

FEDERAL OLD-AGE AND SURVIVORS
INSURANCE TRUST FUND

LETTER

FROM THE

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

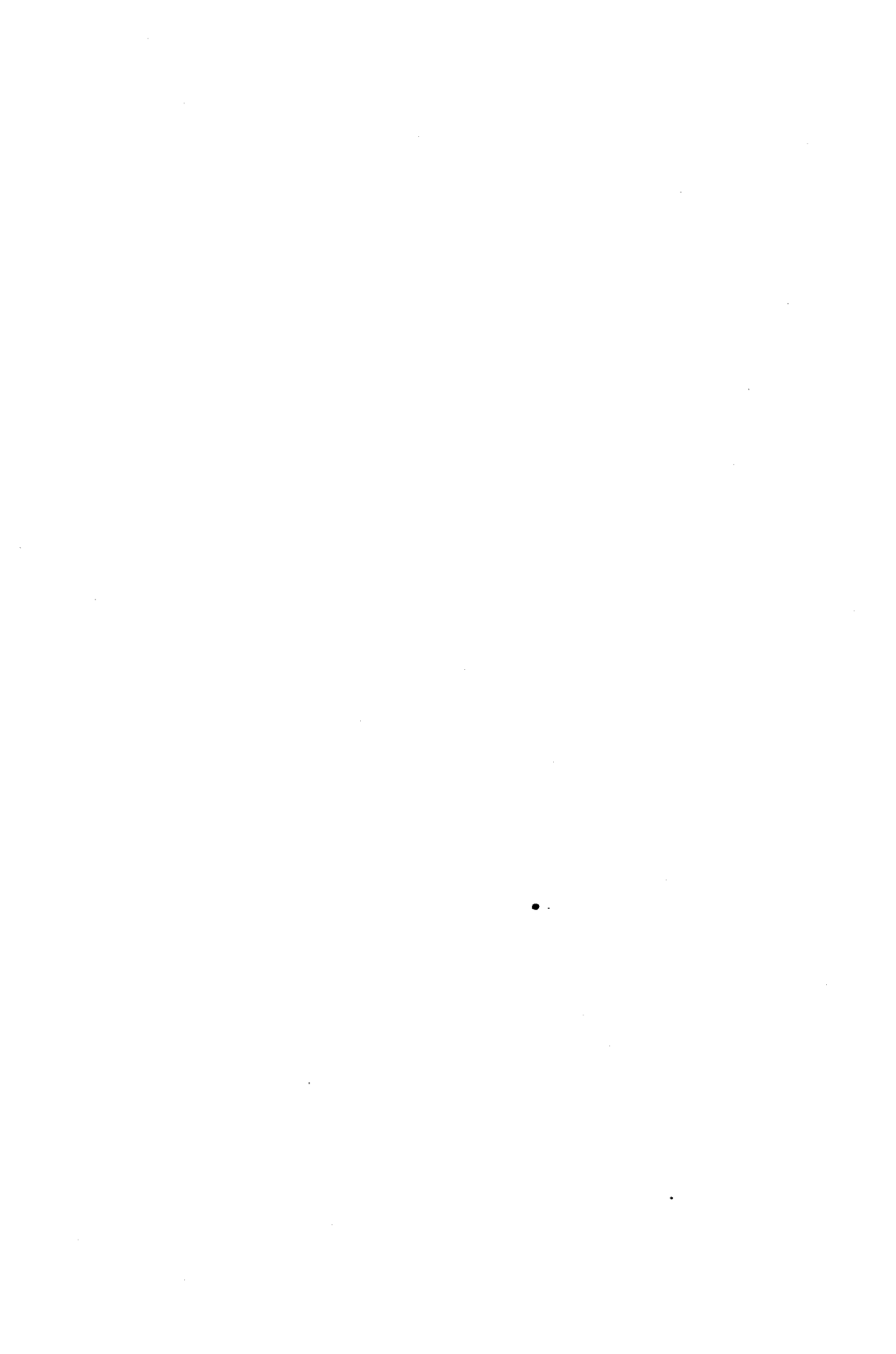
TRANSMITTING

PURSUANT TO LAW THE EIGHTH ANNUAL REPORT
OF THE BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS
INSURANCE TRUST FUND



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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE FEDERAL
OLD-AGE AND SURVIVORS INSURANCE TRUST FUND,
Washington, D. C., March 9, 1948.

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

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

Respectfully,

JOHN W. SNYDER,
*Secretary of the Treasury, and
Managing Trustee of the Trust Fund.*

L. B. SCHWELLENBACH,
Secretary of Labor.

OSCAR R. EWING,
Federal Security Administrator.

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

INTRODUCTORY STATEMENT

This report describes the operations of the Federal old-age and survivors insurance trust fund in the fiscal year ended June 30, 1947, the expected receipts and disbursements of the fund in the five fiscal years subsequent to that date, and the long-range actuarial status of the fund. It is the eighth annual report submitted by the Board of Trustees of the fund in accordance with the requirements of section 201 of the Social Security Act, as amended.

The Federal old-age and survivors insurance trust fund, which was established on January 1, 1940, is held by the Board of Trustees under authority of the Social Security Act. The three members of this Board serve in an ex officio capacity. From January 1, 1940, through July 15, 1946, the three members of the Board were the Secretary of the Treasury, the Secretary of Labor, and the Chairman of the Social Security Board. On July 16, 1946, the President's Reorganization Plan No. 2 went into effect; this plan abolished the three-member Social Security Board, and the functions of the Chairman of the Social Security Board as ex officio member of the Board of Trustees were taken over by the Federal Security Administrator. By agency order, the Commissioner for Social Security serves as the Administrator's alternate on the Board. The remaining membership of the Board is unchanged. The Secretary of the Treasury serves as managing trustee. The present report is submitted jointly by the three trustees.

