authorize the issuance of bonds at rates of interest exceeding 4¼ percent, subject to certain restrictions. P.L. 92–5, enacted March 17, 1971, amended the provisions to authorize the issuance to the public and to Government accounts of up to a total of $10 billion in bonds at rates of interest exceeding 4¼ percent. P.L. 93–53, enacted July 1, 1973, further amended the provisions of 31 U.S.C. 752 by (1) removing the $10 billion limitation on the aggregate face amount of such bonds that may be issued and (2) limiting the amount of such bonds that may be held by the public at any one time to $10 billion.

The effective annual rate of interest earned by the assets of the old-age and survivors insurance trust fund during fiscal year 1974 was 5.9 percent. The interest rate on special issues purchased by the trust fund in June 1974 was 7⅝ percent, payable semiannually.

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 these amendments, the general practice in the past was to spread the maturity dates for the holdings of special issues as nearly as practicable in equal amounts over a 15-year period. As a result of this practice, the old-age and survivors insurance trust fund held (1) special issues, totaling $$5,081 million, that were acquired before 1966 and were distributed in equal amounts of about $1,080 million maturing in each of the years 1977–80 and in a smaller amount maturing in 1976 (table 6).

However, the interest rate on special issues acquired in June of each year 1966–74, as determined under section 201(d) of the Social Security Act, was higher than the maximum rate of 4¼ percent to which the interest rate on long-term issues (bonds) is generally limited. Thus, the former practice could not be followed until the enactment of P.L. 93–53 on July 1, 1973. Accordingly, the entire amounts available for investment in June of each year 1966–73 were invested in short-term issues (notes). As a result, the old-age and survivors insurance trust fund held $22,458 million in special issues consisting of 7-year notes that were distributed in varying amounts maturing on June 30 of each year 1975–80 (table 6).

On June 30, 1974, the investment practice in effect before 1966 was reinstated, and the old-age and survivors insurance trust fund acquired $6,101 million in special issues that were distributed in virtually equal amounts of about $678 million maturing in each of the years 1981–1989 (table 6). The investment operations of the fund in fiscal years 1973 and earlier are described in the 1974, and earlier, annual reports.

## Summary of the Operations of the Federal Disability Insurance Trust Fund, Fiscal Year 1974

A statement of the income and disbursements of the Federal disability insurance trust fund during fiscal year 1974, and of the assets of the fund at the beginning and end of the fiscal year is presented in table 7. Comparable amounts for fiscal year 1973 are also shown in the table.

The total assets of the disability insurance trust fund amounted to $7,869 million on June 30, 1973. During fiscal year 1974, total receipts amounted to $6,768 million and total disbursements were $6,385 million. The assets of the trust fund thus increased $383 million during the year to a total of $8,253 million on June 30, 1974.

Included in total receipts were $5,652 million representing contributions appropriated to the fund, and $633 million representing amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. As an offset, $50 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 7.—STATEMENT OF OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING FISCAL YEARS 1973 AND 1974

[In thousands]

| | Fiscal year 1973 | Fiscal year 1974 |
|---|---|---|
| Total assets of the trust fund, beginning of year | $7,390,277 | $7,869,472 |
| Receipts: | | |
| Contributions: | | |
| Appropriations | 4,961,148 | 5,651,996 |
| Deposits arising from State agreements | 550,447 | 632,646 |
| Gross contributions | 5,511,595 | 6,284,642 |
| Less payment into the Treasury for contributions subject to refund | 50,626 | 50,217 |
| Net contributions | 5,460,969 | 6,234,425 |
| Reimbursement from general fund of the Treasury for costs of noncontributory credits for military service | 51,000 | 52,000 |
| Interest: | | |
| Interest on investments | 434,840 | 479,140 |
| Interest on amounts of interfund tranfers due to adjustment in allocation of administrative expenses and construction costs [1] | −244 | 2,641 |
| Interest on amounts transferred between the old-age and survivors insurance and the disability insurance trust funds due to adjustment in allocation of cost of vocational rehabilitation services [1] | −16 | 20 |
| Net interest | 434,580 | 481,800 |
| Total receipts | 5,946,549 | 6,768,225 |
| Disbursements: | | |
| Benefit payments | 5,161,840 | 6,158,569 |
| Transfer to railroad retirement account | 19,503 | 22,327 |
| Payment for cost of vocational rehabilitation services for disabled beneficiaries: | | |
| For the current fiscal year | 39,321 | 49,331 |
| Transfer to the old-age and survivors insurance trust fund due to adjustment in allocation of cost for prior fiscal year | 40 | 340 |
| Total cost of vocational rehabilitation services | 39,361 | 49,670 |
| Administrative expenses: | | |
| Department of Health, Education, and Welfare | 223,049 | 185,814 |
| Treasury Department | 9,849 | 11,650 |
| Construction of facilities for Social Security Administration | 2,104 | 329 |
| Expenses of the Department of Health, Education, and Welfare for administration of vocational rehabilitation program for disabled beneficiaries | 564 | 560 |
| Interfund transfers due to adjustment in allocation of— | | |
| Administrative expenses [2] | 11,302 | −44,353 |
| Costs of construction [2] | −214 | 280 |
| Gross administrative expenses | 246,653 | 154,281 |
| Less receipts from sales of surplus supplies, materials, etc | 4 | 14 |
| Net administrative expenses | 246,649 | 154,266 |
| Total disbursements | 5,467,354 | 6,384,833 |
| Net addition to the trust fund | 479,195 | 383,392 |
| Total assets of the trust fund, end of year | 7,869,472 | 8,252,865 |

[1] A positive figure represents a transfer of interest to the disability insurance trust fund from the other social security trust funds. A negative figure represents a transfer of interest from the disability trust fund to the other social security trust funds.

[2] A positive figure represents a transfer from the disability insurance trust fund to the other social security trust funds. A negative figure represents a transfer to the disability insurance trust fund from the other social security trust funds.

Net contributions amounted to $6,234 million, an increase of 14.2 percent over the amount for the preceding fiscal year. This increase is accounted for, in part, by the same factors, insofar as they apply to contributions of the disability insurance trust fund, that accounted for the increase in contributions to the old-age and survivors insurance trust fund (described in the preceding section), and in part by the provision in P.L. 93–233, enacted December 31, 1973, that increased the portion of the contribution rate allocated to finance benefits from the disability insurance trust fund. Effective January 1, 1974, the allocated rate for employees and employers was increased from 0.55 percent of taxable earnings each to 0.575 percent each. For the self-employed, the allocated rate was increased from 0.795 percent to 0.815 percent.

In addition, the trust fund received $52 million in December from the general fund of the Treasury, as reimbursement for the costs of noncontributory credits for military service.

The remaining $482 million of receipts consisted of interest on the investments of the fund, plus interest on amounts of interfund transfers.

Of the $6,385 million in total disbursements, $6,159 million was for benefit payments, an increase of 19.3 percent over the corresponding amount paid in the fiscal year 1973. This increase is accounted for by the same factors insofar as they apply to disabled-worker beneficiaries and their dependents, that resulted in the increase in benefit payments from the old-age and survivors insurance trust fund (described in the preceding section).

Provisions governing the financial interchanges between the railroad retirement account and the disability insurance trust fund are similar to those referred to in the preceding section relating to the old-age and survivors insurance trust fund. The determination made as of June 30, 1973, required that a transfer of $21,300,000 be made from the disability insurance trust fund to the railroad retirement account. This amount was transferred to the railroad retirement account in May 1974 together with interest to the date of transfer amounting to $1,027,000.

The remaining disbursements amounted to $154 million for net administrative expenses and $50 million for the cost of vocational rehabilitation services furnished to disabled-worker beneficiaries and to those dependents of disabled workers who are receiving benefits on the basis of disabilities that have continued since childhood.

As stated in an earlier section, the total amount of funds that may be made available in a fiscal year for payment for the costs of vocational rehabilitation services may not exceed a specified percentage of the benefits certified for payment in the preceding year from the old-age and survivors insurance and disability insurance trust funds to disabled persons receiving benefits because of their disability. This limitation on the amounts to be made available was 1 percent in each fiscal year through 1972, 1¼ percent in fiscal year 1973, and 1½ percent in fiscal year 1974. The following data show the relationship between the total amount of payments for the costs of such rehabilitation services for each fiscal year, 1970–74, and the corresponding amount of benefits paid in the prior fiscal year from the trust funds to disabled beneficiaries:

| Fiscal year to which costs of rehabilitation services are charged | Amount of payments for costs of rehabilitation services [1] (in thousands) | Estimated amount of benefit payments in preceding fiscal year to disabled beneficiaries (in thousands) | Payments for costs of rehabilitation services as percent of preceding year's benefit payments |
|---|---|---|---|
| 1970 | $20,610 | $2,155,579 | 0.96 |
| 1971 | 23,099 | 2,464,004 | .94 |
| 1972 | 29,940 | 3,028,695 | .99 |
| 1973 | 39,889 | 3,629,590 | 1.10 |
| 1974 | 55,242 | 4,647,721 | 1.19 |

[1] The amounts shown represent the expenditures for a fiscal year and differ from amounts expended in a fiscal year as shown in accounting statements of the trust funds on a cash basis. The amount shown for each fiscal year is subject to further change.

At the end of fiscal year 1974, some 3,691,000 persons were receiving monthly benefits from the disability insurance trust fund. The distribution of benefit payments in fiscal years 1973 and 1974, by type of beneficiary, is shown in table 8.

TABLE 8.—ESTIMATED DISTRIBUTION OF BENEFIT PAYMENTS FROM THE DISABILITY INSURANCE TRUST FUND, BY TYPE OF BENEFICIARY, FISCAL YEARS 1973 AND 1974

[In millions]

| | 1973 | | 1974 | |
|---|---|---|---|---|
| | Amount | Percent of total | Amount | Percent of total |
| Total | $5,161.8 | 100 | $6,158.6 | 100 |
| Disabled workers | 4,201.9 | 81 | 5,042.5 | 82 |
| Wives and husbands | 255.4 | 5 | 296.8 | 5 |
| Children | 704.6 | 14 | 819.3 | 13 |

The assets of this fund at the end of fiscal year 1974 totalled $8,253 million, consisting of $8,193 million in the form of obligations of the U.S. Government and an undisbursed balance of $60 million. Table 9 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1973 and 1974.

The net increase in the par value of the investments owned by the fund during the fiscal year amounted to $391 million. New securities at a total par value of $7,856 million were acquired during the fiscal year through the investment of receipts, the reinvestment of funds made available from the redemption of securities, and the exchange of securities. The par value of securities redeemed or exchanged during the year was $7,465 million. Included in these amounts is $6,734 million in certificates of indebtedness that were acquired and redeemed within the fiscal year.

The effective annual rate of interest earned by the assets of the disability insurance trust fund during fiscal year 1974 was 6.4 percent. The interest rate on public-debt obligations issued for purchase by the trust fund in June 1974 was 7⅝ percent, payable semiannually.

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The investment policy and practices described in the preceding section apply equally to investments of the assets of the disability insurance trust fund. A distribution of these investments by type of government security and date of maturity is shown in table 9.

