TABLE 11.—*Statement of transactions in public-debt securities for the disability insurance trust fund during the fiscal year 1964*

[All amounts represent par values]

	Acquisitions	Dispositions
Public issues:		
Treasury notes:		
4⅞-percent, series C, 1963	0	$5,000,000
5-percent, series B, 1964	0	4,175,000
Treasury bonds:		
3½-percent, 1990	$3,000,000	0
3⅞-percent, 1968	5,000,000	0
4-percent, 1969	10,000,000	0
4-percent, 1970	14,000,000	0
4-percent, 1972	4,000,000	0
4-percent, 1973	16,500,000	0
4⅛-percent, 1989–94	68,400,000	0
4¼-percent, 1975–85	14,045,000	0
Total public issues	134,945,000	9,175,000
Obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
3⅞-percent, 1964	182,618,000	188,324,000
4-percent, 1964	263,775,000	263,775,000
4⅛-percent, 1964	735,221,000	735,221,000
4¼-percent, 1964	44,996,000	44,996,000
Notes:		
2⅝-percent, 1965	0	32,394,000
3¾-percent, 1964	0	8,913,000
3¾-percent, 1965	0	20,738,000
3¾-percent, 1966	0	20,738,000
Bonds:		
2½-percent, 1965	0	37,500,000
2½-percent, 1966	0	37,500,000
2½-percent, 1967	0	37,500,000
2⅝-percent, 1965	0	63,000,000
2⅝-percent, 1966	0	95,394,000
2⅝-percent, 1967	0	36,602,000
4⅛-percent, 1979	133,173,000	0
Total obligations sold only to this fund (special issues)	1,359,783,000	1,622,595,000
Total transactions	1,494,728,000	1,631,770,000

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING THE PERIOD JULY 1, 1964, TO DECEMBER 31, 1969

In the following statement of the expected operations and status of the trust funds during the period July 1, 1964, to December 31, 1969, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program remain unchanged throughout the period. The estimates shown in the various tables in this section reflect the effect of the 1964 amendments to the Social Security Act, as described in a previous section. The income and disbursements of the program, however, are affected by general economic conditions as well as by legislative provisions. Because it is difficult to foresee economic developments, the assumptions and the resulting estimates here presented are subject to some uncertainty. This statement of the expected operations of the trust funds should therefore be read with full recognition of the difficulties of estimating future trust fund income and disbursements under changing economic conditions.

Estimates are presented in table 12 to show the expected operations of the old-age and survivors insurance trust fund in fiscal years 1965–69. They are based on the assumption that economic activity will expand throughout the period, with employment and earnings increasing steadily through 1969. Under this assumption the estimated number of persons with taxable earnings under the old-age, survivors, and disability insurance program is expected to increase from 77.3

million during calendar year 1964 to 84.9 million during calendar year 1969; their taxable earnings are estimated to increase from $236 billion in 1964 to $277 billion in 1969. The increase in estimated income from contributions in fiscal years 1965–69 reflects the assumed upward trend in the levels of employment and earnings as well as the effect of the scheduled increases in contribution rates, effective on January 1 of 1966 and 1968. Benefit disbursements increase because of the long-range upward trend in the number of beneficiaries under the program.

Income of the old-age and survivors insurance trust fund is expected to exceed outgo in each of the 5 fiscal years 1965–69. During this period there is an estimated net increase in the trust fund of $11.8 billion, most of which occurs in the last 2 fiscal years.

Estimates consistent with those shown on a fiscal-year basis in table 12 are presented in table 13 to show the progress of the old-age

TABLE 12.—*Operations of the old-age and survivors insurance trust fund, fiscal years 1937–69*

[In millions]

Fiscal year	Transactions during period						Fund at end of period
	Income		Disbursements			Net increase in fund	
	Tax contributions [1]	Interest on investments [2]	Benefit payments	Administrative expenses [3]	Transfers to railroad retirement account		
Past experience:							
1937-64	$124,870	$8,190	$108,427	$2,727	$2,207	$19,699	$19,699
1941	688	56	64	27	----------	653	2,398
1942	896	71	110	27	----------	830	3,227
1943	1,130	87	149	27	----------	1,041	4,268
1944	1,292	103	185	33	----------	1,178	5,446
1945	1,310	124	240	27	----------	1,167	6,613
1946	1,238	148	321	37	----------	1,028	7,641
1947	1,460	163	426	41	----------	1,157	8,798
1948	1,617	191	512	47	----------	1,248	10,047
1949	1,694	230	607	53	----------	1,263	11,310
1950	2,110	257	727	57	----------	1,583	12,893
1951	3,124	287	1,498	70	----------	1,843	14,736
1952	3,598	334	1,982	85	----------	1,864	16,600
1953	4,097	387	2,627	89	----------	1,766	18,366
1954	4,589	439	3,276	89	−12	1,676	20,043
1955	5,087	438	4,333	103	−10	1,098	21,141
1956	6,442	487	5,361	124	−7	1,452	22,593
1957	6,540	555	6,515	150	−5	436	23,029
1958	7,267	556	7,875	166	−2	−216	22,813
1959	7,565	543	9,049	206	124	−1,271	21,541
1960	9,843	517	10,270	202	600	−712	20,829
1961	11,293	531	11,185	236	332	72	20,900
1962	11,455	541	12,658	251	361	−1,274	19,626
1963	13,328	515	13,845	263	423	−687	18,939
1964	15,503	542	14,579	303	403	760	19,699
Estimated future experience:							
1965	15,620	569	15,253	314	399	223	19,922
1966	17,284	600	16,030	330	411	1,114	21,036
1967	19,192	673	16,798	346	406	2,315	23,351
1968	20,828	791	17,602	352	391	3,274	26,625
1969	23,008	959	18,369	360	385	4,853	31,478

[1] Includes reimbursement for additional cost of noncontributory credits for military service; beginning December 1952, adjusted to exclude refunds.

[2] Includes net profits on marketable investments and, beginning in 1958, interest on administrative expenses reimbursed by the disability insurance trust fund.

