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FOURTH ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

LETTER

FROM THE

BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

TRANSMITTING

THE FOURTH ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

MAY 25, 1944.—Referred to the Committee on Ways and Means and ordered to be printed with an illustration

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE FEDERAL
OLD-AGE AND SURVIVORS INSURANCE TRUST FUND,
Washington, D. C., May 22, 1944.

The PRESIDENT OF THE SENATE,
The SPEAKER OF THE HOUSE OF REPRESENTATIVES,
Washington, D. C.

SIR: We have the honor to transmit to you the Fourth Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund, in compliance with the provisions of section 201 (b) of the Social Security Act, as amended.

Respectfully,

H. MORGENTHAU, JR.,
Secretary of the Treasury, and
Managing Trustee of the Trust Fund.

FRANCES PERKINS,
Secretary of Labor.

A. J. ALTMEYER,
Chairman, Social Security Board.

FOURTH ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

INTRODUCTORY STATEMENT

This report is submitted to Congress in accordance with the requirement in section 201 of the Social Security Act, as amended, that the board of trustees of the Federal old-age and survivors insurance trust fund submit an annual report on the present and prospective operations and status of the trust fund. The present report, pertaining to the fiscal year ended June 30, 1943, the 5 fiscal years subsequent to that date, and the long-range actuarial status of the fund, is the fourth annual report which the board of trustees has submitted.

The Federal old-age and survivors insurance trust fund, which was established on January 1, 1940, is held by the board of trustees under authority of the Social Security Act. The three members of this board, each of whom serves in an ex officio capacity, are the Secretary of the Treasury, the Secretary of Labor, and the Chairman of the Social Security Board. The Secretary of the Treasury serves as managing trustee. The present document is a joint report by all three of the trustees.

This is the third report which has been made to Congress during wartime and the first report which covers operations of the trust fund in a fiscal year during all of which the Nation was at war. It is being made at a time when the date of termination of the war is as yet unknown, but when there is evidence on all sides that the war's climax is rapidly approaching. These circumstances have a considerable bearing on the contents of this report. For one thing, they mean that past operations under the old-age and survivors insurance program on which this document reports have occurred in a period characterized by highly abnormal economic and other conditions accompanying prosecution of the war. These operations have not closely paralleled estimates for the period which were originally made before the attack on Pearl Harbor and before developments subsequent thereto could be foreseen. Moreover, the abnormality of the past period under review means that operations during that period provide an inadequate basis for forecasting future developments under the program.

In the second place, the fact that the Nation was at war at the time this report was prepared has tremendously increased the difficulties of reporting on the expected operation and status of the fund during the 5-year period from July 1, 1943, to June 30, 1948. The war itself will probably cause changes in various phases of our economy which will be of long-run significance for the financing of old-age and survivors insurance. The influences of the war, however, will be still more direct and marked on operations during the immediate 5-year period ahead for which this report is required by law to make forecasts. The most important unknown factors are the time at which the war will end and the nature and duration of economic dislocations accompanying the ending of the war.

In view of these various matters, this fourth annual report—dealing to a considerable extent, as it does, with anticipated future developments—is prepared under considerable difficulty. For the same reasons, the estimates which it contains are presented with considerably more reservation than would be necessary if the times were less abnormal. The likely nature of the effects of the war upon the financing of old-age and survivors insurance is reviewed in some detail in a later section of this report.

NATURE OF THE TRUST FUND

Amounts accumulated under the old-age and survivors insurance program are held in the Federal old-age and survivors insurance trust fund and financial operations under that program are handled through the fund. The primary source of its receipts are amounts appropriated to it under permanent appropriation, on the basis of contributions paid by covered workers and their employers toward old-age and survivors insurance. The Federal Insurance Contributions Act requires all employees and employers, excepting those in employments specifically excluded, to pay contributions with respect to individual wages up to but not in excess of $3,000 per annum. These contributions are collected by the Bureau of Internal Revenue and are paid into the Treasury as internal-revenue collections. Sums equivalent to current collections (including taxes, interest, penalties, and additions to taxes) are transferred to the trust fund as such collections are received.

The Social Security Act of 1935 fixed the contribution rates for employees at 1 percent of taxable wages for the calendar years 1937, 1938, and 1939; employer rates were also fixed at 1 percent for the same period. The 1935 law provided that these rates should rise to 1½ percent on January 1, 1940, to 2 percent on January 1, 1943, to 2½ percent on January 1, 1946, and to 3 percent on January 1, 1949. The Social Security Amendments of 1939 modified this original schedule of contribution rates to provide that the rate of 1 percent each on employees and employers should continue in effect through 1942, but left the remainder of the schedule as originally enacted. The Revenue Act of 1942 provided that the 1-percent rates should continue through 1943. Public Law 211 of the Seventy-eighth Congress extended the 1-percent rates further through February 29, 1944, while the Revenue Act of 1943 extended the same rates throughout 1944. At the end of 1944, accordingly, the 1-percent rates of contribution will have been in effect for 8 years. Existing provisions of law thus provide for the 2-percent rates to go into effect on January 1, 1945, the 2½-percent rates on January 1, 1946, and the 3-percent rates on January 1, 1949.

The second source from which receipts of the trust fund are derived is interest received on investments held by the fund. The investment procedures of the fund are described below.