TABLE 9.—ASSETS OF THE DISABILITY INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1973 AND 1974

| | June 30, 1973 | | June 30, 1974 | |
|---|---|---|---|---|
| | Par value | Book value [1] | Par value | Book value [1] |
| Investments in public-debt obligations: | | | | |
| Public issues: | | | | |
| Treasury notes: | | | | |
| 6 percent, 1975 | $3,750,000 | $3,750,000.00 | $3,750,000 | $3,750,000.00 |
| 6 percent, 1978 | 2,000,000 | 2,004,109.32 | 2,000,000 | 2,003,350.68 |
| 6¼ percent, 1978 | 2,000,000 | 2,004,686.65 | 2,000,000 | 2,003,664.13 |
| 7½ percent, 1976 | 26,000,000 | 25,941,341.65 | 26,000,000 | 25,960,366.09 |
| 7¾ percent, 1977 | 14,000,000 | 13,979,337.38 | 14,000,000 | 13,984,397.66 |
| 8 percent, 1977 | 10,000,000 | 10,000,000.00 | 10,000,000 | 10,000,000.00 |
| Treasury bonds: | | | | |
| 3½ percent, 1990 | 10,500,000 | 10,041,180.86 | 10,500,000 | 10,068,848.42 |
| 3½ percent, 1998 | 5,000,000 | 4,736,355.80 | 5,000,000 | 4,746,762.80 |
| 4 percent, 1973 | 16,500,000 | 16,498,008.72 | | |
| 4 percent, 1980 | 30,250,000 | 30,244,508.57 | 30,250,000 | 30,245,342.45 |
| 4⅛ percent, 1974 | 10,000,000 | 10,001,605.28 | | |
| 4⅛ percent, 1989-94 | 68,400,000 | 67,706,106.00 | 68,400,000 | 67,739,412.84 |
| 4¼ percent, 1975-85 | 20,795,000 | 20,778,902.14 | 20,795,000 | 20,779,645.42 |
| 4¼ percent, 1987-92 | 80,800,000 | 80,927,138.07 | 80,800,000 | 80,918,110.59 |
| 6⅜ percent, 1984 | 15,000,000 | 15,060,582.25 | 15,000,000 | 15,055,156.93 |
| 7½ percent, 1988-93 | | | 26,500,000 | 25,764,571.55 |
| Total investments in public issues | 314,995,000 | 313,673,862.69 | 314,995,000 | 313,019,629.56 |
| Obligations sold only to this fund (special issues): | | | | |
| Notes: | | | | |
| 4¾ percent, 1974 | 309,178,000 | 309,178,000.00 | | |
| 5⅝ percent, 1975 | 583,612,000 | 583,612,000.00 | 583,612,000 | 583,612,000.00 |
| 5¾ percent, 1979 | 1,058,617,000 | 1,058,617,000.00 | 1,058,617,000 | 1,058,617,000.00 |
| 6⅛ percent, 1978 | 1,284,249,000 | 1,284,249,000.00 | 1,284,249,000 | 1,284,249,000.00 |
| 6½ percent, 1976 | 1,151,608,000 | 1,151,608,000.00 | 1,151,608,000 | 1,151,608,000.00 |
| 6⅝ percent, 1980 | 943,266,000 | 943,266,000.00 | 943,266,000 | 943,266,000.00 |
| 7⅝ percent, 1977 | 1,394,466,000 | 1,394,466,000.00 | 1,394,466,000 | 1,394,466,000.00 |
| Bonds: | | | | |
| 2⅝ percent, 1975 | 2,366,000 | 2,366,000.00 | | |
| 3¾ percent, 1975 | 20,738,000 | 20,738,000.00 | | |
| 3¾ percent, 1976 | 153,632,000 | 153,632,000.00 | | |
| 3¾ percent, 1977 | 153,632,000 | 153,632,000.00 | | |
| 3⅞ percent, 1978 | 153,632,000 | 153,632,000.00 | 89,570,000 | 89,570,000.00 |
| 4⅛ percent, 1979 | 153,632,000 | 153,632,000.00 | 153,632,000 | 153,632,000.00 |
| 4⅛ percent, 1980 | 125,606,000 | 125,606,000.00 | 125,606,000 | 125,606,000.00 |
| 7⅝ percent, 1981 | | | 121,663,000 | 121,663,000.00 |
| 7⅝ percent, 1982 | | | 121,663,000 | 121,663,000.00 |
| 7⅝ percent, 1983 | | | 121,663,000 | 121,663,000.00 |
| 7⅝ percent, 1984 | | | 121,663,000 | 121,663,000.00 |
| 7⅝ percent, 1985 | | | 121,663,000 | 121,663,000.00 |
| 7⅝ percent, 1986 | | | 121,663,000 | 121,663,000.00 |
| 7⅝ percent, 1987 | | | 121,663,000 | 121,663,000.00 |
| 7⅝ percent, 1988 | | | 121,663,000 | 121,663,000.00 |
| 7⅝ percent, 1989 | | | 121,663,000 | 121,663,000.00 |
| Total obligations sold only to this fund (special issues) | 7,488,234,000 | 7,488,234,000.00 | 7,879,593,000 | 7,879,593,000.00 |
| Total investments in public-debt obligations | 7,803,229,000 | 7,801,907,862.69 | 8,194,588,000 | 8,192,612,629.56 |
| Undisbursed balances | | 67,564,541.18 | | 60,251,890.80 |
| Total Assets | | 7,869,472,403.87 | | 8,252,864,520.36 |

[1] Par value, plus unamortized premium, less discount outstanding.

## Expected Operations and Status of the Trust Funds During the Period July 1, 1974, to December 31, 1979

In the following statement of the expected operations and status of the trust funds during the period July 1, 1974, to December 31, 1979, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program will remain unchanged in the period 1975–79. The income and disbursements of the program, however, are affected by general economic conditions as well as by legislative provisions. Economic conditions, of course, affect the levels of employment and taxable earnings; but beginning in 1975, under the automatic increase provisions in present law, economic conditions will also directly affect benefits, the contribution and benefit base (i.e., the maximum annual amount of earnings taxable and creditable toward benefits), and the annual exempt amount under the retirement test.

Under the automatic provisions, benefits will increase in accordance with increases in the Consumer Price Index (CPI). In 1975,[1] and in each year thereafter which immediately follows a year in which an automatic benefit increase becomes effective, the contribution and benefit base, and the amount of earnings exempted from the withholding of benefits under the retirement test, automatically increase in proportion to the increase in average wages in covered employment. The first such automatic increase in the contribution and benefit base, from $13,200 in 1974 to $14,100 in 1975, and in the annual exempt amount under the retirement test, from $2,400 in 1974 to $2,520 in 1975 were established October 29, 1974, as described in Appendix B. The first automatic cost-of-living benefit increase, effective for June 1975, has been determined to be 8.0 percent.

Under the economic assumptions on which the estimates in this section, and in the following section, are based,[2] the assumed future path of the CPI, assumed future increases in average wages in covered employment, and assumed future rates of unemployment for calendar years 1975–80 have the values shown in the following table:

| Calendar year | Assumed percentage increase over prior year in annual average wages and in annual average CPI | | Assumed annual average unemployment rate (percent) |
|---|---|---|---|
| | Increase in wages | Increase in CPI | |
| 1975 | 6.2 | 9.0 | 8.8 |
| 1976 | 9.0 | 6.6 | 8.0 |
| 1977 | 11.0 | 6.5 | 7.0 |
| 1978 | 8.8 | 5.7 | 6.2 |
| 1979 | 7.7 | 4.6 | 5.4 |
| 1980 | 7.0 | 4.0 | 4.8 |

[1] Public Law 93–233 provided that the 11-percent general benefit increase that became effective in 1974 be considered an automatic cost-of-living benefit increase for purposes of the automatic provisions.

[2] The economic assumptions underlying the estimates in this report differ from the assumptions that appear on page 41 of the President's 1976 Budget. The estimates in this report reflect the significant changes in economic indicators and trends that have taken place since the earlier Budget assumptions were prepared (e.g., a lower level of economic activity and higher rates of unemployment, as well as a somewhat lower rate of increase in the Consumer Price Index).

In accordance with the above assumptions, the estimates reflect the following changes that would occur, under the automatic provisions, in each year 1976–79 (amounts for 1975 are also shown as a basis for comparison):

| Year | General benefit increase (percent)[1] | Contribution and benefit base[2] | Annual exempt amount under the retirement test[2] |
|---|---|---|---|
| 1975 | 8.0 | $14,100 | $2,520 |
| 1976 | 6.6 | 15,000 | 2,640 |
| 1977 | 6.4 | 16,500 | 2,880 |
| 1978 | 6.3 | 18,300 | 3,240 |
| 1979 | 4.8 | 19,800 | 3,480 |

[1] Effective with benefits for June of the stated year.
[2] Effective on Jan. 1 of the stated year.

Statements of the expected operations of the trust funds should be read with full recognition of the difficulties of estimating future income and disbursements. Both future benefit levels and future amounts of contribution income are highly sensitive to assumed changes in economic activity—e.g., changes in the CPI, levels of employment, and earnings levels. Because it is difficult to forecast accurately future changes in these economic indicators, the resulting estimates of the progress of the trust funds are subject to many uncertainties.

Table 10 presents data on the actual operations of the old-age and survivors insurance trust fund for selected fiscal years during the period 1940–74[3] and also estimates of the expected operations of the trust fund in fiscal years 1975–79. Because of the current economic recession, the estimated number of persons with taxable earnings under the old-age, survivors, and disability insurance program is expected to decline from about 101 million during calendar year 1974 to about 98 million during calendar year 1975. After 1975, the number of persons with taxable earnings is expected to increase each year, reaching about 110 million during calendar year 1979. Although the number of persons with taxable earnings is expected to decline from 1974 to 1975, the total annual amount of taxable earnings is expected to increase from $632 billion in 1974 to $653 billion in 1975, because the percentage increase in estimated average taxable earnings, of about 6 percent, more than offsets the 2½-percent decrease in the estimated number of persons with taxable earnings. The total annual amount of taxable earnings is expected to continue to increase in each year after 1975, rising to $1,021 billion in 1979. These increases are due in part to the future automatic increases in the contribution and benefit base previously set forth.

[3] Data relatng to the operations of the two trust funds for years not shown in the tables of this section are contained in earlier annual reports.

