

APPENDIXES

APPENDIX I. ASSUMPTIONS, METHODOLOGY, AND DETAILS OF LONG-RANGE COST ESTIMATES

The basic assumptions used in the long-range estimates for the old-age, survivors, and disability insurance system are described in this appendix.¹ Also given are more detailed data in connection with the results of these estimates.

POPULATION

Projections were made of the U.S. population (including oversea areas covered by the old-age, survivors, and disability insurance program) for future quinquennial years, by 5-year age groups and by sex. The starting point was the population on July 1, 1955, as estimated by the Bureau of the Census from the 1950 census and from births, deaths, and migration in 1950-55. This population estimate was increased to allow for probable underenumeration in the 1950 census. The projections used were developed before the results of the 1960 census became available; the long-range cost estimates were not revised because the effect is negligible.²

In the projections for both cost estimates it is assumed that mortality rates will decline until the year 2000. In the high-cost estimates, mortality rates for the year 2000 are about 50 to 55 percent of the 1953 level up to age 70, with the rates at the older ages showing somewhat smaller improvements. The low-cost estimate assumes roughly half of the improvement in mortality used in the high-cost estimate.

In the low-cost estimate, fertility rates are assumed to remain at about the level of recent years until 1975 and then decrease slowly through 2040 until ultimately they reach about the level required to maintain a stationary population. The high-cost fertility rates begin decreasing at once and in 2005-10 reach about the level required to maintain a stationary population. Both estimates assume a small amount of net immigration.

The low-cost estimate is based on high fertility and high mortality, while the high-cost estimate assumes low fertility and low mortality. This makes the high-cost population relatively much older than the low-cost population, which is reasonable in view of the fact that benefits to aged persons account for nearly 85 percent of the cost of the

¹ For more details as to the procedures followed in making the long-range cost estimates, see Actuarial Study No. 49, Social Security Administration, May 1959, which deals with the 1956 act but also indicates the modified procedures that were used in connection with estimates for the 1958 and 1960 acts. A detailed discussion of the cost estimates for the 1961 act can be found in Actuarial Study No. 58.

² The 1960 census revealed a greater number of persons aged 65 and over than earlier estimates had indicated, with most of this excess at ages 65 to 74. However, since people in these age groups are subject to high mortality and will thus not survive for many years, this discrepancy will have little effect on the long-range population projections. The 1960 census reported 16,560,000 persons aged 65 and over, as compared with the 1960 estimates of 16,413,000 in the high-cost projection and 16,319,000 in the low-cost projection. (For comparability, the projection figures should be reduced by about 200,000 because they are as of July 1 instead of April 1, and they include Puerto Rico and several other geographic areas.)

system. Complete details about the population projections are given in Actuarial Study No. 46, Social Security Administration.

EMPLOYMENT

Assumptions as to the percentage of the population who have covered employment during a year were made for each age group by sex for each quinquennial year. The estimated percentages for 1960 were projected to decrease in the younger ages for males to allow for a greater utilization of schools. For males aged 25 and over, the proportions were assumed to increase slightly except for the older ages where they were assumed to decrease for both the low-cost and high-cost assumptions (thus recognizing the possibility of higher retirement rates). An increase was assumed for females, except for the very young and very old ages; these increases are higher in the middle ages and are a continuation of trends in the past. Assumptions were also made about the percentage of covered workers in each age group who have four quarters of coverage during the year.

All the foregoing assumptions may be characterized as representing moderately full employment. A depression could substantially increase the cost, as shown in appendix IV. But it is believed that any periods of low employment would be of short duration and would not have a significant long-range effect.

EARNINGS

Level average earnings at about the 1963 level were assumed for each sex. This assumption implies that within each sex group the earnings level would not rise on account of changes in the distribution of covered workers by occupation or industry.

In the past, average earnings have increased greatly, partly because of inflation, partly because of increased productivity, and partly because of the changed occupational composition of the labor force and related factors. If this trend continues and if the benefit formula is not changed the cost relative to payroll would be less than the estimates show because the formula provides a benefit that is a decreasing percentage of average wage as the average wage increases.

It is likely, however, that if average earnings increase, the benefit formula and the earnings base used for contributions will be modified.

If benefit payments are increased in exactly the same ratio as the increase in average earnings, the year-by-year cost estimates of benefit payments expressed as a percentage of payroll would be unchanged. There would, however, be some increase in the level-premium cost because of the diminished relative value of interest earnings on the trust funds.

INSURED POPULATION

The term "insured" is used as meaning either fully or currently insured. Separate estimates of fully insured, currently insured, and both fully and currently insured have not been made, because almost all aged insured persons and almost all younger male insured persons are fully insured, and also because either fully or currently insured status generally gives eligibility to all young survivor benefits.

The percentages of insured persons by age and sex in various future years are estimated from the percentages of persons covered. It is evident that eventually almost all males in the country will be insured for old-age and survivor benefits; the ultimate percentage for aged males is estimated at 95 percent in the low-cost estimate and 98 percent in the high-cost estimate. For females there is much greater uncertainty; it is estimated that the corresponding proportions for aged females will eventually be 67 percent in the low-cost estimate and 73 percent in the high-cost estimate (the differential reflecting the range possible because of women moving in and out of the labor market and whether thereby they do or do not obtain insured status).

The estimated numbers of persons insured for disability benefits are lower than those insured for old-age and survivor benefits because of the more restrictive insured status provisions for disability benefits.

AGED BENEFICIARIES

Old-age beneficiaries are estimated from the aged insured population. The proportions, by age and sex, of the insured population that were receiving benefits at the beginning of 1963 were projected to increase slightly, following the trends in the past—thus, reflecting the assumed gradual increase in retirement rates.

Wives aged 62 and over of male old-age beneficiaries were estimated by using census data and mortality projections. These potential wife beneficiaries, after adjustment for eligibility to benefits on their own account, were assumed to claim benefits as soon as they are eligible, even if this occurred at ages 62 to 64, when they would have to take reduced benefits. The experience to date indicates that in the vast majority of the cases such immediate claiming of wife's benefits does occur.

To estimate widow beneficiaries the proportions of widows in the female aged population were projected according to mortality assumptions and adjusted for both eligibility to benefits on their own account and for the insured status of their deceased husbands. These uninsured eligible widows were assumed to claim benefits as soon as available.

It can be observed that the assumed wife and widow beneficiaries consist of the uninsured potential beneficiaries. In actual practice, some of the insured potential beneficiaries also receive a residual benefit consisting of the excess of the potential wife's or widow's benefit over their own old-age benefit. These residual benefits, although not giving rise to additional aged beneficiaries, were considered in the cost of the particular type of dependent or survivor benefit concerned.

The minor category of parent beneficiaries is estimated as a constant proportion of aged persons not eligible for any other benefit. The insignificant effect of the retirement test as it applies to wife's, widow's, and parent's benefits was ignored. No estimates were made for benefits to dependent husbands and widowers since their cost is relatively negligible.

Appendix table 1 shows the estimated numbers of aged beneficiaries.

