is that, after the turn of the century, the larger birth cohorts of the 1940's, 1950's, and 1960's will be attaining retirement age. Thus, in the future, relatively more persons, both in total and in each cohort, will attain age 65 and older ages.

The cost of the program is closely related to the ratio of the population aged 65 and over (potential beneficiaries) to the population aged 20–64 (potential contributors). On January 1, 1968, this ratio was 18.3 percent. In a stationary population that would result if the death rates of the U.S. Life Tables for 1959–61 were applied to a constant annual number of births the ratio would be 25.4 percent, but such a situation is not likely to occur within the next century. Ultimately this ratio may become even greater because decreases in mortality below present rates would, in a stationary population, have the effect of increasing the proportion at the oldest ages.

Another reason for the increasing cost is that the proportion of the aged population eligible for and receiving benefits will increase. Some of the present persons aged 65 and over were not in covered employment long enough to obtain benefits, or, in the case of widows, their husbands were not sufficiently long in covered employment. Although the system began in 1937, many jobs were not covered until 1951 or 1955. It is estimated that the proportion of the aged population eligible for some type of cash benefit under the system will increase from the level of about 90 percent on January 1, 1968 to between 94 and 95 percent in 1980 and between 96 and 98 percent by the end of the century.

Since the long-term future cost of the old-age, survivors, and disability insurance program will be affected by many factors that are difficult to determine, the assumptions used in the actuarial cost estimates may differ widely and yet be reasonable. The long-term cost estimates for the program (shown for 1980 and thereafter) are presented here on a range basis to indicate the plausible variation in future costs depending on the actual trends that develop for the various cost factors. Both the low- and high-cost estimates are based on assumptions of a 4-percent unemployment rate, with the average annual earnings remaining at about the level that prevailed in 1966; thus, changes slightly above and slightly below this level tend to offset each other over the long-range future period considered. Each estimate provides data on taxable payroll and contributions and on beneficiaries and benefit payments for every future year. The data are presented here for selected future years.

It is considered likely, although by no means certain, that actual costs as a percentage of taxable payroll will lie between the low-cost and high-cost figures. Also, a single estimate of costs is needed as a guide in considering proposed legislation and developing tax schedules intended to make the system self-supporting. For these reasons, an intermediate-cost estimate is prepared, in which numbers of beneficiaries, amount of benefit payments, and taxable payrolls are taken halfway between the low-cost and high-cost figures. The intermediate percentage-of-payroll figures are obtained by dividing total benefit payments by taxable payroll, each on the intermediate basis, and are therefore not exactly equal to the average of low-cost and high-cost percentage-of-payroll figures.

Table 20 shows benefit-payment costs for selected years and the corresponding level-costs over the next 75 years, expressed as percentages of taxable payroll, under each of the three estimates. The level-cost of the program on this basis is the constant combined employer-employee tax rate that, together with a tax on the self-employed of about 75 percent of such combined rate (subject to a maximum self-employed tax rate of 7.0 percent), would exactly pay for future benefits and administrative expenses, after making allowance for the effect of the future interest earnings of the existing trust fund and for all other future interest earnings. All percentage-of-payroll figures are adjusted so that they represent the tax rate that employees and employers combined, and the self-employed at three-quarters of the combined rate, would have to pay in any given year to meet exactly the disbursements in that year.

TABLE 20.—ESTIMATED COSTS OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE BENEFIT PAYMENTS AS PERCENT OF PAYROLL,[1] 1966 LEVEL-EARNINGS ASSUMPTIONS, 1980–2040

[In percent]

Calendar year	Low-cost estimate	High-cost estimate	Intermediate-cost estimate [2]
	Old-age and survivors insurance benefits [3]		
1980	7.88	8.34	8.11
1985	8.40	8.96	8.67
1990	8.75	9.45	9.09
2000	8.27	9.33	8.78
2025	9.72	12.50	10.99
2040	9.54	13.13	11.09
Level-cost [4]	8.26	9.40	8.77
	Disability insurance benefits [3]		
1980	0.82	0.95	0.89
1985	.83	.98	.90
1990	.82	.98	.90
2000	.84	1.05	.94
2025	.91	1.23	1.05
2040	.94	1.27	1.08
Level-cost [4]	.85	1.06	.95

[1] Taking into account the lower contribution rate on self-employment income, on tips, and on multiple-employer "exces wages," as compared with the combined employer-employee rate.
[2] Based on the averages of the dollar contributions and dollar costs under the low-cost and high-cost estimates.
[3] Includes payments for vocational rehabilitation services.
[4] Level contribution rate, at an interest rate of 3.25 percent for high-cost, 3.75 percent for intermediate-cost, and 4.25 percent for low-cost, for benefits after 1966, taking into account interest on the trust fund on Dec. 31, 1966, future administrative expenses, the railroad retirement financial interchange provisions, and reimbursement for additional cost of noncontributory credit for military service.