By the end of fiscal year 1947, civilian employment had risen to an all-time peak of 60,000,000 and nonagricultural employment was at the unprecedented level of almost 50,000,000. Unemployment was 2.5 million, a figure approximating the minimum of frictional unemployment. Inflationary pressures affecting prices and wage rates continued throughout most of the year, despite the highest level of industrial production ever attained in peacetime.

These economic developments affected operations under the old-age and survivors insurance program in several important respects. In each quarter of the fiscal year, the number of workers in covered employment and the total wage payments on which contributions and wage credits are based were higher than in the corresponding quarter at the peak of wartime activity. Contributions collected during the year were 18 percent above the collections during the preceding fiscal year and 11 percent above those in fiscal year 1945, the highest for any previous year. The number of claims for old-age and survivors insurance benefits continued at about the same level as in fiscal year

1946 when the initial cut-backs in war industries caused many women and aged men to leave the labor force. During the fiscal year, 242,000 workers aged 65 and over and their 97,000 eligible dependents entered the benefit rolls; the corresponding figures for the preceding 12 months were 256,000 and 95,000. The 191,000 monthly survivors' claims awarded virtually equaled the number for the previous year.

The war undoubtedly produced changes of a more or less permanent character in various aspects of our economy, changes which will significantly affect the financing of old-age and survivors insurance. It is still too early to appraise fully the long-range consequences for the program arising from war and postwar influences, such as the higher money earnings in covered employment, the shifts in the labor force, the increased employment of women, and the deferred retirement of older workers. In earlier reports, the Board of Trustees attempted to summarize the possible significance of these factors in relation to the finances of the trust fund. In the present report the statements on the expected operations during the 5-year period just ahead and on the actuarial status of the fund take these recent developments into account. There are, however, many uncertainties, and these uncertainties are present, of course, in the estimates contained in this report.

NATURE OF THE TRUST FUND

Amounts accumulated under the old-age and survivors insurance program are held in the Federal old-age and survivors insurance trust fund, and financial operations under the program are handled through this fund. The primary source of the fund's receipts is amounts appropriated to it under permanent appropriation, on the basis of contributions paid by workers and employers in employments covered by the Federal Insurance Contributions Act. The Federal Insurance Contributions Act requires all employees and employers, except those in specifically excluded employments, to pay contributions with respect to the wages of individual workers, disregarding amounts in excess of \$3,000 per annum. These contributions are collected by the Bureau of Internal Revenue and are paid into the Treasury as internal-revenue collections. Sums equivalent to 100 percent of current collections (including taxes, interest, penalties, and additions to taxes) are transferred to the trust fund as such collections are received.

The Social Security Act of 1935 fixed the contribution rates for employees at 1 percent of taxable wages for the calendar years 1937, 1938, and 1939; employer rates were also fixed at 1 percent for the same period. The 1935 act provided that these rates should rise to 1½ percent on January 1, 1940, to 2 percent on January 1, 1943, to 2½ percent on January 1, 1946, and to 3 percent on January 1, 1949. The Social Security Act Amendments of 1939 modified this original schedule of contribution rates to provide that the rate of 1 percent each on employees and employers should continue in effect through 1942, but left the remainder of the schedule as originally enacted. Successive annual acts of Congress, however, extended the 1-percent rates from 1943 through 1947. The Social Security Act Amendments of 1947 extended the 1-percent rates through 1949; at the end of 1949, accordingly, the 1-percent rates will have been in effect for 13 years. The amendments of 1947, however, provided that the rates should rise to 1½ percent on January 1, 1950, and to 2 percent on January 1, 1952.

The second source from which receipts of the trust fund are derived is interest received on investments held by the fund. The investment procedures of the fund are described below.

A third source of revenue for the trust fund is provided in section 902 of the Revenue Act of 1943. This act amended section 201 of the Social Security Act and authorizes the appropriation to the trust fund of such additional sums out of general revenues as may be required to finance the benefits and payments provided in title II of the Social Security Act. No appropriations have yet been made under this authorization.

The Social Security Act Amendments of 1946 provide survivorship protection to certain World War II veterans for a period of 3 years following their discharge from the armed forces. These amendments authorize Federal appropriations to reimburse the Federal old-age and survivors insurance trust fund for such sums as are withdrawn to meet the additional cost (including administrative expenses) of the payments to survivors of World War II veterans under the amendments.

Expenditures under the old-age and survivors insurance program are paid out of the trust fund. These expenditures for the fiscal year ended 1946 and previous years included old-age and survivors insurance benefits provided in title II of the Social Security Act and such reimbursements to the Treasury for administrative expenses incurred under the program as were authorized by section 201 (f) of the act. During the fiscal year 1947, pursuant to the Labor-Federal Security Appropriations Act of 1947, approved July 26, 1946, wages and salaries for the Bureau of Old-Age and Survivors Insurance were charged directly to the trust fund and not reimbursed from the fund as they had been in the preceding fiscal years. As a result of the Labor-Federal Security Appropriation Act of 1948, approved July 8, 1947, virtually all the administrative expenses of the Bureau of Old-Age and Survivors Insurance and most of the expenses incurred by other offices of the Federal Security Agency in carrying out the provisions of title II of the Social Security Act, as amended, are now charged directly to the trust fund. Under the President's Reorganization Plan No. 2, effective July 16, 1946, the Federal Security Administrator certifies benefit payments to the managing trustee, who makes the payments from the trust fund in accordance therewith. Prior to July 16, 1946, certifications for payments were made by the Social Security Board. Payments are made from an uninvested balance held in the fund to the account of the disbursing officer of the Treasury.

