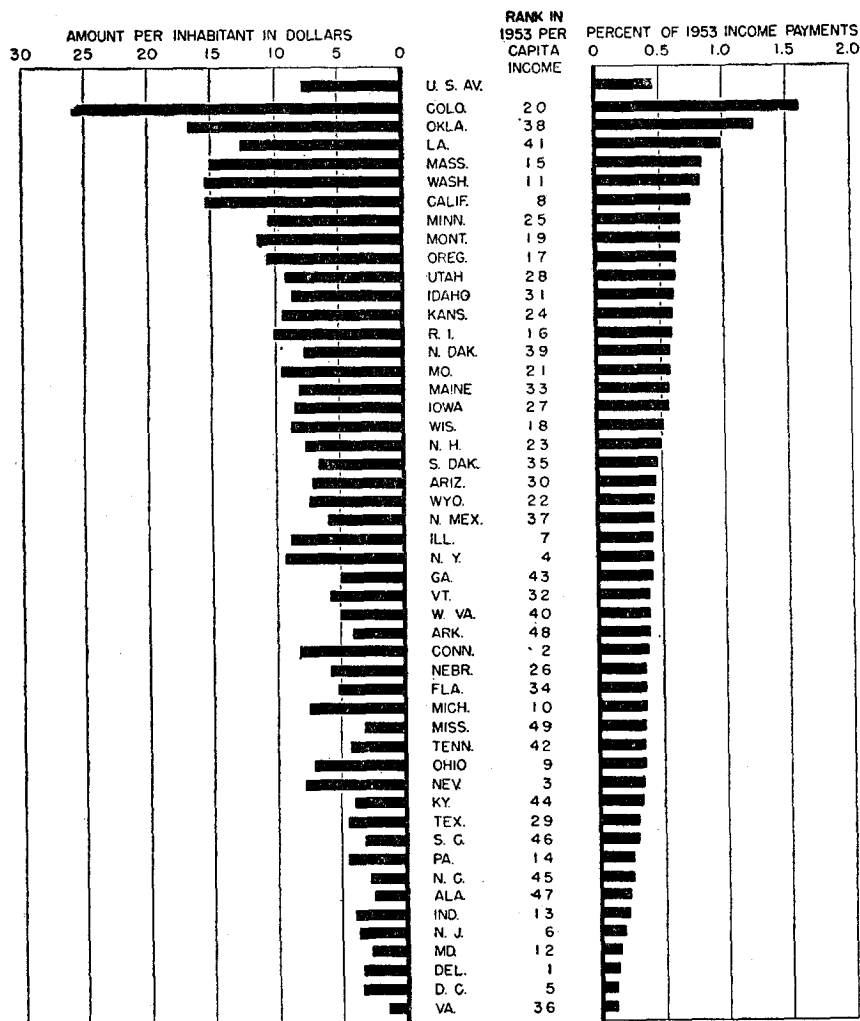


Chart 1.—Expenditures per inhabitant for public assistance from State and local funds in relation to income payments, by State, fiscal year 1954



low of 11 cents in the District of Columbia and Virginia to a high of \$1.60 per \$100 of income payments in Colorado; the median State, New York, spent for assistance 43 cents per \$100 of income payments. Five States spent less than 20 cents, 16 spent 20-39 cents, 17 spent 40-59 cents, 7 spent 60-79 cents, 3 spent 80-99 cents, and in two States expenditures from State and local funds for public assistance amounted to \$1 or more for every \$100 of income payments.

Trust Fund Operations, 1954

The old-age and survivors insurance system carries on its financial operations through the Federal old-age and survivors insurance trust fund. Sums equivalent to 100 percent of current collections under the Federal Insurance Contributions Act and under chapter 21 of the Internal Revenue Code of 1954 are transferred under permanent appropriation to the trust fund on the basis of estimates made by the Secretary of the Treasury. To the extent that estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings, adjustments are made periodically. Contributions received under voluntary agreements with States for the coverage of State and local government employees are deposited directly into the trust fund.

In 1954, contributions amounting to \$5,068 million, which excludes amounts reimbursed to the general funds of the Treasury for refunds of excess taxes collected, were appropriated to and deposited in the Federal old-age and survivors insurance trust fund. The trust fund received \$447 million in interest on its investments. It also received \$21 million during the year as a result of the financial interchange provision of the 1951 amendments to the Railroad Retirement Act.