Tables 21 and 22 show, for each set of estimates, the contributions, benefit payments, administrative expenses, amount paid to or received from the railroad retirement system, and the balance in the trust funds for selected years.

TABLE 21.—ESTIMATED PROGRESS OF OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, 1966 LEVEL-EARNINGS ASSUMPTION [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Financial interchange [2]	Interest on fund	Fund at end of year
			Actual data			
1957	$6,825	$7,347	[3] $162	−$2	$556	$22,393
1958	7,566	8,327	[3] 194	124	552	21,864
1959	8,052	9,842	184	282	532	20,141
1960	10,866	10,677	203	318	516	20,324
1961	11,285	11,862	239	332	548	19,725
1962	12,059	13,356	256	361	526	18,337
1963	14,541	14,217	281	423	521	18,480
1964	15,689	14,914	296	403	569	19,125
1965	16,017	16,737	328	436	593	18,235
1966	20,658	18,267	256	444	644	20,570
1967	23,216	19,468	406	508	818	24,222
			Low-cost estimate			
1980	$36,879	$32,177	$457	$260	$3,369	$87,867
1985	39,363	36,592	494	155	4,842	123,502
1990	42,091	40,754	532	70	6,279	158,470
1995	45,637	43,917	564	10	7,933	199,565
2000	49,695	45,539	587	−40	10,302	259,054
			High-cost estimate			
1980	$36,138	$33,355	$523	$340	$1,836	$62,498
1985	38,376	38,016	565	245	2,266	75,575
1990	40,650	42,540	620	170	2,377	78,435
1995	43,568	46,079	646	110	2,263	74,862
2000	46,798	48,336	674	60	2,165	72,475
			Intermediate-cost estimate			
1980	$36,508	$32,766	$490	$300	$2,536	$74,876
1985	38,870	37,304	530	200	3,418	98,701
1990	41,370	41,647	576	120	4,082	116,620
1995	44,602	44,998	605	60	4,688	133,683
2000	48,247	46,938	631	10	5,583	159,499
2025	62,585	76,292	930	−90	10,933	302,846

[1] Interest rates of 3.25 percent for high-cost, 3.75 percent for intermediate-cost, and 4.25 percent for low-cost, were used in determining the level-cost, but in developing the progress of the trust fund, varying rates in the early years were used, which—when averaged over a long period of time—are equivalent to such fixed rates.

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

[3] These figures are artificially high because of the method of reimbursements between this trust fund and the disability insurance trust fund (and, likewise, the figure for 1959 is too low).

Note: Contributions include reimbursement for additional cost of noncontributory credit for military service and benefits include payments for vocational rehabilitation services. Projected data do not include the costs of special benefits to persons aged 72 or over nor the reimbursements thereof.

TABLE 22.—ESTIMATED PROGRESS OF DISABILITY INSURANCE TRUST FUND, 1966 LEVEL-EARNINGS ASSUMPTION [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Financial interchange [2]	Interest on fund	Fund at end of year
			Actual data			
1957	$702	$57	[3] $3		$7	$649
1958	966	249	[3] 12		25	1,379
1959	891	457	50	−$22	40	1,825
1960	1,010	568	36	−5	53	2,289
1961	1,038	887	64	5	66	2,437
1962	1,046	1,105	66	11	68	2,368
1963	1,099	1,210	68	20	66	2,235
1964	1,154	1,309	79	19	64	2,047
1965	1,188	1,573	90	24	59	1,606
1966	2,022	1,784	137	25	58	1,739
1967	2,302	1,950	109	31	78	2,029
			Low-cost estimate			
1980	$3,899	$3,351	$118	−$21	$493	$12,654
1985	4,161	3,618	117	−23	710	18,001
1990	4,448	3,809	115	−25	988	24,900
1995	4,822	4,096	116	−25	1,352	33,899
2000	5,250	4,624	129	−25	1,797	44,803
			High-cost estimate			
1980	$3,821	$3,812	$147	−$11	$187	$6,217
1985	4,057	4,164	155	−13	184	6,148
1990	4,296	4,416	161	−15	171	5,735
1995	4,604	4,794	172	−15	146	4,949
2000	4,945	5,450	195	−15	81	2,760
			Intermediate-cost estimate			
1980	$3,860	$3,582	$133	−$16	$323	$9,351
1985	4,109	3,891	135	−18	413	11,856
1990	4,372	4,113	138	−20	519	14,854
1995	4,713	4,445	143	−20	652	18,556
2000	5,097	5,037	162	−20	788	22,276
2025	6,598	7,326	233	−20	763	21,384

