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

LETTER

FROM

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

TRANSMITTING

THE 18TH ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND, PURSUANT TO SECTION 201 (c) OF THE SOCIAL SECURITY ACT, AS AMENDED

JUNE 12, 1958.—Referred to the Committee on Ways and Means and ordered to be printed

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS,
Washington, D. C., March 1, 1958.

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

SIRS: We have the honor to transmit to you the 18th Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, in compliance with the provisions of section 201 (c) of the Social Security Act, as amended.

Respectfully,

ROBERT B. ANDERSON,
Secretary of the Treasury, and Managing Trustee of the Trust Funds.

JAMES P. MITCHELL,
Secretary of Labor.

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

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

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

Fiscal Year Ending June 30, 1957

THE BOARD OF TRUSTEES

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

FISCAL YEAR HIGHLIGHTS

The contribution provisions of the Federal disability insurance program, adopted by Congress in 1956, became effective on January 1, 1957. Under this program, contribution receipts are appropriated to the Federal disability insurance trust fund which is entirely separate from the Federal old-age and survivors insurance trust fund. Disability insurance benefits, which became payable beginning with July 1957, and the administrative expenses of the disability insurance program, are paid from this fund.

The 1956 amendments to the Social Security Act also extended the contributory coverage of the old-age and survivors insurance program to about 4 million additional persons, including members of the Armed Forces, additional farm owners and operators, certain self-employed professional persons, certain groups of Federal civilian employees, and additional State and local government employees.

During fiscal year 1957, other Social Security Act amendments went into effect liberalizing the conditions under which persons may become eligible for benefits under the old-age and survivors insurance program; providing monthly benefits to the dependent, disabled, unmarried child aged 18 and over of a retired or deceased insured worker if the disability began before age 18; and also providing monthly benefits at age 62 instead of age 65 to eligible women workers, wives of retired workers, and widows and mothers of deceased workers.

In June 1957, the total number of old-age and survivors insurance beneficiaries was 10,342,000 or 24 percent more than in June 1956.

There were 7,710,000 retirement beneficiaries (old-age beneficiaries and their entitled wives, dependent husbands, and young children), an increase of 26 percent, and 2,632,000 survivor beneficiaries, an increase of 16 percent, over 1 year earlier. The estimated number of persons with taxable earnings under old-age, survivors, and disability insurance in calendar year 1957 was about 74 million.

Disbursements of the old-age and survivors insurance trust fund in fiscal year 1957 were $6,665 million, not including $58 million representing overpayments of employee contributions subject to refund. Receipts net of these refunds were $7,100 million. The net addition of $436 million raised the total assets of the trust fund to $23,029 million on June 30, 1957.

The disbursements of the fund in fiscal year 1957 included $6,515 million for benefits and $150 million for administrative expenses. The receipts included $6,540 million in net contributions and $561 million in interest on investments.

Both disbursements and receipts showed an increase over fiscal year 1956. Disbursements rose $1,179 million or 22 percent, and receipts rose $163 million or 2.4 percent. The increase in disbursements was the combined result of the coverage extensions and liberalized eligibility and benefit provisions included in the amendments adopted during 1950–56 and the long-term growth of the aged population and the proportion of the aged eligible for benefits. The rise in trust fund receipts is accounted for chiefly by a rise in the general level of employment and earnings and the increase in the amount of interest received on trust fund investments.

Estimates for the five fiscal years 1958–62 show a further increase in the receipts and disbursements of the old-age and survivors insurance fund. The estimates, however, indicate that for the first time since the trust fund was established, aggregate outgo of the fund will exceed aggregate income over the 5-year period.

According to these estimates, at the end of fiscal year 1962 the old-age and survivors insurance trust fund will amount to $15.6 to $21.5 billion depending on the economic assumptions used, with income of $8.8 to $10.5 billion and outgo of $10.3 to $11.1 billion in that fiscal year. During the 5 fiscal years 1958–62, it is estimated that the trust fund will not exceed 2.2 times the highest expected annual outgo during the 5-year period.

Long-range cost estimates for the old-age and survivors insurance program, as amended in 1956, indicate that the program is for practical purposes in approximate actuarial balance. Under high employment assumptions the level-premium cost, at 3 percent interest, ranges from 6.97 to 8.99 percent of payroll, depending on the combination of cost assumptions selected. On an intermediate basis, the level-premium cost estimate for benefits is 7.90 percent of payroll as compared with the level-premium equivalent of the contributions which is 7.33 percent of payroll.

