

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUNDS DURING
THE PERIOD JULY 1, 1976, TO DECEMBER 31, 1981

In the following statement of the expected operations and status of the trust funds during the period July 1, 1976, to December 31, 1981, it is assumed that present statutory provisions affecting the old-age, survivors, and disability insurance program will remain unchanged in the period 1977-81. The income and outgo under the program are affected by general economic conditions as well as by legislative provisions. Economic conditions, of course, affect the levels of employment and taxable earnings. Under the automatic increase provisions in the law, economic conditions also directly affect benefit levels, the contribution and benefit base (i.e., the maximum annual amount of earnings taxable and creditable toward benefits), and the annual exempt amount under the retirement test (i.e., the maximum amount a beneficiary may earn in a year and still receive all of his benefits for the year).

Under the automatic provisions, benefits increase in accordance with increases in the Consumer Price Index (CPI). In the year immediately following each year in which an automatic benefit increase becomes effective, the contribution and benefit base, and the amount of earnings exempted from the withholding of benefits under the retirement test, automatically increase in proportion to the increase in average wages in covered employment. An automatic cost-of-living benefit increase of 6.4 percent, effective for June 1976, was established in May 1976, as described in appendix B. Following this benefit increase, automatic increases in the contribution and benefit base, from \$15,300 in 1976 to \$16,500 in 1977, and in the annual exempt amount under the retirement test, from \$2,760 in 1976 to \$3,000 in 1977, were established in October 1976, as described in appendix C.

Statements about expected operations of the trust funds should be read with full recognition of the difficulties of estimating future income and outgo under changing economic conditions. Due to the uncertainty of future economic developments, any projection of economic conditions over a 5-year period may be subject to substantial error. As previously suggested, estimates of future income and outgo of the trust funds are highly sensitive to assumed economic conditions. Because of this, and because of the uncertainties inherent in forecasting other events affecting trust fund income and outgo, the future operations of the trust funds, as actual experience emerges, cannot be expected to match exactly the estimates shown in this section. In order to indicate the general range of future trust fund operations under differing sets of economic assumptions, estimates based on three alternative sets of economic assumptions are presented in this section.

Under the three sets of assumptions, designated as alternatives I, II, and III, the real level of economic activity is assumed to grow at differing rates during the period 1977-81. The economic recovery from the recession that began in 1974 is assumed to continue at a moderate rate under alternative II and at a somewhat faster rate after 1977 under the more optimistic assumptions of alternative I. Under the more pessimistic assumptions of alternative III, a pronounced slow-down in economic growth is assumed to occur after 1977, with a higher rate of economic growth resuming in 1980.

The different patterns of economic conditions under the three alternatives are reflected in the assumed rates of growth in real gross national product (GNP) (see footnote 1 of table 10), and in the assumed rates of unemployment, that are shown in table 10 for calendar years 1977-81. The assumed increases in average wages in covered employment and the assumed future path of the CPI are also shown in table 10.

TABLE 10.—ASSUMED PERCENTAGE INCREASE OVER PRIOR YEAR IN AVERAGE ANNUAL REAL GNP, IN AVERAGE ANNUAL WAGES, AND IN AVERAGE ANNUAL CPI, AND ASSUMED AVERAGE ANNUAL UNEMPLOYMENT RATE, UNDER THREE ALTERNATIVE SETS OF ASSUMPTIONS, CALENDAR YEARS 1976-81

Calendar year	Percentage increase in average annual—			Average annual unemployment rate (percent)
	Real GNP ¹	Wages	CPI	
Alternative I:				
1976.....	6.2	7.5	5.8	7.7
1977.....	5.4	8.4	6.0	7.1
1978.....	5.5	8.2	5.3	6.3
1979.....	5.9	7.9	4.6	5.6
1980.....	5.4	6.6	4.1	5.0
1981.....	4.6	5.8	3.4	4.5
Alternative II:				
1976.....	6.2	7.5	5.8	7.7
1977.....	5.4	8.4	6.0	7.1
1978.....	5.4	8.1	5.4	6.3
1979.....	5.2	7.8	5.3	5.7
1980.....	5.1	7.1	4.7	5.2
1981.....	3.8	6.4	4.1	5.0
Alternative III:				
1976.....	6.2	7.5	5.8	7.7
1977.....	5.4	8.4	6.0	7.1
1978.....	5.0	7.9	5.7	6.4
1979.....	1.7	8.1	7.6	6.6
1980.....	3.4	8.2	5.9	6.6
1981.....	3.8	7.0	5.1	6.3

¹ Based on GNP expressed in 1972 dollars (i.e., total output of goods and services adjusted for inflation since 1972).

The foregoing assumptions result in the following changes under the automatic provisions of the law for each year 1978-81 (amounts for 1977 are also shown as a basis for comparison):

Year	General benefit increase ¹ under alternative—			Contribution and benefit base ²		Annual exempt amount under the retirement test ²	
	I	II	III	I and II	III	I and II	III
1977.....	5.9%	5.9%	5.9%	\$16,500	\$16,500	\$3,000	\$3,000
1978.....	5.5	5.5	5.5	17,700	17,700	3,240	3,240
1979.....	4.8	5.2	6.9	18,900	18,900	3,480	3,480
1980.....	4.5	5.0	6.8	20,400	20,400	3,720	3,720
1981.....	3.6	4.2	5.2	21,900	22,200	3,960	4,080

¹ Effective with benefits for June of the stated year.

² The amounts, which become effective on January 1 of the stated year, are the same for each year through 1980 under all three sets of assumptions, and for 1981 under alternatives I and II, because of the rounding procedures specified in the automatic increase provisions of the law.

In preparing the intermediate set of assumptions (alternative II), the economic assumptions for 1977 and 1978 that appear on page 10 of the President's 1978 Budget Revisions document were adopted with one exception. A greater increase in the average annual CPI in 1977 is assumed in this report, partly because of the severe weather conditions during the past winter, and the resulting effects on food and fuel

prices. As a result of the recent higher increases in the CPI, the automatic benefit increase for June 1977, which was determined to be 5.9 percent after the Revised Budget was completed, is higher than the 4.9-percent increase assumed for the Revised 1978 Budget. (The official government projections of economic conditions in calendar years 1977 and 1978 were revised late in April 1977—after the economic assumptions, and the resulting estimates, that are presented in this report were prepared. The use of the revised assumptions would not have a very significant effect on the results shown in this report.)

For 1979–81, the assumed rate of growth in real GNP under the intermediate assumptions remains above 5 percent until 1981, when the unemployment rate is assumed to reach the 5-percent level. It is further assumed that the rate of increase in average wages in covered employment will fall below 6½ percent by 1981, while the rate of increase in the average annual CPI will decline to about 4 percent by 1981, under the intermediate assumptions.

Under alternative I, the assumed annual percentage increases in real GNP and in average wages in covered employment during the years 1978–81 are higher than under alternative II. The assumed rate of unemployment during 1979–81 and the annual percentage increase in CPI during 1978–81 are lower under alternative I than under alternative II.

The assumptions of alternative III are presented in this report in order to show estimates of the operations of the trust funds under a set of less favorable economic conditions. As a result of the assumed slowdown in economic growth in 1978 and 1979, the rate of unemployment remains above 6 percent through 1981. Because of an assumed higher rate of inflation, gains in average real wages are lower under alternative III than under the intermediate assumptions.

