cal vendors, and in aid to dependent children only 5.8 percent.

In the individual States, per inhabitant expenditures for vendor payments for medical care were relatively small except from funds of the old-age assistance and general assistance programs. Payments of $2 or more came from old-age assistance funds in 11 States and from general assistance funds in five States. Per capita expenditures were less than 50 cents, however, in all 44 of the States making vendor payments in aid to the blind. Per capita expenditures were also less than 50 cents in 34 States in aid to the permanently and totally disabled, 29 States in aid to dependent children, 20 States in general assistance, and 14 States in old-age assistance. Vendor payments for all programs combined totaled $2 or more in about three-fifths of the States making such payments.

Trust Fund Operations, 1960*

The social insurance and related trust funds account for the major portion of the assets of all the trust funds managed in whole or in part by the Treasury Department. The group includes the old-age and survivors insurance trust fund, the disability insurance trust fund, the unemployment trust fund, the railroad retirement account, the civil-service retirement and disability fund, and the several veterans' insurance funds.

OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

All financial operations of the old-age, survivors, and disability insurance program are carried on through the Federal old-age and survivors insurance trust fund and the Federal disability insurance trust fund.

Amounts equivalent to 100 percent of current collections under the Federal Insurance Contributions Act (with respect to covered employees) and under chapter 2 of the Internal Revenue Code of 1954, as amended (with respect to covered self-employed persons), are transferred by permanent appropriations to the trust funds on the basis of estimates made by the Secretary of the Treasury. Differences between these estimates and the contributions actually payable on the basis of reported earnings are adjusted periodically. Contributions under voluntary agreements with States for the coverage of State and local government employees are deposited as received directly in the trust funds.

Income-Outgo

The tax schedule introduced in the 1958 amendments to the Social Security Act raised the combined employer-employee tax rates payable in 1959 by ½ of 1 percent of payroll and in 1960 by an additional full 1 percent of payroll—to 5½ percent. The self-employment tax rate was also increased. Since self-employment taxes for any

TABLE 1.—Operations of the old-age and survivors insurance trust fund, calendar years 1959 and 1960

[In thousands]

Item	1960	1959
Total assets, January 1	$20,140,766	$21,864,422
Receipts, calendar year:		
Contributions:		
Appropriations (taxes)	10,208,596	7,586,574
Deposits arising from State agreements	737,139	539,077
Gross contributions	10,945,734	8,125,652
Less payments to Treasury for taxes subject to refund	79,440	73,680
Net contributions	10,866,294	8,051,972
Interest and profit:		
On investments	514,868	531,081
On administrative expenses reimbursed from DI trust fund	877	1,165
Gross interest received	515,744	532,246
Less interest transferred to railroad retirement account	9,889	7,448
Net interest received	505,855	524,798
Total net receipts	11,372,150	8,576,769
Disbursements, calendar year:		
Benefit payments	10,676,628	9,841,641
Payments to railroad retirement account under the financial interchange	308,500	274,600
Total benefit payments and transfers with respect to benefits	10,985,128	10,116,241
Administrative expenses:		
Department of Health, Education, and Welfare	192,380	179,123
Treasury Department	38,973	36,453
Construction of headquarters building for Bureau of Old-Age and Survivors Insurance	5,250	15,052
Gross administrative expenses	236,603	230,628
Less receipts for sale of services, etc.	138	136
Less reimbursement of administrative expenses from DI trust fund	33,176	46,308
Net administrative expenses	203,289	184,184
Total net disbursements	11,188,417	10,300,425
Net addition to trust fund	183,733	−1,723,656
Total assets, December 31	20,324,499	20,140,766

* Prepared by Sophie R. Dales, Division of Program Research, Office of the Commissioner.

year are payable with Federal income tax in the following year, the 1960 raise of ¾ of 1 percent will not, however, be reflected in contribution income until 1961. (The earnings base has remained at $4,800 since January 1, 1959.) These rate increases were largely responsible for a 35-percent rise in contribution income to $10.9 billion during 1960 despite the progressive worsening of the economic situation as the year wore on. Income, expenditures, and total assets of the trust fund for 1959 and 1960 are shown in table 1.

The actual increase in tax collections in 1960 was somewhat less than 35 percent. Since appropriations of tax collections are made on an estimated basis and subsequently adjusted, the amount received in the trust fund in a given year from actual collections is adjusted by the amount of the correction in that year of past underappropriations or overappropriations. In 1960, for example, more than $290 million was added to the trust fund to correct for underestimates and underappropriations in earlier years, the bulk of it for 1959. The 1959 total had itself been reduced during that year by de-appropriation of 1958 overappropriations. The 1960 correction therefore means that 1959 contributions were understated, and—up to the end of 1960—1960 contributions overstated, by the amount of the correction. The net appropriation figures therefore do not accurately indicate the income from tax collections in either year. It is possible, too, that the estimated 1960 tax receipts may be more or less than actual receipts, but this will only be known later when adjustments are made.

