The 1956 amendments provided that the public-debt obligations issued for purchase by the old-age and survivors insurance and the disability insurance trust funds shall have maturities fixed with due regard for the needs of the funds. In recognition of the long-term character of the commitments of the trust funds, the maturities of the public-debt obligations issued for purchase by the funds are to be lengthened gradually over a period of several years. Thus, of the $14,110 million of public-debt obligations held by the old-age and survivors insurance trust fund that matured on June 30, 1958, and the proceeds of which were reinvested, approximately one-third was reinvested in public-debt obligations (special issue) distributed equally among maturities ranging from 1 year to 10 years. The remaining two-thirds was invested in issues maturing on June 30, 1959.

Since the average rate of interest, as of May 31, 1958, borne by all marketable Government obligations with maturity dates exceeding 5 years from date of issue was 2.555 percent, the rate of interest (rounded to the nearest one-eighth of 1 percent) on the public-debt obligations (special issues) acquired on June 30, 1958, was 2½ percent.

SUMMARY OF THE OPERATIONS OF THE FEDERAL DISABILITY INSURANCE TRUST FUND, FISCAL YEAR 1958

A statement of the income and disbursements of the Federal disability insurance trust fund for fiscal year 1958 and of the assets of the fund at the end of the fiscal year is presented in table 7.

TABLE 7.—*Statement of operations of the Federal disability insurance trust fund during the fiscal year 1958*

Total assets of the trust fund, June 30, 1957			$337,257,728.51
Receipts, fiscal year 1958:			
Insurance contributions:			
Appropriations	$862,861,610.23		
Deposits arising from State agreements	63,541,704.56		
Net insurance contributions		$926,403,314.79	
Interest and profit:			
On investments	$16,130,769.43		
Less transfer to old-age and survivors insurance trust fund with reimbursed administrative expenses	287,882.00		
Net interest		15,842,887.43	
Total receipts		942,246,202.22	
Disbursements, fiscal year 1958:			
Benefit payments		168,419,534.12	
Administrative expenses:			
Department of Health, Education, and Welfare	$9,148,680.00		
Treasury Department	2,962,897.09		
Total administrative expenses		12,111,577.09	
Total disbursements		180,531,111.21	
Net addition to trust fund			761,715,091.01
Total assets of the trust fund, June 30, 1958			1,098,972,819.52

The total receipts of the fund amounted to $942.2 million. Of this total, $862.9 million represented tax collections appropriated to the fund, and $63.5 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. The remaining $15.8 million of receipts consisted of interest on investments.

Disbursements from the fund totaled $180.5 million, of which $168.4 million was for benefit payments, which were first made in

August 1957. The remaining $12.1 million of disbursements consisted of administrative expenses.

At the end of the fiscal year 1958, approximately 200,000 disabled workers were receiving monthly benefits under the program (table 5). Payments to male workers averaged $75.50, while those to female workers averaged $70.10.

The assets of this fund at the end of fiscal year 1958 totaled $1,099 million, consisting of $1,054 million in the form of obligations of the U.S. Government, and $45 million in undisbursed balances. Table 8 shows a comparison of the total assets of the fund and their distribution at the end of the fiscal years 1957 and 1958.

TABLE 8.—*Assets of the Federal disability insurance trust fund, by type, at end of fiscal years 1957 and 1958*

	June 30, 1957		June 30, 1958	
	Par value	Book value [1]	Par value	Book value [1]
Investments:				
Public issues:				
Treasury notes:				
2⅝-percent series A 1963			$10,000,000.00	$10,000,000.00
3¾-percent series C 1962			7,000,000.00	7,000,000.00
4-percent series B 1962			5,000,000.00	5,000,000.00
Treasury bonds:				
2⅝-percent bonds of 1965			16,750,000.00	16,643,750.00
3-percent bonds of 1966			10,000,000.00	10,000,000.00
3⅞-percent bonds of 1974			5,000,000.00	5,000,000.00
4-percent bonds of 1969			5,000,000.00	5,000,000.00
Total public issues			58,750,000.00	58,643,750.00
Accrued interest purchased				20,179.29
Total, investments in public issues			58,750,000.00	58,663,929.29
Public-debt obligations (special issues):				
Certificates of indebtedness:				
2½-percent maturing June 30, 1958	$257,863,000.00	$257,863,000.00		
2½-percent maturing June 30, 1959			658,294,000.00	658,294,000.00
Notes:				
2½-percent maturing June 30, 1959	7,500,000.00	7,500,000.00	7,500,000.00	7,500,000.00
2½-percent maturing June 30, 1960	7,500,000.00	7,500,000.00	37,500,000.00	37,500,000.00
2½-percent maturing June 30, 1961	7,500,000.00	7,500,000.00	37,500,000.00	37,500,000.00
2½-percent maturing June 30, 1962	7,500,000.00	7,500,000.00	37,500,000.00	37,500,000.00
2½-percent maturing June 30, 1963			30,000,000.00	30,000,000.00
Bonds:				
2½-percent maturing June 30, 1963	7,500,000.00	7,500,000.00	7,500,000.00	7,500,000.00
2½-percent maturing June 30, 1964	7,500,000.00	7,500,000.00	37,500,000.00	37,500,000.00
2½-percent maturing June 30, 1965	7,500,000.00	7,500,000.00	37,500,000.00	37,500,000.00
2½-percent maturing June 30, 1966	7,500,000.00	7,500,000.00	37,500,000.00	37,500,000.00
2½-percent maturing June 30, 1967	7,500,000.00	7,500,000.00	37,500,000.00	37,500,000.00
2½-percent maturing June 30, 1968			30,000,000.00	30,000,000.00
Total, public-debt obligations	325,363,000.00	325,363,000.00	995,794,000.00	995,794,000.00
Total investments	325,363,000.00	325,363,000.00	1,054,544,000.00	1,054,457,929.29
Undisbursed balances		11,894,728.51		44,514,890.23
Total assets		337,257,728.51		1,098,972,819.52

[1] 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 amounted to $729 million. New securities at a total par value of $1,880 million were acquired through the investment of receipts of the fund, and through the reinvestment of funds made available from the maturity or sale of securities during the year. The par value of securities redeemed during the year was $1,141 million. In addition, $10 million of public issues were sold at a profit of $72,500.

