

Notes and Brief Reports

Trust Fund Operations, 1955

The financial operations of the old-age and survivors insurance system are carried on 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 by permanent appropriation to the trust fund on the basis of estimates made by the Secretary of the Treasury. Adjustments are made periodically to the extent that these estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings. Contributions received under voluntary agreements with States for the coverage of State and local government employees are deposited directly in the trust fund.

In 1955, total contributions appropriated to and deposited in the old-age and survivors insurance trust fund—excluding amounts reimbursed to the General Treasury for refund of excess employee tax collections—amounted to \$5,713 million, an increase from 1954 of 11 percent. The rise in contribution income is due largely to the provisions in the 1954 amendments to the Social Security Act that raised the taxable wage base from \$3,600 to \$4,200 and expanded the coverage of the program. Both provisions became effective January 1, 1955, but only the former had a substantial effect in 1955. The new coverage will materially affect the 1956 contribution income, however, since in that year—for the first time—farmers and other newly covered self-employed persons pay contributions based on their earnings (for 1955).

Investments of the trust fund earned \$454 million in interest in 1955, slightly more than in the previous year. An additional \$7 million in interest was received during the year as a result of the financial interchange provisions of the 1951 amendments to the Railroad Retirement Act.

Expenditures for old-age and survivors insurance benefit payments totaled \$4,968 million in 1955, and administrative expenses amounted to \$119 million. Benefits were 35 percent higher than those paid in 1954, largely because the higher benefits and the liberalized retirement test under the 1954 amendments affected 1954 payments only in the last quarter of that year but were effective throughout all of 1955.

At the end of the year the total assets of the old-age and survivors insurance trust fund were \$21,663 million, a net addition to the fund of \$1,087 million during 1955. In 1954, assets had increased \$1,868 million.

The unemployment insurance trust fund is composed of the 51 accounts for the State unemployment insurance programs, the railroad unemployment insurance account, and the Federal unemployment account. In 1955 the State accounts were credited with deposits of \$1,215 million and interest of \$185 million. Withdrawals for benefit payments amounted to \$1,352 million and were one-third less than in 1954, indicating the general improvement in economic conditions. At the end of the year the net balance

in the State accounts was \$8,242 million.

The railroad unemployment insurance account balance continued to decline in 1955. From \$492 million at the end of 1954, it had dropped by September to \$395 million. As a result, the tax rate for 1956, tied by statute to the size of the reserve in September, was raised from 0.5 percent of payroll, the rate carriers have paid since 1948, to 1.5 percent of payroll. By the end of the year the railroad account had dropped to \$372 million. Deposits in 1955 (including the annual transfer from the railroad unemployment administration fund) amounted to \$16 million, and interest earned was \$10 million.

The Federal unemployment account was activated December 23, 1954, by a transfer of \$64 million from the General Treasury under the provisions of Public Law No. 567 (Eighty-third Congress, second session).¹ This law—the Employment Security Administrative Financing Act of 1954—provided for a reserve of \$200 million in the Federal unemployment account, from which repayable non-interest-bearing loans may be made to the States for payment of unemployment insurance benefits. The re-

¹ See the *Bulletin*, November 1954, page 18.

Table 1.—Investments of social security trust funds and interest-bearing public debt at end of specified period, 1936-55

[Amount in millions]

At end of—	Interest-bearing public debt	Social security trust fund investments			
		Total amount	Percent of public debt	Old-age and survivors insurance trust fund	Unemployment 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	862	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	7,054	7,508
1946.....	257,649	15,643	6.1	8,079	7,564
1947.....	254,205	17,371	6.8	9,268	8,102
1948.....	250,579	19,052	7.6	10,556	8,496
1949.....	255,019	19,424	7.6	11,728	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.....	275,731	28,602	10.4	19,863	8,740
1955:					
June.....	271,741	29,014	10.7	20,580	8,434
December.....	277,799	29,855	10.7	21,102	8,754

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

serve is being accumulated from the excess of Federal unemployment tax collections over State and Federal employment security administrative expenses. So far, one loan has been made: Alaska was credited with \$3 million from the account as of July 1, 1955.² During 1955 deposits in the Federal unemployment account totaled \$87 million, \$2 million was earned in interest, and \$3 million was withdrawn for the Alaska loan; the year-end balance was \$151 million.