Expenditures for old-age and survivors insurance benefits in 1954 totaled \$3,670 million, and administrative expenses amounted to \$92 million. Total assets of the trust fund were \$20.6 billion at the end of 1954,

12 of these States, income payments increased at a greater rate than assistance expenditures, and in 16 States the increases in income payments accompanied declines in State and local assistance expenditures.

Fiscal effort increased in 1954 in 22 States. Most (17) of these States had larger increases percentagewise in assistance expenditures than in income payments, and five States increased their assistance expenditures while income payments declined. The range of percentage changes in fiscal effort went from a decrease of 30.0 percent in Hawaii to an increase of 22.2 percent in Virginia; the median change was -1.8 percent. The distribution of States by percentage change between 1953 and 1954 in the

ratio of State and local assistance expenditures to income payments to individuals was as follows:

Percentage change	Number of States with specified percentage change in fiscal effort	
	Increases	Decreases
Total.....	22	28
Less than 5.....	13	7
5-9.....	7	13
10-14.....	.....	5
15-19.....	.....	1
20 and over.....	2	2
Median percentage change.....	.....	1.8

The fiscal effort of the individual States varied considerably—from a

Table 1.—Investments of social security trust funds and interest-bearing public debt at end of specified period, 1936-54

(Amounts in millions)

At end of—	Interest-bearing public debt	Social security trust fund investments			Unemployment trust fund
		Total amount	Percent of public debt	Old-age and survivors insurance trust fund	
1936.....	\$33,699	\$64	0.2	.....	\$64
1937.....	36,715	1,138	3.1	\$513	625
1938.....	38,899	1,926	5.0	892	1,064
1939.....	41,445	2,944	7.1	1,435	1,509
1940.....	44,458	3,962	8.9	2,016	1,945
1941.....	57,451	5,468	9.5	2,736	2,732
1942.....	107,308	7,342	6.8	3,655	3,687
1943.....	164,508	9,874	6.0	4,779	5,095
1944.....	228,891	12,546	5.5	5,967	6,579
1945.....	275,694	14,563	5.3	7,094	7,508
1946.....	257,649	15,643	6.1	8,079	7,564
1947.....	254,205	17,371	6.8	9,298	8,102
1948.....	250,579	19,052	7.6	10,556	8,496
1949.....	255,019	19,424	7.6	11,723	7,696
1950.....	254,283	20,970	8.2	13,331	7,639
1951.....	257,070	23,444	9.1	15,017	8,427
1952.....	265,293	25,983	9.8	16,960	9,023
1953.....	272,881	27,836	10.2	18,291	9,545
1954:					
June.....	268,910	28,329	10.5	19,340	8,989
December.....	275,731	28,602	10.4	19,863	8,740

Source: *Daily Statement of the U. S. Treasury* and other Treasury Department releases.

a net increase of \$1,869 million from the amount at the end of 1953.

The unemployment insurance trust fund is composed of the 51 accounts for the State unemployment insurance programs, the railroad unemployment insurance account, and—beginning December 23, 1954—the Federal unemployment account. On that date, the first deposit (\$64.3 million) in the Federal unemployment account was made according to the provisions of Public Law No. 567 (83d Congress, 2d session), signed by the President on August 5, 1954. The new law provides for establishment of a reserve account of \$200 million, from which advances can be made to the States; the reserve is to be accumulated from the excess of Federal unemployment tax collections over State and Federal employment security administrative expenses.¹ In 1954, deposits in the State accounts amounted to \$1,125 million, and the deposited interest on the investments

¹ See the *Bulletin*, November 1954, pages 18-19.

of these accounts amounted to \$196 million. Withdrawals for benefit payments totaled \$2,032 million. At the end of the year the net balance in the State accounts was \$8,176 million—\$712 million less than at the end of 1953.