Estimates of the operations and status of the old-age and survivors insurance trust fund during calendar years 1977–81 are shown in table 11 for each of the three alternative sets of assumptions. Actual data for calendar year 1976 are also shown in the table. Under each alternative, it is assumed that employment and earnings will increase in every year through 1981. The number of persons with taxable earnings under the old-age, survivors, and disability insurance program is expected to increase from 104 million with such earnings during calendar year 1976 to about 119 million during calendar year 1981 under the intermediate assumptions. Under alternatives I and III, the number of persons with taxable earnings is estimated to reach 120 million and 116 million, respectively, by 1981. The total annual amount of taxable earnings is expected to increase from \$738 billion in 1976 to \$1,214 billion in 1981 under the intermediate assumptions. Under alternatives I and III, taxable earnings in 1981 are estimated to be \$1,219 billion and \$1,203 billion, respectively. These increases are due to the projected increases in (1) employment levels, (2) average earnings in covered employment, and (3) the maximum taxable amount of annual earnings, which rises under the automatic provisions in accordance with increases in average wages.

The rise in estimated income shown in table 11 under each set of assumptions reflects the increases in estimated taxable earnings under the different alternatives, as described above. In addition, the estimated income to the fund is affected by the changes in allocation of the contribution rates between the old-age and survivors insurance and

disability insurance trust funds scheduled for January 1 of 1978 and 1981 (table 1).

TABLE 11.—ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING CALENDAR YEARS 1976-81 UNDER THREE ALTERNATIVE SETS OF ASSUMPTIONS
(Amounts in billions)

Calendar year	Income	Disbursements	Net increase in fund	Fund at end of year	Fund at beginning of year as a percentage of disbursements during year
Alternative I:					
1976 ¹	\$66.3	\$67.9	-\$1.6	\$35.4	54
1977.....	72.5	75.7	-3.2	32.2	47
1978.....	79.8	83.9	-4.0	28.2	38
1979.....	88.1	91.9	-3.8	24.4	31
1980.....	96.5	100.0	-3.5	20.9	24
1981.....	103.3	108.2	-4.9	16.1	19
Alternative II:					
1976 ¹	66.3	67.9	-1.6	35.4	54
1977.....	72.5	75.7	-3.2	32.2	47
1978.....	79.8	83.9	-4.1	28.2	38
1979.....	87.7	92.1	-4.4	23.8	31
1980.....	96.1	100.6	-4.5	19.3	24
1981.....	102.8	109.4	-6.7	12.7	18
Alternative III:					
1976 ¹	66.3	67.9	-1.6	35.4	54
1977.....	72.5	75.7	-3.2	32.2	47
1978.....	79.7	83.9	-4.2	28.1	38
1979.....	86.5	92.9	-6.3	21.7	30
1980.....	94.3	103.2	-8.9	12.8	21
1981.....	101.3	113.8	-12.5	0.3	11

¹ Figures for 1976 represent actual experience.

Note: Totals do not necessarily equal the sum of rounded components. The assumptions underlying the estimates are described in the accompanying text and in table 10.

Rising disbursements during calendar years 1977-81 reflect the effects of the assumed future automatic benefit increases previously shown, as well as the long-range upward trend in the numbers of beneficiaries and in the amounts of average monthly earnings underlying benefits payable under the program. The estimates also reflect the effects of eliminating the requirement in the law, which the Supreme Court has held to be unconstitutional, that a husband or a widower must have been receiving at least one-half of his support from his wife in order to become entitled to husband's or widower's benefits. In each calendar year during the period 1977-81, outgo from the old-age and survivors insurance trust fund is estimated to exceed income under all three alternatives.

The assets of the trust fund at the beginning of calendar year 1976 were equal to about 54 percent of expenditures during the year 1976. By the beginning of 1977, the assets of the fund had declined to 47 percent of estimated expenditures in 1977. By the beginning of 1981, the fund's assets are estimated to decrease to 19 percent, 18 percent, and 11 percent of annual expenditures under alternatives I, II, and III, respectively. Under the intermediate assumptions, it is estimated that the trust fund will be exhausted in 1983. The trust fund would be exhausted in 1984 under alternative I and in 1982 under alternative III.

The growth in the number of beneficiaries in the past and the expected growth in the future results partly from the increase in the aged population and partly from two other factors—(1) in each succeeding year a larger proportion of the persons attaining age 65 became eligible for benefits, and (2) the amendments during the period 1950-73 liberalized the eligibility provisions and extended coverage to new categories of employment.

In addition, there has been a growth in the proportion of eligible persons who receive benefits. This growth is due to several factors, among which are (1) the amendments enacted during the period 1950-73 which affect the conditions governing the receipt of benefits, and (2) the increasing percentage of eligible persons who are aged 72 and over and who therefore receive benefits regardless of earnings.

The expected operations and status of the disability insurance trust fund during calendar years 1977-81 under the three sets of assumptions are shown in table 12, together with figures on actual experience in 1976. Income will increase during calendar years 1977-81, under each alternative, reflecting the same factors, insofar as they apply to income to the disability insurance trust fund, that are reflected in the increase in income to the old-age and survivors insurance trust fund during the same period. Income will also rise as a result of the scheduled increases in the combined employee-employer contribution rate allocated for disability insurance, from 1.15 percent to 1.20 percent on January 1, 1978, and from 1.20 percent to 1.30 percent on January 1, 1981, and accompanying increases in contribution rates for self-employed persons. (These increases are exactly counter-balanced by decreases in the rates allocated for old-age and survivors insurance.)

Disbursements will increase because of automatic benefit increases and because of increases in the numbers of beneficiaries and in the amounts of average monthly earnings on which benefits are based. Projected increases in the number of beneficiaries reflect assumed continued increases in disability incidence rates. Under all three sets of assumptions, disbursements are expected to exceed income in every year until the disability insurance trust fund is exhausted in 1979. Projections representing the theoretical operations of the trust fund in 1979-81 are shown in table 12 for informational purposes.

TABLE 12.—ESTIMATED OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING CALENDAR YEARS 1976-81 UNDER THREE ALTERNATIVE SETS OF ASSUMPTIONS

Calendar year	Income Disbursements		Net increase in fund	Fund at end of year	Fund at beginning of year as a percentage of disbursements during year
[Amounts in billions]					
Alternative I:					
1976 ¹	\$8.8	\$10.4	-\$1.6	\$5.7	71
1977	9.6	12.1	-2.5	3.3	48
1978	10.9	13.6	-2.8	0.5	24
1979 ²	11.9	15.3	-3.5	-3.0	3
1980 ²	12.8	17.2	-4.4	-7.4	(³)
1981 ²	14.7	19.2	-4.5	-11.9	(³)
Alternative II:					
1976 ¹	8.8	10.4	-1.6	5.7	71
1977	9.6	12.1	-2.5	3.3	48
1978	10.8	13.6	-2.8	0.5	24
1979 ²	11.8	15.4	-3.5	-3.1	3
1980 ²	12.7	17.4	-4.6	-7.7	(³)
1981 ²	14.6	19.5	-4.9	-12.5	(³)
Alternative III:					
1976 ¹	8.8	10.4	-1.6	5.7	71
1977	9.6	12.1	-2.5	3.3	48
1978	10.8	13.7	-2.8	0.4	24
1979 ²	11.7	15.5	-3.9	-3.4	3
1980 ²	12.5	17.9	-5.4	-8.8	(³)
1981 ²	14.4	20.3	-6.0	-14.8	(³)

¹ Figures for 1976 represent actual experience.

² Figures for 1979-81 are theoretical because it is estimated that the disability insurance trust fund will be exhausted in 1979.

³ Fund exhausted in 1979.

Note: Totals do not necessarily equal the sum of rounded components. The assumptions underlying the estimates are described in the accompanying text and in table 10.

