

## APPENDIX II. LEGISLATIVE HISTORY AFFECTING THE TRUST FUNDS

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

*Contribution rates.*—The Social Security Act of 1935 fixed the contribution rates for employees and their employers at 1 percent each on taxable wages for the calendar years 1937–39, and provided for higher rates thereafter. However, subsequent acts of Congress extended the 1-percent rates through calendar year 1949. On January 1, 1950, the rates rose to 1½ percent each for employees and employers, as provided by the Social Security Act Amendments of 1947. In accordance with the Social Security Act Amendments of 1950, the 1½-percent rates remained in effect through calendar year 1953, and, on January 1, 1954, rose to 2 percent each for employees and employers. These rates remained in effect through December 31, 1956. In accordance with the Social Security Amendments of 1956, the 2-percent rates rose to 2¼ percent each on January 1, 1957, and remained in effect through calendar year 1958. On January 1, 1959, the rates rose to 2½ percent each, and on January 1, 1960, to 3 percent each, as provided by the Social Security Amendments of 1958. Beginning January 1, 1951—the effective date of extension of coverage to self-employed persons—the rates of tax on self-employment income have been equal to 1¼ times the corresponding employee rates.

*Special refunds of employee contributions.*—With respect to wages paid before 1951, refunds to employees who worked for more than one employer during the course of a year and paid contributions on such

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

*Credits for military service.*—The Social Security Act Amendments of 1946 provided survivor-insurance protection to certain World War II veterans for a period of 3 years following their discharge from the Armed Forces. Federal appropriations were authorized to reimburse the Federal old-age and survivors insurance trust fund for such sums as were withdrawn to meet the additional cost (including administrative expenses) of such payments. The 1950 amendments, which provided noncontributory \$160 monthly wage credits to persons who served in the Armed Forces during World War II, and the 1952, 1953, 1955, and 1956 amendments which provided similar noncontributory credits on account of active military or naval service from July 25, 1947, through December 31, 1956, charged to the old-age and survivors insurance trust fund not only the additional costs arising from these credits but also, beginning September 1950, those additional costs arising under the 1946 amendments. The 1956 amendments provided contributory coverage for military personnel beginning January 1, 1957.

*Social Security Act Amendments of 1950.*<sup>1</sup>—The 1950 amendments to the Social Security Act and related sections of the Internal Revenue Code, which represented the first major legislative changes in the old-age and survivors insurance program since enactment of the 1939 amendments, became law August 28, 1950.

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

1. Compulsory coverage was extended to regularly employed domestic and farm employees; most Federal employees not covered under the civil service retirement program; the nonfarm self-employed other than doctors, lawyers, engineers, and members of certain other professional groups; employees and the self-employed in Puerto Rico and the Virgin Islands; and a few other small occupational classes. In addition, two categories of employees were given the opportunity to be covered on a group voluntary basis—employees of nonprofit institutions and employees of State and local governments who are not under retirement systems.

2. Benefits were made payable in certain circumstances in which no benefits would formerly have been paid.

(a) The requirements for fully insured status were liberalized by introducing a new starting date for determining such status. This "new start" enabled many persons at least 65 years of age who did not meet the former requirements to become immediately eligible to receive retirement benefits. It also removed the disadvantage the

<sup>1</sup> Certain provisions in these amendments were further changed in subsequent legislation.

newly covered groups would otherwise have faced in acquiring eligibility.

(b) Provisions defining dependency were modified to permit the payment of survivor benefits to all unmarried children under 18 years of age whose mothers were currently insured at time of death.

(c) Several new benefits for dependents and survivors of insured persons were added. Benefits equal to 50 percent of the primary insurance amount would be payable to a wife, under 65 years of age, of an old-age (primary) beneficiary as long as she had in her care a child entitled to benefits on her husband's earnings. In certain instances benefits would be payable to the dependent husband, aged 65 or over, of a retired female beneficiary, and also to the aged surviving dependent widower of a deceased woman worker. Husband's and widower's benefits are equal to 50 and 75 percent, respectively, of the primary insurance amount.

(d) The provisions governing the withholding of benefits because of work in covered employment were liberalized. Eligible persons at least 75 years of age could receive benefits regardless of the amount of their earnings in covered employment. Those under 75 years of age might earn as much as \$50 a month in covered employment and still receive benefits.

