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22d 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 22D 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

FEBRUARY 20, 1962.—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,
February 20, 1962, Washington, D.C.

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

SIR: We have the honor to transmit to you the 22d 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,

C. DOUGLAS DILLON,
Secretary of the Treasury, and
Managing Trustee of the Trust Funds.

ARTHUR J. GOLDBERG,
Secretary of Labor.

ABRAHAM RIBICOFF,
Secretary of Health, Education, and Welfare.

W. L. MITCHELL,
Commissioner of Social Security
and Secretary, Board of Trustees.

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TWENTY-SECOND 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, 1961

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

Total receipts of the old-age and survivors insurance trust fund in fiscal year 1961 amounted to $11,814 million, or about 14 percent more than in fiscal year 1960. Total disbursements of $11,743 million were about 6 percent greater than the disbursements made in the preceding year. The excess of total income over total outgo, amounting to $72 million, increased the total assets of the old-age and survivors insurance trust fund from $20,829 million on June 30, 1960, to $20,900 million on June 30, 1961.

Disbursements consisted of $11,185 million for benefit payments, $236 million for administrative expenses, and $332 million—including $10 million in interest—in transfers to the railroad retirement account. (The disbursement total, like the income total, does not include $86 million in refunds for overpayments of employee contributions.) The total number of old-age and survivors insurance beneficiaries at the end of the fiscal year was 14,726,000, or about 7 percent more than in June 1960. Retirement beneficiaries numbered 11,029,000, and survivor beneficiaries numbered 3,698,000 in June 1961. The estimated number of persons with taxable earnings under the old-age, survivors, and disability insurance program in calendar year 1960 was about 73 million.

The income of the old-age and survivors insurance trust fund in fiscal year 1961 consisted of $11,293 million in tax contributions and $522 million in interest on investments. The 15-percent increase in contribution income was associated with increases in contribution rates which became effective on January 1, 1960, and therefore were applicable to all of the fiscal year 1961.

Changes in the schedule of tax contribution rates, provided in Public Law 87–64, approved June 30, 1961, will affect the future income of the old-age and survivors insurance trust fund. The schedule is increased by one-eighth of 1 percent each for employers and employees, and by about three-sixteenths of 1 percent for the self-employed, in all years after calendar 1961. Additionally, the date when the ultimate tax rate goes into effect is advanced by 1 year, from 1969 to 1968. All rates for the self-employed are now expressed in decimals, rounded to the nearest one-tenth of 1 percent, instead of in multiples of the fractions one-eighth or one-sixteenth.

Estimates for the 5 fiscal years 1962–66 show continued increases in both the receipts and the disbursements of the old-age and survivors insurance trust fund. The estimates indicate that total income of the fund will exceed its total outgo over the period of the 5 fiscal years 1962–66. According to these estimates, at the end of fiscal year 1966 the trust fund will amount to $25.0 billion, with income of $18.3 billion and outgo of $15.7 billion in that fiscal year.

Medium-range estimates based on assumed increasing trends in earnings of covered workers also show continued increases in receipts and disbursements. According to these estimates, at the end of calendar year 1980, the old-age and survivors insurance trust fund will amount to $152.9 billion.

Long-range cost estimates for the old-age and survivors insurance program, as amended in 1961, indicate that the program is in approximate actuarial balance. The level-premium cost of the benefit payments and administrative expenses, at 3.02 percent interest, ranges from 7.71 to 10.08 percent of payroll, depending on the combination of cost assumptions selected. On the basis of intermediate-cost assumptions, such level-premium cost is 8.79 percent of payroll, as compared with the level-premium equivalent of the contributions of 8.55 percent of payroll.

The number of disability beneficiaries at the end of the fiscal year (898,000) was 72 percent higher than at the end of fiscal year 1960 (522,000). Beginning November 1960, disability benefits were provided for eligible workers under the age of 50 and for their eligible dependents, as a result of the 1960 amendments.

Total disbursements of the disability insurance trust fund in fiscal year 1961 were almost 40 percent larger than in fiscal year 1960. Disbursements totaled $745 million: $704 million for benefit payments, $36 million for administrative expenses, and $5 million—including $148,000 in interest—in transfers to the railroad retirement account. Income totaled $1,082 million: $1,022 million in net contributions (after deduction of $9.5 million in refunds), and $60 million in interest on investments. The total income of the disability insurance trust fund thus exceeded total disbursements by $337 million, and this amount brought the total assets of the fund to $2,504 million on June 30, 1961.

