

1979 ANNUAL REPORT OF  
THE BOARD OF TRUSTEES OF THE  
FEDERAL OLD-AGE AND SURVIVORS INSURANCE  
AND DISABILITY INSURANCE TRUST FUNDS

---

COMMUNICATION

FROM

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

TRANSMITTING

THE 1979 ANNUAL REPORT OF THE BOARD, PURSUANT TO  
SECTION 201(c) OF THE SOCIAL SECURITY ACT



APRIL 24, 1979.—Referred to the Committee on Ways and Means and  
ordered to be printed

---

U.S. GOVERNMENT PRINTING OFFICE



## LETTER OF TRANSMITTAL

---

BOARD OF TRUSTEES OF THE  
FEDERAL OLD-AGE AND SURVIVORS INSURANCE  
AND DISABILITY INSURANCE TRUST FUNDS,  
*Washington, D.C., April 13, 1979.*

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

SIR: We have the honor to transmit to you the 1979 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 39th such report), in compliance with the provisions of section 201 (c) of the Social Security Act.

Respectfully,

W. MICHAEL BLUMENTHAL,  
*Secretary of the Treasury,*  
*and Managing Trustee of the Trust Funds.*

RAY MARSHALL,  
*Secretary of Labor.*

JOSEPH A. CALIFANO, JR.,  
*Secretary of Health, Education, and Welfare.*

STANFORD G. ROSS,  
*Commissioner of Social Security*  
*and Secretary, Board of Trustees.*

(III)



## LETTER OF TRANSMITTAL

---

BOARD OF TRUSTEES OF THE  
FEDERAL OLD-AGE AND SURVIVORS INSURANCE  
AND DISABILITY INSURANCE TRUST FUNDS,  
*Washington, D.C., April 13, 1979.*

THE PRESIDENT OF THE SENATE,  
*Washington, D.C.*

SIR: We have the honor to transmit to you the 1979 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 39th such report), in compliance with the provisions of section 201(c) of the Social Security Act.

Respectfully,

W. MICHAEL BLUMENTHAL,  
*Secretary of the Treasury,*  
*and Managing Trustee of the Trust Funds.*  
RAY MARSHALL, *Secretary of Labor.*  
JOSEPH A. CALIFANO, JR.,  
*Secretary of Health, Education, and Welfare.*  
STANFORD G. ROSS,  
*Commissioner of Social Security,*  
*and Secretary, Board of Trustees.*



# CONTENTS

---

	Page
I. The Board of Trustees.....	1
II. Advisory Council on Social Security.....	1
III. Highlights.....	2
IV. Nature of the Trust Funds.....	4
V. Summary of the Operations of the Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Fiscal Year 1978.....	7
A. Old-Age and Survivors Insurance Trust Fund.....	7
B. Disability Insurance Trust Fund.....	15
VI. Actuarial Cost Projections.....	20
A. Economic and Demographic Assumptions.....	21
B. Automatic Adjustments.....	25
C. Expected Operations and Status of the Trust Funds During the Period October 1, 1978, to December 31, 1983.....	27
D. Actuarial Analysis of Benefit Disbursements From the Federal Old-Age and Survivors Insurance Trust Fund With Respect to Disabled Beneficiaries.....	42
E. Actuarial Status of the Trust Funds.....	43
1. Medium-Range Cost Estimates: 1979-2003.....	44
2. Long-Range Cost Estimates: 1979-2053.....	50
VII. Conclusion.....	53
Appendices:	
A. Details and Sensitivity of Long-Range Cost Estimates.....	55
B. Determination and Announcement of Social Security Benefit Increases.....	71
C. Determination and Announcement of Social Security Contri- bution and Benefit Base, Quarter of Coverage Amount, and Retirement Test Exempt Amount for 1979.....	75

# **1979 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND**

---

## **I. 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. The Board of Trustees reports to the Congress once each year, in compliance with section 201(c)(2) of the Social Security Act. This report is the annual report for 1979, the 39th such report.

## **II. ADVISORY COUNCIL ON SOCIAL SECURITY**

The Secretary of Health, Education, and Welfare on February 26, 1978, announced the appointment of an Advisory Council on Social Security under the provisions of section 706 of the Social Security Act. Under the law, the Social Security Advisory Council is charged with making a comprehensive study of the status of the social security cash benefit and Medicare programs. This study is to include an examination of the financial status of the trust funds in relation to the long-term commitments of the programs, benefit levels, the scope of coverage, and other aspects of the programs, including their impact on public assistance.

The Council is required to submit its final reports to the Secretary of Health, Education, and Welfare no later than October 1, 1979. After the Council's reports are transmitted by the Secretary to the Congress and to the Board of Trustees of each of the trust funds, the Council will cease to exist. Comments on the Council's report and recommendations with respect to the old-age, survivors, and disability insurance program will be included in the 1980 annual report of the Board of Trustees.

The Council commissioned a Panel of Consultants, consisting of three actuaries and three economists, to review the cost estimates for the old-age, survivors, and disability insurance program and related subjects. The Panel has submitted a final draft report of its findings. In general, the Panel found the assumptions and methodology under-



lying the projections in the 1978 annual report of the Board of Trustees to be reasonable. The Panel did recommend some changes in the assumptions, in part because of emerging experience after the preparation of the 1978 annual report. Many of these recommendations are reflected in the estimates that appear in this report. The Panel's final draft report is available to the public; its final report will be published as an appendix to the Council's final report.

### III. HIGHLIGHTS

The important features of the 1979 annual report are described in this section.

1. Highlights during fiscal year 1978 were:

(a) The assets of both trust funds combined declined by \$4.3 billion, to \$35.3 billion on September 30, 1978. This represents 34 percent of the estimated outgo in the following fiscal year, 1979. Income amounted to \$89.6 billion, 10 percent more than in fiscal year 1977. Expenditures totaled \$93.9 billion, also 10 percent more than in fiscal year 1977. A smaller decline in the combined trust funds is expected in fiscal year 1979. In fiscal year 1978, income to the disability insurance trust fund exceeded expenditures for the first time since 1974. This was primarily because of an increase in contribution rates allocated to the disability insurance trust fund, which became effective on January 1, 1978. Another contributing factor was a significant decline in the number of newly disabled workers who began to receive benefits in 1978.

(b) The following changes of major importance occurred in the program:

(1) The total contribution rates increased from 4.95 percent to 5.05 percent for employees and employers, each, and from 7.0 percent to 7.1 percent for self-employed persons, effective January 1, 1978;

(2) An automatic cost-of-living benefit increase of 6.5 percent became effective for June 1978 (the published statement announcing the determination of this increase is shown in appendix B);

(3) The contribution and benefit based increased from \$16,500 to \$17,700 effective January 1, 1978;

(4) The annual exempt amount under the retirement test increased from \$3,000 to \$4,000 for beneficiaries aged 65 and over, and from \$3,000 to \$3,240 for beneficiaries under age 65, effective January 1, 1978; and

(5) The amount of earnings required for a quarter of coverage was changed from \$50 or more in a quarter to \$250 on an annual basis, beginning January 1, 1978.

(c) The trust funds earned interest amounting to \$2.4 billion during fiscal year 1978. The effective annual rate of interest earned by the combined assets of the trust funds during the 12 months that ended June 30, 1978, was 7.2 percent.