TABLE 10.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING SELECTED FISCAL YEARS 1940–74 AND ESTIMATED FUTURE OPERATIONS DURING FISCAL YEARS 1975–79

[In millions]

| Fiscal year [1] | Transactions during period: Income: Total | Income: Contributions, less refunds | Income: Reimbursements from general fund of Treasury for costs of—: Noncontributory credits for military service | Income: Reimbursements from general fund of Treasury for costs of—: Payments to noninsured persons aged 72 and over | Income: Interest on investments [2] | Disbursements: Total | Disbursements: Benefit payments | Disbursements: Payments for vocational rehabilitation services | Disbursements: Administrative expenses [2] | Disbursements: Transfers to railroad retirement account | Net increase in fund | Fund at end of period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Past experience: | | | | | | | | | | | | |
| 1940 | $592 | $550 | | | $42 | $28 | $16 | | $12 | | $564 | $1,745 |
| 1945 | 1,434 | 1,310 | | | 124 | 267 | 240 | | 27 | | 1,167 | 6,613 |
| 1950 | 2,367 | 2,106 | $4 | | 257 | 784 | 727 | | 57 | | 1,583 | 12,893 |
| 1955 | 5,525 | 5,087 | | | 438 | 4,427 | 4,333 | | 103 | −$10 | 1,098 | 21,141 |
| 1960 | 10,360 | 9,843 | | | 517 | 11,073 | 10,270 | | 202 | 600 | −713 | 20,829 |
| 1965 | 16,443 | 15,857 | | | 586 | 15,962 | 15,226 | | 300 | 436 | 482 | 20,180 |
| 1966 | 18,461 | 17,866 | | | 595 | 18,769 | 18,071 | | 254 | 444 | −308 | 19,872 |
| 1967 | 23,371 | 22,567 | 78 | | 726 | 19,728 | 18,886 | (3) | 334 | 508 | 3,643 | 23,515 |
| 1968 | 23,640 | 22,662 | 78 | | 899 | 21,622 | 20,737 | (3) | 447 | 438 | 2,018 | 25,533 |
| 1969 | 27,348 | 25,953 | 156 | $226 | 1,014 | 24,690 | 23,732 | $2 | 465 | 491 | 2,658 | 28,191 |
| 1970 | 31,746 | 29,955 | 78 | 364 | 1,350 | 27,321 | 26,267 | 1 | 474 | 579 | 4,425 | 32,616 |
| 1971 | 33,982 | 31,915 | 78 | 371 | 1,618 | 32,268 | 31,101 | 2 | 552 | 613 | 1,714 | 34,331 |
| 1972 | 37,917 | 35,711 | 137 | 351 | 1,719 | 35,849 | 34,541 | 2 | 582 | 724 | 2,068 | 36,399 |
| 1973 | 43,639 | 41,318 | 138 | 337 | 1,847 | 43,623 | 42,170 | 2 | 667 | 783 | 17 | 36,416 |
| 1974 | 50,936 | 48,455 | 139 | 303 | 2,039 | 49,485 | 47,849 | 4 | 723 | 909 | 1,451 | 37,867 |
| Estimated future experience: [4] | | | | | | | | | | | | |
| 1975 | 58,545 | 55,809 | 140 | 307 | 2,289 | 56,775 | 54,927 | 7 | 861 | 960 | 1,770 | 39,637 |
| 1976 | 60,779 | 58,125 | 157 | 268 | 2,229 | 64,544 | 62,535 | 9 | 970 | 1,030 | −3,765 | 35,872 |
| July–September 1976 | 15,806 | 15,702 | | | 104 | 17,311 | 17,068 | 2 | 241 | | −1,505 | 34,367 |
| 1977 | 70,725 | 68,154 | 303 | 241 | 2,027 | 74,195 | 71,680 | 10 | 1,053 | 1,452 | −3,470 | 30,897 |
| 1978 | 78,529 | 76,187 | 311 | 222 | 1,809 | 82,285 | 79,840 | 12 | 1,149 | 1,284 | −3,756 | 27,141 |
| 1979 | 86,730 | 84,686 | 314 | 244 | 1,486 | 90,923 | 88,286 | 13 | 1,243 | 1,381 | −4,193 | 22,948 |

[1] Under the Congressional Budget Act of 1974 (Public Law 93–344), fiscal years 1977 and later consist of the 12 months ending on Sept. 30 of each year. The Act further provides that the calendar quarter July-September 1976 is a period of transition from fiscal year 1976, which ends on June 30, 1976, to fiscal year 1977, which begins on Oct. 1, 1976.

[2] Interest on investments includes net profits on marketable investments. Total administrative expenses exclude expenses for the period ending Dec. 31, 1939; for that period, appropriations to the old-age and survivors insurance trust fund (designated as the old-age reserve account prior to Jan. 1, 1940) were approximately equivalent to tax contributions collected by the Treasury Department less administrative expenses. Beginning in 1954, administrative expenses include costs of construction of office space for the Social Security Administration. Beginning in 1967, administrative expenses incurred under each of the 4 programs, old-age and survivors insurance, disability insurance, hospital insurance and supplementary medical insurance, are charged currently to the appropriate trust fund on an estimated basis, with a final adjustment, including interest, made in the following fiscal year. The amounts of these interest adjustments are included in interest on investments. For years prior to 1967, a description of the method of accounting for administrative expenses is contained in the 1970 annual Report of the Board of Trustees.

[3] Less than $500,000.

[4] In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions.

Estimated income from contributions reflects the increases in estimated taxable earnings described above and, in addition, the scheduled changes in the allocation of the contribution rates between the old-age and survivors insurance and disability insurance trust funds effective January 1, 1978 (table 1).

Rising benefit disbursements during fiscal years 1975–79 reflect the effects of the future automatic benefit increases previously set forth, as well as the long-range upward trend in the numbers of beneficiaries and in the amounts of average monthly earnings underlying benefits payable under the program. In each fiscal year during the period 1976–79, outgo from the old-age and survivors insurance trust fund is estimated to exceed income. During the entire period covering fiscal years 1975–79, there is an estimated net decrease in the old-age and survivors insurance trust fund of $14.9 billion.

Estimates consistent with those shown on a fiscal-year basis in table 10 are presented in table 11 to show the progress of the old-age and survivors insurance trust fund on a calendar-year basis. During the 5-year period covering calendar years 1975–79, the trust fund is estimated to decline by $19.6 billion from $37.8 billion at the end of calendar year 1974 to $18.2 billion at the end of calendar year 1979.

## TABLE 11.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING SELECTED CALENDAR YEARS 1940–74 AND ESTIMATED FUTURE OPERATIONS DURING CALENDAR YEARS 1975–79

[In millions]

| Calendar year | Transactions during period | | | | | | | | | | | Fund at end of period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Income | | | | | Disbursements | | | | | | |
| | | | Reimbursements from general fund of Treasury for costs of— | | | | | | | | | |
| | Total | Contributions, less refunds | Noncontributory credits for military service | Payments to noninsured persons aged 72 and over | Interest on investments | Total | Benefit payments | Payments for vocational rehabilitation services | Administrative expenses | Transfers to railroad retirement account | Net increase in fund | |
| **Past experience:** | | | | | | | | | | | | |
| 1940 | $368 | $325 | | | $43 | $62 | $35 | | $26 | | $306 | $2,031 |
| 1945 | 1,420 | 1,285 | | | 134 | 304 | 274 | | 30 | | 1,116 | 7,121 |
| 1950 | 2,928 | 2,667 | $4 | | 257 | 1,022 | 961 | | 61 | | 1,905 | 13,721 |
| 1955 | 6,167 | 5,713 | | | 454 | 5,079 | 4,968 | | 119 | −$7 | 1,087 | 21,663 |
| 1960 | 11,382 | 10,866 | | | 516 | 11,198 | 10,677 | | 203 | 318 | 184 | 20,324 |
| 1965 | 16,610 | 16,017 | | | 593 | 17,501 | 16,737 | | 328 | 436 | −890 | 18,235 |
| 1966 | 21,302 | 20,580 | 78 | | 644 | 18,967 | 18,267 | ([1]) | 256 | 444 | 2,335 | 20,570 |
| 1967 | 24,034 | 23,138 | 78 | | 818 | 20,382 | 19,468 | ([1]) | 406 | 508 | 3,652 | 24,222 |
| 1968 | 25,040 | 23,719 | 156 | $226 | 939 | 23,557 | 22,642 | $1 | 476 | 438 | 1,483 | 25,704 |
| 1969 | 29,554 | 27,947 | 78 | 364 | 1,165 | 25,176 | 24,209 | 1 | 474 | 491 | 4,378 | 30,082 |
| 1970 | 32,220 | 30,256 | 78 | 371 | 1,515 | 29,848 | 28,796 | 2 | 471 | 579 | 2,371 | 32,454 |
| 1971 | 35,877 | 33,723 | 137 | 351 | 1,667 | 34,542 | 33,413 | 2 | 514 | 613 | 1,335 | 33,789 |
| 1972 | 40,050 | 37,781 | 138 | 337 | 1,794 | 38,522 | 37,122 | 2 | 674 | 724 | 1,528 | 35,318 |
| 1973 | 48,344 | 45,975 | 139 | 303 | 1,928 | 47,175 | 45,741 | 3 | 647 | 783 | 1,169 | 36,487 |
| 1974 | 54,688 | 52,081 | 140 | 307 | 2,159 | 53,397 | 51,618 | 5 | 865 | 909 | 1,291 | 37,777 |
| **Estimated future experience:** | | | | | | | | | | | | |
| 1975 | 58,610 | 55,891 | 157 | 268 | 2,294 | 60,773 | 58,888 | 8 | 917 | 960 | −2,163 | 35,614 |
| 1976 | 63,788 | 61,199 | 303 | 241 | 2,045 | 68,072 | 66,022 | 10 | 1,010 | 1,030 | −4,284 | 31,330 |
| 1977 | 72,169 | 69,797 | 311 | 222 | 1,839 | 76,198 | 73,660 | 11 | 1,075 | 1,452 | −4,029 | 27,301 |
| 1978 | 80,095 | 77,943 | 314 | 244 | 1,594 | 84,404 | 81,944 | 12 | 1,164 | 1,284 | −4,309 | 22,992 |
| 1979 | 88,178 | 86,426 | 320 | 167 | 1,265 | 92,997 | 90,339 | 14 | 1,263 | 1,381 | −4,819 | 18,173 |

[1] Less than $500,000.

Note: In interpreting the above, reference should be made to the footnotes in table 10.

The growth in the number of beneficiaries in the past and the expected growth in the future are attributable in large measure to the rising number of aged persons who are eligible for and receiving old-age and survivors insurance benefits. The growth in the number of eligible persons since 1940 has been uninterrupted. This growth results partly from the increase in the aged population and partly from two other factors—(1) in each passing year a larger proportion of the persons attaining age 65 became eligible for benefits, and (2) the amendments during the period 1950-73 liberalized the eligibility provisions and extended coverage to new categories of employment.

In addition, there has been a growth in the proportion of eligible persons who receive benefits. This growth is due to several factors, among which are (1) the amendments enacted during the period 1950–73 which affect the conditions governing the receipt of benefits, and (2) the increasing percentage of eligible persons who are aged 72 and over and who therefore receive benefits regardless of earnings.

The expected operations and status of the disability insurance trust fund during fiscal years 1975–79 are presented in table 12, together with the figures on actual experience in earlier years. Contribution income will increase during fiscal years 1975–79 reflecting the same factors, insofar as they apply to contributions to the disability insurance trust fund, that are reflected in the increase in contributions to the old-age and survivors insurance trust fund during the same period. Beginning January 1, 1978, contribution income will also be increased as a result of the scheduled increase from 1.15 percent to 1.20 percent in the combined employee-employer contribution rate allocated for disability insurance. (This increase is exactly counterbalanced by a decrease in the rate allocated for old-age and survivors insurance.) Benefit payments will increase because of automatic benefit increases and because of increases in the numbers of beneficiaries and in the amounts of average monthly earnings on which benefits are based. Outgo from the disability insurance trust fund is expected to exceed income in each year during the period covering fiscal years 1975–79. During this period, the assets of the trust fund are estimated to decline by $6.8 billion.

