

worthwhile additional information about the overlap and its effects and might suggest new and better ways of dealing with the problem.

ADMINISTRATION OF THE SOCIAL SECURITY PROGRAM

The effectiveness of any law depends, in large part, on how good a job is done by those responsible for carrying it out; a law is only as good as its administration.

From our own observations and from the evaluations of others, we believe that the huge task of administering the social security program, a task which involves the rights of many millions of people and the payment of billions of dollars a year, is being handled effectively and efficiently.

Administrative costs have been kept down to only 2.2 percent of benefit payments, partly as a consequence of the use of the latest in methods and machinery. This low administrative cost, however, has not been achieved by sacrificing high-quality service to the public. Employees at all levels have combined efficient performance of duties with responsiveness to the public and a friendly and sympathetic concern for the aged, the disabled, and the widows and orphans who are the program's beneficiaries.

We should like to register our belief that accomplishment of the purposes of the social security program requires that this high quality of administration—nonpartisan and professional—be continued.

CONCLUSION

The Council believes that the adoption of the recommendations made in this report will increase markedly the effectiveness of social insurance as a method for providing security to the American family when income is cut off in old age or by total disability or death. Moreover, adoption of these recommendations will make sure that the existing social security program will continue on a financially sound basis and that the proposed extension of the social insurance principle to cover hospital insurance for the aged and the permanently and totally disabled will be soundly financed.

The Council has no thought that the changes herein recommended will be the final step in the development of the American social security program. In the opinion of the Council, the proposed changes would do no more than make improvements that are clearly indicated by experience with the social security program up to the present time. Consequently, the Council urges that every 5 years or so Advisory Councils be formed to review the substantive provisions of the program as well as its financing.

The Council believes that social insurance is an institution that is basic and vital to the economic security of almost every American family, and that because of its great importance it must be constantly re-examined and brought up to date. The fulfillment of the promise of social security for the American worker and his family which was implicit in the original Social Security Act will depend on continuing wisdom and alertness to make sure that our use of the social insurance mechanism to combat insecurity among our people is adapted to changing needs and conditions inherent in our dynamic society.

APPENDIX A

STATEMENT OF REINHARD A. HOHAUS ON PART II, "HOSPITAL INSURANCE FOR OLDER PEOPLE AND THE DISABLED"

The issues posed by this section of the Report are quite complex and far reaching in their impact. Extensive experience and studies in both private and social insurance lead me to take exception to the basic recommendation made in Part II. In short, I believe the analysis and the proposals contained in this part of the Report should be regarded as primarily a useful means of fostering discussion as to what might be the most appropriate ultimate moves. My reasons for these reservations are summarized briefly below.

This proposal to provide social insurance to pay for hospital care and certain related medical services for older people and the disabled differs profoundly from our system of paying cash benefits to beneficiaries under social security. I believe the proposal and its implications should be examined and evaluated more thoroughly before any final conclusions are reached.

The Report recognizes quite correctly that more is involved here than inpatient care in hospitals. It also acknowledges that some flexibility is needed in providing medical care benefits; this need is reflected by its proposals for benefits that would help pay the cost of certain outpatient services and of home nursing

care. There are many uncertainties, however, as to what collateral effects the covered services would have on other medical services.

We are not dealing with matters that are fixed or stable, but rather with conditions that have been changing rapidly and will continue to change. We know that the availability of voluntary insurance and prepayment plans has already had marked effect on the utilization of hospital facilities. With this have come very serious financial questions. While the matter of cost is exceedingly important, we also need to know much more clearly where any initial move is likely to lead, so we can better judge whether the direction indicated is a desirable path to take.

I have long been a strong supporter of the principles that have been incorporated in our social security program. I am also strongly inclined toward principles which advocate harmonizing voluntary efforts with Governmental measures, such as the Report endorses. Unquestionably, further evidence must be developed as to whether or not this kind of partnership can be accomplished effectively by the procedure proposed in the Report.