(d) The number of persons receiving monthly benefits under the OASDI program totaled 34.4 million at the end of September 1978. An estimated 110 million workers had earnings in calendar year 1978 that were taxable and creditable toward benefits under the program.

2. For 1979 the following changes of major importance have been made in the program, effective January 1:

(a) The method of computing benefits was changed to a new formula which stabilizes the future relationship between benefits and earnings;

(b) The contribution and benefit base was increased from \$17,700 to \$22,900;

(c) The exempt amount under the retirement test was increased from \$4,000 to \$4,500 for beneficiaries aged 65 and over, and from \$3,240 to \$3,480 for those under 65; and

(d) The amount of annual earnings required for a quarter of coverage was increased from \$250 to \$260.

The published statement announcing the last three changes is shown in appendix C.

3. Projections of the financial status of the old-age and survivors insurance and disability insurance (OASDI) program are shown under three sets of economic and demographic assumptions to indicate the general range of such projections under differing assumptions. Under the intermediate set of assumptions, the old-age and survivors insurance (OASI) and disability insurance (DI) trust funds, combined, increase in every year after 1980 until the early years of the next century.

Under a more optimistic set of assumptions, it is estimated that income will exceed expenditures in every year after 1980 for as far into the future as projections are made (75 years). Under a more pessimistic set of assumptions, however, expenditures from the OASI trust fund are projected to exceed income in every year through 1984, and the fund would experience cash-flow problems, as noted below.

Detail on these projections is given for three time periods of particular interest:

(a) Short-range (1979–1983)—Financing is adequate to maintain positive OASI and DI trust fund balances through 1983 under the intermediate and optimistic sets of assumptions. Under the pessimistic assumptions, the DI trust fund is also adequately financed through 1983. However, the OASI trust fund balance becomes so low that cash-flow problems begin in 1983.

(b) Medium-range (1979–2003)—Under the intermediate assumptions, annual expenditures average 10.59 percent of taxable payroll, while tax income averages 11.76 percent of taxable payroll. This produces an estimated actuarial surplus of 1.17 percent of taxable payroll over the next 25 years. However, under the pessimistic assumptions, the cash-flow problems of the OASI trust fund that begin in 1983 would continue until a year or two after a scheduled increase in contribution rates in 1990.

(c) Long-range (1979–2053)—Under the intermediate set of assumptions, annual expenditures average 13.38 percent of taxable payroll while tax income averages 12.19 percent of taxable payroll. This produces an estimated actuarial deficit of 1.20 percent of taxable payroll over the next 75 years. It should be recognized that the long-range estimates are subject to appreciable variability because of the uncertainties concerning the future behavior of various economic and demographic factors.

#### IV. NATURE OF THE TRUST FUNDS

The Federal Old-Age and Survivors Insurance Trust Fund was established on January 1, 1940, as a separate account in the United States Treasury. All the financial operations of the OASI program are handled through this fund. The Federal Disability Insurance Trust Fund—another separate account in the United States Treasury and thus a fund entirely separate from the Federal Old-Age and Survivors Insurance Trust Fund—was established on August 1, 1956. All the financial operations of the DI program are handled through this fund.

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 or on behalf of workers employed by State and local governments and by such employers with respect to wages 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. Employees are required to pay contributions with respect to cash tips, but employers are required to pay contributions on only that part of tip income deemed to be wages under the Federal minimum wage law. All covered self-employed persons are required to pay contributions with respect to their covered self-employment income.

In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount, with the contributions being determined first on the wages and then on any self-employment income within the annual maximum amount. An employee who pays contributions on wages in excess of the annual maximum amount (because of employment with two or more employers) is eligible for a refund of the excess contributions. The amount of benefits that an individual (or his dependents or survivors) may become entitled to under the OASDI program is based on the amount of the individual's taxable earnings in each year. The maximum amount of earnings taxable in a year is also the maximum amount of earnings creditable toward benefits in that year, and the maximum amount is referred to as the contribution and benefit base.

The contribution rates applicable to taxable earnings in each of the calendar years 1937 and later, and the allocation of the rates between the two trust funds, are shown in table 1. For 1980 and later, the contribution rates shown are the rates scheduled in the provisions of present law. The contribution and benefit base for each year 1937-81 is also shown in table 1. The contribution and benefit base for each year 1975-78 was determined under the automatic increase provisions in section 230 of the Social Security Act. The base for 1979, and the scheduled bases for 1980 and 1981, are specified in the provisions of present law as last amended in 1977. The automatic increase provisions will again be applicable after 1981.

TABLE 1.—CONTRIBUTION AND BENEFIT BASE AND CONTRIBUTION RATES

Calendar years	Contribution and benefit base	Contribution rates (percent of taxable earnings)					
		Employees and employers, each			Self-employed		
		OASDI	OASI	DI	OASDI	OASI	DI
1937-49	\$3,000	1.000	1.000				
1950	3,000	1.500	1.500				
1951-53	3,600	1.500	1.500		2.2500	2.2500	
1954	3,600	2.000	2.000		3.0000	3.0000	
1955-55	4,200	2.000	2.000		3.0000	3.0000	
1957-58	4,200	2.250	2.000	0.250	3.3750	3.0000	0.3750
1959	4,800	2.500	2.250	.250	3.7500	3.3750	.3750
1960-61	4,800	3.000	2.750	.250	4.5000	4.1250	.3750
1962	4,800	3.125	2.875	.250	4.7000	4.3250	.3750
1963-65	4,800	3.625	3.375	.250	5.4000	5.0250	.3750
1966	6,600	3.850	3.500	.350	5.8000	5.2750	.5250
1967	6,600	3.900	3.550	.350	5.9000	5.3750	.5250
1968	7,800	3.800	3.325	.475	5.8000	5.0875	.7125
1969	7,800	4.200	3.725	.475	6.3000	5.5875	.7125
1970	7,800	4.200	3.650	.550	6.3000	5.4750	.8250
1971	7,800	4.600	4.050	.550	6.9000	6.0750	.8250
1972	9,000	4.600	4.050	.550	6.9000	6.0750	.8250
1973	10,800	4.850	4.300	.550	7.0000	6.2050	.7950
1974	13,200	4.950	4.375	.575	7.0000	6.1850	.8150
1975	14,100	4.950	4.375	.575	7.0000	6.1850	.8150
1976	15,300	4.950	4.375	.575	7.0000	6.1850	.8150
1977	16,500	4.950	4.375	.575	7.0000	6.1850	.8150
1978	17,700	5.050	4.275	.775	7.1000	6.0100	1.0900
1979	22,900	5.080	4.330	.750	7.0500	6.0100	1.0400
Changes scheduled in present law:							
1980	25,900	5.080	4.330	.750	7.0500	6.0100	1.0400
1981	29,700	5.350	4.525	.825	8.0000	6.7625	1.2375
1982-84	( <sup>1</sup> )	5.400	4.575	.825	8.0500	6.8125	1.2375
1985-89	( <sup>1</sup> )	5.700	4.750	.950	8.5500	7.1250	1.4250
1990 and later	( <sup>1</sup> )	6.200	5.100	1.100	9.3000	7.6500	1.6500

<sup>1</sup> Subject to automatic increase.

