

Notes and Brief Reports

Trustees Sixteenth Report on OASI Trust Fund

The Board of Trustees of the old-age and survivors insurance trust fund recently submitted to Congress its sixteenth annual report. The report shows trust fund operations for the fiscal year 1954-55 and, as required by statute, estimates of projected operations during the next 5 years, as well as an analysis of the fund's long-range actuarial status. The Board is composed of the Secretary of the Treasury, who is the fund's Managing Trustee; the Secretary of Labor; and the Secretary of Health, Education, and Welfare. The Commissioner of Social Security is the Secretary of the Board. Excerpts from the report follow.

Summary and Recommendations

During the past 5 fiscal years, the contribution income of the trust fund has increased substantially for a number of reasons. In addition to a rise in earnings levels and the normal uptrend in the labor force, contribution rates increased in 1950 and 1954; moreover, coverage was extended to additional employments and the maximum limit on taxable earnings was raised in 1951 and 1955. With the growth of the trust fund, interest received on investments has also increased.

Trust fund disbursements have risen even more sharply than contribution income. Basic factors in this increase are the long-term growth in the aged population and, more significantly, the lengthening period during which workers have had an opportunity to earn the quarters of coverage required to be insured. More immediate causes have been the amendments to the Social Security Act during 1950-54 which have extended the program's coverage; lowered the requirements for eligibility to benefits for individuals who attain age 65, and for the survivors of individuals who die in the early years of the program; increased the

benefits payable; and liberalized the retirement test.

It is estimated that aggregate income from contributions and interest on investments of the trust fund during the 5-year period immediately ahead will be wholly sufficient to meet aggregate disbursements of the old-age and survivors insurance program during this period. Long-range actuarial studies show that, on the basis of high employment assumptions, the level-premium cost at 2.4-percent interest ranges from 6.61 to 8.57 percent of payroll, depending on the combination of cost assumptions selected.

Under legislation enacted in 1946, the trust fund was reimbursed out of general revenues for noncontributory benefit payments arising from credit for military service. As a result of legislation enacted in 1950, 1952, 1953, and 1955, all noncontributory benefit payments after August 1950 on account of credit for military service have been made from the trust fund with no provision for reimbursement. The Board of Trustees believes that these additional costs, including the administrative expenses involved, should not be borne by the trust fund out of the regular social security tax collections. Instead, it believes that they are a proper charge against the general fund of the Treasury, just as are other costs of maintaining the Armed Forces.

Under present statutory provisions, the interest rate on special obligations purchased by the trust fund is based on the average interest rate on all outstanding Federal securities, including short-term obligations. The fund's assets, however, are available for long-term investment. The Board of Trustees therefore believes that section 201(c) of the Social Security Act should be amended so as to permit the trust fund to earn the higher interest rate paid by long-term securities, thereby increasing the assets of the fund and affording greater protection to the workers of America and their families who are insured in the trust fund. The Board be-

lieves that obligations of less than 5 years should be eliminated in computing the interest rate for special Government issues acquired by the trust fund.

Fiscal-Year Highlights

Under the Social Security Amendments of 1954, approved September 1, 1954, the coverage of the old-age and survivors insurance program was extended, beginning January 1, 1955, to occupations in which about 10 million additional workers are employed during the course of a year. These amendments also raised benefits, liberalized the retirement test, increased the maximum earnings taxable and creditable toward benefits, protected the benefit rights of disabled persons through a disability freeze provision, increased the ultimate tax rates, and otherwise modified the provisions of the program.

The total number of beneficiaries under the program in June 1955 was 7,564,000 or 17 percent more than in June 1954. There were 5,462,000 retirement beneficiaries (old-age beneficiaries and their entitled wives, dependent husbands, and young children), an increase of 19 percent, and 2,101,000 survivor beneficiaries, an increase of 11 percent, over 1 year earlier. The estimated number of persons with taxable earnings under old-age and survivors insurance in calendar year 1955 was about 68 million.

