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1971 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

LETTER

FROM

BOARD OF TRUSTEES

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

TRANSMITTING

THE 1971 ANNUAL REPORT OF THE BOARD (31ST REPORT), PURSUANT TO THE PROVISIONS OF SECTION 201(c) OF THE SOCIAL SECURITY ACT, AS AMENDED

APRIL 19, 1971.—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., April 15, 1971.

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

SIR: We have the honor to transmit to you the 1971 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (the 31st such report), in compliance with the provisions of section 201(c) of the Social Security Act.

Respectfully,

JOHN B. CONNALLY,
Secretary of the Treasury, and Managing Trustee of the Trust Funds.

J. D. HODGSON,
Secretary of Labor.

ELLIOT L. RICHARDSON,
Secretary of Health, Education, and Welfare.

ROBERT M. BALL,
Commissioner of Social Security and Secretary, Board of Trustees.

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1971 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND

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. 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

During fiscal year 1970, both the receipts and the expenditures of the old-age and survivors insurance trust fund and the disability insurance trust fund surpassed those of any previous year. A record high number of workers—an estimated 93 million—had earnings in calendar year 1969 that were taxable and creditable toward benefits under the program. The number of persons receiving monthly benefits under the old-age, survivors, and disability insurance program increased to 25.8 million by the end of June 1970.

The total assets of the old-age and survivors insurance trust fund at the end of June 1970 amounted to $32,616 million, representing an increase of $4,425 million in assets from the $28,191 million in the fund at the end of June 1969. Net receipts of the old-age and survivors insurance trust fund in fiscal year 1970 amounted to $31,746 million, or about 16 percent more than in fiscal year 1969, whereas net disbursements during the same period amounted to $27,321 million, an increase of about 11 percent over fiscal year 1969.

Net receipts of the old-age and survivors insurance trust fund consisted of $29,955 million in net contributions, $1,350 million in interest, and $442 million reimbursed from the general fund of the Treasury for the costs of (1) benefits based on noncontributory credits for military service and (2) payments to certain noninsured persons aged 72 and over who have less than three quarters of coverage. Contributions were about 15 percent higher than in the previous fiscal year, primarily because of (1) the higher level of employment and taxable earnings and (2) the increase in the contribution rates for employees and employers, from 3.325 percent of taxable earnings to 3.725 percent each, and corresponding increases for the self-employed, effective on January 1, 1969.

Net disbursements consisted of $26,267 million for benefit payments, $474 million for administrative expenses, $579 million transferred to the railroad retirement account under the financial interchange provisions of the Railroad Retirement Act and $1,239,000 for the cost of vocational rehabilitation services furnished to disabled adults receiving benefits from the old-age and survivors insurance trust fund.

Benefit payments in fiscal year 1970 were about 11 percent higher than in the previous fiscal year, due primarily to the general benefit increase provided by the 1969 amendments that was effective with benefits for January 1970 and to the growth in the number of persons receiving benefits.

At the end of the fiscal year there were 23,185,000 persons receiving monthly benefits from the old-age and survivors insurance trust fund, about 3 percent more than a year earlier. Some 16,252,000 of these persons were retired workers and their dependents, 6,367,000 were survivors of deceased workers, and 567,000 were noninsured persons aged 72 and over.

For the disability insurance trust fund, net receipts in fiscal year 1970 amounted to $4,380 million. Of this amount, contributions amounted to $4,141 million, about 17 percent more than in fiscal year 1969. This increase was partly due to the larger allocation of contributions to the disability insurance trust fund that went into effect on January 1, 1970. The remaining net receipts consisted of $223 million in interest and $16 million reimbursed from the general fund of the Treasury for the costs of benefits based on noncontributory credits for military service.

Net disbursements of the disability insurance trust fund in fiscal year 1970 amounted to $2,954 million. Benefit payments of $2,778 million were 14 percent higher than in the previous year. The remaining disbursements consisted of $149 million in administrative expenses, $10 million transferred to the railroad retirement account, and $16 million for the cost of vocational rehabilitation services furnished to disabled beneficiaries.

The excess of total income over total outgo, amounting to $1,426 million, increased the total assets of the disability insurance trust fund from $3,678 million on June 30, 1969 to $5,104 million on June 30, 1970.

The number of disabled workers and their dependents receiving monthly benefits from the disability insurance trust fund increased to 2,568,000 by the end of fiscal year 1970, about 7 percent more than at the beginning of the year.

After the close of fiscal year 1970, Congress amended the Social Security Act and related sections of the Internal Revenue Code directly affecting the old-age, survivors, and disability insurance program. These amendments included an across-the-board increase in benefit amounts payable under the program. The amendments also provide for an increase to $9,000 in the maximum annual amount of earnings taxable and creditable toward benefits, beginning January 1972. The schedule of contribution rates for old-age, survivors, and disability insurance was revised to continue to reflect the intent of Congress that the program be self-supporting on a long-range basis. The provisions of the 1971 legislation are described more fully in another section of this report, and their effects are taken into account in the actuarial cost estimates presented herein.

For the old-age and survivors insurance trust fund, estimates for the 5 fiscal years 1971–75 show that although both receipts and disbursements will increase steadily, the receipts will rise more rapidly, due to the increase in the maximum taxable earnings base in calendar year 1972, the scheduled rises in contribution rates in 1971 and 1973, and the assumed upward trends in levels of employment and earnings. Consequently, at the end of fiscal year 1975, this trust fund will amount to an estimated $73.6 billion, or an increase of $41.0 billion in the 5-year period. Receipts during fiscal year 1975 are estimated to total $54.1 billion, and disbursements, $40.1 billion.