The disability insurance trust fund was established on August 1, 1956, with contributions under the disability insurance program payable beginning January 1, 1956. By the end of fiscal year 1957, disbursements of this fund totaled $1.3 million, all for administrative expenses actually charged against the fund since benefits did not become payable until immediately after the end of the fiscal year. Receipts were $339 million, of which $337 million was from contributions and $1.4 million was from interest.

Estimates of the expected operations of the disability insurance trust fund during the 5 fiscal years 1958–62 show that this trust fund at the end of fiscal year 1962 will amount to $3.5 billion to $3.9 billion depending on the economic assumptions used, with receipts of $0.9 billion to $1.1 billion and disbursements of $327 million to $336 million in that fiscal year. On June 30, 1962, the trust fund will amount to about 10.3 to 11.4 times the highest expected annual disbursements during the 5-year period 1958–62.

The long-range cost estimates for the disability insurance program show that under high employment assumptions the level-premium cost, at 3 percent interest, ranges from 0.24 to 0.49 percent of payroll, depending on the combination of assumptions used. The intermediate-cost estimate is 0.35 percent of payroll, as compared with the level-premium equivalent of the contributions which is 0.50 percent of payroll.

In compliance with the provisions of section 116 (a) of the Social Security Amendments of 1956, the Secretary of Health. Education, and Welfare on October 24, 1957, announced the appointment of the first Advisory Council on Social Security Financing. Previously, there were advisory councils of somewhat different scope. The present Council is established for the purpose of reviewing the status of the Federal old-age and survivors insurance trust fund and of the Federal disability insurance trust fund in relation to the long-term commitments of the old-age, survivors, and disability insurance program.

The Council consists of the Commissioner of Social Security, as chairman, and 12 other persons representing employers, employees, self-employed persons, and the public. The Council is required to make a report of its findings and recommendations, including recommendations for changes in the contribution rates, to the secretary of the Board of Trustees of the Federal old-age and survivors insurance trust fund and the Federal disability insurance trust fund. The report must be submitted not later than January 1, 1959, after which date the Council will cease to exist. The Council's findings and recommendations will be included in the next annual report of the Board of Trustees.

SOCIAL SECURITY AMENDMENTS IN 1956

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

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

1. Coverage was extended on a contributory basis to nearly 3 million members of the uniformed services, effective January 1, 1957. Coverage was also extended to additional civilian jobs in which about 900,000

persons are employed in the course of a year—principally, additional farm owners and operators, all previously excluded self-employed professional persons except doctors of medicine, certain Federal civilian employees, and certain additional State and local government employees in specified States. Slightly more than 9 out of 10 gainfully employed persons are now covered. Major groups that continue to be excluded are practically all Federal civilian employees who are under staff retirement systems; those self-employed persons, farm workers, and domestic workers whose earnings are less than the amounts required for the coverage of these particular groups; self-employed doctors of medicine; and, except in a few designated States, policemen and firemen covered by a State or local government retirement system.

2. Monthly benefits were provided, beginning July 1957, for insured workers aged 50 to 64 with very severe long-term disabilities. Benefit payments begin after a waiting period of 6 consecutive months of disability. The amount of the monthly disability benefit is the same as the primary insurance amount, computed as though the worker became entitled to old-age benefits in the first month of his waiting period. These benefits are payable from a fund that is separate from the old-age and survivors insurance trust fund (see items 5 (a) and (b), below). Benefits are not payable to dependents of a worker who is entitled to disability benefits.

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

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

(*b*) The minimum retirement age at which women may qualify for benefits was reduced from 65 to 62. Full-rate benefits are payable at age 62 to widows and to dependent mothers of deceased insured workers. Women who elect to receive a retired worker's or wife's benefit when they are between age 62 and age 65 will receive reduced benefits (both before and after age 65) which are, on an actuarial basis, virtually equivalent to the full-rate benefits they would have received if they were aged 65 at the time they applied for benefits. One effect of reducing the minimum retirement age for women was a change in the basis for calculating a woman worker's average monthly wage (see item 4 (b) below). Another effect was a liberalization in the insured status requirements. For women workers with dates of birth from July 2, 1889, to January 1, 1909, the eligibility provisions were liberalized by terminating at age 62 instead of age 65 the elapsed period which fixes the number of quarters of coverage required to be eligible for old-age insurance benefits.