In the formulation of the proposals contained in the Report, not enough recognition has been given to the rapid growth and present scope of voluntary insurance for older people. Instead of supplementing existing plans which have won wide public acceptance, the proposal might lead to adverse consequences. Before moving into this area the potential economic and social consequences should be weighed at greater length than has been done. In like manner, the consequences of alternative measures must also be considered before final conclusions are reached.

Much progress has been made in better identifying the issues for objective consideration and appraisal. The Report contributes substantially toward that end, especially in its recognition that hospital care is but one, though an important, area of medical care. It also recognizes that in many cases care may be required far beyond the limited period of hospital care suggested in the proposal.

Where the range of need among the aged is so great, it is especially important to make certain that any aid provided through Government is utilized most effectively and in a manner that truly advances the health and welfare of all our citizens.

Further comments on the cost of the proposal on hospital insurance are given below.

STATEMENT OF REINHARD A. HOHAUS ON THE COST OF THE CHANGES RECOMMENDED IN PARTS II AND III

The Report expresses concern about the impact of the recommended financing provisions on our economy and the taxpayers, in both the short run and in the long run. It asks, in effect, that the necessary taxes be such that they can be borne "by the employee, employer and the self-employed without undue burden or strain".

One of the major findings in the Report is:

"The maximum amount of annual earnings that is taxable and creditable toward benefits needs to be substantially increased in order to maintain the wage-related character of the benefits, to restore a broader financial base for the program and to apportion the cost of the system among low-paid and higher-paid workers in the most desirable way."

I agree with that recommendation.

The table on page 102 estimates the "level-cost of the benefits of the present program" at 9.09 percent of taxable payroll under a \$4,800 earnings base. The table also estimates that if this taxable base is increased from \$4,800 to the \$6,000-\$7,200 base recommended in the Report and if the present benefit formula is extended to the new base, the level-cost would be .59 percent of taxable payroll lower. Stated another way, a liberalization costing that percentage of the new taxable payroll would not change the present level-cost of 9.09 percent of taxable payroll.

However, if all of the Council's proposals [Parts II and III] are enacted, the level-cost will increase to 10.13 percent of taxable payroll with respect to the recommendations of Part III, and with the level-cost of .90 percent of taxable payroll with respect to her recommendations of Part II (see p. 84), there would be a total level-cost of 11.03 percent of taxable payroll. This would be an increase of about 21 percent above the level-cost of 9.09 percent of taxable payroll applicable to the present program.

An increase of this magnitude, in addition to an increase in the maximum earnings used for determining taxable payrolls, warrants serious scrutiny and public discussion. The cost of adopting all of the recommendations raises important questions as to priority in the distribution of our economic resources.

APPENDIX B

ACTUARIAL COST ESTIMATES FOR THE COUNCIL'S RECOMMENDATIONS

(Prepared by Robert J. Myers, Chief Actuary,
Social Security Administration)

This appendix first discusses various matters relating to the actuarial cost estimates (such as the underlying assumptions and methodology) and then presents the results of these estimates.

A. CONCEPT OF ACTUARIAL BALANCE OF SYSTEM

The concept of actuarial balance as it applies to the old-age, survivors, and disability insurance system differs considerably from this concept as it applies to private insurance and private pension plans, although there are certain points of similarity with the latter. In connection with individual insurance, the insurance company or other administering institution, in order to be in actuarial balance, must have sufficient funds on hand so that if operations are terminated, it will be in a position to pay off all the accrued liabilities. This requirement, however, is not necessary for a national compulsory social insurance system. It might be pointed out that well-administered private pension plans have sometimes not funded all their liability for prior service benefits.