Medium-range estimates, based on the assumption that earnings will continue to rise throughout the period 1971–90, show continued increases in receipts, disbursements, and assets of the old-age and survivors insurance trust fund. According to these estimates, if the provisions of present law are assumed to remain unchanged, the assets of the trust fund will rise rapidly, reaching a total of $555 billion at the end of calendar year 1990. On the other hand, if the maximum taxable earnings base and the benefit provisions of present law are assumed to be amended periodically so as to keep the program in line with changes in levels of average earnings, the assets of the trust fund will rise less rapidly, reaching a total of $194 billion by 1990.

Long-range cost estimates for the old-age and survivors insurance program indicate that the level-cost of the program, estimated over a period of 75 years, ranges from 8.64 to 9.72 percent of taxable payroll. The intermediate-cost estimate is 9.13 percent of taxable payroll, as compared with the level-equivalent of the graded schedule of contributions of 9.07 percent of taxable payroll.

According to estimates for the 5 fiscal years 1971–75, income of the disability insurance trust fund will rise more rapidly than disbursements due to the increase in the maximum taxable earnings base in 1972 and the assumed upward trends in levels of employment and earnings. Consequently, this trust fund will amount to an estimated $14.2 billion by the end of fiscal year 1975, an increase of $9.1 billion in the 5-year period.

According to the medium-range estimates, the assets of the disability insurance trust fund will increase rapidly, reaching $72 billion by the end of calendar year 1990, if provisions of present law are assumed to remain unchanged. If, on the other hand, the maximum taxable earnings base and the benefit provisions of present law are amended periodically to keep pace with average earnings, the medium-range estimates indicate that the assets of the fund will rise less rapidly, reaching a total of $27 billion by 1990.

According to long-range estimates for the disability insurance program, the level-cost, calculated over a 75-year period, ranges from 0.95 percent to 1.36 percent of taxable payroll. The intermediate-cost estimate is 1.14 percent of taxable payroll, as compared with the level contribution rate of 1.10 percent of taxable payroll.

Two health insurance programs for persons aged 65 and over are related to the old-age, survivors, and disability insurance program: the hospital insurance program, which provides protection against the costs of hospital and related care, and the voluntary supplementary medical insurance program, which provides protection against the costs of certain medical and other health services (principally physicians' services). Each of these programs is financed through

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the operation of a separate trust fund. Summary descriptions of the provisions of, as well as statements of financial operations and actuarial cost estimates for, these two programs are contained in separate reports of the Boards of Trustees of the trust funds of these programs.

The Advisory Council on Social Security, appointed by the Secretary of Health, Education, and Welfare in May 1969, submitted its reports to the Secretary on March 31, 1971, who thereupon transmitted the reports to the Board of Trustees. The Board has not yet had an opportunity to study the reports thoroughly and therefore defers comments until the Board submits its next annual report.

Social Security Amendments in 1971

Public Law 92–5, approved March 17, 1971, amended both the Social Security Act and the Internal Revenue Code. The amendments provide an increase in benefits that affects significantly both the immediate and long-range future levels of disbursements under the old-age, survivors, and disability insurance program. The contribution and benefit base was increased and the schedule of contribution rates in prior law was revised to continue to reflect the intent that the cash benefits program be self-supporting.

The more important changes, significant from an actuarial standpoint, are presented below:

1. Larger benefits were made payable to future beneficiaries, as well as to persons on the rolls:

(*a*) The maximum amount of earnings taxable and creditable toward benefits was raised to $9,000 a year, beginning with 1972.

(*b*) Benefit amounts were increased by 10 percent, effective with benefits for January 1971. Except for certain beneficiaries aged 72 and over, the minimum primary insurance amount was increased from $64 to $70.40 per month. The maximum primary insurance amount of $250.70 that would have been payable under the law as in effect before the 1971 legislation was increased to $295.40.

(*c*) Beneficiary families who become entitled to benefits in the future and whose benefits are limited by the maximum family amount will receive the same benefits as those already on the rolls on the effective date of the general benefit increase.

(*d*) The minimum full-rate benefit for a family containing only one survivor beneficiary is $70.40 per month (except in the case of a transitional insured widow aged 72 or over).

(*e*) Effective January 1971, monthly benefits for transitional insured persons aged 72 and over were raised by 5 percent—from $46 to $48.30 in the case of a worker or widow beneficiary, and from $23 to $24.20 in the case of a wife beneficiary.

(*f*) Effective January 1971, monthly benefits for transitional noninsured persons aged 72 and over were raised by 5 percent—from $46 to $48.30 in the case of a single beneficiary, and from $69 to $72.50 in the case of a couple. As under prior law, all of these payments are made initially from the old-age and survivors insurance trust fund, with later reimbursement from the general fund of the Treasury for the costs of payments to those non-insured persons who have less than three quarters of coverage.

2. Changes relating to the financing of the old-age, survivors, and disability insurance program were made with the intent of assuring that it will continue to be self-supporting.

Under the new contribution rate schedule for the cash benefits program, the rate for 1971 and 1972 in prior law remains unchanged at 4.6 percent each for employees and employers, the rate is 5.0 percent each for the 3-year period 1973–75 and then is increased to 5.15 percent each in 1976 and thereafter. (In prior law, the rate was 5.0 percent each in 1973 and thereafter.) No changes were made in the contribution rates for the self-employed and in the portion of the contribution rate allocated to finance benefits payable from the disability insurance trust fund.