Earnings of the invested assets of the trust fund totaled $515 million in 1960, 3 percent less than 1959 earnings. Of this sum, $156,024 represents profit on investment, realized in July and November. An additional $2 million was earned in noncash form as net amortization of discount and premium on public issues acquired in the open market. Until now the trust fund has been credited with discount in a lump sum at the redemption, sale, or exchange of such a security. Starting in the fiscal year 1959–60, however, premium and discount for the old-age, survivors, and disability insurance trust funds have been amortized on a quarterly basis.

Two interfund interest transfers had the effect of reducing the total net interest and profit of the old-age and survivors insurance trust fund in 1960 to $506 million: (1) $10 million transferred with the payment to the railroad retirement account under the financial interchange provision in the Railroad Retirement Act, and (2) $877,000 received from the disability insurance trust fund with reimbursed administrative expenses. Total receipts of the trust fund amounted to $11,372 million in 1960, 33 percent more than in 1959.

Old-age and survivors insurance benefit payments totaled $10,677 million in 1960, 8 percent more than 1959 benefits. Under the financial interchange provision, a payment of $308 million referring to the fiscal year 1958–59 was made from the trust fund to the railroad retirement account to place the trust fund in the same position in which it would have been had railroad employment always been covered employment for old-age and survivors insurance purposes. The $10,985 million total of benefit payments and payments in lieu of benefits was 9 percent higher in 1960 than in the preceding year.

Gross administrative expenses paid from the trust fund in 1960 totaled $237 million, 3 percent more than in 1959. Salaries and expenses of both the Department of Health, Education, and Welfare and the Treasury Department for administering the program rose about 7 percent. The reduction from a possible 7-percent increase to the actual 3-percent increase is explained by the construction item—amounting to $15 million in 1959 but only $5 million in 1960, out of the total of $32 million authorized for construction of a headquarters building for the Bureau of Old-Age and Survivors Insurance. The expenditure of this and any subsequent appropriations from the trust fund for construction has a different purpose than other administrative or operating expenses—the creation of a capital asset.

The ostensible decrease in reimbursed administrative expenses from the disability insurance trust fund—from $46 million in 1959 to $33 million in 1960—is the result of the timing of these reimbursements for expenses incurred by the old-age and survivors insurance trust fund for the administration of disability insurance. Administrative expenses for the fiscal years 1957–58 and 1958–59 were reimbursed in the calendar year 1959; in 1960 reimbursements related only to the fiscal year 1959–60. The net administrative expenses paid from the old-age and survivors insurance trust fund therefore amounted to $203 million in 1960 compared with $184 million in 1959, a 10-percent increase.

The total assets of the trust fund at the close of 1960 were $20,324 million, 1 percent or $184 million more than the $20,141 million at the start of the year. Of the year-end assets, $19,128 million (book value) was invested in United States Government securities (table 2), and the remainder was held in cash balances.

Investments

During 1960 the portfolio of the trust fund registered a fractional (0.1 percent) decrease,[1] from $19,151 million (book value) to $19,128 million. Net decreases have been running considerably higher: 8.6 percent in 1959, 2.8 percent in 1958, and 1.2 percent in 1957.

The all-time high of total old-age and survivors insurance trust fund holdings occurred at the end of June 1957, when the portfolio stood at $22,263 million, after a previous high of $22,202 million in August 1956. From mid-1957 on, investments decreased steadily, with a few monthly interruptions, until they reached the fund's lowest portfolio to date at the end of January 1960. By then the investments had fallen to $18,532 million, $3.7 billion less than the 1957 high. The portfolio inched up to $19,748 million in August only to decline to $19,128 million by the year's end.

Total investment of the old-age and survivors insurance trust fund at the end of each year since its inception is shown in table 3. For purposes of comparison, the total interest-bearing public debt and the total investment of the other two social security trust funds are also shown, as well as the proportion of the public debt formed by the three trust funds. To facilitate comparison with the public debt, face-value figures have been used for the trust fund investments.

Public issues are becoming an increasingly important part of the old-age and survivors insurance trust fund investments. A few years ago they made up scarcely 10 percent of the portfolio; at the end of 1958 they formed more than 15 percent, and at the close of 1960 almost 18 percent

[1] The total assets of the trust fund increased slightly because cash balances at the end of 1960 were $207 million higher than at the beginning.