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APPENDIX TABLE 1.—*Monthly retirement beneficiaries in current-payment status, 1955-2025*¹

[In thousands]

Calendar year	Old-age beneficiaries		Wives of old-age beneficiaries ²	Aged widows ³	Dependent parents	Total
	Male	Female				
Actual data						
1955	3,252	1,222	1,144	701	25	6,344
1956	3,572	1,540	1,376	913	27	7,428
1957	4,198	1,999	1,779	1,095	29	9,101
1958	4,617	2,303	1,979	1,233	30	10,162
1959	4,937	2,589	2,123	1,394	35	11,077
1960	5,217	2,845	2,236	1,544	36	11,877
1961	5,765	3,160	2,368	1,697	37	13,027
1962	6,244	3,494	2,510	1,859	37	14,146
1963	6,497	3,766	2,561	2,011	37	14,872
Low-cost estimate						
1975	8,136	6,153	2,849	2,969	34	20,141
1980	8,985	7,294	2,980	3,205	34	22,498
1990	10,457	9,410	3,102	3,560	32	26,561
2000	10,915	10,514	2,845	3,576	28	27,878
2025	16,983	17,402	3,519	4,649	33	42,586
High-cost estimate						
1975	9,220	7,520	2,988	2,641	34	22,403
1980	10,564	9,191	3,175	2,769	34	25,733
1990	13,265	12,207	3,576	3,040	32	32,120
2000	14,779	13,790	3,489	3,080	28	35,166
2025	22,470	21,182	3,919	3,956	29	51,566

¹ Persons qualifying both for old-age benefits and for wife's, widow's, husband's, widower's, and parent's benefits are shown only as old-age beneficiaries. Minimum retirement age was 65 until November 1956, when it was lowered to 62 for women, and until August 1961, when it was also reduced to 62 for men. Actual data as of the end of the year (except for 1958—November); estimated data as of the middle of the year. Excluding effect of railroad financial interchange provisions.

² Including dependent husbands and including wives of any age with child beneficiaries in their care (both relatively small categories).

³ Including dependent widowers.

BENEFICIARIES UNDER RETIREMENT AGE

Young wives and children of retired workers were estimated by reference to their ratios to male old-age beneficiaries, as derived from recent actual data and projected according to the population fertility assumptions.

Child survivor beneficiaries were obtained from estimates of total paternal orphans in the country in future years. The projected child population by age groups was multiplied by the probability of being a paternal orphan. These probabilities were derived by using distributions of age of fathers at birth of child and death rates consistent with the population projections. The number of paternal orphans were then adjusted to eliminate orphans of uninsured men, to add the small numbers of orphans of insured women and to include the eligible disabled orphans aged 18 and over. Mother survivor beneficiaries are estimated by assuming a constant ratio of mothers to children. The numbers of lump-sum death payments were estimated by multiplying the insured population by death rates consistent with the survival rates used in the population projections.

DISABLED BENEFICIARIES AND THEIR DEPENDENTS

Future numbers of persons receiving monthly disability benefits based on their own earnings records are estimated by applying disability prevalence rates (by age and sex) to the population insured for disability benefits. Prevalence rates may be defined as the proportion of the relevant population (population insured for disability in this case) that has a specific characteristic (receiving disability benefits in this case).

The prevalence rates were developed from assumed disability incidence and termination rates. The incidence rates were based on the so-called 165 percent modification of class 3 rates (which includes increasingly higher percentages for ages above 45). This 165-percent modification corresponds roughly to life insurance company experience during the early 1930's. These rates were reduced by 10 percent to account for the fact that unlike the general definition in insurance company policies, disability is not presumed to be total and of expected long-continued duration after 6 months' duration. Rather, the likelihood of the disability being of a long-continued and indefinite-nature condition must be proved at the time.

The original estimates of the cost of the disability insurance system (prepared at the time of the 1956 amendments) assumed, for high cost, incidence rates based on the 165-percent modification of class 3 rates. For low cost, the rates were assumed to be 25 percent of those used in the high-cost estimate. These incidence rates are basically those in current use except for a narrowing of the range between low and high to reflect the operating experience analyzed up to now. This experience has shown the actual incidence rates to fall roughly mid-range between the the high incidence and low incidence originally assumed.

Benefit termination rates because of death and recovery in current use are those used in the original disability insurance cost estimates; i.e., class 3 rates for high cost and 1924-27 German social insurance experience for low-cost estimate.

The prevalence rates resulting from the above incidence and termination rates were adjusted to reflect current operating experience and then used to calculate the numbers of beneficiaries in the future. These future prevalence rates are thus based on the incidence and termination rates originally assumed, but they are adjusted to reflect the latest available experience. The modified methodology that has been followed allows for a prompt reflection, in the estimated cost, of any changes in the experience of the program.

In accordance with current experience the prevalence rates for females were assumed to be about 75 percent of those for male workers.

Appendix table 2 shows the estimates of number of beneficiaries under the minimum retirement age (including disability insurance beneficiaries and their dependents).

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APPENDIX TABLE 2.—*Monthly beneficiaries under minimum retirement age in current-payment status¹ and number of deaths resulting in lump-sum death payments, 1955-2025*

[In thousands]

Calendar year	Children ²	Widowed mothers	Disability beneficiaries			Total monthly beneficiaries	Lump-sum death cases
			Workers	Wives ³	Children ⁴		
Actual data							
1955.....	1,276	292	-----	-----	-----	1,568	567
1956.....	1,341	301	-----	-----	-----	1,642	547
1957.....	1,502	328	150	-----	-----	1,980	689
1958.....	1,606	354	238	12	18	2,228	⁵ 657
1959.....	1,754	376	334	48	78	2,590	⁶ 822
1960.....	1,845	401	455	77	155	2,934	779
1961.....	1,989	428	618	118	291	3,444	813
1962.....	2,160	452	741	147	387	3,887	865
1963.....	2,230	462	827	168	457	4,144	969
Low-cost estimate							
1975.....	3,126	659	1,085	202	576	5,648	1,284
1980.....	3,312	701	1,167	214	610	6,004	1,425
1990.....	3,784	821	1,270	228	634	6,737	1,676
2000.....	4,030	890	1,520	267	703	7,419	1,930
2025.....	4,552	980	2,390	378	859	9,159	2,863
High-cost estimate							
1975.....	2,262	442	1,291	231	577	4,803	1,250
1980.....	2,279	441	1,430	234	558	4,942	1,389
1990.....	2,328	448	1,584	249	554	5,163	1,679
2000.....	2,226	427	1,852	274	595	5,374	1,985
2025.....	2,462	425	2,334	321	656	6,198	2,769

¹ See footnote 1 of appendix table 1 for definition of minimum retirement age. Does not include wives under age 62 of old-age beneficiaries; includes disability beneficiaries aged 62 to 64, and spouses aged 62 and over of disability beneficiaries. For actual data as of December (except for 1958—November); for estimated future data, as of middle of year. Excluding effect of railroad financial interchange provisions.

² Children of retired and deceased workers.

³ Spouses of disabled workers, including some such spouses aged 62 and over.

⁴ Children of disabled workers.

⁵ January through November 1958.

⁶ December 1958 through December 1959.

AVERAGE BENEFITS AND TOTAL BENEFIT PAYMENTS

Average benefits in the various benefit categories were interpolated between the sizes of current benefit awards, estimated from recent claims data, and the sizes of the ultimate benefits computed. The latter were determined as though the 1963 earnings level were in effect throughout the entire working life of all workers with respect to whom benefits are being paid. Total benefit payments are shown, in dollar amounts, in tables 20 and 21, and as a percentage of payroll, in table 19.