Table 1 presents an estimate of the effect, expressed as level-costs in percent of taxable earnings, of the changes in the old-age, survivors, and disability insurance program that were made by the 1971 legislation.

TABLE 1.—CHANGES IN ESTIMATED LEVEL-COSTS AS PERCENT OF TAXABLE EARNINGS, BY TYPE OF CHANGE, INTERMEDIATE-COST ESTIMATE, 5.25 PERCENT INTEREST

Item	Old-age and survivors insurance	Disability insurance	Total system
Benefit cost of program in effect before amendments [1]	8.55	1.05	9.60
Effect of changes:			
Additional income, less additional benefits, resulting from higher earnings base	−.25	−.02	−.27
Increase in level of benefits	.78	.10	.88
Liberalized family maximum benefits	.05	.01	.06
Benefit cost after enactment of amendments [1]	9.13	1.14	10.27
Level-equivalent of graded tax schedule before amendments [2]	8.84	1.10	9.94
Effect of changes in tax schedule	.23	.00	.23
Level-equivalent of graded tax schedule after enactment of amendments [2]	9.07	1.10	10.17
Actuarial balance	−.06	−.04	−.10

[1] Based on valuation date of Jan. 1, 1971. Taking into account (a) lower contribution rate on self-employment income and on tips, as compared with combined employer-employee rate; (b) administrative expenses; and (c) interest on trust funds on hand as of Dec. 31, 1970.

[2] Adjusted to reflect lower contribution rate on self-employment income and on tips, as compared with combined employer-employee rate.

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 U.S. Treasury to hold the amounts accumulated under the old-age and survivors insurance program. All the financial operations which relate to the system of old-age and survivors insurance are 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 are handled all financial operations in connection with the system of monthly disability benefits payable to insured workers and to their dependents.

The major sources of receipts of these two funds are (1) amounts 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 work covered by the old-age, survivors, and disability insurance program and (2) amounts deposited in each of them representing contributions paid by workers employed by State and local governments and by such employers with respect to work covered by the program. All employees, and their employers, in employment covered by the program are required to pay contributions with respect to the wages of individual workers (cash tips, covered as wages beginning in 1966 under the 1965 amendments, are an exception to this; employees pay contributions with respect to cash tips, but employers do not). All covered self-employed persons are required to pay contributions with respect to their self-employment income. In general, beginning with calendar year 1968, 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 $7,800, with the contributions being determined first on the wages and then on any self-employment income necessary to make up the annual maximum amount. Under present law, beginning with calendar year 1972, the annual maximum amount is scheduled to increase to $9,000.

The contribution rate for old-age, survivors, and disability insurance for employees and their employers of 4.2 percent each that was in effect in calendar years 1969–70 increased to 4.6 percent each on January 1, 1971; the contribution rate for the self-employed increased from 6.3 percent to 6.9 percent. The contribution rates that have been in effect since 1937 and the maximum amount of annual earnings to which the rates applied are shown in appendix II.

The following table shows the contribution rates scheduled in the present law:

Calendar years	Percent of taxable earnings	
	Employees and employers, each [1]	Self-employed
1969–1970	4.20	6.3
1971–1972	4.60	6.9
1973–1975	5.00	7.0
1976 and after	5.15	7.0

[1] Only the employee contribution is paid on tips that are taxable as wages.

Under section 201(b) of the Social Security Act, the contribution rate allocated to the disability insurance trust fund of 0.475 percent each for employees and employers, in effect in calendar years 1968 and 1969, increased to 0.55 percent each on January 1, 1970. For the self-employed, the allocation rate increased from 0.7125 percent, in effect in calendar years 1968 and 1969, to 0.825 percent in calendar year 1970.

Except for amounts received by the Secretary of the Treasury under State agreements (to effectuate coverage under the program for State and local government employees) and deposited directly in the trust funds, all contributions are collected by the Internal Revenue Service and deposited in the general fund of the Treasury as internal revenue collections; then, on an estimated basis, the contributions received are immediately and automatically appropriated to the trust funds. The exact amount of contributions received is not known initially since old-age, survivors, disability, and hospital insurance contributions and individual income taxes are not separately identified in collection reports received by the Treasury Department from the district offices of the Internal Revenue Service. 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 can receive a refund of the contributions he paid on such excess wages. The amount of contributions 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 that period.

Another 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 the provisions of the Railroad Retirement Act which provide for a system of coordination and financial interchange between the railroad retirement program and the old-age, survivors, and disability insurance program. A description of the legislative provisions governing the allocation of costs between the two programs appears in appendix II.

Sections 217(g) and 229(b) of the Social Security Act authorize annual reimbursements from the general fund of the Treasury to the old-age and survivors insurance and disability insurance trust funds for any costs arising from the granting of noncontributory credits for military service, according to periodic determinations made by the Secretary of Health, Education, and Welfare. A summary of the legislative history of the financing of noncontributory credits for military service appears in appendix II.

Section 228 of the Social Security Act provides monthly cash benefits to certain persons aged 72 and over, almost all of whom are not eligible for cash benefits under other provisions of the old-age, survivors, and disability insurance program. Under section 228, all payments are made initially from the old-age and survivors insurance trust fund, with later reimbursement, with interest, from the general fund of the Treasury for the costs, including administrative expenses, of payments to persons who have less than three quarters of coverage. The reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest allowances, as the actual experience develops and is analyzed. A description of the legislative provisions governing the allocation of costs between the trust fund and the general fund of the Treasury 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 surplus supplies and materials 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.