A third potential source of revenue for the trust fund is provided in section 902 of the Revenue Act of 1943, which authorizes, as a Government contribution, the appropriation to the trust fund of such additional sums out of general revenues as may be required to finance the benefits and payments provided in title II of the Social Security Act.

Expenditures under the old-age and survivors insurance program are paid out of the trust fund. These expenditures include old-age and survivors insurance benefits provided in title II of the Social Security Act and such reimbursements to the Treasury for administrative expenses incurred by the Social Security Board and the Treasury Department under the program as are authorized by section 201 (f) of the Act. The Social Security Board certifies benefit payments to the managing trustee, who then makes payment from the trust fund in accordance therewith. Payments are made from an uninvested balance held in the fund to the account of the disbursing officer of the Treasury.

The Treasury is reimbursed from the trust fund for expenditures incurred by the Social Security Board and the Treasury Department in the administration of title II of the Social Security Act and the Federal Insurance Contributions Act. These reimbursements from the trust fund are made at 3-month intervals. Although limited to the amounts annually appropriated by Congress for such purposes, the cost of administering old-age and survivors insurance, thus, is not borne out of regular governmental revenues but out of the old-age and survivors insurance trust fund itself.

The managing trustee invests that portion of the trust fund which in his judgment is not required for meeting current expenditures for benefits or administration. The Social Security Act restricts permissible investments of the trust fund to interest-bearing obligations of the United States Government or to obligations guaranteed as to both principal and interest by the United States. Regular obligations of these types may be acquired on original issue at par or by purchase of outstanding obligations at their market price. In addition, the Social Security Act authorizes the issuance of special obligations exclusively to the trust fund. Such special obligations are required to bear interest at a rate equal to the average rate of interest, computed as of the end of the calendar month next preceding the date of their issue, borne by all interest-bearing obligations of the United States forming a part of the public debt (where such average rate is not a multiple of one-eighth of 1 percent, the rate of interest on such special obligations is required to be the multiple of one-eighth of 1 percent next lower than such average rate).

Interest on regular obligations held by the trust fund is received by the fund at the time the interest becomes payable on the particular series held. Interest on special obligations is received annually on June 30. These interest receipts are available for investment in the same manner as other receipts of the fund. Regular obligations acquired by the fund may be sold at any time by the managing trustee at their market price. Special obligations may be redeemed at par plus accrued interest.

The trust fund serves in part as a reserve against fluctuations in total contribution and benefit amounts, counteracting the financial effects of these fluctuations on the old-age and survivors insurance program and providing a margin of safety against relatively short-term contingencies to insure the payment of benefits without sharp changes in rates paid by contributors. These reserves will provide additional resources against a sudden increase in total benefit amounts or a sharp decline in contributions, both of which could occur simultaneously from any reversal in business activity.

The trust fund, furthermore, can provide an interest-earning reserve to meet a part of the inevitable future long-term rise in benefit disbursements, and serves as a safety factor against the first impacts which may result from an acceleration in the rate of this long-term rise. Benefit disbursements under the program are expected to increase markedly over a long period. Such a substantial increase is anticipated because it is expected that for many decades the number of persons aged 65 and over will be increasing and that an increasing proportion of such aged persons will be qualifying for benefits under the old-age and survivors insurance system. At the beginning of 1940 there were about 9,000,000 persons aged 65 and over, equivalent to 6.8 percent of the total population. According to carefully developed estimates, the number of persons aged 65 and over may increase to about 22,000,000, or 14.4 percent of the population, within 40 years. The effect of such expected change in the number of aged persons will be even greater on the finances of the old-age and survivors insurance system than may at first appear, because a larger proportion of aged persons 40 years hence will be eligible to receive benefits under the program than the corresponding proportion of the aged persons in the present population. The future financial soundness of the system, with its rising rates of disbursements, must rest on higher contribution rates or on the provision of income from other sources, or both. Prudent financial management of this system is of the utmost importance to the millions of persons who are already within its scope and to the Nation as a whole.

INFLUENCES OF THE WAR ON THE TRUST FUND

During the fiscal year 1943, as a consequence of the war, the assets of the trust fund continued to increase more rapidly than was anticipated. Contributions increased markedly, from $691 million in the fiscal year 1941 to $1,130 million in the fiscal year 1943. This increase has been a result of the greater volume and continuity of covered employment and also of the rise in rates of earnings. Approximately 47 million workers received taxable wages in the calendar year 1943, as compared with only 35 million in 1940 and less than 32 million in 1938.

Benefit payments, on the other hand, have been less than were expected, due in part to increased employment opportunities resulting from war production. Many thousands of workers who were eligible for benefits and who probably would have claimed them in more normal times have remained at their jobs. In addition, many persons already on the benefit rolls have suspended their benefit status by returning to covered employment. At the end of June 1943 about 19 percent of the aged workers, wives, and widows with young children already on the benefit rolls were not in actual receipt of benefits, for the most part because they had returned to covered employment.

In net terms, influences of the war on the trust fund are not clear. There are many complex relationships—involving contributions, benefits and insured status—which make it impossible to give a clear and categorical answer to the question as to what the eventual over-all effect of the war will be on the assets of the fund.

The present discussion of the effects of the war and of the relationships between contributions and benefit payments takes no account of the more or less permanent changes which may be wrought by the war in the long-run level of wages, in the composition of the labor force and of the population, or in the characteristics of employment. The length of the war is a prime factor; some elements which would operate to increase the assets of the fund if the war ends soon would operate to decrease the assets if war conditions continue for a longer period.