Estimates of the expected operations of the disability insurance trust fund during the 5 fiscal years 1962–66 show that this fund at the end of fiscal year 1966 will amount to $2.6 billion.

The medium-range estimates for the disability insurance program show that the trust fund at the end of calendar year 1980 will amount to $3.4 billion. The long-range cost estimates show that the level-premium cost of the benefit payments and administrative expenses, at 3.02 percent interest, ranges from 0.42 to 0.73 percent of payroll, depending on the combination of assumptions used. On the basis of intermediate-cost assumptions, such level-premium cost is 0.56 percent of payroll, as compared with the level-premium equivalent of the contributions of 0.50 percent.

SOCIAL SECURITY AMENDMENTS OF 1960

The 1960 amendments to the Social Security Act and related sections of the Internal Revenue Code (Public Law 86-778, approved September 13, 1960) will have effect on both the immediate and long-range future levels of income and disbursement of the system. The disability insurance part of the program was expanded considerably. The insured-status provisions were liberalized. The retirement test was made more liberal, flexible, and equitable. Benefits to children of deceased workers were increased in some cases. The basis for determining the interest rate on trust fund investments in special issues was revised. Long-range actuarial estimates of the program as amended in 1960 showed benefit costs very closely in balance with contribution income. Accordingly, the schedule of contribution rates contained in the law continued to reflect the intent that the program be self-supporting.

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

(1) Beginning with November 1960, disability insurance benefits were provided for workers under the age of 50 and for their dependents, on the same basis as benefits under previous law were provided for disabled workers aged 50 to 64 and for their dependents.

(2) The fully insured status provisions (applicable to all types of monthly benefits) were liberalized so that, beginning in October 1960, to be fully insured a person needs 1 quarter of coverage for every 3 calendar quarters elapsing after 1950 (or after the year in which he attained age 21, if that is later) and before the year in which he reached the minimum retirement age, or died, or became disabled, whichever first occurred (but requiring not less than 6 nor more than 40 quarters of coverage). Under prior law, the requirement was one quarter of coverage for every two elapsed quarters before the quarter in which the first of those events occurred.

(3) The retirement test was amended, effective for taxable years beginning after 1960, by eliminating the requirement for withholding a month's benefit for each $80 of annual earnings above $1,200 and providing instead for withholding $1 in benefits for each $2 of the first $300 of earnings above $1,200 and for withholding $1 in benefits for each $1 of earnings above $1,500. There was no change in the provision which specifies that, regardless of the amount of annual earnings, no benefits will be withheld for any month in which the beneficiary neither earns wages of more than $100 nor renders substantial services in self-employment or for any month in which the beneficiary is aged 72 or over.

(4) The benefit of each child of a deceased worker was changed, beginning December 1960, to three-fourths of the primary insurance amount of the deceased worker (retaining the effect of the family

maximum), rather than one-half of the primary insurance amount plus one-fourth of the primary insurance amount divided by the number of entitled children.

(5) The basis for determining the interest rate on future trust fund investments in public-debt obligations (special issues) was changed. Under the new law, these investments will bear a rate of interest equal to the average market yield of all marketable Government obligations not due or callable for 4 or more years from the time when the special obligations are issued, the average yield being rounded to the nearest one-eighth of 1 percent. Under prior law, this rate of interest was related to the average coupon rate on all outstanding marketable obligations of the United States not due or callable for at least 5 years from the original issue date. Current cost estimates indicate that this change from average coupon rate to average market yield will increase somewhat the interest income to the trust funds over the long-range future. Also, the law was changed to allow the purchase of marketable securities only when such purchase would be in the public interest; prior law required that marketable securities always be purchased except when this would not be in the public interest, in which case special issues were to be purchased.

SOCIAL SECURITY AMENDMENTS OF 1961

The 1961 amendments to the Social Security Act and related sections of the Internal Revenue Code (Public Law 87–64, approved June 30, 1961) make significant improvements in the old-age, survivors, and disability insurance program. Eligibility requirements for the payment of benefits were liberalized. Benefit amounts payable to certain classes of present and future beneficiaries were increased. The schedule of contribution rates was revised to continue to reflect the intent that the program be self-supporting.