Under section 1106(b) of the Social Security Act, the Secretary of Health, Education, and Welfare is authorized to charge outside persons, agencies, and organizations for providing certain services not directly related to the old-age, survivors, and disability insurance program. The Social Security Administration has accumulated a unique body of information in the course of the administration of the program. Situations arise when it is in the public interest to use this information to perform certain services for outside parties, such as the preparation of statistical tabulations for research purposes, when such services can be performed without violating the confidentiality of the records or interfering unduly with the administration of the program. Such services could not properly be provided at the expense of the trust funds. Receipts derived from performance of these services are equal to the cost of providing them; in some instances, the receipts are credited to the trust funds to counterbalance administrative expenses already paid from the trust funds (in which case such amount is netted out of the figures on administrative expenses in the financial statements of the trust funds), while in other instances such receipts are not credited to the trust funds, and the applicable administrative expenses are met directly from them. Accordingly, such administrative expenses, and the offsetting receipts, do not have any effect on the financial statements of the trust funds.

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 and of the Internal Revenue Code relating to the collection of contributions are charged to the trust funds. The Secretary of Health, Education, and Welfare certifies benefit payments to the managing trustee, who makes the payment from the respective trust funds in accordance therewith.

Section 222(d) of the Social Security Act provides for reimbursement from the trust funds for the cost of vocational rehabilitation services furnished to disabled persons receiving benefits because of their disability. The total amount of funds that may be made available for purposes of reimbursement for such services may not, in any fiscal year, exceed 1 percent of the benefits certified for payment to these types of beneficiaries in the preceding year.

Congress has authorized expenditures from the trust funds for construction of office buildings and related facilities for the Social Security Administration. The costs of such construction are included as part of administrative expenses in the financial statements of operations of the trust funds as set forth in subsequent sections of this report. The net worth of the resulting facilities—like the net worth of all other capital assets—is not carried as an asset in such statements.

That portion of each trust fund which, in the judgment of the managing trustee, is not required to meet current expenditures for benefits and administration is invested, on a daily basis, in interest-bearing obligations of the U.S. Government, in obligations guaranteed as to both principal and interest by the United States, or in certain federally-sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. Obligations of these types may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

In addition, the Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust funds. The law requires that such special public-debt obligations shall have maturities fixed with due regard for the needs of the trust funds and shall bear interest at a rate based on the average market yield (computed by the managing trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such calendar month. Where such average market yield is a multiple of one-eighth of 1 percent, this is taken as the rate of interest on such special obligations; otherwise such rate is the multiple of one-eighth of 1 percent nearest such market yield.

Interest on public issues held by the trust funds is received by the funds at the time the interest is paid on the particular issues held. Interest on special public-debt obligations issued specifically for purchase by the trust funds is payable semiannually or at redemption, if earlier.

Marketable public issues acquired by the funds may be sold at any time by the managing trustee at their market price. Special public-debt obligations issued for purchase by the trust funds 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 24 and 25.

In addition to serving as a source of income, the assets of the trust funds assure the continued payment of benefits without sharp changes in contribution rates during periods of short-run adverse fluctuations in total income and expenditures.

Summary of the Operations of the Federal Old-Age and Survivors Insurance Trust Fund, Fiscal Year 1970

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, 1969, and ended on June 30, 1970, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2.

The total assets of the old-age and survivors insurance trust fund amounted to $28,191 million on June 30, 1969. These assets increased to $32,616 million by the end of the fiscal year 1970, an increase of $4,425 million.

Net receipts of the trust fund during the fiscal year 1970 amounted to $31,746 million. Of this total, $27,495 million represented contributions appropriated to the fund and $2,758 million represented amounts received by the Secretary of the Treasury in accordance with

State agreements for coverage of State and local government employees and deposited in the trust fund. As an offset, $298 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base.

TABLE 2.—STATEMENT OF OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING THE FISCAL YEAR 1970

Total assets of the trust fund, June 30, 1969	$28,190,938,974.73
Receipts, fiscal year 1970:	
Contributions:	
Appropriations	27,494,642,818.29
Deposits arising from State agreements	2,758,436,045.13
Gross contributions	30,253,078,863.42
Less payment into the Treasury for contributions subject to refund	298,406,250.00
Net contributions	29,954,672,613.42
Reimbursement from general fund of the Treasury for costs of—	
Noncontributory credits for military service	78,000,000.00
Payments to noninsured persons aged 72 and over:	
Benefit payments	314,845,000.00
Administrative expenses	5,680,000.00
Interest	43,626,000.00
Total reimbursement for payments to noninsured persons aged 72 and over	364,151,000.00
Interest:	
Interest on investments	1,348,569,122.14
Interest on amount of interfund transfers for reimbursement of administrative expenses and construction costs	1,074,043.00
Gross interest	1,349,643,165.14
Less interest on amounts transferred to disability insurance trust fund for reimbursement of cost of vocational rehabilitation services	30,223.00
Net interest	1,349,612,942.14
Total receipts	31,746,436,555.56
Disbursements, fiscal year 1970:	
Benefit payments	26,266,928,365.27
Transfers to railroad retirement account	578,818,000.00
Payment for cost of vocational rehabilitation services for disabled beneficiaries:	
For fiscal year 1970	1,223,071.42
Reimbursement to disability insurance trust fund due to adjustment in cost for fiscal year 1969	16,000.00
Total	1,239,071.42
Administrative expenses:	
Department of Health, Education, and Welfare	425,406,039.69
Treasury Department	61,126,575.58
Construction of facilities for Social Security Administration	4,517,359.66
Expenses of the Department of Health, Education, and Welfare for administration of vocational rehabilitation program for disabled beneficiaries	24,840.00
Gross administrative expenses	491,074,814.93
Less receipts from sale of surplus supplies, materials, etc	31,041.98
Less reimbursements for administrative expenses from—	
Hospital insurance trust fund [1]	14,003,936.00
Supplementary medical insurance trust fund [2]	765,000.00
Less reimbursements due to adjustment in allocation of costs of construction for fiscal year 1969 transferred from—	
Disability insurance trust fund	449,040.00
Hospital insurance trust fund	853,000.00
Supplementary medical insurance trust fund	938,000.00
Net administrative expenses	474,034,796.95
Total disbursements	27,321,020,233.64
Net addition to the trust fund	4,425,416,321.92
Total assets of the trust fund, June 30, 1970	32,616,355,296.65