(*a*) *Increased employment, steadier work, and higher wages.*—The general availability of steady work at higher rates of wages has increased total earnings in covered employment. Average taxable wages rose from $834 in the calendar year 1938 to $934 in the calendar year 1940 and to an estimated $1,310 in 1943. As a consequence of this increase in average earnings, as well as of the rise in number of workers in covered employment, aggregate contributions, which are levied as a percentage of pay roll, have been at a very high level, totaling over $1.1 billion in the fiscal year 1943.

The increases in wages and employment also have an obverse effect in that the higher wage credits accumulating will increase future monthly benefits payable at death or retirement. Also, the tax rates applicable to these higher wage levels have been at the initial 1 percent rates established in the act, which are one-third of the rates prescribed for later years. Therefore, while the war situation has resulted in an abnormal insurge of contributions during this period, there may be said to be created a more or less offsetting liability to be met over many years in the future when more and larger benefits will come due. The net ultimate effect on the assets of the fund is indeterminate at this time.

(*b*) *Employment of women and other temporary workers.*—Several million women not usually employed are currently at work in employments covered by the program. Many other persons not regularly in covered occupations are also temporarily employed in such occupations. About 8.5 million covered workers in the calendar year 1942 and an estimated 7 million in 1943 had no covered employment prior to those years. These figures may be compared with the 4.2 million workers who entered covered employment for the first time in 1940, a figure which includes many workers in employments to which coverage was extended for the first time in that year.

To have insured status for survivors' benefits, at least 6 quarters of recent covered employment are generally necessary, and to have insured status for purposes of retirement at age 65 or later, 40 quarters are required (except for persons already above or nearing that age). Married women with insured status, whose husbands are also retired, derive their old-age benefits either as primary beneficiaries from their own wage credits or as wives by reason of their husbands' credits, whichever result in the greater benefit rate. To the extent that women now temporarily at work in covered employment are married or later marry, it may be expected that benefits for them will usually derive from their husbands' accounts rather than their own. Furthermore, the employment of married women does not increase substantially the amount of survivors' protection afforded by the program, because survivors' benefits for children derive from the father's employment in most instances. Married women who become insured during the war have a temporary insurance protection, however, in the form of a lump-sum payment in the event of death. It seems likely on balance that the contributions paid by married women and their employers during the war will result in a net gain to the fund.

Contributions paid by unmarried women also will bring about a net increase in the fund, unless they remain in covered employment long enough to gain fully insured status either as a result of a very long war or as a result of continued employment after the war. Men who shift only temporarily from noncovered employments to covered employment would increase the fund more or less, depending on the proportion with families and the duration of their covered employment.

In summary, it may be said that the heavy increases in covered employment of men and women not normally a part of the system should result in a net addition to the fund if the war is not greatly prolonged, and if a large proportion of these persons return to noncovered employment or, in the case of married women, return to the home.

(*c*) *Deferred retirements and suspensions of benefits.*—With the need for maximum use of available manpower, many individuals above the age of 65 who are already eligible for retirement benefits have remained on the job or returned to work, and thereby deferred or interrupted their retirement. It is estimated that such persons totaled 600,000 at the end of June 1943. Inasmuch as monthly benefits are not payable for months in which an individual is earning $15 or more in covered employment, and to the extent that these deferments and suspensions exceed those which, except for the war, would have taken place, there is an obvious net increase in the assets of the fund. The monthly benefits that will be payable to those who have deferred retirement will be greater in amount by reason of their being determined, partly at least, on the current high wage levels, but the average length of time during which these individuals will receive benefits will be decreased. The net result of the factors mentioned in this paragraph will probably be a net increase to the fund.

(*d*) *Suspensions among survivors.*—Widows and their children who have qualified for survivors' benefits are not eligible to receive monthly benefits for the months in which they are in covered employment and, in addition, children aged 16 to 17 are ineligible for benefits for the months in which they are not in school. The present tendency for widows and older children to find work in covered employment results in a net gain to the fund, in the same way as that discussed in the preceding paragraph. Although the present employment of many of these widows and children is only temporary, the wage credits received during this period may increase their own protection later, and thus have some effect on the fund in the opposite direction.

(*e*) *Military service.*—Military service is not covered employment under the present law. As a consequence, those who enter the armed forces from covered employment cease to pay contributions and have decreasing protection. After a period of time in the service—in general, equal to the period previously worked in covered employment—they will lose any established insured status. The board of trustees does not believe, however, that any advantage should accrue to the fund at the expense of the loss of coverage by persons in the armed forces as it believes that such loss of coverage is an inequity which should be and will be repaired. The President has already made recommendations to Congress to extend coverage to military service so that this loss in protection will be prevented.

(*f*) *Governmental civilian employment.*—Public employment is excluded from coverage under the system. Including turn-over, there have probably been 3 million additional persons in this type of work since the beginning of the war. As in the case of military service, those individuals with previous covered employment have decreasing insurance protection under the system and many may eventually lose insured status; in any event, their average wage for benefit purposes is permanently lowered. Wartime Government civilian employees include a large proportion of married men with families. The married men who die while insured will have survivors' benefits payable in smaller amounts than if they had not entered Government service; and those who remain in public employment for a sufficient period will have no survivors' benefits payable because of the expiration of their insured status prior to their death. In either case, the result will be a smaller outgo from the fund than otherwise. On the other hand, there will be no contributions paid nor benefit rights accumulated by Government workers while they are working in the public service. The contributions otherwise payable during this period might have exceeded the value of the added benefit rights. Consequently, for Government civilian employees, the net effect on the fund appears to be indeterminate.