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

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

(*a*) In computing the average monthly wage of an insured person, 5 years of lowest earnings may be dropped, regardless of the number of quarters of coverage he has. For persons retiring in 1957 and 1958 this meant that the average could be computed on the highest 2 years of earnings since 1950.

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

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

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

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

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

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

(*e*) The basis for determining the interest rate on public-debt obligations to be purchased by the trust funds was changed. Formerly these obligations were required to bear interest at a rate equal to the average rate of interest, computed as of the end of the calendar month next preceding the date of their issue, borne by all interest-bearing obligations of the United States forming a part of the public debt (where such average rate was not a multiple of one-eighth of 1 percent, the rate of interest on such obligations was required to be the multiple of one-eighth of 1 percent next lower than such average rate). Investments after July 31, 1956, bear a rate of interest equal to the average rate of interest borne by all marketable Government obligations with maturity dates exceeding 5 years from date of issue, the average rate being rounded to the nearest one-eighth of 1 percent.

Actuarial estimates, prepared at the time the amendments were being considered by Congress in 1956, indicated that on an intermediate basis the level-premium cost of the old-age and survivor benefits, as amended, was 7.43 percent of payroll. The level-premium cost of the disability benefits was estimated to be 0.42 percent of payroll.[1] Revised estimates are given later in this report.

NATURE OF THE TRUST FUNDS

The Federal old-age and survivors trust fund was established on January 1, 1940, as a separate account in the United States Treasury to hold the amounts accumulated under the old-age and survivors insurance program. All the financial operations of the program through July 31, 1956, were handled through this fund. The Social Security Amendments of 1956, which became law August 1, 1956, provided for the creation of the Federal disability insurance trust fund—a fund entirely separate from the old-age and survivors insurance trust fund—through which is handled all financial operations in connection with the newly established system of monthly disability benefits payable to insured workers aged 50 to 64. The financial operations of the old-age, survivors, and disability insurance program which relate to the system of old-age and survivors insurance benefits will continue to be handled through the old-age and survivors insurance trust fund.

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

The Internal Revenue Code, as amended, provides that the contribution rate for employees and their employers shall be 2¼ percent each for the calendar years 1957 throuhg 1959, and that the rates

[1] Source: Actuarial Cost Estimates for the Old-Age, Survivors, and Disability Insurance System as Modified by Amendments to the Social Security Act in 1956, prepared for the use of the Committee on Ways and Means, by Robert J. Myers, actuary to the committee, dated July 23, 1956.

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

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

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

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

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

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

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

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

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

The managing trustee invests that portion of each trust fund which, in his judgment, is not required to meet current expenditures for benefits and administration. The Social Security Act restricts permissible investments of the trust funds to interest-bearing obligations of the United States Government or to obligations guaranteed as to both principal and interest by the United States. Obligations of these types may be acquired on original issue at par or by purchase of outstanding obligations at their market price. In addition, the Social Security Act, as amended, authorizes the issuance of public-debt obligations for purchase by the trust funds. The law requires that such public-debt obligations shall have maturities fixed with due regard for the needs of the trust funds and bear interest at a rate equal to the average rate of interest, computed as of the end of the calendar month next preceding the date of their issue, borne by all marketable interest-bearing obligations of the United States forming a part of the public debt that are not due or callable until after the expiration of 5 years from the date of original issue (where such average rate is not a multiple of one-eighth of 1 percent, the rate of interest on such special obligations is required to be the multiple of one-eighth of 1 percent nearest such average rate).

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

Public issues acquired by the funds may be sold at any time by the managing trustee at their market price. Public-debt obligations issued for purchase by the trust fund may be redeemed at par plus accrued interest. Interest receipts and proceeds from the sale or redemption of obligations held in the trust funds are available for investment in the same manner as other receipts of the funds. Interest earned by the invested assets of the trust funds will provide income to meet a portion of future benefit disbursements. The role of interest in meeting future benefit payments is indicated in tables 13 and 14.

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

REALITY OF THE TRUST FUNDS

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

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

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

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

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

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

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

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

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

SUMMARY OF THE OPERATIONS OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, FISCAL YEAR 1957

A statement of the income and disbursements of the Federal old-age and survivors insurance trust fund in the fiscal year which began on July 1, 1956, and ended on June 30, 1957, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 1.