The managing trustee invests that portion of the trust fund which, in his judgment, is not required to meet current expenditures for benefits or administration. The Social Security Act restricts permissible investments of the trust fund to interest-bearing obligations of the United States Government or to obligations guaranteed as to both principal and interest by the United States. Regular obligations of these types may be acquired on original issue at par or by purchase of outstanding obligations at their market price. In addition, the Social Security Act authorizes the issuance of special obligations exclusively to the trust fund. Such special obligations are required to bear interest at a rate equal to the average rate of interest, computed as of the end of the calendar month next preceding the date

of their issue, borne by all interest-bearing obligations of the United States forming a part of the public debt (where such average rate is not a multiple of one-eighth of 1 percent, the rate of interest on such special obligations is required to be the multiple of one-eighth of 1 percent next lower than such average rate).

Interest on regular obligations held by the trust fund is received by the fund at the time the interest becomes payable on the particular series held. Interest on special obligations is received annually on June 30. These interest receipts are available for investment in the same manner as other receipts of the fund. Regular obligations acquired by the fund may be sold at any time by the managing trustee at their market price. Special obligations may be redeemed at par plus accrued interest.

The trust fund serves, in part, as a reserve to meet a portion of the inevitable future long-term rise in benefit disbursements, and is a safety factor against the first impacts which may result from an acceleration in the rate of this long-term rise. Benefit disbursements under the program are expected to increase markedly over a long period. Such a substantial increase is anticipated both because the number of persons aged 65 and over will be increasing for many decades, and because an increasing proportion of such aged persons will be qualifying for benefits under the old-age and survivors insurance system.

At the beginning of 1946 there were about 10,000,000 persons aged 65 and over, a number equivalent to 7 percent of the total population. It is estimated that by the end of 50 years the number of persons aged 65 and over may be two to three times as large as in 1946 and represent from 10 to 16 percent of the population. The effect on the finances of the old-age and survivors insurance system of this expected change in the number of aged persons will be even greater than may at first appear because, compared with the present situation, a much larger proportion of aged persons 50 years hence is expected to be eligible to receive benefits under the program. The future financial soundness of this system, with its rising rates of disbursements, is of the utmost importance to the millions of persons who are already within its scope and to the Nation as a whole.

The trust fund, furthermore, serves in part as a reserve against short-run fluctuations in total contribution and benefit amounts, providing a margin of safety against relatively short-term contingencies to insure the payment of benefits without sharp changes in rates paid by contributors. These reserves will provide additional resources against a sudden increase in total benefit amounts or a sharp decline in contributions, both of which could occur simultaneously during any reversal in business activity.

SUMMARY OF OPERATIONS OF TRUST FUND, FISCAL YEAR 1947

A statement of the income and disbursements of the Federal old-age and survivors insurance trust fund in the fiscal year which began on July 1, 1946, and ended on June 30, 1947, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 1.

TABLE 1.—Statement of operations of the Federal old-age and survivors insurance trust fund during the fiscal year 1947¹

Total assets of the trust fund, June 30, 1946.....		\$7, 641, 427, 571. 95
Receipts, fiscal year 1947:		
Appropriations equivalent to		
contributions collected.....	\$1, 459, 491, 921. 30	
Transfers from general fund....	375, 000. 00	
Interest on investments.....	163, 465, 576. 10	
Total receipts.....	<u>1, 623, 332, 497. 40</u>	
Disbursements, fiscal year 1947:		
Benefit payments.....	425, 582, 346. 28	
Administrative expenses.....	40, 787, 776. 34	
Total disbursements.....	<u>466, 370, 122. 62</u>	
Net addition to trust fund.....		<u>1, 156, 962, 374. 78</u>
Total assets of the trust fund, June 30, 1947....		8, 798, 389, 946. 73

¹ On the basis of the daily statement of the U. S. Treasury.

The total receipts of the trust fund during the fiscal year 1947 amounted to \$1,623.3 million. Of this total, \$1,459.5 million represented the sum of the amounts equal to contributions received under the Federal Insurance Contributions Act and covered into the Treasury, which were appropriated to the trust fund during the year under the continuing appropriation in section 201 (a) of the Social Security Act, as amended. The total amount appropriated represented an 18-percent increase over appropriations in the preceding fiscal year, and exceeded the record wartime appropriation in fiscal year 1945 by 11 percent. The additional \$163.8 million of receipts consisted of \$163.5 million of interest on investments of the fund and nearly \$0.4 million transferred from general funds of the Treasury in accordance with section 210 (d) of the Social Security Act, as amended.

Disbursements from the trust fund during the fiscal year 1947 totaled \$466.4 million, of which \$425.6 million consisted of benefit payments, \$25.2 million of salaries for the Bureau of Old-Age and Survivors Insurance, and \$15.6 million of reimbursements to the general fund for all other administrative expenses of the insurance program. The total amount paid from the fund in the form of benefits during the fiscal year exceeded benefits paid in the fiscal year 1946 by 33 percent, reflecting primarily the increased number of persons drawing benefits.

A summary of receipts and disbursements of the old-age and survivors insurance trust fund during each of the 7 years from July 1, 1940, through June 30, 1947, is presented in table 2.