(e) Lump-sum death payments were made available even though monthly benefits were payable to survivors for the month in which the wage earner died.

(f) Monthly benefits were made payable retroactively for a period up to 6 months prior to the month in which an application was filed, provided the beneficiary was eligible therefor.

3. Larger benefits were made payable to future beneficiaries as well as to persons on the rolls.

(a) The maximum amount of annual earnings taxable and creditable was raised to \$3,600.

(b) For persons having at least six quarters of coverage after 1950, the average monthly wage might be calculated over all years after 1936 or after 1950, whichever yielded the larger primary insurance amount, except that in the case of such individuals born after 1928, the 1950 starting date was required. Where the wage earner lacked six quarters of coverage after 1950, benefits to future beneficiaries would be based on an average monthly wage computed over all years after 1936.

(c) For persons whose average monthly wage was calculated on the basis of earnings after 1950, the monthly primary insurance amount was figured by taking 50 percent of the first \$100 of average monthly wage, plus 15 percent of the next \$200. The minimum primary insurance amount ranged from \$25 for persons with average monthly wages between \$35 and \$50, down to \$20 for persons with average monthly wages below \$31.

(d) For persons already on the beneficiary rolls, benefits were increased by means of a conversion table contained in the amendments. In the cases referred to in subparagraph (b) above, where the average monthly wage was computed over all years after 1936, benefits would be computed by the old formula, except that no 1-percent increment would be included for years after 1950. The amount so computed would then be increased by means of the conversion table.

(e) Parent's benefits were increased to 75 percent of the primary insurance amount. Child-survivor benefits were increased so as to

pay to each child the sum of (1) 50 percent of the primary insurance amount, and (2) 25 percent of the primary insurance amount, divided by the number of child beneficiaries in the family. The amount of the lump-sum death payment was changed from six times the primary insurance benefit to three times the primary insurance amount.

(f) The maximum monthly amount of family benefits payable with respect to one wage record became the smaller of \$150 or 80 percent of the average monthly wage, provided that the latter limit would not reduce benefits below \$40.

4. The provision which was added to the Social Security Act in 1943 authorizing appropriations to the trust fund from general revenues when needed to meet costs was eliminated.

*Social Security Act Amendments of 1952.*<sup>2</sup>—The 1952 amendments to the Social Security Act became law July 18, 1952. The important changes, significant from an actuarial standpoint, are presented below.

1. Larger benefits were made payable to beneficiary families on the rolls as well as to virtually all future beneficiary families.

(a) For persons with an average monthly wage calculated on the basis of earnings after 1950, the monthly primary insurance amount was raised to 55 percent of the first \$100 of average monthly wage, plus 15 percent of the next \$200. The minimum primary insurance amount was made \$25 for persons whose average monthly wage was under \$35, and \$26 for persons with average monthly wages from \$35 to \$47.

(b) For persons already on the beneficiary rolls whose benefits were determined by the conversion table, benefits were increased by the use of a new conversion table in which all primary insurance amounts in the table of the 1950 law were increased by 5 or 12½ percent, whichever was larger. This new conversion table would be applicable in determining benefits for all future beneficiaries whose average monthly wage was computed over all years since 1936.

(c) The maximum monthly amount of family benefits payable with respect to one wage record was the smaller of \$168.75 or 80 percent of the average monthly wage, provided that the latter limit would not reduce benefits below \$45.

2. The provision governing the withholding of benefits because of work in covered employment was liberalized. The amount which eligible persons under age 75 might earn in covered employment and still receive benefits was increased to \$75 a month.

*Social Security Amendments of 1954.*<sup>3</sup>—The 1954 amendments to the Social Security Act and related sections of the Internal Revenue Code became law September 1, 1954. The important changes significant from an actuarial standpoint are presented below:

1. Compulsory coverage was extended to self-employed farm operators; certain self-employed professional persons; additional farm, domestic, and Federal civilian employees; and some smaller groups. Coverage under the program was made possible on a group voluntary basis for State and local government employees who are members of retirement systems (except policemen and firemen) and for employees of foreign subsidiaries of American companies. Ministers and certain members of religious orders were permitted to participate in the program on the basis of the individual's irrevocable election.

<sup>2</sup> Certain provisions in these amendments were further changed in subsequent legislation.

<sup>3</sup> Certain provisions in these amendments were further changed in subsequent legislation.