The combined cost of old-age, survivors, and disability benefits (expressed as a percentage of taxable payroll) in 1964 as shown in tables 15 and 18 is projected to increase by about 50 percent in the low-cost estimate and by about 120 percent in the high-cost estimate, according to table 19. The significant upward cost trend is temporarily reversed around the year 2000, at which time a significant part of the aged population consists of survivors of persons born in the 1930's, when birth rates were low.

ADMINISTRATIVE EXPENSES

Assumed administrative expenses for old-age, survivors, and disability insurance are based on two factors—the number of persons having any covered employment in the given year and the number of monthly beneficiaries.

RAILROAD RETIREMENT FINANCIAL INTERCHANGE

A financial interchange between the old-age, survivors, and disability insurance system and the railroad retirement system is provided, as explained in appendix II. The purpose of this interchange is to place the old-age and survivors insurance and the disability insurance trust funds in the same position they would have been in if railroad employment were, and always had been, covered employment.

Because of the relatively older age distribution of railroad workers, the transfer is currently in favor of the railroad retirement system. But it is estimated that eventually the low-cost factors in respect to railroad employment—higher average wage, lower percentage of females, and more wives and widows of railroad workers receiving old-age, survivors, and disability insurance benefits on their own earnings records, rather than on the record of the railroad worker—will shift the transfer the other way. The long-range effect is relatively insignificant insofar as old-age, survivors, and disability insurance costs are concerned, but the current estimates indicate a small “net gain” to the railroad retirement system over the entire period of these estimates.

INTEREST RATE

The 1960 amendments revised the basis for determining the interest rate on public-debt obligations issued for purchase by the trust fund (special issues), which constitute a major portion of the investments of the trust funds. Under previous law, the interest rate on special obligations 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. Under present law, this interest rate is based on the average market yield of all such marketable obligations not due or callable for 4 more years from the time of the issuance of the special obligations.

This change will have the immediate effect of gradually increasing the interest income of the trust funds as compared with the previous basis. The ultimate effect is expected to be only a slight increase in the interest income of the system since, over the long run, coupon rates on new long-term Government obligations tend to follow (both up and down) the average market yield on all outstanding long-term issues.

For the intermediate-cost estimate a level interest rate of 3.50 percent was assumed. This is somewhat above the average yield of present investments (about 3.15 percent), but is below the rate currently being obtained for new investments (slightly above 4 percent). The interest rate for the low-cost and high-cost estimates was assumed at 3.75 percent and 3.25 percent, respectively.

APPENDIX II. LEGISLATIVE HISTORY AFFECTING THE TRUST FUNDS¹

BOARD OF TRUSTEES

From January 1, 1940, when the Federal old-age and survivors insurance trust fund was established, through July 15, 1946, the three members of the Board of Trustees, who served in an ex officio capacity, were the Secretary of the Treasury, the Secretary of Labor, and the Chairman of the Social Security Board. On July 16, 1946, under the Reorganization Plan No. 2 of 1946, the Federal Security Administrator became ex officio member of the Board of Trustees in place of the Chairman of the Social Security Board, which agency was abolished. On April 11, 1953, the Reorganization Plan No. 1 of 1953, creating the Department of Health, Education, and Welfare, went into effect, and the Office of Federal Security Administrator was abolished. The functions of the Administrator as ex officio member of the Board of Trustees were taken over by the Secretary of Health, Education, and Welfare. The remaining membership of the Board has not changed since it was first established. Since the establishment of the fund the Secretary of the Treasury has been managing trustee. The Social Security Act Amendments of 1950 designated the Commissioner for Social Security—since April 11, 1953, the Commissioner of Social Security—as Secretary of the Board of Trustees. Under the Social Security Amendments of 1956, the Board of Trustees of the Federal old-age and survivors insurance trust fund was also made the Board of Trustees of the Federal disability insurance trust fund. The Social Security Amendments of 1960 provide that the Board of Trustees shall meet not less frequently than once each 6 months. These amendments also eliminated the so-called three-times rule (requiring the Board of Trustees to report to the Congress whenever it expects that in the course of the next 5 fiscal years either of the trust funds will exceed three times the highest annual expenditures from such fund anticipated during that 5-year period).

CONTRIBUTION RATES

The Social Security Act of 1935 fixed the contribution rates for employees and their employers at 1 percent each on taxable wages for the calendar years 1937-39, and provided for higher rates thereafter. However, subsequent acts of Congress extended the 1-percent rates through calendar year 1949. On January 1, 1950, the rates rose to 1½ percent each for employees and employers, as provided by the Social Security Act Amendments of 1947. In accordance with the Social Security Act Amendments of 1950, the 1½-percent rates remained in effect through calendar year 1953, and, on January 1, 1954, rose to 2 percent each for employees and employers. These rates remained in effect through December 31, 1956. In accordance with the Social Security Amendments of 1956, the 2-percent rates rose to 2¼ percent each on January 1, 1957, and remained in effect through calendar year 1958. On January 1, 1959, the rates rose to 2½ percent each, and on January 1, 1960, to 3 percent each, as pro-

¹ Amendments to the Social Security Act and to related sections of the Internal Revenue Code were made during the period 1939-61. The more important changes made in 1950-58 that are significant from an actuarial standpoint are described in app. II of the 21st Annual Report of the Board of Trustees. The more important changes contained in the 1960 and 1961 amendments are described in the main body of the 23d Annual Report of the Board of Trustees.

vided by the Social Security Amendments of 1958. These rates remained in effect through December 31, 1961. In accordance with the Social Security Amendments of 1961, the 3-percent rates rose, on January 1, 1962, to 3½ percent each for employees and employers, and on January 1, 1963, to 3¾ percent each. Beginning January 1, 1951—the effective date of extension of coverage to self-employed persons—the rates of tax on self-employment income have been equal to 1½ times the corresponding employee rates, except that beginning in 1962 the resulting rates for the self-employed are rounded to the nearest tenth of 1 percent. The tax rates that have been in effect since 1937 and the maximum amount of annual earnings to which the rates applied are shown in the following table:

Calendar years	Maximum taxable amount of annual earnings	Percent of taxable earnings	
		Employees and employers, each	Self-employed
1937-49	\$3,000	1	
1950	3,000	1½	
1951-53	3,600	1½	2¼
1954	3,600	2	3
1955-56	4,200	2	3
1957-58	4,200	2¼	3¾
1959	4,800	2½	3¾
1960-61	4,800	3	4½
1962	4,800	3½	4.7
1963	4,800	3¾	5.4

SPECIAL REFUNDS OF EMPLOYEE CONTRIBUTIONS

With respect to wages paid before 1951, refunds to employees who worked for more than one employer during the course of a year and paid contributions on such wages in excess of the statutory maximum were made from general revenues. With respect to wages paid after 1950, these refunds are paid from the Treasury account for refunding internal revenue collections. The Social Security Act Amendments of 1950 directed the managing trustee to pay from time to time from the old-age and survivors insurance trust fund into the Treasury, as repayments to the account for refunding internal revenue collections, the amount estimated by him to be contributions which are subject to refund with respect to wages paid after 1950. The Social Security Amendments of 1956 provided for similar repayments from the disability insurance trust fund.