[3] Receipts from sale of surplus materials, services, etc., are deducted from gross administrative expenses. Beginning in 1954, includes cost of construction of office space for the Social Security Administration. Beginning in 1957, expenses incurred by the Department of Health, Education, and Welfare under the disability insurance program are initially charged to the old-age and survivors insurance trust fund; reimbursements, including interest, are then made from the disability insurance trust fund in the following fiscal year.

NOTE.—In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared in December 1964.

and survivors insurance trust fund on a calendar-year basis. The trust fund is expected to increase in each of the 5 calendar years 1965–69, reaching about $32.7 billion by December 31, 1969.

TABLE 13.—*Operations of the old-age and survivors insurance trust fund, calendar years 1937–69*

[In millions]

Calendar year	Transactions during period						Fund at end of period
	Income		Disbursements			Net increase in fund	
	Tax contributions	Interest on investments	Benefit payments	Administrative expenses	Transfers to railroad retirement account		
Past experience:							
1937–64	$131,617	$8,487	$115,936	$2,836	$2,207	$19,125	$19,125
1941	789	56	88	26		731	2,762
1942	1,012	72	131	28		926	3,688
1943	1,239	88	166	29		1,132	4,820
1944	1,316	107	209	29		1,184	6,005
1945	1,285	134	274	30		1,116	7,121
1946	1,295	152	378	40		1,029	8,150
1947	1,558	164	466	46		1,210	9,360
1948	1,688	281	556	51		1,362	10,722
1949	1,670	146	667	54		1,094	11,816
1950	2,671	257	961	61		1,905	13,721
1951	3,367	417	1,885	81		1,818	15,540
1952	3,819	365	2,194	88		1,902	17,442
1953	3,945	414	3,006	88		1,265	18,707
1954	5,163	447	3,670	92	−21	1,869	20,576
1955	5,713	454	4,968	119	−7	1,087	21,663
1956	6,172	526	5,715	132	−5	856	22,519
1957	6,825	556	7,347	162	−2	−126	22,393
1958	7,566	552	8,327	194	124	−528	21,864
1959	8,052	532	9,842	184	282	−1,724	20,141
1960	10,866	516	10,677	203	318	184	20,324
1961	11,285	548	11,862	239	332	−599	19,725
1962	12,059	526	13,356	256	361	−1,388	18,337
1963	14,541	521	14,217	281	423	143	18,480
1964	15,689	569	14,914	296	403	645	19,125
Estimated future experience:							
1965	16,014	584	15,640	314	399	245	19,370
1966	18,459	636	16,416	339	411	1,929	21,299
1967	19,448	732	17,201	347	406	2,226	23,525
1968	22,210	875	17,984	355	391	4,355	27,880
1969	23,289	1,060	18,758	363	385	4,843	32,723

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 12.

Benefit disbursements from the old-age and survivors insurance trust fund will continue to increase over the next 5 calendar years as the number of beneficiaries under the program increases. Table 14 shows the annual amount of benefit payments distributed by classification of beneficiaries for each of the calendar years 1940–69. Benefit payments were 6.55 percent of taxable earnings for calendar year 1964. It is estimated that in 1969 benefit expenditures will be 7.03 percent of taxable earnings. Figures for each of the calendar years 1940–69 are shown in table 15.

TABLE 14.—*Old-age and survivors insurance benefit payments, distributed by classification of beneficiaries, calendar years 1940–69*

[In millions]

Calendar year	Total benefit disbursements	Disbursed to old-age beneficiaries	Disbursed to dependents of old-age beneficiaries	Disbursed to survivors of deceased insured workers			
				Monthly benefits			Lump-sum payments
				Total	Aged widows, dependent widowers, and dependent parents	Widowed mothers, dependent divorced wives, and dependent children	
Past experience: [1]							
1940	$35	$15	$2	$6	(2)	$6	$12
1941	88	44	8	24	$3	21	13
1942	131	65	11	40	6	34	15
1943	166	79	14	55	10	45	18
1944	209	97	17	73	15	59	22
1945	274	126	22	100	21	79	26
1946	378	189	33	128	29	99	28
1947	466	245	43	149	38	111	29
1948	556	300	52	172	49	122	32
1949	667	373	64	197	62	134	33
1950	961	557	95	277	92	185	33
1951	1,885	1,135	186	507	165	342	57
1952	2,194	1,328	212	592	201	390	63
1953	3,006	1,884	291	744	260	483	87
1954	3,670	2,340	358	880	317	563	92
1955	4,968	3,253	495	1,108	412	695	113
1956	5,715	3,793	568	1,244	486	758	109
1957	7,347	4,888	799	1,521	672	849	139
1958	8,327	5,567	907	1,720	777	943	133
1959	9,842	6,548	1,059	2,063	946	1,117	171
1960	10,677	7,053	1,143	2,316	1,085	1,231	164
1961	11,862	7,802	1,230	2,659	1,262	1,396	171
1962	13,356	8,813	1,349	3,011	1,504	1,507	183
1963	14,217	9,391	1,403	3,216	1,645	1,571	206
1964	14,914	9,854	1,427	3,416	1,787	1,629	216
Estimated future experience:							
1965	15,640	10,315	1,455	3,639	1,941	1,698	231
1966	16,416	10,821	1,494	3,857	2,094	1,763	244
1967	17,201	11,332	1,537	4,077	2,248	1,829	255
1968	17,984	11,839	1,584	4,298	2,404	1,894	263
1969	18,758	12,333	1,631	4,524	2,563	1,961	270

[1] Partly estimated.
[2] Less than $500,000.