The changing proportion is due less to a rapid increase in public-issue holdings than to the fact that the overall decreases of the recent past have occurred exclusively in special public-debt obligation holdings. During 1960, public-issue holdings increased $59 million while special obligation holdings decreased $82 million (table 2). The proportion invested in each sector at the end of the year was about the same as at its start: 17–18

TABLE 2.—Investment of the social security trust funds, by type and earnings, end of December 1959 and 1960

[In millions]

Type of investment	Old-age and survivors insurance trust fund		Disability insurance trust fund		Unemployment trust fund	
	1960	1959	1960	1959	1960	1959
Total [1]	$19,128	$19,151	$2,180	$1,793	$6,638	$6,877
Public issues [1]	3,347	3,288	88	78	1,092	1,083
Treasury bonds	2,895	2,837	56	47	1,022	1,014
Marketable	1,830	1,773	56	47	276	269
2¼ percent	4	4			4	4
2½ percent	953	1,242			7	150
2⅝ percent	225	225	18	18	10	10
2¾ percent	2	2			15	15
3 percent	110	110	10	10	10	10
3¼ percent	45	45			57	57
3½ percent	343	64	2	2	146	3
3¾ percent	28					
3⅞ percent	40	25	9	5	8	5
4 percent	54	54	12	12	15	15
4¼ percent	25		5		5	
Nonmarketable	1,065	1,065			745	745
2¾ percent	1,065	1,065			745	745
Treasury notes	458	458	32	32	70	70
2⅝ percent	30	30	10	10	10	10
3½ percent		48			10	10
3⅝ percent	176	176			5	5
3¾ percent	20	20	7	7	15	15
4 percent	144	144	5	5	20	20
4⅝ percent	48					
4⅞ percent	15	15	5	5		
5 percent	25	25	5	5	10	10
Net unamortized premium and discount [1]	−6	−7	(²)	(²)	−1	−1
Accrued interest purchased		(²)			(²)	
Public-debt obligations (special issues)	15,782	15,864	2,093	1,715	5,547	5,794
Treasury bonds	13,715	12,795	1,474	1,050		
2½ percent	4,825	4,825	188	188		
2⅝ percent	8,890	7,970	1,287	862		
Treasury notes	1,934	3,067	386	357		
2½ percent	1,430	2,395	68	105		
2⅝ percent	504	672	319	252		
Treasury certificates of indebtedness	133	2	232	308	5,547	5,794
2½ percent						
2⅝ percent		2	14	308		
2¾ percent						5,052
2⅞ percent						440
3⅛ percent					80	220
3¼ percent					5,467	82
3⅝ percent			42			
3¾ percent			89			
4 percent	133		88			

[1] Represents book value, including "net unamortized premium and discount," which refers to investments acquired above or below par values 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 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 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.

[2] Less than $500,000.

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

percent in public issues and 82–83 percent in special public-debt obligations.

The trust fund began 1960 with only $1.5 million invested in 1-year, 2⅝-percent special certificates. By the end of the first month, to meet ready cash needs, these certificates had had to be redeemed, together with $639 million of 3-year and 4-year, 2½-percent Treasury special notes that would not have matured until 17 months later—in June 1961. By the end of the second month the fund had again acquired special certificates—in the amount of $24 million—and these holdings were increased to $807 million by the end of May. All other public and special issues with which the trust fund started the year remained unchanged in these first 5 months with one exception: the 3½-percent Treasury notes, of which the trust fund held $48 million, matured in May and were exchanged for 4⅝-percent notes of 1965. Two new public issues were added to the portfolio in this period, both by subscription at original issue: in January, $24 million of a 1-year Treasury bill with interest at 5.067 percent; in April, $25 million of the 4¼-percent Treasury bond of 1975–85.

TABLE 3.—Investments of social security trust funds and interest-bearing public debt at end of specified period, 1936–60

[In millions]

At end of—	Interest-bearing public debt	Social security trust fund investment portfolio (face value) [1]				
		Total amount	Percent of public debt	Old-age and survivors insurance trust fund	Disability 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	14,562	5.3	7,054	----------	7,508
1946	257,649	15,643	6.1	8,079	----------	7,564
1947	254,205	17,363	6.8	9,262	----------	8,101
1948	250,579	19,044	7.6	10,549	----------	8,495
1949	255,019	19,417	7.6	11,722	----------	7,695
1950	254,283	20,963	8.2	13,325	----------	7,638
1951	257,070	23,438	9.1	15,012	----------	8,426
1952	265,293	25,977	9.8	16,956	----------	9,022
1953	272,881	27,832	10.2	18,288	----------	9,544
1954	275,731	28,598	10.4	19,860	----------	8,739
1955	277,799	29,853	10.7	21,101	----------	8,753
1956	274,219	30,890	11.3	21,830	----------	9,060
1957	272,874	31,276	11.5	21,566	$612	9,097
1958	280,839	29,390	10.5	20,956	1,321	7,114
1959	287,704	27,830	9.7	19,159	1,794	6,878
1960:						
June	283,241	28,527	10.1	19,756	2,101	6,670
Dec.	286,820	27,954	9.7	19,134	2,180	6,639

[1] Includes public and special Government obligations.
Source: *Daily Statement of the U.S. Treasury* and other Treasury Department releases.