The total assets of the unemployment trust fund at the end of 1955 amounted to \$8,764 million, compared with \$8,749 million at the close of 1954.

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 judg-

² To help meet the exigencies of its depleted reserve position, Alaska not only borrowed from the account but also instituted employee contributions of 0.5 percent of payroll (for 2 years) and repealed its experience-rating provisions.

ment, is not required for current expenditures for benefit payments and administrative expenses. The Social Security Act restricts permissible investments of the trust fund to interest-bearing obligations of the United States Government and 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 issues 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 as for the old-age and survivors insurance trust fund.

During 1955, net investments for the old-age and survivors insurance trust fund amounted to \$1,239 million. At the close of the year the fund

held a portfolio of \$21,102 million in Government securities, including Treasury bonds and notes and both public (marketable) and special issues of certificates of indebtedness. The unemployment trust fund had a net acquisition in 1955 of \$14 million and a total of \$8,754 million in invested assets at the close of the year. The net acquisitions of the two trust funds together totaled \$1,253 million, and the sum of their total investments at the end of 1955 was slightly less than \$30 billion. This sum represented 10.7 percent of the interest-bearing public debt, approximately the same proportion as that at the end of the previous year (table 1).

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 trust fund. These special obligations are required to bear the average rate of interest on the interest-bearing portion of the 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.

In the first half of 1955 the old-age and survivors insurance trust fund acquired additional securities in the form of special certificates of indebtedness bearing $2\frac{1}{4}$ -percent interest and various public (marketable) issues. Special certificates were redeemed in January, February, and April, but acquisitions made in March, May, and June resulted in a net increase of \$662 million in the half year. During the same period the unemployment trust fund redeemed $2\frac{1}{4}$ -percent special certificates in every month but May; the net redemption was \$296 million for the 6 months. On June 30 the special certificates held by both funds matured and were replaced by a new 1-year special issue, again at $2\frac{1}{4}$ -percent interest.

In August the computed interest rate on the interest-bearing public debt went higher than $2\frac{3}{8}$ percent and remained above $2\frac{3}{8}$ percent but below $2\frac{1}{2}$ percent to the end of the

Table 2.—Investments of the social security trust funds, by type and earnings, end of December, 1954 and 1955

[In millions]

Type of investment	Old-age and survivors insurance trust fund at end of December		Unemployment trust fund at end of December	
	1955	1954	1955	1954
Total.....	\$21,101.9	\$19,862.5	\$8,753.5	\$8,739.9
Public issues:				
$2\frac{1}{4}$ percent.....	4.2	4.2	4.0	4.0
$2\frac{1}{2}$ percent.....	1,188.6	1,151.4	150.0	150.0
$2\frac{3}{8}$ percent.....	20.0			
$2\frac{7}{8}$ percent.....	1,081.9	1,081.9	760.0	760.0
$2\frac{7}{8}$ percent.....	30.0			
3 percent.....	68.2			
$3\frac{1}{4}$ percent.....	45.1	45.1	50.0	50.0
Net unamortized premium and discount ¹	1.2	2.6	.9	.9
Special issues:				
$2\frac{1}{4}$ percent.....	16,622.7	17,577.2	7,544.7	7,775.0
$2\frac{3}{8}$ percent.....	2,040.0		244.0	

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 obligations. At any given time, the "net unamor-

tized" 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.

² Includes \$84,753 of interest purchased.

Source: Unpublished Treasury Department releases.

year. In consequence, special certificates issued to the old-age and survivors insurance trust fund bore 2 $\frac{3}{8}$ -percent interest beginning in September. The unemployment trust fund acquired additional special certificates at 2 $\frac{3}{8}$ percent beginning in November; it was redeeming rather than acquiring securities in September and October. Of the total investments of \$29,855 million in the portfolios of both funds at the end of 1955, \$26,451 million or 89 percent (the same proportion as in the previous year) was in special obligations—\$24,167 million at 2 $\frac{1}{4}$ -percent interest and \$2,284 million at 2 $\frac{3}{8}$ -percent (table 2).