[1] Amount represents the sum of (a) $3,555,000 for a payment made initially from the old-age and survivors insurance trust fund in fiscal year 1970 for expenses of the Public Health Service and (b) $10,448,936 due to adjustment in allocation of expenses of the Department of Health, Education, and Welfare for fiscal year 1969.

[2] Amount represents reimbursement for a payment made initially from the old-age and survivors insurance trust fund in fiscal year 1970 for expenses of the Public Health Service.

Net contributions amounted to $29,955 million, an increase of 15 percent over the amount for the preceding fiscal year. Growth in contribution income resulted primarily from (1) the higher level of employment and taxable earnings and (2) the increase from 6.65 percent to 7.45 percent in the combined employer-employee contribution rate allocated to finance benefits from the old-age and survivors insurance trust fund that became effective on January 1, 1969. Although the increase in the contribution rate became effective in 1969, the first full fiscal year during which the higher rate was operative was 1970. The increase in net contributions would have been larger had it not been for the decrease in the combined employer-employee contribution rate from 7.45 percent to 7.30 percent that became effective on January 1, 1970 (this decrease being exactly counterbalanced by an increase in the contribution rate allocated for disability insurance from 0.95 percent to 1.10 percent).

Reference has been made in an earlier section to provisions under which the old-age and survivors insurance and disability insurance trust funds are to be reimbursed annually from the general fund of the Treasury for costs of granting noncontributory credits for military service performed before 1957. In accordance with these provisions, the Secretary of Health, Education, and Welfare determined, in September 1965, that the annual amounts due were $87.4 million for the old-age and survivors insurance trust fund and $18.4 million for the disability insurance trust fund. Annual reimbursements amounting to $78 million for the old-age and survivors insurance trust fund, and to $16 million for the disability insurance trust fund were received in December 1969.

Reference has also been made in an earlier section to provisions under which the old-age and survivors insurance trust fund is to be reimbursed annually from the general fund of the Treasury for costs of monthly payments to certain noninsured persons aged 72 and over who have less than three quarters of coverage. The reimbursement in fiscal year 1970 amounted to $364 million, of which $315 million was for benefit payments, $6 million was for administrative expenses, and $44 million was for interest.

The remaining $1,350 million of receipts consisted of interest on the investments of the trust fund and net interest on amounts of interfund transfers among the four trust funds, old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance.

Disbursements from the trust fund during the fiscal year 1970 totaled $27,321 million. Of this total, $26,267 million was for benefit payments, an increase of 11 percent over the corresponding amount paid in the fiscal year 1969. This increase was due primarily to the 1969 amendments which provided for a general increase in benefits effective for January 1970. Another factor that contributed to the increase in benefit payments from fiscal year 1969 to fiscal year 1970 was the expected growth in the total number of beneficiaries as the program gradually matures.

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Reference has been made in an earlier section to provisions of the Railroad Retirement Act which coordinate the railroad retirement and the old-age and survivors insurance programs and which govern the financial interchanges arising from the allocation of costs between the two systems. In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of $554,500,000 to the railroad retirement account from the old-age and survivors insurance trust fund would place this trust fund in the same position as of June 30, 1969, as it would have been if railroad employment had always been covered under the Social Security Act. This amount was transferred to the railroad retirement account in June 1970, together with interest to the date of transfer amounting to $24,318,000.

Expenditures of the old-age and survivors insurance program for the cost of vocational rehabilitation services amounted to $1,239,000. These services were furnished to disabled adults—dependents of old-age beneficiaries and survivors of deceased insured workers—who were receiving monthly benefits from the old-age and survivors insurance trust fund. (Related administrative expenses of the Department of Health, Education, and Welfare, amounting to $24,840, are included in the net administrative expenses of the trust fund.)

The remaining $474 million of disbursements from the old-age and survivors insurance trust fund represents net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds on the basis of provisional estimates. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses for prior periods are effected by interfund transfers, with appropriate interest allowances. Net administrative expenses charged to both the old-age and survivors insurance trust fund and the disability insurance trust fund in fiscal year 1970 totaled $623 million and represented 1.8 percent of contribution income and 2.1 percent of benefit payments during the fiscal year. Similar figures for each of the last 5 years for the system as a whole, as well as for each trust fund separately, are shown in table 3.