[1] Interest rates of 3.25 percent for high-cost, 3.75 percent for intermediate-cost, and 4.25 percent for low-cost were used in determining the level-cost, but in developing the progress of the trust fund, varying rates in the early years were used, which—when averaged over a long period of time—are equivalent to such fixed rates.

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

[3] These figures are artifically low because of the method of reimbursements between the trust fund and the old-age and survivors insurance trust fund (and, likewise, the figure for 1959 is too high).

Note: Contributions include reimbursement for additional cost of noncontributory credit for military service. Benefits include payments for vocational rehabilitation services.

It should be emphasized that dollar figures projected for so many years into the future have only limited significance because of changes that are likely to occur in the general economy, as well as in the system itself. What is really the most significant are relative figures such as those in table 20, showing the benefit costs as a percentage of taxable payroll.

For old-age and survivors insurance, annual benefit payments as a percentage of payroll are less than the scheduled tax rates in the early future years, but they eventually rise above the ultimate combined employer-employee rate of 9.05 percent. The excess income in the early years, in addition to the interest earned by the fund, will be enough to finance the excess outgo in later years. For disability insurance, annual benefit payments as a percentage of taxable payroll are lower than the level allocation of 0.95 percent until shortly after the year 2000, according to the intermediate cost estimate; under the low-cost estimate, the benefit cost is below the allocation at all times, while under the high-cost estimate, the reverse is the case except before 1980.

To measure the extent to which the financing arrangements of the system result in a surplus or deficiency, a level rate equivalent to the actual increasing contribution rates has been computed, taking into account future interest. The level-equivalent rate of contributions minus the level cost of benefit payments and administrative costs expressed as a percentage of taxable payroll (after making allowance for the interest-earning effect of the existing trust fund), gives the amount by which the contribution rate in all years would have to be changed to put the system in exact long-range balance according to the estimate. A negative figure would indicate that an increase in the tax rate is needed to make the system self-supporting, while a positive figure would indicate that the system is overfinanced.

The long-range balance of the system is shown by the following level-equivalent costs and contributions, expressed in percentages of taxable payroll, which are computed as of the beginning of calendar year 1967, at interest rates of 3.25 percent for high-cost, 3.75 percent for intermediate-cost, and 4.25 percent for low-cost:

[In percent of taxable payroll [1]]

Item	OASI	DI	Total
	Low-cost estimate		
Contributions	8.77	0.95	9.72
Benefits [2]	8.26	.85	9.11
Actuarial balance	.51	.10	.61
	High-cost estimate		
Contributions	8.79	0.95	9.74
Benefits [2]	9.40	1.06	10.46
Actuarial balance	−.61	−.11	−.72
	Intermediate-cost estimate		
Contributions	8.78	0.95	9.73
Benefits [2]	8.77	.95	9.72
Actuarial balance	.01	.00	.01

[1] Based on adjusted payroll that reflects the lower contribution rate on self-employment income, tips, and multiple-employer "excess wages," as compared with the combined employer-employee rate.

[2] Including adjustments (1) for interest on the existing trust fund; (2) for administrative expenses; (3) for the railroad retirement financial interchange provisions; and (4) for reimbursement of military-wage-credits cost. Includes payments for vocational rehabilitation services.

The old-age, survivors, and disability insurance system as a whole is in actuarial balance (there is a positive balance of 0.01 percent of payroll on the intermediate-cost basis). The old-age and survivors insurance portion of the system has a positive balance of 0.01 percent of payroll, while the disability insurance portion is in exact actuarial balance.

