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FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

LETTER

FROM

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

TRANSMITTING

812. A LETTER FROM THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, TRANSMITTING THE 17TH ANNUAL REPORT, PURSUANT TO SECTION 201 (c) OF THE SOCIAL SECURITY ACT, AS AMENDED; TO THE COMMITTEE ON WAYS AND MEANS

APRIL 30, 1957.—Referred to the Committee on Ways and Means and ordered to be printed

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE FEDERAL
OLD-AGE AND SURVIVORS INSURANCE AND
DISABILITY INSURANCE TRUST FUNDS,
Washington, D. C., March 1, 1957.

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

SIRS: We have the honor to transmit to you the 17th Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, in compliance with the provisions of section 201 (c) of the Social Security Act, as amended.

Respectfully,

GEORGE M. HUMPHREY,
Secretary of the Treasury, and Managing Trustee of the Trust Funds.

JAMES P. MITCHELL,
Secretary of Labor.

MARION B. FOLSOM,
Secretary of Health, Education, and Welfare.

CHARLES I. SCHOTTLAND,
Commissioner of Social Security and Secretary, Board of Trustees.

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

Fiscal Year Ending June 30, 1956

THE BOARD OF TRUSTEES

The Federal old-age and survivors insurance trust fund, established on January 1, 1940, and the Federal disability insurance trust fund, established on August 1, 1956, are held by the Board of Trustees under the authority of section 201 (c) of the Social Security Act, as amended. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the Managing Trustee. The Commissioner of Social Security is Secretary of the Board.

FISCAL YEAR HIGHLIGHTS

Shortly after the close of fiscal year 1956, Congress amended the Social Security Act to provide for the payment of benefits to eligible workers who are permanently and totally disabled. To finance these benefits, contributions were levied at the rate of one-fourth of 1 percent each on covered employers and employees and three-eighths of 1 percent on covered self-employed persons beginning January 1, 1957, and a disability insurance trust fund was created. Although these provisions do not go into effect until after the end of the fiscal year for which this report is submitted, estimates are included showing the expected financial operations of both the old-age and survivors insurance trust fund and the disability insurance trust fund.

Amendments to the Social Security Act in 1956 also further extended the coverage of the program, lowered to 62 the retirement age at which women may become eligible for benefits, provided for the payment of benefits to disabled children aged 18 and over, altered the basis for computing the rate of interest payable on certain investments of the trust fund, and provided for reimbursement of the trust fund for the cost of gratuitous military wage credits and benefit rights granted to veterans under earlier legislation. The effects of the amendments of 1956 are taken into account in the estimates presented in this report.

The total number of old-age and survivors insurance beneficiaries in June 1956 was 8,374,000 or 11 percent more than in June 1955. There were 6,114,000 retirement beneficiaries (old-age beneficiaries and their entitled wives, dependent husbands, and young children), an increase of 12 percent, and 2,260,000 survivor beneficiaries, an increase of 7.6 percent, over 1 year earlier. The estimated number of persons with taxable earnings under old-age and survivors insurance in calendar year 1956 was about 69 million.

Disbursements of the old-age and survivors insurance trust fund in fiscal year 1956 were $5,485 million, not including $66 million representing refunds of overpayments of employee contributions. Receipts net of these refunds were $6,937 million. The net addition of $1,452 million raised the total assets of the trust fund to $22,593 million on June 30, 1956.

The disbursements of the fund in fiscal year 1956 included $5,361 million for benefits and $124 million for administrative expenses. The receipts included $6,442 million in net contributions and $495 million in interest.

Both disbursements and receipts showed an increase over fiscal year 1955. Disbursements rose $1,049 million or 24 percent, and receipts rose $1,403 million or 25 percent. The increase in disbursements was the combined result of the coverage extension and liberalized eligibility and benefit provisions included in the amendments adopted during 1950–54 and the long-term growth of the aged population and the proportion of the aged eligible for benefits. The rise in trust-fund receipts is accounted for chiefly by the extended coverage provisions and the increase in the taxable earnings maximum, both effective on January 1, 1955, and by a rise in the general level of employment and earnings.

Estimates for the 5 fiscal years 1957–61 show a further increase in the receipts and disbursements of the old-age and survivors insurance trust fund. According to these estimates, at the end of fiscal year 1961 this trust fund will amount to $21.6 to $25.5 billion, depending on the economic assumptions used, with receipts of $9.1 to $10.5 billion and disbursements of $9.1 to $9.6 billion in that fiscal year. During the 5 fiscal years 1957–61, the trust fund will not exceed about 2.8 times the highest expected annual disbursements during the 5-year period.

Long-range cost estimates for the old-age and survivors insurance program as amended in 1956 show that under high employment assumptions the level-premium cost, at 2.6 percent interest, ranges from 6.59 to 8.40 percent of payroll, depending on the combination of cost assumptions selected.