TABLE 1.—*Statement of operations of the Federal old-age and survivors insurance trust fund during the fiscal year 1957*

Total assets of the trust fund, June 30, 1956			$22,593,108,763.00
Receipts, fiscal year 1957:			
Insurance contributions:			
Appropriations	$6,301,190,672.88		
Deposits arising from State agreements	296,848,170.18		
Gross insurance contributions	6,598,038,843.06		
Less payment into the Treasury for taxes subject to refund	58,190,000.00		
Net insurance contributions		$6,539,848,843.06	
Interest and profit:			
On investments	$555,338,178.55		
On amount held in railroad retirement account to credit of trust fund	5,220,000.00		
Total interest		$560,558,178.55	
Total receipts		7,100,407,021.61	
Disbursements, fiscal year 1957:			
Benefit payments		6,514,580,758.32	
Administrative expenses:			
Department of Health, Education, and Welfare	$120,304,420.44		
Treasury Department	29,572,482.61		
Preparation for construction of building for Bureau of Old-Age and Survivors Insurance	336,762.99		
Gross administrative expenses	150,213,666.04		
Less receipts for sale of surplus material, supplies, etc	156,543.94		
Net administrative expenses		150,057,122.10	
Total disbursements		6,664,637,880.42	
Net addition to trust fund			435,769,141.19
Total assets of the trust fund, June 30, 1957			23,028,877,904.19

The total assets of the old-age and survivors insurance trust fund amounted to $22,593 million on June 30, 1956. These assets increased to $23,029 million by the end of the fiscal year 1957, as a result of an excess of receipts over disbursements amounting to $436 million.

The total receipts of the trust fund during the fiscal year 1957 amounted to $7,100.4 million. Of this total, $6,301.2 million represented tax collections appropriated to the fund and $296.8 million represented amounts received by the Secretary of the Treasury in accordance with State agreements and deposited in the trust fund. However, $58.2 million was transferred from the trust fund into the Treasury as repayment for the 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. The net amount of $6,539.8 million represented an increase of 2 percent over the amount for the preceding fiscal year. The other $560.6 million of receipts consisted of $555.3 million of interest and profit on investments of the fund and of $5.2 million of interest on the amount held in the railroad retirement account to the credit of the trust fund under the financial interchange provisions of the Railroad Retirement Act, as amended in 1951. These provisions are described in appendix II.

Disbursements from the trust fund during the fiscal year 1957 totaled $6,664.6 million, of which $6,514.6 million was for benefit payments, and $150.1 million was for administrative expenses. The total amount of benefits paid during the fiscal year exceeded benefits paid in the fiscal year 1956 by 22 percent, primarily due to an unprecedented increase in the number of beneficiaries. This increase came chiefly from (1) self-employed farmers and other workers who qualified for benefits solely as a result of work newly covered under the 1954 amendments, and (2) women aged 62–64 who qualified for benefits under the provision in the 1956 amendments that lowered the minimum retirement age for women from 65 to 62.

The administrative charges against the old-age and survivors insurance trust fund during fiscal year 1957 included costs incurred by the Department of Health, Education, and Welfare under the disability insurance program. During fiscal year 1958, the disability insurance trust fund will reimburse the old age and survivors insurance trust fund for these costs. Administrative expenses of the fund were 2.3 percent of contribution income and 2.3 percent of benefit payments during fiscal year 1957. Figures for each of the last 10 fiscal years are shown in table 2.

TABLE 2.—*Relationship of administrative charges against old-age and survivors insurance trust fund to old-age and survivors insurance contribution income and benefit payments, fiscal years 1948–57*

Fiscal year	Administrative charges against the OASI trust fund as a percentage of— Contribution income	Administrative charges against the OASI trust fund as a percentage of— Benefit payments
1948	2.9	9.3
1949	3.2	8.8
1950	2.7	7.8
1951	2.3	4.7
1952	2.4	4.3
1953	2.2	3.4
1954	1.9	2.7
1955	2.0	2.4
1956	1.9	2.3
1957 [1]	2.3	2.3

[1] Administrative charges against the old-age and survivors insurance trust fund during fiscal year 1957 included costs incurred by the Department of Health, Education, and Welfare under the disability insurance program. During fiscal year 1958, the disability insurance trust fund will reimburse the old-age and survivors insurance trust fund for these costs.