SUMMARY OF OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1943

A statement of the income and disbursements of the Federal old-age and survivors insurance trust fund in the fiscal year beginning July 1, 1942, and ending June 30, 1943, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 1.

TABLE 1.—*Statement of operations of the Federal old-age and survivors insurance trust fund during the fiscal year 1943* [1]

Total assets of the trust fund, June 30, 1942		$3, 227, 194, 145. 25
Receipts (fiscal year 1943):		
Appropriations equivalent to contributions collected	$1, 130, 495, 200. 70	
Interest on investments	87, 403, 022. 48	
Total receipts	1, 217, 898, 223. 18	
Disbursements:		
Benefit payments	149, 303, 977. 71	
Reimbursements for administrative expenses	27, 492, 407. 40	
Total disbursements	176, 796, 385. 11	
Net addition to the trust fund		1, 041, 101, 838. 07
Total assets of the trust fund, June 30, 1943		4, 268, 295, 983. 32

[1] On basis of the Daily Statement of the United States Treasury.

The total receipts of the trust fund during the fiscal year 1943 amounted to $1,217.9 million. Of this total, $1,130.5 million represented the sum of the amounts, equal to contributions received under the Federal Insurance Contributions Act and covered into the Treasury, which were appropriated to the trust fund during the year under the continuing appropriation in section 201 (a) of the Social Security Act. The total amount appropriated exceeded that in the preceding fiscal year by 26 percent. The additional $87.4 million of receipts consisted of interest received on investments of the fund.

Disbursements from the trust fund during the fiscal year 1943 totaled $176.8 million, of which $149.3 million consisted of benefit payments and $27.5 million of reimbursements to the general fund for administrative expenses of the insurance program. The total amount paid from the fund in the form of benefits during the fiscal year exceeded that paid in the fiscal year 1942 by $39.0 million, reflecting the larger number of beneficiaries on the rolls. The manpower scarcities accompanying the war led to an increasingly large volume of interrupted and delayed retirements which accounted for a smaller increase in benefit payments than in the previous year.

A summary of receipts, expenditures, and changes in the assets of the old-age and survivors insurance trust fund during each fiscal year since it was established on January 1, 1940, is presented in table 2.

TABLE 2.—*Operations of the old-age and survivors insurance trust fund, by specified period, Jan. 1, 1940, to June 30, 1943*

[In millions]

	Fiscal year ended in—			
	1940 [1]	1941	1942	1943
Receipts:				
Assets transferred from old-age reserve account on Jan. 1, 1940	$1,724.4			
Appropriations (equal to taxes) to trust fund		$688.1	$895.6	$1,130.5
Interest on investments	42.5	56.0	71.0	87.4
Total receipts	1,766.9	744.1	966.6	1,217.9
Expenditures:				
Benefit payments [2]	9.9	64.4	110.2	149.3
Reimbursement for administrative expenses	12.3	26.8	26.8	27.5
Total expenditures	22.2	91.2	137.0	176.8
Total assets at end of period	1,744.7	2,397.6	3,227.2	4,268.3

[1] January–June 1940, fund having been established in place of the old-age reserve account on Jan. 1, 1940.
[2] Based on checks cashed and returned to Treasury.

The distribution of benefit payments by type of benefit in fiscal years 1942 and 1943 is presented in table 3. About three-fifths of the amounts paid from the fund as benefit payments in the fiscal year 1943 were accounted for by monthly benefits to persons age 65 and over—retired wage earners and their wives, and aged widows and parents of deceased wage earners. This proportion was about the same as in the preceding year, but with a slightly smaller proportion during 1943 in the form of primary benefits. Approximately 28 percent of the 1943 payments represented monthly benefit payments on behalf of children of deceased or retired workers, and payments to widows who had children of deceased wage earners in their care; most of these widows were under age 65. The balance of the benefits paid in the fiscal year 1943, consisted almost entirely of lump-sum amounts paid in cases where no survivor of an insured wage earner dying after 1939 was immediately entitled to monthly benefits; only $0.1 million was paid in 1943 for cases where the death of the wage earner occurred prior to 1940.

TABLE 3.—*Estimated distribution of Treasury disbursements for benefit payments under the old-age and survivors insurance program, by type of benefit, fiscal years 1942 and 1943*

Type of benefit	1942		1943	
	Amount [000,000]	Percentage of total	Amount [000,000]	Percentage of total
Total (monthly and lump-sum benefits)	$110.2	100	$149.3	100
Total monthly benefits	96.1	87	132.6	89
Primary (retired wage earners 65 or over)	54.9	50	72.4	48
Wife's (wives 65 or over of primary beneficiaries)	8.4	8	11.4	8
Widow's (widows 65 or over of wage earners)	3.8	3	7.4	5
Parent's (parents 65 or over of deceased wage earners)	.3	(1)	.5	(1)
Child's (dependents of retired or deceased wage earners)	18.1	16	[2] 26.6	18
Widow's current (widows of wage earners with child beneficiary)	10.6	10	14.3	10
Total lump sum (no survivor of deceased wage earner entitled to monthly benefits or wage earner died before 1940)	14.1	13	16.7	11

[1] Less than 0.5 percent.
[2] Includes $25.3 million paid to children of deceased insured wage earners and $1.3 million paid to children of primary beneficiaries.