Estimates of the expected operations of the disability insurance trust fund during the 5 fiscal years 1957–61 show that this trust fund at the end of fiscal year 1961 will amount to $2.4 to $2.7 billion depending on the economic assumptions used, with receipts of $0.9 to $1.0 billion and disbursements of $0.4 billion in that fiscal year. During the 5 fiscal years 1957–61, the trust fund will amount to about 5.4 to 6.1 times the highest expected annual disbursements during the 5-year period. The long-range cost estimates for the disability insurance program show that under high employment assumptions the level-premium cost, at 2.6 percent interest, ranges from 0.29 to 0.58 percent of payroll, depending on the combination of assumptions used.

SOCIAL SECURITY AMENDMENTS IN 1956

Amendments to the Social Security Act in 1956 (Public Laws 880 and 881, both approved August 1, 1956) will have significant effects on both the immediate and long-range future levels of income and disbursements under the system. Coverage was extended on a contributory basis to nearly 4 million persons. Provision was made for the payment of monthly benefits to disabled workers, with a financing arrangement that is separate from the old-age and survivors insurance system. Eligibility requirements for the payment of benefits to certain classes of beneficiaries were liberalized. The schedule of contribution rates was revised to continue to reflect the intent that the program be self-supporting.

The more important changes, significant from an acturial standpoint, are presented below.

1. Coverage was extended on a contributory basis to nearly 3 million members of the uniformed services, effective January 1, 1957. Coverage was also extended to additional civilian jobs in which about 900,000 persons are employed in the course of a year—principally, additional farm owners and operators, all previously excluded self-employed professional persons except doctors of medicine, certain Federal civilian employees, and certain additional State and local government employees in specified States. Beginning with 1957, slightly more than 9 out of 10 gainfully employed persons are covered or eligible for coverage. Major groups that continue to be excluded are practically all Federal civilian employees who are under staff retirement systems; those self-employed persons, farm workers, and domestic workers whose earnings are less than the amounts required for the coverage of these particular groups; self-employed doctors of medicine; and, in general, policemen and firemen covered by a State or local government retirement system.

2. Monthly benefits were provided, beginning July 1957, for insured workers between the ages of 50 and 65 who are totally and permanently disabled after a waiting period of 6 consecutive months of disability. The amount of the monthly disability benefit is the same as the primary insurance amount, computed as though the worker became entitled to old-age benefits in the first month of his waiting period. These benefits are payable from a fund that is separate from the old-age and survivors insurance trust fund (see items 5 (*a*) and (*b*), below). Benefits are not payable to dependents of a worker who is entitled to disability benefits.

3. The conditions under which persons may become eligible for benefits were liberalized.

(*a*) Monthly benefits were provided, beginning January 1957, for a dependent, disabled, unmarried child aged 18 or over of a retired or deceased insured worker if the child was totally disabled before attaining age 18 and the disability has continued uninterruptedly since age 18. Benefits are also payable to a mother having such a child in her care. Benefits to both child and mother are payable from the old-age and survivors insurance trust fund.

(*b*) The minimum retirement age at which women may qualify for benefits was reduced from 65 to 62. Full-rate benefits are payable at age 62 to widows and to dependent mothers of deceased insured workers. Women who elect to receive a retired worker's or wife's benefit when they are between age 62 and age 65 will receive reduced benefits (both before and after age 65) which are, on an actuarial basis, virtually equivalent to their full-rate benefits.

(*c*) For women workers with dates of birth from July 2, 1889, to January 1, 1909, the eligibility provisions were liberalized by terminating at age 62 instead of age 65 the elapsed period which fixes the number of quarters of coverage required to be eligible for old-age insurance benefits.

(*d*) Persons who cannot meet the requirements of the 1950 or 1954 amendments for fully insured status will nevertheless be fully insured if they have quarters of coverage in all but 4 of the quarters elapsing after 1954 and before (1) July 1957, or (2) if later, the quarter of death or attainment of retirement age. This transitional provision, intended principally for persons newly covered in 1956, will cease to be effective for persons who die or attain retirement age after the third quarter of 1960, when the normal requirements become easier to meet than this alternative.

4. Larger benefits were made payable in the future to certain beneficiaries.

(*a*) In computing the average monthly wage of an insured person, 5 years of lowest earnings may be dropped, regardless of the number of quarters of coverage he has.

(*b*) With the lowering of the minimum retirement age from 65 to 62, the average monthly wage of a female insured worker is computed on the basis of the earnings up to the year of attainment of age 62 or, if it would result in a higher benefit, up to the year of retirement if later. In effect, the lowering of the minimum retirement age from 65 to 62 makes a dropout of 3 additional years of lowest earnings possible for many women workers.

5. Changes relating to the financing of the system were made to assure that it will continue to be self-supporting.

(*a*) A disability insurance trust fund was created which is entirely separate from the old-age and survivors insurance trust fund and from which monthly benefits will be paid to disabled workers. Beginning in 1957, contributions at the rate of one-fourth of 1 percent each for employees and employers, and three-eighths of 1 percent for the self-employed, will be paid into this new fund to finance these benefits and related administrative expenses.