The expected operations and status of the old-age and survivors insurance and disability insurance trust funds, combined, during each calendar year 1977-81, under the three alternatives, are shown in table 13, together with figures on actual experience in 1976. Although the estimates under each of the three alternatives show that the disability insurance trust fund is exhausted in 1979, figures for each year 1979-81 are shown in table 13 for informational purposes. Without legislation changing the allocation of the contribution rates to each trust fund, none of the estimated income to the old-age and survivors insurance trust fund can be allocated to the disability insurance trust fund; thus, the figures shown in table 13 for 1979-81 are theoretical, representing arithmetical addition of the figures shown in tables 11 and 12.

TABLE 13.—ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, COMBINED, DURING CALENDAR YEARS 1976-81 UNDER THREE ALTERNATIVE SETS OF ASSUMPTIONS

[Amounts in billions]

Calendar year	Income	Disbursements	Net increase in funds	Funds at end of year	Funds at beginning of year as a percentage of disbursements during year
Alternative I:					
1976 ¹	\$75.0	\$78.2	-\$3.2	\$41.1	57
1977.....	82.1	87.7	-5.6	35.5	47
1978.....	90.7	97.5	-6.8	28.7	36
1979 ²	100.0	107.2	-7.3	21.4	27
1980 ²	109.3	117.2	-7.9	13.5	18
1981 ²	118.0	127.4	-9.4	4.1	11
Alternative II:					
1976 ¹	75.0	78.2	-3.2	41.1	57
1977.....	82.1	87.7	-5.6	35.5	47
1978.....	90.7	97.5	-6.9	28.6	36
1979 ²	99.5	107.4	-7.9	20.7	27
1980 ²	108.9	118.0	-9.1	11.6	18
1981 ²	117.4	128.9	-11.5	0.1	9
Alternative III:					
1976 ¹	75.0	78.2	-3.2	41.1	57
1977.....	82.1	87.7	-5.6	35.5	47
1978.....	90.5	97.5	-7.0	28.5	36
1979 ²	98.2	108.4	-10.2	18.3	26
1980 ²	106.7	121.1	-14.3	3.9	15
1981 ²	115.7	134.1	-18.4	-14.5	3

¹ Figures for 1976 represent actual experience.

² Because the disability insurance trust fund is exhausted in 1979 under each alternative, and because none of the estimated income to one trust fund can be allocated to the other trust fund, under present law, the figures for 1979-81 are theoretical, representing arithmetical addition of figures shown in tables 11 and 12.

Note: Totals do not necessarily equal the sum of rounded components. The assumptions underlying the estimates are described in the accompanying text and in table 10.

Expenditures in calendar year 1976, from both trust funds combined, were 10.85 percent of taxable earnings for the year—0.95 percent more than the combined employee-employer contribution rate of 9.90 percent. During calendar years 1977-81, expenditures from both trust funds, combined, are estimated to fluctuate within a relatively narrow range of 10.80-10.91 percent of taxable earnings, under the intermediate set of assumptions. These percentages, as well as the percentages under alternatives I and III, are shown in table 14 for both trust funds combined and for each trust fund separately. Table 14 also shows a comparison of each of the percentages with the corresponding combined employee-employer contribution rate. Since it is estimated that the disability insurance trust fund will be exhausted in 1979, the 1979-81 figures for that trust fund and for both trust funds combined—shown in table 14 for informational purposes—are theoretical.

TABLE 14.—EXPENDITURES FROM THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS AS A PERCENTAGE OF TAXABLE PAYROLL COMPARED WITH COMBINED EMPLOYEE-EMPLOYER CONTRIBUTION RATES, FOR CALENDAR YEARS 1976-81 UNDER THREE ALTERNATIVE SETS OF ASSUMPTIONS

Calendar year	Old-age and survivors insurance trust fund			Disability insurance trust fund			Old-age and survivors insurance and disability insurance trust funds, combined		
	Expenditures as a percentage of taxable payroll ¹	Combined employee-employer contribution rate	Difference ²	Expenditures as a percentage of taxable payroll ¹	Combined employee-employer contribution rate	Difference ²	Expenditures as a percentage of taxable payroll ¹	Combined employee-employer contribution rate	Difference ²
Alternative I:									
1976 ³	9.41	8.75	-0.66	1.44	1.15	-0.29	10.85	9.90	-0.95
1977	9.40	8.75	-0.65	1.50	1.15	-0.35	10.91	9.90	-1.01
1978	9.36	8.70	-0.66	1.53	1.20	-0.33	10.89	9.90	-0.99
1979	9.25	8.70	-0.55	1.54	1.20	-0.34	10.79	9.90	-0.89
1980	9.13	8.70	-0.43	1.58	1.20	-0.38	10.70	9.90	-0.80
1981	9.09	8.60	-0.49	1.62	1.30	-0.32	10.71	9.90	-0.81
Alternative II:									
1976 ³	9.41	8.75	-0.66	1.44	1.15	-0.29	10.85	9.90	-0.95
1977	9.40	8.75	-0.65	1.50	1.15	-0.35	10.91	9.90	-1.01
1978	9.37	8.70	-0.67	1.53	1.20	-0.33	10.89	9.90	-0.99
1979	9.30	8.70	-0.60	1.55	1.20	-0.35	10.86	9.90	-0.96
1980	9.21	8.70	-0.51	1.59	1.20	-0.39	10.80	9.90	-0.90
1981	9.24	8.60	-0.64	1.65	1.30	-0.35	10.88	9.90	-0.98
Alternative III:									
1976 ³	9.41	8.75	-0.66	1.44	1.15	-0.29	10.85	9.90	-0.95
1977	9.40	8.75	-0.65	1.50	1.15	-0.35	10.91	9.90	-1.01
1978	9.38	8.70	-0.68	1.53	1.20	-0.33	10.91	9.90	-1.01
1979	9.52	8.70	-0.82	1.59	1.20	-0.39	11.11	9.90	-1.21
1980	9.62	8.70	-0.92	1.67	1.20	-0.47	11.28	9.90	-1.38
1981	9.68	8.60	-1.08	1.73	1.30	-0.43	11.41	9.90	-1.51

¹ Percentage takes into account (1) the lower contribution rate payable by the self-employed compared with combined employee-employer rate, (2) employee contributions subject to refund, and (3) that only the employee contribution is payable on tips taxable as wages. Expenditures are adjusted to exclude payments to certain noninsured persons aged 72 and over with less than three quarters of coverage, costs of which are financed from the general fund of the Treasury.

² Represents difference between tax contribution income and total outgo, as a percentage of taxable payroll, and therefore excludes the effects of other sources of income (principally interest income). Total income and outgo during 1976-81 are shown in tables 11-13.

³ Percentages for 1976, though based on actual experience, are preliminary and subject to revision.

As stated previously, estimates of the operations of the trust funds during calendar years 1977-81 have been presented in the preceding tables of this section under three different sets of economic assumptions because of the uncertainty of future economic developments. Under the provisions of the Social Security Act, it is required that estimates of the expected operations and status of the trust funds during the next 5 fiscal years be shown in this report. In accordance with these statutory provisions, detailed estimates of the expected operations and status of the trust funds during each fiscal year 1977-81 are shown in the remaining tables of this section for the intermediate set of assumptions (alternative II) only. Similar detailed estimates under the intermediate assumptions are also shown, as in previous annual reports, on a calendar year basis for the period 1977-81.

Data on the actual operations of the old-age and survivors insurance trust fund for selected years during the period 1940-76, and estimates of the expected operations of the trust funds during 1977-81 under the intermediate set of assumptions, are shown in tables 15 and 16 on a fiscal year basis and a calendar year basis, respectively. Corresponding figures on the operations of the disability insurance trust fund during the period 1960-81 are shown in tables 17 and 18¹. Operations of both trust funds combined are shown in tables 19 and 20.