TABLE 15.—*Old-age and survivors insurance benefit payments as a percentage of taxable earnings,*[1] *calendar years, 1940–69*

Calendar year	Benefit payments as a percentage of taxable earnings	Calendar year	Benefit payments as a percentage of taxable earnings
Past experience:		Past experience—Continued	
1940	0.11	1956	3.48
1941	.21	1957	4.20
1942	.25	1958	4.77
1943	.27	1959	5.03
1944	.32	1960	5.33
1945	.44	1961	[2] 5.85
1946	.55	1962	[2] 6.31
1947	.59	1963	[2] 6.52
1948	.66	1964	[2] 6.55
1949	.82	Estimated future experience:	
1950	1.10	1965	6.63
1951	1.61	1966	6.75
1952	1.76	1967	6.85
1953	2.28	1968	6.95
1954	2.83	1969	7.03
1955	3.26		

[1] For years 1951 and later, take into account (1) lower contribution rate payable by the self-employed compared with combined employer-employee rate, and (2) employee contributions subject to refund.
[2] Preliminary, subject to revision on complete tabulation of self-employment earnings for 1961–64 and of taxable wages for 1962–64.

The growth in the number of beneficiaries in the past and the expected growth in the future are attributable in large measure to the rising number of workers aged 65 or over eligible for and receiving old-age (primary) benefits. The growth in the number of eligible workers aged 65 and over since 1940 has been uninterrupted. This growth resulted partly from the increase in the population at these ages, but primarily from two additional factors—(1) in each passing year a larger proportion of the persons attaining age 65 had fully insured status and (2) the amendments during the period 1950–61 liberalized the eligibility provisions and extended coverage to new areas of employment.

In addition there has been a growth in the proportion of eligible workers who get benefits. In the early years of the program, a considerable proportion of the workers aged 65 and over who were eligible for old-age (primary) benefits in the past remained in covered employment (or, if they left covered employment, later returned to it) and therefore did not receive benefits. Since 1945, however, the proportion of eligible workers receiving retirement benefits has been increasing except for temporary halts due to special circumstances resulting from the amendments of 1950 and 1954. In general, due to the increasing percentage of eligibles aged 72 or over, who receive benefits regardless of earnings, the upward trend in this proportion is expected to continue, although at a slower rate than in the past.

The expected operations and status of the disability insurance trust fund during the next 5 fiscal years are presented in table 16, together with the figures on actual experience in earlier years. Outgo of the disability insurance trust fund is expected to exceed income in each of the 5 fiscal years 1965–69. It is estimated that this fund will decrease to $416 million on June 30, 1969.

TABLE 16.—*Operations of the disability insurance trust fund, fiscal years 1957–69*

[In millions]

Fiscal year	Transactions during period						Fund at end of period
	Income		Disbursements			Net increase in fund	
	Tax contributions [1]	Interest on investments [2]	Benefit payments	Administrative expenses [3]	Transfers to railroad retirement account		
Past experience:							
1957–64	$7,408	$358	$5,173	$301	$28	$2,264	$2,264
1957	337	1	----------	1	----------	337	337
1958	926	16	168	12	----------	762	1,099
1959	895	33	339	21	----------	568	1,667
1960	987	47	528	32	−27	501	2,167
1961	1,022	61	704	36	5	337	2,504
1962	1,021	68	1,011	64	11	2	2,507
1963	1,077	67	1,171	67	20	−113	2,394
1964	1,143	65	1,251	68	19	−130	2,264
Estimated future experience:							
1965	1,158	61	1,416	79	20	−296	1,968
1966	1,204	54	1,485	85	20	−332	1,636
1967	1,238	47	1,549	90	20	−374	1,262
1968	1,277	31	1,604	95	20	−411	851
1969	1,315	15	1,647	98	20	−435	416

[1] Includes reimbursement for additional cost of noncontributory credits for military service; adjusted to exclude refunds.

[2] Includes net profits on marketable investments and, beginning in 1958, adjustment for interest on administrative expenses reimbursed to the old-age and survivors insurance trust fund.

[3] Expenses of the Department of Health, Education, and Welfare under the disability insurance program are initially charged to the old-age and survivors insurance trust fund; reimbursements, including interest, are then made from the disability insurance trust fund in the following fiscal year.

NOTE.—Reference should be made to the text which describes the underlying assumptions and limitations. Estimates were prepared in December 1964.

Estimates consistent with those shown on a fiscal-year basis in table 16 are presented in table 17 to show the progress of the disability insurance trust fund on a calendar-year basis. The total amount of benefit payments will continue to increase over the next 5 calendar years as the number of beneficiaries increases. Benefit expenditures as a percentage of payroll will also increase. Benefit payments were 0.57 percent of taxable earnings for calendar year 1964. It is estimated that in 1969 benefit payments will be 0.62 percent of taxable earnings, as shown in table 18.

Reference has been made in earlier sections to the financial interchanges between the railroad retirement account and the two trust funds under the provisions of the Railroad Retirement Act. The estimates shown in tables 12, 13, 16, and 17 reflect the effect of future financial interchanges.

TABLE 17.—*Operations of the disability insurance trust fund, calendar years 1957–69*

[In millions]

Calendar year	Transactions during period						Fund at end of period
	Income		Disbursements			Net increase in fund	
	Tax contributions	Interest on investments	Benefit payments	Administrative expenses	Transfers to railroad retirement account		
Past experience:							
1957–64	$7,905	$389	$5,842	$378	$28	$2,047	$2,047
1957	702	7	57	3		649	649
1958	966	25	249	12		729	1,379
1959	891	40	457	50	−22	447	1,825
1960	1,010	53	568	36	−5	464	2,289
1961	1,038	66	887	64	5	148	2,437
1962	1,046	68	1,105	66	11	−69	2,368
1963	1,099	66	1,210	68	20	−133	2,235
1964	1,154	64	1,309	79	19	−188	2,047
Estimated future experience:							
1965	1,187	58	1,471	85	20	−331	1,716
1966	1,214	51	1,518	90	20	−363	1,353
1967	1,255	39	1,577	95	20	−398	955
1968	1,292	23	1,625	97	20	−427	528
1969	1,332	8	1,667	100	20	−447	81

NOTE.—In interpreting the above experience, reference should be made to the footnotes in table 16.