At the end of the fiscal year 1943, approximately 676,000 persons were receiving monthly benefits, amounting to $146 million on an annual basis. At the end of the preceding fiscal year, the monthly benefit rolls included 530,000 persons to whom monthly benefits were being paid at an annual rate of $115 million.

The total assets of the old-age and survivors insurance trust fund, as reported in the third annual report of the board of trustees, amounted to $3,227 million on June 30, 1942. These assets increased to $4,268 million by the end of the fiscal year 1943, as the result of an excess of receipts over disbursements amounting to $1,041 million during the fiscal year. Table 4 compares the total assets of the trust fund and their distribution by type at the end of the fiscal years 1942 and 1943. The assets of the fund at the end of the fiscal year 1943 consisted of $4,237 million in the form of obligations of the United States Government, $7 million to the credit of the fund account, and $24 million to the credit of the disbursing officer.

TABLE 4.—*Distribution of assets of Federal old-age and survivors insurance trust fund at end of fiscal years 1942 and 1943* [1]

	June 30, 1942	June 30, 1943
Total assets	$3, 227, 194, 145. 25	$4, 268, 295, 983. 32
Total investments	3, 201, 634, 250. 00	4, 236, 834, 250. 00
3-percent special Treasury notes:		
Maturing June 30, 1943	497, 400, 000. 00	
Maturing June 30, 1944	26, 400, 000. 00	
2½-percent special Treasury notes:		
Maturing June 30, 1944	283, 000, 000. 00	283, 000, 000. 00
Maturing June 30, 1945	725, 900, 000. 00	725, 900, 000. 00
Maturing June 30, 1946	319, 200, 000. 00	319, 200, 000. 00
2⅜-percent special Treasury notes maturing June 30, 1946	603, 000, 000. 00	603, 000, 000. 00
2¼-percent special Treasury notes:		
Maturing June 30, 1946	228, 000, 000. 00	228, 000, 000. 00
Maturing June 30, 1947	450, 400, 000. 00	450, 400, 000. 00
2⅛-percent special Treasury notes maturing June 30, 1947		240, 000, 000. 00
2-percent special Treasury notes maturing June 30, 1947		459, 000, 000. 00
1⅞-percent special Treasury notes:		
Maturing June 30, 1947		275, 000, 000. 00
Maturing June 30, 1948		460, 000, 000. 00
Treasury bonds:		
2½-percent Treasury bonds, 1967–72	44, 334, 250. 00	44, 334, 250. 00
2½-percent Treasury bonds, 1963–68		100, 000, 000. 00
2½-percent Treasury bonds, 1962–67	24, 000, 000. 00	49, 000, 000. 00
Unexpended balances	25, 559, 895. 25	31, 461, 733. 32
To credit of fund account	5, 176, 138. 57	6, 966, 360. 58
To credit of disbursing officer	20, 383, 756. 68	24, 495, 372. 74

[1] On basis of the Daily Statement of the United States Treasury.

That portion of the assets of the trust fund not required in his judgment for the meeting of current withdrawals was invested by the managing trustee during the fiscal year 1943, in accordance with the provisions of section 201 (c) of the Social Security Act, as amended. That section provides that direct obligations of the United States Government as well as obligations guaranteed as to both principal and interest by the United States may be purchased for the trust fund, and that regular obligations may be acquired through purchase of outstanding obligations in the open market as well as on original issue at par. Investments made for the fund during the fiscal year, however, as in previous years, consisted only of direct obligations of the United States purchased on original issue.

The net increase in the investments owned by the fund during the fiscal year 1943 amounted to $1,035 million. New securities, totaling $1,559 million, were acquired through the investment of receipts accruing to the fund and the reinvestment of $378 million of 3-percent special old-age reserve account notes which matured on June 30, 1943. An additional $146 million of 3-percent special Treasury notes maturing either on June 30, 1943, or on June 30, 1944, were redeemed at various times throughout the fiscal year, raising the total amount of securities redeemed during the year to $524 million.

All but $125 million of the new securities purchased were in the form of special Treasury notes, which mature at the end of the fiscal years 1947 or 1948. These notes were acquired at par and bear interest at rates varying from 1⅞ to 2⅛ percent, these rates being determined by the average rate of interest on the interest-bearing public debt at the end of the month preceding the date of the issue of these securities. The $125 million was invested in publicly offered series of 2½ percent Treasury bonds—$100 million in the 1963–68 series and $25 million in the 1962–67 series. Interest accrues on these bonds from the time of their issue. The investment transactions of the trust fund during the fiscal year 1943 are summarized in table 5.

TABLE 5.—*Investment transactions of the old-age and survivors insurance trust fund, fiscal year 1943* [1]

Purchases		$1,559,000,000
Special Treasury notes	$1,434,000,000	
Treasury bonds	125,000,000	
Redemptions of special Treasury notes		523,800,000
Net increase in investment		1,035,200,000

[1] As recorded in the Daily Statement of the United States Treasury.