Disbursements of the old-age and survivors insurance trust fund in fiscal year 1955 were \$4,436 million, not including \$51 million representing refunds of overpayments of employee contributions. Receipts net of these refunds were \$5,535 million. The net addition of \$1,098 million raised the total assets of the trust fund to \$21,141 million on June 30, 1955.

The disbursements of the fund in fiscal year 1955 included \$4,333 million for benefits and \$103 million for administrative expenses. The receipts included \$5,087 million in contributions and \$448 million in interest on investments.

Both disbursements and receipts showed an increase over fiscal year 1954. Disbursements rose \$1,072 million or 32 percent and receipts, \$495

million or 10 percent. The increase in disbursements was the combined result of the coverage extension and the liberalized eligibility and benefit provisions included in the amendments adopted during 1950-54 and the long-term growth of the aged population and the proportion of the aged eligible for benefits. The rise in trust fund receipts is accounted for chiefly by the increase in the contribution rate which went into effect January 1, 1954, and the extended coverage provisions effective January 1, 1955.

Estimates for the 5 fiscal years 1956-60 show a further increase in the receipts and disbursements of the fund. According to these estimates, at the end of fiscal year 1960 the trust fund will amount to \$22.6 to

\$26.1 billion, depending on the economic assumptions used, with receipts of \$7.5 to \$8.7 billion and disbursements of \$7.8 to \$8.2 billion in that fiscal year. At the beginning of fiscal year 1956 the trust fund amounted to about 2.6 times the highest expected annual disbursements during the 5 fiscal years 1956-60.

Legislative Change in 1955

Public Law 325, enacted August 9, 1955, extended the provisions granting wage credits of \$160 for each month of active military service to cover the period after June 30, 1955, and before April 1, 1956.

Fiscal Years 1956-60

The expected operations and status of the trust fund during the next

5 fiscal years are presented in summary in *table 1*, together with the figures on the actual experience in earlier fiscal years. The present statutory provisions relating to old-age and survivors insurance are assumed to remain unchanged throughout the period under consideration. The statement of the expected operations of the trust fund should be read with full recognition of the difficulties of estimating future trust fund income and disbursements under changing economic conditions.

In *table 1*, single estimates are given for fiscal years 1956 and 1957, but for fiscal years 1958-60 two sets of estimates are presented based on two different assumptions as to economic developments in those years. Estimates based on assumption I show the effect of continued high levels of economic activity. Estimates based on assumption II show the effects that a fairly sharp but temporary decline in economic activity would have on trust fund operations.

In assumption I employment and earnings remain at a high level through calendar year 1960. Hourly wage rates, and therefore weekly earnings and average annual taxable wages, increase not only in accordance with long-time trends but also because of steady improvements in economic conditions. The earnings of the self-employed follow a similar pattern. Unemployment remains at a low level. Benefit disbursements increase substantially, primarily because of the long-range upward trend in the number of beneficiaries, and partly because of the effect of the 1954 amendments which became effective in fiscal year 1955.

The other set of estimates for fiscal years 1958-60, based on assumption II, show the effects of a sharp contraction in industrial activity in the latter half of calendar year 1957 with a slow recovery beginning in the first half of calendar year 1960. As a result, estimated taxable payrolls and earnings of the self-employed in the periods affecting tax collections during fiscal years 1958-60, and therefore estimated contributions, are lower under assumption II than under assumption I. Esti-

Table 1.—Operations of the Federal old-age and survivors insurance trust fund, fiscal years 1937-60, subject to the assumptions and limitations stated in the text¹