2. The conditions under which persons may become eligible for benefits were liberalized.

(a) Monthly benefits became payable to certain surviving dependents of individuals who died after 1939 and before September 1950, lacking fully insured status under the law then in effect, but who had at least six quarters of coverage.

(b) Persons who could not meet the requirements of the 1950 amendments for fully insured status would nevertheless be fully insured if all quarters elapsing after 1954 and before July 1956 as well as all quarters thereafter but before the quarter of death or attainment of age 65, whichever is earlier, were quarters of coverage. This transitional provision, intended principally for newly covered persons, would cease to be effective for persons who die or attain age 65 after the third quarter of 1958, when the normal requirements became as easy or easier to meet.

(c) Periods of disability (see item 4, below) would not affect insured status.

(d) Monthly benefits were made payable retroactively for a period up to 12 months before the month in which an application was filed, provided the beneficiary was eligible therefor.

3. Larger benefits were made payable to future beneficiaries as well as persons on the rolls.

(a) The maximum amount of annual earnings taxable and creditable toward benefits was raised to \$4,200.

(b) In computing the average monthly wage of persons who became eligible for retirement benefits or die after August 1954 before becoming eligible for retirement benefits, up to 5 years of lowest earnings may be dropped for persons with at least 20 quarters of coverage and up to 4 years for other persons. This "dropout" computation may also be used for persons who were eligible for retirement benefits before September 1954 and who have at least six quarters of coverage after June 1953.

(c) Periods of disability (see item 4, below) would not reduce the average monthly wage for the purpose of benefit computation.

(d) For persons whose average monthly wage is calculated on the basis of earnings after 1950 and the "dropout," the primary insurance amount became 55 percent of the first \$110 of average monthly wage plus 20 percent of the next \$240. The minimum primary insurance amount became \$30.

(e) For persons already on the benefit rolls, and for future beneficiaries whose benefits are computed under the 1939 or 1952 benefit formulas, benefits were increased by use of a revised conversion table which provided a guaranteed increase in primary insurance amount of at least \$5 over the amount computed under the 1952 amendments.

(f) The minimum benefit for a family containing only one survivor beneficiary became \$30.

(g) The maximum monthly amount of family benefits payable with respect to one wage record was raised to the smaller of \$200 or 80 percent of the average monthly wage provided that the latter limit may not reduce benefits below the larger of \$50 or  $1\frac{1}{2}$  times the primary insurance amount. The maximum lump-sum death payment was increased to \$255.

4. Benefit rights of persons regularly covered by the program can be "frozen" during periods of prolonged total disability. In order to

qualify for the "freeze," an individual must (1) be unable to engage in any substantial gainful activity by reason of illness, injury, or other physical or mental impairment which can be expected to be of long-continued and indefinite duration or to result in death, or (2) the individual must be blind. He must also have at least 6 quarters of coverage during the 13-quarter period, and at least 20 quarters of coverage during the 40-quarter period, that ends with the quarter in which the period of disability begins. If an individual qualifies for a disability "freeze," his period of disability will be disregarded in determining his insured status and in computing benefits due him or his family.

5. The provisions governing the withholding of benefits because of work were changed.

(a) The retirement test was placed on an annual basis for both wages and self-employment income. If an individual's annual earnings were \$1,200 or less, no benefits are withheld. Each \$80 (or fraction thereof) in earnings above \$1,200 might result in deduction of 1 month's benefits for the individual. Benefits were not to be withheld for any month for which the individual had \$80 or less in wages and did not engage in substantial self-employment.

(b) Earnings in noncovered as well as in covered employment were to be taken into account in determining whether benefits should be withheld.

(c) The age at which benefits were payable without regard to earnings was reduced to 72.

*Social security amendments in 1956.*<sup>4</sup>—The 1956 amendments to the Social Security Act and related sections of the Internal Revenue Code (Public Laws 880 and 881) became law on August 1, 1956.

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

1. Coverage was extended on a contributory basis to members of the uniformed services, effective January 1, 1957. Coverage was also extended to additional civilian jobs—principally, additional farm owners and operators, all previously excluded self-employed professional persons except doctors of medicine, certain Federal civilian employees, and certain additional State and local government employees in specified States.