TABLE 12.—OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING SELECTED FISCAL YEARS 1960–74 AND ESTIMATED FUTURE OPERATIONS DURING FISCAL YEARS 1975–79

[In millions]

| Fiscal year [1] | Transactions during period: Income: Total | Income: Contributions, less refunds | Income: Reimbursements from general fund of Treasury for cost of noncontributory credits for military service | Income: Interest on investments [2] | Disbursements: Total | Disbursements: Benefit payments | Disbursements: Payments for vocational rehabilitation services | Disbursements: Administrative expenses [2] | Disbursements: Transfers to railroad retirement account | Net increase in fund | Fund at end of period |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Past experience: [3] | | | | | | | | | | | |
| 1960 | $1,034 | $987 | ........ | $47 | $533 | $528 | ........ | $32 | −$27 | $501 | $2,167 |
| 1965 | 1,237 | 1,175 | ........ | 62 | 1,495 | 1,392 | ........ | 79 | 24 | −257 | 2,007 |
| 1966 | 1,611 | 1,557 | ........ | 54 | 1,931 | 1,721 | $1 | 183 | 25 | −321 | 1,686 |
| 1967 | 2,332 | 2,249 | $16 | 67 | 1,997 | 1,861 | 7 | 99 | 31 | 335 | 2,022 |
| 1968 | 2,800 | 2,699 | 16 | 85 | 2,236 | 2,088 | 15 | 112 | 20 | 564 | 2,585 |
| 1969 | 3,705 | 3,532 | 32 | 141 | 2,613 | 2,443 | 15 | 133 | 21 | 1,092 | 3,678 |
| 1970 | 4,380 | 4,141 | 16 | 223 | 2,954 | 2,778 | 16 | 149 | 10 | 1,426 | 5,104 |
| 1971 | 4,911 | 4,569 | 16 | 325 | 3,606 | 3,381 | 21 | 190 | 13 | 1,305 | 6,408 |
| 1972 | 5,291 | 4,853 | 50 | 388 | 4,309 | 4,046 | 28 | 212 | 24 | 982 | 7,390 |
| 1973 | 5,947 | 5,461 | 51 | 435 | 5,467 | 5,162 | 39 | 247 | 20 | 479 | 7,869 |
| 1974 | 6,768 | 6,234 | 52 | 482 | 6,385 | 6,159 | 50 | 154 | 22 | 383 | 8,253 |
| Estimated future experience: [4] | | | | | | | | | | | |
| 1975 | 7,908 | 7,342 | 52 | 514 | 7,985 | 7,636 | 67 | 262 | 20 | −77 | 8,176 |
| 1976 | 8,196 | 7,641 | 90 | 465 | 9,420 | 9,020 | 90 | 295 | 15 | −1,224 | 6,952 |
| July–September 1976 | 2,080 | 2,064 | ........ | 16 | 2,598 | 2,499 | 26 | 73 | ........ | −518 | 6,434 |
| 1977 | 9,443 | 8,957 | 104 | 382 | 11,030 | 10,579 | 115 | 319 | 17 | −1,587 | 4,847 |
| 1978 | 10,769 | 10,375 | 119 | 275 | 12,353 | 11,859 | 131 | 349 | 14 | −1,584 | 3,263 |
| 1979 | 11,928 | 11,682 | 125 | 121 | 13,752 | 13,221 | 147 | 374 | 10 | −1,824 | 1,439 |

[1] Under the Congressional Budget Act of 1974 (Public Law 93-344), fiscal years 1977 and later consist of the 12 months ending on Sept. 30 of each year. The Act further provides that the calendar quarter July–September 1976 is a period of transition from fiscal year 1976, which ends on June 30, 1976, to fiscal year 1977, which begins on Oct. 1, 1976.

[2] Interest on investments includes net profits on marketable investments. Beginning in 1967, administrative expenses incurred under the disability insurance program are charged directly to the trust fund on a current (preliminary) basis, with a final adjustment, including interest, made in the following fiscal year. The amounts of these interest adjustments are included in interest on investments. For years prior to 1967, a description of the method of accounting for administrative expenses is contained in the 1970 Annual Report of the Board of Trustees.

[3] The financial operations of the disability insurance trust fund began in the latter half of fiscal year 1957.

[4] In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions.

Estimates consistent with those shown on a fiscal-year basis in table 12 are presented in table 13 to show the progress of the disability insurance trust fund on a calendar-year basis. During the 5-year period covering calendar years 1975–79, the assets of the trust fund are estimated to decline by $7.7 billion from $8.1 billion at the end of calendar year 1974 to $0.4 billion by the end of calendar year 1979.

The expected operations and status of the old-age and survivors insurance and disability insurance trust funds, combined, during each year 1975–79 are shown in tables 14 and 15 on a fiscal-year basis and a calendar-year basis, respectively, together with figures on actual experience in earlier years.

TABLE 13.—OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING SELECTED CALENDAR YEARS 1960–74 AND ESTIMATED FUTURE OPERATIONS DURING CALENDAR YEARS 1975–79

[In millions]

| Calendar year | Transactions during period | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Income | | | | Disbursements | | | | | | |
| | Total | Contributions, less refunds | Reimbursements from general fund of Treasury for costs of noncontributory credits for military service | Interest on investments | Total | Benefit payments | Payments for vocational rehabilitation services | Administrative expenses | Transfers to railroad retirement account | Net increase in fund | Fund at end of period |
| Past experience: | | | | | | | | | | | |
| 1960 | $1,063 | $1,010 | | $53 | $600 | $568 | | $36 | —$5 | $464 | $2,289 |
| 1965 | 1,247 | 1,188 | | 59 | 1,687 | 1,573 | | 90 | 24 | —440 | 1,606 |
| 1966 | 2,079 | 2,006 | $16 | 58 | 1,947 | 1,781 | $3 | 137 | 25 | 133 | 1,739 |
| 1967 | 2,379 | 2,286 | 16 | 78 | 2,089 | 1,939 | 11 | 109 | 31 | 290 | 2,029 |
| 1968 | 3,454 | 3,316 | 32 | 106 | 2,458 | 2,294 | 16 | 127 | 20 | 996 | 3,025 |
| 1969 | 3,792 | 3,599 | 16 | 177 | 2,716 | 2,542 | 15 | 138 | 21 | 1,075 | 4,100 |
| 1970 | 4,774 | 4,481 | 16 | 277 | 3,259 | 3,067 | 18 | 164 | 10 | 1,514 | 5,614 |
| 1971 | 5,031 | 4,620 | 50 | 361 | 4,000 | 3,758 | 24 | 205 | 13 | 1,031 | 6,645 |
| 1972 | 5,572 | 5,107 | 51 | 414 | 4,759 | 4,473 | 29 | 233 | 24 | 813 | 7,457 |
| 1973 | 6,443 | 5,932 | 52 | 458 | 5,973 | 5,718 | 46 | 190 | 20 | 470 | 7,927 |
| 1974 | 7,378 | 6,826 | 52 | 500 | 7,196 | 6,903 | 54 | 217 | 22 | 182 | 8,109 |
| Estimated future experience: | | | | | | | | | | | |
| 1975 | 7,938 | 7,347 | 90 | 501 | 8,752 | 8,378 | 78 | 276 | 20 | —814 | 7,295 |
| 1976 | 8,555 | 8,044 | 104 | 407 | 10,060 | 9,640 | 99 | 306 | 15 | —1,505 | 5,790 |
| 1977 | 9,603 | 9,173 | 119 | 311 | 11,350 | 10,888 | 119 | 326 | 17 | —1,747 | 4,043 |
| 1978 | 11,051 | 10,714 | 125 | 212 | 12,709 | 12,205 | 135 | 355 | 14 | —1,658 | 2,385 |
| 1979 | 12,131 | 11,921 | 133 | 77 | 14,095 | 13,553 | 151 | 381 | 10 | —1,964 | 421 |

Note: In interpreting the above, reference should be made to the footnotes in table 12.

TABLE 14.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND THE DISABILITY INSURANCE TRUST FUNDS, COMBINED, DURING SELECTED FISCAL YEARS 1960–74 AND ESTIMATED FUTURE OPERATIONS DURING FISCAL YEARS 1975–79

[In millions]

| Fiscal year | Transactions during period: Income: Total | Income: Contributions, less refunds | Income: Reimbursements from general fund of Treasury for costs of— Noncontributory credits for military service | Income: Reimbursements from general fund of Treasury for costs of— Payment to noninsured persons aged 72 and over | Income: Interest on investments | Disbursements: Total | Disbursements: Benefit payments | Disbursements: Payments for vocational rehabilitation services | Disbursements: Administrative expenses | Disbursements: Transfers to railroad retirement account | Net increase in funds | Funds at end of period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Past experience: | | | | | | | | | | | | |
| 1960 | $11,394 | $10,830 | | | $564 | $11,606 | $10,798 | | $234 | $574 | −$212 | $22,996 |
| 1965 | 17,681 | 17,032 | | | 648 | 17,456 | 16,618 | | 379 | 459 | 224 | 22,187 |
| 1966 | 20,071 | 19,423 | | | 649 | 20,700 | 19,793 | $1 | 437 | 469 | −629 | 21,558 |
| 1967 | 25,703 | 24,816 | $94 | | 793 | 21,725 | 20,747 | 7 | 433 | 539 | 3,979 | 25,537 |
| 1968 | 26,440 | 25,362 | 94 | | 984 | 23,859 | 22,825 | 16 | 560 | 458 | 2,581 | 28,118 |
| 1969 | 31,054 | 29,485 | 188 | $226 | 1,155 | 27,303 | 26,175 | 17 | 599 | 513 | 3,750 | 31,868 |
| 1970 | 36,127 | 34,096 | 94 | 364 | 1,572 | 30,275 | 29,045 | 18 | 623 | 589 | 5,852 | 37,720 |
| 1971 | 38,893 | 36,485 | 94 | 371 | 1,943 | 35,874 | 34,482 | 23 | 742 | 626 | 3,019 | 40,739 |
| 1972 | 43,208 | 40,564 | 187 | 351 | 2,107 | 40,158 | 38,587 | 29 | 794 | 749 | 3,050 | 43,789 |
| 1973 | 49,586 | 46,779 | 189 | 337 | 2,281 | 49,090 | 47,332 | 42 | 914 | 802 | 496 | 44,285 |
| 1974 | 57,704 | 54,689 | 191 | 303 | 2,521 | 55,869 | 54,007 | 54 | 878 | 931 | 1,835 | 46,120 |
| Estimated future experience: | | | | | | | | | | | | |
| 1975 | 66,453 | 63,151 | 192 | 307 | 2,803 | 64,760 | 62,563 | 75 | 1,142 | 980 | 1,693 | 47,813 |
| 1976 | 68,975 | 65,766 | 247 | 268 | 2,694 | 73,964 | 71,555 | 99 | 1,265 | 1,045 | −4,989 | 42,824 |
| July–September 1976 | 17,886 | 17,766 | | | 120 | 19,909 | 19,567 | 28 | 314 | | −2,023 | 40,801 |
| 1977 | 80,168 | 77,111 | 407 | 241 | 2,409 | 85,225 | 82,259 | 125 | 1,372 | 1,469 | −5,057 | 35,744 |
| 1978 | 89,298 | 86,562 | 430 | 222 | 2,084 | 94,638 | 91,699 | 143 | 1,498 | 1,298 | −5,340 | 30,404 |
| 1979 | 98,658 | 96,368 | 439 | 244 | 1,607 | 104,675 | 101,507 | 160 | 1,617 | 1,391 | −6,017 | 24,387 |

Note: In interpreting the above, reference should be made to the footnotes in table 10.