(*b*) Contribution rates were increased in recognition of the increased costs resulting from the provision for the payment of monthly benefits to disabled workers. The revised schedule of contribution rates for employees and employers, including contributions for disability insurance benefits at the rates described in the preceding paragraph, is as follows: 2¼ percent each on taxable wages for calendar years 1957–59; 2¾ percent each for 1960–64; 3¼ percent each for 1965–69; 3¾ percent each for 1970–74; and 4¼ percent each thereafter. The contribution rates on self-employment income are equal to 1½ times the corresponding employee rates.

(*c*) Before each scheduled increase in the contribution rate, an Advisory Council on Social Security Financing is to be appointed by the Secretary of Health, Education, and Welfare to review the status of the old-age and survivors insurance trust fund and the disability insurance trust fund in relation to the long-term commitments of the program. The first such council is required to submit its report to the Board of Trustees not later than January 1, 1959.

(*d*) The old-age and survivors insurance trust fund, and where appropriate the disability insurance trust fund, will be reimbursed from general revenues for past and future expenditures resulting from the provisions that granted noncontributory $160 monthly wage credits to persons who served in the Armed Forces from September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 that granted survivorship protection to certain World War II veterans for a period of 3 years after leaving service.

(*e*) The basis for determining the interest rate on public-debt obligations to be purchased by the trust funds was changed. These investments will bear a rate of interest equal to the average rate of interest borne by all marketable Government obligations with maturity dates exceeding 5 years from date of issue, the average rate being rounded to the nearest one-eighth of 1 percent.

Table 1 presents, on a level-premium basis, an estimate of the increase in costs of benefit payments, expressed as a percent of payroll, arising from the changes in the program in 1956.

TABLE 1.—*Changes in estimated level-premium costs [1] of benefit payments as percent of payroll, by type of change, intermediate-cost estimate, high-employment assumptions*

Item	*Level premium cost (percent)*
Cost of program under 1954 amendments (2.4 percent interest)	7.45
Effect of changes in old-age and survivor benefits (2.4 percent interest except last item):	
Reducing minimum eligibility age for widows and dependent mothers to 62	+.19
Reducing minimum eligibility age for women workers and wives to 62	+.03
Disabled adult child's benefits	+.01
Extension of coverage	−.11
Revised interest basis for trust-fund investments [2]	−.14
Effect of addition of monthly disability benefits after age 50 [3] (2.6 percent interest)	+.42
Cost of program as amended in 1956 (2.6 percent interest):	
Old-age and survivor benefits	7.43
Disability benefits	.42

[1] Level-premium contribution rate for benefit payments after 1955 and in perpetuity, taking into account (*a*) lower contribution rate for self-employed as compared with employer-employee rate, (*b*) interest on the trust fund on Dec. 31, 1955, and (*c*) administrative expenses.
[2] Reflecting the use of 2.6 percent instead of 2.4 percent as the valuation rate of interest.
[3] Including administrative expenses.

NATURE OF THE TRUST FUNDS

The Federal old-age and survivors insurance trust fund was established on January 1, 1940, as a separate account in the United States Treasury to hold the amounts accumulated under the old-age and survivors insurance program. All the financial operations of the program through July 31, 1956, were handled through this fund. The Social Security Amendments of 1956, which became law August 1, 1956, provided for the creation of the Federal disability insurance trust fund—a fund entirely separate from the old-age and survivors insurance trust fund—through which will be handled all financial operations in connection with the newly established system of monthly disability benefits payable to insured workers between the ages of 50 and 65. The financial operations of the old-age, survivors, and disability insurance program which relate to the system of old-age and survivors insurance benefits will continue to be handled through the old-age and survivors insurance trust fund.

The primary source of receipts of the two funds is amounts deposited in or appropriated to each of them under permanent appropriation on the basis of contributions paid by workers and their employers, and by individuals with self-employment income, in employments covered by the old-age, survivors, and disability insurance program. All employees and their employers in employments covered by the program are required to pay contributions with respect to the wages of individual workers. All covered self-employed persons are required to pay contributions with respect to their self-employment income. In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a maximum of $4,200, with the contributions being determined first on the wages and then on any self-employment income necessary to make up the $4,200.

The Internal Revenue Code, as amended, provides that the contribution rate for employees and their employers shall be 2¼ percent each for the calendar years 1957 through 1959, and that the rates shall rise to 2¾ percent each on January 1, 1960, to 3¼ percent each on January 1, 1965, to 3¾ percent each on January 1, 1970, and to 4¼ percent each on January 1, 1975. The contribution rates on self-employment income are equal to 1½ times the corresponding employee rates. The Social Security Act, as amended in 1956, provides that beginning January 1, 1957, of the total contribution income based on these rates, contributions at the rate of one-fourth of 1 percent each for employees and employers, and three-eighths of 1 percent for the self-employed shall be allocated to the disability insurance trust fund through which is financed the separate system of disability insurance benefits.

Except for amounts received by the Secretary of the Treasury under State agreements and deposited directly in the trust funds, all contributions are collected by the Internal Revenue Service and are paid into the Treasury as internal-revenue collections. However, sums equivalent to 100 percent of these taxes are transferred to the trust funds from time to time. Such transfers are first made on the basis of estimated tax receipts. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

An employee who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum may receive a refund of the taxes he paid on such excess wages. The amount of taxes subject to refund for any period is a charge against each of the trust funds in the ratio in which the amount was appropriated to or deposited in such trust funds for such period.