2. Monthly benefits were provided, beginning July 1957, for insured workers aged 50 to 64 with very severe long-term disabilities. Benefit payments begin after a waiting period of 6 consecutive months of disability. The amount of the monthly disability benefit is the same as the primary insurance amount, computed as though the worker became entitled to old-age benefits in the first month of his waiting period. These benefits are payable from a fund that is separate from the old-age and survivors insurance trust fund (see items 5 (a) and (b), below).

3. The conditions under which persons may become eligible for benefits were liberalized.

(a) Monthly benefits were provided, beginning January 1957, for a dependent, unmarried, disabled child aged 18 or over of a retired aged worker or a deceased insured worker if the child was totally disabled before attaining age 18 and if the disability has continued uninterruptedly since age 18. Benefits are also payable to a mother

<sup>4</sup> Certain provisions in these amendments were further changed in subsequent legislation.

having such a child in her care. Benefits to both child and mother are payable from the old-age and survivors insurance trust fund.

(b) The minimum retirement age at which women may qualify for benefits was reduced from 65 to 62. Full-rate benefits are payable at age 62 to widows and to dependent mothers of deceased insured workers. Women who elect to receive a retired worker's or wife's benefit when they are between age 62 and 65 will receive reduced benefits (both before and after age 65) which are, on an actuarial basis, virtually equivalent to the full-rate benefits they would have received if they were aged 65 at the time they applied for benefits. One effect of reducing the minimum retirement age for women was a change in the basis for calculating a woman worker's average monthly wage (see item 4(b) below). Another effect was a liberalization in the insured status requirements. For women workers with dates of birth from July 2, 1889, to January 1, 1909, the eligibility provisions were liberalized by terminating at age 62 instead of age 65 the elapsed period which fixes the number of quarters of coverage required to be eligible for old-age insurance benefits.

(c) Persons who cannot meet the requirements of the 1950 or 1954 amendments for fully insured status will nevertheless be fully insured if they have quarters of coverage in all but four of the quarters elapsing after 1954 and before (1) July 1957, or (2) if later, the quarter of death or attainment of retirement age. This transitional provision, intended principally for persons newly covered in 1956, will cease to be effective for persons who die or attain retirement age after the third quarter of 1960, when the normal requirements become as easy or easier to meet.

4. Larger benefits were made payable in the future to certain beneficiaries.

(a) In computing the average monthly wage of an insured person, 5 years of lowest earnings may be dropped, regardless of the number of quarters of coverage he has. For persons retiring in 1957 and 1958 this meant that the average could be computed on the highest 2 years of earnings since 1950.

(b) With the lowering of the minimum retirement age for women from 65 to 62, the average monthly wage of a female insured worker is computed on the basis of the earnings up to the year of attainment of age 62 or, if it would result in a higher benefit, up to the year of retirement if later. In effect, the lowering of the minimum retirement age from 65 to 62 makes a dropout of 3 additional years of lowest earnings possible for many women workers.

5. A disability insurance trust fund was created which is entirely separate from the old-age and survivors insurance trust fund and from which monthly benefits are payable to disabled workers. Beginning with 1957, contributions at the rate of one-fourth of 1 percent each for employees and employers, and three-eighths of 1 percent for the self-employed, are payable into this new fund to finance these benefits and related administrative expenses.

6. Before each scheduled increase in the contribution rate, an Advisory Council on Social Security Financing is to be appointed by the Secretary of Health, Education, and Welfare to review the status of the old-age and survivors insurance trust fund and the disability insurance trust fund in relation to the long-term commitments of the program. The report of the first council was included in the 19th annual report of the Board of Trustees.

7. The old-age and survivors insurance trust fund and, where appropriate, the disability insurance trust fund will be reimbursed from general revenues for expenditures after August 1950 resulting from the provisions that granted noncontributory \$160 monthly wage credits to persons who served in the Armed Forces from September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 that granted survivorship protection to certain World War II veterans for a period of 3 years after leaving service.

8. The basis for determining the interest rate on public-debt obligations to be purchased by the trust funds was changed. Formerly these obligations were 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 was not a multiple of one-eighth of 1 percent, the rate of interest on such obligations was required to be the multiple of one-eighth of 1 percent next lower than such average rate). Investments after July 31, 1956, bear a rate of interest equal to the average rate of interest borne by all marketable Government obligations with maturity dates exceeding 5 years from date of issue, the average rate being rounded to the nearest one-eighth of 1 percent.