¹Data relating to the operations of the two trust funds for years not shown in tables 15-18 are contained in earlier annual reports.

TABLE 15.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING SELECTED FISCAL YEARS 1940-76 AND ESTIMATED FUTURE OPERATIONS DURING FISCAL YEARS 1977-81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS

[In millions]

Fiscal year ¹	Transactions during period										Fund at end of period	
	Income					Disbursements						
	Total	Contributions, less refunds	Reimbursements from general fund of Treasury for costs of—		Interest on investments ²	Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses ²	Transfers to railroad retirement account		Net increase in fund
			Noncontributory credits for military service	Payments to non-insured persons aged 72 and over								
Past experience:												
1940.....	\$592	\$550			\$42	\$28	\$16		\$12		\$564	\$1,745
1945.....	1,434	1,310			124	267	240	27			1,167	6,613
1950.....	2,367	2,106	\$4		257	784	727	57			1,583	12,893
1955.....	5,525	5,087			438	4,427	4,333	103	-\$10		1,098	21,141
1960.....	10,360	9,843			517	11,073	10,270	202	600		-713	20,829
1965.....	16,443	15,857			586	15,962	15,226	300	436		482	20,180
1966.....	18,461	17,866			595	18,769	18,071	254	444		-308	19,872
1967.....	23,371	22,567	78		726	19,728	18,886	(3)	334	508	3,643	23,515
1968.....	23,640	22,662	78		899	21,622	20,737	(3)	447	438	2,018	25,533
1969.....	27,348	25,953	156	\$226	1,014	24,690	23,732	\$2	465	491	2,658	28,191
1970.....	31,746	29,955	78	364	1,350	27,321	26,267	1	474	579	4,425	32,616
1971.....	33,982	31,915	78	371	1,618	32,268	31,101	2	552	613	1,714	34,331
1972.....	37,917	35,711	137	351	1,719	35,849	34,541	2	582	724	2,068	36,399
1973.....	43,639	41,318	138	337	1,847	43,623	42,170	2	667	783	17	36,416
1974.....	50,936	48,455	139	303	2,039	49,485	47,849	4	723	909	1,451	37,867
1975.....	58,757	56,017	140	307	2,292	56,676	54,839	8	848	982	2,081	39,948
1976.....	62,327	59,555	157	268	2,347	64,295	62,140	7	935	1,212	-1,968	37,980
July-September 1976.....	16,186	16,106			80	17,111	16,876	2	234		-925	37,055
Estimated future experience ⁴:												
1977.....	71,404	68,468	378	236	2,322	73,643	71,298	8	1,056	1,281	-2,239	34,816
1978.....	78,443	75,728	385	228	2,102	81,952	79,241	7	1,165	1,539	-3,509	31,307
1979.....	86,352	83,948	378	233	1,793	90,012	87,439	8	1,141	1,424	-3,660	27,647
1980.....	94,445	92,425	381	169	1,470	98,396	95,765	8	1,200	1,423	-3,951	23,696
1981.....	101,389	99,690	385	147	1,167	107,256	104,544	8	1,262	1,442	-5,867	17,829

¹ Under the Congressional Budget Act of 1974 (Public Law 93-344), fiscal years 1977 and later consist of the 12 months ending on September 30 of each year. The act further provides that the calendar quarter July-September 1976 is a period of transition from fiscal year 1976, which ended on June 30, 1976, to fiscal year 1977, which began on October 1, 1976.

² Interest on investments includes net profits on marketable investments. Beginning in 1967, administrative expenses incurred under the old-age and survivors insurance program are charged currently to the appropriate trust fund on an estimated basis, with a final adjustment, including interest, made in the following fiscal year. The amounts of these interest adjustments are included in interest on investments. For years prior to 1967, a description of the method of accounting for adminis-

trative expenses is contained in the 1970 Annual Report of the Board of Trustees.

³ Less than \$500,000.

⁴ In interpreting the estimates, reference should be made to table 10 and the accompanying text which describe the underlying assumptions.

⁵ Includes \$3,000,000 as a single reimbursement for the estimated total costs of granting non-contributory wage credits to individuals who were interned during World War II at a place within the United States operated by the Federal Government for the internment of persons of Japanese ancestry.

TABLE 16.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING SELECTED CALENDAR YEARS 1940-76 AND ESTIMATED FUTURE OPERATIONS DURING CALENDAR YEARS 1977-81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS

[In millions]

Calendar year	Transactions during period										Fund at end of period	
	Income					Disbursements						
	Total	Contributions, less refunds	Reimbursements from general fund of Treasury for costs of—		Interest on investments	Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to railroad retirement account		Net increase in fund
			Noncontributory credits for military service	Payments to non-insured persons aged 72 and over								
Past experience:												
1940	\$368	\$325			\$43	\$62	\$35		\$26		\$306	\$2,031
1945	1,420	1,285			134	304	274		30		1,116	7,121
1950	2,928	2,667	\$4		257	1,022	961		61		1,905	13,721
1955	6,167	5,713			454	5,079	4,968		119	-\$7	1,087	21,663
1960	11,382	10,866			516	11,198	10,677		203	318	184	20,324
1965	16,610	16,017			593	17,501	16,737		328	436	-890	18,235
1966	21,302	20,580	78		644	18,967	18,267	(1)	256	444	2,335	20,570
1967	24,034	23,138	78		818	20,382	19,468	(1)	406	508	3,652	24,222
1968	25,040	23,719	156	\$226	939	23,557	22,642	\$1	476	438	1,483	25,704
1969	29,554	27,947	78		1,165	25,176	24,209	1	474	491	4,378	30,082
1970	32,220	30,256	78		1,515	29,848	28,796	2	471	579	2,371	32,454
1971	35,877	33,723	137		1,667	34,542	33,413	2	514	613	1,335	33,789
1972	40,050	37,781	138		1,794	38,522	37,122	2	674	724	1,528	35,318
1973	48,344	45,975	139		1,928	47,175	45,741	3	647	783	1,169	36,487
1974	54,688	52,081	140		2,159	53,397	51,618	5	865	909	1,291	37,777
1975	59,605	56,816	157		2,364	60,395	58,509	9	896	982	-790	36,987
1976	66,276	63,362	378		2,301	67,876	65,699	6	959	1,212	-1,600	35,388
Estimated future experience:												
1977	72,501	69,671	385	228	2,217	75,652	73,262	7	1,102	1,281	-3,151	32,237
1978	79,805	77,245	378	233	1,949	83,886	81,185	7	1,155	1,539	-4,081	28,156
1979	87,728	85,547	381	169	1,631	92,089	89,505	8	1,152	1,424	-4,361	23,795
1980	96,138	94,285	385	147	1,321	100,595	97,950	8	1,214	1,423	-4,457	19,338
1981	102,767	101,308	387	128	944	109,448	106,723	8	1,275	1,442	-6,681	12,657

¹ Less than \$500,000.

Note: In interpreting the above, reference should be made to the footnotes in table 15.