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TABLE 2.—Operations of the old-age and survivors insurance trust fund by specified period, Jan. 1, 1940, to June 30, 1947

[In millions]

	Fiscal year ended in—							
	1940 ¹	1941	1942	1943	1944	1945	1946	1947
Receipts:								
Assets transferred from old-age reserve account on Jan. 1, 1940.....	\$1,724.4							
Appropriations equivalent to contributions collected.....		\$638.1	\$895.6	\$1,130.5	\$1,292.1	\$1,309.9	\$1,238.2	\$1,459.9
Interest on investments.....	42.5	56.0	71.0	87.4	103.2	123.9	147.8	163.5
Total receipts².....	1,766.9	744.1	966.6	1,217.9	1,395.3	1,433.8	1,386.0	1,623.4
Disbursements:								
Benefit payments ⁴	9.9	64.3	110.3	149.3	184.6	239.8	320.5	425.6
Reimbursements for administrative expenses.....	12.3	26.8	26.8	27.5	⁵ 32.6	⁶ 26.9	37.4	15.6
Salaries, Bureau of Old-Age and Survivors Insurance.....								25.2
Total disbursements².....	22.2	91.2	137.0	176.8	217.2	266.8	357.9	466.4
Total assets at end of period³.....	1,744.7	2,397.6	3,227.2	4,268.3	5,446.4	6,613.4	7,641.4	8,798.4

¹ January–June 1940, fund having been established in place of old-age reserve account on Jan. 1, 1940.

² Includes \$375,000 made available by the Second Deficiency Appropriation Act, 1947, for salaries of the Bureau of Old-Age and Survivors Insurance to meet the additional costs of administering benefits payable to survivors of certain World War II veterans as defined in title II of the Social Security Act Amendments of 1946.

³ Totals do not necessarily represent the sum of rounded components.

⁴ Based on checks cashed and returned to the Treasury.

⁵ Includes some reimbursements applicable to outlays in other fiscal years.

⁶ Adjusted for overreimbursements in prior years.

The proportion of administrative expenditures of the fund in relation to contributions collected and benefits paid is shown in table 3 (a).

TABLE 3 (a).—Relationship of administrative charges against old-age and survivors insurance trust fund with old-age and survivors insurance contributions and benefit payments

Fiscal year	Administrative charges against the OASI trust fund as a percentage of—		Fiscal year	Administrative charges against the OASI trust fund as a percentage of—	
	OASI contributions collected	Benefit checks cashed		OASI contributions collected	Benefit checks cashed
1941.....	3.9	41.7	1945.....	2.1	11.2
1942.....	3.0	24.3	1946.....	3.0	11.7
1943.....	2.4	18.4	1947.....	2.8	9.6
1944.....	2.5	17.7			

The distribution of benefit payments in fiscal years 1946 and 1947 by type of benefit is shown in table 3. Approximately 67 percent of the total benefit payments from the fund in the fiscal year 1947 were accounted for by monthly benefits to persons aged 65 or over—retired wage earners and their wives, and aged widows and parents of deceased wage earners. Approximately 26 percent of the 1947 benefit

payments represented monthly benefits on behalf of children of deceased or retired workers, and payments to widows—practically all of them under age 65—who had children of deceased wage earners in their care. The balance of the benefits paid in the fiscal year 1947 consisted almost entirely of lump-sum amounts in cases where no survivor of an insured wage earner dying after 1939 was immediately entitled to monthly benefits.

The total of \$425.6 million paid in benefits during fiscal year 1947 includes \$1.3 million for additional monthly benefits and \$1.6 million for additional lump sums under section 210 to survivors of certain deceased World War II veterans. Under the provisions of the Social Security Act Amendments of 1946, the trust fund will be reimbursed for these payments to the survivors of veterans.

TABLE 3.—Estimated distribution of Treasury disbursements for benefit payments under the old-age and survivors insurance program, by type of benefit, fiscal years 1946 and 1947

[In millions]

Type of benefit	1946		1947	
	Amount	Percent of total	Amount	Percent of total
Total.....	\$320.5	100	¹ \$425.6	100
Monthly benefits.....	294.5	92	397.1	93
Primary (retired wage earners 65 or over).....	153.9	48	219.2	51
Wife's (wives 65 or over of primary beneficiaries).....	25.2	8	35.8	8
Widow's (widows 65 or over of wage earners).....	23.7	8	32.5	8
Parent's (parents 65 or over of deceased wage earners).....	1.0	(²)	1.3	(²)
Child's (dependents of retired or deceased wage earners).....	60.9	19	³ 74.6	18
Widow's current (widows of wage earners with child beneficiary).....	29.8	9	33.6	8
Lump-sum benefits (no survivor of deceased wage earner immediately entitled to monthly benefits or wage earner died before 1940).....	26.0	8	28.5	7

¹ Includes \$2.9 million of additional benefits paid under sec. 210 to survivors of certain deceased World War II veterans. Amount is reimbursable to trust fund from the general fund of the Treasury.

² Less than 0.5 percent.

³ Includes \$72,000,000 paid to children of deceased insured wage earners and \$2,600,000 paid to children of primary beneficiaries.

At the end of the fiscal year 1947, approximately 1.8 million persons in 1.2 million families were receiving monthly benefits, at an annual rate of \$421 million. At the end of the preceding fiscal year, the monthly benefit rolls included 1.5 million persons in about 1 million families to whom monthly benefits were being paid at an annual rate of \$339 million. The average monthly benefit in current payment status for different types of family groups as of June 30, 1947, was as follows: Retired male worker only, \$25.10; retired worker and wife, \$39.20; retired female worker only, \$19.70; widow (aged 65 and over) only, \$20.30; widowed mother and one child, \$35; widowed mother and two children, \$48.70; and widowed mother and three or more children, \$51.80.