On May 31, 1960, the old-age and survivors insurance trust fund held $16,030 million of Treasury special public-debt obligations with maturities ranging from 1 month (1-year special certificates of indebtedness maturing June 30) to 14 years and 1 month. A month later at "rollover" date, June 30, the $807 million of matured 2⅝-percent certificates plus $382 million of incoming money had been invested in 1-year special certificates ($270 million) and 15-year special bonds ($920 million). The interest rate on the new issues of both maturities was the same, 2⅝ percent. All other special issues and all public issues in the portfolio remained as before except for the maturation of one holding, a 2½-percent (marketable) Treasury bond, and the even exchange of the $10 million that the trust fund held for its 3⅞-percent replacement. With only less than $1/10$ of 1 percent of the trust fund's total investments involved in the latest annual "rollover" instead of the former 80–90 percent, this concept has—for the present, at least—lost its significance for the trust fund both quantitatively and qualitatively. It is expected, however, that future "rollovers" will involve about 7 percent of the trust fund portfolio annually.

The month of July saw considerable activity in the trust fund portfolio. By its end all special Treasury notes maturing in June 1961 had been redeemed—the remaining $326 million of the 2½'s and the $168 million of the 2⅝'s. About $13 million of the "rolled over" special certificates had also been redeemed. Among the public issues, $6 million of the 5.067-percent Treasury bills had been disposed of, and $10 million had been invested in a new issuance of 3.265-percent bills maturing a year later.

In mid-August, $5 million of special certificates of indebtedness were redeemed and the proceeds invested in an additional issue of the 3⅞-percent bonds of 1968. Except for November, the rest of the year saw activity only in special certificates of indebtedness. In November the activity was mainly in the public-issue sector: all $28 million of the Treasury bills were sold and the profit taken, the money was invested in special certificates for about 10 days for the interest, and then subscribed for the new 3¾-percent Treasury bonds issued at midmonth.

Interest Rate

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) earn at least 3 percent. The 1939 amendments removed all reference to a minimum yield except on "special obligations issued to the trust fund," which were required to bear the average rate of interest on the total 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 1/8 of 1 percent if the average rate was not itself an exact multiple of 1/8 of 1 percent. To reflect the essentially long-term character of these investments, the 1956 amendments changed the interest base from the total interest-bearing debt to the marketable portion of that debt with maturities of more than 5 years from issue. Rounding was changed from "next lowest" to "nearest" 1/8 of 1 percent.

The 1960 amendments again changed the computation base to place the trust funds more nearly on a parity with other investors in Government securities. The new formula provides an interest rate on special public-debt obligations "equal to the average market yield (computed by the Managing Trustee—the Secretary of the Treasury—on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States . . . which are not due or callable until after the expiration of four years from the end of such calendar month." Rounding the interest rate to the nearest 1/8 of 1 percent is continued, and so is the fixing of maturities "with due regard for the needs of the Trust Funds," instituted by the 1956 amendments—the statutory authority for spreading the maturities of the special public-debt obligations over the 15-year period they now cover.

The September interest rate on special obligations was 2 5/8 percent; it was calculated on the "old" formula—the average coupon rate on marketable long-term issues. Use of the new average-yield formula on special obligations acquired in October produced a rate of 3 5/8 percent, one whole percentage point above both the September rate and the rate that the "old" formula would have yielded for October. The November rate was 3 3/4 percent, and the December rate 4 percent. The "old" formula rate for the last 2 months would have been 2 3/4 percent. Now that the bulk of the trust fund's portfolio is held in the form of public-debt obligations of maturities running up to 15 years rather than in the 1-year special certificates, the gain to the fund in interest earnings under the new formula will take many years to make itself fully felt. There will be 2 1/2-percent special obligations in the portfolio until June 30, 1968, on the assumption that they are held to maturity, and 2 5/8-percent issues until June 30, 1975.

In the future, of course, the old and the new interest formulas may produce rates that are not as disparate as those of the first 3 months under the average-yield formula, particularly if the changing economic climate should cause material change in the Government securities market.

DISABILITY INSURANCE TRUST FUND

The disability insurance trust fund was activated as of January 1, 1957, and has received contributions at the rate of 1/4 of 1 percent of payroll each from employers and employees and at 3/8 of 1 percent from the self-employed.