Of the new securities acquired, $1,811 million were 2½-percent public-debt obligations specially issued to the fund, $883 million of which were redeemed during the year. The remaining $69 million acquired were public issues—$10 million of certificates of indebtedness, $22 million of Treasury notes, and $37 million of Treasury bonds.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING FISCAL YEARS 1959–63

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 estimating future trust fund income and disbursements under changing economic conditions.

Estimates are presented in table 9 to show the expected operations of the old-age and survivors insurance trust fund in fiscal years 1959–63. They are based on the assumption that the upturn in business activity that began early in calendar year 1958 is continued, and there is a steady increase in employment and earnings through 1963. Figures on actual experience in earlier fiscal years are also presented. The increase in estimated income from contributions in fiscal years 1959–63 reflects the assumed uptrend in the levels of employment and earnings as well as the effect of the provisions of the 1958 amendments which increase the scheduled tax rates and the maximum annual earnings taxable and creditable under the program. Benefit disbursements increase substantially primarily because of the recent amendments, and partly because of the long-range upward trend in the number of beneficiaries under the program.

TABLE 9.—*Operations of the Federal old-age and survivors insurance trust fund, fiscal years 1937–63*

[In millions]

Fiscal year	Transactions during period						Fund at end of period[4]
	Income		Disbursements		Transfers to railroad retirement account	Net increase in fund[4]	
	Tax contributions[1]	Interest on investments[2]	Benefit payments	Administrative expenses[3]			
Past experience:							
1937–58	$55,885	$5,036	$36,842	$1,266		$22,813	$22,813
1941	688	56	64	27		653	2,398
1942	896	71	110	27		830	3,227
1943	1,130	87	149	27		1,041	4,268
1944	1,292	103	185	33		1,178	5,446
1945	1,310	124	240	27		1,167	6,613
1946	1,238	148	321	37		1,028	7,641
1947	1,460	163	426	41		1,157	8,798
1948	1,617	191	512	47		1,248	10,047
1949	1,694	230	607	53		1,263	11,310
1950	2,110	257	727	57		1,583	12,893
1951	3,124	287	1,498	70		1,843	14,736
1952	3,598	334	1,982	85		1,864	16,600
1953	4,097	387	2,627	89		1,766	18,366
1954	4,589	451	3,276	89		1,676	20,043
1955	5,087	448	4,333	103		1,098	21,141
1956	6,442	495	5,361	124		1,452	22,593
1957	6,540	561	6,515	150		436	23,029
1958	7,267	557	7,875	166		−216	22,813
Estimated future experience:							
1959	7,829	535	9,060	202	$344	−1,242	21,571
1960	9,860	525	10,025	207	240	−87	21,484
1961	11,243	532	10,628	190	235	722	22,206
1962	11,524	548	11,132	200	220	520	22,726
1963	12,587	569	11,568	203	240	1,145	23,871

[1] Include adjustments for (1) refunds of contributions beginning in 1953, and (2) transfers during fiscal years 1947–52 from general funds equivalent to additional payments arising from the extension of survivors insurance protection to certain veterans of World War II (Social Security Act Amendments of 1946).
[2] Includes (1) profits on marketable investments, and (2) for fiscal years 1954–58, interest transferred from the railroad retirement account.
[3] Include administrative expenses, less receipts for sale of surplus material, services, etc. For fiscal years 1954–60, include cost of construction of an office building for the Bureau of Old-Age and Survivors Insurance. Beginning fiscal year 1957, expenses incurred by the Department of Health, Education, and Welfare under the disability insurance program are initially charged to the old-age and survivors insurance trust fund. Reimbursements from the disability insurance trust fund are then made in the following fiscal year.
[4] Totals do not necessarily equal the sum of rounded components.

NOTE.—In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared January 1959.

Aggregate income of the old-age and survivors insurance trust fund is expected to exceed aggregate outgo over the period of the 5 fiscal years 1959–63. During this period, there is an estimated net increase in the trust fund of $1.1 billion. During the 5 fiscal years 1959–63, the old-age and survivors insurance trust fund will reach a level 2 times the highest expected annual outgo during the 5-year period.

Estimates consistent with those shown on a fiscal-year basis in table 9 are presented in table 10 to show the progress of the old-age and survivors insurance trust fund on a calendar year basis.

TABLE 10.—*Operations of the Federal old-age and survivors insurance trust fund, calendar years 1937–63*

[In millions]