The second source from which receipts of the trust funds are derived is interest received on investments held by the funds. The investment procedures of the funds are described later in this section.

The income and expenditures of the trust funds are also affected by Public Law 234, approved October 30, 1951, which amended the Railroad Retirement Act to provide a system of coordination and financial interchange between the railroad retirement and old-age and survivors insurance programs. Public Law 880, approved August 1, 1956, amended Public Law 234 to include financial interchanges between the railroad retirement account and the disability insurance trust fund. A description of the legislative provisions governing the allocation of costs between the two programs appears in appendix II.

Under a decision of the Comptroller General of the United States (B-4906) dated October 11, 1951, receipts derived from the sale of miscellaneous supplies and reimbursable services are credited to and form a part of the trust funds, where the initial outlays therefor were paid from the trust funds. Formerly, these moneys were credited to the general fund of the Treasury as miscellaneous receipts.

Public Law 719, approved August 10, 1946, provided noncontributory survivor protection to certain veterans of World War II. The legislation provided, and the old-age and survivors insurance trust fund received, reimbursement from the general fund for the additional costs arising from these provisions. Under Public Law 734, approved August 28, 1950, these additional costs arising after August 31, 1950, were borne by the trust fund. Public Law 881, approved August 1, 1956, provides that the old-age and survivors insurance trust fund shall be reimbursed for all additional costs arising after August 31, 1950, from the 1946 provisions. Public Law 881 also provides that (1) the old-age and survivors insurance trust fund shall be reimbursed for all past and future additional expenditures resulting from the provisions that granted noncontributory $160 monthly wage credits to persons who served in the Armed Forces from September 16, 1940, through December 31, 1956; and (2) the disability insurance trust fund shall be reimbursed for all additional expenditures after July 31, 1956, resulting from these provisions. A summary of the legislative history of the financing of credit for military service appears in appendix II.

Expenditures for benefit payments and administrative expenses under the old-age, survivors, and disability insurance program are paid out of the trust funds. All expenses incurred by the Department of Health, Education, and Welfare and by the Treasury Department in carrying out the provisions of title II of the Social Security Act, as amended, and of the Internal Revenue Code relating to the collection of insurance contributions, are charged to the trust funds. The Secretary of Health, Education, and Welfare certifies benefit payments to the managing trustee who makes the payments from the respective trust funds in accordance therewith.

Congress has authorized expenditures from the trust funds for construction of an office building and related facilities for the Bureau of Old-Age and Survivors Insurance.

The managing trustee invests that portion of each trust fund which, in his judgment, is not required to meet current expenditures for benefits and administration. The Social Security Act restricts permissible investments of the trust funds to interest-bearing obligations of the United States Government or to obligations guaranteed as to both principal and interest by the United States. Obligations of these types may be acquired on original issue at par or by purchase of outstanding obligations at their market price. In addition, the Social Security Act, as amended, authorizes the issuance of public-debt obligations for purchase by the trust funds. The law requires that such public-debt obligations shall have maturities fixed with due regard for the needs of the trust funds and 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 marketable interest-bearing obligations of the United States forming a part of the public debt that are not due or callable until after the expiration of 5 years from the date of original issue (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 nearest such average rate).

Interest on public issues held by the trust fund is received by the fund at the time the interest is paid on the particular issues held. Interest on public-debt obligations issued for purchase by the trust fund will be payable semiannually.

Public issues acquired by the funds may be sold at any time by the managing trustee at their market price. Public-debt obligations issued for purchase by the trust fund may be redeemed at par plus accrued interest. Interest receipts and proceeds from the sale or redemption of obligations held in the trust funds are available for investment in the same manner as other receipts of the funds. Interest earned by the invested assets of the trust funds will provide income to meet a portion of future benefit disbursements. The role of interest in meeting future benefit payments is indicated in tables 12 and 13.

The assets of the trust funds serve in part as a reserve against short-run fluctuations in total contributions and benefit amounts, providing a margin of safety against relatively short-term contingencies to ensure the payment of benefits without sharp changes in rates paid by contributors.

REALITY OF THE TRUST FUNDS

Public discussion of the investment aspects of the old-age and survivors insurance program has sometimes revealed a serious misunderstanding of the nature and significance of the trust fund operations. The Board of Trustees believes that it has a responsibility to correct any misapprehensions among persons who look to the old-age and survivors insurance and disability insurance programs for basic protection against income loss because of retirement, death, or prolonged disability.

The charge has been made that the requirement of existing law that the receipts of the trust funds which are not currently needed for program disbursements shall be invested in Government securities constitutes a misuse of the funds. It is suggested that this type of investment permits the Government to use social security tax collections to finance ordinary Government expenditures, and that hence such collections will not be available to pay social security benefits in future years. It is said that the securities represent IOU's issued by the Government to itself and that the Government will have to tax people a second time for social security to redeem these IOU's.