The average rate of interest on the interest-bearing public debt, which determines the rates at which special obligations are issued to the old-age and survivors insurance trust fund, varies with changes in the composition of the public debt. During the fiscal year 1943 the average rate of interest on the public debt declined steadily, with the exception of 1 month, from 2.29 percent as of June 30, 1942, to 1.98 percent at the end of June 1943. This resulted in part from a refunding of debt issued at higher rates in earlier years and in part from a change in the composition of the debt through the issuance of securities of shorter average maturity than those previously outstanding. The decline in the average rate of interest on the total public debt was responsible for a decrease in the rate of interest borne by special issues owned by the trust fund. As a result of changes during the fiscal year 1943 in the amounts and distribution of the invested assets of the fund, the average interest rate on investments held by the fund as of June 30, 1943, was 2.26 percent, as contrasted with 2.51 percent as of June 30, 1942.

STATEMENT ON THE EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE FISCAL YEARS 1944–48

The board of trustees is required, under the provisions of section 201 (b) of the Social Security Act, as amended, to report each year to the Congress on the expected operation and status of the trust fund during the next ensuing 5 fiscal years. The report is required to include estimates of both the income and disbursements of the trust fund in each of the 5 years. The income of the fund depends largely upon the amount of taxable pay rolls in covered employment as well as upon rates of contribution. The disbursements from the fund depend not only upon the number of persons eligible for benefits, but also on the number of these eligible persons who choose to receive benefits rather than work in covered employments. Consequently, both the income and disbursements of the fund are intimately related to economic conditions.

Economic conditions during the next 5 years will be determined primarily by the course and duration of the war and by the nature of the readjustments following the war if it should terminate during the period. A number of different possible courses of future developments have therefore been studied in the preparation of this report, each on the basis of specific assumptions as to the duration of the war and the level of economic activity during and after the war. From these, two alternative sets of estimates of income and disbursements were selected: one illustrating a pattern yielding a relatively high increase in trust fund assets and the other yielding a relatively low increase in trust fund assets.

Both sets of estimates assume that the present statutory coverage of old-age and survivors insurance will remain unchanged throughout the period under consideration. The computations related to tax income are based on the present statutory rates of contribution, which are 1 percent each on employer and employee on wages paid during the calendar years 1943 and 1944, 2 percent during the calendar year 1945, and 2½ percent during the calendar years 1946, 1947, and 1948.

The two sets of estimates of the income and disbursements of the trust fund for each of the fiscal years 1944 to 1948, together with the resulting assets of the fund at the beginning and the end of each fiscal year, are presented in table 6. The basic assumptions underlying the two sets of estimates differ primarily with respect to the duration of the war and the level of production after the war; the board of trustees has been forced to make assumptions as to the termination of the war in order to carry out the requirements of section 201 (b) of the Social Security Act, the assumptions made being considered reasonable for the illustrative purposes of this report. In alternative I the war is assumed to be of somewhat longer duration than in alternative II. Both alternatives assume that employment will be at a high level as long as war needs dominate the economy, but that peak employment has been reached and that in the remaining war years, moderate declines in employment will take place. Overtime payments and concentration of workers in high-wage war industries are assumed to result in high average earnings during the war in both sets of estimates. Assumed increases in average earnings, however, are greater in alternative I because larger price increases have been assumed.

TABLE 6.—*Estimates of the operations of the Federal old-age and survivors insurance trust fund, fiscal years 1944–48, subject to the assumptions and limitations stated in the text* [1]

[In millions]

	Alternative estimates for fiscal years 1944–48, assuming—									
	I. Longer duration of war with shorter reconversion period of moderate decline; medium rate of retirement among the aged					II. Shorter duration of war with longer reconversion period of moderately severe decline; moderately high rate of retirement among the aged				
	1944	1945	1946	1947	1948	1944	1945	1946	1947	1948
Fund at beginning of year	$4,268	$5,468	$7,041	$9,815	$12,904	$4,268	$5,430	$6,935	$9,332	$11,400
Transactions during year:										
Appropriations (taxes)[2]	1,306	1,690	2,900	3,220	2,640	1,268	1,624	2,542	2,275	2,080
Interest on investments	104	128	161	209	259	104	126	156	193	226
Total income	1,410	1,818	3,061	3,429	2,899	1,372	1,750	2,698	2,468	2,306
Benefit payments	181	214	255	307	365	181	214	268	365	455
Administrative expenses	29	31	32	33	34	29	31	33	35	37
Total disbursements	210	245	287	340	399	210	245	301	400	492
Net increase in fund	1,200	1,573	2,774	3,089	2,500	1,162	1,505	2,397	2,068	1,814
Fund at end of year	5,468	7,041	9,815	12,904	15,404	5,430	6,935	9,332	11,400	13,214

[1] In interpreting the estimates in this table, reference should be made to the accompanying text which describes the uncertainties of the underlying assumptions.

[2] The appropriations are estimated on the statutory rates of contribution—1 percent each on employers and employees in the calendar year 1944, 2 percent in 1945, and 2½ percent in 1946–48.

The post-war reconversion to production of civilian goods is assumed in alternative I to take place in an orderly manner. Pay rolls are assumed to drop during the reconversion period because of reduction in hours of work and the consequent termination of overtime payments, shifting of workers from high-wage to low-wage industries, and a relatively large volume of short-term unemployment. With the completion of reconversion, economic activity is assumed to increase as long-deferred market demand, both foreign and domestic, makes itself felt through the expenditure of wartime savings and the rehabilitation of war-devastated countries; as a consequence, pay rolls in covered employment are assumed to rise. Since a relatively high level of employment is assumed during most of the period, there would be a rather large number of persons otherwise eligible for retirement benefits who remain in covered employment.