It can reasonably be presumed that, under Government auspices, such a social insurance system will continue indefinitely into the future. The test of financial soundness, then, is not a question of whether there are sufficient funds on hand to pay off all accrued liabilities. Rather, the test is whether the expected future income from tax contributions and from interest on invested assets will be sufficient to meet anticipated expenditures for benefits and administrative costs. Thus, since the concept of "unfunded accrued liability" does not by any means have the same significance for a social insurance system as it does for a plan established under private insurance principles, it is quite proper to count both on receiving contributions from new entrants to the system in the future and on paying benefits to this group. These additional assets and liabilities must be considered in order to determine whether the system is in actuarial balance.

The question of whether the old-age, survivors, and disability insurance program is in actuarial balance depends upon whether the estimated future income from contributions and from interest earnings on the accumulated trust fund investments will, over the long run, support the disbursements for benefits and administrative expenses. Obviously, future experience may be expected to vary from the actuarial cost estimates made now. Nonetheless, the intent that the system be self-supporting can be expressed in law by utilizing a contribution schedule that, according to the intermediate-cost estimate, results in the system being in balance or substantially close thereto.

The congressional committees concerned with the program have expressed the belief that it is a matter for concern if any portion of the old-age, survivors, and disability insurance system shows any significant actuarial insufficiency. Traditionally, the view has been held that for the old-age and survivors insurance portion of the program, if such actuarial insufficiency when measured over perpetuity has been no greater than 0.25 percent of payroll, it is at the point where it is within the limits of permissible variation. The corresponding point for the disability insurance portion of the system is about 0.05 percent of payroll (lower because of the relatively smaller financial magnitude of this program). Furthermore, traditionally when there has been an actuarial insufficiency exceeding the limits indicated, any subsequent liberalizations in benefit provisions were fully financed by appropriate changes in the tax schedule or through raising the earnings base, and at the same time the actuarial status of the program was improved.

The Council has recommended that long-range costs should be measured over a 75-year period, rather than over perpetuity, and that then the estimated actuarial status of both trust funds should be reasonably close to an exact balance, and much closer than has been the standard in the past. The cost estimates have been made on this basis, with the assumption that, if the estimates show an exact balance, at the end of the 75-year period the balances in the trust funds should approximate 1 year's benefit payments.

B. ACTUARIAL STATUS AFTER ENACTMENT OF 1961 ACT

The changes made by the 1961 amendments involved an increased cost that was fully met by the changes in the financing provisions (namely, an increase in the combined employer-employee contribution rate of one-fourth of 1 percent a corresponding change in the rate for the self-employed, and an advance in the year when the ultimate rates would be effective—from 1969 to 1968). As a result, the actuarial balance of the program remained unchanged from what it was before this legislation.

Subsequent to 1961, the cost estimates were further reexamined in the light of developing experience. The earnings assumption was changed to reflect the 1963 level, and the interest-rate assumption used was modified upward to reflect recent experience. At the same time, the retirement-rate assumptions were increased somewhat to reflect the experience in respect to this factor.

The further developing disability experience indicated that costs for this portion of the program were significantly higher than previously estimated (because benefits are not being terminated by death or recovery as rapidly as had been originally assumed). Accordingly, the actuarial balance of the disability insurance program was shown to be in an unsatisfactory position, and this has been recognized by the Board of Trustees, who recommended that the allocation to this trust fund should be increased (while, at the same time, correspondingly decreasing the allocation to the old-age and survivors insurance trust fund, which under present law is estimated to be in satisfactory actuarial balance even after such a reallocation). As indicated in the main part of this report, the Council concurs with this view. The portion of the combined employer-employee contribution rate that is assigned to the disability insurance trust fund under the recommendations of the Advisory Council is 0.75 percent (see footnote 1, page 67), while for the self-employed contribution rate the corresponding figure is 0.475 percent (based on 0.1 percent above half of the combined employer-employee allocation, which is consistent with the Council's principles on the self-employed rate basis, as is also followed in connection with the hospital insurance proposal).