TABLE 17.—OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING SELECTED FISCAL YEARS 1960-76 AND ESTIMATED FUTURE OPERATIONS DURING FISCAL YEARS 1977-81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS

[In millions]

Fiscal year ¹	Transactions during period										
	Income				Disbursements						
	Total	Contributions, less refunds	Reimbursements from general fund of Treasury for costs of noncontributory credits for military service	Interest on investments ²	Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses ³	Transfers to railroad retirement account	Net increase in fund	Fund at end of period
Past experience ⁴ :											
1960	\$1,034	\$987		\$47	\$533	\$528		\$32	-\$27	\$501	\$2,167
1965	1,237	1,175		62	1,495	1,392		79	24	-257	2,007
1966	1,611	1,557		54	1,931	1,721	\$1	183	25	-321	1,686
1967	2,332	2,249	\$16	67	1,997	1,861	7	99	31	335	2,022
1968	2,800	2,699	16	85	2,236	2,088	15	112	20	564	2,585
1969	3,705	3,532	32	141	2,613	2,443	15	133	21	1,092	3,678
1970	4,380	4,141	16	223	2,954	2,778	16	149	10	1,426	5,104
1971	4,911	4,569	16	325	3,606	3,381	21	190	13	1,305	6,408
1972	5,291	4,853	50	388	4,309	4,046	28	212	24	982	7,390
1973	5,947	5,461	51	435	5,467	5,162	39	247	20	479	7,869
1974	6,768	6,234	52	482	6,385	6,159	50	154	22	383	8,253
1975	7,920	7,356	52	512	7,982	7,630	71	253	29	-62	8,191
1976	8,355	7,797	90	468	9,606	9,222	92	266	26	-1,251	6,939
July-September 1976	2,172	2,159		13	2,653	2,555	27	71		-481	6,459
Estimated future experience ⁴ :											
1977	9,481	8,998	103	380	11,663	11,147	87	391	38	-2,182	4,277
1978	10,646	10,308	128	210	13,255	12,742	77	393	43	-2,609	1,668
1979 ⁵	11,699	11,581	118	0	14,882	14,356	81	406	39	-3,183	-1,515
1980 ⁵	12,635	12,747	121	-233	16,841	16,298	86	428	29	-4,206	-5,721
1981 ⁵	14,284	14,701	124	-541	18,959	18,396	90	450	23	-4,675	-10,396

¹ Under the Congressional Budget Act of 1974 (Public Law 93-344), fiscal years 1977 and later consist of the 12 months ending on September 30 of each year. The act further provides that the calendar quarter July-September 1976 is a period of transition from fiscal year 1976, which ended on June 30, 1976, to fiscal year 1977, which began on October 1, 1976.

² Interest on investments includes net profits on marketable investments. Beginning in 1967, administrative expenses incurred under the disability insurance program are charged currently to the trust fund on an estimated basis, with a final adjustment, including interest, made in the following fiscal year. The amounts of these interest adjustments are included in interest on investments. For years prior to 1967, a description of the method of accounting for administrative expenses is contained

in the 1970 Annual Report of the Board of Trustees. Negative figures for 1980 and 1981 represent theoretical payments of interest from the trust fund on amounts that are borrowed to pay expenditures.

³ The financial operations of the disability insurance trust fund began in the latter half of fiscal year 1957.

⁴ In interpreting the estimates, reference should be made to table 10 and the accompanying text which describe the underlying assumptions.

⁵ Figures for 1979-81 are theoretical because the disability insurance trust fund is exhausted in fiscal year 1979.

TABLE 18.—OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND DURING SELECTED CALENDAR YEARS 1960-76 AND ESTIMATED FUTURE OPERATIONS DURING CALENDAR YEARS 1977-81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS

[In millions]

Calendar year	Transactions during period										
	Income				Disbursements						
	Total	Contributions, less refunds	Reimbursements from general fund of Treasury for costs of noncontributory credits for military service	Interest on investments	Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to railroad retirement account	Net increase in fund	Fund at end of period
Past experience:											
1960	\$1,063	\$1,010		\$53	\$600	\$568		\$36	-\$5	\$464	\$2,289
1965	1,247	1,188		59	1,687	1,573		90	24	-440	1,606
1966	2,079	2,006	\$16	58	1,947	1,781	\$3	137	25	133	1,739
1967	2,379	2,286	16	78	2,089	1,939	11	109	31	290	2,029
1968	3,454	3,316	32	106	2,458	2,294	16	127	20	996	3,025
1969	3,792	3,599	16	177	2,716	2,542	15	138	21	1,075	4,100
1970	4,774	4,481	16	277	3,259	3,067	18	164	10	1,514	5,614
1971	5,031	4,620	50	361	4,000	3,758	24	205	13	1,031	6,645
1972	5,572	5,107	51	414	4,759	4,473	29	233	24	813	7,457
1973	6,443	5,932	52	458	5,973	5,718	46	190	20	470	7,927
1974	7,378	6,826	52	500	7,196	6,903	54	217	22	182	8,109
1975	8,035	7,444	90	502	8,790	8,414	91	256	29	-754	7,354
1976	8,757	8,233	103	422	10,366	9,966	89	285	26	-1,609	5,745
Estimated future experience:											
1977	9,584	9,157	128	299	12,070	11,548	82	402	38	-2,486	3,259
1978	10,849	10,616	118	115	13,649	13,134	78	394	43	-2,800	459
1979 ¹	11,818	11,801	121	-104	15,354	14,822	82	411	39	-3,536	-3,077
1980 ¹	12,747	13,004	124	-381	17,366	16,817	87	433	29	-4,619	-7,696
1981 ¹	14,628	15,212	122	-706	19,482	18,914	91	454	23	-4,854	-12,550

¹ Figures for 1979-81 are theoretical because the disability insurance trust fund is exhausted in calendar year 1979.

Note: In interpreting the above, reference should be made to the footnotes in table 17.

TABLE 19.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND THE DISABILITY INSURANCE TRUST FUNDS, COMBINED, DURING SELECTED FISCAL YEARS 1960-76 AND ESTIMATED FUTURE OPERATIONS DURING FISCAL YEARS 1977-81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS
[In millions]

Fiscal year	Transactions during period											
	Income					Disbursements					Funds at end of period	
	Total	Reimbursements from general fund of Treasury for costs of—			Interest on investments	Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to railroad retirement account		Net increase in funds
Contributions, less refunds		Noncontributory credits for military service	Payments to non-insured persons aged 72 and over									
Past experience:												
1960.....	\$11,394	\$10,830			\$564	\$11,606	\$10,798		\$234	\$574	-\$212	\$22,996
1965.....	17,681	17,032			648	17,456	16,618		379	459	224	22,187
1966.....	20,071	19,423			649	20,700	19,793	\$1	437	469	-629	21,558
1967.....	25,703	24,816	\$94		793	21,725	20,747	7	433	539	3,979	25,537
1968.....	26,440	25,362	94		984	23,859	22,825	16	560	458	2,581	28,118
1969.....	31,054	29,485	188	\$226	1,155	27,303	26,175	17	599	513	3,750	31,868
1970.....	36,127	34,096	94	364	1,572	30,275	29,045	18	623	589	5,852	37,720
1971.....	38,893	36,485	94	371	1,943	35,874	34,482	23	742	626	3,019	40,739
1972.....	43,208	40,564	187	351	2,107	40,158	38,587	29	794	749	3,050	43,789
1973.....	49,586	46,779	189	337	2,281	49,090	47,332	42	914	802	496	44,285
1974.....	57,704	54,689	191	303	2,521	55,869	54,007	54	878	931	1,835	46,120
1975.....	66,677	63,374	192	307	2,804	64,658	62,469	79	1,101	1,010	2,018	48,138
1976.....	70,682	67,352	247	268	2,815	73,901	71,363	100	1,200	1,239	-3,219	44,919
July-September 1976.....	18,359	18,265			94	19,764	19,431	29	304		-1,405	43,514
Estimated future experience:												
1977.....	80,885	77,466	481	236	2,702	85,306	82,445	95	1,447	1,319	-4,421	39,093
1978.....	89,089	86,036	513	228	2,312	95,207	91,983	84	1,558	1,582	-6,118	32,975
1979 ¹	98,051	95,529	496	233	1,793	104,894	101,795	89	1,547	1,463	-6,843	26,132
1980 ¹	107,080	105,172	502	169	1,237	115,237	112,063	94	1,628	1,452	-8,157	17,975
1981 ¹	115,673	114,391	509	147	626	126,215	122,940	98	1,712	1,465	-10,542	7,433

¹ Because the disability insurance trust fund is exhausted in fiscal year 1979 under the intermediate assumptions, and because none of the estimated income to one trust fund can be allocated to the other trust fund, under present law, the figures for 1979-81 are theoretical, representing arithmetical addition of figures shown in tables 15 and 17.