Under alternative I, aggregate income during the period of 5 fiscal years ending in 1948 would amount to $12.6 billion. Aggregate disbursements for the period would be about $1.5 billion, with the highest expected annual disbursement about $0.4 billion. The trust fund at the beginning of the fiscal year 1944 would amount to 10.7 times the highest expected annual disbursement during the succeeding period of 5 fiscal years.

Reconversion of physical facilities is assumed to take place more slowly in alternative II than in alternative I, and peacetime production is assumed to rise at a much slower rate. Pay rolls in covered employment are assumed to decline to a greater extent than in alternative I, primarily because of a greater drop in employment. This decline is accentuated by the larger decreases assumed in hours of work and duration of employment. Because of less favorable employment conditions, it is assumed that a larger number of persons eligible to receive benefits would retire from covered employment than under alternative I.

The aggregate income of the fund for the 5 fiscal years 1944–48, under alternative II would amount to about $10.6 billion. Aggregate disbursements would be about $1.6 billion, with the highest expected annual disbursement about $0.5 billion. The trust fund at the beginning of the period would amount to 8.7 times the highest expected annual disbursement during the period.

The above alternative sets of estimates serve to illustrate developments resulting in relatively large and relatively small net additions to the trust fund. The assumption of a relatively long war has been combined with one that the ensuing period will be characterized by relatively high economic activity, inasmuch as these factors reinforce each other in producing a comparatively high figure for the net additions to the fund. Similarly, the assumption of a shorter war has been combined with one of a relatively low level of economic activity in the immediate post-war period to illustrate a consistently lower estimate of net additions to the fund. Although a range in the net additions to the fund is thus indicated, the possible range of variations has by no means been indicated; other combinations of military and economic developments would produce different results.

As has been indicated, conditions of war tend to result in high collections and low current disbursements. A longer duration of war than assumed in alternative I, therefore, would result in a longer period of large net increases in the fund and in a higher figure for total net income in the 5-year period. Similarly, different assumptions with respect

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to the level of economic activity in the reconversion and post-reconversion periods would produce different estimates of contributions to and disbursements from the trust fund. A more difficult reconversion and a lower level of production of civilian goods than assumed in alternative II is entirely possible. Consequently, a lower estimate of net increases in the fund would also be reasonable. Finally, no attempt has been made to illustrate the effect of large price increases on the income of the trust fund. Such price increases would substantially change the dollar amount of income, and could produce much larger variations from the figures shown than the other factors cited.

The extent of employment covered by the program, its distribution among different classes of workers (e. g., older workers, very young workers, women, workers not previously engaged in covered employment, etc.), and the level of wages, will have a decided effect upon the amount of benefit payments to be anticipated.

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 under the program. It does not necessarily follow, however, that payments of survivors' benefits will increase more rapidly under high employment conditions than under low conditions. If the high employment conditions are due to a prolonged war, a relatively larger proportion of the insured population may consist of women and of older men whose deaths do not generally give rise to substantial survivors' benefits as would the deaths of men having young children. Moreover, high employment conditions will induce many of the younger widows and older children eligible for survivors' benefits to forego them by working in covered employment.

As a result, the number of survivors' benefit payments is expected to increase with a somewhat greater degree of rapidity under the low employment assumptions than under the high. The amounts of survivors' benefits under alternatives I and II, as shown in table 7, are expected to be more nearly the same than the corresponding numbers of survivors' benefit payments, because of the counterbalancing effect of the slightly greater average size of benefit under the higher wage levels of alternative I.

TABLE 7.—*Treasury disbursements for benefit payments, distributed by classifications of beneficiaries, fiscal years 1941–48, subject to the assumptions and limitations stated in the text* [1]

[In millions]

Fiscal year	Total benefit disbursements	Disbursed to primary beneficiaries	Disbursed to wives and children of primary beneficiaries	Disbursed to survivors of deceased insured workers			
				Monthly benefits			Lump-sum payments
				Total	Aged widows and parents	Younger widows and children	
Past disbursements:[2]							
1941	$64.3	$31.4	$5.3	$15.3	$1.5	$13.8	$12.3
1942	110.2	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
Estimated future disbursements:							
1944	181.0	84.0	15.0	63.0	12.0	51.0	19.0
1945	214.0	94.0	17.0	81.0	18.0	63.0	22.0
1946:							
Alternative I	255	109	21	101	24	77	24
Alternative II	268	120	23	102	24	78	23
1947:							
Alternative I	307	131	27	123	32	91	26
Alternative II	365	183	32	126	32	94	24
1948:							
Alternative I	365	155	35	148	41	107	27
Alternative II	455	239	43	149	40	109	24

[1] In interpreting the estimates in this table, reference should be made to the accompanying text which describes the uncertainties of the underlying assumptions.
[2] Partly estimated.

On the other hand, the lower the conditions 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 wives and children. As is indicated in table 8, a considerable proportion of the workers aged 65 and over who have been eligible for primary benefits in the past have remained in covered employment (or, if they had left covered employment, later returned to it) and are not receiving benefits. Under a continuation of high or relatively high employment conditions, it may be expected that, for any one attained age, the proportion of eligible workers receiving primary benefits will remain relatively constant; though, since the average attained age of eligible workers will continually increase, the over-all proportion receiving primary benefits may be expected to increase under any except the most unusual conditions.