If the intermediate-cost estimate had been based on a higher interest rate than 3.75 percent (which is somewhat below the current average being earned by the total investments of the trust funds, and considerably below the prevailing market rate of interest on long-term Government obligations, which was 5⅝ percent in December 1967), the actuarial balance of the total program would have been considerably improved. Thus, for example, the use of a 4-percent interest rate would increase the actuarial balance of the program by about 0.05

percent of taxable payroll, and a $4\frac{1}{4}$-percent interest rate would increase it by 0.09 percent of taxable payroll. Similarly, using a $3\frac{3}{4}$-percent interest rate, a change in the assumed earnings level from that prevailing in 1966 to that prevailing in 1967 would increase the actuarial balance by 0.16 percent of taxable payroll. If the expected 1968 earnings level were assumed instead of the 1966 level, there would be an increase in the actuarial balance of 0.33 percent of taxable payroll.

If the experience exactly follows the assumptions, future computations would show a gradual increase in the actuarial balance (or lack of balance) under the intermediate-cost estimate for both the old-age and survivors insurance system and the disability insurance system. The reason for this is that interest accumulations increase any surplus in the system, but the failure to accumulate all interest income that would have been earned in an exactly balanced system increases any deficit. In the case of a surplus, the excess contributions actually earn interest, while a deficit grows because of the absence of the annual interest that would have been earned if the contributions required for balance had been paid.

Continuing study of the emerging experience under the program provides a basis for prompt changes in the tax rate or other changes that may be necessary to keep the system from growing excessively out of actuarial balance in either direction.

It is important to note that these estimates are made on the assumption that earnings will remain at about the level prevailing in 1966. If earnings levels rise, as they have in the past, the benefits and the taxable earnings base under the program will undoubtedly be modified. In fact, if all other assumed cost factors are closely followed by the experience, then increasing wage levels will automatically generate positive actuarial balances that can be used to increase benefit levels without changing the financing provisions. If such changes are made concurrently and proportionately with changes in general earnings levels, and if the experience follows all the other assumptions, the future year-by-year costs of the system as a percentage of taxable payroll would be the same as those shown. However, the existing trust fund accumulated in the past, and its interest earnings, will represent a smaller proportion of the future taxable payrolls than if earnings were not to increase in future years. As a result, since interest earnings of the trust fund will play a relatively smaller role in the financing of the system, the "net" level-cost—taking into account benefit payments, administrative expenses, and interest on the existing trust fund—would be somewhat higher. However, the level-cost might not rise this much, or might even decline, if benefit adjustments do not fully reflect rising earnings. Again, the effect of such events can be observed in ample time to make any needed changes in the contribution schedule or any other appropriate changes in the system.

This analysis includes the benefits and contributions in respect to all persons anticipated to be covered in the future under present statutory provisions and not merely (*a*) the benefits to be paid to workers who have been covered by the system in the past and to their dependents and survivors, (*b*) the future taxes to be paid by, and with respect to, such workers, and (*c*) the existing trust funds. An insurance company must set up reserves equal to all currently accrued liabilities, since it cannot compel individuals to become new policyholders and must be in a position at any time so that in the future it can pay all benefits that will become due with respect to its present and past policyholders, using only its present assets and the future premiums to be paid by present policyholders. In analyzing the actuarial condition of a compulsory social insurance system that will continue indefinitely, the income and outgo with respect to new entrants should properly be included, thus obviating the need to set up reserves for all currently accrued liabilities.

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

Medium-Range Cost Estimates

The preceding sections have presented both short-range cost estimates (for the next 5 years) and long-range cost estimates (for many decades into the future) for the old-age, survivors, and disability insurance system. This section presents medium-range cost estimates covering a period of 15 to 20 years that take into account possible variations in economic factors, such as level of earnings and level of employment, as well as variations in demographic factors.

Tables 23 and 24 present two medium-range projections based on different assumptions. For both projections, it is assumed that economic activity will have normal expansion throughout the period, with employment increasing steadily at an average annual rate of 1¾ percent and with the average total earnings of covered workers increasing at an annual rate of 3 percent (somewhat higher increases are assumed in the first few years).

In the first projection (table 23), the maximum taxable earnings base is assumed to remain at $7,800 per year, while for the second one (table 24), the base is assumed to be kept up to date—i.e., changed periodically so as to cover about the same proportion of total earnings that was covered in 1968 by the $7,800 base. These assumptions imply that, for the first projection, only about three-sevenths of the 73-percent increase in average earnings that is estimated to occur in 1968–85 will be taxable under the program, due to the dampening effect of the fixed maximum taxable earnings base. For the second projection, the entire 73-percent increase will be taxable because of the assumed constant updating of the taxable earnings base.