TABLE 18.—*Disability insurance benefit payments as a percentage of taxable earnings,[1] calendar years 1957–69*

Calendar year	Benefit payments as a percentage of taxable earnings	Calendar year	Benefit payments as a percentage of taxable earnings
Past experience:		Estimated future experience:	
1957	0.03	1965	0.62
1958	.14	1966	.62
1959	.23	1967	.63
1960	.28	1968	.63
1961	[2] .44	1969	.62
1962	[2] .52		
1963	[2] .55		
1964	[2] .57		

[1] Take into account (1) lower contribution rate payable by the self-employed compared with combined employer-employee rate, and (2) employee contributions subject to refund.
[2] Preliminary, subject to revision on complete tabulation of taxable self-employment earnings for 1961–64 and of taxable wages for 1962–64.

Public Law 881, approved August 1, 1956, provides that the old-age and survivors insurance trust fund, and where appropriate the disability insurance trust fund, shall 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 at some time during the period September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 that granted survivor protection to certain World War II veterans for a period of 3 years after leaving service. A description of the legislative history of provisions relating to credit for military service, including the provisions for reimbursement for the additional costs arising from payments made before September 1950, is contained in appendix II.

No funds have been appropriated as reimbursements to the trust funds for such additional costs that arose after August 1950. New legislation has been proposed authorizing annual reimbursements based on the following plan: The estimated total additional costs arising from (1) payments that have been made through fiscal year 1964 and (2) payments that will be made in future years will be amortized by level annual appropriations to the trust funds over a 50-year period beginning in fiscal year 1966. Periodically, the estimated amount of annual payment will be refigured to reflect actual costs incurred. The Budget of the U.S. Government for the fiscal year 1966 makes provision for the first of these reimbursements, on the assumption that the proposed legislation will be enacted. The estimates shown in the various tables in this section reflect the effect of these annual reimbursements.

ACTUARIAL STATUS OF THE TRUST FUNDS

Old-age, survivors, and disability insurance benefit payments will increase for many years—not only in dollars but also as a percentage of taxable payroll. Long-range estimates are needed, therefore, to show how much the cost is likely to increase and to indicate whether the scheduled tax rates are adequate.

The cost of benefits to aged persons, which constitutes almost 85 percent of the total cost, will rise for several reasons. The U.S. population will, in the long run, almost certainly become relatively much older on the average. A relatively older population will tend to result from the fact that the present aged population is made up of the survivors from past periods when death rates were much higher than they are now. Another such factor is that, after the turn of the century, the larger birth cohorts of the 1940's, 1950's, and 1960's will be attaining retirement age. Thus, in the future, relatively more persons, both in total and in each cohort, will attain age 65 and older ages.

The cost of the program is closely related to the ratio of the population aged 65 and over (potential beneficiaries) to the population aged 20–64 (potential contributors). On June 30, 1964, this ratio was 18.1 percent. In a stationary population that would result if the death rates of the U.S. life tables for 1959–61 were applied to a constant annual number of births, the ratio would be 25.4 percent, but such a situation is not likely to occur within the next century. Ultimately this ratio may become even greater than 25 percent, because decreases in mortality below present rates would, in a stationary population, have the effect of increasing the proportion at the oldest ages.

Another reason for the increasing cost is that the proportion of the aged population eligible for and receiving benefits will increase. Some of the present persons aged 65 and over were not in covered employment long enough to obtain benefits, or, in the case of widows, their husbands were not sufficiently long in covered employment. Although the system began in 1937, many jobs were not covered until 1951 or 1955. It is estimated that the proportion of the aged population eligible for some type of benefit under the system will increase from the level of about 83 percent on June 30, 1964, to between 95 and 98 percent by the end of the century.

Since the long-term future cost of the old-age, survivors, and disability insurance program will be affected by many factors that are difficult to determine, the assumptions used in the actuarial cost estimates may differ widely and yet be reasonable. The long-term cost estimates for the program (shown for 1975 and thereafter) are presented here on a range basis to indicate the plausible variation in future costs depending on the actual trends that develop for the various cost factors. Both the low- and high-cost estimates are based on assumptions that represent close to full employment, with the average annual earnings remaining at about the level that prevailed in 1963. Each estimate provides data on taxable payroll and contributions and on beneficiaries and benefit payments for every future year. The data are presented here for selected future years.

It is considered likely, although by no means certain, that actual costs as a percentage of taxable payroll will lie between the low- and high-cost figures. Also, a single estimate of costs is needed as a guide in considering proposed legislation and developing tax schedules intended to make the system self-supporting. For these reasons, an intermediate-cost estimate is prepared, in which numbers of beneficiaries, amount of benefit payments, and taxable payrolls are taken halfway between the low-cost and high-cost figures. The intermediate percentage-of-payroll figures are obtained by dividing total benefit payments by taxable payroll, each on the intermediate basis, and are therefore not exactly equal to the average of low- and high-cost percentage-of-payroll figures.

Table 19 shows benefit-payment costs for selected years and the corresponding level costs over the next 75 years and into perpetuity, all expressed as percentages of taxable payroll, under each of the three estimates. (In earlier reports, the into-perpetuity basis has been used. In the future, in accordance with the recommendations of the Advisory Council on Social Security, the 75-year basis will be used. In this report, both bases are shown for purposes of comparison.) The level cost of the program on this basis is the constant combined employer-employee tax rate that, together with a tax on the self-employed at 75 percent of such combined rate, would exactly pay for future benefits and administrative expenses, after making allowance for the effect of the future interest earnings of the existing trust fund and for all other future interest earnings. All percentage-of-payroll figures are adjusted so that they represent the tax rate that employees and employers combined, and the self-employed at three-quarters of the combined rate, would have to pay in any given year to meet exactly the disbursements in that year.

TABLE 19.—*Estimated costs of old-age, survivors, and disability insurance system as percent of payroll,*[1] *1963 level-earnings assumptions, 1975–2050*

[In percent]

Calendar year	Low-cost estimate	High-cost estimate	Intermediate-cost estimate [2]
	Old-age and survivors insurance benefits		
1975	7.45	8.33	7.95
1980	7.84	8.98	8.39
1990	8.05	10.27	9.08
2000	7.28	10.16	8.58
2025	8.16	13.14	10.21
2050	10.17	14.86	11.98
Level cost: [3]			
Perpetuity [4]	7.63	10.09	8.71
75-year [5]	7.40	9.82	8.46
	Disability insurance benefits		
1975	0.60	0.72	0.66
1980	.59	.73	.66
1990	.54	.73	.63
2000	.54	.75	.63
2025	.61	.82	.70
2050	.66	.86	.74
Level cost: [3]			
Perpetuity [4]	.57	.74	.64
75-year [5]	.57	.73	.63

[1] Taking into account the lower contribution rate for the self-employed, as compared with the combined employer-employee rate.