All contributions are collected by the Internal Revenue Service and deposited in the general fund of the Treasury as internal revenue collections, except for amounts received under State agreements (to effectuate coverage under the program for State and local government employees) which are deposited directly in the trust funds. The internal revenue collections are immediately and automatically appropriated to the trust funds on an estimated basis. The exact amount of contributions received is not known initially because contributions under the OASDI and hospital insurance programs and individual income taxes are not separately identified in collection reports received by the Treasury Department. 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. Adjustments are also made to account for any refunds to workers who paid contributions on wages in excess of the contribution and benefit base.

Another source of income to the trust funds is interest received on investments held by the funds. That portion of each trust fund which, in the judgment of the Managing Trustees, 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 (including special public-debt obligations described below), 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 invest-

ments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. These obligations may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust funds. The Act provides that these obligations shall bear interest at a rate equal to the average market yield (computed 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 then 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.

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 OASDI program. Under these provisions, transfers between the railroad retirement account and the trust funds are made on an annual basis in order to place each trust fund in the same position as it would have been if railroad employment had always been covered under social security.

Several other provisions in the Social Security Act also affect the income and expenditures of the trust funds. Income is affected by provisions for (1) annual reimbursements from the general fund of the Treasury to the OASI and DI trust funds for any cost arising from the granting of noncontributory wage credits for military service, according to periodic determinations made by the Secretary of Health, Education, and Welfare; (2) annual reimbursements from the general fund of the Treasury to the OASI trust fund for any costs arising from special monthly cash payments to certain persons who reached age 72 before 1968, almost all of whom are not eligible for cash benefits under other provisions of the OASDI program; and (3) the receipt of unconditional money gifts or bequests made for the benefit of the trust funds or any activity financed through the funds. In addition to the payment of benefits from the trust funds, the following expenditures from the trust funds are authorized: (1) costs of vocational rehabilitation services furnished to disabled persons receiving benefits because of their disability, which may not exceed a specified percentage of the benefits certified for payment to these types of beneficiaries in the preceding year; (2) 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; and (3) expenditures for construction, rental, and lease or purchase contract of office buildings and related facilities for the Social Security Administration.

The net worth of facilities and other fixed capital assets is not carried in the statements of the operations of the trust funds presented in this report. This is because the value of fixed capital assets does not represent funds available for benefit or administrative expenditures.

and therefore is not viewed as being a consideration in assessing the actuarial status of the trust funds.

## V. SUMMARY OF THE OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, FISCAL YEAR 1978

### A. OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

A statement of the income and disbursements of the Federal Old-Age and Survivors Insurance Trust Fund in fiscal year 1978, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2. Comparable amounts for fiscal year 1977 are also shown in the table.

TABLE 2.—STATEMENT OF OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING FISCAL YEARS 1977 AND 1978

[In thousands]

	Fiscal year 1977	Fiscal year 1978
Total assets of the trust fund, beginning of year.....	\$37,055,202	\$35,372,213
Receipts:		
Contributions:		
Appropriations.....	61,517,723	66,574,306
Deposits arising from State agreements.....	7,676,046	7,859,698
Gross contributions.....	69,193,769	74,434,004
Less payment into the Treasury for contributions subject to refund.....	298,960	387,225
Net contributions.....	68,894,809	74,046,779
Reimbursement from general fund of the Treasury for costs of:		
Noncontributory credits for military service.....	378,000	382,000
Noncontributory credits for persons interned during World War II at places operated for the interment of U.S. citizens of Japanese ancestry.....		2,724
Payments to noninsured persons aged 72 and over:		
Benefit payments.....	208,652	176,727
Administrative expenses.....	2,640	2,205
Interest.....	24,610	49,272
Total reimbursement for payments to noninsured persons aged 72 and over.....	235,902	228,203
Interest:		
Interest on investments.....	2,275,080	2,153,535
Interest on amounts transferred from the supplemental security income general fund account due to adjustment in allocation of administrative expenses <sup>1</sup> .....	15,033	-600
Gross interest.....	2,290,113	2,152,935
Less interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs.....	3,130	1,655
Less interest on amounts transferred to the disability insurance trust fund due to adjustment in allocation of costs of vocational rehabilitation services.....	95	139
Net interest.....	2,286,888	2,151,142
Gifts.....	10	6
Total receipts.....	71,795,610	76,810,854
Disbursements:		
Benefit payments.....	71,270,519	78,524,092
Transfer to railroad retirement account.....	1,207,841	1,588,664
Payment for costs of vocational rehabilitation services for disabled beneficiaries:		
For the current fiscal year.....	6,797	6,107
Transfers to the disability insurance trust fund due to adjustment in allocation of costs for prior periods.....	705	354
Total payment for costs of vocational rehabilitation services.....	7,502	6,461

See footnotes at end of table.

TABLE 2.—STATEMENT OF OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING FISCAL YEARS 1977 AND 1978—Continued

[In thousands]

	Fiscal year 1977	Fiscal year 1978
Administrative expenses:		
Department of Health, Education, and Welfare .....	\$830,303	\$931,715
Treasury Department .....	127,902	103,973
Construction of facilities for Social Security Administration .....	14,733	13,332
Expenses of the Department of Health, Education, and Welfare for administration of vocational rehabilitation program for disabled beneficiaries .....	48	50
Interfund transfers due to adjustment in allocation of:		
Administrative expenses .....	19,229	22,327
Costs of construction <sup>2</sup> .....	2,415	-57
Transfers to the supplemental security income general fund account due to adjustment in allocation of administrative expenses <sup>3</sup> .....	-1,887	14,300
Gross administrative expenses .....	992,743	1,085,638
Less receipts from sales of supplies, materials, etc. ....	6	53
Net administrative expenses .....	992,737	1,085,586
Total disbursements .....	73,478,599	81,204,803
Net addition to the trust fund .....	-1,682,989	-4,393,949
Total assets of the trust fund, end of year .....	35,372,213	30,978,264

<sup>1</sup> A positive figure represents a transfer of interest to the trust fund from the supplemental security income general fund account. A negative figure represents a transfer of interest from the trust fund to the supplemental security income general fund account.

<sup>2</sup> A positive figure represents a transfer from the OASI trust fund to the other social security trust funds. A negative figure represents a transfer to the OASI trust fund from the other social security trust funds.

<sup>3</sup> A positive figure represents a transfer from the trust fund to the supplemental security income general fund account. A negative figure represents a transfer to the trust fund from the supplemental security income general fund account.

Note: Totals do not necessarily equal the sum of rounded components.

The total assets of the OASI trust fund amounted to \$35,372 million on September 30, 1977. During fiscal year 1978, total receipts amounted to \$76,811 million and total disbursements were \$81,205 million. The assets of the trust fund thus decreased \$4,394 million during the year to a total of \$30,978 million on September 30, 1978.

Included in total receipts during fiscal year 1978 were \$66,574 million representing contributions appropriated to the fund and \$7,860 million representing 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, \$387 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.