The investment of the assets of the trust funds in Federal obligations, as required by law, is not a misuse of the money contributed under the insurance programs by covered employees, employers, and self-employed persons. These contributions are permanently appropriated by law to the old-age and survivors insurance and disability insurance trust funds which are accounted for separately from the general funds of the United States Treasury. All the assets of these funds are kept available and may be used only for the payment of the benefits and administrative expenses of the insurance programs.

When the Treasury pays back money borrowed from the trust funds, the public will not be taxed a second time for social security. If taxes are levied to redeem the securities held by the trust funds, these taxes will not be levied for the purpose of paying social security benefits. Rather, they will be levied for the purposes for which the money was originally borrowed, such as the costs arising out of World War II, the national defense program, and other activities of the Government. Taxes would have to be raised to pay back the money borrowed to cover these costs whether the obligations were held by the trust funds or by other investors. The fact that the trust funds, rather than other possible investors, hold part of the Federal debt does not change the purpose for which these taxes must be levied.

The operation of trust-fund investment is similar to the investment of premiums collected by a private insurance company. A private company uses part of its current premium receipts for payments to beneficiaries and for operating expenses. The balance of its receipts is invested in income-producing assets. Such investments are commonly limited by State law to the safest forms of investment so that policyholders will be assured that their claims against the company will be satisfied when they become due. Government securities ordinarily represent a significant portion of these investments. The purpose of investing these receipts is, of course, to obtain earnings that will help meet the future costs of the insurance and thus reduce the premiums the policyholders would otherwise have to pay for their insurance.

Social security tax collections are handled in much the same way. Investments of the trust funds, however, are limited by law to only one type—securities issued by, or guaranteed as to principal and interest by, the Federal Government. There are two principal reasons for such a restriction. One is similar to the motivation of State legislation dealing with investments of private insurance companies; it is designed to insure the safety of the funds. Government securities constitute the safest form of investment. The second reason is that it keeps these publicly operated programs from investing reserve funds in competitive business ventures. Such investments by the trust funds would be completely out of harmony with accepted concepts of the proper scope of a governmental activity. The securities held by the trust funds perform the same function as those held by a private insurance company. They can be readily converted into cash when needed to meet disbursements, and the earnings on these investments make possible lower rates of contributions than would otherwise be required.

In investing their receipts in Government securities the trust funds, as separate entities, are lenders and the United States Treasury is a borrower. The trustees of the funds receive and hold securities issued by the Treasury as evidence of these loans. These Government obligations are assets of the funds and liabilities of the United States Treasury which must pay interest on the borrowed money and repay the principal when the securities mature.

In other words, the Treasury borrows from a number of sources. It borrows from individuals, mutual saving banks, insurance companies, and various other classes of investors; and it borrows from the old-age and survivors insurance and disability insurance trust funds. The securities held by the funds are backed by the full faith and credit of the United States, as are all public debt securities; they are just as good as the public debt securities held by other investors.

The purchase of Federal obligations by the trust funds from the Treasury does not increase the national debt. The national debt is increased only when and to the extent to which the Federal Government's expenditures exceed receipts from taxes levied to meet those expenditures. When such a deficit occurs, the Treasury must borrow sufficient money to meet the deficit by selling Federal securities. The volume of the securities sold to meet a deficit is not increased by the purchase of such obligations by the trust funds. The purchase of Federal obligations by the trust funds in a period when the Treasury has no deficit to meet would result only in a direct or indirect transfer of Federal debt from other investors to the trust funds. The total amount of the public debt would remain unchanged.

SUMMARY OF THE OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, FISCAL YEAR 1956

A statement of the income and disbursements of the Federal old-age and survivors insurance trust fund in the fiscal year which began on July 1, 1955, and ended on June 30, 1956, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2.

TABLE 2.—*Statement of operations of the Federal old-age and survivors insurance trust fund during the fiscal year 1956*

Total assets of the trust fund, June 30, 1955			$21,141,001,461.71
Receipts, fiscal year 1956:			
Insurance contributions:			
Appropriations	$6,336,804,603.39		
Deposits arising from State agreements	171,565,577.42		
Gross insurance contributions	6,508,370,180.81		
Less payment into the Treasury for taxes subject to refund	66,000,000.00		
Net insurance contributions		$6,442,370,180.81	
Interest and profit:			
On investments	$487,450,075.05		
On amount held in railroad retirement account to credit of trust fund	7,439,000.00		
Total interest		494,889,075.05	
Total receipts		6,937,259,255.86	
Disbursements, fiscal year 1956:			
Benefit payments		5,360,813,247.00	
Administrative expenses:			
Department of Health, Education, and Welfare	$94,892,621.97		
Treasury Department	29,516,077.17		
Preparation for construction of building for Bureau of Old-Age and Survivors Insurance	61,876.35		
Gross administrative expenses	124,470,575.49		
Less receipts for sale of surplus material, supplies, etc	131,867.92		
Net administrative expenses		124,338,707.57	
Total disbursements		5,485,151,954.57	
Net addition to trust fund			1,452,107,301.29
Total assets of the trust fund, June 30, 1956			22,593,108,763.00

The total assets of the old-age and survivors insurance trust fund amounted to $21,141 million on June 30, 1955. These assets increased to $22,593 million by the end of the fiscal year 1956, as a result of an excess of receipts over disbursements amounting to $1,452 million.