Calendar year	Transactions during period						Fund at end of period
	Income		Disbursements		Transfers to railroad retirement account	Net increase in fund	
	Tax contributions	Interest on investments	Benefit payments	Administrative expenses			
Past experience:							
1937–57	$51,559	$4,758	$32,743	$1,182	----------	$22,393	$22,393
1941	789	56	88	26	----------	731	2,762
1942	1,012	72	131	28	----------	926	3,688
1943	1,239	88	166	29	----------	1,132	4,820
1944	1,316	107	209	29	----------	1,184	6,005
1945	1,285	134	274	30	----------	1,116	7,121
1946	1,295	152	378	40	----------	1,029	8,150
1947	1,558	164	466	46	----------	1,210	9,360
1948	1,688	281	556	51	----------	1,362	10,722
1949	1,670	146	667	54	----------	1,094	11,816
1950	2,671	257	961	61	----------	1,905	13,721
1951	3,367	417	1,885	81	----------	1,818	15,540
1952	3,819	365	2,194	88	----------	1,902	17,442
1953	3,945	414	3,006	88	----------	1,265	18,707
1954	5,163	468	3,670	92	----------	1,869	20,576
1955	5,713	461	4,968	119	----------	1,087	21,663
1956	6,172	531	5,715	132	----------	856	22,519
1957	6,825	557	7,347	162	----------	−126	22,393
Estimated future experience:							
1958	7,605	550	8,325	188	$124	−482	21,911
1959	8,573	530	9,698	214	220	−1,029	20,882
1960	10,786	527	10,348	200	240	525	21,407
1961	11,362	540	10,886	191	235	590	21,997
1962	11,647	557	11,366	201	220	417	22,414
1963	13,657	595	11,789	204	240	2,019	24,433

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 9.

Benefit disbursements will continue to increase over the next 5 calendar years as the number of beneficiaries under the program increases. Table 11 shows the annual amount of benefit payments distributed by classification of beneficiaries.

TABLE 11.—*Treasury disbursements for old-age and survivors benefit payments, distributed by classification of beneficiaries, calendar years 1940–63*

[In millions]

Calendar year	Total benefit disbursements [1]	Disbursed to old age beneficiaries	Disbursed to dependents of old-age beneficiaries	Disbursed to survivors of deceased insured workers: Monthly benefits: Total [1]	Monthly benefits: Aged widows, dependent widowers, and dependent parents	Monthly benefits: Widowed mothers, dependent divorced wives, and dependent children	Lump-sum payments
Past disbursements: [2]							
1940	$35.4	$14.8	$2.4	$6.4	$0.5	$5.9	$11.8
1941	88.1	43.6	7.6	23.6	2.7	20.9	13.3
1942	130.7	64.8	11.4	39.5	5.9	33.7	15.0
1943	165.9	79.1	13.9	55.2	9.9	45.2	17.8
1944	209.0	96.6	16.9	73.5	14.6	58.8	22.0
1945	273.9	125.8	22.3	99.6	21.0	78.6	26.1
1946	378.1	189.1	33.2	127.9	29.3	98.7	27.9
1947	466.2	244.7	42.9	149.1	38.3	110.8	29.5
1948	556.2	299.9	52.2	171.8	49.4	122.4	32.3
1949	667.2	372.9	64.5	196.6	62.2	134.3	33.2
1950	961.1	556.9	94.5	276.9	92.3	184.6	32.7
1951	1,885.2	1,134.9	186.1	506.8	164.5	342.3	57.3
1952	2,194.1	1,327.7	211.6	591.5	201.2	390.3	63.3
1953	3,006.3	1,884.2	291.1	743.5	260.2	483.4	87.5
1954	3,670.2	2,339.6	358.4	880.0	317.0	563.0	92.2
1955	4,968.2	3,252.9	494.9	1,107.5	412.2	695.4	112.9
1956	5,714.6	3,792.8	568.5	1,244.1	486.1	758.0	109.3
1957	7,347.3	4,888.4	799.4	1,520.7	671.7	849.0	138.8
Estimated future disbursements:							
1958	8,325	5,559	906	1,716	775	941	144
1959	9,698	6,485	1,054	2,000	923	1,077	159
1960	10,348	6,883	1,103	2,192	1,030	1,162	170
1961	10,886	7,191	1,144	2,370	1,138	1,232	181
1962	11,366	7,457	1,178	2,540	1,247	1,293	191
1963	11,789	7,676	1,210	2,704	1,360	1,344	199

[1] Totals do not necessarily equal the sum of rounded components.
[2] Partly estimated.

Benefit expenditures expressed as a percentage of payroll will also continue to increase. Benefit payments were 4.17 percent of taxable earnings for calendar year 1957. It is estimated that by 1963 benefit expenditures from the old-age and survivors insurance trust fund will be 5.45 percent of taxable earnings. Figures for each of the calendar years 1940–63 are shown in table 12.

TABLE 12.—*Old-age and survivors insurance benefit payments as percentage*[1] *of taxable earnings, calendar years 1940–63*

Calendar year	Benefit payments as percentage of taxable earnings	Calendar year	Benefit payments as percentage of taxable earnings
Past experience:		Past experience—Continued	
1940	0.11	1953	2.28
1941	.21	1954	2.83
1942	.25	1955	[2] 3.26
1943	.27	1956	[2] 3.50
1944	.32	1957	[2] 4.17
1945	.44	Estimated future experience:	
1946	.55	1958	4.67
1947	.59	1959	4.96
1948	.66	1960	5.13
1949	.82	1961	5.25
1950	1.10	1962	5.36
1951	1.60	1963	5.45
1952	1.76		

[1] For years 1951 and later, percentage takes into account (1) lower contribution rate payable by the self-employed compared with combined employer-employee rate, and (2) employee contributions subject to refund.

[2] Preliminary, subject to revision based on complete tabulation of taxable self-employment earnings for 1955–57 and of taxable wages for 1956–57.

The growth in the number of beneficiaries in the past and the expected growth in the future is attributable in large measure to the rising number of aged workers eligible for and receiving old-age (primary) benefits. This is illustrated in table 13 which contains an analysis of workers aged 65 and over eligible for old-age (primary) benefits by age attained as of the beginning of each of the calendar years 1941 through 1963.

The growth in the number of eligible workers aged 65 and over was gradual but uninterrupted during the calendar years 1941 to 1949, inclusive. This growth resulted partly from the increase in the population at these attained ages, but primarily from the fact that in each passing year a larger proportion of the persons attaining age 65 had fully insured status.