Net contributions amounted to \$74,047 million, an increase of 7.5 percent over the amount for the preceding fiscal year. Growth in contribution income resulted primarily from (1) the higher level of earnings in covered employment and (2) the two increases in the maximum annual amount of earnings taxable—from \$15,300 to \$16,500 effective on January 1, 1977, and from \$16,500 to \$17,700 effective on January 1, 1978. Although the first increase in the maximum annual amount of earnings taxable, from \$15,300 to \$16,500, became effective in 1977, earnings between \$15,300 and \$16,500, which were taxable during all of fiscal year 1978, were taxable during only part of the preceding fiscal year. The increase in net contributions that resulted from the

higher maximum taxable amounts was offset by the decrease in the contribution rate for employees and employers, each, from 4.375 percent to 4.275 percent that became effective on January 1, 1978, as a result of provisions in the 1977 amendments. (This decrease was offset by increases in the contribution rates allocated to the disability insurance trust fund, from 0.575 percent to 0.775 percent, and the hospital insurance trust fund, from 0.9 percent to 1.0 percent. The resulting net increase in the total contribution rate for the OASI, DI, and hospital insurance trust funds—from 5.85 percent to 6.05 percent, for employees and employers, each,—was the same as the increase that had already been scheduled for January 1, 1978, under the law as in effect prior to the 1977 amendments.)

Reference has been made in an earlier section to provisions of the Social Security Act under which the OASI and DI trust funds are to be reimbursed annually from the general fund of the Treasury for costs of granting noncontributory credits for military service and for the costs of payments to certain noninsured persons aged 72 and over who have less than three quarters of coverage.

In accordance with section 217(g) of the Social Security Act, the Secretary of Health, Education, and Welfare made a determination in 1975 of the level annual appropriations to the trust funds necessary to amortize over a 39-year period, beginning in fiscal year 1977, the estimated total additional costs, for military service performed before 1957, arising from payments that have been made after August 1950 and that will be made in future years, taking into account the amounts of annual appropriations in fiscal years 1966–76 that have been deposited into the trust funds. The annual amounts resulting from this determination were \$354 million for the OASI trust fund and \$92 million for the DI trust fund. In accordance with section 229(b), the Secretary determined that the old-age and survivors insurance trust fund should receive reimbursement of \$28 million, and the disability insurance trust fund should receive reimbursement of \$36 million, for additional costs attributable to noncontributory credits for military service performed after 1956. Thus, reimbursements amounting to \$382 million for the OASI trust fund and \$128 million for the DI trust fund were received in December 1977.

A reimbursement amounting to \$228 million for the costs of monthly payments to certain noninsured persons aged 72 and over was transferred from the general fund of the Treasury to the OASI trust fund in fiscal year 1978. This reimbursement, made under section 228, reflected the costs of payments made in fiscal year 1976 and adjustments in the costs of payments made in prior fiscal years.

Section 231 of the Social Security Act provided for a single reimbursement from the general fund of the Treasury to each of the two trust funds for the estimated total costs arising from the granting of noncontributory wage credits to individuals who were interned during World War II at a place within the United States operated by the Federal Government for the internment of U.S. citizens of Japanese ancestry. In accordance with section 231, the Secretary determined that the reimbursements for such costs should be \$2,724,000 for the OASI trust fund and \$3,000 for the DI trust fund. These amounts were transferred to the trust funds in December 1977.



The OASI trust fund received \$6,081 in gifts in fiscal year 1978 under the provisions authorizing the deposit of money gifts or bequests in the OASI and DI trust funds.

The remaining \$2,151 million of receipts consisted of interest on the investments of the trust fund and net interest on amounts of inter-fund transfers arising out of adjustments in the allocation of administrative expenses, construction costs, and the costs of vocational rehabilitation services for prior fiscal years.

Of the \$81,205 million in total disbursements, \$78,524 million was for benefit payments, an increase of 10.2 percent over the corresponding amount paid in fiscal year 1977. This increase was due to (1) the automatic cost-of-living benefit increases of 5.9 percent and 6.5 percent, which became effective for June 1977 and June 1978, respectively, under the automatic provisions in section 215(i), and (2) the continuing growth in both the total number of beneficiaries and the average benefit amounts resulting from the rising level of earnings. Although the first automatic benefit increase of 5.9 percent became effective in 1977, the resulting higher benefit levels, which were in effect during all of fiscal year 1978, were in effect during only part of the preceding fiscal year. The increase in benefit payments from fiscal year 1977 to fiscal year 1978 also reflects the effects of various provisions in the 1977 amendments.

In accordance with the provisions of the Railroad Retirement Act which coordinate the railroad retirement and OASI programs and which govern the financial interchanges arising from the allocation of costs between the two systems, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of \$1,524,700,000 to the railroad retirement account from the OASI trust fund would place this trust fund in the same position as of September 30, 1977, 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 1978, together with interest to the date of transfer amounting to \$63,964,000.

Expenditures of the OASI program for the costs of vocational rehabilitation services amounted to about \$6.5 million. 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 OASI trust fund because of their disability.

The remaining \$1,086 million of disbursements from the OASI trust fund represents net administrative expenses. The expenses of administering the programs financed through the four trust funds—the OASI, DI, hospital insurance, and supplementary medical insurance trust funds—are allocated and charged directly to each trust fund on the basis of provisional estimates. Similarly, the expenses of administering the supplemental security income program are also allocated and charged directly to the general fund of the Treasury on a provisional basis. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are effected by interfund transfers, including transfers between the OASI trust fund and the supplemental security income general fund account, with appropriate interest allowances.

Net administrative expenses charged to the OASI trust fund and to the DI trust fund in fiscal year 1978 totaled \$1,413 million. This amount represented 1.6 percent of contribution income and 1.6 percent of expenditures for benefit payments and payments for the costs of vocational rehabilitation services during the fiscal year. Corresponding percentages for each of the last 5 years for the OASDI system as a whole and 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 1974-78

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 <sup>1</sup>	Contribution income	Benefit payments <sup>1</sup>	Contribution income	Benefit payments <sup>1</sup>
1974	1.6	1.6	1.5	1.5	2.5	2.5
1975	1.7	1.8	1.5	1.5	3.4	3.3
1976	1.8	1.7	1.6	1.5	3.4	2.9
July-September 1976	1.7	1.6	1.5	1.4	3.3	2.7
1977	1.8	1.7	1.4	1.4	4.2	3.4
1978	1.6	1.6	1.5	1.4	2.6	2.7

<sup>1</sup> In determining the percentages shown, payments for the costs of vocational rehabilitation services are included with benefit payments.

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

In table 4, the experience with respect to actual amounts of contributions and benefit payments in fiscal year 1978 is compared with the estimates for fiscal year 1978 which appeared in the 1978 annual report. The actual experience for each trust fund was quite close, relatively, to the estimates. 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 1978 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1978 does not reflect adjustments to contributions for fiscal year 1978 that were to be made after September 30, 1978.