Income-Outgo

In 1957, contribution income was received during 11 months, benefits were paid during 5 months beginning in August, and no administrative expenses were paid except the cost of the Treasury Department's operation of the fund.

The first year of full operation was 1958. There was no change in the contribution rate for this program on January 1, 1959, or January 1, 1960, when scheduled increases for old-age and survivors insurance contributions went into effect, although the 1959 raise in maximum taxable earnings from $4,200 to $4,800 applied to both programs. Contribution income from the self-employed received by both the old-age and survivors insurance and the disability insurance trust funds in 1959 represented the tax on 1958 earnings with a maximum of $4,200.

Contribution income in 1960 exceeded $1 billion for the first time. Gross contributions were $1,020 million and net contributions $1,010 million. Both amounts were 13 percent higher than their 1959 counterparts, since refunds for tax overpayment

TABLE 4.—Computed average interest rate (percent) on social security trust fund investments, interest-bearing public debt, and long-term marketable debt at end of specified period, 1936–60 [1]

At end of—	Interest-bearing public debt	Long-term marketable U.S. obligations	Social security trust fund investment portfolio [2]		
			Old-age and survivors insurance trust fund	Disability insurance trust fund	Unemployment trust fund
1936	2.570	3.088			2.50
1937	2.568	3.059	3.00		2.50
1938	2.586	2.978	3.00		2.50
1939	2.598	2.915	3.00		2.50
1940	2.566	2.868	2.84		2.50
1941	2.409	2.751	2.66		2.49
1942	2.059	2.675	2.44		2.24
1943	1.956	2.421	2.22		1.89
1944	1.919	2.326	2.20		1.91
1945	1.965	2.323	2.14		1.93
1946	2.057	2.307	2.04		1.94
1947	2.144	2.296	2.09		2.05
1948	2.216	2.310	2.20		2.16
1949	2.208	2.316	2.20		2.16
1950	2.209	2.359	2.19		2.16
1951	2.308	2.322	2.20		2.18
1952	2.353	2.320	2.30		2.30
1953	2.414	2.393	2.41		2.41
1954	2.291	2.480	2.29		2.30
1955	2.490	2.485	2.31		2.31
1956	2.671	2.482	2.52		2.53
1957	2.889	2.505	2.55		2.66
1958	2.689	2.592	2.57	2.57	2.65
1959	3.300	2.619	2.62	2.64	2.79
1960:					
June	3.297	2.639	2.63	2.64	3.18
Dec	3.137	2.749	2.66	2.77	3.20

[1] Beginning Dec. 31, 1958, the computed average interest rates on the public debt as reported in the *Daily Statement of the U.S. Treasury* are based on the rate of effective yield for issues sold at premiums or discounts. Before that date the computed rate was based on the coupon rates of the securities. The computed rates for the social security trust funds are based on coupon rates of the securities composing the portfolio.
[2] Includes public and special Government obligations.

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

were $10 million in each year. Tabie 5 shows the details of financial operations in 1959 and 1960.

Net receipts in 1960 totaled $1,068 million—12 percent higher than 1959. A decrease of $17 million or 22 percent in the financial interchange transfer from the railroad retirement account largely offset a $13 million (30 percent) increase in interest from investments.

In this third full year of operations, benefit payments rose to $568 million, 24 percent higher than in 1959, when the total was, in turn, 83 percent higher than that of 1958. Payments to dependents of disabled beneficiaries aged 50–64, resulting from the 1958 amendments, were in effect during the entire biennium 1959 and 1960. Payments to disabled workers under age 50 and their dependents, resulting from the 1960 amendments, affected only the December 1960 outgo from the trust fund.

Administrative expenses reimbursed to the old-age and survivors insurance trust fund in 1960 amounted to $33 million or 28 percent less than the 1959 reimbursements. The 1960 transfer, however, reimbursed for fiscal year 1959–60 expenses, and the 1959 payments reimbursed for 1957–58 and 1958–59. The reimbursed expenses, including a pro rata share of construction costs, have been as follows: for 1956–57, repaid June 1958, $9 million; for 1957–58, transferred March 1959, $18 million; for 1958–59, reimbursed December 1959, $29 million; and for 1959–60, remitted December 1960, $33 million. These expenses were incurred in the Department of Health, Education, and Welfare. Treasury Department expenses in connection with disability insurance have been about $3 million a year since the trust fund was established; they are transferred from the trust fund monthly.