The total assets of the old-age and survivors insurance trust fund, as reported in the seventh annual report of the Board of Trustees, amounted to \$7,641 million on June 30, 1946. These assets increased to \$8,798 million by the end of the fiscal year 1947, as the result of an excess of receipts over disbursements amounting to \$1,157 million

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during the fiscal year. Table 4 shows a comparison of the total assets of the trust fund and their distribution at the end of the fiscal years 1946 and 1947. The assets of the fund at the end of the fiscal year 1947 consisted of \$8,742 million in the form of obligations of the United States Government, \$7 million to the credit of the fund account, and \$49 million to the credit of the disbursing officer.

TABLE 4.—Assets of Federal old-age and survivors insurance trust fund, by type, at end of fiscal year 1946 and 1947¹

	June 30, 1946	June 30, 1947
Total assets	\$7,641,427,571.95	\$8,798,389,946.73
Total investments.....	7,548,734,250.00	8,742,334,250.00
Treasury bonds (public issues).....	1,638,334,250.00	1,638,334,250.00
2½-percent bonds of 1962-67.....	49,000,000.00	49,000,000.00
2¼-percent bonds of 1963-68.....	100,000,000.00	100,000,000.00
2½-percent bonds of 1964-69.....	50,000,000.00	50,000,000.00
2½-percent bonds of 1965-70.....	400,000,000.00	400,000,000.00
2½-percent bonds of 1966-71.....	295,000,000.00	295,000,000.00
2½-percent bonds of 1967-72.....	744,334,250.00	744,334,250.00
Special issues.....	5,910,400,000.00	7,104,000,000.00
Treasury notes:		
2¼-percent notes: Maturing June 30, 1947.....	450,400,000.00	-----
2¼-percent notes: Maturing June 30, 1947.....	240,000,000.00	-----
2-percent notes: Maturing June 30, 1947.....	459,000,000.00	-----
1½-percent notes:		
Maturing June 30, 1947.....	251,000,000.00	-----
Maturing June 30, 1948.....	1,109,000,000.00	1,109,000,000.00
Certificates of indebtedness:		
2-percent certificates: Maturing June 30, 1948.....	-----	5,995,000,000.00
1½-percent certificates: Maturing June 30, 1947.....	3,401,000,000.00	-----
Uninvested balances.....	92,693,321.95	56,055,696.73
To credit of fund account.....	43,526,625.17	7,305,145.01
To credit of disbursing officer.....	49,166,696.78	48,750,551.72

¹ On basis of the Daily Statement of the U. S. Treasury.

In accordance with the provisions of section 201 (c) of the Social Security Act, as amended, the managing trustee invested during fiscal year 1947 that portion of the assets of the trust fund which, in his judgment, was not required to meet current withdrawals. This section provides that direct obligations of the United States Government as well as obligations guaranteed as to both principal and interest by the United States may be acquired through purchase of outstanding obligations in the open market as well as on original issue at par. Investments made for the fund during the fiscal year, however, as in previous years, consisted only of direct obligations of the United States purchased on original issue.

The net increase in the investments owned by the fund during the fiscal year 1947 amounted to \$1,194 million. New securities totaling \$7,110 million were acquired through the investment of receipts accruing to the fund and the reinvestment of securities maturing during the year. Securities redeemed during the year totaled \$5,916 million; they included \$450 million of 2½ percent special Treasury notes; \$240 million of 2¼ percent special Treasury notes; \$459 million of 2 percent special Treasury notes; \$251 million of 1½ percent special Treasury notes; \$1,115 million of 2 percent special certificates of indebtedness; and \$3,401 million of 1½ percent special certificates of indebtedness.

The entire \$7,110 million purchase of new securities was in the form of special certificates of indebtedness, \$1,115 million of which were redeemed during the year, and \$5,995 million of which mature on June 30, 1948. These certificates were acquired at par and bear an interest rate of 2 percent, this rate being determined by the average rate of interest on the interest-bearing public debt, which prevailed at the end of the month preceding the date of issue of these securities.

The average rate of interest on the interest-bearing public debt, which determines the interest rate at which special obligations are issued to the old-age and survivors insurance trust fund, varies with changes in the composition of the public debt and with changes in the particular rates of interest on different classes of securities. During the fiscal year 1947 the average rate of interest on the public debt rose slightly: The rate was 2.107 percent on June 30, 1947, as compared with 1.996 percent on June 30, 1946. Because the rate exceeded 2 percent but remained less than 2½ percent during the fiscal year, the interest rate on all special issues acquired during the fiscal year increased to 2 percent compared with 1½ percent at which special issues were acquired during the previous fiscal year. The average interest rate on all investment holdings of the fund increased slightly—from 2.05 percent on June 30, 1946, to 2.08 percent as of June 30, 1947.

STATEMENT OF THE EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING FISCAL YEARS 1948-52

The Board of Trustees is required under the provisions of section 201 (b) of the Social Security Act, as amended, to report each year to the Congress on the expected operations and status of the trust fund during the next ensuing five fiscal years. The Board is required to include in the report estimates of both the income and the disbursements of the trust fund in each of the 5 years.

The income of the fund depends on the amount of taxable pay rolls in covered employment, rates of contributions, transfers from the general funds of the Treasury to meet the additional cost of benefits payable to survivors of certain deceased World War II veterans, and interest earnings of the fund. The disbursements from the fund depend on the number of persons among those eligible for benefits who apply for and receive benefits, the amounts of benefit to which they are entitled on the basis of past earnings, and the mortality rates among covered workers and beneficiaries. Consequently, both the income and the disbursements of the fund are substantially affected by general economic conditions.

In this report the Board presents two sets of estimates of income and disbursements based on alternative economic assumptions. Alternative I shows the effect of reasonably optimistic assumptions; alternative II, the effect of moderately pessimistic assumptions. Because alternative II does not reflect the effect on income and disbursements should a deep depression materialize during the next 5 years, the differences between the two estimates are not great.