The marked increase in the number of workers eligible for benefits in 1951 was due to the liberalized insured-status provisions of the 1950 amendments to the Social Security Act. Although the same factors that contributed before 1951 to the growth in the number of eligible persons aged 65 and over have continued to be operative after 1950, the amendments in 1950, 1954, and 1956 which liberalized the insured-status provisions and extended coverage to new areas of employment will have an even greater effect.

As is indicated in table 13, a considerable proportion of the workers aged 65 and over who were eligible for old-age (primary) benefits in the past remained in covered employment (or, if they left covered employment, later returned to it) and did not receive benefits. Since January 1, 1945, however, the proportion of eligible workers receiving retirement benefits has been increasing except for temporary halts due to special circumstances resulting from the amendments of 1950 and 1954. In general, due to the increasing percentage of eligibles who are 72 or over and, therefore, receive benefits regardless of earnings, the past upward trend in this proportion is expected to continue.

TABLE 13.—*Workers aged 65 and over eligible for and receiving old-age (primary) benefits, by attained age, calendar years 1941–63*

[Numbers in thousands]

Beginning of calendar year	All workers aged 65 and over			Workers aged 65–69			Workers aged 70 and over		
	Number eligible for benefits [1]	Persons receiving benefits		Number eligible for benefits [1]	Persons receiving benefits		Number eligible for benefits [1]	Persons receiving benefits	
		Number	Percent of number eligible		Number	Percent of number eligible		Number	Percent of number eligible
Past experience:									
1941	548	112	20	376	85	23	172	28	16
1942	680	200	29	445	134	30	235	66	28
1943	831	260	31	522	153	29	309	107	35
1944	1,016	306	30	608	156	26	408	151	37
1945	1,244	378	30	708	167	24	536	211	39
1946	1,469	518	35	805	212	26	664	306	46
1947	1,637	702	43	868	271	31	769	430	56
1948	1,813	875	48	930	325	35	883	550	62
1949	1,990	1,048	53	1,000	380	38	990	668	67
1950	2,164	1,286	59	1,069	474	44	1,095	812	74
1951	3,139	1,771	56	1,663	721	43	1,476	1,050	71
1952	3,504	2,278	65	1,825	942	52	1,679	1,337	80
1953	4,366	2,644	61	2,260	1,055	47	2,106	1,589	75
1954	4,786	3,222	67	2,418	1,300	54	2,368	1,922	81
1955	5,190	3,775	73	2,541	1,518	60	2,649	2,257	85
1956	5,647	4,474	79	2,670	1,744	65	2,977	2,729	92
1957	6,622	4,999	75	3,102	1,876	60	3,520	3,123	89
1958	7,333	5,931	81	3,330	2,257	68	4,003	3,675	92
Estimated future experience:									
1959	7,859	6,601	84	3,443	2,413	70	4,416	4,188	95
1960	8,274	7,058	85	3,508	2,524	72	4,766	4,534	95
1961	8,620	7,398	86	3,546	2,559	72	5,074	4,839	95
1962	8,905	7,671	86	3,565	2,579	72	5,340	5,092	95
1963	9,135	7,897	86	3,571	2,588	72	5,564	5,309	95

[1] Figures for 1941–58 are partly estimated. Females aged 62–64 eligible for old-age benefits are excluded from the table. No adjustments have been made to reflect changes arising from (1) provisions that coordinate the old-age and survivors and railroad retirement programs, and (2) noncontributory wage credits for military service.

As a result of the amendments in 1956, an insured woman worker aged 62–64 may elect to receive an actuarially reduced retirement benefit. (Table 13 excludes data relating to women aged 62–64.) On January 1, 1959, there were an estimated 754,000 women workers aged 62–64 eligible for old-age benefits, of whom about 300,000, or 40 percent, were drawing such benefits. It is estimated that on January 1, 1963, 45 percent of the 810,000 women workers aged 62–64 eligible for old-age benefits will be receiving such benefits.

The expected operations and status of the disability insurance trust fund during the next 5 fiscal years are presented in summary in table 14 together with the figures on actual experience in earlier years. Income of the disability insurance trust fund is expected to exceed disbursements in each of the 5 fiscal years 1959–63. During this 5-year period, it is estimated that the disability insurance trust fund will reach a level 6 times the highest expected annual outgo during fiscal years 1959–63.

TABLE 14.—*Operations of the Federal disability insurance trust fund, fiscal years 1957–63*

[In millions]

Fiscal year	Transactions during period: Income: Tax contributions [1]	Income: Interest on investments	Disbursements: Benefit payments	Disbursements: Administrative expenses [2]	Transfers to railroad retirement account	Net increase in fund	Fund at end of period
Past experience:							
1957	$337	$1		$1		$337	$337
1958	926	16	$168	12		762	1,099
Estimated future experience:							
1959	926	34	387	21	−$9	561	1,660
1960	998	48	485	30	3	528	2,188
1961	1,020	62	528	34	5	515	2,703
1962	1,048	75	561	28	7	527	3,230
1963	1,071	88	592	29	9	529	3,759

[1] Adjusted for refunds.
[2] Expenses of the Department of Health, Education, and Welfare under the disability insurance program are initially charged to the old-age and survivors insurance trust fund. Reimbursements from the disability insurance trust fund are then made in the following fiscal year.

NOTE.—Reference should be made to the text which describes the underlying assumptions and limitations. Estimates were prepared January 1959.

Estimates consistent with those shown on a fiscal year basis in table 14 are presented in table 15 to show the progress of the disability insurance trust fund on a calendar year basis.