*Social Security Amendments of 1958.*—The 1958 amendments to the Social Security Act and related sections of the Internal Revenue Code (Public Law 85-840) became law on August 28, 1958.

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

1. Larger benefits were made payable to future beneficiaries as well as to persons on the rolls. The primary insurance amounts on which the new benefit rates were based were shown in a benefit table that replaced the benefit formulas and conversion table of prior law.

(a) The maximum amount of earnings taxable and creditable toward benefits was raised to \$4,800 a year, beginning with 1959.

(b) Benefit amounts were increased, beginning January 1959, by about 7 percent. The minimum primary insurance amount was raised to \$33, and the maximum primary insurance amount for beneficiaries on the rolls in January 1959 became \$116. For workers subsequently coming on the rolls, benefits could range as high as \$127, because of the higher earnings base.

(c) The minimum benefit for a family containing only one survivor beneficiary was raised to \$33.

(d) The maximum monthly amount of family benefits payable with respect to each amount of average monthly earnings was set forth in the benefit table. In general, as in prior law, benefits were limited to 80 percent of average monthly earnings, but this could not reduce benefits below  $1\frac{1}{2}$  times the primary insurance amount (or the primary insurance amount plus \$20, if larger). The dollar maximum on family benefits was raised from \$200 to \$254.

2. Beginning with September 1958, the same benefits were provided for wives, dependent husbands, and children of disability insurance beneficiaries as those previously provided for dependents of old-age insurance beneficiaries. These benefits are payable from the disability insurance trust fund.

3. The disability benefits offset provision was repealed effective with benefits payable for August 1958. This provision had required



that the monthly benefits payable to disabled workers (and those payable to persons disabled in childhood) be reduced by the amount of any periodic benefit payable on account of disability under other Federal programs (other than veteran's compensation) or under State workmen's compensation systems.

4. The requirement of currently insured status for the disability "freeze" and for disability insurance benefits was removed. Fully insured status was added as a requirement for the freeze, so that work requirements for the freeze and for cash benefits are the same.

5. Disability insurance benefits were made payable for as many as 12 months before the month in which the application was filed if all other requirements were met for such prior months.

6. The deadline of June 30, 1958, for filing fully retroactive disability freeze applications was postponed to June 30, 1961. Disability freeze applicants who file after June 30, 1961, may establish a freeze period beginning as early as 18 months before the month of filing application.

7. Changes were made in provisions relating to dependents benefits.

(a) Dependent parents of a deceased worker were made eligible for benefits even though a widow, a dependent widower, or a dependent child survived the worker.

(b) The same rules for presuming dependency on their parents that applied to younger children were made applicable to disabled children aged 18 or over. Under previous law, a disabled child who was 18 or over at the time he applied for a child's insurance benefit or at the time his parent died was required to show that he had been receiving at least one-half of his support from his parent.

8. Retirement test provisions were amended to raise from \$80 to \$100 the amount of wages a beneficiary could earn in a month without losing benefits for that month even though during the year he earned above \$1,200, the annual exempt amount.

9. Changes relating to the financing of the system were made with the intent of assuring that it would continue to be self-supporting. The employee and employer contribution rates for old-age and survivors insurance were each increased, as of January 1, 1959, by one-fourth of 1 percent above the previously scheduled rates, with a corresponding increase for the self-employed. Future increases in tax rates were scheduled at 3-year intervals (rather than at 5-year intervals) beginning with 1960. The employer-employee contribution rate schedule, including the rate of one-half of 1 percent for disability insurance, was changed as follows: 1959, 5 percent; 1960-62, 6 percent; 1963-65, 7 percent; 1966-68, 8 percent; 1969 and thereafter, 9 percent. The contribution rates on self-employment income were continued at 1½ times the employee rates.

*Social Security Amendments of 1960.*—The more important changes, significant from an actuarial standpoint, are presented in the section "Social Security Amendments of 1960" in the main body of this report.

*Coordination of old-age, survivors, and disability insurance and railroad retirement programs.*—Public Law 234, approved October 30, 1951, amended the Railroad Retirement Act to provide a new basis of coordinating the railroad retirement program with old-age and survivors insurance. This legislation provides that the railroad wage credits of workers who die or retire with less than 10 years of railroad

employment shall be transferred to the old-age and survivors insurance system. These amendments did not affect workers who acquire 10 years or more of railroad service. That is, the survivors of over-10-years railroad workers will, as under the 1946 amendments to the Railroad Retirement Act, receive benefits under one program or the other based on combined wage records, while retirement benefits will be payable under both systems to individuals with 10 or more years of railroad service who also qualify under old-age and survivors insurance.