TABLE 5.—Operations of the disability insurance trust fund, calendar years 1959 and 1960

[In thousands]

Item	1960	1959
Total assets, January 1	$1,825,206	$1,378,514
Receipts, calendar year:		
Contributions and transfers:		
Appropriations (taxes)	949,556	849,493
Deposits arising from State agreements	70,120	51,486
Gross contributions	1,019,676	900,979
Less payments to Treasury for taxes subject to refund	9,750	9,750
Net contributions	1,009,926	891,229
Plus transfers from railroad retirement account under the financial interchange	4,700	21,400
Net insurance contributions and transfers	1,014,626	912,629
Interest and profit:		
On investments	54,128	41,366
On transfer from railroad retirement account	151	580
Gross interest received	54,279	41,946
Less interest transferred to OASI trust fund with administrative expenses	877	1,165
Net interest received	53,403	40,781
Total net receipts	1,068,028	953,410
Disbursements, calendar year:		
Benefit payments	568,167	456,722
Administrative expenses:		
Department of Health, Education, and Welfare	33,176	46,308
Treasury Department	3,052	3,687
Total administrative expenses	36,229	49,995
Total disbursements	604,396	506,717
Net addition to trust fund	463,632	446,693
Total assets, December 31	2,288,839	1,825,206

The disability insurance trust fund has grown steadily since its inception, although at a slightly decreasing rate of increase. The total assets with which the fund began 1960 were 32 percent higher than the assets at the start of 1959, but the assets with which the fund ended the year were only 25 percent greater than those at the end of 1959. The net addition to the trust fund in 1960 was

$464 million, 4 percent more than was added in 1959 but 36 percent less than the net growth of 1958. Of the $2,289 million in assets at the end of 1960, $2,180 million was invested in interest-bearing securities and $109 million was held in cash balances. Of the $1,825 million in total assets a year earlier, $1,793 million had been in securities and $32 million in cash.

Investments and Interest Rate

The portfolio of the disability insurance trust fund increased 22 percent during 1960 (table 2), and the ratio of public-issue holdings to special public-debt obligations remained about 1 to 24. Among the special obligations, the shortest-term certificates of indebtedness decreased from 18 percent of all special public-debt obligations on December 31, 1959, to 11 percent on the last day of 1960; the medium-maturity notes declined from 21 percent to 18 percent of all special issues. The amount of the difference for both types was absorbed in the longest-term special bonds, which increased from 61 percent to 70 percent of all special public-debt obligations.

The lengthening of maturities of the portfolio of the disability trust fund is completely consistent with the developing experience as well as the nature of this comparatively new program. For the investments of this trust fund, however, as for those of the old-age and survivors insurance trust fund, the longer maturities tend to freeze the interest rate in a fashion that is undesirable from the point of view of earnings in times of rising interest rates, although protective—it might be claimed, unduly so—in periods of falling rates.

The interest rate on special obligations issued to the disability insurance trust fund is governed by the same provisions that apply to the old-age and survivors insurance trust fund. From January through September 1960, including the June 30 "rollover," public-debt obligations were purchased at 2⅝-percent interest. Acquisitions were at 3⅝-, 3¾-, and 4-percent interest in October, November, and December, respectively. At the end of the year the trust fund held Treasury special certificates of indebtedness bearing interest at all four of these rates and Treasury special notes and bonds bearing 2½-percent and 2⅝-percent interest.

UNEMPLOYMENT TRUST FUND

The unemployment trust fund is composed of the 52 accounts[2] for the State unemployment insurance programs, the railroad unemployment insurance account, the railroad unemployment administration fund, the Federal unemployment account, and beginning with the fiscal year 1960–61, the employment security administration account. On December 31, 1960, after a slight decrease in the course of the year, the total assets of the trust fund amounted to $6,653 million. The decrease—3 percent—was about the same as that during 1959.

Income-Outgo

The State accounts represent about 99 percent of the total trust fund. Taken together, these 52 accounts amounted to $6,626 million at the end of 1960. During the year their balances decreased almost 4 percent, compared with a drop of less than 1 percent in 1959. State unemployment insurance systems deposited $2,293 million in their respective accounts in 1960, 17 percent more than deposits in 1959, which, in turn, were 32 percent more than those in 1958. An additional $6 million was transferred as loans from the Federal unemployment account of the trust fund in 1960 —$500,000 to Alaska and the rest to Pennsylvania.[3]

Despite the fact that in 1960 the assets of the State accounts were somewhat smaller than in 1959, the interest earned—$195 million—was almost 10 percent higher than interest earnings in 1959 for reasons connected with the interest rate. Total receipts—deposits, interest, and loan transfers—were about 11 percent higher than in the preceding year, but with withdrawals for benefit payments at $2,748 million or 20 percent more than in 1959, the totality of the State accounts experienced a net decrease of $255 million and

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[2] A new account, for Puerto Rico, was established as of January 1, 1961; the $1 million deposited in December 1960 had earned $173 by the end of the year.