TABLE 15.—*Operations of the Federal disability insurance trust fund, calendar years 1957–63*

[In millions]

Calendar year	Transactions during period: Income: Tax contributions [1]	Income: Interest on investments	Disbursements: Benefit payments	Disbursements: Administrative expenses [2]	Transfers to railroad retirement account	Net increase in fund	Fund at end of period
Past experience: 1957	$702	$7	$57	$3		$649	$649
Estimated future experience:							
1958	960	25	255	13		717	1,366
1959	975	41	465	21	−$9	539	1,905
1960	1,008	55	510	30	3	520	2,425
1961	1,033	68	545	34	5	517	2,942
1962	1,059	81	577	28	7	528	3,470
1963	1,079	94	607	29	9	528	3,998

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 14.

Public Law 234, approved October 30, 1951, amended the Railroad Retirement Act to provide a new basis of coordinating the railroad retirement program with old-age and survivors insurance. A description of the legislative provisions governing the financial interchanges arising from the allocation of costs between the two systems is contained in appendix II. In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of $121.3 million to the railroad retirement account from the old-age and survivors insurance trust fund would place the old-age and survivors insurance trust fund in the same position as of June 30, 1957, as it would have been if railroad employment had always been covered under the Social Security Act. This amount together with interest thereon for fiscal year 1958, totaling $3.1 million, was transferred to the railroad retirement account in July 1958. The estimates shown in tables 9 and 10 reflect the effect of future interchanges between the railroad retirement account and the old-age and survivors insurance trust fund.

Public Law 880, approved August 1, 1956, provides for similar annual determinations and for financial interchanges between the railroad retirement account and the disability insurance trust fund beginning with the fiscal year ending June 30, 1958. The estimates shown in tables 14 and 15 reflect the effect of future interchanges between the railroad retirement account and the disability insurance trust fund.

Public Law 881, approved August 1, 1956, provides that the old-age and survivors insurance trust fund, and where appropriate the disability insurance trust fund, shall 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. A description of the legislative history of provisions relating to credit for military service is contained in appendix II. Estimates of the amounts of these reimbursements have not yet been completed. Accordingly, the estimates shown in the various tables in this section of the report have not been adjusted to reflect the effect of these reimbursements.

As already indicated earlier in this section, forecasts of the income and disbursements of the trust funds involve many uncertainties. For that reason, estimates are presented in table 16 to show what the effects would be on the operations and status of the old-age and survivors insurance trust fund in the unlikely event that there would be a sharp reduction in the level of economic activity during calendar years 1959–63, with a relatively high rate of unemployment persisting for the entire period. Under this assumption, estimated contributions will be lower, and estimated benefit payments will be higher, than estimated above under high employment conditions.

TABLE 16.—*Illustration showing the operations and status of the Federal old-age and survivors insurance trust fund assuming the unlikely event of a sharply reduced level of economic activity, calendar years 1959–63*

[In millions]

Calendar year	Transactions during period						Fund at end of period
	Income		Disbursements		Transfers to railroad retirement account	Net increase in fund	
	Tax contributions	Interest on investments	Benefit payments	Administrative expenses			
1959	$8,103	$524	$9,949	$220	$220	−$1,762	$20,149
1960	9,480	496	10,786	206	240	−1,256	18,893
1961	9,540	455	11,519	194	260	−1,978	16,915
1962	9,526	401	11,841	203	275	−2,392	14,523
1963	11,009	352	12,093	205	300	−1,237	13,286

NOTE.—In interpreting the above estimates, reference should be made to the accompanying text which explains the underlying assumptions.

The lower the level of employment during the next 5 years, the larger will be the volume of benefit payments to retired workers and to their eligible dependents. Under the hypothetical, lower employment conditions it is estimated that larger portions of eligible workers would be obliged to leave employment, especially at ages 65–69. Hence, despite a slightly smaller number of eligible workers, the number receiving old-age (primary) benefits under this assumption would considerably exceed that under high employment conditions. Moreover, it is expected that the average old-age (primary) benefit amount payable would be larger inasmuch as many of the more steadily employed, and therefore higher paid, older workers who would not withdraw from employment under the high employment conditions would not be employed under these assumed conditions. The foregoing analysis also applies to insured women workers aged 62–64.

On the other hand, 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 survivor benefits. While favorable opportunities for employment will operate to increase the number of new death claims, such a high employment situation will tend to have counterbalancing effects such as that of inducing many of the widows and older children eligible for survivor benefits to forego them by working. Therefore the amount paid out for survivor benefits over the short-range future will not be affected significantly by variations in economic conditions.

ACTUARIAL STATUS OF THE TRUST FUNDS

Old-age, survivors, and disability insurance benefit payments will increase for many years—not only in dollars but also as a percentage of payroll. Long-range estimates are needed to show how much the cost is likely to increase and to indicate whether the scheduled tax rates are adequate.

The reasons for the increasing cost are as follows (they apply to the cost of benefits to aged persons, which constitute almost 90 percent of the total cost). The U.S. population cannot continue to increase indefinitely, for births cannot continue indefinitely to exceed deaths. When a balance is reached or a reversal in the present trend occurs, the population as a whole will have become relatively much older. A relatively older population will also arise because the present aged population is made up of the survivors from past periods when death rates were much higher than they are now; thus, in the future, relatively more persons will attain age 65 and older ages. The ratio of the population aged 65 and over (potential beneficiaries) to the population aged 20–64 (potential contributors) is closely related to the cost as a percentage of payroll. At present this ratio is 16.1 percent, but in a level population with present death rates it would be 24.9 percent. It is expected that this ratio will eventually become even greater because of further decreases in mortality.

Another reason for increasing cost is that the proportion of the aged population receiving benefits will increase. Many of the present persons aged 65 and over have not worked long enough to obtain benefits, because the system began in 1937, but many jobs were not covered until 1951 or 1955. It is estimated that the proportion of the aged population eligible for some type of benefit will increase from the present level of about 67 percent to between 92 and 97 percent by the end of this century.