Fiscal year	Transactions during period				Net increase in fund ⁵	Fund at end of period ⁶
	Income		Disbursements			
	Appropriations ²	Interest on investments ³	Benefit payments	Administrative expenses ⁴		
Past experience:						
1937-55.....	\$35,636	\$3,423	\$17,092	\$826	\$21,141	\$21,141
1941.....	688	56	64	27	653	2,398
1942.....	896	71	110	27	830	3,227
1943.....	1,130	87	149	27	1,041	4,268
1944.....	1,292	103	185	33	1,178	5,446
1945.....	1,310	124	240	27	1,167	6,613
1946.....	1,238	148	321	37	1,028	7,641
1946.....	1,460	163	426	41	1,157	8,798
1947.....	1,617	191	512	47	1,248	10,047
1948.....	1,694	230	607	53	1,263	11,310
1949.....	2,110	257	727	57	1,583	12,893
1950.....	3,124	287	1,498	70	1,843	14,736
1951.....	3,598	334	1,982	85	1,864	16,600
1952.....	4,097	387	2,627	89	1,766	18,366
1953.....	4,589	451	3,276	89	⁶ 1,675	20,043
1954.....	5,087	448	4,333	103	1,098	21,141
1955.....						
Estimated future experience:						
1956.....	6,534	496	5,340	124	1,566	22,707
1957.....	6,697	570	6,050	132	1,086	23,793
1958:						
Assumption I.....	6,995	590	6,612	142	831	24,624
Assumption II.....	6,466	582	6,796	144	108	23,901
1959:						
Assumption I.....	7,202	607	7,144	129	536	25,160
Assumption II.....	6,410	576	7,487	127	-628	23,273
1960:						
Assumption I.....	8,117	627	7,678	129	937	26,097
Assumption II.....	6,956	555	8,030	125	-644	22,629

¹ In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared February 1956.

² Include insurance contributions, adjusted for refunds, and transfers from general funds equivalent to additional payments arising from the extension of survivors insurance protection to certain veterans of World War II (Social Security Act Amendments of 1946).

³ Includes (1) profits on marketable investments amounting to \$183,668 in 1949 and \$8,934 in 1950; and (2) beginning in fiscal year 1954, interest transferred from the railroad retirement account.

⁴ Include administrative expenses, less receipts for sale of surplus material, services, etc. For fiscal years 1944 and 1945, represent charges against trust fund; administrative expenses, after adjustment for book-keeping transfers, were about \$30 million in fiscal year 1944 and \$29 million in fiscal year 1945. For fiscal years 1954-59, include cost of construction of an office building for the Bureau of Old-Age and Survivors Insurance.

⁵ Totals do not necessarily equal the sum of rounded components.

⁶ Excludes net adjustment of approximately \$0.8 million which was allocable to prior years.

mated benefit disbursements, on the other hand, are higher under assumption II than under assumption I because a larger number of older workers withdraw from or are unable to find jobs in covered employment.

In general, the larger the volume of employment the larger will be the number of workers who are insured under the program, and therefore the larger will be the number of deaths which will give rise to valid claims for survivors' benefits. However, over the short range the amount paid out for survivors' benefits will not be affected significantly by variations in economic conditions. While favorable opportunities for employment will operate to increase the number of insured persons, and hence increase the number of new death claims, such a high employment situation will tend to have counterbalancing effects such as that of inducing many of the widows and older children eligible for survivors' benefits to forego them by working. On balance, the amount paid out for survivors' benefits over the next few years will differ so little whether the economic conditions of assumption I or assumption II are assumed that a single set of estimates is deemed appropriate for both assumptions (table 2).

On the other hand, the lower the level of employment during the next 5 years the larger will be the volume of benefit payments to retired workers who have attained age 65, and to their eligible dependents. As is indicated in table 3, a considerable proportion of the workers aged 65 and over who were eligible for old-age (primary) benefits in the past remained in covered employment (or, if they left covered employment, later returned to it) and did not receive benefits. Since January 1, 1945, however, this proportion has decreased as the number of retired workers receiving benefits increased relatively more rapidly than the number eligible for old-age benefits. In general, the past upward trend in this proportion is expected to continue even under the favorable employment conditions assumed in assumption I. Contributing to this expected increase are the changes in the retirement test contained in the

1954 amendments—notably the reduction from 75 to 72 in the age at which benefits are paid without regard to earnings—which became effective in calendar year 1955.