C. BASIC ASSUMPTIONS FOR COST ESTIMATES

1. *General Basis for Long-Range Cost Estimates*

Benefit disbursements under old-age and survivors insurance may be expected to increase continuously for at least the next 50 to 70 years because of such factors as the aging of the population of the country and the slow but steady growth of the benefit roll. Similar factors are inherent in any retirement program, public or private, that has been in operation for a relatively short period. Estimates of the future cost of the old-age, survivors, and disability insurance program are affected by many elements that are difficult to determine. Accordingly, the assumptions used in the actuarial cost estimates may differ widely and yet be reasonable.

The long-range cost estimates (shown for 1975 and thereafter) are presented on a range basis so as to indicate the plausible variation in future costs depending upon the actual trends developing for the various cost factors. Both the low- and high-cost estimates are based on high economic assumptions, intended to represent close to full employment, with average annual earnings at about the level prevailing in 1963. In addition to the presentation of the cost estimates on a range basis, intermediate estimates developed directly from the low- and high-cost estimates (by averaging their components) are shown so as to indicate the basis for the financing provisions.

The cost estimates for old-age and survivors insurance are extended beyond the year 2000, since the aged population itself cannot mature by then. The reason for this is that the number of births in the 1930's was very low as compared with subsequent experience. As a result, there will be a dip in the relative proportion of the aged from 1995 to about 2010, which would tend to result in low benefit costs for the old-age and survivors insurance system during that period. Accordingly, the year 2000 is by no means a typical ultimate year insofar as these costs are concerned.

The cost estimates have been prepared on the basis of the same assumptions and methodology as those contained in the 24th Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (H. Doc. No. 236, 88th Cong.). These estimates and their underlying assumptions are given in more detail in "Actuarial Study No. 58" of the Social Security Administration.

The underlying assumptions have not been revised, and new detailed cost estimates prepared, because preliminary study indicates that the changes that would be made would be largely counterbalancing from a cost standpoint. For example, lower costs would result from using the higher earnings level of 1964, but higher costs would arise from considering the higher retirement rates of the last few years and other factors. Besides, there is the advantage of consistency and comparability in using the same cost bases for a period of a few years, when no significant net changes in the results would occur.

2. Measurement of Costs in Relation to Taxable Payroll

In general, the costs are shown as percentages of covered payroll. This is the best measure of the financial cost of the program. Dollar figures taken alone are misleading. For example, a higher earnings level will increase not only the outgo of the system but also, and to a greater extent, its income. The result is that when earnings rise, benefit costs in terms of dollars will also rise, but the cost relative to payroll will decrease.

3. General Basis for Short-Range Cost Estimates

The short-range cost estimates (shown for the individual years 1965-72) are not presented on a range basis since—assuming a continuation of present economic conditions—it is believed that the demographic factors involved can be reasonably closely forecast, so that only a single estimate is necessary. A gradual rise in the earnings level in the future, paralleling that which has occurred in the past few years, is assumed. As a result of this assumption, even though then all provisions of the system including the earnings base are assumed to remain unchanged in the future at what the Council has recommended, contribution income is somewhat higher than if level earnings were assumed, while benefit outgo under the cash-benefits program is only slightly affected.

Since the long-range cost assumptions do not involve an increasing-earnings assumption, the short-range and long-range cost estimates do not “link up” as between the 1972 data for the former and the 1975 data for the latter. Thus, for the cash-benefits program the balances in the trust funds at the end of 1972 according to the short-range estimates are higher than what the long-range estimates would show for that year. On the other hand, for the hospital-benefits program the balance in the trust fund at the end of 1972 according to the short-range estimates is lower than what the long-range estimates show for that year (since the hospital benefit costs are assumed to rise as earnings increase—see subsequent discussion).