From an actuarial standpoint, the most important changes made by the 1961 amendments are the following:

(1) The minimum age at which men may qualify for retirement benefits was reduced from 65 to 62. Full-rate benefits are payable at age 62 to dependent widowers and to dependent fathers of deceased insured workers. Men who elect to receive a retired worker's benefit or a dependent husband'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 that they would have received if they were aged 65 at the time they applied for benefits. In determining a male worker's fully insured status and in calculating his average monthly wage, the measuring period ends with the beginning of the year he reaches age 65 (for women workers, the measuring period ends at 62).

(2) The fully insured status provisions (applicable to all types of monthly benefits) were liberalized so that, beginning August 1961, to be fully insured a person needs one quarter of coverage for each calendar year elapsing after 1950 (or after the year in which he attains age 21 if that is later) and before the year in which he reached age 65 (62 for women), or died, or became disabled, whichever first occurred (but requiring not less than 6 nor more than 40 quarters of coverage).

(3) Effective August 1961, the minimum primary insurance amount was raised from $33 to $40. This provision affects all types of benefits since all retirement, disability and survivor benefits (including lump-sum death payments) are figured on the basis of the primary insurance amount. For example, the minimum amount payable to a retired worker prior to actuarial reduction for retirement before age 65, to a disabled worker, and to the sole survivor of a deceased insured worker is equal to the minimum primary insurance amount.

(4) The retirement test was amended, effective for taxable years ending after June 30, 1961. The provision for withholding benefits from beneficiaries whose earnings exceed $1,200 a year was changed so that $1 in benefits will be withheld for each $2 of earnings between $1,200 and $1,700 (and $1 in benefits for each $1 in earnings above that amount), rather than between $1,200 and $1,500 as under the law as amended in 1960. There was no change in the provision which specifies that, regardless of the amount of annual earnings, no benefits are withheld for any month in which the beneficiary neither earns wages of more than $100 nor renders substantial services in self-employment or for any month in which the beneficiary is aged 72 or over.

(5) Aged widow's benefits were increased, beginning August 1961, by 10 percent (from 75 percent to 82½ percent of the worker's primary insurance amount). Similar increases were granted for widower's and for parent's benefits (when only one parent is entitled).

(6) In recognition of the increase in costs resulting from the changes in the program, the contribution rates payable by employees and employers are increased, beginning with 1962, by one-eighth of 1 percent each; the contribution rate for self-employed persons is increased by three-sixteenths of 1 percent and then rounded to the nearest tenth of 1 percent. In addition, the date when the ultimate scheduled tax rate becomes effective has been moved up from 1969 to 1968.

Table 1 presents an estimate of the effect, expressed as a level-premium cost, in percent of taxable payroll, of the changes in the program in 1961.

TABLE 1.—*Changes in estimated level-premium costs as percent of taxable payroll, by type of change, intermediate-cost estimate, high employment assumptions, 3.02-percent interest*

Item	Old-age and survivors insurance	Disability insurance
Benefit cost of program in effect before 1961 amendments [1]	8.52	0.56
Effect of changes:		
Increase in widow's, widower's, and parent's benefit to 82½ percent of primary insurance amount	.17	
Increase in minimum primary insurance amount to $40	.06	[2]
Liberalization in fully insured status requirements	.02	[2]
Reduction in retirement age for men to 62	.00	[2]
Liberalization of retirement test	.02	
Benefit cost after enactment of 1961 amendments [1]	8.79	.56
Level-premium equivalent of graded tax schedule before 1961 amendments [3]	8.28	.50
Effect of changes:		
Increase of ¼ percent in tax rates	.25	
Advance in scheduled date from 1969 to 1968 when ultimate tax rate is reached	.02	
Level-premium equivalent of graded tax schedule after enactment of 1961 amendments [3]	8.55	.50

[1] Taking into account (a) lower contribution rate for the self-employed as compared with combined employer-employee rate, (b) administrative expenses, and (c) interest on trust funds on hand Dec. 31, 1961.
[2] The increase in the minimum benefit and the liberalization of fully insured status result in small increases in cost, but these are offset by the lower cost resulting from some men claiming reduced old-age benefits and thereby losing eligibility for disability benefits later.
[3] Based on payroll adjusted to reflect lower contribution rate for the self-employed as compared with combined employer-employee rate.