[2] Based on the averages of the dollar contributions and dollar costs under the low-cost and high-cost estimates.

[3] Level contribution rate, at an interest rate of 3.25 percent for high-cost, 3.50 percent for intermediate-cost, and 3.75 percent for low-cost, for benefits after 1963, taking into account interest on the trust fund on Dec. 31, 1963, future administrative expenses, the railroad retirement financial interchange provisions, reimbursement for additional cost of noncontributory credit for military service, and the lower contribution rates payable by the self-employed.

[4] Based on 3.5-percent interest, the level cost for old-age and survivors insurance benefits would be 7.70 and 9.91 percent, respectively, for the low-cost and high-cost estimates, while for disability insurance benefits they would be 0.57 and 0.73 percent, respectively.

[5] Based on 3.5-percent interest, the level cost for old-age and survivors insurance benefits would be 7.52 and 9.58 percent, respectively, for the low-cost and high-cost estimates, while for disability insurance benefits they would be 0.56 and 0.72 percent respectively.

Tables 20 and 21 show, for each set of estimates, the contributions, benefit payments, administrative expenses, amount paid to or received from the railroad retirement system, and the balance in the trust funds for selected years.

It should be emphasized that dollar figures projected for so many years into the future have only limited significance because of changes that are likely to occur in the general economy, as well as in the system itself. What is really the most significant are relative figures such as those in table 19, showing the benefit costs as a percentage of taxable payroll.

TABLE 20.—*Estimated progress of old-age and survivors insurance trust fund, 1963 level earnings assumption* [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Financial interchange [2]	Interest on fund	Fund at end of year [3]
			Actual data			
1955	$5,713	$4,968	$119	$7	$454	$21,663
1956	6,172	5,715	132	5	526	22,519
1957	6,825	7,347	[4] 162	2	556	22,393
1958	7,566	8,327	[4] 194	−124	552	21,864
1959	8,052	9,842	184	−282	532	20,141
1960	10,866	10,677	203	−318	516	20,324
1961	11,285	11,862	239	−332	548	19,725
1962	12,059	13,356	256	−361	526	18,337
1963	14,541	14,217	281	−423	521	18,480
1964	15,689	14,914	296	−403	569	19,125
			Low-cost estimate			
1975	$25,078	$21,081	$361	−$280	$2,291	$67,536
1980	27,340	23,998	398	−115	3,378	97,409
1990	32,354	29,330	469	30	6,023	170,867
2000	38,575	31,666	515	80	10,549	298,251
2025	51,374	47,268	731	110	38,272	1,065,318
			High-cost estimate			
1975	$24,041	$22,120	$418	−$350	$1,451	$46,654
1980	25,677	25,689	464	−185	1,711	55,097
1990	28,324	32,621	550	−50	1,249	40,491
2000	31,805	36,301	603	0	[5]	[5]
2025	35,953	53,222	807	30	[5]	[5]
			Intermediate-cost estimate			
1975	$24,560	$21,601	$390	−$315	$1,806	$56,769
1980	26,508	24,843	431	−150	2,448	75,507
1990	30,339	30,974	510	−10	3,410	103,363
2000	35,190	33,983	559	40	4,562	138,633
2025	43,664	50,246	769	70	10,236	304,076

[1] Interest rates of 3.25 percent for high cost, 3.50 percent for intermediate cost, and 3.75 percent for low cost, were used in determining the level cost, but in developing the progress of the trust fund, varying rates in the early years were used, which—when averaged over a long period of time—are equivalent to such fixed rates.

[2] A positive figure indicates payment to the trust fund from the railroad retirement account; a negative figure indicates the reverse.

[3] Not including amounts in the railroad retirement account to the credit of the old-age and survivors insurance trust fund. In millions of dollars, these amounted to $377 for 1953, $284 for 1954, and $163 for 1955, $60 for 1956, and nothing for 1957 and thereafter.

[4] These figures are artificially high because of the method of reimbursements between this trust fund and the disability insurance trust fund (and, likewise, the figure for 1959 is too low).

[5] Fund exhausted in 1999.

NOTE.—Contributions include reimbursement for additional cost of noncontributory credit for military service.

TABLE 21.—*Estimated progress of disability insurance trust fund, 1963 level earnings assumption* [1]

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Financial interchange [2]	Interest on fund	Fund at end of year
			Actual data			
1957						
1958	$702	$57	[3] $3		$7	$649
1959	966	249	[3] 12		25	1,379
1960	891	457	50	$22	40	1,825
1961	1,010	568	36	5	53	2,289
1962	1,038	887	64	−5	66	2,437
1963	1,046	1,105	66	−11	68	2,368
1964	1,099	1,210	68	−20	66	2,235
	1,154	1,309	79	−19	64	2,047
			Low-cost estimate			
1975	$1,436	$1,658	$93	−$6	(4)	(4)
1980	1,565	1,769	94	2	(4)	(4)
1990	1,852	1,928	92	5	(4)	(4)
2000	2,207	2,294	102	5	(4)	(4)
2025	2,936	3,479	145	5	(4)	(4)
			High-cost estimate			
1975	$1,374	$1,899	$111	−$14	(5)	(5)
1980	1,467	2,059	116	−8	(5)	(5)
1990	1,619	2,258	119	−5	(5)	(5)
2000	1,818	2,616	136	−5	(5)	(5)
2025	2,054	3,231	165	−5	(5)	(5)
			Intermediate-cost estimate			
1975	$1,405	$1,778	$102	−$10	(6)	(6)
1980	1,516	1,914	105	−3	(6)	(6)
1990	1,735	2,093	106	0	(6)	(6)
2000	2,013	2,455	119	0	(6)	(6)
2025	2,495	3,355	155	0	(6)	(6)

[1] Interest rates of 3.25 percent for high cost, 3.50 percent for intermediate cost, and 3.75 percent for low cost were used in determining the level cost, but in developing the progress of the trust fund, varying rates in the early years were used, which—when averaged over a long period of time—are equivalent to such fixed rates.