TABLE 4.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, FISCAL YEAR 1978

[Amounts in millions]

	Old-age and survivors insurance trust fund		Disability insurance trust fund	
	Net contributions	Benefit payments	Net contributions	Benefit payments
Actual amount	\$74,047	\$78,524	\$12,404	\$12,214
Estimated amount published in 1978 report	\$74,093	\$78,965	\$12,427	\$12,410
Actual as percentage of estimate	100	99	100	98

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

At the end of fiscal year 1978, about 34.4 million persons were receiving monthly benefits under the OASDI program. About 29.5 million of these persons were receiving monthly benefits from the OASI trust fund. The distribution of benefit payments in fiscal years 1977 and 1978, by type of beneficiary, is shown in table 5. Approximately 74 percent of the total benefit payments from the OASI trust fund in fiscal year 1978 was accounted for by monthly benefits to retired workers and their dependents and about 17 percent by monthly benefits to aged survivors and disabled widows or widowers of deceased workers. Approximately 9 percent of the benefit payments represented monthly benefits on behalf of children of deceased workers and monthly benefits to widowed mothers and fathers 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 1977 AND 1978

(Amounts in millions)

	Fiscal year 1977		Fiscal year 1978	
	Amount	Percent of total	Amount	Percent of total
Total .....	\$71, 271	100	\$78, 524	100
Monthly benefits .....	70, 950	100	78, 192	100
Retired workers and their dependents .....	52, 225	73	57, 739	74
Retired workers .....	46, 952	66	51, 944	66
Wives and husbands .....	4, 450	6	4, 886	6
Children .....	824	1	909	1
Survivors of deceased workers .....	18, 563	26	20, 308	26
Aged widows and widowers .....	11, 486	16	12, 730	16
Disabled widows and widowers .....	233	( <sup>1</sup> )	261	( <sup>1</sup> )
Parents .....	51	( <sup>1</sup> )	52	( <sup>1</sup> )
Children .....	5, 622	8	6, 005	8
Widowed mothers and fathers caring for child beneficiaries .....	1, 170	2	1, 260	2
Noninsured persons aged 72 and over <sup>2</sup> .....	161	( <sup>1</sup> )	146	( <sup>1</sup> )
Lump-sum death payments .....	321	( <sup>1</sup> )	332	( <sup>1</sup> )

<sup>1</sup> Less than 0.5 percent.

<sup>2</sup> The trust fund is reimbursed from the general fund of the Treasury for the costs of payments to beneficiaries with less than three quarters of coverage.

Note: Totals do not necessarily equal the sum of rounded components.

Special payments to noninsured persons aged 72 and over amounted to \$146 million, or less than 0.2 percent of total benefit payments from the trust fund. As stated earlier, the costs of such payments to persons who have fewer than three quarters of coverage are reimbursable from the general fund of the Treasury. About 97 percent of the total amount of the payments made in fiscal year 1978 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 1978 consisted of lump-sum death payments.

The assets of the OASI trust fund at the end of fiscal year 1978 totaled \$30,978 million, consisting of \$30,955 million in the form of obligations of the U.S. Government or of federally sponsored agency obligations, and an undisbursed balance of \$23 million. Table 6 shows the total assets of the fund and their distribution at the end of fiscal years 1977 and 1978.

TABLE 6.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1977 AND 1978

	Sept. 30, 1977		Sept. 30, 1978	
	Par value	Book value <sup>1</sup>	Par value	Book value <sup>1</sup>
Investments in public-debt obligations:				
Public issues:				
Treasury bonds:				
2¾-percent, investment series B, 1975-80				
3-percent, 1995	\$1,064,902,000	\$1,064,902,000.00	\$1,064,902,000	\$1,064,902,000.00
3-percent, 1995	70,170,000	70,152,252.19	70,170,000	70,153,276.15
3¼-percent, 1978-83	60,200,000	59,864,616.62	60,200,000	59,923,801.82
3¼-percent, 1985	25,700,000	25,040,727.35	25,700,000	25,127,664.47
3½-percent, 1980	449,450,000	450,794,956.02	449,450,000	450,358,754.22
3½-percent, 1990	556,250,000	551,016,670.71	556,250,000	551,440,994.91
3½-percent, 1998	552,037,000	545,528,469.61	552,037,000	545,837,174.77
4-percent, 1980	153,100,000	153,088,652.74	153,100,000	153,093,516.34
4½-percent, 1989-94	91,300,000	90,798,748.77	91,300,000	90,828,974.97
4½-percent, 1975-85	78,023,000	77,863,877.54	78,023,000	77,884,860.86
4½-percent, 1987-92	33,000,000	34,046,689.68	33,000,000	33,940,246.68
6½-percent, 1984	31,500,000	31,814,087.61	31,500,000	31,768,677.33
7-percent, 1981	50,000,000	49,843,333.09	50,000,000	49,883,333.05
7½-percent, 1988-93	99,934,000	98,669,769.32	99,934,000	98,749,197.44
7½-percent, 2002-07	15,000,000	14,991,248.32	15,000,000	14,991,617.02
7½-percent, 1995-2000	22,180,000	21,498,128.94	22,180,000	21,528,774.78
8-percent, 1996-2001	90,500,000	90,407,683.92	90,500,000	90,411,557.28
8½-percent, 2000-05	22,450,000	22,444,249.14	22,450,000	22,444,447.98
8½-percent, 1995-2000	50,000,000	50,691,919.25	50,000,000	50,661,616.25
8½-percent, 1994-99	6,352,000	6,508,372.96	6,352,000	6,501,155.68
Total investments in public issues	3,522,048,000	3,509,966,453.78	3,522,048,000	3,510,431,642.00
Obligations sold only to this fund (special issues):				
Certificates of indebtedness:				
7-percent, 1978	5,180,294,000	5,180,294,000.00		
7½-percent, 1978	1,649,440,000	1,649,440,000.00		
8¼-percent, 1979			4,769,492,000	4,769,492,000.00
8½-percent, 1979			1,294,723,000	1,294,723,000.00
Notes: 6¾-percent, 1980	326,153,000	326,153,000.00		
Bonds:				
7½-percent, 1981	125,846,000	125,846,000.00		
7½-percent, 1982	125,846,000	125,846,000.00		
7½-percent, 1983	125,846,000	125,846,000.00		
7½-percent, 1984	125,846,000	125,846,000.00	125,846,000	125,846,000.00
7½-percent, 1985	125,846,000	125,846,000.00	125,846,000	125,846,000.00
7½-percent, 1986	125,847,000	125,847,000.00	125,847,000	125,847,000.00
7½-percent, 1987	125,847,000	125,847,000.00	125,847,000	125,847,000.00
7½-percent, 1988	125,847,000	125,847,000.00	125,847,000	125,847,000.00
7½-percent, 1989	125,847,000	125,847,000.00	125,847,000	125,847,000.00
7½-percent, 1990	125,848,000	125,848,000.00	125,848,000	125,848,000.00
7½-percent, 1991	125,848,000	125,848,000.00	125,848,000	125,848,000.00
7½-percent, 1992	2,014,741,000	2,014,741,000.00	2,014,741,000	2,014,741,000.00
7½-percent, 1981	688,956,000	688,956,000.00		
7½-percent, 1982	688,956,000	688,956,000.00		
7½-percent, 1983	688,956,000	688,956,000.00		
7½-percent, 1984	688,956,000	688,956,000.00	688,956,000	688,956,000.00
7½-percent, 1985	688,956,000	688,956,000.00	688,956,000	688,956,000.00
7½-percent, 1986	688,956,000	688,956,000.00	688,956,000	688,956,000.00
7½-percent, 1987	688,955,000	688,955,000.00	688,955,000	688,955,000.00
7½-percent, 1988	688,956,000	688,956,000.00	688,956,000	688,956,000.00
7½-percent, 1989	688,956,000	688,956,000.00	688,956,000	688,956,000.00
7½-percent, 1990	1,366,865,000	1,366,865,000.00	1,366,865,000	1,366,865,000.00
7½-percent, 1981	522,029,000	522,029,000.00		
7½-percent, 1982	522,029,000	522,029,000.00		
7½-percent, 1983	522,029,000	522,029,000.00	459,237,000	459,237,000.00
7½-percent, 1984	522,029,000	522,029,000.00	522,029,000	522,029,000.00
7½-percent, 1985	522,028,000	522,028,000.00	522,029,000	522,029,000.00
7½-percent, 1986	522,028,000	522,028,000.00	522,028,000	522,028,000.00
7½-percent, 1987	522,029,000	522,029,000.00	522,029,000	522,029,000.00
7½-percent, 1988	522,029,000	522,029,000.00	522,029,000	522,029,000.00
7½-percent, 1989	522,029,000	522,029,000.00	522,029,000	522,029,000.00
7½-percent, 1990	522,029,000	522,029,000.00	522,029,000	522,029,000.00
7½-percent, 1991	1,888,893,000	1,888,893,000.00	1,888,893,000	1,888,893,000.00
7½-percent, 1981	677,910,000	677,910,000.00		
7½-percent, 1982	677,910,000	677,910,000.00		
7½-percent, 1983	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7½-percent, 1984	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7½-percent, 1985	677,910,000	677,910,000.00	677,910,000	677,910,000.00