Because the actual cost could reasonably vary over a wide range, three complete sets of estimates are made—low-cost, intermediate-cost, and high-cost. Each provides an estimate of payroll and contributions, and of beneficiaries and benefit payments for every future year. All figures are assumed to remain constant after 2050. It is considered likely, although by no means certain, that actual costs as a percentage of payroll will lie between the low-cost and high-cost figures. The intermediate-cost estimates of beneficiaries, benefit payments, and payrolls is taken half-way between the low-cost and high-cost figures. The intermediate percentage-of-payroll figures are obtained by dividing total benefit payments by taxable payroll, each on the intermediate basis, and are therefore not exactly equal to the average of low-cost and high-cost percentages.

TABLE 17.—*Estimated costs of old-age, survivors, and disability insurance system as percent of payroll* [1], *1965–2050*

[In percent]

Calendar year	Low-cost estimate	High-cost estimate	Intermediate-cost estimate [2]
	Old-age and survivors insurance benefits		
1965	5.76	6.06	5.91
1970	6.47	6.84	6.66
1980	7.46	8.49	7.96
1990	7.83	9.91	8.82
2000	7.06	10.06	8.44
2025	7.96	13.23	10.15
2050	10.08	15.09	12.02
Level-premium cost [3]	7.29	9.42	8.27
	Disability insurance benefits		
1965	0.27	0.52	0.39
1970	.32	.63	.48
1980	.36	.72	.53
1990	.30	.64	.46
2000	.30	.68	.47
2025	.37	.81	.55
2050	.43	87	.60
Level-premium cost [3]	.33	.67	.49

[1] Taking into account the lower contribution rate for the self-employed, as compared with the combined employer-employee rate.
[2] Based on the average of the dollar costs under the low-cost and high-cost estimates.
[3] Level-premium contribution rate, at 3 percent interest rate, for benefits after 1957, taking into account interest on the trust fund on December 31, 1957, future administrative expenses, and the lower contribution rates payable by the self-employed.

NOTE.—The figures in this table are based on high-employment assumptions.

Table 17 shows benefit payments for selected years and the level-premium cost, all expressed as percentages of payroll, under each of the three estimates. The level-premium cost is that constant combined employer-employee tax rate which would exactly pay for all future benefits. All percent-of-payroll figures are adjusted so that they represent the tax rate that employees and employers combined, and the self-employed at three-quarters of the combined rate, would have to pay in any given year to meet exactly the benefit disbursements in that year. Tables 18 and 19 show, for each set of estimates, the contributions, benefit payments, administrative expenses, amount paid to or received from the railroad retirement system, and the balance in the trust funds for selected years.

TABLE 18.—*Estimated progress of old-age and survivors insurance trust fund, high employment and 1956 level earnings assumptions, 3 percent interest basis* [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Financial interchange [2]	Interest on fund	Fund at end of year [3]
	Actual data					
1951	$3,367	$1,885	$81		$417	$15,540
1952	3,819	2,194	88		365	17,442
1953	3,945	3,006	88		414	18,707
1954	5,163	3,670	92		468	20,576
1955	5,713	4,968	119		461	21,663
1956	6,172	5,715	132		531	22,519
1957	6,826	7,347	162		557	22,393
	Low-cost estimate					
1965	$13,866	$12,055	$167	−$145	$883	$31,076
1970	19,458	14,663	186	−49	1,542	55,226
1980	22,773	19,965	228	+39	3,328	115,570
1990	26,806	24,813	273	+148	5,189	179,085
2000	32,137	28,835	310	+218	8,071	279,701
2025	43,530	40,935	441	+218	24,077	827,816
	High-cost estimate					
1965	$13,794	$12,609	$195	−$176	$758	$26,447
1970	19,351	15,398	216	−91	1,270	45,434
1980	21,829	21,782	253	−14	2,385	81,786
1990	24,301	28,513	315	+94	2,406	80,392
2000	27,253	32,511	354	+167	1,454	47,194
2025	30,807	48,308	465	+167	(4)	(4)
	Intermediate-cost estimate					
1965	$13,830	$12,333	$181	−$160	$820	$28,762
1970	19,404	15,030	201	−70	1,406	50,330
1980	22,301	20,874	246	+12	2,856	98,678
1990	25,554	26,662	294	+121	3,798	129,738
2000	29,695	29,672	332	+192	4,762	163,448
2025	37,168	44,652	453	+192	8,719	295,467

[1] At 3 percent, except 2.6 percent in 1958, 2.7 percent in 1959, 2.8 percent in 1960, and 2.9 percent in 1961.
[2] A positive figure indicates payment to the trust fund from the railroad retirement account, and a negative figure indicates the reverse.
[3] Not including amounts in the railroad retirement account to the credit of the old-age and survivors insurance trust fund. In millions of dollars, these amounted to $377 for 1953, $284 for 1954, $163 for 1955, $60 for 1956, and nothing for 1957 and thereafter.
[4] Fund exhausted in 2010.

TABLE 19.—*Estimated progress of disability insurance trust fund, high employment and 1956 level earnings assumptions, 3 percent interest basis* [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Financial interchange [2]	Interest on fund	Fund at end of year
	Actual data					
1957	$702	$57	$17		$7	$635
	Low-cost estimate					
1965	$1,063	$535	$22	−$32	$164	$5,876
1970	1,144	699	23	−32	259	9,099
1980	1,339	930	27	−20	474	16,449
1990	1,577	930	30	−7	796	27,663
2000	1,889	1,110	36	0	1,310	45,372
2025	2,560	1,891	53	+3	3,448	118,687
	High-cost estimate					
1965	$1,056	$1,059	$28	−$35	$88	$2,998
1970	1,138	1,407	30	−35	71	2,272
1980	1,283	1,828	35	−24	(3)	(3)
	Intermediate-cost estimate					
1965	$1,059	$796	$25	−$34	$126	$4,437
1970	1,141	1,052	27	−34	165	5,686
1980	1,311	1,380	30	−22	201	6,844
1990	1,503	1,372	34	−9	256	8,836
2000	1,745	1,649	40	−2	383	13,194
2025	2,186	2,412	53	+1	562	19,146

[1] At 3 percent, except 2.6 percent in 1958, 2.7 percent in 1959, 2.8 percent in 1960, and 2.9 percent in 1961.
[2] A positive figure indicates payment to the trust fund from the railroad retirement account, and a negative figure indicates the reverse.
[3] Fund exhausted in 1976.