[3] These transfers are repayable according to the provisions of the Employment Security Administrative Financing Act of 1954, under terms less stringent than those of the Employment Security Amendments of 1960. For a description of the provisions of and operations under the 1954 act, see the *Social Security Bulletin*, January 1961, pages 25–28.

ended the year 1960 almost 4 percent lower than at the start.

Withdrawals, it should be noted, do not represent actual benefit payments but rather sums transferred by the States from their accounts in the Federal unemployment insurance trust fund to their own local accounts, from which the benefits are paid. It should be noted further that—until the 1960 amendments—administrative expenses of the employment security program at both State and Federal levels have not been paid from the trust fund but from earmarked Federal unemployment taxes appropriated on a general revenues basis.

The financial difficulties of the railroad unemployment insurance account continued in 1960 despite the rise in contribution rates and other remedial aspects of the 1959 amendments to the Railroad Unemployment Insurance Act. From this account are paid cash sickness and maternity benefits to railroad workers, as well as unemployment insurance benefits. The account started 1959 with more than $82 million in assets and ended it with only $29,750—a balance that included the net effect of loans of $124 million from the railroad retirement account and repayments to that account of $44 million. In 1960 the account was built up to $10 million. Deposits were up 12 percent from 1959 to $158 million; withdrawals for benefit payments were down 26 percent to $214 million. In the course of the year $128 million was borrowed from the railroad retirement account and $61 million was repaid. The total net indebtedness of the railroad unemployment insurance account to the railroad retirement account rose from $80 million at the end of 1959 to $146 million at the end of 1960.

All these figures exclude the operations and balances of the railroad unemployment insurance administration fund. Under the 1958 amendments to the railroad unemployment insurance account, this fund is set up as an account in the unemployment trust fund and its September 30 balance is added to that of the railroad unemployment insurance account to determine the tax rate for the coming year. The administration fund balance averaged slightly more than $5 million each quarter; amounts in excess of $6 million have to be turned over to the railroad unemployment insurance account each year. With the depleted state of the unemployment insurance account, even the addition of the administration fund balance could not change the 1961 rate from the maximum tax of 3¾ percent that becomes effective for any year whenever the combined balance on the preceding September 30 dips below $300 million.

The Federal unemployment account, or Reed Act loan fund, had a balance of $4 million at the start of the year. At midyear it received a transfer of $3 million, representing the excess of Federal unemployment tax collections over administrative costs. Interest earnings for the year totaled almost $7 million; this account receives interest not only on its average daily balance, as do all other accounts in the unemployment trust fund, but also on the total loans outstanding to State unemployment insurance systems. During 1960 three transfers were made to States. One was an additional advance of $500,000 to Alaska. The other two were further transfers, totaling $5.6 million, to Pennsylvania, on its initial request of $112 million, of which $102 million has now been transferred. This entire Pennsylvania advance will be repayable under the 1954 Reed Act provisions.

The Social Security Act amendments of 1960 effected several changes in the financial administration of the Federal unemployment tax. First, the new law increased the tax from 3.0 percent to 3.1 percent of the $3,000 taxable wage base, retaining at 2.7 percent the maximum offset that employers may claim against payment of State unemployment taxes. Second, it raised the permissible balance in the loan fund to an absolute maximum of $550 million (or 0.4 percent of aggregate State taxable wages, whichever is greater) instead of the former $200 million plus repayments and interest. It also tightened considerably the provisions for repayment of advances made to the States.

Third—and probably most far-reaching—the law established in the unemployment trust fund a new employment security administration account into which all Federal unemployment tax collections will flow and from which will be paid all costs of Federal and State administration. All repayments of advances to the States will also go into the employment security administration account for immediate credit and transfer to the Federal unemployment account. Eventually the new account will be built up to $250 million at the beginning of each fiscal year. Until it has enough funds to support current administrative costs, however, the new account may make interest-bearing loans from a Treasury revolving fund also established by the 1960 amendments. The revolving fund is not part of the unemployment trust fund; it is to be financed by regular congressional appropriation from general funds on a continuing open-end basis.

As in the old law, there is provision for determining and distributing the excess of Federal tax collections over administrative expenditures. The excess is no longer based on collections and expenses for a given year, however, since the administration account now has to finance all costs. A deficit in one year would reduce the excess in the following year or years. On the other hand, even if expenses exceed collections in a given year, loan repayments when the loan account is at its maximum could provide an excess for the year. The excess, if any, will be used to build up the loan account to its new ceiling, to build the administration account to $250 million, and to repay any advances by the Treasury to the loan account —in that order. Only then will any additional excess be transferred to the States accounts, but the share for States with outstanding loans will be used to reduce their indebtedness to the Reed Act fund.