Note: In interpreting the above, reference should be made to the footnotes in table 15.

TABLE 20.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND THE DISABILITY INSURANCE TRUST FUNDS, COMBINED, DURING SELECTED CALENDAR YEARS 1960-76 AND ESTIMATED FUTURE OPERATIONS DURING CALENDAR YEARS 1977-81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS

(In millions)

Calendar year	Transactions during period										Funds at end of period	
	Income					Disbursements						
	Total	Reimbursements from general fund of Treasury for costs of—			Interest on investments	Total	Benefit payments	Payments for vocational rehabilitation services	Administrative expenses	Transfers to railroad retirement account		Net increase in funds
		Contributions, less refunds	Noncontributory credits for military service	Payments to non-insured persons aged 72 and over								
Past experience:												
1960	\$12,445	\$11,876			\$569	\$11,798	\$11,245		\$240	\$314	\$647	\$22,613
1965	17,857	17,205			651	19,187	18,311		418	459	-1,331	19,841
1966	23,381	22,585	\$94		702	20,913	20,048	\$3	393	469	2,467	22,308
1967	26,413	25,424	94		896	22,471	21,406	11	515	539	3,942	26,250
1968	28,493	27,034	188	\$226	1,045	26,015	24,936	17	603	458	2,479	28,729
1969	33,346	31,546	94	364	1,342	27,892	26,751	20	612	513	5,453	34,182
1970	36,993	34,737	94	371	1,791	33,108	31,863	16	635	589	3,886	38,068
1971	40,908	38,343	187	351	2,027	38,542	37,171	26	719	626	2,366	40,434
1972	45,622	42,888	189	337	2,208	43,281	41,595	30	907	749	2,341	42,775
1973	54,787	51,907	191	303	2,386	53,148	51,459	49	837	802	1,639	44,414
1974	62,066	58,907	192	307	2,660	60,593	58,923	59	1,082	931	1,472	45,886
1975	67,640	64,259	247	268	2,866	69,184	66,923	99	1,152	1,010	-1,544	44,342
1976	75,034	71,595	481	236	2,722	78,242	75,665	95	1,244	1,239	-3,209	41,133
Estimated future experience:												
1977	82,085	78,828	513	228	2,516	87,722	84,810	89	1,504	1,319	-5,637	35,496
1978	90,654	87,861	496	233	2,064	97,535	94,319	85	1,549	1,582	-6,881	28,615
1979	99,546	97,348	502	169	1,527	107,443	104,327	90	1,563	1,463	-7,897	20,718
1980	108,885	107,289	509	147	940	117,961	114,767	95	1,647	1,452	-9,076	11,642
1981	117,395	116,520	509	128	238	128,930	125,637	99	1,729	1,465	-11,535	107

¹ Because the disability insurance trust fund is exhausted in calendar year 1979 under the intermediate assumptions, and because none of the estimated income to one trust fund can be allocated to the other trust fund, under present law, the figures for 1979-81 are theoretical, representing arithmetical addition of figures shown in tables 16 and 18.

Note: In interpreting the above, reference should be made to the footnotes in table 15.

Expenditures as a percentage of taxable earnings for years prior to 1977, as well as the estimated percentages for 1977-81 under the intermediate assumptions, are shown in table 21 for both trust funds combined and for each trust fund separately. (Although the estimated percentages for 1977-81 have been shown in table 14, they are repeated in table 21 for comparison with past experience.)

TABLE 21.—EXPENDITURES FROM THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS AS A PERCENTAGE OF TAXABLE PAYROLL FOR SELECTED CALENDAR YEARS 1950-76 AND ESTIMATED FUTURE PERCENTAGES FOR CALENDAR YEARS 1977-81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS

Calendar year	Expenditures as a percentage of taxable payroll ¹		
	Old-age and survivors insurance and disability insurance trust funds, combined	Old-age and survivors insurance trust fund	Disability insurance trust fund
Past experience:			
1950.....	1.17	1.17
1955.....	3.34	3.34
1960.....	5.89	5.59	0.30
1965.....	7.93	7.23	.70
1966.....	6.88	6.24	.64
1967.....	6.92	6.27	.65
1968.....	7.03	6.35	.67
1969.....	7.08	6.38	.70
1970.....	8.12	7.32	.81
1971.....	9.23	8.27	.97
1972.....	9.14	8.13	1.01
1973.....	9.69	8.59	1.09
1974.....	9.70	8.55	1.16
1975.....	10.65	9.30	1.36
1976.....	10.85	9.41	1.44
Estimated future experience²:			
1977.....	10.91	9.40	1.50
1978.....	10.89	9.37	1.53
1979.....	10.86	9.30	1.55
1980.....	10.80	9.21	1.59
1981.....	10.88	9.24	1.65

¹ See footnote 1, table 14. For 1972-76, percentages are preliminary and subject to revision.

² In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions.

Assets at the beginning of the year as a percentage of expenditures during the year for both trust funds combined is estimated to be about 47 percent for calendar year 1977. The percentage will drop each year, as the assets of the trust funds decline during the period 1977-81; and by calendar year 1981, the percentage is estimated to be 9 percent under the intermediate assumptions. The estimated percentage for each of the calendar years 1977-81 under the intermediate set of assumptions, as well as the actual percentages for earlier years, are shown in table 22 for both trust funds combined and for each trust fund separately. (Although the estimated percentages for 1977-81 have been shown in earlier tables in this section, they are repeated in table 22 for comparison with past experience.)

TABLE 22.—ASSETS, AT THE BEGINNING OF THE YEAR, AS A PERCENTAGE OF EXPENDITURES DURING THE YEAR, FOR THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM, BY TRUST FUND, FOR SELECTED CALENDAR YEARS 1950-76, AND ESTIMATED FUTURE PERCENTAGES FOR CALENDAR YEARS 1977-81 UNDER THE INTERMEDIATE SET OF ASSUMPTIONS

Calendar year	Assets, at the beginning of the year, as a percentage of expenditures during the year		
	Old-age and survivors insurance and disability insurance trust funds, combined	Old-age and survivors insurance trust fund	Disability insurance trust fund
Past experience:			
1950.....	1, 156	1, 156	-----
1955.....	405	405	-----
1960.....	186	180	304
1965.....	110	109	121
1966.....	95	96	83
1967.....	99	101	83
1968.....	101	103	83
1969.....	103	102	111
1970.....	103	101	126
1971.....	99	94	140
1972.....	93	88	140
1973.....	80	75	125
1974.....	73	68	110
1975.....	66	63	92
1976.....	57	54	71
Estimated future experience¹:			
1977.....	47	47	48
1978.....	36	38	24
1979.....	27	31	3
1980.....	18	24	(²)
1981.....	9	18	(²)

¹ In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions.

² The disability insurance trust fund is exhausted in 1979.

The estimates in the tables in this section include the effects of various provisions to which reference has been made in earlier sections, namely, the provisions for (1) reimbursements to the trust funds from the general fund of the Treasury for the costs of granting noncontributory credits for military service (and for internment of persons of Japanese ancestry during World War II) and for the costs of monthly payments to certain noninsured persons aged 72 and over, and (2) financial interchanges between the railroad retirement account and the trust funds.