The total receipts of the trust fund during the fiscal year 1956 amounted to $6,937.3 million. Of this total, $6,336.8 million represented tax collections appropriated to the fund and $171.6 million represented amounts received by the Secretary of the Treasury in accordance with State agreements and deposited in the trust fund. The amount of contributions subject to refund to employees who worked for more than 1 employer during 1954 and paid contributions on 1954 wages in excess of $3,600 was estimated at $66 million. This amount was transferred from the trust fund as repayment into the Treasury. The net amount of $6,442.4 million represented a 27-percent increase over the amount for the preceding fiscal year. This large increase can be attributed mainly to the provisions of the 1954 amendments which increased the number of persons in covered employment and which increased the maximum amount of annual taxable earnings from $3,600 to $4,200. Although these provisions became effective in 1955, fiscal year 1956 was the first full year during which they operated. The other $494.9 million of receipts consisted of $487.5 million of interest and profit on investments of the fund and of $7.4 million of interest on the amount held in the railroad retirement account to the credit of the trust fund under the financial interchange provisions of the Railroad Retirement Act, as amended in 1951. These provisions are described in appendix II.

Disbursements from the trust fund during the fiscal year 1956 totaled $5,485.2 million, of which $5,360.8 million were for benefit payments, and $124.3 million were for administrative expenses. The total amount of benefits paid during the fiscal year exceeded benefits paid in the fiscal year 1955 by 24 percent. This increase resulted chiefly from (1) the increase in the number of beneficiaries and (2) the fact that the higher benefit provisions of the 1954 amendments were effective during the entire fiscal year 1956 but during only part of fiscal year 1955.

Administrative expenditures of the fund were 1.9 percent of contribution income and 2.3 percent of benefit payments during fiscal year 1956. Figures for each of the last 10 fiscal years are shown in table 3.

TABLE 3.—*Relationship of administrative charges against old-age and survivors insurance trust fund to old-age and survivors insurance contribution income and benefit payments, fiscal years 1947–56*

Fiscal year	Administrative charges against the OASI trust fund as a percentage of—		Fiscal year	Administrative charges against the OASI trust fund as a percentage of—	
	Contribution income	Benefit payments		Contribution income	Benefit payments
1947	2.8	9.6	1952	2.4	4.3
1948	2.9	9.3	1953	2.2	3.4
1949	3.2	8.8	1954	1.9	2.7
1950	2.7	7.8	1955	2.0	2.4
1951	2.3	4.7	1956	1.9	2.3

TABLE 4.—*Estimated distribution of benefit payments under the old-age and survivors insurance program, by type of benefit, fiscal years 1955 and 1956*

[Amounts in millions]

Type of benefit	1955		1956	
	Amount	Percent of total	Amount	Percent of total
Total	$4,333.1	100	$5,360.8	100
Monthly benefits	4,232.6	[1] 98	5,245.5	[1] 98
Old-age (retired workers 65 or over)	2,803.0	65	3,532.9	66
Wife's or husband's (wives or dependent husbands, 65 or over, of old-age beneficiaries, or their wives regardless of age if caring for child beneficiary)	404.1	9	500.4	9
Widow's or widower's (widows or dependent widowers 65 or over of workers)	353.3	8	430.2	8
Parent's (dependent parents 65 or over of deceased workers)	14.7	(2)	16.5	(2)
Child's (children under 18 of old-age beneficiaries)	24.7	1	31.4	1
Child's (children under 18 of deceased workers)	484.2	11	562.6	10
Mother's (widows or dependent divorced wives of deceased workers caring for child beneficiaries)	148.6	3	171.4	3
Lump-sum benefits (wage earner died after August 1950, or before September 1950 with no survivor immediately eligible for monthly benefits)	100.5	2	115.3	2

[1] Total does not represent the sum of rounded components.
[2] Less than 0.5 percent.

The distribution of benefit payments in fiscal years 1955 and 1956, by type of benefit, is shown in table 4. Approximately 84 percent of the total benefit payments from the fund in the fiscal year 1956 were accounted for by monthly benefits to aged persons—retired wage earners and their wives (including a relatively small number of wives under age 65) or dependent husbands, and aged widows, dependent widowers, and dependent parents of deceased wage earners. Approximately 14 percent of the 1956 benefit payments represented monthly benefits on behalf of children of deceased or retired workers and payments to mothers—practically all of them under age 65—who had children of deceased wage earners in their care. The balance of the benefits paid in the fiscal year 1956 consisted of lump-sum death payments.

At the end of the fiscal year 1956, approximately 8.4 million beneficiaries in about 6.2 million families were receiving nomthly benefits at an annual rate of $5,273 million. At the end of the preceding fiscal year, the monthly benefit rolls included 7.6 million beneficiaries in about 5.5 million families to whom monthly benefits were being paid at an annual rate of $4,608 million. Average monthly family benefits at the end of June 1956 showed moderate increases over the corresponding averages a year earlier (table 5). Payments to retired workers with no dependents receiving benefits averaged $60, an increase of $1.90. The average for a retired worker and aged wife, both of whom were drawing benefits, was $104.80, $2.60 greater than a year earlier. For survivor families, payments to aged widows averaged $49; families made up of a widowed mother and 1 child averaged $108.50; widowed mothers and 2 children averaged $137.80.