CREDITS FOR MILITARY SERVICE

The Social Security Act Amendments of 1946 provided survivor insurance protection to certain World War II veterans for a period of 3 years following their discharge from the Armed Forces. Federal appropriations were authorized to reimburse the Federal old-age and survivors insurance trust fund for such sums as were withdrawn to meet the additional cost (including administrative expenses) of such payments. The 1950 amendments, which provided noncontributory \$160 monthly wage credits to persons who served in the Armed Forces during World War II, and the 1952, 1953, 1955, and 1956 amendments which provided similar noncontributory credits on account of active

military or naval service from July 25, 1947, through December 31, 1956, charged to the old-age and survivors insurance trust fund not only the additional costs arising from these credits but also, beginning September 1950, those additional costs arising under the 1946 amendments. The 1956 amendments provided contributory coverage for military personnel beginning January 1, 1957. In addition, these amendments authorized that the old-age and survivors insurance trust fund and, where appropriate, the disability insurance trust fund be reimbursed from general revenues for expenditures after August 1950 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. The existing statutory provisions that authorize the granting of noncontributory credits for military service and the financing of these credits are set forth in appendix III.

COORDINATION OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE
AND RAILROAD RETIREMENT PROGRAM

Public Law 234, approved October 30, 1951, amended the Railroad Retirement Act to provide a new basis of coordinating the railroad retirement program with old-age and survivors insurance. This legislation provides that the railroad wage credits of workers who die or retire with less than 10 years of railroad employment shall be transferred to the old-age and survivors insurance system. These amendments did not affect workers who acquire 10 years or more of railroad service. That is, the survivors of over-10-year railroad workers will, as under the 1946 amendments to the Railroad Retirement Act, receive benefits under one program or the other based on combined wage records, while retirement benefits will be payable under both systems to individuals with 10 or more years of railroad service who also qualify under old-age and survivors insurance.

With respect to the allocation of costs between the two systems, Public Law 234 required the Railroad Retirement Board and the Secretary of Health, Education, and Welfare to—

determine, no later than January 1, 1954, the amount which would place the Federal old-age and survivors insurance trust fund in the same position in which it would have been at the close of the fiscal year ending June 30, 1952, if service as an employee after December 31, 1936, had been included in the term "employment" as defined in the Social Security Act and in the Federal Insurance Contributions Act.

The two agencies completed a series of joint actuarial studies and analyses required by this provision. The results show that the addition of \$488 million to the old-age and survivors insurance trust fund would place it in the same position as of June 30, 1952, as it would have been if railroad employment had always been covered under the Social Security Act.

There is no authority in the law that would have permitted the transfer of the \$488 million from the railroad retirement account to the trust fund, but the legislation provides that beginning with fiscal year 1953, and for each fiscal year thereafter, annual interest payments on this amount (less any offsets described below) were to be transferred from the railroad retirement account to the trust fund.

The legislation further provides that at the close of the fiscal year 1953, and each fiscal year thereafter, annual reimbursements are to be effected between the railroad retirement account and the trust fund in such amounts as would, taking into consideration the amount determined for the period through June 30, 1952, place the trust fund at the end of the year in the same position in which it would have been if railroad employment were covered under the Social Security Act. If the reimbursement is from the trust fund to the railroad retirement account, the Secretary of Health, Education, and Welfare may offset the amount of such reimbursement against the amount determined for the period through June 30, 1952.

The Social Security Amendments of 1956 amended Public Law 234 to provide for similar annual determinations and financial interchanges between the railroad retirement account and the newly created disability insurance trust fund, beginning with the fiscal year ending June 30, 1958.

APPENDIX III. STATUTORY PROVISIONS, AS OF JUNE 30, 1963,
CREATING THE TRUST FUNDS, DEFINING THE DUTIES OF THE
BOARD OF TRUSTEES, GRANTING NONCONTRIBUTORY CREDITS FOR
MILITARY SERVICE, AND PROVIDING FOR ADVISORY COUNCILS ON
SOCIAL SECURITY FINANCING

(Sec. 201, sec. 217, and sec. 218(e)(1), (h), and (j) of the Social Security Act as amended and sec. 116 of the Social Security Amendments of 1956 as amended)

FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND
FEDERAL DISABILITY INSURANCE TRUST FUND

SEC. 201. (a) There is hereby created on the books of the Treasury of the United States a trust fund to be known as the "Federal Old-Age and Survivors Insurance Trust Fund." The Federal Old-Age and Survivors Insurance Trust Fund shall consist of the securities held by the Secretary of the Treasury for the Old-Age Reserve Account and the amount standing to the credit of the Old-Age Reserve Account on the books of the Treasury on January 1, 1940, which securities and amount the Secretary of the Treasury is authorized and directed to transfer to the Federal Old-Age and Survivors Insurance Trust Fund, and, in addition, such amounts as may be appropriated to, or deposited in, the Federal Old-Age and Survivors Insurance Trust Fund, as hereinafter provided. There is hereby appropriated to the Federal Old-Age and Survivors Insurance Trust Fund for the fiscal year ending June 30, 1941, and for each fiscal year thereafter, out of any moneys in the Treasury not otherwise appropriated, amounts equivalent to 100 per centum of—

(1) the taxes (including interest, penalties, and additions to the taxes) received under subchapter A of chapter 9 of the Internal Revenue Code of 1939 (and covered into the Treasury) which are deposited into the Treasury by collectors of internal revenue before January 1, 1951; and

(2) the taxes certified each month by the Commissioner of Internal Revenue as taxes received under subchapter A of chapter 9 of such Code which are deposited into the Treasury by collec-

tors of internal revenue after December 31, 1950, and before January 1, 1953, with respect to assessments of such taxes made before January 1, 1951; and

(3) the taxes imposed by subchapter A of chapter 9 of such Code with respect to wages (as defined in section 1426 of such Code), and by chapter 21 of the Internal Revenue Code of 1954 with respect to wages (as defined in section 3121 of such Code) re-reported to the Commissioner of Internal Revenue pursuant to section 1420(c) of the Internal Revenue Code of 1939 after December 31, 1950, or to the Secretary of the Treasury or his delegates pursuant to subtitle F of the Internal Revenue Code of 1954 after December 31, 1954, as determined by the Secretary of the Treasury by applying the applicable rates of tax under such subchapter or chapter 21 to such wages, which wages shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of wages established and maintained by such Secretary in accordance with such reports, less the amounts specified in clause (1) of subsection (b) of this section; and

(4) the taxes imposed by subchapter E of chapter 1 of the Internal Revenue Code of 1939, with respect to self-employment income (as defined in section 481 of such Code), and by chapter 2 of the Internal Revenue Code of 1954 with respect to self-employment income (as defined in section 1402 of such Code) reported to the Commissioner of Internal Revenue on tax returns under such subchapter or to the Secretary of the Treasury or his delegate on tax returns under subtitle F of such Code, as determined by the Secretary of the Treasury by applying the applicable rate of tax under such subchapter or chapter to such self-employment income, which self-employment income shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of self-employment income established and maintained by the Secretary of Health, Education, and Welfare in accordance with such returns, less the amounts specified in clause (2) of subsection (b) of this section.

The amounts appropriated by clauses (3) and (4) shall be transferred from time to time from the general fund in the Treasury to the Federal Old-Age and Survivors Insurance Trust Fund, and the amounts appropriated by clauses (1) and (2) of subsection (b) shall be transferred from time to time from the general fund in the Treasury to the Federal Disability Insurance Trust Fund, such amounts to be determined on the basis of estimates by the Secretary of the Treasury of the taxes, specified in clause (3) and (4) of this subsection, paid to or deposited into the Treasury; and proper adjustments shall be made in amounts subsequently transferred to the extent prior estimates were in excess of or were less than the taxes specified in such clauses (3) and (4) of this subsection.