There has been increased interest on the part of some State and local government systems in terminating the agreements under which social security coverage is provided for their public employees. Such coverage is available only on a group voluntary basis through agreements between the Secretary of Health, Education, and Welfare and the individual States. After coverage of the employees of a State, or of a political subdivision of the State, has been in effect for at least 5 years, the State may give notice of its intention to terminate the coverage of such employees. The termination of coverage becomes effective 2 years after such notice is given, unless the State withdraws the notice of termination within the 2-year period. However, once the termination becomes effective, it is irrevocable and the same group cannot be covered under social security again. In the past few years there has been some increase in the number of terminations of coverage among State and local government employees. Despite this increase, the total

number of employees becoming covered under new agreements in each year through 1976 has been larger than the number of employees for whom coverage was terminated during the year. During the last 2 years, notice has been given of the intention to terminate coverage on the part of some of the larger groups of State and local government employees. The filing of such a notice by a State does not necessarily mean that coverage will be terminated because, as noted above, the State may withdraw the notice during the 2-year period before the termination becomes effective. The termination of coverage for any large number of State or local government employees would have an adverse effect on the status of the trust funds, especially in the short range. In fiscal year 1976, tax contributions received by the old-age and survivors insurance and disability insurance trust funds from workers employed by State and local governments and from such employers, under all of the coverage agreements in effect, amounted to \$7.5 billion, or about 11 percent of total tax contributions in the year.

The estimates presented in this section, and in the following sections of this report, do not reflect the effects of (1) future terminations of coverage which may become effective as a result of such notices that have been filed and that are still pending, or that may be filed in the future, or (2) future agreements that would bring additional groups of public employees under covered employment.

The expected substantial decline in the assets of the trust funds during 1977-81 shown in this section was anticipated in both the 1975 and 1976 annual reports and is attributable primarily to (1) the reduction in contribution income resulting from lower levels of employment and taxable earnings due to the recession that began in 1974; (2) the sharp upward movement in the CPI in 1974 and 1975, with the result that automatic benefit increases are larger than they would have otherwise been; and (3) the increasing number of disabled workers receiving disability insurance benefits.

ACTUARIAL ANALYSIS OF BENEFIT DISBURSEMENTS FROM THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND WITH RESPECT TO DISABLED BENEFICIARIES

(Specifically required by sec. 201(c) of the Social Security Act)

Effective January 1957, monthly benefits have been payable from the old-age and survivors insurance trust fund to disabled sons and daughters aged 18 and over of retired and deceased workers, in those cases in which the disability of the son or daughter has continued since childhood. Effective February 1968, reduced monthly benefits have been payable from this trust fund to disabled widows and widowers beginning at age 50.

On December 31, 1976, about 457,000 persons were receiving monthly benefits from the old-age and survivors insurance trust fund with respect to disability. In addition to disabled beneficiaries, this total includes 40,000 mothers. These mothers—wives under age 65 of retired-worker beneficiaries and widows of deceased insured workers—met all other qualifying requirements and were receiving full-rate (i.e., not reduced for age) benefits solely because they had at

least one disabled-child beneficiary in their care. Benefits paid from this trust fund to persons receiving benefits with respect to disability totaled \$748 million in calendar year 1976. Similar figures are presented in table 23 to show the experience in selected calendar years 1960-76. Figures relating to past experience for years not shown in table 23 are contained in the 1976 annual report.

TABLE 23.—BENEFITS PAYABLE FROM THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND WITH RESPECT TO DISABLED BENEFICIARIES, SELECTED CALENDAR YEARS 1960-81

[Beneficiaries in thousands; benefit payments in millions]

Calendar year	Disabled beneficiaries, end of year			Amount of benefit payments ¹		
	Total	Children ²	Widows and widowers	Total	Children ²	Widows and widowers ³
Past experience:						
1960.....	117	117	-----	\$59	\$59	-----
1965.....	214	214	-----	134	134	-----
1966.....	228	228	-----	147	147	-----
1967.....	243	243	-----	163	163	-----
1968.....	275	256	19	212	198	\$14
1969.....	301	270	31	249	214	35
1970.....	320	284	36	301	260	41
1971.....	338	298	40	363	307	56
1972.....	363	317	46	409	343	66
1973.....	384	333	51	492	417	75
1974.....	410	357	53	567	479	88
1975.....	436	377	59	664	560	104
1976.....	457	395	62	748	637	111
Estimated future experience ⁴:						
1977.....	482	414	68	835	705	130
1978.....	507	434	73	929	782	147
1979.....	532	455	77	1,027	858	169
1980.....	556	475	81	1,126	936	190
1981.....	580	495	85	1,224	1,015	209

¹ Beginning in 1966, includes payments for vocational rehabilitation services.

² Reflects effect of including certain mothers. (See text.)

³ Reflects the offsetting effect of lower benefits payable to disabled widows and widowers who continue to receive benefits past age 60 (62, for disabled widowers, prior to 1973) as compared to the higher nondisabled widow's (and widower's) benefits that would otherwise be payable.

⁴ The estimates are based on the intermediate set of assumptions and reflect the resulting assumed changes under the automatic increase provisions, as described in the preceding section.

Table 23 also shows the expected future experience in calendar years 1977-81, under the intermediate set of economic assumptions described in the preceding section. Total benefit payments from the old-age and survivors insurance trust fund with respect to disabled beneficiaries are estimated to increase from \$835 million in calendar year 1977 to \$1,224 million in calendar year 1981, under the intermediate assumptions.

In calendar year 1976, benefit payments (including expenditures for vocational rehabilitation services) with respect to disabled persons from the old-age and survivors insurance trust fund and from the disability insurance trust fund (including payments from the latter fund to all dependents of disabled-worker beneficiaries) totaled \$10,803 million, of which \$748 million, or 6.9 percent, represented payments from the old-age and survivors insurance trust fund. Similar figures for selected calendar years 1960-76 and estimates for calendar years 1977-81, under the intermediate set of assumptions, are presented in table 24. Figures relating to past experience for years not shown in table 24 are contained in the 1976 annual report.

TABLE 24.—BENEFIT PAYMENTS UNDER THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM WITH RESPECT TO DISABLED BENEFICIARIES, BY TRUST FUND, SELECTED CALENDAR YEARS 1960-81

(In millions)

Calendar year	Benefit payments ¹ from—			
	Total ¹	Disability insurance trust fund ²	Old-age and survivors insurance trust fund	
			Amount ³	As a percentage of total benefit payments with respect to disabled beneficiaries
Past experience:				
1960.....	\$627	\$568	\$59	9.4
1961.....	1,707	1,573	134	7.9
1965.....	1,932	1,784	147	7.6
1966.....	2,113	1,950	163	7.7
1967.....	2,523	2,311	212	8.4
1968.....	2,806	2,557	249	8.9
1969.....	3,386	3,085	301	8.9
1970.....	4,146	3,783	363	8.8
1971.....	4,911	4,502	409	8.3
1972.....	6,256	5,764	492	7.9
1973.....	7,524	6,957	567	7.5
1974.....	9,169	8,505	664	7.2
1975.....	10,803	10,055	748	6.9
1976.....				
Estimated future experience⁴:				
1977.....	12,465	11,630	835	6.7
1978.....	14,141	13,212	929	6.6
1979.....	15,931	14,904	1,027	6.4
1980.....	18,030	16,904	1,126	6.2
1981.....	20,229	19,005	1,224	6.1

¹ Beginning in 1966, includes payments for vocational rehabilitation services.

² Benefit payments to disabled workers and their dependents.

³ Benefit payments to disabled children aged 18 and over, to certain mothers (see text), and to disabled widows and widowers. (See footnote 3, table 23.)