TABLE 5.—*Estimated number of families and beneficiaries receiving benefits and average family amount, by family group, end of fiscal years 1955 and 1956*

Family classification of beneficiaries receiving benefits	June 30, 1955			June 30, 1956		
	Number of families	Number of beneficiaries	Average monthly amount per family	Number of families	Number of beneficiaries	Average monthly amount per family
	Thous.	*Thous.*		*Thous.*	*Thous.*	
Total	5,539.7	7,563.5		6,160.2	8,374.5	
Retired worker families	4,214.8	5,462.3		4,731.9	6,114.4	
Worker only	3,067.7	3,067.7	$58.10	3,460.3	3,460.3	$60.00
Male	1,962.3	1,962.3	63.50	2,148.4	2,148.4	65.60
Female	1,105.4	1,105.4	48.40	1,311.8	1,311.8	50.70
Worker and wife aged 65 or over	1,066.4	2,132.8	102.20	1,182.6	2,365.2	104.80
Worker and wife under age 65 [1]	.4	.8	102.50	.3	.6	113.30
Worker and aged dependent husband	9.2	18.5	87.00	10.7	21.4	88.20
Worker and 1 or more children	15.8	41.1	98.10	16.6	42.7	101.00
Worker, wife aged 65 or over, and 1 or more children	1.2	3.6	123.30	1.3	4.0	132.30
Worker, wife under age 65, and 1 or more children	54.0	197.7	117.00	60.1	220.1	121.10
Survivor families	1,324.9	2,101.2		1,428.3	2,260.1	
Aged widow	688.3	688.3	46.60	746.3	746.3	49.00
Aged dependent widower	1.2	1.2	40.90	1.1	1.1	48.20
Widowed mother only [1]	1.4	1.4	48.60	.8	.8	51.20
Widowed mother and 1 child	120.8	241.6	105.10	128.4	256.8	108.50
Widowed mother and 2 children	83.6	250.7	132.60	85.7	257.2	137.80
Widowed mother and 3 or more children	75.6	356.1	129.90	82.4	389.8	136.40
Divorced wife and 1 or more children	.2	.6	130.00	.3	.7	135.70
1 child only	200.3	200.3	47.80	217.0	217.0	48.50
2 children	80.9	161.9	81.60	90.0	179.9	83.80
3 children	29.1	87.2	101.00	31.8	95.3	105.20
4 or more children	19.6	86.3	105.60	20.2	89.3	112.20
1 aged dependent parent	22.2	22.2	48.10	22.8	22.8	50.50
2 aged dependent parents	1.7	3.3	92.90	1.5	2.9	95.30

[1] Benefits of children were being withheld.

NOTE.—Estimates were prepared November 1956.

The disability freeze provision of the 1954 amendments became effective at the beginning of fiscal year 1956, although applications could be filed at any time after December 31, 1954. By the end of fiscal year 1956 a period of disability had been established for 134,000 disabled workers. About 110,000 applications for a disability freeze were denied. By the end of the fiscal year, about 36,100 old-age beneficiaries had their benefits increased as a result of the freeze; the average increase was $9.93 a month. About 13,100 monthly benefits payable to dependents of these retired workers and to survivors of workers who had established a period of disability before death were also increased because of the freeze. For the same reason, lump-sum death benefits payable on the earnings records of almost 4,500 deceased workers were increased by an average amount of about $21.50 per worker.

The assets of the fund at the end of the fiscal year 1956 totaled $22,593 million, consisting of $22,043 million in the form of obligations of the United States Government, and $550 million is undisbursed balances. Table 6 shows a comparison of the total assets of the trust fund and their distribution at the end of the fiscal years 1955 and 1956.

TABLE 6.—*Assets of Federal old-age and survivors insurance trust fund, by type, at end of fiscal years 1955 and 1956*