The distribution of benefit payments in fiscal years 1956 and 1957, by type of benefit, is shown in table 3. Approximately 85 percent of the total benefit payments from the old-age and survivors insurance trust fund in the fiscal year 1957 were accounted for by monthly benefits to aged persons—retired wage earners and their wives (including a relatively small number of wives under age 62) or dependent husbands, and aged widows, dependent widowers, and dependent parents of deceased wage earners. Approximately 13 percent of the 1957 benefit payments represented monthly benefits on behalf of children of deceased or retired workers and payments to mothers—practically all of them under age 65—who had children of deceased wage earners in their care. The balance of the benefits paid in the fiscal year 1957 consisted of lump-sum death payments.

TABLE 3.—*Estimated distribution of benefit payments under the old-age and survivors insurance program, by type of benefit, fiscal years 1956 and 1957*

[Amounts in millions]

Type of benefit	1956		1957	
	Amount	Percent of total	Amount	Percent of total
Total	$5,360.8	100	$6,514.6	100
Monthly benefits [1]	5,245.5	[2] 98	6,391.7	[2] 98
Old-age (aged retired workers)	3,531.8	66	4,340.3	67
Wife's or husband's (aged wives or dependent husbands, of old-age beneficiaries, or their young wives if caring for child beneficiary)	500.4	9	643.3	10
Widow's or widower's (aged widows or aged dependent widowers of workers)	431.3	8	557.6	9
Parent's (aged dependent parents of deceased workers)	16.5	(3)	17.9	(3)
Child's (children, under age 18 or disabled, of old-age beneficiaries)	31.4	1	36.0	1
Child's (children, under age 18 or disabled, of deceased workers)	562.6	10	610.1	9
Mother's (widows or dependent divorced wives of deceased workers caring for child beneficiaries)	171.4	3	186.5	3
Lump-sum benefits	115.3	2	122.9	2

[1] Under the Social Security Amendments of 1956, (1) effective November 1956, the minimum retirement age for women was reduced from 65 to 62, and (2) effective January 1957, benefits became payable to disabled children age 18 or over whose disability began before they reached age 18.
[2] Total does not necessarily equal sum of rounded components.
[3] Less than 0.5 percent.

At the end of the fiscal year 1957, approximately 10.3 million beneficiaries in about 7.6 million families were receiving monthly benefits. At the end of the preceding fiscal year, the monthly benefit rolls included 8.4 million beneficiaries in about 6.2 million families. Average monthly family benefits at the end of June 1957 showed moderate increases over the corresponding averages a year earlier (table 4). Payments to male retired workers with no dependents receiving benefits averaged $67.70, or $2.10 more than a year earlier. The average for a retired worker and aged wife, both of whom were drawing benefits, was $107.80, or $3 greater than a year earlier. For survivor families, payments to aged widows averaged $50.70; families made up of a widowed mother and 1 child averaged $112.20; widowed mothers and 2 children averaged $144.60.

TABLE 4.—*Estimated number of families and beneficiaries receiving benefits under the old-age and survivors insurance program, and average family amount, by family group, end of fiscal years 1956 and 1957*