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

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

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

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

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

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

*Change in definition of "employee".*—Public Law 642, approved June 14, 1948, which amended the definition of the term "employee" as used in the Social Security Act, resulted in the exclusion from coverage of certain services previously held covered. While the amended definition was made retroactive to 1937, certain wage credits established under the former definition will remain credited to the individual's account. The law authorizes an appropriation to the

trust fund from general revenues equal to the estimated total amount of benefits paid and to be paid that would not have been paid had the amended definition been in effect beginning in 1937.

*Authorization for construction of office building.*—With the passage of Public Law 86-30, approved May 20, 1959, Congress authorized expenditures from the trust funds of \$32,290,000 for construction of an office building and related facilities for the Bureau of Old-Age and Survivors Insurance.

APPENDIX III. STATUTORY PROVISIONS, AS OF SEPTEMBER 13, 1960, CREATING THE TRUST FUNDS, DEFINING THE DUTIES OF THE BOARD OF TRUSTEES, AND PROVIDING FOR ADVISORY COUNCILS ON SOCIAL SECURITY FINANCING

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

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

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

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

(2) the taxes certified each month by the Commissioner of Internal Revenue as taxes received under subchapter A of chapter 9 of such Code which are deposited into the Treasury by collectors of internal revenue after December 31, 1950, and before January 1, 1953, with respect to assessments of such taxes made before January 1, 1951; and

(3) the taxes imposed by subchapter A of chapter 9 of such Code with respect to wages (as defined in section 1426 of such Code), and by chapter 21 of the Internal Revenue Code of 1954 with respect to wages (as defined in section 3121 of such Code) re-reported to the Commissioner of Internal Revenue pursuant to section 1420(c) of the Internal Revenue Code of 1939 after

December 31, 1950, or to the Secretary of the Treasury or his delegates pursuant to subtitle F of the Internal Revenue Code of 1954 after December 31, 1954, as determined by the Secretary of the Treasury by applying the applicable rates of tax under such subchapter or chapter 21 to such wages, which wages shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of wages established and maintained by such Secretary in accordance with such reports, less the amounts specified in clause (1) of subsection (b) of this section; and

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

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

There is hereby created on the books of the Treasury of the United States a trust fund to be known as the "Federal Disability Insurance Trust Fund." The Federal Disability Insurance Trust Fund shall consist of such amounts as may be appropriated to, or deposited in, such fund as provided in this section. There is hereby appropriated to the Federal Disability Insurance Trust Fund for the fiscal year ending June 30, 1957, and for each fiscal year thereafter, out of any moneys in the Treasury not otherwise appropriated, amounts equivalent to 100 per centum of—

(1) One-half of 1 per centum of the wages (as defined in section 3121 of the Internal Revenue Code of 1954) paid after December 31, 1956, and reported to the Secretary of the Treasury or his delegate pursuant to subtitle F of the Internal Revenue Code of 1954, which wages shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of wages

established and maintained by such Secretary in accordance with such reports; and

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

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

- (1) Hold the Trust Funds;
- (2) Report to the Congress not later than the first day of March of each year on the operations and status of the Trust Funds during the preceding fiscal year and on their expected operation and status during the next ensuing five fiscal years;
- (3) Report immediately to the Congress whenever the Board of Trustees is of the opinion that the amount of either of the Trust Funds is unduly small;
- (4) Recommend improvements in administrative procedures and policies designed to effectuate the proper coordination of the old-age and survivors insurance and Federal-State unemployment compensation program; and
- (5) Review the general policies followed in managing the Trust Funds, and recommend changes in such policies, including necessary changes in the provisions of the law which govern the way in which the Trust Funds are to be managed.

The report provided for in paragraph (2) above shall include a statement of the assets of, and the disbursements made from, the Trust Funds during the preceding fiscal year, an estimate of the expected future income to, and disbursements to be made from, the Trust Funds during each of the next ensuing five fiscal years, and a statement of the actuarial status of the Trust Funds. Such reports shall be printed as a House document of the session of the Congress in which the report is made.