TABLE 15.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND THE DISABILITY INSURANCE TRUST FUNDS, COMBINED, DURING SELECTED CALENDAR YEARS 1960–74 AND ESTIMATED FUTURE OPERATIONS DURING CALENDAR YEARS 1975–79

[In millions]

| Calendar year | Transactions during period: Income: Total | Contributions, less refunds | Reimbursements from general fund of Treasury for costs of—: Noncontributory credits for military service | Payments to noninsured persons aged 72 and over | Interest on investments | Disbursements: Total | Benefit payments | Payments for vocational rehabilitation services | Administrative expenses | Transfers to railroad retirement account | Net increase in funds | Funds at end of period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Past experience: | | | | | | | | | | | | |
| 1960 | $12,445 | $11,876 | | | $569 | $11,798 | $11,245 | | $240 | $314 | $647 | $22,613 |
| 1965 | 17,857 | 17,205 | | | 651 | 19,187 | 18,311 | | 418 | 459 | —1,331 | 19,841 |
| 1966 | 23,381 | 22,585 | $94 | | 702 | 20,913 | 20,048 | $3 | 393 | 469 | 2,467 | 22,308 |
| 1967 | 26,413 | 25,424 | 94 | | 896 | 22,471 | 21,406 | 11 | 515 | 539 | 3,942 | 26,250 |
| 1968 | 28,493 | 27,034 | 188 | $226 | 1 045 | 26,015 | 24,936 | 17 | 603 | 458 | 2,479 | 28,729 |
| 1969 | 33,346 | 31,546 | 94 | 364 | 1,342 | 27,892 | 26,751 | 16 | 612 | 513 | 5,453 | 34,182 |
| 1970 | 36,993 | 34,737 | 94 | 371 | 1,791 | 33,108 | 31,863 | 20 | 635 | 589 | 3,886 | 38,068 |
| 1971 | 40,908 | 38,343 | 187 | 351 | 2,027 | 38,542 | 37,171 | 26 | 719 | 626 | 2,366 | 40,434 |
| 1972 | 45,622 | 42,888 | 189 | 337 | 2,208 | 43,281 | 41,595 | 30 | 907 | 749 | 2,341 | 42,775 |
| 1973 | 54,787 | 51,907 | 191 | 303 | 2,386 | 53,148 | 51,459 | 49 | 837 | 802 | 1,639 | 44,414 |
| 1974 | 62,066 | 58,907 | 192 | 307 | 2,660 | 60,593 | 58,521 | 59 | 1,082 | 931 | 1,472 | 45,886 |
| Estimated future experience: | | | | | | | | | | | | |
| 1975 | 66,548 | 63,238 | 247 | 268 | 2,795 | 69,525 | 67,266 | 86 | 1,193 | 980 | —2,977 | 42,909 |
| 1976 | 72,343 | 69,243 | 407 | 241 | 2,452 | 78,132 | 75,662 | 109 | 1,316 | 1,045 | —5,789 | 37,120 |
| 1977 | 81,772 | 78,970 | 430 | 222 | 2,150 | 87,548 | 84,548 | 130 | 1,401 | 1,469 | —5,776 | 31,344 |
| 1978 | 91,146 | 88,657 | 439 | 244 | 1,806 | 97,113 | 94,149 | 147 | 1,519 | 1,298 | —5,967 | 25,377 |
| 1979 | 100,309 | 98,347 | 453 | 167 | 1,342 | 107,092 | 103,892 | 165 | 1,644 | 1,391 | —6,783 | 18,594 |

Note: In interpreting the above, reference should be made to the footnotes in table 10.

The estimates in the tables in this section include the effects of various provisions to which reference has been made in earlier sections, namely, the provisions for (1) reimbursements to the trust funds from the general fund of the Treasury for the costs of granting noncontributory credits for military service and for the costs of monthly payments to certain noninsured persons aged 72 and over, and (2) financial interchanges between the railroad retirement account and the trust funds.

Expenditures in calendar year 1974, from both trust funds combined, were 9.82 percent of taxable earnings for the year and are estimated to increase to 10.90 percent in 1975 and to 11.05 percent in 1976. The percentage will decline somewhat after 1976, as estimated taxable earnings increase at a relatively greater rate than estimated expenditures. These percentages, as well as the actual percentages for earlier years, are shown in table 16 for both trust funds combined and for each trust fund separately. The following table shows, for each of the years 1975–79, the extent to which the percentage for both trust funds combined exceeds the combined employee-employer contribution rate:

[In percent]

| Calendar year | Expenditures as a percentage of taxable payroll | Combined employee-employer contribution rate | Difference |
|---|---|---|---|
| 1975 | 10.90 | 9.90 | −1.00 |
| 1976 | 11.05 | 9.90 | −1.15 |
| 1977 | 10.87 | 9.90 | −.97 |
| 1978 | 10.75 | 9.90 | −.85 |
| 1979 | 10.73 | 9.90 | −.83 |

The ratio of assets at the beginning of the year to expenditures during the year for both trust funds combined is estimated to be about 0.66 for calendar year 1975. The ratio will drop each year, as the assets of the trust funds decline during the 5-year period 1975–79; and by calendar year 1979, the ratio is estimated to be 0.24. The estimated ratio for each of the 5 calendar years 1975–79, as well as the actual ratio for earlier years, is shown in table 17 for both trust funds combined and for each trust fund separately.

TABLE 16.—EXPENDITURES FROM THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS AS A PERCENTAGE OF TAXABLE PAYROLL FOR SELECTED CALENDAR YEARS 1960-74 AND ESTIMATED FUTURE PERCENTAGES FOR CALENDAR YEARS 1975-79

| Calendar year | Expenditures as a percentage of taxable payroll [1] | | |
|---|---|---|---|
| | Old-age and survivors insurance and disability insurance trust funds, combined | Old-age and survivors insurance trust fund | Disability insurance trust fund |
| Past experience: | | | |
| 1960 | 5.89 | 5.59 | 0.30 |
| 1965 | 7.93 | 7.23 | .70 |
| 1966 | 6.88 | 6.24 | .64 |
| 1967 | 6.92 | 6.27 | .65 |
| 1968 | 7.03 | 6.35 | .67 |
| 1969 | 7.08 | 6.38 | .70 |
| 1970 | 8.13 | 7.32 | .81 |
| 1971 | 9.22 | 8.26 | .96 |
| 1972 | 9.15 | 8.13 | 1.01 |
| 1973 | 9.71 | 8.61 | 1.10 |
| 1974 | 9.82 | 8.65 | 1.17 |
| Estimated future experience: [2] | | | |
| 1975 | 10.90 | 9.52 | 1.38 |
| 1976 | 11.05 | 9.62 | 1.43 |
| 1977 | 10.87 | 9.46 | 1.41 |
| 1978 | 10.75 | 9.34 | 1.41 |
| 1979 | 10.73 | 9.31 | 1.41 |

[1] Percentage takes into account (1) the lower contribution rate payable by the self-employed compared with combined employee-employer rate, (2) employee contributions subject to refund, and (3) that for 1966 and later, only the employee contribution is payable on tips taxable as wages. Beginning in 1966, expenditures are adjusted to exclude payments to certain noninsured persons aged 72 and over with less than 3 quarters of coverage, costs of which are financed from the general fund of the Treasury. For 1970-74, percentages are preliminary and subject to revision.

[2] In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions.

TABLE 17.—ASSETS, AT THE BEGINNING OF THE YEAR, AS A PERCENTAGE OF EXPENDITURES DURING THE YEAR, FOR THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM, BY TRUST FUND, FOR SELECTED CALENDAR YEARS 1960-74, AND ESTIMATED FUTURE PERCENTAGES FOR CALENDAR YEARS 1975-79

| Calendar year | Assets, at the beginning of the year, as a percentage of expenditures during the year | | |
|---|---|---|---|
| | Old-age and survivors insurance and disability insurance trust funds, combined | Old-age and survivors insurance trust fund | Disability insurance trust fund |
| Past experience: | | | |
| 1960 | 186 | 180 | 304 |
| 1965 | 110 | 109 | 121 |
| 1966 | 95 | 96 | 83 |
| 1967 | 99 | 101 | 83 |
| 1968 | 101 | 103 | 83 |
| 1969 | 103 | 102 | 111 |
| 1970 | 103 | 101 | 126 |
| 1971 | 99 | 94 | 140 |
| 1972 | 93 | 88 | 140 |
| 1973 | 80 | 75 | 125 |
| 1974 | 73 | 68 | 110 |
| Estimated future experience: [1] | | | |
| 1975 | 66 | 62 | 93 |
| 1976 | 55 | 52 | 73 |
| 1977 | 42 | 41 | 51 |
| 1978 | 32 | 32 | 32 |
| 1979 | 24 | 25 | 17 |

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

Estimates of trust fund operations presented in this report show substantial declines in the assets of both trust funds during the next 5-year period, as already noted. It is apparent that without legislation to provide additional financing, the trust funds' assets will be exhausted soon after 1979. Under the assumptions on which the estimates in this section are based, the assets of the disability insurance trust fund will be exhausted in 1980, and the assets of the old-age and survivors insurance trust fund will be exhausted shortly thereafter. The expected substantial decline in the assets of the trust funds during 1975–79, which was not anticipated in the 1974 annual report, is attributable primarily to (1) the reduction in contribution income resulting from lower levels of employment and taxable earnings due to the current recession, and (2) the greater-than-expected upward movement in the CPI, with the result that automatic benefit increases assumed herein are larger than were previously assumed.

## Actuarial Analysis of Benefit Disbursements From the Federal Old-Age and Survivors Insurance Trust Fund With Respect to Disabled Beneficiaries

(Specifically required by Sec. 201(c) of the Social Security Act)

Effective January 1957, monthly benefits have been payable from the old-age and survivors insurance trust fund to disabled adult children aged 18 and over—sons and daughters of retired and deceased workers—with respect to disabilities that have continued since childhood. Effective February 1968, reduced monthly benefits have been payable from this trust fund to disabled widows and widowers beginning at age 50.

On December 31, 1974, about 410,000 persons were receiving monthly benefits from the old-age and survivors insurance trust fund with respect to disability. In addition to disabled beneficiaries, this total includes 37,000 mothers. These mothers—wives under age 65 of retired-worker beneficiaries and widows of deceased insured workers—met all other qualifying requirements and were receiving full-rate (i.e., not reduced for age) benefits solely because they had at least one disabled-child beneficiary in their care. Benefits paid from this trust fund to persons receiving benefits with respect to disability totaled $567 million in calendar year 1974. Similar figures are presented in table 18 to show the experience in each of the calendar years 1957–74.

Table 18 also shows the expected future experience in calendar years 1975–79. Total benefit payments from the old-age and survivors insurance trust fund with respect to disabled beneficiaries are estimated to increase from $651 million in calendar year 1975 to $1,075 million in calendar year 1979.