[2] A positive figure indicates payment to the trust fund from the railroad retirement account; a negative figure indicates the reverse.

[3] These figures are artificially low because of the method of reimbursements between the trust fund and the old-age and survivors insurance trust fund (and, likewise, the figure for 1959 is too high).

[4] Fund exhausted in 1973.

[5] Fund exhausted in 1969.

[6] Fund exhausted in 1970.

NOTE.—Contributions include reimbursement for additional cost of noncontributory credit for military service.

For old-age and survivors insurance, annual benefit payments as a percentage of payroll are less than or close to the scheduled tax rates in the early future years, but they eventually rise well above the ultimate combined employer-employee rate of 8¾ percent. For disability insurance the benefit payments are higher than the present combined employer-employee tax rate of one-half percent in every future year.

To measure the extent to which the financing arrangements of the system result in a surplus or deficiency, a level rate equivalent to the actual increasing contribution rates has been computed, taking into account future interest. The level-equivalent rate of contributions minus the level cost of benefit payments and administrative costs expressed as a percentage of taxable payroll (after making allowance for the interest-earning effect of the existing trust fund), gives the amount by which the contribution rate in all years would have to be changed to put the system in exact long-range balance according to the estimate. A negative figure would indicate that an increase in the tax rate is needed to make the system self-supporting.

The long-range balance of the system is shown by the following level-equivalent costs and contributions, expressed in percentages of taxable payroll, which are computed as of the beginning of calendar year 1964, at interest rates of 3.25 percent for high cost, 3.50 percent for intermediate cost, and 3.75 percent for low cost:

[In percent]

Item	Perpetuity basis			75-year basis		
	OASI	DI	Total	OASI	DI	Total
	Low-cost estimate					
Contributions [1]	8.61	0.50	9.11	8.60	0.50	9.10
Benefits [2]	7.63	.57	8.20	7.40	.57	7.97
Actuarial balance	.98	-.07	.91	1.20	-.07	1.13
	High-cost estimate					
Contributions [1]	8.61	0.50	9.11	8.60	0.50	9.10
Benefits [2]	10.09	.74	10.83	9.82	.73	10.55
Actuarial balance	-1.48	-.24	-1.72	-1.22	-.23	-1.45
	Intermediate-cost estimate					
Contributions [1]	8.61	0.50	9.11	8.60	0.50	9.10
Benefits [2]	8.71	.64	9.35	8.46	.63	9.09
Actuarial balance	-.10	-.14	-.24	.14	-.13	.01

[1] Based on adjusted payroll that reflects the lower contribution rate for the self-employed as compared with the combined employer-employee rate.

[2] Including adjustments (*a*) to reflect the lower contribution rate for the self-employed as compared with the combined employer-employee rate, (*b*) for interest on the existing trust fund, (*c*) for administrative expenses, (*d*) for the railroad retirement financial interchange provisions, and (*e*) for reimbursement of military-wage-credits costs.

The lack of actuarial balance, on the perpetuity basis of financing, of the old-age and survivors insurance program (0.10 percent of taxable payroll on the intermediate-cost basis) is within the acceptable limit of variation of 0.25 percent of taxable payroll that has been used frequently in the past by the congressional committees which deal with this program. The disability insurance program has a lack of actuarial balance of 0.14 percent of taxable payroll, which is well above the corresponding acceptable limit of variation of 0.06 percent of taxable payroll.

Basing the long-range financing on the next 75 years, as the Advisory Council on Social Security has recommended, the actuarial balance of the old-age and survivors insurance program shows a positive balance of 0.14 percent of taxable payroll for the intermediate-cost estimate. The disability insurance program shows a significant actuarial lack of balance, 0.13 percent of taxable payroll, but the old-age, survivors, and disability insurance system as a whole is in close actuarial balance, with a positive balance of 0.01 percent of payroll.

The Board of Trustees agrees with the Advisory Council on Social Security that for the 75-year basis the two programs should be kept reasonably close to an exact balance.

If the intermediate-cost estimate had been based on a higher interest rate than 3.50 percent (which is somewhat above the current average being earned by the total investments of the trust funds, although considerably below the prevailing market rate of interest on long-term Government obligations, which is currently slightly above 4 percent), the actuarial balance of the total program would have been considerably improved and in fact, if an interest rate of 4 percent had been assumed, the total program would have been in close actuarial balance, even for the perpetuity basis of long-range financing.

If the experience exactly follows the assumptions, future computations would show a gradual increase in the actuarial balance (or lack of balance) under the intermediate-cost estimate for both the old-age and survivors insurance system and the disability insurance system. The reason for this is that interest accumulations increase any surplus in the system, but the failure to accumulate all interest income that would have been earned in an exactly balanced system increases any deficit. In the case of a surplus, the excess contributions actually earn interest, while a deficit grows because of the absence of the annual interest that would have been earned if the contributions required for balance had been paid.

Continuing study of the emerging experience under the program provides a basis for prompt changes in the tax rate or other changes that may be necessary to keep the system from growing excessively out of actuarial balance in either direction.

It is important to note that these estimates are made on the assumption that earnings will remain at about the level prevailing in 1963. If earnings levels rise, as they have in the past, the benefits and the taxable earnings base under the program will undoubtedly be modified. If such changes are made concurrently and proportionately with changes in general earnings levels, and if the experience follows all the other assumptions, the future year-by-year costs of the system as a percentage of taxable payroll would be the same as those shown. However, the existing trust fund accumulated in the past, and its interest earnings, will represent a smaller proportion of the future taxable payrolls than if earnings were not to increase in future years. As a result, since interest earnings of the trust fund will play a relatively smaller role in the financing of the system, the "net" level cost—taking into account benefit payments, administrative expenses, and interest on the existing trust fund—would be somewhat higher. However, the level cost might not rise this much, or might even decline, if benefit adjustments do not fully reflect rising earnings. Again, the effect of such events can be observed in ample time to make any needed changes in the contribution schedule or any other appropriate changes in the system.