(b) There is hereby created on the books of the Treasury of the United States a trust fund to be known as the "Federal Disability Insurance Trust Fund." The Federal Disability Insurance Trust Fund shall consist of such amounts as may be appropriated to, or deposited in, such fund as provided in this section. There is hereby appropriated to the Federal Disability Insurance Trust Fund for the fiscal year ending June 30, 1957, and for each fiscal year thereafter, out of any

moneys in the Treasury not otherwise appropriated, amounts equivalent to 100 per centum of—

(1) $\frac{1}{2}$ of 1 per centum of the wages (as defined in section 3121 of the Internal Revenue Code of 1954) paid after December 31, 1956, and reported to the Secretary of the Treasury or his delegate pursuant to subtitle F of the Internal Revenue Code of 1954, which wages shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of wages established and maintained by such Secretary in accordance with such reports; and

(2) $\frac{3}{8}$ of 1 per centum of the amount of self-employment income (as defined in section 1402 of the Internal Revenue Code of 1954) reported to the Secretary of the Treasury or his delegate on tax returns under subtitle F of the Internal Revenue Code of 1954 for any taxable year beginning after December 31, 1956, which self-employment income shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of self-employment income established and maintained by the Secretary of Health, Education, and Welfare in accordance with such returns.

(c) With respect to the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (hereinafter in this title called the "Trust Funds") there is hereby created a body to be known as the Board of Trustees of the Trust Funds (hereinafter in this title called the "Board of Trustees") which Board of Trustees shall be composed of the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare, all ex officio. The Secretary of the Treasury shall be the Managing Trustee of the Board of Trustees (hereinafter in this title called the "Managing Trustee"). The Commissioner of Social Security shall serve as Secretary of the Board of Trustees. The Board of Trustees shall meet not less frequently than once each six months. It shall be the duty of the Board of Trustees to—

(1) Hold the Trust Funds;

(2) Report to the Congress not later than the first day of March of each year on the operations and status of the Trust Funds during the preceding fiscal year and on their expected operation and status during the next ensuing five fiscal years;

(3) Report immediately to the Congress whenever the Board of Trustees is of the opinion that the amount of either of the Trust Funds is unduly small;

(4) Recommend improvements in administrative procedures and policies designed to effectuate the proper coordination of the old-age and survivors insurance and Federal-State unemployment compensation program; and

(5) Review the general policies followed in managing the Trust Funds, and recommend changes in such policies, including necessary changes in the provisions of the law which govern the way in which the Trust Funds are to be managed.

The report provided for in paragraph (2) above shall include a statement of the assets of, and the disbursements made from, the Trust Funds during the preceding fiscal year, an estimate of the expected future income to, and disbursements to be made from, the Trust Funds during each of the next ensuing five fiscal years, and a state-

ment of the actuarial status of the Trust Funds. Such reports shall be printed as a House document of the session of the Congress to which the report is made.

(d) It shall be the duty of the Managing Trustee to invest such portion of the Trust Funds as is not, in his judgment, required to meet current withdrawals. Such investments may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purposes such obligations may be acquired (1) on original issue at the issue price, or (2) by purchase of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of public-debt obligations for purchase by the Trust Funds. Such obligations issued for purchase by the Trust Funds 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 then forming a part of the public debt which are not due or callable until after the expiration of four years from the end of such calendar month; except that where such average market yield is not a multiple of one-eighth of 1 per centum, the rate of interest of such obligations shall be the multiple of one-eighth of 1 per centum nearest such market yield. The Managing Trustee may purchase other interest-bearing obligations of the United States or obligations guaranteed as to both principal and interest by the United States, on original issue or at the market price, only where he determines that the purchase of such other obligations is in the public interest.

(e) Any obligations acquired by the Trust Funds (except public-debt obligations issued exclusively to the Trust Funds) may be sold by the Managing Trustee at the market price, and such public-debt obligations may be redeemed at par plus accrued interest.

(f) The interest on, and the proceeds from the sale or redemption of, any obligations held in the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund shall be credited to and form a part of the Federal Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund, respectively.

(g)(1) The Managing Trustee is directed to pay from the Trust Funds into the Treasury the amounts estimated by him and the Secretary of Health, Education, and Welfare which will be expended, out of moneys appropriated from the general funds in the Treasury, during a three-month period by the Department of Health, Education, and Welfare and the Treasury Department for the administration of titles II and VIII of this Act and subchapter E of chapter 1 and subchapter A of chapter 9 of the Internal Revenue Code of 1939, and chapters 2 and 21 of the Internal Revenue Code of 1954. Such payments shall be covered into the Treasury as repayments to the account for reimbursement of expenses incurred in connection with the administration of titles II and VIII of this Act and subchapter E of chapter 1 and subchapter A of chapter 9 of the Internal Revenue Code of 1939, and

chapters 2 and 21 of the Internal Revenue Code of 1954. There are hereby authorized to be made available for expenditure, out of either or both of the Trust Funds, such amounts as the Congress may deem appropriate to pay the cost of administration of this title. After the close of each fiscal year, the Secretary of Health, Education, and Welfare shall analyze the costs of administration of this title incurred during such fiscal year in order to determine the portion of such costs which should have been borne by each of the Trust Funds and shall certify to the Managing Trustee the amount, if any, which should be transferred from one to the other of such Trust Funds in order to insure that each of the Trust Funds has borne its proper share of the costs of administration of this title incurred during such fiscal year. The Managing Trustee is authorized and directed to transfer any such amount from one to the other of such Trust Funds in accordance with any certification so made.

(2) The Managing Trustee is directed to pay from time to time from the Trust Funds into the Treasury the amount estimated by him as taxes which are subject to refund under section 6413(c) of the Internal Revenue Code of 1954 with respect to wages (as defined in section 1426 of the Internal Revenue Code of 1939 and section 3121 of the Internal Revenue Code of 1954) paid after December 31, 1950. Such taxes shall be determined on the basis of the records of wages established and maintained by the Secretary of Health, Education, and Welfare in accordance with the wages reported to the Commissioner of Internal Revenue pursuant to section 1420(c) of the Internal Revenue Code of 1939 and to the Secretary of the Treasury or his delegate pursuant to subtitle F of the Internal Revenue Code of 1954, and the Secretary shall furnish the Managing Trustee such information as may be required by the Trustee for such purpose. The payments by the Managing Trustee shall be covered into the Treasury as repayments to the account for refunding internal revenue collections. Payments pursuant to the first sentence of this paragraph shall be made from the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund in the ratio in which amounts were appropriated to such Trust Funds under clause (3) of subsection (a) of this section and clause (1) of subsection (b) of this section.

(3) Repayments made under paragraph (1) or (2) shall not be available for expenditures but shall be carried to the surplus fund of the Treasury. If it subsequently appears that the estimates under either such paragraph in any particular period were too high or too low, appropriate adjustments shall be made by the Managing Trustee in future payments.

(h) Benefit payments required to be made under section 223, and benefit payments required to be made under subsection (b), (c), or (d) of section 202 to individuals entitled to benefits on the basis of the wages, and self-employment income of an individual entitled to disability insurance benefits shall be made only from the Federal Disability Insurance Trust Fund. All other benefit payments required to be made under this title shall be made only from the Federal Old-Age and Survivors Insurance Trust Fund.