TABLE 18.—BENEFITS PAYABLE FROM THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND WITH RESPECT TO DISABLED BENEFICIARIES, CALENDAR YEARS 1957–79

[Beneficiaries in thousands; benefit payments in millions]

| Calendar year | Disabled beneficiaries, end of year | | | Amount of benefit payments [1] | | |
|---|---|---|---|---|---|---|
| | Total | Children [2] | Widows and widowers | Total | Children [2] | Widows and widowers [3] |
| Past experience: | | | | | | |
| 1957 | 34 | 34 | | $7 | $7 | |
| 1958 | 59 | 59 | | 23 | 23 | |
| 1959 | 94 | 94 | | 41 | 41 | |
| 1960 | 117 | 117 | | 59 | 59 | |
| 1961 | 138 | 138 | | 74 | 74 | |
| 1962 | 163 | 163 | | 89 | 89 | |
| 1963 | 183 | 183 | | 101 | 101 | |
| 1964 | 200 | 200 | | 113 | 113 | |
| 1965 | 214 | 214 | | 134 | 134 | |
| 1966 | 228 | 228 | | 147 | 147 | |
| 1967 | 243 | 243 | | 163 | 163 | |
| 1968 | 275 | 256 | 19 | 212 | 198 | $14 |
| 1969 | 301 | 270 | 31 | 249 | 214 | 35 |
| 1970 | 320 | 284 | 36 | 301 | 260 | 41 |
| 1971 | 338 | 298 | 40 | 363 | 307 | 56 |
| 1972 | 363 | 317 | 46 | 409 | 343 | 66 |
| 1973 | 384 | 333 | 51 | 502 | 417 | 85 |
| 1974 | 410 | 357 | 53 | 567 | 479 | 88 |
| Estimated future experience: [4] | | | | | | |
| 1975 | 432 | 376 | 56 | 651 | 553 | 98 |
| 1976 | 456 | 397 | 59 | 744 | 633 | 111 |
| 1977 | 481 | 419 | 62 | 844 | 721 | 123 |
| 1978 | 507 | 442 | 65 | 956 | 820 | 136 |
| 1979 | 535 | 467 | 68 | 1,075 | 927 | 148 |

[1] Beginning in 1966, includes payments for vocational rehabilitation services.
[2] Reflects effect of including certain mothers. (See text.)
[3] Reflects the offsetting effect of lower benefits payable to disabled widows and widowers who continue to receive benefits past age 60 (62, for disabled widowers, prior to 1973) as compared to the higher nondisabled widow's (and widower's) benefits that would otherwise be payable.
[4] Reflects the assumed changes under the automatic increase provisions that were described in the preceding section.

In calendar year 1974, benefit payments (including expenditures for vocational rehabilitation services) with respect to disabled persons from the old-age and survivors insurance trust fund and from the disability insurance trust fund (including payments from the latter fund to all dependents of disabled-worker beneficiaries) totalled $7,524 million, of which $567 million, or 7.5 percent, represented payments from the old-age and survivors insurance trust fund. Similar figures for all of the calendar years 1957–79 are presented in table 19.

TABLE 19.—BENEFIT PAYMENTS UNDER THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM WITH RESPECT TO DISABLED BENEFICIARIES, BY TRUST FUND, CALENDAR YEARS 1957–79

[In millions]

| Calendar year | Total [1] | Benefit payments [1] from— Disability insurance trust fund [2] | Old-age and survivors insurance trust fund: Amount [3] | Old-age and survivors insurance trust fund: As a percentage of total benefit payments with respect to disabled beneficiaries |
|---|---|---|---|---|
| Past experience: | | | | |
| 1957 | $64 | $57 | $7 | 11.1 |
| 1958 | 272 | 249 | 23 | 8.5 |
| 1959 | 498 | 457 | 41 | 8.2 |
| 1960 | 627 | 568 | 59 | 9.4 |
| 1961 | 961 | 887 | 74 | 7.7 |
| 1962 | 1,194 | 1,105 | 89 | 7.4 |
| 1963 | 1,311 | 1,210 | 101 | 7.7 |
| 1964 | 1,422 | 1,309 | 113 | 8.0 |
| 1965 | 1,707 | 1,573 | 134 | 7.9 |
| 1966 | 1,932 | 1,784 | 147 | 7.6 |
| 1967 | 2,113 | 1,950 | 163 | 7.7 |
| 1968 | 2,523 | 2,311 | 212 | 8.4 |
| 1969 | 2,806 | 2,557 | 249 | 8.9 |
| 1970 | 3,386 | 3,085 | 301 | 8.9 |
| 1971 | 4,146 | 3,783 | 363 | 8.8 |
| 1972 | 4,911 | 4,502 | 409 | 8.3 |
| 1973 | 6,266 | 5,764 | 502 | 8.0 |
| 1974 | 7,524 | 6,957 | 567 | 7.5 |
| Estimated future experience: [4] | | | | |
| 1975 | 9,107 | 8,456 | 651 | 7.1 |
| 1976 | 10,483 | 9,739 | 744 | 7.1 |
| 1977 | 11,851 | 11,007 | 844 | 7.1 |
| 1978 | 13,296 | 12,340 | 956 | 7.2 |
| 1979 | 14,779 | 13,704 | 1,075 | 7.3 |

[1] Beginning in 1966 includes payments for vocational rehabilitation services.
[2] Benefit payments to disabled workers and their dependents.
[3] Benefit payments to disabled children aged 18 and over, to certain mothers (see text), and to disabled widows and widowers (see footnote 3, table 18).
[4] Reflects the assumed changes under the automatic increase provisions that were described in the preceding section.

## Long-Range Actuarial Status of the Trust Funds

### *Significance of Long-Range Cost Estimates*

Long-range cost estimates are essential to the evaluation and planning of the OASDI program over the long-range future. Such estimates are of necessity based on a number of demographic and economic assumptions.

While it is not possible to accurately predict the future, it is possible to make long-range cost estimates based upon reasonable assumptions which will indicate the trend and general range in future costs. Such cost estimates, and their underlying assumptions, if revised periodically in the light of developing trends, provide valuable information for use in policy decision-making.

Since future demographic and economic experience may differ considerably from any single set of assumptions on which cost estimates are based, long-range cost estimates have been prepared on the basis of a wide range of assumptions, some of which are presented in the body of the Report and some of which are summarized in Appendix A.

*Long-Range Cost Estimates*

The estimates of the long-range cost of the old-age, survivors, and disability insurance system presented in this Report are based on present law. Therefore, if future legislation results in changes in benefits or in the financing provisions, the cost of the program will change and new cost estimates will be required.

The long-range cost estimates are computed under dynamic assumptions with respect to the future increases in the benefit levels and in the taxable earnings base under the automatic adjustment provisions in present law. These provide for automatically adjusting the benefit table in accordance with the Consumer Price Index and for automatically adjusting the taxable earnings base in accordance with the increase in average covered earnings per worker. It should be noted here, however, that the Board is recommending a modification in the provisions of law so as to avoid the probability of future unintended and excessively costly benefit payments that could result from the way in which the automatic adjustments are now designed. This proposal is discussed below in more detail.

The cost estimates are presented herein under three alternative sets of economic assumptions. The central set of assumptions is based on annual increases of 6 percent in average earnings and 4 percent in the Consumer Price Index throughout the period 1981–2049. Because of the high degree of uncertainty in any long-range economic forecast, two alternative sets of economic assumptions are also used. These alternatives fall on either side of the central assumptions, with one alternative based on a 5 percent annual increase in earnings and a 3 percent annual CPI increase, while the other set uses 7 percent wage and 5 percent CPI assumptions. These alternatives are presented following the description and analyses of the system under the central assumptions, and a comparison of all of the results obtained under all three sets is found in table 23. In all, higher assumptions are used in the period 1975–80. An earlier section of this Report dealing with the "Expected Operations and Status of the Trust Funds During the Period, July 1, 1974, to December 31, 1979", discusses the higher assumptions in the early years, which are used with respect to the long-range central set of economic assumptions.

Table 20 contains a projection of the future expenditures of the old-age, survivors, and disability insurance system as percent of taxable payroll under the central set of economic assumptions. According to this projection the cost of the old-age and survivors insurance program will increase slowly during the remainder of this century. After the turn of the century, the cost will be subject to accelerated increases until leveling at about 18½ percent of taxable payroll around the year 2030. For the disability insurance program the projection shows a steady increase in cost to around the year 2020, after which the cost will level at about 3¾ percent of taxable payroll.

The combined cost of the total old-age, survivors, and disability insurance system, using the central set of economic assumptions, is projected to increase to about 12 percent of taxable payroll by the end of the century; thereafter the costs will increase rapidly to about 22 percent of taxable payroll by the year 2030 and will remain essentially level during the remainder of the valuation period. These future costs would be substantially ameliorated, however, if the provisions of law were modified to avoid the phenomenon that causes future projected benefits under the automatic adjustment provisions to increase out of proportion to the levels of wage replacement established by benefits currently paid under the program. (The expected costs under the assumption of a change in law are set forth in tables 24 and 25, below, with accompanying text.)

Table 20 also compares for selected years the projected expenditures as percent of taxable payroll and the tax rates that are scheduled in present law. In every year in the future the projected cost exceeds the scheduled tax rate. The excess increases with time and is projected to reach levels of about 10 percent of taxable payroll or higher after the year 2030.

TABLE 20.—ESTIMATED EXPENDITURES OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL[1] FOR SELECTED YEARS, 1985–2050

[In percent]

| Calendar year | Expenditures as percent of taxable pryroll[2] — Old-age and survivors insurance | Disability insurance | Total | Tax rate in law | Difference |
|---|---|---|---|---|---|
| 1985 | 9.24 | 1.69 | 10.93 | 9.90 | −1.03 |
| 1990 | 9.28 | 1.94 | 11.22 | 9.90 | −1.32 |
| 1995 | 9.49 | 2.15 | 11.64 | 9.90 | −1.74 |
| 2000 | 9.50 | 2.50 | 12.00 | 9.90 | −2.10 |
| 2005 | 9.81 | 2.95 | 12.76 | 9.90 | −2.86 |
| 2010 | 10.77 | 3.36 | 14.13 | 9.90 | −4.23 |
| 2015 | 12.44 | 3.63 | 16.07 | 11.90 | −4.17 |
| 2020 | 14.58 | 3.76 | 18.34 | 11.90 | −6.44 |
| 2025 | 16.74 | 3.71 | 20.45 | 11.90 | −8.55 |
| 2030 | 18.15 | 3.60 | 21.75 | 11.90 | −9.85 |
| 2035 | 18.61 | 3.59 | 22.20 | 11.90 | −10.30 |
| 2040 | 18.41 | 3.70 | 22.11 | 11.90 | −10.21 |
| 2045 | 18.26 | 3.86 | 22.12 | 11.90 | −10.22 |
| 2050 | 18.51 | 3.93 | 22.44 | 11.90 | −10.54 |
| Averages as percent of taxable payroll: | | | | | |
| 1975–99 | 9.35 | 1.81 | 11.16 | 9.90 | −1.26 |
| 2000–24 | 11.99 | 3.13 | 15.12 | 11.02 | −4.10 |
| 2025–49 | 18.18 | 3.91 | 22.09 | 11.90 | −10.19 |
| Average-current-cost:[3] 1975–2049 | 13.29 | 2.97 | 16.26 | 10.94 | −5.32 |

[1] Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

[2] Calculated under the central set of economic assumptions of annual increases after 1980 of 6 percent in average earnings and 4 percent in CPI. Higher assumptions are used in the 1975–80 period.