The railroad unemployment insurance account declined in 1954 at a somewhat more accelerated pace than in previous years. Since January 1, 1948, the contribution rate for this program has been ½ of 1 percent; the rate is varied, under the provisions of the 1948 amendments to the Railroad Unemployment Insurance Act, in relation to the size of the reserve. Deposits into the account totaled \$17 million, interest amounted to \$16 million, and transfers from the railroad unemployment administration fund were \$3 million. Benefit payments rose from \$92 million in 1953 to \$206 million in 1954. During 1954 the net balance of the account decreased \$169 million (25 percent) to \$504 million, compared with a drop of only \$53 million from 1952 to 1953.

Under the provisions of the Social Security Act, as amended, the Federal old-age and survivors insurance trust fund is administered by a Board of Trustees composed of the Secretary of the Treasury as Managing Trustee, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Commissioner of Social Security is Secretary of the Board.

The Managing Trustee invests the portion of the old-age and survivors insurance trust fund that, in his judgment, is not required for current expenditures for benefit payments and administrative expenses. The act restricts permissible investments of the trust fund to interest-bearing obligations of the United States Government or to obligations guaranteed as to principal and interest by the United States. Obligations of these types may be acquired on original issue at par or by purchase of outstanding obligations at market price. In addition, the Act authorizes the issuance of special obligations exclusively to the trust fund. Regular obligations acquired by the trust fund may be sold at market price. Special

obligations are to be redeemed at par plus accrued interest.

Although the unemployment trust fund is composed of the separate State accounts, the railroad unemployment account, and the Federal unemployment account, investments are made by the Secretary of the Treasury for the fund as a unit. Interest earned on the fund's investments is distributed quarterly among all accounts on the basis of the average daily balance of each account. Permissible types of investments are the same for the unemployment trust fund as for the old-age and survivors insurance trust fund.

During 1954, net investments for the old-age and survivors insurance trust fund amounted to \$1,571 million. At the end of the year the fund held \$19,863 million invested in Treasury bonds and special certificates of indebtedness. The investments of the unemployment trust fund decreased during 1954 by \$805 million, and by the end of the year they amounted to \$8,740 million (table 1).

The net acquisitions of the two social security trust funds, taken together, thus totaled only \$766 mil-

Table 2.—Average interest rate on social security trust fund investments and interest-bearing public debt at end of specified period, 1936-54

At end of—	Computed average interest rate (percent)		
	Interest-bearing public debt	Old-age and survivors insurance trust fund investments	Unemployment trust fund investments
1936.....	2.570	.....	2.50
1937.....	2.568	3.00	2.50
1938.....	2.586	3.00	2.50
1939.....	2.598	3.00	2.50
1940.....	2.566	2.84	2.50
1941.....	2.409	2.66	2.49
1942.....	2.059	2.44	2.24
1943.....	1.956	2.22	1.89
1944.....	1.919	2.20	1.91
1945.....	1.965	2.14	1.93
1946.....	2.057	2.04	1.94
1947.....	2.144	2.09	2.05
1948.....	2.216	2.20	2.16
1949.....	2.208	2.20	2.16
1950.....	2.209	2.19	2.16
1951.....	2.308	2.20	2.18
1952.....	2.353	2.30	2.30
1953.....	2.414	2.41	2.41
1954:			
June.....	2.342	2.30	2.30
December.....	2.291	2.29	2.30

Source: *Daily Statement of the U. S. Treasury* and other Treasury Department releases.

lion. This is the lowest annual net acquisition of Government securities since the establishment of the trust funds with two exceptions—1938, when the sum invested for each fund was small, and 1949, when the unemployment trust fund had almost as large a negative acquisition figure (—\$800 million) as it had in 1954. By the end of 1954, however, growth of the old-age and survivors insurance trust fund had brought the total investments of the two trust funds to \$28,602 million. This total was slightly more than 10 percent of the total interest-bearing public debt—approximately the same relationship as in the preceding year.

The Social Security Act of 1935 required that the investments of the old-age reserve account (now the old-age and survivors insurance trust fund) must earn at least 3 percent. The 1939 amendments removed all reference to a minimum yield except on special obligations issued to the fund. These special obligations are required to bear the average rate of interest on the interest-bearing public debt, computed as of the end of the month next preceding the date of issue and rounded to the next lowest $\frac{1}{8}$ of 1 percent if the average rate is not itself an exact multiple of $\frac{1}{8}$ of 1 percent.