BENEFITS IN CASE OF VETERANS

SEC. 217. (a) (1) For purposes of determining entitlement to and the amount of any monthly benefit for any month after August 1950, or entitlement to and the amount of any lump-sum death payment in case of a death after such month, payable under this title on the basis of the wages and self-employment income of any World War II veteran, and for purposes of section 216(i)(3), such veteran shall be deemed to have been paid wages (in addition to the wages, if any, actually paid to him) of \$160 in each month during any part of which he served in the active military or naval service of the United States during World War II. This subsection shall not be applicable in the case of any monthly benefit or lump-sum death payment if—

(A) a larger such benefit or payment, as the case may be, would be payable without its application; or

(B) a benefit (other than a benefit payable in a lump sum unless it is a commutation of, or a substitute for, periodic payments) which is based, in whole or in part, upon the active military or naval service of such veteran during World War II is determined by any agency or wholly owned instrumentality of the United States (other than the Veterans' Administration) to be payable by it under any other law of the United States or under a system established by such agency or instrumentality. The provisions of clause (B) shall not apply in the case of any monthly benefit or lump-sum death payment under this title if its application would reduce by \$0.50 or less the primary insurance amount (as computed under section 215 prior to any recomputation thereof pursuant to subsection (f) of such section) of the individual on whose wages and self-employment income such benefit or payment is based. The provisions of clause (B) shall also not apply for purposes of section 216(i)(3).

(2) Upon application for benefits or a lump-sum death payment on the basis of the wages and self-employment income of any World War II veterans, the Secretary of Health, Education, and Welfare shall make a decision without regard to clause (B) of paragraph (1) of this subsection unless he has been notified by some other agency or instrumentality of the United States that, on the basis of the military or naval service of such veteran during World War II, a benefit described in clause (B) of paragraph (1) has been determined by such agency or instrumentality to be payable by it. If he has not been so notified, the Secretary of Health, Education, and Welfare shall then ascertain whether some other agency or wholly owned instrumentality of the United States has decided that a benefit described in clause (B) of paragraph (1) is payable by it. If any such agency or instrumentality has decided, or thereafter decides, that such a benefit is payable by it, it shall so notify the Secretary of Health, Education, and Welfare, and the Secretary shall certify no further benefits for payment or shall recompute the amount of any further benefits payable, as may be required by paragraph (1) of this subsection.

(3) Any agency or wholly owned instrumentality of the United States which is authorized by any law of the United States to pay benefits, or has a system of benefits which are based, in whole or in part, on military or naval service during World War II shall, at the request of the Secretary of Health, Education, and Welfare, certify

to him, with respect to any veteran, such information as the Secretary deems necessary to carry out his functions under paragraph (2) of this subsection.

(b)(1) Any World War II veteran who died during the period of three years immediately following his separation from the active military or naval service of the United States shall be deemed to have died a fully insured individual whose primary insurance amount is the amount determined under section 215(c). Notwithstanding section 215(d), the primary insurance benefit (for purposes of section 215(c)) of such veteran shall be determined as provided in this title as in effect prior to the enactment of this section, except that the 1 per centum addition provided for in section 209(e)(2) of this Act as in effect prior to the enactment of this section shall be applicable only with respect to calendar years prior to 1951. This subsection shall not be applicable in the case of any monthly benefit or lump-sum death payment if—

(A) a larger such benefit or payment, as the case may be, would be payable without its application;

(B) any pension or compensation is determined by the Veterans' Administration to be payable by it on the basis of the death of such veteran;

(C) the death of the veteran occurred while he was in the active military or naval service of the United States; or

(D) such veteran has been discharged or released from the active military or naval service of the United States subsequent to July 26, 1951.

(2) Upon an application for benefits or a lump-sum death payment on the basis of the wages and self-employment income of any World War II veteran, the Secretary of Health, Education, and Welfare shall make a decision without regard to paragraph (1)(B) of this subsection unless he has been notified by the Veterans' Administration that pension or compensation is determined to be payable by the Veterans' Administration by reason of the death of such veteran. The Secretary of Health, Education, and Welfare shall thereupon report such decision to the Veterans' Administration. If the Veterans' Administration in any such case has made an adjudication or thereafter makes an adjudication that any pension or compensation is payable under any law administered by it, it shall notify the Secretary of Health, Education, and Welfare and the Secretary shall certify no further benefits for payment, or shall recompute the amount of any further benefits payable, as may be required by paragraph (1) of this subsection. Any payment theretofore certified by the Secretary of Health, Education, and Welfare on the basis of paragraph (1) of this subsection to any individual, not exceeding the amount of any accrued pension or compensation payable to him by the Veterans' Administration, shall (notwithstanding the provisions of section 3101 of title 38, United States Code) be deemed to have been paid to him by such Administration on account of such accrued pension or compensation. No such payment certified by the Secretary of Health, Education, and Welfare, and no payment certified by him for any month prior to the first month for which any pension or compensation is paid by the Veterans' Administration shall be deemed by reason of this subsection to have been an erroneous payment.

(c) In the case of any World War II veterans to whom subsection (a) is applicable, proof of support required under section 202(h) may be filed by a parent at any time prior to July 1951 or prior to the expiration of two years after the date of the death of such veteran, whichever is the later.

(d) For the purposes of this section—

(1) The term "World War II" means the period beginning with September 16, 1940, and ending at the close of July 24, 1947.

(2) The term "World War II veteran" means any individual who served in the active military or naval service of the United States at any time during World War II and who, if discharged or released therefrom, was so discharged or released under conditions other than dishonorable after active service of ninety days or more or by reason of a disability or injury incurred or aggravated in service in line of duty; but such term shall not include any individual who died while in the active military or naval service of the United States if his death was inflicted (other than by an enemy of the United States) as lawful punishment for a military or naval offense.

(e)(1) For purposes of determining entitlement to and the amount of any monthly benefit or lump-sum death payment payable under this title on the basis of wages and self-employment income of any veteran (as defined in paragraph (4)), and for purposes of section 216(i)(3), such veteran shall be deemed to have been paid wages (in addition to the wages, if any, actually paid to him) of \$160 in each month during any part of which he served in the active military or naval service of the United States on or after July 25, 1947, and prior to January 1, 1957. This subsection shall not be applicable in the case of any monthly benefit or lump-sum death payment if—

(A) a larger such benefit or payment, as the case may be, would be payable without its application; or

(B) a benefit (other than a benefit payable in a lump sum unless it is a commutation of, or a substitute for, periodic payments) which is based, in whole or in part, upon the active military or naval service of such veteran on or after July 25, 1947, and prior to January 1, 1957, is determined by any agency or wholly owned instrumentality of the United States (other than the Veterans' Administration) to be payable by it under any other law of the United States or under a system established by such agency or instrumentality.

The provisions of clause (B) shall not apply in the case of any monthly benefit or lump-sum death payment under this title if its application would reduce by \$0.50 or less the primary insurance amount (as computed under section 215 prior to any recomputation thereof pursuant to subsection (f) of such section) of the individual on whose wages and self-employment income such benefit or payment is based. The provisions of clause (B) shall also not apply for purposes of section 216(i)(3). In the case of monthly benefits under this title for months after December 1956 (and any lump-sum death payment under this title with respect to a death occurring after December 1956) based on the wages and self-employment income of a veteran who performed service (as a member of a uniformed service) to which the provisions of section 210(l)(1) are applicable, wages which would, but for the provisions of clause (B), be deemed under

this subsection to have been paid to such veteran with respect to his active military or naval service performed after December 1950 shall be deemed to have been paid to him with respect to such service notwithstanding the provisions of such clause, but only if the benefits referred to in such clause which are based (in whole or in part) on such service are payable solely by the Army, Navy, Air Force, Marine Corps, Coast Guard, Coast and Geodetic Survey or Public Health Service.