See footnotes at end of table.

TABLE 6.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1977 AND 1978—Continued

	Sept. 30, 1977		Sept. 30, 1978	
	Par value	Book value <sup>1</sup>	Par value	Book value <sup>1</sup>
Investments in public-debt obligations—Continued:				
Obligations sold only to this fund (special issues)—Continued:				
Bonds—Continued:				
7½-percent, 1986	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7½-percent, 1987	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7½-percent, 1988	677,909,000	677,909,000.00	677,909,000	677,909,000.00
7½-percent, 1989	677,909,000	677,909,000.00	677,909,000	677,909,000.00
8¼-percent, 1993			1,555,736,000	1,555,736,000.00
Total obligations sold only to this fund (special issues)	31,332,779,000	31,332,779,000.00	26,889,767,000	26,889,767,000.00
Total investments in public-debt obligations	34,854,827,000	34,842,745,453.78	30,411,815,000	30,400,198,642.00
Investments in federally sponsored agency obligations:				
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
Federal Assets Financing Trust—Government National Mortgage Association:				
6.05-percent, 1988	65,000,000	64,874,063.08	65,000,000	64,886,250.64
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 investments in federally sponsored agency obligations	555,000,000	554,874,063.08	555,000,000	554,886,250.64
Total investments	35,409,827,000	35,397,619,516.86	30,966,815,000	30,955,084,892.64
Undisbursed balances <sup>2</sup>		-25,406,511.59		23,179,467.85
Total assets		35,372,213,005.27		30,978,264,360.49

<sup>1</sup> Par value, plus unamortized premium, less discount outstanding.

<sup>2</sup> The negative figure represented an extension of credit against securities to be redeemed within the following few days.

The net decrease in the par value of the investments owned by the fund during fiscal year 1978 amounted to \$4,443 million. New securities at a total par value of \$84,992 million were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was \$89,435 million. Included in these amounts are \$77,724 million in certificates of indebtedness that were acquired, and \$78,490 million in certificates of indebtedness that were redeemed, within the fiscal year.

The effective annual rate of interest earned by the assets of the OASI trust fund during the 12 months ending on June 30, 1978 was 7.2 percent. (This period is used because interest on special issues is paid semiannually on June 30 and December 31.) The interest rate on special issues purchased by the trust fund in June 1978 was 8¼ percent, payable semiannually. The special issues purchased by the trust fund in June 1978, at the interest rate of 8¼ percent, included \$1,556 million in Treasury bonds maturing in 1993. Although the interest rate on bonds is generally limited to 4¼ percent by the provisions of 31 U.S.C. 752, amendments to these provisions authorize the issuance of bonds at rates of interest exceeding 4¼ percent, subject to

certain restrictions. Public Law 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  $4\frac{1}{4}$  percent. Public Law 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.

Section 201(d) of the Social Security Act provides that the public-debt obligations issued for purchase by the OASI and DI trust funds shall have maturities fixed with due regard for the needs of the funds. Under this section, the general practice is 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, the OASI trust fund held \$20,826 million in special issues (bonds) at the end of September 1978 that were distributed in equal amounts of about \$2,015 million maturing in each of the years 1984-1992 and in smaller amounts maturing in 1983 and 1993 (table 6). The investment operations of the fund in fiscal years 1977 and earlier are described in the 1978, and earlier, annual reports.

#### B. DISABILITY INSURANCE TRUST FUND

A statement of the income and disbursements of the Federal Disability Insurance Trust Fund during fiscal year 1978, 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 1977 are also shown in the table.

TABLE 7.—STATEMENT OF OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING FISCAL YEARS 1977 AND 1978

(In thousands)

	Fiscal year 1977	Fiscal year 1978
Total assets of the trust fund, beginning of year.....	\$6, 458, 609	\$4, 243, 131
Receipts:		
Contributions:		
Appropriations.....	8, 133, 602	11, 142, 746
Deposits arising from State agreements.....	805, 160	1, 312, 550
Gross contributions.....	8, 938, 762	12, 455, 296
Less payment into the Treasury for contributions subject to refund.....	39, 260	50, 900
Net contributions.....	8, 899, 502	12, 404, 396
Reimbursement from general fund of the Treasury for costs of:		
Noncontributory credits for military service.....	103, 000	128, 000
Noncontributory credits for persons interned during World War II at places operated for the internment of U.S. citizens of Japanese ancestry.....		3
Interest:		
Interest on investments.....	374, 008	249, 289
Interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs <sup>1</sup> .....	-2, 362	1, 959
Interest on amounts transferred from the old-age and survivors insurance trust fund due to adjustment in allocation of costs of vocational rehabilitation services.....	95	139
Total interest.....	371, 741	251, 387
Total receipts <sup>2</sup> .....	9, 374, 244	12, 783, 786

See footnotes at end of table.

TABLE 7.—STATEMENT OF OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING  
FISCAL YEARS 1977 AND 1978—Continued

[In thousands]

	Fiscal year 1977	Fiscal year 1978
<b>Disbursements:</b>		
Benefit payments.....	\$11,135,237	\$12,213,895
Transfer to railroad retirement account <sup>3</sup> .....	—318	29,797
Payment for costs of vocational rehabilitation services for disabled beneficiaries:		
For the current fiscal year.....	77,849	84,693
Less transfer from the old-age and survivors insurance trust fund due to adjustment in allocation of costs for prior periods.....	705	354
Total payment for costs of vocational rehabilitation services.....	77,144	84,339
<b>Administrative expenses:</b>		
Department of Health, Education, and Welfare.....	329,044	337,222
Treasury Department.....	17,911	18,588
Construction of facilities for Social Security Administration.....	162	1,614
Expenses of the Department of Health, Education, and Welfare for administration of vocational rehabilitation program for disabled beneficiaries.....	552	550
Interfund transfers due to adjustment in allocation of administrative expenses <sup>4</sup> .....	31,692	—30,646
Gross administrative expenses.....	379,361	327,329
Less interfund transfers due to adjustment in allocation of costs of construction.....	1,687	75
Less receipts from sales of supplies, materials, etc.....	14	20
Net administrative expenses.....	377,659	327,234
Total disbursements.....	11,589,722	12,655,265
Net addition to the trust fund.....	—2,215,478	128,521
Total assets of the trust fund, end of year.....	4,243,131	4,371,652

<sup>1</sup> 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 insurance trust fund to the other social security trust funds.