If the lower employment conditions assumed in assumption II should materialize, it is expected that larger proportions of eligible workers will be obliged to leave employment especially at ages 65-69. Hence, despite a slightly smaller number of eligible workers, the number receiving old-age (primary) benefits under assumption II would considerably exceed that under assumption I. Moreover, it is expected that the average old-age (primary) benefit amount payable under assumption II would exceed the average under assumption I, inasmuch as many of the more steadily employed, and therefore higher paid, older workers

who would not withdraw from employment under the conditions of assumption I would not be employed under the conditions of assumption II. In consequence, assumption II would result in a substantially higher volume of benefit payments to old-age (primary) beneficiaries and their dependents.

Actuarial Status of the Trust Fund

On June 30, 1955, there were about 14,200,000 persons aged 65 and over in the United States, a number equivalent to 8.4 percent of the total population. It is estimated that by the end of the century the number of persons aged 65 and over may be nearly double that on June 30, 1955, and represent from 10 to 13 percent of the population. The effect on the finances of the old-age and survivors

Table 2.—Treasury disbursements for benefit payments, distributed by classification of beneficiaries, fiscal years 1941-60, subject to the assumptions and limitations stated in the text¹

[In millions]

Fiscal year	Total benefit disbursements ²	Disbursed to old-age beneficiaries	Disbursed to dependents of old-age beneficiaries	Disbursed to survivors of deceased insured workers			
				Monthly benefits			Lump-sum payments
				Total ³	Aged widows, dependent widowers, and dependent parents	Widowed mothers, dependent divorced wives, and children	
Past disbursements: ⁴							
1941.....	\$64.3	\$31.4	\$5.3	\$15.3	\$1.5	\$13.8	\$12.3
1942.....	110.3	54.9	9.6	31.6	4.1	27.5	14.1
1943.....	149.3	72.4	12.7	47.5	7.9	39.6	16.7
1944.....	184.6	86.8	15.2	63.6	12.1	51.5	19.0
1945.....	239.8	109.1	19.2	85.8	17.7	68.1	25.7
1946.....	320.5	153.9	27.2	113.4	24.7	88.7	26.0
1947.....	425.6	219.2	38.4	139.4	33.8	105.6	28.5
1948.....	511.7	272.4	47.5	160.5	43.7	116.8	31.3
1949.....	607.0	335.0	57.7	184.0	55.6	128.4	32.2
1950.....	727.3	412.6	71.2	209.4	69.3	140.2	34.0
1951.....	1,498.1	891.1	148.0	413.5	134.3	279.2	45.5
1952.....	1,982.4	1,191.4	198.5	539.2	179.2	360.0	58.3
1953.....	2,627.5	1,624.6	253.0	673.6	232.7	441.0	76.3
1954.....	3,275.6	2,068.5	318.6	798.3	283.0	515.3	90.2
1955.....	4,333.1	2,803.0	428.8	1,000.8	307.9	692.9	100.5
Estimated future disbursements:							
1956.....	5,340	3,522	531	1,170	436	734	117
1957.....	6,050	4,024	602	1,304	501	803	120
1958:							
Assumption I.....	6,612	4,396	656	1,436	569	867	124
Assumption II.....	6,796	4,557	679				
1959:							
Assumption I.....	7,144	4,747	705	1,563	639	924	129
Assumption II.....	7,487	5,046	749				
1960:							
Assumption I.....	7,678	5,105	755	1,684	712	972	134
Assumption II.....	8,030	5,411	801				

¹ In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared February 1956.

² Totals do not necessarily equal the sum of rounded components.

³ Partly estimated.

Table 3.—Estimated progress of old-age and survivors insurance trust fund, 2.4 percent interest