During the first half of 1954 the old-age and survivors insurance trust fund acquired additional securities in the form of $2\frac{3}{8}$ -percent special certi-

ficates of indebtedness in all months but January, when a small amount was redeemed. In this period the unemployment trust fund redeemed some of its $2\frac{3}{8}$ -percent special issues every month. At the end of June the special certificates held by both funds matured and were replaced by a new special issue bearing only $2\frac{1}{4}$ -percent interest. In the second half of the year the old-age and survivors insurance trust fund continued to acquire and the unemployment trust fund continued to liquidate holdings of the $2\frac{1}{4}$ -percent certificates. Of the total investments of \$28,602 million held by both trust funds at the year's end, \$25,352 million or 89 percent was in special obligations bearing $2\frac{1}{4}$ -percent interest (table 3).

The Treasury also manages 10 other social insurance and related trust funds. Interest rates on the investments of these other funds are higher than rates for the two large social security funds, and all rates are determined administratively rather than by statute.

All types of special Government securities outstanding at the end of 1954 totaled \$42.6 billion, of which the two social security trust funds held 60 percent. Most of the remainder was held by other trust funds, including the civil-service retirement fund (14 percent), the national service life insurance fund (12 percent), and the railroad retirement account (8 percent).

The interest provisions governing the investment of the unemployment trust fund in special obligations are those laid down in the Social Security Act of 1935 for that fund and made applicable to special obligations of the old-age and survivors insurance trust fund by the 1939 amendments. Investments of the unemployment trust fund in other than special issues must be at interest rates at least equal to those of special obligations.

Thus the interest earnings of the unemployment trust fund and, from 1940 on, of the old-age and survivors insurance trust fund have been directly affected by Federal debt financing (table 2). During World War II, when the computed average rate on the Federal interest-bearing debt declined, the rate of earnings of the two social security trust funds also declined. In the postwar period the computed average Federal interest rate rose gradually, and the rise was reflected later in the interest rates earned by the two funds. After several years of relative stability their earnings rates went up during 1952 and again in 1953, but they have now dropped back to the 1952 level. The computed rate for the investments of the old-age and survivors insurance trust fund (including regular and special issues) was 2.29 at the end of 1954; for the unemployment trust fund, it was 2.30.

Table 3.—Investments of the social security trust funds, by type and earnings, end of December 1953 and 1954

[In millions]

Type of investment	Old-age and survivors insurance trust fund at end of December		Unemployment trust fund at end of December	
	1954	1953	1954	1953
Total.....	\$19,862.5	\$18,201.2	\$8,739.9	\$9,545.0
Public issues:				
$2\frac{1}{4}$ percent.....	4.2	4.2	4.0	4.0
$2\frac{1}{2}$ percent.....	1,151.5	1,151.5	170.0	150.0
$2\frac{3}{4}$ percent.....	1,081.9	1,081.0	760.0	760.0
$3\frac{1}{4}$ percent.....	45.1	45.1	50.0	50.0
Net unamortized premium and discount ¹	2.6	2.9	.9	1.0
Special issues:				
$2\frac{1}{4}$ percent.....	17,577.2		7,775.0	
$2\frac{3}{8}$ percent.....		16,005.6		8,580.0

¹ Refers only to the investments acquired above or below par value in open-market operations. "Premium" is the excess of the price paid in the open market over par value; "discount" is the amount by which the price paid is less than par value. The Treasury Department amortizes this positive or negative difference over the remaining life of the obliga-

tions. At any given time, the "net unamortized" figure represents a subtraction of the amount remaining to be written off between that time and maturity on issues bought at a premium from the amount still to be "written on" for issues bought at a discount. Source: *Daily Statement of the U. S. Treasury* and other Treasury Department releases.

Amendments to the Railroad Unemployment Insurance Act

Public Law No. 746, signed by the President on August 31, 1954, provided for substantial increases in unemployment and sickness benefits under the Railroad Unemployment Insurance Act, made important changes in the Railroad Retirement Act,¹ and raised the taxable earnings base under both programs.

The amendments to the Railroad Unemployment Insurance Act were
(Continued on page 27)

¹ See Robert J. Myers and John A. MacDougall, "The Railroad Retirement Act in 1954," *Social Security Bulletin*, February 1955.