For both alternative I and alternative II, it is assumed that present statutory coverage of old-age and survivors insurance will remain unchanged throughout the period under consideration. The computations of tax income are based on present statutory rates of contri-

bution, which are 1 percent each on employer and employee on wages paid during the calendar years 1947, 1948, and 1949, 1½ percent each during the calendar years 1950 and 1951, and 2 percent each during the calendar year 1952.

The two sets of estimates of the income and disbursements of the trust fund for each of the five fiscal years 1948 to 1952, together with the resulting assets of the fund at the beginning and the end of each year, are presented in table 5. In addition, the figures for actual experience in fiscal years 1941 to 1947 are shown.

Alternative I, which shows a relatively large increase in trust-fund assets, is based on the assumption that a high level of employment and earnings is maintained without any major break through calendar year 1951. Weekly earnings and average annual taxable wages are assumed to increase, but at a slower rate than hourly wage rates because of the gradual shortening of the workweek. Unemployment is assumed to remain at a low level. Benefit disbursements are assumed to increase substantially, primarily because of the long-range upward trend in the number of beneficiaries.

Under alternative I, aggregate income during the period of five fiscal years ending in 1952 would amount to \$12.2 billion, including \$10.9 billion in contributions and \$1.3 billion in interest. Aggregate disbursements for the period would be about \$3.7 billion, with the highest expected annual disbursement about \$910 million. The trust fund at the beginning of the fiscal year 1948 would amount to about 9.7 times the highest expected annual disbursement during the succeeding five fiscal years.

The other set of estimates, alternative II, is based on the assumption that the current rapid rise in prices will result in an adjustment as consumer resistance mounts. During the adjustment period it is assumed that there will be a substantial increase in unemployment and in short-term and part-time employment. This adjustment period, however, is assumed to be brief and recovery fairly rapid.

In each of the 5 years, estimated pay rolls, and therefore contributions, are assumed to be lower under alternative II than under alternative I. In addition to a higher level of unemployment in each year except the last, it is assumed under alternative II that the long-time upward trend in wage rates will be interrupted for 2 years and that the subsequent gains in average hourly earnings will be less rapid than under alternative I. Estimates of benefit disbursements, on the other hand, increase more rapidly under alternative II than under alternative I because a much larger number of older workers are assumed to withdraw from or to be unable to find jobs in covered employment.

The aggregate income of the fund for the five fiscal years, 1948-52, under alternative II, would amount to \$11.3 billion, including \$10.0 billion in contributions and \$1.3 billion in interest. Aggregate disbursements would be \$4.1 billion, with the highest expected annual disbursement about \$1,020 million. The trust fund at the beginning of the period would amount to about 8.6 times the highest expected annual disbursements during the period.

The 1946 amendments to title II of the Social Security Act provide survivors insurance protection for a limited period to certain veterans of World War II. Specific provision is made in this legislation authorizing appropriations, out of general revenues, to the trust fund of

amounts necessary to meet the additional cost of these benefits. These disbursements are clearly in the nature of reimbursable transactions, independently financed and employing the trust fund primarily as a practical mechanism for facilitating coordination of these benefit payments with potential survivors benefits under the old-age and survivors insurance program. Disbursements arising from these amendments, and reimbursements therefor, are included in the amounts shown in tables 5 and 6.

TABLE 5.—Operations of the Federal old-age and survivors insurance trust fund, fiscal years 1941-52, subject to the assumptions and limitations stated in the text¹

[In millions]

Fiscal year	Fund beginning of year ²	Transactions during year						Net increase in fund	Fund at end of year
		Income			Disbursements				
		Total	Appropriations ³	Interest on investments	Total	Benefit payments	Administrative expenses		
Past experience:									
1941.....	\$1,745	\$744	\$688	\$56	\$91	\$64	\$27	\$653	\$2,398
1942.....	2,598	967	896	71	137	110	27	830	3,227
1943.....	3,227	1,218	1,150	87	177	149	27	1,041	4,268
1944.....	4,268	1,395	1,292	103	217	185	4 33	1,178	5,446
1945.....	5,446	1,434	1,310	124	267	240	4 27	1,167	6,613
1946.....	6,613	1,386	1,238	148	358	321	37	1,028	7,641
1947.....	7,641	1,623	1,460	163	466	426	41	1,157	8,798
Estimated future experience:									
1948:									
Alternative I.....	8,798	1,824	1,631	193	556	509	47	1,268	10,066
Alternative II.....	8,798	1,738	1,548	190	556	509	47	1,182	9,980
1949:									
Alternative I.....	10,066	1,904	1,676	228	649	599	50	1,255	11,321
Alternative II.....	9,980	1,699	1,477	222	730	676	54	969	10,949
1950:									
Alternative I.....	11,321	2,222	1,966	256	734	681	53	1,488	12,809
Alternative II.....	10,949	2,030	1,784	246	839	786	53	1,191	12,140
1951:									
Alternative I.....	12,809	2,981	2,687	294	822	768	54	2,159	14,968
Alternative II.....	12,140	2,756	2,479	277	942	888	54	1,814	13,954
1952:									
Alternative I.....	14,968	3,317	2,976	341	910	855	55	2,407	17,375
Alternative II.....	13,954	3,047	2,730	317	1,019	964	55	2,028	15,982

¹ In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Alternative I assumes a continuing high level of employment and earnings throughout the period; alternative II assumes a brief recession with a fairly rapid recovery. Estimates were prepared January 1948.

² Totals shown in this and other columns do not necessarily equal the sum of rounded components.