<sup>2</sup> Includes gifts amounting to \$159.60 during fiscal year 1978.

<sup>3</sup> The negative figure for fiscal year 1977 represents a transfer from the railroad retirement account to the trust fund.

<sup>4</sup> 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.

Note: Totals do not necessarily equal the sum of rounded components.

The total assets of the DI trust fund amounted to \$4,243 million on September 30, 1977. During fiscal year 1978, total receipts amounted to \$12,784 million and total disbursements were \$12,655 million. The assets of the trust fund thus increased \$129 million during the year to a total of \$4,372 million on September 30, 1978.

Included in total receipts were \$11,143 million representing contributions appropriated to the fund, and \$1,313 million representing amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. As an offset, \$51 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.

Net contributions amounted to \$12,404 million, an increase of 39.4 percent over the amount for the preceding fiscal year. The major part of this growth resulted from the increase in the contribution rate for employees and employers, each, which was allocated to finance the DI program—from 0.575 percent to 0.775 percent—that became effective on January 1, 1978. The increase is also accounted for, in part, by the same factors, insofar as they apply to contributions of the DI

trust fund, that accounted for the increase in contributions to the OASI trust fund (described in the preceding section).

In addition, the trust fund received \$128 million in December 1977 from the general fund of the Treasury, as reimbursement for the costs of noncontributory credits for military service. Of this amount, \$92 million was reimbursed in accordance with section 217(g) and \$36 million was in accordance with section 229(b), as described in the preceding section.

In accordance with section 231, the trust fund received \$3,000 in December 1977 from the general fund of the Treasury, as a single reimbursement for the estimated total costs arising from the granting of noncontributory wage credits to individuals who were interned during World War II at a place within the United States operated by the Federal Government for the internment of U.S. citizens of Japanese ancestry.

The remaining \$251 million of receipts consisted of interest on the investments of the fund, plus interest on amounts of interfund transfers.

Of the \$12,655 million in total disbursements, \$12,214 million was for benefit payments, an increase of 9.7 percent over the corresponding amount paid in fiscal year 1977. 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 OASI trust fund (described in the preceding section).

Provisions governing the financial interchanges between the railroad retirement account and the DI trust fund are similar to those referred to in the preceding section relating to the OASI trust fund. The determination made as of September 30, 1977, required that a transfer of \$28,600,000 be made from the DI trust fund to the railroad retirement account. This amount was transferred to the railroad retirement account in June 1978, together with interest to the date of transfer amounting to \$1,197,000.

The remaining disbursements amounted to \$327 million for net administrative expenses and \$84 million for the costs 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 fiscal year from the OASI and DI trust funds to disabled persons receiving benefits because of their disability. This statutory limitation on the amounts to be made available was 1½ percent in fiscal years 1974 and later. Beginning with payments for fiscal year 1977, the funds made available for vocational rehabilitation costs are further curtailed by limitations in the Budget of the United States for each year. The data presented below show the relationship between the total amount of payments for the costs of such rehabilitation services for each fiscal period during fiscal years 1974-78, and the corresponding amount of benefits paid in the prior fiscal period 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 <sup>1</sup> (in thousands)	Estimated amount of benefit payments in preceding fiscal year to disabled beneficiaries (in thousands)	Payments for costs of rehabilitation services as a percent of preceding year's benefit payments
1974 .....	\$52,164	\$4,643,016	1.12
1975 .....	82,070	5,533,493	1.48
July 1975-September 1976 <sup>2</sup> .....	117,805	8,824,547	1.33
1977 <sup>3</sup> .....	85,803	8,547,410	1.00
1978 .....	48,466	9,983,200	.49

<sup>1</sup> 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.

<sup>2</sup> The amount of payments for costs of rehabilitation services represents the total amount for the 15-month period July 1975 through September 1976. The estimated amount of benefit payments to disabled beneficiaries represents total payments during the corresponding earlier 15-month period July 1974 through September 1975.

<sup>3</sup> The estimated amount of benefit payments to disabled beneficiaries represents total payments during the preceding 12-month period October 1975 through September 1976.

At the end of fiscal year 1978, some 4.9 million persons were receiving monthly benefits from the DI trust fund. The distribution of benefit payments in fiscal years 1977 and 1978, 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 1977 AND 1978

[Amounts in millions]

	Fiscal year 1977		Fiscal year 1978	
	Amount	Percent of total	Amount	Percent of total
Total .....	\$11,135	100	\$12,214	100
Disabled workers .....	9,180	82	10,071	82
Wives and husbands .....	491	4	531	4
Children .....	1,464	13	1,612	13

Note: Totals do not necessarily equal the sum of rounded components.

The assets of the fund at the end of fiscal year 1978 totaled \$4,372 million, consisting of \$4,351 million in the form of obligations of the U.S. Government and an undisbursed balance of \$21 million. Table 9 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1977 and 1978.

TABLE 9.—ASSETS OF THE DISABILITY INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1977 AND 1978