This analysis includes the benefits and contributions in respect to all persons anticipated to be covered in the future under present statutory provisions and not merely (*a*) the benefits to be paid to workers who have been covered by the system in the past and to their dependents and survivors, (*b*) the future taxes to be paid by such workers, and (*c*) the existing trust funds. An insurance company must set up reserves equal to all currently accrued liabilities, since it cannot compel individuals to become new policyholders and must be in a position at any time so that in the future it can pay all benefits that will become due with respect to its present and past policyholders, using only its present assets and the future premiums to be paid by present policyholders. In analyzing the actuarial condition of a compulsory social insurance system that will continue indefinitely, the income and outgo with respect to new entrants should properly be included, thus obviating the need to set up reserves for all currently accrued liabilities.

A discussion of the assumptions under which these estimates have been made is presented in appendix I.

MEDIUM-RANGE COST ESTIMATES

The preceding sections have presented both short-range cost estimates (for the next 5 years) and long-range cost estimates (for many decades into the future) for the old-age, survivors, and disability insurance system. This section presents medium-range cost estimates covering a period of 15 to 20 years that take into account possible variations in economic factors, such as level of earnings and level of employment, as well as variations in demographic factors.

Tables 22 and 23 present two medium-range projections based on different assumptions. For both projections, it is assumed that economic activity will have normal expansion throughout the period, with employment increasing steadily and with the average total earnings of each covered worker increasing at an annual rate of 3 percent. In the first one (table 22), the maximum taxable earnings base is assumed to remain at its present level of $4,800 per year, while for the second one (table 23), the base is assumed to be kept up to date, i.e., it is assumed that the base is changed periodically so as to cover about the same proportion of total earnings that was covered in 1964 by the $4,800 base. These assumptions imply that for the first projection, of the estimated 60-percent increase in average earnings that will occur in the 1964–80 period, only 18 percent (or 30 percent relatively) will be taxable under the program, due to the dampening effect of the fixed maximum taxable earnings base. For the second projection, the entire 65-percent increase will be taxable because of the constant updating of the earnings base.

TABLE 22.—*Estimated progress of trust funds, increasing earnings assumption fixed earnings base and equivalent 3.50-percent interest rate basis* [1]

[In millions]

Calendar year	Contributions [2]	Benefit payments	Administrative expenses	Financial interchange [3]	Interest on fund	Fund at year end
	Old-age and survivors insurance trust fund					
1975	$28,522	$22,228	$467	−$301	$2,671	$84,059
1980	31,997	26,099	538	−143	4,169	128,622
	Disability insurance trust fund					
1975	$1,639	$1,950	$120	−$10	(4)	(4)
1980	1,837	2,140	126	−3	(4)	(4)

[1] On the same basis as used to develop the trust funds for the long-range intermediate cost estimates in tables 20 and 21.
[2] Includes reimbursement for additional cost of noncontributory credits for military service.
[3] A positive figure indicates payment to the trust funds from the railroad retirement account; a negative figure indicates the reverse.
[4] Fund exhausted in year 1970.

TABLE 23.—*Estimated progress of trust funds, increasing earnings and benefits assumptions, variable earnings base and equivalent 3.50-percent interest rate basis* [1]

[In millions]

Calendar year	Contributions [2]	Benefit payments	Administrative expenses	Financial interchange [3]	Interest on fund	Fund at year end
	Old-age and survivors insurance trust fund					
1975	$35,017	$30,798	$556	−$449	$2,012	$64,272
1980	43,814	41,062	712	−248	2,831	88,821
	Disability insurance trust fund					
1975	$2,003	$2,534	$145	−$14	(4)	(4)
1980	2,506	3,159	174	−5	(4)	(4)

[1] On the same basis as used to develop the trust funds for the long-range intermediate cost estimates in tables 20 and 21.
[2] Includes reimbursement for additional cost of noncontributory credits for military service.
[3] A positive figure indicates payment to the trust funds from the railroad retirement account; a negative figure indicates the reverse.
[4] Fund exhausted in year 1969.

It is assumed for the first projection that all provisions of the law would remain as they were at the end of 1964. This projection is based on dynamic earnings-level assumptions and static benefit-provision assumptions. However, over the 15-year period covered by the estimates, changes will undoubtedly be made. The purpose of this estimate is to indicate the size of the financial commitments of present law even though it is recognized that the law itself would undoubtedly be changed during the period. The extent and timing of these changes are, of course, unpredictable.

It is assumed for the second projection that the maximum taxable earnings base and the benefit provisions of present law are amended periodically so that the relationships among total earnings, taxable earnings, and benefit expenditures during each of the years 1965–80 under the amended law are the same as those shown in the long-range intermediate-cost estimates prepared on level-earnings assumptions.

The cost estimate shown in table 23 is, therefore, very similar to the long-range cost estimate if costs are considered in terms of percentages of taxable payroll, but it has the advantage of presenting dollar figures of a more realistic magnitude. This projection, accordingly, is based on dynamic earnings-level assumptions, combined with an assumption that the law is frequently amended to keep the system fully up to date.

As shown in tables 22 and 23, according to the medium-range estimates, the old-age and survivors insurance trust fund grows more or less steadily through the period up to 1980—reaching in 1975 about $84 billion in the first projection and about $64 billion in the second one. For 1980 the corresponding figures for the balance in the trust fund are $129 billion and $89 billion. In 1980 estimated contribution income exceeds benefit outgo by about 23 percent under the assumptions of dynamic earnings-level conditions and static benefit provisions, but by only 7 percent under the double dynamic assumptions basis.