[3] "Average-current-cost" represents the arithmetic average of expenditures as percent of taxable payroll for the period and includes the cost of increasing the funds on hand to 1-yr expenditures by the end of the valuation period.

Table 21 compares the average tax rate in the present law with the expenditures as percent of taxable payroll of the old-age, survivors, and disability insurance system projected under the central set of assumptions for three successive periods of 25 years beginning in 1975. In addition, the table compares the average tax rate and average-current-cost of the system over the customary 75-year period (1975–2049). According to these calculations the old-age, survivors, and disability insurance system is estimated to be underfinanced over the customary long-range 75-year period by an average annual amount equivalent to 5.32 percent of taxable payroll. Over the first 25-year period the cost would exceed taxes by an average annual amount equivalent to 1.26 percent of taxable payroll; over the second 25-year period it would exceed them by an average annual amount equivalent to 4.10 percent of taxable payroll; and over the third 25-year period it would exceed them by an average annual amount equivalent to 10.19 percent of taxable payroll. In all cases the underfinancing is more pronounced for the disability insurance program than for the old-age and survivors insurance program when viewed as a proportion of the cost of each program.

TABLE 21.—COMPARISON OF EXPENDITURES [1] AND TAXES FOR OLD-AGE, SURVIVORS AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL [2]

[In percent]

| Item | Average for item as percent of taxable payroll | | |
|---|---|---|---|
| | Old-age and survivors insurance | Disability insurance | Total |
| 1st 25-yr period (1975–99): | | | |
| Expenditures as percent of taxable payroll | 9.35 | 1.81 | 11.16 |
| Tax rate in law | 8.57 | 1.33 | 9.90 |
| Difference | −.78 | −.48 | −1.26 |
| 2d 25-yr period (2000–24): | | | |
| Expenditures as percent of taxable payroll | 11.99 | 3.13 | 15.12 |
| Tax rate in law | 9.45 | 1.57 | 11.02 |
| Difference | −2.54 | −1.56 | −4.10 |
| 3d 25-yr period (2025–49): | | | |
| Expenditures as percent of taxable payroll | 18.18 | 3.91 | 22.09 |
| Tax rate in law | 10.20 | 1.70 | 11.90 |
| Difference | −7.98 | −2.21 | −10.19 |
| Total 75-yr period (1975–2049): | | | |
| Current-cost [3] | 13.29 | 2.97 | 16.26 |
| Tax rate in law | 9.41 | 1.53 | 10.94 |
| Actuarial balance | −3.88 | −1.44 | −5.32 |

[1] Calculated under the central set of economic assumptions of annual increases after 1980 of 6 percent in average earnings and 4 percent in CPI. Higher assumptions are used in the 1975–80 period.
[2] Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple employer "excess wages" as compared with the combined employer-employee rate.
[3] "Average-current-cost" represents the arithmetic average of expenditures as percent of taxable payroll for the period and includes the cost of increasing the funds on hand to 1 yr expenditures by the end of the valuation period.

The results in tables 20 and 21 are based on new actuarial assumptions as compared to those used in last year's report with respect to demographic factors as well as economic factors. In regard to demographic factors, new population projections were prepared which take into account comments and suggestions made by the panel of experts appointed by the Senate Committee on Finance to review the costs estimates presented in last year's report. The effect of the demographic changes as well as changes in economic and other assumptions on the long-range 75-year actuarial balance may be observed in table 22.

TABLE 22.—CHANGE IN OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE LONG-RANGE ACTUARIAL BALANCE [1] AS PERCENT OF TAXABLE PAYROLL [2] BY TYPE OF ASSUMPTION

[In percent]

| Item | Old-age and survivors insurance | Disability insurance | Total |
|---|---|---|---|
| Actuarial balance estimated in last year's report | −2.58 | −0.40 | −2.98 |
| Demographic assumptions | −.20 | −.04 | −.24 |
| Female labor force participation | +.33 | +.02 | +.35 |
| Economic assumptions | −1.54 | −.41 | −1.95 |
| Disability rates | −0.0 | −.60 | −.60 |
| All other assumptions (net) | +.11 | −.01 | +.10 |
| Change in actuarial balance | −1.30 | −1.04 | −2.34 |
| New estimated actuarial balance | −3.88 | −1.44 | −5.32 |

[1] Based on 75-yr period of valuation and calculated under the central set of economic assumptions of annual increases after 1980 of 6 percent in average earnings and 4 percent in CPI. Higher assumptions are used in the 1975–80 period.
[2] Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

With respect to economic factors, it is assumed that:

(a) The female labor force participation rates will increase faster than previously projected. The new projections are based on a 23 percent ultimate increase in age-adjusted rates over the rates experienced in 1974.

(b) Through 1980 the assumptions are the same as those used in developing the short-range cost estimates, which are presented earlier in this report.

(c) Beyond 1980, average earnings will increase at an annual rate of 6 percent, while the CPI will increase at 4 percent.

(d) Beyond 1980, unemployment will average 5 percent.

In the preparation of the disability insurance cost estimates the assumed rates at which workers become disabled and the rates at which their benefits are later terminated due to either death or recovery from the disability, are updated to reflect the actual experience through calendar year 1974. In addition, it is assumed that the rate at which benefits are being awarded will increase 3 percent per year for the next 5 years.

The effect of these changes in assumptions as measured by the 75-year long-range actuarial balance is shown in table 22, which traces that balance from the estimate presented in last year's report to the estimate presented in this report under the central set of assumptions.

The results in tables 20, 21 and 22 should be read with full recognition of the uncertainties involved in the projection of economic and demographic factors over long-range periods. Because of the sensitivity of the projections to changes in economic assumptions, these results are subject to wide margins of variation. Because of the high degree of uncertainty in long-range economic forecasts, calculations were done under two alternative sets of assumptions. These alternatives fall on either side of the central set of assumptions. These are displayed in table 23 which provides an indication of the effect of changes in the assumed annual increase in CPI. All three projections displayed in the table are based on annual increases in real earnings of about 2 percent. The cost figures shown in the middle column (that is, those based on the central set of assumptions) are the same as those shown in table 20. However, the range of variation shown in table 23 should not be interpreted as depicting the complete range of all conceivable alternative outcomes. Such a range would be wider than that shown by the table. For example, if fertility rates were to continue to decline as they have over the last decade, and if economic conditions which have prevailed over the past few years were treated as normal and extrapolated to continue over the next 75 years, the long-range actuarial deficit of the old-age, survivors, and disability insurance program would be higher than projected under any of the alternatives in table 23. Conversely, if these demographic and economic factors were extrapolated into the future on the basis of experience over the longer term past, rather than just the last decade, the projected 75-year deficit would be lower. Measures of the effect of variation in the assumed increases in real earnings, fertility and migration are provided in Appendix A of this report.

TABLE 23.—ESTIMATED EXPENDITURES OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL [1] UNDER VARIOUS ECONOMIC ASSUMPTIONS, FOR SELECTED YEARS, 1985–2050

[In percent]

| Calendar year | Expenditures as percent of taxable payroll under assumptions of—[2] | | |
|---|---|---|---|
| | 5–3 | 6–4 | 7–5 |
| 1985 | 10.99 | 10.93 | 10.89 |
| 1990 | 11.20 | 11.22 | 11.25 |
| 1995 | 11.49 | 11.64 | 11.79 |
| 2000 | 11.68 | 12.00 | 12.34 |
| 2005 | 12.21 | 12.76 | 13.34 |
| 2010 | 13.29 | 14.13 | 14.99 |
| 2015 | 14.90 | 16.07 | 17.30 |
| 2020 | 16.74 | 18.34 | 20.03 |
| 2025 | 18.40 | 20.45 | 22.66 |
| 2030 | 19.26 | 21.75 | 24.43 |
| 2035 | 19.39 | 22.20 | 25.21 |
| 2040 | 19.06 | 22.11 | 25.30 |
| 2045 | 18.90 | 22.12 | 25.49 |
| 2050 | 19.03 | 22.44 | 26.04 |
| Average of expenditures as percent of taxable payroll: | | | |
| 1975–99 | 11.12 | 11.16 | 11.19 |
| 2000–24 | 14.31 | 15.12 | 16.42 |
| 2025–49 | 19.05 | 22.09 | 24.91 |
| Average-current-cost:[3] 1975–2049 | 14.93 | 16.26 | 17.68 |

[1] Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

[2] The initial value in each set refers to the assumed annual percent increases after 1980 in average earnings, while the second value in each set refers to the assumed percent increases after 1980 in CPI. Higher assumptions are used in the 1975–80 period.

[3] "Average-current-cost" represents the arithmetic average of expenditures as percent of taxable payroll for the period and includes the cost of increasing the funds on hand to 1 yr's expenditures by the end of the valuation period.

It will be observed that the 75-year average-current-cost of 16.26 percent of taxable payroll estimated under the central set of assumptions would be reduced to 14.93 percent of taxable payroll if the CPI is assumed to increase at 3 percent per year. Similarly, the 75-year average-current-cost would increase to 17.68 percent of taxable payroll if the CPI is assumed to increase at 5 percent per year. This means that the 75-year actuarial balance of −5.32 percent of taxable payroll shown in table 21 would decrease to −3.99 percent of taxable payroll or increase to −6.74 percent of taxable payroll if the assumed annual increase in CPI and in average-earnings were lowered or raised by one percent from the values used in the central set of assumptions.

One significant element of the sensitivity of the projected costs to economic assumptions is the fact that most of the effect of changes in the CPI occurs after the turn of the century. The expenditures as percent of taxable payroll of the old-age, survivors, and disability insurance system over the remainder of the 20th century, that is, over the 26-year period, 1975–1999, would vary only from a low of 11.12 percent of taxable payroll to a high of 11.19 percent of taxable payroll according to the assumptions displayed in table 23. Since variations in other elements in the cost projection (mostly in demographic elements) would have only minor effects on the cost of the system over the 25-year period, it can be concluded that over the remainder of this century the old-age, survivors, and disability insurance system will need additional financing equivalent to about 1.3 percent of taxable payroll under reasonable sets of economic assumptions.

After the turn of the century, the amount of required additional financing would be significantly higher as may be noted from the projections in table 23. However, to a large extent, the higher cost that is projected to occur after the turn of the century is due to what may be considered unintended and undesirable results of the automatic benefit adjustment provisions in present law.

These present provisions in the law automatically increase the benefits of retired workers as increases occur in the CPI. These CPI increases are also given (indirectly through increases in the benefit table) to workers who have not yet retired and who therefore have an opportunity to improve their future benefits as a result of increases in their future taxable earnings. Thus, in a large proportion of cases the future benefits of those who are still working increase at annual rates that are in excess of increases in either CPI or average wages under economic conditions which may be considered likely to prevail. The duality of benefit increases that is possible under present law can result in future benefits being substantially higher than the highest gross earnings on which the worker was taxed.

For illustrative purposes, cost projections are presented in table 24 under alternative economic assumptions (the same ones used in table 23) and under a modified theoretical old-age, survivors, and disability insurance system which would maintain through time the relationship between average awarded benefits and average earnings existing at the beginning of calendar year 1977. It is assumed that in this theoretical system, as is true in present law, benefits after retirement would be increased automatically to keep up with increases in CPI. The new system is assumed to apply to insured workers who attain age 62, die or become disabled after 1976. These individuals would receive the higher of benefits determined under the new procedure for computing benefits or the procedure and benefit table in the law at the end of 1976.