(d) It shall be the duty of the Managing Trustee to invest such portion of the Trust Funds as is not, in his judgment, required to meet current withdrawals. Such investments may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such

purposes such obligations may be acquired (1) on original issue at the issue price, or (2) by purchase of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of public-debt obligations for purchase by the Trust Funds. Such obligations issued for purchase by the Trust Funds shall have maturities fixed with due regard for the needs of the Trust Funds and shall bear interest at a rate equal to the average market yield (computed by the Managing Trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States then forming a part of the public debt which are not due or callable until after the expiration of four years from the end of such calendar month; except that where such average market yield is not a multiple of one-eighth of 1 per centum, the rate of interest of such obligations shall be the multiple of one-eighth of 1 per centum nearest such market yield. The Managing Trustee may purchase other interest-bearing obligations of the United States or obligations guaranteed as to both principal and interest by the United States, on original issue or at the market price, only where he determines that the purchase of such other obligations is in the public interest.

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

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

(g)(1) The Managing Trustee is directed to pay from the Trust Funds into the Treasury the amounts estimated by him and the Secretary of Health, Education, and Welfare which will be expended, out of moneys appropriated from the general funds in the Treasury, during a three-month period by the Department of Health, Education, and Welfare and the Treasury Department for the administration of titles II and VIII of this Act and subchapter E of chapter 1 and subchapter A of chapter 9 of the Internal Revenue Code of 1939, and chapters 2 and 21 of the Internal Revenue Code of 1954. Such payments shall be covered into the Treasury as repayments to the account for reimbursement of expenses incurred in connection with the administration of titles II and VIII of this Act and subchapter E of chapter 1 and subchapter A of chapter 9 of the Internal Revenue Code of 1939, and chapters 2 and 21 of the Internal Revenue Code of 1954. There are hereby authorized to be made available for expenditure, out of either or both of the Trust Funds, such amounts as the Congress may deem appropriate to pay the cost of administration of this title. After the close of each fiscal year, the Secretary of Health, Education, and Welfare shall analyze the costs of administration of this title incurred during such fiscal year in order to determine the portion of such costs which should have been borne by each of the Trust Funds and shall certify to the Managing Trustee the amount, if any, which should be

transferred from one to the other of such Trust Funds in order to insure that each of the Trust Funds has borne its proper share of the costs of administration of this title incurred during such fiscal year. The Managing Trustee is authorized and directed to transfer any such amount from one to the other of such Trust Funds in accordance with any certification so made.

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

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

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

#### PAYMENTS AND REPORTS BY STATES

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

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

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

#### DEPOSITS IN TRUST FUNDS; ADJUSTMENTS

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

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

(3) If an overpayment cannot be adjusted under paragraph (2), the amount thereof and the time or times it is to be paid shall be certified by the Secretary of Health, Education, and Welfare to the Managing Trustee, and the Managing Trustee, through the Fiscal Service of the Treasury Department and prior to any action thereon by the General Accounting Office, shall make payment in accordance with such certification. The Managing Trustee shall not be held personally liable for any payment or payments made in accordance with a certification by the Secretary of Health, Education, and Welfare.

#### FAILURE TO MAKE PAYMENTS

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

#### ADVISORY COUNCIL ON SOCIAL SECURITY FINANCING

SEC. 116. (a) There is hereby established an Advisory Council on Social Security Financing for the purpose of reviewing the status of the Federal Old-Age and Survivors Insurance Trust Fund and of the Federal Disability Insurance Trust Fund in relation to the long-term commitments of the old-age, survivors, and disability insurance program.

(b) The Council shall be appointed by the Secretary after February 1957 and before January 1958 without regard to the civil service laws and shall consist of the Commissioner of Social Security, as chairman, and of twelve other persons who shall, to the extent possible, represent



employers and employees in equal numbers, and self-employed persons and the public.

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

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

(d) The Council shall make a report of its findings and recommendations (including recommendations for changes in the tax rates in sections 1401, 3101, and 3111 of the Internal Revenue Code of 1954) to the Secretary of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, such report to be submitted not later than January 1, 1959, after which date such Council shall cease to exist. Such findings and recommendations shall be included in the annual report of the Board of Trustees to be submitted to the Congress not later than March 1, 1959.

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

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