TABLE 3.—RELATIONSHIP OF NET ADMINISTRATIVE EXPENSES OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM TO CONTRIBUTION INCOME AND BENEFIT PAYMENTS, BY TRUST FUND, FISCAL YEARS 1966–70

Fiscal year	Total administrative expenses as a percentage of—		Old-age and survivors insurance trust fund, administrative expenses as a percentage of—		Disability insurance trust fund, administrative expenses as a percentage of—	
	Total contribution income	Total benefit payments	Contribution income	Benefit payments	Contribution income	Benefit payments
1966	2.1	2.1	1.8	1.8	5.8	5.4
1967	1.8	2.2	1.6	1.9	4.4	5.3
1968	2.2	2.5	2.0	2.2	4.2	5.4
1969	2.0	2.3	1.8	2.0	3.8	5.5
1970	1.8	2.1	1.6	1.8	3.6	5.4

Note: In interpreting the figures in the above table, reference should be made to the applicable text in the current and earlier annual reports.

In table 4, the experience with respect to actual amounts of contributions and benefit payments in fiscal year 1970 and trust fund assets at the end of the year is compared with the estimates for fiscal year 1970 which appeared in the 1970 Annual Report of the Board of Trustees. Reference was made in an earlier section to the appropriation of contributions to the trust funds on an estimated basis, with subsequent periodic adjustments to account for differences from the amounts of contributions actually payable on the basis of reported earnings. In interpreting the figures in table 4, it should be noted that the "actual" amount of contributions in fiscal year 1970 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1970 does not reflect adjustments to contributions for fiscal year 1970 that were to be made after June 30, 1970. The actual experience for each trust fund was quite close, relatively, to the estimates.

TABLE 4.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, FISCAL YEAR 1970

[Amounts in millions]

	Actual amount	Estimated amount published in 1970 report	Estimate as percentage of actual
Old-age and survivors insurance trust fund:			
Net contributions	$29,955	$29,774	99
Benefit payments	26,267	26,356	100
Assets, end of year	32,616	32,347	99
Disability insurance trust fund:			
Net contributions	4,141	4,113	99
Benefit payments	2,778	2,798	101
Assets, end of year	5,104	5,029	99

Note: In interpreting the figures in the above table, reference should be made to the accompanying text.

The distribution of benefit payments in fiscal years 1969 and 1970, by type of beneficiary, is shown in table 5. Approximately 72 percent of the total benefit payments from the old-age and survivors insurance trust fund in the fiscal year 1970 was accounted for by monthly benefits to retired workers and their dependents and about 14 percent by monthly benefits to aged survivors and disabled widows or widowers of deceased workers. Approximately 12 percent of the benefit payments represented monthly benefits on behalf of children of deceased workers and monthly benefits to mothers who had children of deceased workers in their care.

TABLE 5.—ESTIMATED DISTRIBUTION OF BENEFIT PAYMENTS FROM THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE OF BENEFICIARY AND PAYMENT, FISCAL YEARS 1969 AND 1970

[Amounts in millions]

	1969		1970	
	Amount	Percent of total	Amount	Percent of total
Total	$23,732.0	100	$26,266.9	100
Monthly benefits	23,441.3	99	25,978.8	99
Retired workers and their dependents	16,990.1	72	18,896.5	72
Retired workers	14,992.9	63	16,745.5	64
Wives and husbands	1,735.7	7	1,871.9	7
Children	261.5	1	279.1	1
Survivors of deceased workers	6,128.8	26	6,778.1	26
Aged widows and widowers	3,257.2	14	3,639.8	14
Disabled widows and widowers	32.8	(1)	46.6	(1)
Parents	36.8	(1)	37.5	(1)
Children	2,309.0	10	2,526.5	10
Widowed mothers caring for child beneficiaries	493.0	2	527.6	2
Noninsured persons aged 72 and over[2]	322.4	1	304.3	1
Lump-sum death payments	290.7	1	288.1	1

[1] Less than 0.5 percent.
[2] The trust fund is reimbursed from the general fund of the Treasury for the costs of payments to beneficiaries with less than 3 quarters of coverage.

Benefit payments to noninsured persons aged 72 and over amounted to $304 million, or the equivalent of about 1 percent of total benefit payments from the trust fund. Reference has been made in an earlier section to the legislative provisions governing reimbursement from the general fund of the Treasury for the costs of such payments to persons who have fewer than three quarters of coverage. About 98 percent of the total amount of the payments made in fiscal year 1970 to noninsured persons aged 72 and over went to persons with fewer than three quarters of coverage.

The balance of the benefits paid during fiscal year 1970 consisted of lump-sum death payments.

On June 30, 1970, about 25.8 million persons were receiving monthly benefits under the old-age, survivors, and disability insurance program. About 23.2 million of these persons were receiving monthly benefits from the old-age and survivors insurance trust fund. Average monthly family benefits on that date showed significant increases from the corresponding averages a year earlier, primarily because of the higher benefit rates provided by the 1969 amendments. This is illustrated, for selected beneficiary family groups, in table 6.

TABLE 6.—ESTIMATED AVERAGE MONTHLY BENEFITS FOR SELECTED FAMILY GROUPS RECEIVING BENEFITS UNDER THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM, END OF FISCAL YEARS 1969 AND 1970

Beneficiary family group	Average monthly amount per family		Percentage increase in average monthly amount per family, 1970 from 1969
	June 30, 1969	June 30, 1970	
Retired worker alone (no dependents receiving benefits)	$96	$113	18
Retired worker and wife, aged 62 and over, both receiving benefits[1]	168	197	17
Aged widow alone	87	102	17
Widowed mother and 2 children	256	295	15
Disabled worker alone (no dependents receiving benefits)	109	127	16
Disabled worker, wife (under age 65[2]), and 1 or more children	238	272	15

[1] Excludes wife aged 62-64 with entitled children in her care.
[2] With entitled children in her care.