Family classification of beneficiaries receiving benefits	June 30, 1956 Number of families	June 30, 1956 Number of beneficiaries	June 30, 1956 Average monthly amount per family	June 30, 1957 Number of families	June 30, 1957 Number of beneficiaries	June 30, 1957 Average monthly amount per family
	Thousands	*Thousands*		*Thousands*	*Thousands*	
Total	6,160.2	8,374.5		7,581.8	10,342.1	
Retired worker families [1]	4,731.9	6,114.4		5,832.3	7,710.1	
Worker only	3,460.3	3,460.3	$60.00	4,091.9	4,091.9	$59.90
Male	(2,148.4)	(2,148.4)	(65.60)	(2,271.8)	(2,271.8)	(67.70)
Female	(1,311.8)	(1,311.8)	(50.70)	(1,820.1)	(1,820.1)	(52.30)
Worker and aged wife	1,182.6	2,365.2	104.80	1,630.2	3,260.4	107.80
Worker and young wife [2]	.3	.6	113.30	.5	1.0	101.10
Worker and aged dependent husband	10.7	21.4	88.20	12.8	25.6	92.80
Worker and 1 or more children	16.6	42.7	101.00	21.3	54.4	104.40
Worker, wife aged 65 or over, and 1 or more children	1.3	4.0	132.30	1.2	3.6	135.90
Worker, young wife, and 1 or more children	60.1	220.1	121.10	74.3	273.0	129.30
Survivor families [1]	1,428.3	2,260.1		1,749.6	2,632.0	
Aged widow	746.3	746.3	49.00	1,019.0	1,019.0	50.70
Aged dependent widower	1.1	1.1	48.20	1.4	1.4	47.60
Widowed mother only [2]	.8	.8	51.20	1.9	1.9	59.90
Widowed mother and 1 child	128.4	256.8	108.50	132.9	265.8	112.20
Widowed mother and 2 children	85.7	257.2	137.80	92.5	277.5	144.60
Widowed mother and 3 or more children	82.4	389.8	136.40	87.3	413.5	142.20
Divorced wife and 1 or more children	.3	.7	135.70	.3	.7	137.50
1 child only	217.0	217.0	48.50	238.2	238.2	49.80
2 children	90.0	179.9	83.80	94.8	189.5	85.60
3 children	31.8	95.3	105.20	34.0	102.1	109.00
4 or more children	20.2	89.3	112.20	21.0	94.3	116.70
1 aged dependent parent	22.8	22.8	50.50	24.6	24.6	51.60
2 aged dependent parents	1.5	2.9	95.30	1.8	3.6	98.30

[1] Under the Social Security Amendments of 1956, (1) effective November 1956, the minimum retirement age for women was reduced from 65 to 62, and (2) effective January 1957, benefits became payable to disabled children age 18 or over whose disability began before they reached age 18.
[2] Benefits of children were being withheld.

During the fiscal year, a period of disability was established for about 138,000 workers; the total number of persons for whom a period of disability had been established since the beginning of the program in July 1955 was 273,000. By the end of December 1956 there were almost 40,300 persons receiving old-age benefits that had been increased on the average by $9.76 a month by the disability freeze. About 13,000 wives and young children of retired workers and about 5,500 widows, children, and dependent parents of workers who had established a period of disability before death were also receiving larger monthly benefits because of the freeze. For the same reason, during the calendar year 1956, lump-sum death payments based on the earnings records of 8,900 deceased workers were increased by an average amount of $21.66 per worker.

The assets of the trust fund at the end of the fiscal year 1957 totaled $23,029 million, consisting of $22,263 million in the form of obligations of the United States Government, and $766 million in undisbursed balances. Table 5 shows a comparison of the total assets of the fund and their distribution at the end of the fiscal years 1956 and 1957.

TABLE 5.—*Assets of Federal old-age and survivors insurance trust fund, by type, at end of fiscal years 1956 and 1957*