(2) Upon application for benefits or a lump-sum death payment on the basis of the wages and self-employment income of any veteran, the Secretary of Health, Education, and Welfare shall make a decision without regard to clause (B) of paragraph (1) of this subsection unless he has been notified by some other agency or instrumentality of the United States that, on the basis of the military or naval service of such veteran on or after July 25, 1947, and prior to January 1, 1957, a benefit described in clause (B) of paragraph (1) has been determined by such agency or instrumentality to be payable by it. If he has not been so notified, the Secretary of Health, Education, and Welfare shall then ascertain whether some other agency or wholly owned instrumentality of the United States has decided that a benefit described in clause (B) of paragraph (1) is payable by it. If any such agency or instrumentality has decided, or thereafter decides, that such a benefit is payable by it, it shall so notify the Secretary of Health, Education, and Welfare, and the Secretary shall certify no further benefits for payment or shall recompute the amount of any further benefits payable, as may be required by paragraph (1) of this subsection.

(3) Any agency or wholly owned instrumentality of the United States which is authorized by any law of the United States to pay benefits, or has a system of benefits which are based, in whole or in part, on military or naval service on or after July 25, 1947, and prior to January 1, 1957, shall, at the request of the Secretary of Health, Education, and Welfare, certify to him, with respect to any veteran, such information as the Secretary deems necessary to carry out his functions under paragraph (2) of this subsection.

(4) For the purposes of this subsection, the term "veteran" means any individual who served in the active military or naval service of the United States at any time on or after July 25, 1947, and prior to January 1, 1957, and who, if discharged or released therefrom, was so discharged or released under conditions other than dishonorable after active service of ninety days or more or by reason of a disability or injury incurred or aggravated in service in line of duty; but such term shall not include any individual who died while in the active military or naval service of the United States if his death was inflicted (other than by an enemy of the United States) as lawful punishment for a military or naval offense.

(f)(1) In any case where a World War II veteran (as defined in subsection (d)(2)) or a veteran (as defined in subsection (e)(4)) has died or shall hereafter die, and his widow or child is entitled under the Civil Service Retirement Act of May 29, 1930, as amended, to an annuity in the computation of which his active military or naval service was included, clause (B) of subsection (a)(1) or clause (B) of subsection (e)(1) shall not operate (solely by reason of such annuity) to make such subsection inapplicable in the case of any monthly

benefit under section 202 which is based on his wages and self-employment income; except that no such widow or child shall be entitled under section 202 to any monthly benefit in the computation of which such service is included by reason of this subsection (A) unless such widow or child after December 1956 waives his or her right to receive such annuity, or (B) for any month prior to the first month with respect to which the Civil Service Commission certifies to the Secretary of Health, Education, and Welfare that (by reason of such waiver) no further annuity will be paid to such widow or child under such Act of May 29, 1930, as amended, on the basis of such veteran's military or civilian service. Any such waiver shall be irrevocable.

(2) Whenever a widow waives her right to receive such annuity such waiver shall constitute a waiver on her own behalf; a waiver by a legal guardian or guardians, or, in the absence of a legal guardian, the person (or persons) who has the child in his care, of the child's right to receive such annuity shall constitute a waiver on behalf of such child. Such a waiver with respect to an annuity based on a veteran's service shall be valid only if the widow and all children, or, if there is no widow, all the children, waive their rights to receive annuities under the Civil Service Retirement Act of May 29, 1930, as amended, based on such veteran's military or civilian service.

(g) (1) There are hereby authorized to be appropriated to the Trust Funds annually, as benefits under this title are paid after June 1956, such sums as the Secretary of Health, Education, and Welfare determines to be necessary to meet the additional costs, resulting from subsections (a), (b), and (e), of such benefits (including lump-sum death payments).

(2) The Secretary shall, before October 1, 1958, determine the amount which would place the Federal Old-Age and Survivors Insurance Trust Fund in the same position in which it would have been at the close of June 30, 1956, if section 210 of this Act, as in effect prior to the Social Security Act Amendments of 1950, and section 217 of this Act (including amendments thereof), had not been enacted. There are hereby authorized to be appropriated to such Trust Fund annually, during the first ten fiscal years beginning after such determination is made, sums aggregating the amount so determined, plus interest accruing on such amount (as reduced by appropriations made pursuant to this paragraph) for each fiscal year beginning after June 30, 1956, at a rate for such fiscal year equal to the average rate of interest (as determined by the Managing Trustee) earned on the invested assets of such Trust Fund during the preceding fiscal year.

GRATUITOUS WAGE CREDITS FOR AMERICAN CITIZENS WHO SERVED IN
THE ARMED FORCES OF ALLIED COUNTRIES

(h)(1) For the purposes of this section, any individual who the Secretary finds—

(A) served during World War II (as defined in subsection (d)(1)) in the active military or naval service of a country which was on September 16, 1940, at war with a country with which the United States was at war during World War II;

(B) entered into such active service on or before December 8, 1941;

(C) was a citizen of the United States throughout such period of service or lost his United States citizenship solely because of his entrance into such service;

(D) had resided in the United States for a period or periods aggregating four years during the five-year period ending on the day of and was domiciled in the United States on the day of, such entrance into such active service; and

(E)(i) was discharged or released from such service under conditions other than dishonorable after active service of ninety days or more or by reason of a disability or injury incurred or aggravated in service in line of duty, or

(ii) died while in such service,

shall be considered a World War II veteran (as defined in subsection (d)(2)) and such service shall be considered to have been performed in the active military or naval service of the United States.

(2) In the case of any individual to whom paragraph (1) applies, proof of support required under section 202 (f) or (h) may be filed at any time prior to the expiration of two years after the date of such individual's death or the date of the enactment of this subsection, whichever is the later.

PAYMENTS AND REPORTS BY STATES

SEC. 218. (e)(1) Each agreement under this section shall provide—

(A) that the State will pay to the Secretary of the Treasury, at such time or times as the Secretary of Health, Education, and Welfare may by regulations prescribe, amounts equivalent to the sum of the taxes which would be imposed by sections 3101 and 3111 of the Internal Revenue Code of 1954 if the services of employees covered by the agreement constituted employment as defined in section 3121 of such code; and

(B) that the State will comply with such regulations relating to payments and reports as the Secretary of Health, Education, and Welfare may prescribe to carry out the purposes of this section.

DEPOSITS IN TRUST FUNDS; ADJUSTMENTS

SEC. 218. (h)(1) All amounts received by the Secretary of the Treasury under an agreement made pursuant to this section shall be deposited in the Trust Funds in the ratio in which amounts are appropriated to such Funds pursuant to subsections (a)(3) and (b)(1) of section 201.

(2) If more or less than the correct amount due under an agreement made pursuant to this section is paid with respect to any payment of remuneration, proper adjustments with respect to the amounts due under such agreement shall be made, without interest, in such manner and at such times as may be prescribed by regulations of the Secretary of Health, Education, and Welfare.