The assets of the old-age and survivors insurance trust fund at the end of fiscal year 1970 totaled $32,616 million, consisting of $30,107 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations, and $2,509 million in undisbursed balances. Table 7 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1969 and 1970.

TABLE 7.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT END OF FISCAL YEARS 1969 AND 1970

	June 30, 1969		June 30, 1970	
	Par value	Book value [1]	Par value	Book value [1]
INVESTMENTS IN PUBLIC-DEBT OBLIGATIONS:				
Public issues:				
Treasury notes:				
5¾ percent, 1975	$7,000,000	$7,047,458.39	$7,000,000	$7,038,958.43
6 percent, 1975	17,450,000	17,450,000.00	17,450,000	17,450,000.00
6¼ percent, 1976	5,000,000	4,988,244.09	5,000,000	4,990,029.81
6½ percent, 1976	22,180,000	22,180,000.00	22,180,000	22,180,000.00
7½ percent, 1976			90,500,000	90,027,244.90
8 percent, 1977			15,000,000	15,000,000.00
Treasury bonds:				
2½ percent, 1964–69	33,000,000	32,849,819.29		
2½ percent, 1967–72	250	250.00	250	250.00
2¾ percent investment series B, 1975–80	1,064,902,000	1,064,902,000.00	1,064,902,000	1,064,902,000.00
3 percent, 1995	70,170,000	70,143,804.52	70,170,000	70,144,828.48
3¼ percent, 1978–83	60,200,000	59,376,338.72	60,200,000	59,435,523.92
3¼ percent, 1985	25,700,000	24,323,496.11	25,700,000	24,410,433.23
3½ percent, 1980	449,450,000	454,393,620.87	449,450,000	453,957,419.07
3½ percent, 1990	556,250,000	547,515,996.06	556,250,000	547,940,320.26
3½ percent, 1998	552,037,000	542,981,652.04	552,037,000	543,290,357.20
3⅞ percent, 1974	24,500,000	24,485,146.73	24,500,000	24,487,931.81
4 percent, 1969	57,500,000	57,498,819.33		
4 percent, 1970	15,000,000	14,992,070.18		
4 percent, 1971	100,000,000	100,379,092.93	100,000,000	100,197,128.41
4 percent, 1973	38,000,000	37,852,390.30	38,000,000	37,888,539.70
4 percent, 1980	153,100,000	153,048,528.04	153,100,000	153,053,391.64
4⅛ percent, 1974	61,934,000	61,906,196.87	61,934,000	61,912,263.11
4⅛ percent, 1989–94	91,300,000	90,549,382.62	91,300,000	90,579,608.82
4¼ percent, 1974	6,352,000	6,360,528.00	6,352,000	6,358,763.52
4¼ percent, 1975–85	78,023,000	77,690,765.15	78,023,000	77,711,748.47
4¼ percent, 1987–92	33,000,000	34,924,844.57	33,000,000	34,818,401.53
Total public issues	3,522,048,250	3,507,840,444.81	3,522,048,250	3,507,775,142.31
Accrued interest purchased		121,447.48		
Total investments in public issues	3,522,048,250	3,507,961,892.29	3,522,048,250	3,507,775,142.31
Obligations sold only to this fund (special issues):				
Notes:				
4¾ percent, 1974	2,720,279,000	2,720,279,000.00	2,720,279,000	2,720,279,000.00
4⅞ percent, 1970	296,526,000	296,526,000.00		
4⅞ percent, 1971	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
5⅝ percent, 1975	2,460,795,000	2,460,795,000.00	2,460,795,000	2,460,795,000.00
6½ percent, 1976	3,844,864,000	3,844,864,000.00	3,844,864,000	3,844,864,000.00
7⅝ percent, 1977			5,033,296,000	5,033,296,000.00
Bonds:				
2⅝ percent, 1970	783,485,000	783,485,000.00		
2⅝ percent, 1971	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2⅝ percent, 1972	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2⅝ percent, 1973	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2⅝ percent, 1974	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
2⅝ percent, 1975	919,934,000	919,934,000.00	919,934,000	919,934,000.00
3¾ percent, 1975	160,077,000	160,077,000.00	160,077,000	160,077,000.00
3¾ percent, 1976	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
3⅞ percent, 1977	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
3⅞ percent, 1978	658,444,000	658,444,000.00	658,444,000	658,444,000.00
4⅛ percent, 1978	421,567,000	421,567,000.00	421,567,000	421,567,000.00
4⅛ percent, 1979	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
4⅛ percent, 1980	1,080,011,000	1,080,011,000.00	1,080,011,000	1,080,011,000.00
Total obligations sold only to this fund (special issue)	21,986,070,000	21,986,070,000.00	25,939,355,000	25,939,355,000.00
Total investment in public-debt obligations	25,508,118,250	25,494,031,892.29	29,461,403,250	29,447,130,142.31

See footnote at end of table, p. 16.