NATURE OF THE TRUST FUNDS

The Federal old-age and survivors insurance trust fund was established on January 1, 1940, as a separate account in the U.S. Treasury to hold the amounts accumulated under the old-age and survivors insurance program. All the financial operations 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 are handled all financial operations in connection with the system of monthly disability benefits payable to insured workers and to their dependents. The financial operations of the old-age, survivors, and disability insurance program which relate to the system of old-age and survivors insurance benefits 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 employment covered by the old-age, survivors, and disability insurance 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. All covered self-employed persons are required to pay contributions with respect to their self-employment income. In general, beginning with calendar year 1959, 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 $4,800, with the contributions being determined first on the wages and then on any self-employment income necessary to make up the $4,800.

Under the Internal Revenue Code, as amended, the contribution rate for employees and their employers of 3 percent each that was in effect in calendar years 1960 and 1961 is scheduled to rise to 3⅛ percent each on January 1, 1962, to 3⅝ percent each on January 1, 1963, to 4⅛ percent each on January 1, 1966, and to 4⅝ percent each on January 1, 1968. The contribution rates on self-employment income are equal to 1½ times the corresponding employee rates, rounded to the nearest tenth of 1 percent. The Social Security Act, as amended in 1956, provides that beginning January 1, 1957, from the total contribution income based on these rates, contributions at the rate of one-fourth of 1 percent each for employees and employers, and three-eights of 1 percent for the self-employed shall be allocated to the disability insurance trust fund.

Except for amounts received by the Secretary of the Treasury under State agreements (to effect coverage under the program for State and local government employees) and deposited directly in the trust funds, all contributions are collected by the Internal Revenue Service and 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. The exact amount is not known since old-age, survivors, and disability insurance and income taxes withheld are not separately identified in tax-collection reports received by the Treasury Department from the district offices of the Internal Revenue Service. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

An employee who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum can receive a refund of the 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 that 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 and the disability insurance programs. 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 credited to and form a part of the trust funds, where the initial outlays therefor were paid from the trust funds. Formerly, these moneys were credited to the general fund of the Treasury as miscellaneous receipts.

Under Public Law 85–840, approved August 28, 1958, the Secretary of Health, Education, and Welfare is authorized to charge for providing certain services not directly related to the old-age, survivors, and disability insurance programs. The Bureau of Old-Age and Survivors Insurance has accumulated a unique body of information in the course of the administration of the program. Situations arise when it is in the public interest to utilize this information to perform certain services, such as forwarding letters for health research purposes to holders of social security account numbers, when such services can be performed without interfering unduly with the administration of the program. Such services could not properly be provided at the expense of the trust funds. Receipts derived from performance of these services are credited to and form a part of the trust funds.

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 of the Treasury 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. Public Law 85–840 broadened the provisions of prior law dealing with noncontributory wage credits of $160 for each month of active military service for the United States to provide such credits for certain American citizens who served in the Armed Forces of our allies during World War II. As in the case of the other noncontributory credit for military service, the trust funds will be reimbursed for the additional costs arising from the new 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 provision 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 payment 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 U.S. 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 the issue price or by purchase of outstanding obligations at their market price. In addition, the Social Security Act 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 shall bear interest at a rate equal to the average market yield (computed by the managing trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such calendar month; where such average market yield is 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 market yield.

Interest on public issues held by the trust funds is received by the funds at the time the interest is paid on the particular issues held. Interest on public-debt obligations issued specifically for purchase by the trust funds 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 funds may be redeemed at par plus accrued interest. Interest receipts and proceeds from the sale or redemption of obligation 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 B and C.

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.

SUMMARY OF THE OPERATIONS OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, FISCAL YEAR 1961

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, 1960, and ended on June 30, 1961, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2.

The total assets of the old-age and survivors insurance trust fund amounted to $20,829 million on June 30, 1960. These assets increased to $20,900 million by the end of the fiscal year 1961, an increase of about $72 million.

Net receipts of the trust fund during the fiscal year 1961 amounted to $11,814 million. Of this total, $10,623 million represented tax collections appropriated to the fund and $755 million represented amounts received by the Secretary of the Treasury in accordance with State agreements for coverage of State and local government employees and deposited in the trust fund. However, $86 million was transferred