TABLE 24.—ESTIMATED EXPENDITURES OF A MODIFIED THEORETICAL OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM [1] AS PERCENT OF TAXABLE PAYROLL [2] UNDER VARIOUS ECONOMIC ASSUMPTIONS, FOR SELECTED YEARS, 1985–2050

[In percent]

| Calendar year | Expenditures as percent of taxable payroll under assumptions of—[3] | | |
|---|---|---|---|
| | 5–3 | 6–4 | 7–5 |
| 1985 | 11.01 | 10.90 | 10.79 |
| 1990 | 11.24 | 11.10 | 10.98 |
| 1995 | 11.60 | 11.45 | 11.32 |
| 2000 | 11.74 | 11.59 | 11.45 |
| 2005 | 12.03 | 11.88 | 11.73 |
| 2010 | 12.76 | 12.60 | 12.45 |
| 2015 | 13.99 | 13.81 | 13.65 |
| 2020 | 15.48 | 15.29 | 15.11 |
| 2025 | 16.82 | 16.60 | 16.40 |
| 2030 | 17.44 | 17.22 | 17.01 |
| 2035 | 17.37 | 17.15 | 16.95 |
| 2040 | 16.90 | 16.68 | 16.48 |
| 2045 | 16.57 | 16.36 | 16.16 |
| 2050 | 16.53 | 16.32 | 16.12 |
| Average of expenditures as percent of taxable payroll: | | | |
| 1975–99 | 11.17 | 11.06 | 10.95 |
| 2000–24 | 13.63 | 13.43 | 13.28 |
| 2025–49 | 16.95 | 16.78 | 16.56 |
| Average-current-cost: [4] 1975–2049 | 14.00 | 13.83 | 13.67 |

[1] See text for brief description of theoretical system.
[2] Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.
[3] The initial value in each set refers to the assumed annual percent increases after 1980 in average earnings, while the second value in each set refers to the assumed percent increases after 1980 in CPI. Higher assumptions are used in the 1975–80 period.
[4] "Average-current-cost" represents the arithmetic average of expenditures as percent of taxable payroll for the period and includes the cost of increasing the funds on hand to 1 yr's expenditures by the end of the valuation period.

It may be observed from table 24 that the long-range cost of the modified theoretical old-age, survivors, and disability insurance system would be relatively insensitive to changes in the CPI assumption. According to the three sets of economic assumptions shown in the table, the average-current-cost over the customary 75-year period would be about 13.7 to 14.0 percent of taxable payroll.

Table 25 shows the estimated cost over various periods under the modified theoretical system. Under the assumptions used the actuarial imbalance over the customary 75-year period would be reduced to about −2.7 to −3.1 percent of taxable payroll if the system is modified to maintain through time the relationship between average awarded benefits and average earnings that will prevail at the beginning of calendar year 1977. The table also compares over three successive 25-year periods starting in 1975 the estimated average expenditures as percent of taxable payroll and the average-tax rate scheduled in present law.

TABLE 25.—COMPARISON OF EXPENDITURES AND TAXES FOR A MODIFIED THEORETICAL OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM [1] AS PERCENT OF TAXABLE PAYROLL [2] UNDER VARIOUS ECONOMIC ASSUMPTIONS

[In percent]

| Item | Average for item as percent of taxable payroll under assumptions of— [3] | | |
|---|---|---|---|
| | 5–3 | 6–4 | 7–5 |
| 1st 25-yr period (1975–99): | | | |
| Expenditures as percent of taxable payroll | 11.17 | 11.06 | 10.95 |
| Tax rate in law | 9.90 | 9.90 | 9.90 |
| Difference | −1.27 | −1.16 | −1.05 |
| 2d 25-yr period (2000–24): | | | |
| Expenditures as percent of taxable payroll | 13.63 | 13.43 | 13.28 |
| Tax rate in law | 11.02 | 11.02 | 11.02 |
| Difference | −2.61 | −2.41 | −2.26 |
| 3d 25-yr period (2025–49): | | | |
| Expenditures as percent of taxable payroll | 16.95 | 16.78 | 16.56 |
| Tax rate in law | 11.90 | 11.90 | 11.90 |
| Difference | −5.05 | −4.88 | −4.66 |
| Total 75-yr period (1975–2094): | | | |
| Current-cost [4] | 14.00 | 13.83 | 13.67 |
| Tax rate in law | 10.94 | 10.94 | 10.94 |
| Actuarial balance | −3.06 | −2.89 | −2.73 |

[1] See text for brief description of theoretical system.
[2] Payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.
[3] The initial value in each set refers to the assumed annual percent increases after 1980 in average earnings, while the second value in each set refers to the assumed percent increases after 1980 in CPI. Higher assumptions are used in the 1975-80 period.
[4] "Average-current-cost" represents the arithmetic average of expenditures as percent of taxable payroll for the period and includes the cost of increasing the funds on hand to 1 yr's expenditures by the end of the valuation period.

It may also be observed from table 25 that over the next 25-year period the expenditures as percent of taxable payroll of the old-age, survivors, and disability insurance system is projected to exceed the taxes scheduled in present law under all economic assumptions used. These costs are similar to those projected under present law, which are shown in table 23. Under the modified theoretical system the additional taxes required over the remainder of this century would be about 1.1 to 1.3 percent of taxable payroll, whereas under present law it would be about 1.2 to 1.3 percent of taxable payroll.

It may be concluded from the cost analyses presented in this Report that the expenditures of the old-age, survivors, and disability insurance system for the remainder of the 20th century will exceed the taxes now scheduled in present law under reasonable sets of economic assumptions and irrespective of a possible modification in the automatic benefit adjustment provisions. If the system is to meet its outlays for the remainder of this century, higher taxes equivalent to an increase of about 1.3 percent of taxable payroll will be required.

## Advisory Council on Social Security

Pursuant to section 706 of the Social Security Act, an Advisory Council on Social Security was appointed by the Secretary of Health, Education, and Welfare in April, 1974. The Council submitted its reports on March 6, 1975. The following two recommendations of the

Council would have a very significant impact on the financing of the program and the future integrity of the trust funds:

1. *Benefit structure—replacement rates. The provisions of present law for computing average monthly earnings, on which benefits are based, and for adjusting the benefit table in the law to changes in prices may result over the long range in unintended, unpredictable, and undesirable variations in the level of benefits. The benefit structure should be revised to maintain the levels of benefits in relation to pre-retirement earnings levels that now prevail. Benefits for workers coming on the rolls in the future should be computed on the basis of a revised benefit formula using past earnings indexed to take account of changes during their working lives in the average earnings of all covered workers. As under present law, benefits for people on the rolls should continue to be increased as price levels increase.*

Revising the benefit structure to stabilize replacement rates as recommended by the Advisory Council, would substantially reduce the sensitivity of the future cost of the system to the complex interaction of economic factors. It would also significantly reduce the rapid escalation of cost in the old-age, survivors, and disability insurance system projected to occur after the turn of the century. The Board of Trustees recommends revision of the benefit structure in order to achieve stability of benefit levels relative to prior earnings. The precise method of accomplishing this goal is now under study.

2. *Employee-employer taxes. The OASDI tax rate should be gradually increased, as OASDI costs increase, and the increases should be met by reallocating taxes now scheduled in the law for part A (hospital insurance) of the Medicare program. Income lost to the hospital insurance program by this reallocation should be made up from the general funds of the Treasury.*

Additional revenues for the social security cash benefits program will be required in both the short-range and long-range under all forseeable circumstances. The Board recommends that additional revenue requirements be met through increased contribution rates, an increase in the earnings base or some combination of these elements. The Board is opposed to the use of additional general revenue financing for the social security program.

The Council also made a recommendation concerning the OASDI contribution rates for the self-employed. The Council proposed: *The present 7-percent limitation on the tax rate for the self-employed should be removed. The self-employment OASDI tax rate should be the same multiple of the employee contribution rate as was fixed at the time the self-employed were first covered—150 percent.*

The Board of Trustees supports this rcommendation and recommends its adoption by the Congress.

Additional recommendations were made by the Advisory Council regarding the extension of social security protection through various changes in the provisions governing coverage and eligibility for benefits. The Board cautions that, as the Administration and the Congress consider these recommendations, the financial status of the OASDI system and the financial implications of the recommendations should be fully taken into account.

## Conclusion

The short-range actuarial cost estimates indicate that the assets of both the old-age, and survivors insurance trust fund and the disability insurance trust fund will decline during the 5-year period 1975–79. Without legislation to provide additional financing, the assets of both trust funds will be exhausted soon after 1979.

The Board recommends that prompt action be taken to strengthen the financing of the old-age, survivors, and disability insurance system over the near term. The required additional income to the trust funds should be obtained through increases in the tax rate, in the taxable earnings base, or in both rate and base. The Board opposes the use of additional general revenue financing for the old-age, survivors, and disability insurance program. The Board noted that the amount of additional income required for the program would be reduced if the Congress adopted the President's proposal to limit to 5 percent the automatic benefit increase scheduled for June, 1975.

The long-range actuarial cost estimates indicate that for every year in the future the estimated expenditures will exceed the estimated income from taxes. This excess increases with time and is estimated to average about 1.3 percent of taxable payroll over the next 25-year period (1975–1999). All reasonable alternative actuarial assumptions indicate that over the remainder of this century the financing of the old-age, survivors, and disability insurance program will need additional revenues equivalent to about 1.3 percent of taxable payroll.

The long-range cost of the OASDI program projected to occur after the turn of the century will substantially exceed the taxes scheduled in present law. Although those projected costs are highly sensitive to variations in the actuarial assumptions, all reasonable assumptions indicate that there will be significant excesses of expenditures over income. This report is not intended to provide an indication of the fullest possible range of variation in the long-range cost estimates. (Appendix A provides some information on the sensitivity of the long-range cost estimates to alternative assumptions.)

To some extent the high cost of the old-age, survivors, and disability insurance program projected to occur after the turn of the century is due to unintended results in the automatic benefit adjustment provisions enacted in 1972, which cause future projected benefits to increase out of proportion to levels of wage replacement established by benefits currently paid under the program. The Board fully concurs with the intent of the recommendation by the 1975 Advisory Council on Social Security that the benefit structure be revised to maintain the levels of benefits in relation to preretirement earnings levels that now prevail.

The Board recommends that development of specific plans for strengthening of the long-range financing of the old-age, survivors, and disability insurance program be pursued immediately with special priorities given to ways of modifying the automatic benefit adjustment provisions in present law.

In this regard, the Board is pleased to note that the Administration has already begun studies of the possible means of accomplishing this objective. The Board also welcomes the cooperative efforts now under way between the Social Security Administration and the actuarial and economic consultants appointed by the Congressional Research

Service of the Library of Congress at the request of the House Committee on Ways and Means and the Senate Committee on Finance to study this matter.

The Board also concurs with the 1975 Advisory Council on Social Security in the recommendation that the OASDI tax rate applicable to self-employment income be set at a level equivalent to 150 percent of the tax rate applicable to wages.