Annual benefit payments as a percentage of payroll are less than the tax rate in the early years (with a few exceptions), but—except under the low-cost disability estimate—eventually rise well above the ultimate tax rates of 8½ percent for old-age and survivors insurance and one-half percent for disability insurance. To measure the extent to which the financing arrangements of the system result in a surplus or deficiency, a level rate equivalent to the actual increasing contribution rates is computed, as well as a level rate which together with the interest to be earned on the existing trust funds is exactly sufficient to pay for future benefits and administrative expenses. This level-premium equivalent of contributions less the level-premium equivalent of benefit and administrative cost gives the amount by which the contribution rate in all years should be changed to put the system in exact balance according to the estimate. A negative figure indicates that an increase is needed. The figures shown below are computed as of the beginning of calendar year 1958:

[Percent]

Item	Low cost	High cost	Intermediate cost
	Old-age and survivors insurance		
Contributions	8.05	7.98	8.02
Benefit cost [1]	7.29	9.42	8.27
Net difference	.76	−1.44	−.25
	Disability insurance		
Contributions	0.50	0.50	0.50
Benefit cost [1]	.33	.67	.49
Net difference	.17	−.17	.01

[1] Including adjustments (a) to reflect lower contribution rate for self-employed as compared with employer-employee rate, (b) for existing trust fund, and (c) for administrative expenses.

In view of the very long-range nature of these projections and the many variable factors involved, the deficiency for the old-age and survivors insurance system under the intermediate-cost estimate is so small that the system may be considered in approximate actuarial balance. The disability insurance system under the intermediate-cost estimate is in almost exact balance.

If experience exactly follows the assumptions, the deficiency would gradually increase under the high-cost or intermediate-cost estimate for old-age and survivors insurance and the high-cost estimate for disability insurance, while the surplus would increase under the low-cost estimate for old-age and survivors insurance and the low and intermediate estimates for disability insurance. The reason for this is that the excess of the benefit cost over the value of the contributions would be accumulating with interest. With continuing study of the emerging experience under the program, there would be ample time for any such changes in the tax rate to be made as would be required in the future to keep the system in actuarial balance.

In this analysis, all future benefits and contributions are included. There would be a large deficiency if account were taken only of the benefits to be paid to workers who have already been covered by the system and to their dependents and survivors, the future taxes to be paid by such workers, and the existing trust funds. In a private insurance company it is necessary to set up reserves equal to all currently accrued liabilities, since the company cannot compel individuals to become new policyholders and must be in a position at any time to pay all benefits which will become payable with respect to its present and past policyholders using only its present assets and the premiums to be paid by present policyholders. In a compulsory social insurance system which will continue indefinitely, however, the income and benefits with respect to new entrants should be included.

A discussion of the assumptions under which these estimates have been made is presented in appendix I.

REPORT OF ADVISORY COUNCIL ON SOCIAL SECURITY FINANCING

In accordance with section 116 of the Social Security Amendments of 1956 (Public Law 880, 84th Cong.) the Secretary of Health, Education, and Welfare in October 1957 appointed an Advisory Council on Social Security Financing. The Council studied and reported on the method of financing old-age, survivors, and disability insurance, the long-range costs of the program, the sufficiency of the tax income provided by law (including the timing and the amounts of the scheduled increases), the base to which contribution rates apply, the management and investment of the trust funds, and similar matters. The law provides that the Council make a report of its findings and recommendations not later than January 1, 1959, and that this report shall be included in the annual report of the Board of Trustees that is due on or before March 1, 1959. The report of the Council was submitted to the Board of Trustees as provided by law and appears as appendix IV of this report.

The Board of Trustees is pleased to observe the major finding of the Council that the method of financing the program is sound and that, based on the best available cost estimates, the contribution schedule makes adequate provision for meeting both short-range and long-range costs. The Board of Trustees is in full agreement with this finding.

The Board concurs with the Council's recommendation that contribution rate increases should go into effect in 1959, 1960, and 1963 as now scheduled. It also is in agreement with the reasoning which led the Council to conclude that conditions will probably warrant the 1966 rate increase as well. As the Council points out, however, before the 1966 rate is scheduled to go into effect other advisory councils will have considered the timing of the introduction of this rate in the light of cost estimates and conditions current at that time. The Board of Trustees is pleased to note the Council's endorsement of the present practice of periodic reexamination of estimating techniques and assumptions to take account of emerging experience and changing conditions.

The Board of Trustees believes that one of the most important recommendations made by the Council is its proposal that "future decisions concerning the financing of the program should increasingly take into account estimates of trust fund income and outgo over the ensuing 15 or 20 years based on expected earnings and employment levels and on demographic developments." These estimates would, to some extent, be similar to the estimates presented in the annual reports of this Board covering the period of 5 future years and in contrast with the present long-range estimates, which assume level earnings and employment trends. The Council states its belief that such 15- or 20-year estimates should largely guide decisions about the imposition of further rate increases after 1966 when the contribution rate will probably approach the level of a reasonable minimum estimate of the costs of the program over many decades into the future. The Board of Trustees agrees with this proposal and will present such estimates in future annual reports.