TABLE 8.—*Wage earners eligible for and receiving primary benefits by attained age of wage earners, fiscal year 1941–48, subject to the assumptions and limitations stated in the text* [1]

Middle of fiscal year	All wage earners age 65 and over			Wage earners 65–69			Wage earners age 70 and over		
	Number eligible for benefits	Persons receiving benefits		Number eligible for benefits	Persons receiving benefits		Number eligible for benefits	Persons receiving benefits	
		Number	Proportion of total number eligible		Number	Proportion of total number eligible		Number	Proportion of total number eligible
Actual experience:	*Thous.*	*Thous.*	*Pct.*	*Thous.*	*Thous.*	*Pct.*	*Thous.*	*Thous.*	*Pct.*
1941	545	112	21	382	84	22	163	28	17
1942	687	200	29	469	134	28	218	66	31
1943 [2]	825	260	32	540	153	28	285	107	38
Estimated future experience:									
1944	959	306	32	594	155	26	365	152	42
1945	1,091	340	31	631	144	23	460	197	43
1946:									
Alternative I	1,215	401	33	655	150	23	560	251	45
Alternative II	1,193	439	37	642	168	26	551	271	49
1947:									
Alternative I	1,347	482	36	685	164	24	662	318	48
Alternative II	1,271	652	51	647	234	36	624	418	67
1948:									
Alternative I	1,487	569	38	729	182	25	758	388	51
Alternative II	1,340	847	63	654	288	44	686	559	81

[1] In interpreting the estimates in this table, reference should be made to the accompanying text which describes the uncertainties of the underlying assumptions.
[2] Data for middle of fiscal year 1943 partly estimated.

Under the lower employment assumptions used in alternative II, it is assumed that much larger proportions of eligible workers will be obliged to leave covered employment, even at the ages close to 65. The result is that, despite a slightly lower number of eligible workers, the number of workers receiving primary benefits will be considerably greater under alternative II than under alternative I. It is not believed that there will be any appreciable difference between the average primary benefits actually paid under the two alternatives.

Table 8 contains an analysis of workers eligible for primary benefits according to attained age for the middle (January 1) of each of the fiscal years 1941 through 1948. For attained ages 65–69, the growth in the number of eligible workers is gradual but virtually uninterrupted under both alternatives. This growth reflects not merely an increase in the population at these attained ages, but primarily the fact that with each passing year a larger proportion of the persons attaining age 65 have fully insured status. In the calendar year 1940, a worker attaining age 65 could not be fully insured if he had left covered employment more than 1½ or 2 years previous to his attainment of age 65, but in the calendar year 1948 numerous persons attaining age 65 will be fully insured even though they left covered employment before the age of 60.

The aging of the program has an even greater effect on the number fully insured at attained ages 70 and over. This number is expected to quadruple between January 1, 1941, and January 1, 1948, even under the low employment assumptions of alternative II. At the latter date, the number eligible at these attained ages should comprise more than one-half of the total number of eligible persons. Moreover, the average age of all persons within the age group 70 and over will be continuously increasing.

One of the sources of increase in the insured population at the older ages is the entrance or reentrance of new employees to covered employment at these ages. Under the high employment conditions assumed in alternative I, this has an appreciable effect on the number insured at the older ages, though recent statistical studies have shown that the effect is not nearly so marked as was believed at the time of the preparation of the estimates appearing in the third annual report of the board of trustees. Under the lower employment assumptions of alternative II for the years 1946–48, there is practically no increment to the number eligible through such entrances or reentrances.

It may be seen that under alternative I the proportion of those eligible who are expected to be receiving primary benefits remains practically constant at ages 65–69, while at ages 70 and over the proportion increases in conformity with actual past experience. This increase is due to an increase in the average age of the group of eligibles among those age 70 and over. Under alternative II the proportion increases sharply during fiscal years 1946–48 for the ages 65–69, while for the ages 70 and over, it increases rapidly though remaining well under 100 percent.

The over-all proportion of the eligibles expected to be receiving benefits under alternative II in the fiscal year 1948 is 63 percent. Were it a full 100 percent instead of 63 percent, the amount of primary benefits in fiscal year 1948, comparable to the figure shown in table 7, would be about $400 million instead of $239 million. The amount of benefits to wives and children would be about $75 million instead of $43 million. Total disbursements, including administrative expenses, accordingly, would be about $700 million instead of $492 million. Thus, assuming 100 percent retirement during fiscal year 1948 under alternative II, the trust fund at the beginning of the 5-fiscal-year period would be about 6 times the highest annual disbursements of the period.

ACTUARIAL STATUS OF THE TRUST FUND

The third annual report of the board of trustees indicated that actuarial study was under way to make use of additional data on population, coverage, and other pertinent subjects in a revision of the illustrations of the long-run costs of old-age and survivors insurance. Such revision is a continuous process. The transition from the large volume of unemployment in the recession of 1938 to the full wartime employment of 1943 and 1944 has involved striking changes due to the war, many of which have been discussed both in the third annual report and in the present one.

Under the old-age and survivors insurance system, benefits accrue to the aged and to orphaned children and their widowed mothers surviving deceased wage earners. Thus, there are certain basic cost factors which must be continuously recognized in analysis of the costs of the old-age and survivors insurance program. These factors include (*a*) population; (*b*) mortality; (*c*) family composition; (*d*) number of years of credited employment prior to qualification for benefits; (*e*) remarriage of widowed beneficiaries; (*f*) employment of widowed