The administration account was activated at the end of the third quarter of 1960. By the year's end, $5 million in taxes and a small amount of interest earnings had been paid into it, and $1 million had been paid out for the Treasury Department's cost of administering the employment security program and for tax refunds. The Federal tax is due on January 31, and the bulk of the receipts come in very shortly thereafter. The first-quarter reports in 1961 will therefore show a sudden spurt in income from the last 2 quarters of 1960.

Investments

Investment of the assets of all the accounts composing the unemployment trust fund is made by the Secretary of the Treasury for the fund as a unit. Interest earned on investments is distributed quarterly among all the 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 and the disability insurance trust funds.

The fund's invested assets declined in 1960 by $239 million to $6,638 million, about the same amount and percentage as the 1959 decline. The portfolio of this trust fund reached its year-end peak in 1953 and a second and lower year-end peak in 1957. At the end of each year since then the portfolio has been smaller than at the beginning. The entire decrease each year has been in the special-obligations sector of the investments. Total holdings of public issues remained constant during 1958 and increased $25 million in 1959 and about $9 million in 1960.

The three social security trust funds, among them, held portfolios at the end of 1960 totaling $27,954 million, almost 10 percent of the total public debt and only fractionally different from the total and proportion of the entire debt at the end of 1959 (table 3). On December 31, 1960, special obligations held by the three funds amounted to $23,422 million—or 84 percent of their total investment—about the same proportion as at the end of the 2 preceding years. In 1960 and in 1959 about one-fourth of all holdings of special obligations were in the form of special certificates of indebtedness maturing the following June 30, but at the year's end in 1958 special certificates accounted for almost two-thirds of all special public-debt obligations held by the three funds.

Interest Rate

None of the amendments to the Social Security Act have changed the interest rate formula for special obligations issued to the unemployment trust fund—a fund of essentially different character and purpose from the other two social security trust funds. The formula continues to be the average coupon interest rate on the total interest-bearing debt at the end of the preceding month, rounded to the next lowest one-eighth of one percent.

When 1960 began, the main holdings of the fund were the $2\frac{3}{4}$-percent special certificates of indebtedness acquired in the preceding "rollover" (June 1959). Smaller proportions were at $2\frac{7}{8}$ percent, $3\frac{1}{8}$ percent, and $3\frac{1}{4}$ percent. When all of these matured on June 30, 1960, they were "rolled over" into 3¼-percent certificates due June 30, 1961. On December 31 the fund held, in addition, a relatively small amount of special certificates bearing 3⅛-percent interest. Since the average rate on the total debt was still inching down at that time, the rate on special certificates acquired in January 1961 would bear interest at 3 percent.

RELATED TRUST FUNDS

The railroad retirement account, from which are provided benefits for railroad workers similar to those under the old-age, survivors, and disability insurance system, received a total of $1,021 million in 1960. Of this sum, $593 million was contribution income, $127 million was net interest, and $304 million was the net proceeds of the financial interchange with the old-age, survivors, and disability insurance trust funds. Benefit payments amounted to $962 million during the year and administrative expenses to $10 million, making the total assets of $3,740 million fractionally higher than the 1959 total. The bulk of these assets were invested in U.S. Government securities ($3,335 million in special 3-percent Treasury notes and $256 million in public issues), $148 million was on loan to the railroad unemployment insurance account, and about $1 million was in unobligated cash balances. The interest rate on special public-debt obligations issued to the railroad retirement account is set by law at 3 percent.

The civil-service retirement and disability fund received contributions from employees and the Government totaling $1,610 million in 1960; $46 million of this total represents a special appropriation added to the Government's share as employer to cover the extra cost of the 1958 increases in the benefits paid to certain annuitants under Public Law 85–465. Interest totaling $253 million was also received. Monthly benefits of $816 million were paid during the year—10 percent more than in 1959—and $111 million was refunded to persons leaving Federal employment. The cost of administering the civil-service retirement program is a charge against general funds of the Treasury and not the fund. Invested assets of the fund amounted to $10,371 million at the end of 1960.

All types of special public-debt obligations issued by the Treasury Department totaled $44,346 million at the end of 1960, about 15 percent of the outstanding interest-bearing public debt. The three social security funds together hold almost 53 percent of all special obligations, which is a slightly lower proportion than they have held in the 5 preceding years. Most of the remaining special obligations are held by the related trust funds: the civil-service fund held 22 percent in 1960, 20 percent in 1959, and 18 percent in 1958. For the past few years the several veterans' insurance funds have held 15–16 percent of the special obligations and the railroad retirement account about 8 percent.