The disability insurance trust fund, according to the medium-range estimates, decreases continuously until it is finally exhausted in either 1969 or 1970. In 1980 estimated contribution income is about 10 percent lower than benefit outgo under the assumptions of dynamic earnings-level conditions and static benefit provisions, and about 21 percent lower under the double dynamic assumptions basis. It evident that the proportion of the total contribution income of the program that is now allocated to the disability insurance trust fund will not support it for a decade.

REPORT OF ADVISORY COUNCIL ON SOCIAL SECURITY

In accordance with section 116 of the Social Security Amendments of 1956 (Public Law 880, 84th Cong.) the Secretary of Health, Education, and Welfare in June 1963 appointed an Advisory Council on Social Security Financing. The Council studied and reported not only on the method of financing old-age, survivors, and disability insurance, the long-range costs of the program, the sufficiency of the tax income provided by law (including the timing and the amounts of the scheduled increases), the base to which contribution rates apply, the management and investment of the trust funds, but also on its findings and recommendations with respect to extensions of coverage, adequacy of benefits, and all other aspects of the program. The latter responsibility is, according to the law, assigned only to this particular Council and not to any of the subsequent Councils provided for.

The law provides that the Council make a report of its findings and recommendations not later than January 1, 1965, and that this report shall be included in the annual report of the Board of Trustees that is due on or before March 1, 1965. The report of the Council was submitted to the Board of Trustees as provided by law and appears as appendix V of this report.

The Board of Trustees is pleased to observe the finding of the Council that the method of financing the program is sound and that, based on the best available cost estimates, the contribution schedule, in the aggregate, makes adequate provision for meeting both short-range and long-range costs. The Council recommended, however, that the allocation of contribution income to the disability insurance trust fund should be increased so that this part of the program, like the old-age and survivors insurance part of the program and the program as a whole, will be in close actuarial balance. The Board of Trustees is in full agreement with these findings.

The Board of Trustees concurs with the recommendation made by the Council, which is similar to the recommendation made by the Council that functioned during 1957 and 1958, that the law should continue to include a schedule of contribution rates that will be sufficient to support the program over the long-range future, according to the intermediate-cost estimate, but that decisions about putting future rate increases into effect, once the rates actually being charged are high enough to cover the long-range cost according to a reasonable minimum estimate, should be guided largely by the cost estimates for the following 15 or 20 years.

The Board of Trustees has previously strongly recommended that legislation be enacted, as was proposed in the 1965 Budget of the United States, submitted to Congress in January 1964, that would provide for reimbursement of the trust funds from general revenues for the additional costs that were incurred after August 1950 with respect to benefits based on credits for military service performed at some time during the period from September 16, 1940, through December 31, 1956 (for which no contributions were paid). Accordingly, the Board of Trustees is pleased to note that the Council has made a similar recommendation. This action is needed so that the integrity of the trust funds will be maintained.

In reviewing the actuarial cost estimating procedure for the old-age, survivors, and disability insurance program, the Council suggested only one significant change in assumptions and procedure. In the past, the cost estimates were made into perpetuity, but the Council believes that it is sufficient to make them for a period of 75 years into the future, which would span the lifetime of virtually all covered persons living on the valuation date. The Board of Trustees agrees with this suggestion and is presenting the actuarial cost estimates on this basis in this report (but also giving figures on the "perpetuity" basis for purposes of comparability in this first report in which the 75-year estimates are used).

The Board of Trustees also agrees with, and recommends the adoption of, the recommendation made by the Council that would necessitate a change in the law so that the Board of Trustees would be required to meet only at intervals of not more than 12 months (rather than 6 months, as under present law). In this respect, the Board of Trustees has found that the statutory requirement of regular meetings, as incorporated in the Social Security Amendments of 1960, is desirable, but it believes that meetings only once a year will generally be sufficient for it to meet its responsibilities (with the possibility of more frequent meetings being held if desirable).

Recognizing the desirability of having a single body review the methods of allocating administrative costs to the trust funds and the charges based on such allocations, the Board will seek a way in which it can carry out the objective of the Advisory Council's recommendation in this regard.

The Board believes that the Council's other recommendations merit the careful attention and consideration of those in Government who are directly involved in the development and administration of the social security program.

CONCLUSION

The current long-range actuarial cost estimates for the old-age, survivors, and disability insurance program as a whole indicate that the system continues in close actuarial balance. The balance of each of the two portions of the program—old-age and survivors insurance and disability insurance—is, however, differently affected.

The actuarial balance of the old-age and survivors insurance program is, according to the intermediate-cost estimate, positive to the extent of 0.14 percent of taxable payroll on a level-cost basis computed over the next 75 years, but the disability insurance program shows a lack of actuarial balance of 0.13 percent of taxable payroll.

As indicated previously, the Advisory Council on Social Security Financing has recommended that there should be an increase in the allocation of future contribution income to the disability insurance trust fund. With such increased allocation, the portion of the combined employer-employee contribution rate that would go to the disability insurance trust fund would be 0.65 percent, while for the self-employed rate the corresponding figure would be 0.4875 percent. The increased allocation to the disability insurance trust fund would not affect the actuarial balance of the old-age, survivors, and disability insurance system as a whole, but it would make for a more reasonable subdivision of the income between the two portions of the system.

For the present program, following the increased allocation to the disability insurance trust fund, the lack of actuarial balance of the old-age and survivors insurance portion of the system would, according to the intermediate-cost estimate, be 0.01 percent of taxable payroll, while the disability insurance portion of the system would show a positive actuarial balance of 0.02 percent of taxable payroll. Thus, after the increase in allocation, on the basis of the present long-range cost estimates, not only would the present program as a whole be in close actuarial balance, but also each of the two subdivisions would likewise be. It may be noted that under conditions of actuarial balance, the system will have sufficient income from contributions (based on the tax schedule now in the law) and from interest earnings on investments to meet the cost of the benefit payments and administrative expenses for the next 75 years.

As mentioned previously, the Advisory Council on Social Security Financing has recommended that the reimbursement to the trust funds for the cost of paying benefits based on military service for which no contributions were made should begin without further delay. The Board of Trustees made a similar recommendation last year and again urges action on this matter.