(3) If an overpayment cannot be adjusted under paragraph (2), the amount thereof and the time or times it is to be paid shall be certified by the Secretary of Health, Education, and Welfare to the Managing Trustee, and the Managing Trustee, through the Fiscal Service of the Treasury Department and prior to any action thereon

by the General Accounting Office, shall make payment in accordance with such certification. The Managing Trustee shall not be held personally liable for any payment or payments made in accordance with a certification by the Secretary of Health, Education, and Welfare.

FAILURE TO MAKE PAYMENTS

SEC. 218. (j) In case any State does not make, at the time or times due, the payments provided for under an agreement pursuant to this section, there shall be added, as part of the amounts due, interest at the rate of 6 per centum per annum from the date due until paid, and the Secretary of Health, Education, and Welfare may, in his discretion, deduct such amounts plus interest from any amounts certified by him to the Secretary of the Treasury for payment to such State under any other provision of this Act. Amounts so deducted shall be deemed to have been paid to the State under such other provision of this Act. Amounts equal to the amounts deducted under this subsection are hereby appropriated to the Trust Funds in the ratio in which amounts are deposited in such Funds pursuant to subsection (h)(1).

ADVISORY COUNCIL ON SOCIAL SECURITY FINANCING

SEC. 116. (a) There is hereby established an Advisory Council on Social Security Financing 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.

(b) The Council shall be appointed by the Secretary after February 1957 and before January 1958 without regard to the civil service laws and shall consist of the Commissioner of Social Security, as chairman, and of twelve other persons who shall, to the extent possible, represent employers and employees in equal numbers, and self-employed persons and the public.

(c) (1) The Council is authorized to engage such technical assistance, including actuarial services, as may be required to carry out its functions, and the Secretary shall in addition, make available to the Council such secretarial, clerical, and other assistance and such actuarial and other pertinent data prepared by the Department of Health, Education, and Welfare as it may require to carry out such functions.

(2) Members of the Council, while serving on business of the Council (inclusive of travel time), shall receive compensation at rates fixed by the Secretary, but not exceeding \$50 per day; and shall be entitled to receive actual and necessary traveling expenses and per diem in lieu of subsistence while so serving away from their places of residence.

(d) The Council shall make a report of its findings and recommendations (including recommendations for changes in the tax rates in sections 1401, 3101, and 3111 of the Internal Revenue Code of 1954) 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, such report to be submitted not later than January 1, 1959, after which date such Council shall cease to exist.

Such findings and recommendations shall be included in the annual report of the Board of Trustees to be submitted to the Congress not later than March 1, 1959.

(e) During 1963, 1966, and every fifth year thereafter, the Secretary shall appoint an Advisory Council on Social Security Financing, with the same functions, and constituted in the same manner, as prescribed in the preceding subsections of this section. Each such Council shall report its findings and recommendations, as prescribed in subsection (d), not later than January 1, of the second year after the year in which it is appointed, after which date such Council shall cease to exist, and such report and recommendations shall be included in the annual report of the Board of Trustees to be submitted to the Congress not later than the March 1 following such January 1.

(f) The Advisory Council appointed under subsection (e) during 1963 shall, in addition to the other findings and recommendations it is required to make, include in its report its findings and recommendations with respect to extensions of the coverage of the old-age, survivors, and disability insurance program, the adequacy of benefits under the program, and all other aspects of the program.

APPENDIX IV. ILLUSTRATION OF THE OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND IN THE UNLIKELY EVENT OF A SHARP REDUCTION IN THE LEVEL OF ECONOMIC ACTIVITY IN THE SHORT-RANGE FUTURE

As indicated in the main body of this report, the forecasts appearing in tables 12 through 18 are based on the assumption that economic activity will expand normally throughout the period 1964-69. Estimates have been presented in previous reports of the Board of Trustees to show the effects on the operations and status of the old-age and survivors insurance trust fund in the unlikely event of a sharp reduction in the level of economic activity during the next 5 calendar years, with a relatively high rate of unemployment during the entire period. Under this assumption, contributions would be lower and benefit payments would be higher than estimated under high employment conditions.

The lower the level of employment during the next 5 years, the larger will be the volume of benefit payments to retired workers and to their eligible dependents. Under the hypothetical lower employment conditions, it is estimated that larger proportions of eligible workers would be obliged to leave employment, especially at ages 62 to 69. Hence, despite a slightly smaller number of eligible workers, the number receiving old-age (primary) benefits under this assumption would considerably exceed that under high-employment conditions. Moreover, it is expected that the average old-age (primary) benefit amount payable would be somewhat larger inasmuch as many of the more steadily employed, higher paid older workers, who would not withdraw from employment under high-employment conditions, would not be in employment under these assumed conditions.

On the other hand, the amount paid out for survivor benefits over the short-range future will not be affected significantly by variations in economic conditions. While the larger the volume of employment, the larger will be the number of workers who are insured under the program, and therefore the larger will be the number of deaths which

will give rise to valid claims for survivor benefits, such a high employment situation will tend to have counterbalancing effects such as that of inducing many of the widows and older children eligible for survivor benefits to forgo them by working.

No specific estimate of this type has been prepared for this report, but the demonstration from last year's report showing that the trust fund could weather an extremely severe, unlikely depression remains valid, and in fact the trust fund is in even a stronger position now.

APPENDIX V. THE STATUS OF THE SOCIAL SECURITY PROGRAM AND
RECOMMENDATIONS FOR ITS IMPROVEMENT—A REPORT OF THE
ADVISORY COUNCIL ON SOCIAL SECURITY

LETTER OF TRANSMITTAL

JANUARY 1, 1965.

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

GENTLEMEN: As required by section 116 of the Social Security Amendments of 1956 there is transmitted herewith the report of the Advisory Council on Social Security appointed in 1963. The report, as directed by law, includes the Council's findings and recommendations with respect to the financing of the old-age, survivors, and disability insurance program, and all other aspects of the program, including extensions of coverage and the adequacy of benefits.

Sincerely yours,

ROBERT M. BALL,
Chairman, Advisory Council on Social Security.

FOREWORD

As required by law, this Advisory Council was appointed by the Secretary of Health, Education, and Welfare in 1963. It is the second Advisory Council appointed under the Social Security Amendments of 1956. The first was appointed in 1957 and made its report on January 1, 1959. Under the law other advisory councils are to be appointed in 1966 and every fifth year thereafter.

Like the preceding Council and the councils to be appointed in the future, the present Council is required to review 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 social security program and to make a report of its findings and recommendations, including recommendations for changes in the social security tax rates. In addition, however, the law gives the present Council a special mandate; it provides that the Council "shall, in addition to the other findings and recommendations it is required to make, include in its report its findings and recommendations with respect to extensions of the coverage of the old-age, survivors, and disability insurance program, the adequacy of benefits under the program, and all other aspects of the program."

This Council, although only the second in the series established by the 1956 amendments, is the sixth major advisory group to consider social security in a long tradition of seeking advice and guidance from expert opinion and from those affected by the program. The first of these advisory groups played an important role in shaping the recommendations of the Executive Branch that led to the creation of the social security program in 1935. Additional groups appointed in 1938 and 1948 made broad studies of social security, and their recommendations played an important part in shaping the present program. A group appointed in 1953 dealt with extensions of coverage, and the one appointed in 1957 dealt only with financing.