4. Level-Cost Concept

An important measure of long-range cost is the level-equivalent contribution rate required to support the system over a long-range future period, based on discounting at interest. If such a level rate were adopted relatively large accumulations in the trust funds would result, and in consequence there would be sizable eventual income from interest. Even though such a method of financing is not followed, this concept may be used as a convenient measure of long-range costs, which permits comparison of various possible alternative plans, with weight being given to both early-year and deferred benefit costs.

5. Future Earnings Assumptions

The long-range estimates are based on level-earnings assumptions at the level prevailing in calendar year 1963. This, however, does not mean that covered payrolls are assumed to be the same each year; rather, they are assumed to rise steadily as the population at the working ages is estimated to increase. If in the future the earnings level should be considerably above that which now prevails, and if the cash benefits are adjusted upward so that the annual costs relative to payroll will remain the same as now estimated for the present system, then the increased dollar outgo resulting will offset the increased dollar income. This is an important reason for considering costs relative to payroll rather than in dollars.

The long-range cost estimates have not taken into account the possibility of a rise in earnings levels, although such a rise has characterized the past history of this country. If such an assumption were used in the cost estimates, along with the unlikely assumption that the benefits, nevertheless, would not be changed, the cost relative to payroll would, of course, be lower for the cash benefits, but the reverse would be so for the hospitalization and related benefits (as will be discussed in more detail later).

It is important to note that the possibility that a rise in earnings levels will produce lower costs of the cash-benefits program in relation to payroll is a very

important safety factor in the financial operations of this system. Its financing is based essentially on the intermediate-cost estimate, along with the assumption of level earnings; if experience follows the high-cost assumptions, and earnings do not rise, additional financing will be necessary. However, if covered earnings increase in the future as in the past, the resulting reduction in the cost of the program (expressed as a percentage of taxable payroll) will more than offset the higher cost arising under experience following the high-cost estimate. If the latter condition prevails, the reduction in the relative cost of the program coming from rising earnings levels can be used to maintain the actuarial balance of the system, and any remaining savings can be used to adjust the cash benefits upward (to a lesser degree than the increase in the earnings level). The possibility of future increases in earnings levels should be considered only as a safety factor and not as a justification for adjusting benefits upward in anticipation of such increases.

If benefits are adjusted currently to keep pace with rising earnings trends as they occur, the year-by-year costs as a percentage of payroll would be unaffected. If benefits are increased in this manner, the level-cost of the program would be higher than now estimated, since, under such circumstances, the relative importance of the interest receipts of the trust funds would gradually diminish with the passage of time. If earnings and benefit levels do consistently rise, thorough consideration will need to be given to the financing basis of the system because then the interest receipts of the trust funds will not meet as large a proportion of the benefit costs as would be anticipated if the earnings level had not risen (under the present law, for example, for the old-age and survivors insurance system, under level-earnings assumptions this proportion would average about 15 percent over the long range).

6. Assumptions for Hospitalization Benefits

In considering the hospitalization-benefit costs in conjunction with a level-earnings assumption for the future, it is sufficient for the purposes of long-range cost estimates merely to analyze possible future trends in hospitalization costs relative to covered earnings. Accordingly, any study of past experience of hospitalization costs should be made on this relative basis. The actual experience in recent years has indicated, in general, that hospitalization costs have risen more rapidly than the general earnings level, with the differential being in the neighborhood of 3 percent per year—2.7 percent in the last 10 years.

One of the uncertainties in making cost estimates for hospitalization benefits, then, is how long and to what extent this tendency of hospital costs to rise more rapidly than the general earnings level will continue in the future, and whether or not it may in the long run be counterbalanced by a trend in the opposite direction. Some factors to consider are the relatively low wages of hospital employees (which have been rapidly "catching up" with the general level of wages and obviously may be expected to "catch up" completely at some future date, rather than to increase indefinitely at a more rapid rate than wages generally) and the development of new medical techniques and procedures, with resultant increased expense.