The old-age and survivors insurance trust fund also acquired \$155 million in additional public issues during the year; it held \$2,438 million in this type of investment at the end of 1955. When the 40-year, 3-percent Treasury bonds were issued in February, \$25 million was invested in them for the trust fund, and in two subsequent purchases the total holdings of these bonds were increased to \$68 million. In March, \$33 million in 2 $\frac{1}{2}$ -percent bonds of 1967-72 was purchased. In July the second purchase of the 3-percent bonds of 1995 was made. In December, \$4.5 million was invested in 2 $\frac{1}{2}$ -percent bonds, and the third purchase of the 3-percent bonds of 1995 was made. In that month the fund also acquired two types of marketable securities that it had never before held when it invested \$20 million in 2 $\frac{5}{8}$ -percent Treasury certificates of indebtedness (not to be confused with the special certificates of indebtedness issued by the Treasury to various trust and other funds) and \$30 million in Treasury notes. The unemployment trust fund acquired no public issues during 1955.

The interest provisions governing investment of the unemployment trust fund in special obligations are those established 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 the rates payable on special obligations.

The interest earnings of the unemployment trust fund and, from 1940 on, of the old-age and survivors insurance trust fund have therefore been directly affected by Federal debt financing and debt management. 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 (table 3). In the postwar period the computed average rate on the Federal debt rose gradually, and the rise was reflected shortly afterward in the interest rates earned by the two funds. Several years of relative stability followed, until in 1952 and again in 1953 their earnings rates went up. They dropped in 1954, and during most of that year and all of 1955 they remained at about the 1952 level.

The Treasury also manages several other social insurance and related trust funds. The principal ones are the railroad retirement account and the civil service retirement fund.

Table 3.—Average interest rate on social security trust fund investments and interest-bearing public debt at end of specified period, 1936-55

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.....	2.291	2.29	2.30
1955:			
June.....	2.351	2.29	2.31
December.....	2.490	2.31	2.31

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

In 1955 the total receipts of the railroad retirement account were \$732 million, of which contributions made up \$621 million and interest \$112 million.³ Railroad retirement benefits amounted to \$573 million during the year and administrative expenses to \$6 million. The account had \$3,551 million in total assets at the end of the year, of which \$3,499 million was invested in special Treasury notes maturing at annual intervals from June 30, 1956, through June 30, 1960. The interest rate for the railroad retirement account investments is set by law at 3 percent.

Contributions to the civil service retirement fund in 1955 amounted to \$744 million and interest to \$234 million. Benefits of \$459 million were paid during the year. Administrative expenses of the system are not chargeable to the fund but to the General Treasury. At the end of the year the fund held invested assets of \$6,480 million: \$39 million in 3-percent Treasury bonds, \$0.5 million in 2 $\frac{1}{2}$ -percent savings bonds, \$4,473 million in 3-percent special issues, and \$1,967 million in 4-percent special issues. When 1954 ended, the fund's investments had been almost entirely in 4-percent special issues. Currently, these issues are being redeemed each month to meet the benefit payments, and income to the system is being invested, in general, in 3-percent special issues. In addition, any 4-percent special issues that mature are reinvested in new 3-percent special issues.

At the end of 1955, all types of special Government securities outstanding amounted to \$43.9 billion, 16 percent of the outstanding interest-bearing Federal debt. Together, the two social security funds held 60 percent of all special securities. Most of the remaining 40 percent was held by other trust funds, including the civil service retirement fund (15 percent), the several veterans' insurance funds (15 percent), and the railroad retirement account (8 percent).

³ Excludes \$7.4 million transferred to the old-age and survivors insurance trust fund under the terms of the financial interchange provision of the Railroad Retirement Act.