³ Include 100 percent of contributions which are automatically appropriated to the trust fund, and reimbursements equivalent to any additional payments arising from the extension of survivors insurance protection to certain veterans of World War II (Social Security Act Amendments of 1946). Estimated contributions for fiscal years 1948-52 are based on statutory rates of 1 percent each on employers and employees in calendar years 1947-49, 1½ percent each in 1950 and 1951, and 2 percent each thereafter.

⁴ Represent charges against trust fund in respective fiscal years; administrative expenses after adjustment for bookkeeping transfers, were about \$30,000,000 in fiscal year 1944 and about \$29,000,000 in fiscal year 1945.

The 1946 amendments to the Railroad Retirement Act, contained in Public Law 572, establish a system of survivors insurance and, in effect, amend the present survivors insurance system contained in title II of the Social Security Act. Under both systems, eligibility for and the amount of benefits payable to survivors, in general, will be based on an insured worker's combined earnings record under the two programs. As a result of this coordination, some survivors will become eligible under old-age and survivors insurance who otherwise would not have become eligible; on the other hand, some survivors who would have become eligible under old-age and survivors insurance will

instead receive railroad survivors benefits. In addition, some survivors who in any event would have been eligible under old-age and survivors insurance will now receive larger benefits. Although no specific provision is contained in these amendments for the allocation of costs between the two systems, the legislation states that, not later than January 1, 1950, a joint report should be made setting forth the actual experience under each system and recommending such legislation as deemed advisable for the equitable distribution, between the two systems, of the financial burdens arising from awarded claims. It is believed, however, that the net additional disbursements, if any, will not constitute a serious drain on the trust fund during the five fiscal years 1948-52.

Benefit disbursements during the next 5 years, like contributions, are dependent to a considerable extent upon economic developments and so have a considerable range of possible variation. The number of workers in covered employment, their distribution among different classes of workers (e. g., older workers, very young workers, women, workers not previously engaged in covered employment, etc.), and the level of wages will all have a decided effect upon the amount of benefit payments to be anticipated.

In general, 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 survivors' benefits. However, over the short range the amount paid out for survivors benefits will not be affected significantly by variations in economic conditions. While favorable opportunities for employment will operate to increase the number of new death claims, 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 survivors benefits to forego them by working in covered employment. On balance, the amount paid out for survivors benefits over the next few years will differ so little whether the economic conditions of alternative I or alternative II are assumed that a single set of estimates is deemed appropriate for both alternatives (table 6).

On the other hand, the lower the level of employment during the next 5 years, the larger will be the volume of benefit payments to retired workers who have attained age 65, to their aged wives, and to their children. As is indicated in table 7, a considerable proportion of the workers aged 65 and over who were eligible for primary benefits in the past remained in covered employment (or, if they left covered employment, later returned to it) and did not receive benefits. During the course of fiscal years 1945-47, however, this proportion began to decrease—slowly at first and then accelerating—as the volume of withdrawals of older workers from covered employment increased. The withdrawal of older workers may be expected to continue for some time to come at rates approximately equivalent to those currently being experienced, even under the favorable employment conditions assumed under alternative I, with a consequent increase in the proportion in receipt of primary benefits.

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 TABLE 6.—*Treasury disbursements for benefit payments, distributed by classifications of beneficiaries, fiscal years 1941-52, subject to the assumptions and limitations stated in the text*¹

[In millions]

Fiscal year	Total benefit disbursements ²	Disbursed to primary beneficiaries	Disbursed to wives and children of primary beneficiaries	Disbursed to survivors of deceased insured workers			
				Monthly benefits			Lump-sum payments
				Total	Aged widows and parents	Younger widows and children	
Past disbursements: ³							
1941.....	\$64.3	\$31.4	\$5.3	\$15.3	\$1.5	\$13.8	\$12.3
1942.....	110.3	54.9	9.6	31.6	4.1	27.5	14.1
1943.....	149.3	72.4	12.7	47.5	7.9	39.6	16.7
1944.....	184.6	86.8	15.2	63.6	12.1	51.5	19.0
1945.....	239.8	109.1	19.2	85.8	17.7	68.1	25.7
1946.....	320.5	153.9	27.2	113.4	24.7	88.7	26.0
1947.....	425.6	219.2	38.4	139.4	33.8	105.6	28.5
Estimated future disbursements:							
1948.....	509	271	48	160	43	117	30
1949:							
Alternative I.....	599	327	57	184	54	130	31
Alternative II.....	676	393	68				
1950:							
Alternative I.....	681	376	65	208	67	141	32
Alternative II.....	786	465	81				
1951:							
Alternative I.....	768	428	75	232	81	151	33
Alternative II.....	888	531	92				
1952:							
Alternative I.....	855	480	84	256	95	161	35
Alternative II.....	964	573	100				

¹ In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared January 1948.

² Totals do not necessarily equal the sum of rounded components.

³ Partly estimated.

If the lower employment conditions assumed in alternative II should materialize, it is expected that still larger proportions of eligible workers will be obliged to leave covered employment, even at ages 65-69. Hence, despite a slightly smaller number of eligible workers, the number receiving primary benefits under alternative II would considerably exceed that under alternative I. Moreover, it is expected that the average primary benefit amount payable under alternative II would exceed the average under alternative I, inasmuch as many of the more steadily employed and, therefore, higher-paid older workers who would not withdraw from covered employment under the conditions of alternative I would not be employed under the conditions of alternative II. In consequence, alternative II would result in a substantially higher volume of benefit payments to primary beneficiaries and their wives and children.