⁴ The estimates are based on the intermediate set of assumptions, and reflect the resulting assumed changes under the automatic increase provisions, as described in the preceding section.

ACTUARIAL STATUS OF THE TRUST FUNDS

SIGNIFICANCE OF LONG-RANGE COST ESTIMATES

Section 201(c) of the Social Security Act requires the Board of Trustees to report annually on the operation and status of the old-age and survivors insurance and disability insurance trust funds during the preceding fiscal year and the expected operation and status of the trust funds during the ensuing 5 fiscal years. Such information for the fiscal year that ended June 30, 1976, and for the period July 1, 1976, through December 31, 1981, is presented in earlier sections of this report.

Section 201(c) of the Social Security Act also requires that the annual report of the Board of Trustees include a statement of the "actuarial status" of the trust funds, that is, estimated future benefits and administrative expenses in relation to both the estimated future income to the trust funds and the assets of the trust funds. Since 1965 this comparison has been made for the 75-year period beginning with the year of the report. In accordance with this practice, the statement of the actuarial status of the trust funds discussed herein pertains to the period 1977 through 2051.

It is important to recognize that the projection of the demographic and economic factors on which income and expenditures are based becomes increasingly more difficult and uncertain as one moves further along in the 75-year projection period. Last year's report explicitly recognized this difficulty and uncertainty (as does this year's) by providing a range of estimates based on alternative demographic and economic assumptions. In addition, in further recognition thereof, this year's report includes a separate section on "medium-range" cost estimates covering the first 25 years of the long-range period. During this medium-range period, the degree of uncertainty in the estimates is considerably less than for the entire long-range period, and the probability that the range of projections will include actual future expenditures is greater.

A statement of the actuarial status of the trust funds must necessarily be made on the basis of present law. However, under present law, because of the particular method by which future benefits are related to future changes in wages and the Consumer Price Index, the benefits projected to materialize under certain assumptions regarding such changes reach extremely high levels for persons who first become entitled to benefits in the next century. It is clearly imperative that legislative changes be made to prevent such benefit levels from materializing. (This is discussed in more detail in the remainder of the report.) Consequently, the estimated future costs which result from the extremely high benefit levels that would be attained under present law should be interpreted with caution. Also because of the problem of such benefit levels under present law, useful information can be obtained by considering cost estimates based on a more stable system. Therefore, later in this report illustrative projections are presented on a "modified theoretical" old-age, survivors, and disability insurance system which maintains through time the relationship existing at the beginning of calendar year 1979 between average awarded benefits and average earnings. That system is described in more detail later in this report.

Throughout its history the old-age, survivors, and disability insurance program has been self-supporting and since the 1950's has been operated on what may be termed a current-cost financing basis. It is self-supporting in that the only source of funds to pay benefits and administrative expenses is the social security taxes collected from workers and employers covered under the program (and the interest earned on the invested balances of the trust funds).¹ Under the current-cost method of financing, the amount of taxes collected each year is intended to be approximately equal to the benefits and administrative expenses paid during the year plus a small additional amount to maintain the trust funds at an appropriate contingency reserve level. The purpose of the trust funds under current-cost financing is to reflect all financial transactions and to absorb temporary differences between income and expenditures. Thus, whatever normal ratio of trust fund assets to expenditures is established, it can be expected that the funds will vary somewhat from that level from time to time as they absorb those fluctuations.

Since the inception of the old-age, survivors, and disability insurance program, past payroll taxes together with interest on the trust funds have been adequate to provide all past benefits and administrative expenses. Specifically, with respect to the old-age, survivors, and disability insurance program from 1937 through calendar year 1976, cumulative income to the trust funds amounted to \$661 billion (\$30 billion of which is from interest earned on the trust funds) and cumulative disbursements were \$620 billion. The balance of \$41 billion was held in the trust funds at the end of calendar year 1976.

Based upon projections made under the intermediate assumptions (alternative II), it is estimated that during the calendar years 1977-81, income to the trust funds will total \$499 billion (\$7 billion of which is from interest earned on the trust funds) and disbursements will be \$540 billion (see tables 13 and 20). This is a projected decrease in the trust funds of \$41 billion during the period 1977-81, which would reduce the trust funds to less than $\$ \frac{1}{2}$ billion by the end of calendar year 1981. The preceding figures are for the old-age and survivors insurance and disability insurance trust funds, combined, although these are independent trust funds and must be considered separately. As indicated in an earlier section of the report, the disability insurance trust fund is projected to be exhausted during 1979. These figures illustrate that under current financing procedures the assets of the trust funds play a relatively minor role: it is the ongoing collection of social security taxes which is the most important factor in financing benefits under the program.

The Congress, in setting future tax rates for the old-age, survivors, and disability insurance program, has normally followed the principle that estimated future income to the trust funds (including interest earnings on invested assets) should be equal to estimated future disbursements, taking into account both present and future participants in the program.

¹ In addition to social security taxes and interest earnings, the trust funds receive annual reimbursement from the general fund of the Treasury for certain costs, described in an earlier section, that are not financed by payroll taxes. In the fiscal year ending June 30, 1976, such reimbursements amounted to \$515 million, or about $\frac{1}{4}$ of one percent of the \$70.7 billion in total income to the old-age, survivors, and disability insurance trust funds.

When estimated future disbursements and estimated future income over the 75-year valuation period are not in balance, an "actuarial deficit" or an "actuarial surplus" exists, depending upon whether disbursements are greater than income or vice versa. The old-age, survivors, and disability insurance program has been in close actuarial balance throughout most of the program's existence. When there has been an imbalance, i.e., an actuarial deficit or actuarial surplus, the Congress has acted in due course to revise either taxes, benefits, or both so as to bring the program into close actuarial balance over the valuation period. Therefore, in order to enable Congress to take such action to ensure the sound financial operation of the old-age, survivors, and disability insurance program, it is essential that periodic projections be made of the estimated future income and outgo to determine whether or not they are in balance.

Actual future income from social security taxes, and actual future expenditures for benefit payments and administrative expenses, will depend upon a large number of factors, including the following:

1. Size and composition of the active working population and their level of earnings, which depend in turn upon fertility rates, mortality rates, migration rates, labor force participation rates, unemployment rates, wage patterns, etc.

2. Size and composition of the population receiving benefits and the level of their benefits, which depend in turn on disability rates, retirement rates, remarriage rates, the Consumer Price Index, etc.

It is obviously impossible to know what the future holds with respect to these demographic and economic factors which will determine the actual income and expenditures under the old-age, survivors, and disability insurance program during the next 75-year period. The best that can be done is to make assumptions as to the future behavior of these demographic and economic factors and to prepare medium-range and long-range estimates based upon such assumptions so as to obtain a reasonable picture of the trend and general range of future income and outgo. Such estimates, and their underlying assumptions, if revised periodically in the light of developing trends, provide information which is essential for making informed policy decisions.

In reviewing estimates based upon demographic and economic conditions postulated to exist many years into the future, it would be well to keep in mind that, although the underlying assumptions for these estimates may appear to be reasonable based upon current understanding, in some cases the assumptions produce results so different from the current situation that their overall socioeconomic implications should be considered and not just their effect on the single issue of financing the old-age, survivors, and disability insurance program. For example, since the selection of particular demographic assumptions implies a certain future composition of the U.S. population, it is important to recognize that, if the population composition should change in accordance with these assumptions, it is likely to result in substantial changes in many of the nation's social and economic arrangements. Although beyond the scope of this report, it is desirable, in order to view the medium-range and long-range financing questions from a broader perspective, to analyze the possible implications of the many projections included herein on various aspects of society as we move into the 21st century.