	June 30, 1955		June 30 1956	
	Par value	Book value [1]	Par value	Book value [1]
Investments:				
Public issues:				
Certificates of indebtedness:				
2⅝-percent series D 1956			$34,000,000	$33,996,875.00
2⅝-percent series A 1957			34,100,000	34,095,453.12
Treasury notes: 2⅞-percent series A 1958			115,500,000	115,495,546.88
Treasury bonds:				
2¼-percent bonds of 1959–62	$4,205,000	$4,211,633.97	4,205,000	4,210,121.85
2⅜-percent bonds of 1958			500,000	493,437.50
2½-percent bonds of 1961			4,500,000	4,359,906.25
2½-percent bonds of 1962–67	58,650,000	58,775,068.43	58,650,000	58,757,201.51
2½-percent bonds of 1963			500,000	485,000.00
2½-percent bonds of 1963–68	116,480,000	116,639,273.51	116,480,000	116,620,535.47
2½-percent bonds of 1964–69	93,704,000	93,147,975.75	96,004,000	95,315,907.76
2½-percent bonds of 1965–70	456,547,500	456,809,792.98	456,547,500	456,774,416.82
2½ percent bonds of 1966–71	308,077,500	307,983,999.22	308,077,500	307,974,482.24
2½-percent bonds of 1967–72	150,593,250	150,796,849.48	150,593,250	150,726,736.52
2¾-percent bonds, investment series B–1975–80	1,081,902,000	1,083,367,535.46	1,081,902,000	1,083,250,495.76
3-percent bonds of 1995	25,000,000	25,056,171.90	68,170,000	68,220,893.37
3¼-percent bonds of 1978–83	45,100,000	44,910,656.26	45,100,000	44,910,656.26
Total public issues	2,340,259,250	2,341,698,956.96	2,574,829,250	2,575,687,666.31
Special issues:				
Certificates of indebtedness:				
2¼-percent maturing June 30, 1956	18,238,792,000	18,238,792,000.00		
2½-percent maturing June 30, 1957			19,466,609,000	19,466,609,000.00
Total special issues	18,238,792,000	18,238,792,000.00	19,466,609,000	19,466,609,000.00
Accrued interest purchased				733,974.37
Total investments	20,579,051,250	20,580,490,956.96	22,041,438,250	22,043,030,640.68
Undisbursed balances		560,510,504.75		[2] 550,078,122.32
Total assets		21,141,001,461.71		22,593,108,763.00

[1] Par value plus unamortized premium less discount outstanding.
[2] Includes $44,306.36 unappropriated receipts.

The assets of the trust fund may be invested only in direct obligations of the United States Government and in obligations guaranteed as to both principal and interest by the United States. These obligations may be acquired in the open market or on original issue at par. The investments of the trust fund consist of certificates issued directly to the fund at par and public issues of Treasury securities. The asset value of the certificates is their par value. As carried on the books of the Treasury Department, the asset value of public issues (exclusive of accrued interest purchased) is the book value, i. e., par value plus unamortized premium less discount outstanding.

The net increase in the par value of the investments owned by the fund during the fiscal year 1956 amounted to $1,462 million. New securities at a total par value of $26,508 million were acquired through the investment of receipts of the fund and the reinvestment of funds made available from the maturity of securities during the year. The par value of securities redeemed during the fiscal year was $25,025 million. In addition, $20 million of public issues were sold, providing an additional source of income to the fund in the form of a profit amounting to $50,781. This profit represents the difference between proceeds received at time of sale, after deduction for accrued interest and investment expenses, and the book value at time of sale.

Of the new securities acquired, \$26,253 million were certificates of indebtedness issued exclusively to the trust fund, \$6,787 million of which were redeemed during the year and \$19,467 million of which mature on June 30, 1957. These certificates were acquired at par, \$1,116 million at 2¼ percent, \$3,759 million at 2⅜ percent, and \$21,378 million at 2½ percent, this rate having been determined by the average rate of interest on the interest-bearing public debt which prevailed at the end of the month preceding the date of issue of these securities. The remaining \$255 million of securities acquired during the year were public issues at interest rates ranging from 2⅜ percent to 3 percent.

The average rate of interest on the interest-bearing public debt at the end of the month varies with changes in the composition of the public debt and with changes in the particular rates of interest on different classes of securities. During the fiscal year 1956 the average rate of interest on the public debt rose from 2.351 percent on June 30, 1955, to 2.546 percent on May 31, 1956, with the result that special certificates acquired during the July–August period were at 2¼ percent, during the September–March period at 2⅜ percent, and during the remaining period of the fiscal year at 2½ percent.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING FISCAL YEARS 1957–61

In the following statement of the expected operations and status of the trust funds during the next 5 fiscal years, it is assumed that the present statutory provisions relating to the old-age, survivors, and disability insurance program remain unchanged throughout the period under consideration. The income and disbursements of the program, however, not only depend on the legislative provisions but they are also affected by general economic conditions. Because it is difficult to foresee economic developments, the assumptions on which the estimates here presented are based are subject to many uncertainties. This statement of the expected operations of the trust funds should therefore be read with full recognition of the difficulties of estimated future trust fund income and disbursements under changing economic conditions.

Single sets of estimates are here presented to show the expected operations of the trust funds in fiscal years 1957 and 1958, but for fiscal years 1959–61 two sets of estimates are given based on two different assumptions as to economic development in those years. In assumption I the entire period 1957–61 is characterized by a continued rise in employment and earnings reflecting chiefly long-term trends. Unemployment remains at a low level. The other set of estimates for fiscal years 1959–61, based on assumption II, shows the effects that would result in the unlikely event that there were a sharp contraction in industrial activities beginning in the latter half of calendar year 1958 with a slow recovery not beginning until the first half of calendar year 1961.

The expected operations and status of the old-age and survivors insurance trust fund during the next 5 fiscal years are presented in summary in table 7, together with the figures on the actual experience in earlier fiscal years. The increase in estimated income from contributions in fiscal year 1958 as compared with fiscal year 1957 reflects