[In millions]					
Calendar year	Contributions ¹	Benefit payments	Administrative expenses	Interest on fund	Fund at end of year
Actual data (excluding effect of railroad coverage)					
1953.....	\$3,945	\$3,006	\$88	\$414	\$18,707
1954.....	5,163	3,670	92	² 468	20,576
1955.....	5,713	4,968	119	² 461	21,663
Actual data (including effect of railroad coverage)					
1953.....	\$4,099	\$3,246	\$91	\$424	\$19,084
1954.....	5,323	3,920	96	² 477	20,896
Low-cost estimate					
1965.....	\$10,928	\$9,108	\$135	\$887	\$38,706
1970.....	13,671	11,180	151	1,189	51,910
1980.....	17,730	15,066	181	2,223	96,108
1990.....	19,355	18,270	208	3,252	139,208
2000.....	21,543	19,494	226	4,442	190,443
High-cost estimate					
1965.....	\$10,794	\$10,419	\$171	\$605	\$25,923
1970.....	13,526	12,681	192	673	29,036
1980.....	17,265	17,034	232	1,026	43,763
1990.....	18,133	20,856	268	909	37,269
2000.....	19,375	22,762	289	226	7,810
Intermediate-cost estimate					
1965.....	\$10,861	\$9,763	\$153	\$746	\$32,314
1970.....	13,568	11,931	172	931	40,473
1980.....	17,498	16,050	206	1,624	69,936
1990.....	18,744	19,565	238	2,080	88,239
2000.....	20,459	21,129	258	2,334	99,126

¹ Combined employer, employee, and self-employed contributions. The combined employer-employee rate is 4 percent for 1955-59, 5 percent for 1960-64, 6 percent for 1965-69, 7 percent for 1970-74, and 8 percent for 1975 and after. The self-employed pay ½ of these rates.

² Preliminary; partially estimated.
³ Includes interest transfer from railroad retirement account to OASI trust fund (\$11.6 million in 1954 and \$7.4 million in 1955).
Note: The estimated figures in this table are based on high-employment assumptions.

insurance system of this expected change in the number of aged persons will be even greater than may at first appear, because 50 years hence a much larger proportion of aged persons is expected to be eligible to receive benefits under the program than at present. The future financial soundness of this system, with its rising rate of disbursements, is of the utmost importance to the millions of persons who are already within its scope and to the Nation as a whole.

The estimated cost of benefits as a percentage of payroll through the year 2050 and also the level-premium cost of the program—that is, the level percentage of payroll which, in perpetuity, would be sufficient to meet the cost of the benefits—ranges from

6.55 to 8.74 percent of payroll, depending upon the combination of assumptions selected. *Table 3* shows the estimated contributions, benefit payments, administrative expenses, interest accumulations, and assets of the trust fund through the year 2000, under alternative combinations of assumptions with respect to benefit costs and levels of employment.

The estimates are based on level earnings assumptions (slightly below the present levels). If in the future earnings levels should be considerably above that which now prevails, and if at the same time the benefits for those on the roll are adjusted upward so that annual costs in relation to payroll remain the same, then the resulting increased dollar outgo will offset the increased dollar income.

This is an important reason for considering costs relative to payroll rather than in dollars.

The cost estimates have not taken into account the possibility of a rise in earnings levels, although such rises have characterized the past history of this country. If such an assumption were used in the cost estimates, along with the unlikely assumption that the benefit formula nevertheless would not be changed, the cost relative to payroll would, of course, be lower. If benefits are adjusted continuously and without any time-lag to keep pace with rising earnings trends, the year-by-year costs as a percentage of payroll would be unaffected. However, such an adjustment would raise the level-premium cost, since under these circumstances the relative value of the interest earnings on the trust fund would diminish with the passage of time.

State and Local Government Employment Under OASI, April 1956*

At the beginning of April 1956, coverage of State and local government employees under old-age and survivors insurance through voluntary agreements had reached 1.7 million. This total is more than a quarter of a million higher than the coverage at the beginning of the year, a considerably larger increase than during the preceding 3-month period.

The April estimate indicates that 1 in every 3 State and local employees (other than those for whom coverage is compulsory) is now cov-

* Prepared by Dorothy McCamman, Division of Research and Statistics, Office of the Commissioner, from estimates developed in the Division of Program Analysis, Bureau of Old-Age and Survivors Insurance. For similar data as of October 1955 and a summary of the 1954 provisions, see the *Bulletin* for February 1956, pages 15-17. More detailed data by State and type of government appear in a quarterly statistical report, *State and Local Government Employment Covered by OASI Under Section 218 of the Social Security Act* (Division of Program Analysis).