The Board of Trustees is pleased to note that with respect to the role of the trust funds the Advisory Council "approves the accumulation of funds that are more than sufficient to meet all foreseeable short-range contingencies, and that will therefore earn interest in somewhat larger amounts than would be earned if the funds served only a contingency purpose." The Board agrees also with the Council's conclusion that a "full" reserve is nevertheless unnecessary and that interest earnings should not be counted on to meet a major part of the costs of the program in the far-distant future.

The Board of Trustees also agrees with and recommends the adoption of the following two recommendations made by the Council that would necessitate changes in the law:

(1) The so-called three times rule (requiring the Board of Trustees to report to the Congress whenever it expects that in the course of the next 5 fiscal years either of the trust funds will exceed three times the highest annual expenditures from such fund anticipated during that 5-year period) should be eliminated from the law;

(2) The law should be amended to state that the Board of Trustees as a whole has the responsibility for reviewing the general management policies for the trust funds and recommending any needed changes in the law in this respect; as a specific point, the law should provide that the Board of Trustees meet at intervals of not more than 6 months.

The Council recommended that the statute be amended to allow the purchase of marketable securities only when such purchase would be in the public interest *and* would provide currently a yield equal to or greater than would be obtained by investing in special issues (in contrast with the present provision that special obligations be issued for purchase by the funds only if it is not in the public interest to purchase marketable securities).

Although the practice of the Managing Trustee is entirely consistent with the spirit of this recommendation, the trustees believe that the language is too restrictive. Under such a provision, the Managing Trustee might be prohibited from purchasing issues in the market immediately prior to their maturity which could be exchanged for new marketable issues bearing rates of interest higher than the statutory formula, or might be prevented from exchanging a maturing marketable issue held by the funds for a new marketable issue. In order to permit the flexibility which occasional special circumstances might require, the trustees believe that the statute should be amended to allow the purchase of marketable securities only when such purchase would be in the public interest.

The Council made a further recommendation related to the investment of the trust funds that is of considerable importance and that would also necessitate changes in the law. This recommendation was that special obligations issued for purchase by the trust funds should carry an interest rate approximating the average market yield on long-term Government securities that are not due or callable for, say, at least 5 years from the time when the special obligation is issued (except for a minor portion of the trust funds that might be invested in short-term securities—bearing an appropriate interest rate—to meet current and short-range needs); this proposed provision would be in contrast with the present one, under which such interest rate is based on the coupon rate of marketable bonds with maturities exceeding 5 years from their dates of issue. The Council also recommended that before the proposed new formula becomes effective the present maturity distribution of the special obligations held in the trust funds be reviewed and, if need be, adjusted to effect a gradual and orderly transition over a period of several years.

The trustees agree that from the standpoint of the trust funds it would be desirable to change the present statutory rate formula to one that is related to current market yields rather than coupon rates. The Council, however, suggested two rates, a long-term rate to apply to the major part of the funds and a short-term rate to apply to a minor portion to meet current and short-range needs. The trustees feel there are several objections to this recommendation, one of which is that the short-term rate is subject to wide fluctuation, and another that because the short-range needs vary greatly from month to month and year to year the amount to be held in short-term securities would have to be determined arbitrarily and might be subject to criticism, particularly when short-term rates were low. The trustees believe that the short-term needs of the funds should be recognized, but that for reasons of simplicity, ease of administration and elimination of the necessity for arbitrary judgment, there should be one interest rate reflecting the short-term as well as the long-term requirements of the fund. The Board recommends that this rate should approximate the average market yield on Government securities that are not due or callable for less than 3 years from the time when the special obligation is issued.

The trustees are also in agreement with the principle of the Council's recommendation that the transition from the old to the new formula should be made gradually, and they have agreed that before the new formula becomes effective the present maturity distribution of the special obligations held in the trust funds be rearranged in accordance with the needs of the funds and the principles of sound debt management.

CONCLUSION

Both the contribution income and the disbursements of the old-age and survivors insurance trust fund have increased substantially during the past 5 fiscal years. The increase in the contribution income resulted partly from the rise in earnings levels and the normal growth of the labor force and partly from the increase in contribution rates in 1954, the extension of coverage to additional employments by the 1954 and 1956 amendments, and the increase in the maximum limit on taxable earnings in 1955.

Trust fund disbursements, however, have risen even more sharply than contribution income. Basic factors in this increase are the long-term growth in the aged population and, more significantly, the lengthening period during which workers have had an opportunity to earn the quarters of coverage required to be insured. More immediate causes have been the amendments to the Social Security Act during 1950–56, which extended the program's coverage, lowered the requirements for eligibility to benefits for persons who retire (and for the survivors of individuals who die) in the early years of the program, reduced the retirement age of women from 65 to 62, increased the benefits payable, and liberalized the retirement test.

As a result of the rapid rise in disbursements, the outgo of the old-age and survivors insurance trust fund in fiscal year 1958 exceeded its income by $216 million. The assets of the trust fund were, of course, available to cover this excess of outgo over income. It is estimated that the disbursements will again exceed receipts in fiscal 1959. Under the contribution schedule as revised by the Social

Security Amendments of 1958, however, receipts will about equal disbursements in fiscal 1960; receipts are expected to exceed disbursements beginning in fiscal year 1961 and for many years thereafter.

Long-range cost estimates show that the financing of the old-age and survivors insurance program is in close actuarial balance. In other words, the system will have sufficient income from contributions based on the tax schedule now in the law and from interest earned on investments to meet payments for benefits and administrative expenses over the long-range future.

Aggregate income of the disability insurance trust fund during the period immediately ahead will continue to be wholly sufficient to meet aggregate disbursements and in fact will build up a substantial fund. Long-range cost estimates show that the financing of the disability insurance program is in actuarial balance.