Table 7 contains an analysis of workers eligible for primary benefits by age attained as of the middle (January 1) of each of the fiscal years 1941 through 1952. The growth in the number of eligible workers aged 65-69 is gradual but interrupted under both alternatives. This growth results partly from the increase in the population at these attained ages, but primarily from the fact that each passing year a larger proportion of the persons attaining age 65 have fully insured

status. In the calendar year 1940, a worker attaining age 65 would not have been fully insured if he had left covered employment more than 1½ or 2 years previous to his attainment of age 65—for example, due to a permanent disability—but in the calendar year 1952 numerous persons attaining age 65 will be fully insured even though they left covered employment before the age of 60.

TABLE 7.—Wage earners eligible for and receiving primary benefits by attained age of wage earners, fiscal years 1941-52, subject to the assumptions and limitations stated in the text ¹

Middle of fiscal year (Jan. 1)	All wage earners age 65 and over			Wage earners 65-69			Wage earners age 70 and over		
	Number eligible for benefits ²	Persons receiving benefits—		Number eligible for benefits ²	Persons receiving benefits—		Number eligible for benefits ²	Persons receiving benefits—	
		Number	Proportion of total number eligible		Number	Proportion of total number eligible		Number	Proportion of total number eligible
Actual experience:	<i>Thous.</i>	<i>Thous.</i>	<i>Pct.</i>	<i>Thous.</i>	<i>Thous.</i>	<i>Pct.</i>	<i>Thous.</i>	<i>Thous.</i>	<i>Pct.</i>
1941.....	548	112	20	376	85	23	172	28	16
1942.....	680	200	29	445	134	30	235	66	28
1943.....	831	260	31	522	153	29	309	107	35
1944.....	1,016	306	30	608	156	26	408	151	37
1945.....	1,244	378	30	708	167	24	536	211	39
1946.....	1,447	518	36	792	212	27	655	306	47
1947.....	1,626	702	43	851	271	32	775	430	55
Estimated future experience:									
1948.....	1,795	875	49	915	320	35	880	555	63
1949:									
Alternative I...	1,955	1,040	53	965	365	38	990	675	68
Alternative II...	1,920	1,215	63	940	465	49	980	750	77
1950:									
Alternative I...	2,110	1,175	56	1,020	405	40	1,090	770	71
Alternative II...	2,040	1,430	70	970	560	58	1,070	870	81
1951:									
Alternative I...	2,265	1,315	58	1,075	445	41	1,190	870	73
Alternative II...	2,165	1,600	74	1,005	635	63	1,160	965	83
1952:									
Alternative I...	2,425	1,445	60	1,130	480	42	1,295	965	75
Alternative II...	2,285	1,710	75	1,040	660	63	1,245	1,050	84

¹ In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared January 1948.

² Figures for 1941-47 are partly estimated.

Although the number of eligible workers aged 65-69 is expected to treble between January 1, 1941, and January 1, 1952, the aging of the program has an even greater effect on the number fully insured at attained ages 70 and over. This number is expected to increase more than sevenfold during this period, even under the lower-employment assumptions of alternative II. At the latter date, the number eligible at these attained ages should comprise more than one-half of the total number of eligible persons.

The estimates presented above result in a net increase in the trust fund during the 5-year period of about \$8.6 billion under alternative I and about \$7.2 billion under alternative II. It is entirely possible under alternative I that the amount of contribution income may be greater and benefit payments lower than has been estimated. The total result would be an even greater growth in the trust fund than is indicated under this alternative. On the other hand, lower contribution and interest income together with higher benefit payments than

shown under alternative II, would lead to smaller net increases in the trust fund.

ACTUARIAL STATUS OF THE TRUST FUND

Section 201 (b) of the Social Security Act requires the Board of Trustees to present each year a statement of the actuarial status of the trust fund. In the previous report of the Board, new cost illustrations were presented taking into account the foreseeable effects of the war and the brief postwar period to the date of that report. In the present report, no essential changes have been made in these cost estimates other than to allow for the new contribution schedule introduced in the Social Security Act Amendments of 1947. The past year's experience has not indicated any great need to modify these estimates, although the work of revision is necessarily a continuous process and new cost illustrations will no doubt be necessary within a few years.

In view of the striking economic changes due to the war, many of which have been discussed in previous reports, two sets of cost illustrations have been prepared, one being based on "high" economic assumptions (intended to represent close to full employment with average annual wages at about the level prevailing in 1944-46), and the other being based on "low" economic assumptions (intended to represent crudely and on the average employment conditions similar to those prevailing in 1940-41 combined with the annual wage level prevailing in 1941-42). In view of the current level of business activity and the established national policy of maintaining conditions conducive to full employment (as embodied in the Employment Act of 1946), it seems probable that the actual future experience, on the average, will be closer to the high economic assumptions than to the low ones. Within each of the two sets of assumptions there is a further subdivision into a low-cost example and a high-cost example, which will indicate the range present as a result of possible variations in such factors as mortality, fertility, retirement rates, and movement between covered and noncovered employment. If all other cost factors were maintained constant, costs expressed relative to pay roll would be lower under high economic assumptions than under low economic assumptions. However, the absolute dollar cost of benefits might be higher under high economic assumptions than under low economic assumptions. The combination of assumptions which would show a significantly wide range in percent of pay roll costs would not necessarily yield a range of absolute dollar costs sufficiently wide to reflect the many uncertainties involved in the demographic and economic factors underlying the estimates. It was considered desirable, therefore, to present in effect four cost examples, namely: low employment, low-cost assumptions; low employment, high-cost assumptions; high employment, low-cost assumptions; and high employment, high-cost assumptions.

Under the old-age and survivors insurance system benefits are available to the aged and to orphaned children and their widowed mothers. There are a number of basic cost factors which must be continuously recognized in analysis of the costs of this program.

(a) *Population.*—The future trend of the population depends upon the size and age distribution of the existing population as changed by