TABLE 7.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT END OF FISCAL YEARS 1969 AND 1970—Continued

	June 30, 1969		June 30, 1970	
	Par value	Book value [1]	Par value	Book value [1]
INVESTMENTS IN FEDERALLY SPONSORED AGENCY OBLIGATIONS:				
Agency securities:				
Federal National Mortgage Association debentures:				
5⅛ percent, 1969	25,000,000	25,000,000.00		
5¾ percent, 1970	20,000,000	19,983,333.31	20,000,000	19,996,666.63
6 percent, 1969	41,500,000	41,503,602.31		
Participation certificates:				
Federal Assets Liquidation Trust—Government National Mortgage Association:				
5.10 percent, 1987	50,000,000	50,000,000.00	50,000,000	50,000,000.00
5.20 percent, 1982	100,000,000	100,000,000.00	100,000,000	100,000,000.00
5½ percent, 1972	50,000,000	50,000,000.00	50,000,000	50,000,000.00
Federal Assets Financing Trust—Government National Mortgage Association:				
6 percent, 1971	35,000,000	35,000,000.00	35,000,000	35,000,000.00
6.05 percent, 1988	65,000,000	64,773,515.71	65,000,000	64,785,703.27
6.20 percent, 1988	230,000,000	230,000,000.00	230,000,000	230,000,000.00
6.40 percent, 1987	75,000,000	75,000,000.00	75,000,000	75,000,000.00
6.45 percent, 1988	35,000,000	35,000,000.00	35,000,000	35,000,000.00
Total investment in federally-sponsored agency obligations	726,500,000	726,260,451.33	660,000,000	659,782,369.90
Total investments	26,234,618,250	26,220,292,343.62	30,121,403,250	30,106,912,512.21
Undisbursed balances		1,970,646,631.11		2,509,442,784.44
Total assets		28,190,938,974.73		32,616,355,296.65

[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 1970 amounted to $3,887 million. New securities at a total par value of $36,632 million were acquired during the fiscal year through the investment of receipts, the reinvestment of funds made available from the maturity of securities, and the exchange of securities. The par value of securities redeemed or exchanged during the fiscal year was $32,745 million. A summary of transactions for the fiscal year, by type of security, is presented in table 8.

TABLE 8.—STATEMENT OF TRANSACTIONS IN PUBLIC-DEBT AND IN FEDERALLY-SPONSORED AGENCY SECURITIES FOR THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING THE FISCAL YEAR 1970

[All amounts represent par values]

	Acquisitions	Dispositions
Public-debt obligations:		
Public issues:		
Treasury notes:		
7½ percent, 1976	$90,500,000	
8 percent, 1977	15,000,000	
Treasury bonds:		
2½ percent, 1964-69		$33,000,000
4 percent, 1969		57,500,000
4 percent, 1970		15,000,000
Total public issues	105,500,000	105,500,000

TABLE 8.—STATEMENT OF TRANSACTIONS IN PUBLIC-DEBT AND IN FEDERALLY-SPONSORED AGENCY SECURITIES FOR THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING THE FISCAL YEAR 1970—Continued

[All amounts represent par values]

	Acquisitions	Dispositions
Obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
6⅝ percent, 1970	4,899,301,000	4,899,301,000
6¾ percent, 1970	2,664,507,000	2,664,507,000
7 percent, 1970	8,567,531,000	8,567,531,000
7¼ percent, 1970	2,906,186,000	2,906,186,000
7⅝ percent, 1970	8,221,340,000	8,221,340,000
7¾ percent, 1970	1,792,525,000	1,792,525,000
7⅞ percent, 1970	2,441,447,000	2,441,447,000
Notes:		
4⅞ percent, 1970		296,526,000
7⅝ percent, 1977	5,033,296,000	
Bonds:		
2⅝ percent, 1970		783,485,000
Total obligations sold only to this fund (special issues)	36,526,133,000	32,572,848,000
Total public-debt obligations	36,631,633,000	32,678,348,000
Federally-sponsored agency obligations:		
Federal National Mortgage Association debentures:		
5⅛ percent, 1969		25,000,000
6 percent, 1969		41,500,000
Total federally-sponsored agency obligations		66,500,000
Total transactions	36,631,633,000	32,744,848,000

The 1956 amendments provided that the public-debt obligations issued for purchase by the old-age and survivors insurance trust fund and the disability insurance trust fund shall have maturities fixed with due regard for the needs of the funds. Under this provision, the general practice has been to spread the maturity dates for the holdings of special issues as nearly as practicable in equal amounts over a 15-year period. Thus, on June 30, 1970, the old-age and survivors insurance trust fund held special issues, totaling $10,800 million, that were distributed by year of maturity, 1971–80, in equal amounts of $1,080 million each (table 7). In addition, $15,139 million was invested in 5- and 7-year notes, of varying amounts, maturing on June 30 of each year, 1971 and 1974–77. (Similarly, with respect to assets of the disability insurance trust fund at the end of fiscal year 1970, $3,443 million was invested in 5- and 7-year notes, of varying amounts, maturing on June 30 of each year, 1971 and 1974–77.)

The circumstances under which the 7-year notes maturing on June 30, 1977, were acquired in June 1970 were similar to those under which the other 5- and 7-year notes had been acquired. Briefly, the interest rate on special issues acquired in June 1970 as determined under section 201(d) of the Social Security Act, was 7⅝ percent, while the interest rate on long-term issues is limited to 4¼ percent. Therefore, the established pattern of spreading the maturities equally over a 15-year period could not be followed, and the entire available amount was invested in 7⅝ percent 7-year notes, the longest-term issue then possible at the prescribed interest rate. A fuller description of these investment operations is contained in the 1968 annual report.