	June 30, 1956		June 30, 1957	
	Par value	Book value [1]	Par value	Book value [1]
Investments:				
Public issues:				
Certificates of indebtedness:				
2⅝-percent series D 1956	$34,000,000	$33,996,875.00		
2⅝-percent series A 1957	34,100,000	34,095,453.12		
3¼-percent series D 1957			$49,000,000	$48,996,875.00
Treasury notes:				
2⅞-percent series A 1958	115,500,000	115,495,546.88	131,000,000	130,988,984.38
3½-percent series A 1960			54,100,000	54,095,453.12
3⅝-percent series A 1962			174,000,000	173,981,406.27
Treasury bonds:				
2¼-percent bonds of 1959–62	4,205,000	4,210,121.85	4,205,000	4,208,609.73
2⅜-percent bonds of 1958	500,000	493,437.50	500,000	493,437.50
2½-percent bonds of 1961	4,500,000	4,359,906.25	4,950,000	4,793,312.50
2½-percent bonds of 1962–67	58,650,000	58,757,201.51	58,650,000	58,739,334.59
2½-percent bonds of 1963	500,000	485,000.00	500,000	485,000.00
2½-percent bonds of 1963–68	116,480,000	116,620,535.47	116,480,000	116,601,797.43
2½-percent bonds of 1964–69	96,004,000	95,315,907.76	96,004,000	95,288,058.52
2½-percent bonds of 1965–70	456,547,500	456,774,416.82	456,547,500	456,739,040.66
2½-percent bonds of 1966–71	308,077,500	307,974,482.24	308,077,500	307,964,965.26
2½-percent bonds of 1967–72	150,593,250	150,726,736.52	150,593,250	150,658,854.48
2¾-percent bonds, investment series B–1975–80	1,081,902,000	1,083,250,495.76	1,081,902,000	1,083,133,456.06
3-percent bonds of 1995	68,170,000	68,220,893.37	68,170,000	68,219,588.41
3¼-percent bonds of 1978–83	45,100,000	44,910,656.26	45,100,000	44,910,656.26
Total public issues	2,574,829,250	2,575,687,666.31	2,799,779,250	2,800,298,830.17
Public-debt obligations (special issues):				
Certificates of indebtedness:				
2½-percent, maturing June 30, 1957	19,466,609,000	19,466,609,000.00		
2½-percent, maturing June 30, 1958			14,962,885,000	14,962,885,000.00
Notes:				
2½-percent, maturing June 30, 1959			500,000,000	500,000,000.00
2½-percent, maturing June 30, 1960			500,000,000	500,000,000.00
2½-percent, maturing June 30, 1961			500,000,000	500,000,000.00
2½-percent, maturing June 30, 1962			500,000,000	500,000,000.00
Bonds:				
2½-percent, maturing June 30, 1963			500,000,000	500,000,000.00
2½-percent, maturing June 30, 1964			500,000,000	500,000,000.00
2½-percent, maturing June 30, 1965			500,000,000	500,000,000.00
2½-percent, maturing June 30, 1966			500,000,000	500,000,000.00
2½-percent, maturing June 30, 1967			500,000,000	500,000,000.00
Total public-debt obligations	19,466,609,000	19,466,609,000.00	19,462,885,000	19,462,885,000.00
Accrued interest purchased		733,974.37		133,956.56
Total investments	22,041,438,250	22,043,030,640.68	22,262,664,250	22,263,317,786.73
Undisbursed balances		550,078,122.32		765,560,117.46
Total assets		22,593,108,763.00		23,028,877,904.19

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

The net increase in the par value of the investments owned by the fund during the fiscal year 1957 amounted to $221 million. New securities at a total par value of $26,423 million were acquired through the investment of receipts of the fund, through the reinvestment of funds made available from the maturity or sale of securities during the year, and through the exchange of securities. The par value of securities redeemed or exchanged during the fiscal year was $26,193 million. In addition, $8 million of public issues were sold, providing an additional source of income to the fund in the form of a profit amounting to $10,000. This profit represents the difference between proceeds received at time of sale, after deduction for accrued interest and investment expense, and the book value at time of sale.

Of the new public issues acquired, $142 million were at interest rates ranging from 2½ to 3½ percent, and $174 million were 1⅝-percent Treasury notes which were exchanged shortly after purchase for a like amount of 3⅝-percent Treasury notes. The remaining $25,932 million were 2½-percent public-debt obligations specifically issued to the fund, $6,470 million of which were redeemed during the year.

In recent years, the investments of the trust fund in special issues had a maximum duration from issue to maturity of 1 year. The 1956 amendments to the Social Security Act provided that the public-debt obligations issued for purchase by the old-age and survivors insurance and the disability insurance trust funds shall have maturities fixed with due regard for the needs of the funds. In recognition of the long-term character of the commitments of the trust funds, the maturities of the public-debt obligations issued for purchase by the funds are to be lengthened gradually over a period of several years. Thus, of the $19,463 million of public-debt obligations held by the old-age and survivors insurance trust fund that matured on June 30, 1957, and the proceeds of which were reinvested, approximately one-fourth was reinvested in public-debt obligations distributed equally among maturities ranging from 1 year to 10 years. The remaining three-fourths was invested in issues maturing on June 30, 1958.

Since the average rate of interest, as of May 31, 1957, borne by all marketable Government obligations with maturity dates exceeding 5 years from date of issue was 2.48 percent, the rate of interest (rounded to the nearest one-eighth of 1 percent) on the public-debt obligations acquired on June 30, 1957, was 2½ percent.

SUMMARY OF THE OPERATIONS OF THE FEDERAL DISABILITY INSURANCE TRUST FUND, FISCAL YEAR 1957

Contributions to finance the disability insurance program became payable on wages received, and on self-employment income for taxable years beginning, on or after January 1, 1957. A statement of the income and disbursements of the Federal disability insurance trust fund for the fiscal year 1957 and of the assets of the fund at the end of the fiscal year is presented in table 6.