	Sept. 30, 1977		Sept. 30, 1978	
	Par value	Book value <sup>1</sup>	Par value	Book value <sup>1</sup>
<b>Investments In Public-Debt Obligations:</b>				
<b>Public issues:</b>				
<b>Treasury notes:</b>				
6-percent, 1978	\$2,000,000	\$2,000,885.10	\$2,000,000	\$2,000,126.46
6½-percent, 1978	2,000,000	2,000,340.94		
<b>Treasury bonds:</b>				
3½-percent, 1990	10,500,000	10,158,767.99	10,500,000	10,186,435.55
3½-percent, 1998	5,000,000	4,780,585.55	5,000,000	4,790,992.55
4-percent, 1980	30,250,000	30,248,052.56	30,250,000	30,248,886.44
4½-percent, 1989-94	68,400,000	67,847,660.07	68,400,000	67,880,966.91
4½-percent, 1975-85	20,795,000	20,783,825.06	20,795,000	20,758,298.54
4¼-percent, 1987-92	80,800,000	80,888,771.28	80,800,000	80,879,743.80
6½-percent, 1984	15,000,000	15,037,524.64	15,000,000	15,032,099.32
7½-percent, 1988-93	26,500,000	25,889,274.44	26,500,000	25,927,644.56
7½-percent, 2002-07	10,000,000	9,994,165.52	10,000,000	9,994,411.22
8-percent, 1996-2001	26,000,000	25,973,478.22	26,000,000	25,974,590.98
8¼-percent, 2000-05	3,750,000	3,731,031.77	3,750,000	3,731,717.33
<b>Total investments in public issues</b>	<b>300,995,000</b>	<b>299,334,363.14</b>	<b>298,995,000</b>	<b>297,432,913.66</b>
<b>Obligations sold only to this fund (special issues):</b>				
<b>Certificates of indebtedness:</b>				
7-percent, 1978	710,032,000	710,032,000.00		
8¼-percent, 1979			1,232,000,000	1,232,000,000.00
<b>Bonds:</b>				
7½-percent, 1982	5,830,000	5,830,000.00		
7½-percent, 1983	5,830,000	5,830,000.00		
7½-percent, 1984	5,830,000	5,830,000.00		
7½-percent, 1985	5,830,000	5,830,000.00		
7½-percent, 1986	5,830,000	5,830,000.00	5,830,000	5,830,000.00
7½-percent, 1987	5,831,000	5,831,000.00	5,831,000	5,831,000.00
7½-percent, 1988	5,831,000	5,831,000.00	5,831,000	5,831,000.00
7½-percent, 1989	5,831,000	5,831,000.00	5,831,000	5,831,000.00
7½-percent, 1990	5,831,000	5,831,000.00	5,831,000	5,831,000.00
7½-percent, 1991	5,831,000	5,831,000.00	5,831,000	5,831,000.00
7½-percent, 1992	274,851,000	274,851,000.00	274,851,000	274,851,000.00
7½-percent, 1981	22,839,000	22,839,000.00		
7½-percent, 1982	84,338,000	84,338,000.00		
7½-percent, 1983	84,338,000	84,338,000.00		
7½-percent, 1984	84,338,000	84,338,000.00		
7½-percent, 1985	84,338,000	84,338,000.00		
7½-percent, 1986	84,338,000	84,338,000.00	84,338,000	84,338,000.00
7½-percent, 1987	84,338,000	84,338,000.00	84,338,000	84,338,000.00
7½-percent, 1988	84,337,000	84,337,000.00	84,337,000	84,337,000.00
7½-percent, 1989	84,337,000	84,337,000.00	84,337,000	84,337,000.00
7½-percent, 1990	206,000,000	206,000,000.00	206,000,000	206,000,000.00
7½-percent, 1981	63,020,000	63,020,000.00		
7½-percent, 1982	63,020,000	63,020,000.00		
7½-percent, 1983	63,020,000	63,020,000.00		
7½-percent, 1984	63,020,000	63,020,000.00		
7½-percent, 1985	63,020,000	63,020,000.00		
7½-percent, 1986	63,020,000	63,020,000.00	63,020,000	63,020,000.00
7½-percent, 1987	63,019,000	63,019,000.00	63,019,000	63,019,000.00
7½-percent, 1988	63,020,000	63,020,000.00	63,020,000	63,020,000.00
7½-percent, 1989	63,020,000	63,020,000.00	63,020,000	63,020,000.00
7½-percent, 1990	63,020,000	63,020,000.00	63,020,000	63,020,000.00
7½-percent, 1991	269,020,000	269,020,000.00	269,020,000	269,020,000.00
7½-percent, 1981	121,663,000	121,663,000.00		
7½-percent, 1982	121,663,000	121,663,000.00		
7½-percent, 1983	121,663,000	121,663,000.00		
7½-percent, 1984	121,663,000	121,663,000.00		
7½-percent, 1985	121,663,000	121,663,000.00		
7½-percent, 1986	121,663,000	121,663,000.00	121,663,000	121,663,000.00
7½-percent, 1987	121,663,000	121,663,000.00	121,663,000	121,663,000.00
7½-percent, 1988	121,663,000	121,663,000.00	121,663,000	121,663,000.00
7½-percent, 1989	121,663,000	121,663,000.00	121,663,000	121,663,000.00
7½-percent, 1990	121,663,000	121,663,000.00	121,663,000	121,663,000.00
8¼-percent, 1983			173,182,000	173,182,000.00
8¼-percent, 1984			241,389,000	241,389,000.00
8¼-percent, 1985			208,860,000	208,860,000.00
8¼-percent, 1993			241,389,000	241,389,000.00
<b>Total obligations sold only to this fund (special issues)</b>	<b>3,940,915,000</b>	<b>3,940,915,000.00</b>	<b>4,053,306,000</b>	<b>4,053,306,000.00</b>
<b>Total investments in public-debt obligations</b>	<b>4,241,910,000</b>	<b>4,240,249,363.14</b>	<b>4,352,301,000</b>	<b>4,350,738,913.66</b>
<b>Undisbursed balances</b>		<b>2,881,258.19</b>		<b>20,912,860.12</b>
<b>Total assets</b>		<b>4,243,130,621.33</b>		<b>4,371,651,773.78</b>

<sup>1</sup> Par value, plus unamortized premium, less discount outstanding.

The net increase in the par value of the investments owned by the fund during the fiscal year amounted to \$110 million. New securities at a total par value of \$14,436 million were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the year was \$14,326 million. Included in these amounts are \$12,538 million in certificates of indebtedness that were acquired, and \$12,016 million in certificates of indebtedness that were redeemed, within the fiscal year.

The effective annual rate of interest earned by the assets of the DI trust fund during the 12 months ending on June 30, 1978, was 7.4 percent. The interest rate on public-debt obligations issued for purchase by the trust fund in June 1978 was 8¼ percent, payable semiannually.

The investment policy and practices described in the preceding section concerning the OASI trust fund apply equally to investments of the assets of the DI trust fund.

## VI. ACTUARIAL COST PROJECTIONS

The actuarial cost projections throughout this report are based on the assumption that the present statutory provisions and regulations affecting the OASDI program will remain unchanged.

Section 201(c) of the Social Security Act requires that the Board of Trustees report annually to the Congress on the operations and status of the OASI and DI trust funds during the preceding fiscal year and on the expected operations and status of those trust funds during the ensuing 5 fiscal years. Such information for the fiscal year that ended September 30, 1978, is presented in the preceding section of this report. Such information for fiscal years 1979–1983 is presented later in this section.

Section 201(c) of the Social Security Act also requires that the annual report of the Board of Trustees includes “a statement of the actuarial status of the trust funds”. Such a statement has customarily been made for the medium-range period (25 years) and the long-range period (75 years), each period commencing with the year of the issuance of the report. Basic to the discussion of the medium-range or long-range actuarial status of either trust fund is the concept of expenditures as percent of taxable payroll. The expenditures include benefit payments, administrative expenses, net transfers under the financial interchange between the OASDI trust funds and the railroad retirement account, and payments for vocational rehabilitation services for disability beneficiaries. The taxable payroll consists of the total earnings which are subject to social security taxes, adjusted to reflect the lower effective contribution rates on self-employment income, on tips, and on multiple-employer “excess wages”. With this adjustment, the expenditures (divided by the taxable payroll and expressed as a percentage) can be compared directly to the combined employer-employee tax rate in the law.

Over the medium-range and long-range periods, the actuarial status is measured by the difference between the average of the tax rates scheduled in the law and the estimated average future expenditures, expressed as a percentage of taxable payroll. This difference is referred to as the actuarial balance. If the actuarial balance is positive, the system is said to have an actuarial surplus; and if negative, to have