In connection with the latter factor, there are possible counterbalancing factors. The higher costs involved for more refined and extensive treatments may be offset by better general health conditions, the development of out-of-hospital facilities, shorter durations of hospitalization, and less expense for subsequent curative treatments as a result of preventive measures. Also, it is possible that at some time in the future, the productivity of hospital personnel will increase significantly as the result of changes in the organization of hospital services or for other reasons, so that, as in other fields of economic activity, their wages might in the long run increase more rapidly than hospitalization prices.

Perhaps the major difficulty in making and in presenting these actuarial cost estimates for hospitalization benefits is that—unlike the situation in regard to cost estimates for the monthly benefits, where the result is the opposite—an unfavorable cost result is shown when total earnings levels rise, unless the provisions of the system are kept up to date (insofar as the maximum taxable earnings base and the dollar amounts of any deductibles are concerned). The reason for this is that there is the fundamental actuarial assumption that the hospitalization costs will rise at a rate over the long run somewhat approximating the rate of increase of the level of total earnings, whereas the contribution income would rise less rapidly than the total earnings level unless the earnings base is kept up to date. Under these conditions, it is hypothesized that the base will be kept up to date with the changes in the general level of earnings; contributions depend on the covered earnings level, and the level is dampened if the earnings base is not raised as earnings go up. It is assumed in the actuarial cost estimates for hospitalization

benefits either that earnings levels will be unchanged in the future or that, if wages continue to rise (as they have done in the past), the system will be kept up to date insofar as the earnings base and the deductibles are concerned.

One important reason for the fact that recently hospitalization costs have risen faster than the general earnings level is that the wages of hospital employees have risen at a faster rate than the general earnings level. Personnel costs are about 60 percent of all hospital costs. The fact that the wages of hospital employees have been rising at a faster rate than all earnings reflects a "catching up" from a situation where hospital workers were significantly underpaid in relation to other workers. It is obvious that such a trend cannot continue and that a point will be reached after which wages paid to hospital workers will rise, on the average, at the same rate as the general earnings level. Nor can other elements in hospitalization costs be presumed to rise indefinitely at a faster rate than the general earnings level.

It is not unlikely that the price of hospital services will for a considerable time rise faster than other prices, but if the price of any product continues to rise faster than earnings, it would eventually be priced out of the market. Actually, over the long run, hospitalization costs to the consumer are likely to show conflicting trends. On the one hand, improved technology is leading to more expensive hospital services and to the need for additional personnel. On the other hand, the duration of hospital stays is declining as a result of the improvement in care.

The cost assumptions for the hospitalization and related benefits have been made on what is believed to be a conservative basis. Those used for the cost estimates in this report are based on the assumptions underlying the estimates that the Social Security Administration made for the legislation considered in 1962-63 (see "Actuarial Study No. 57" and "Actuarial Cost Estimates for the Old-Age, Survivors, and Disability Insurance System as Modified by H. R. 11865, as Passed by the House of Representatives and as According to the Action of the Senate" issued by the House Ways and Means Committee), but with additional safety margins for the early-year costs. The differential of hospitalization costs over total earnings rates is assumed to be 2.7 percent per year for the first 5 years after 1965; then it is assumed to decrease to zero over the next 5 years, and then after a further 5 years wages are assumed to rise at an annual rate that is 0.5 percent greater than the increase in hospitalization costs.

The net effect of these modified assumptions, for purposes of the long-range cost estimates, is to produce level-costs that are about 10 percent higher than those resulting from the assumptions used in "Actuarial Study No. 57" and that are about the same as those resulting from the assumptions used in the Ways and Means Committee report. For short-range purposes, however, the modified assumptions produce significantly higher estimates than either of the other sets of assumptions.

7. Interrelationship With Railroad Retirement System

An important element affecting old-age, survivors, and disability insurance costs arose through amendments made to the Railroad Retirement Act in 1951. These provide for a combination of railroad retirement compensation and old-age, survivors, and disability insurance covered earnings in determining benefits for those with less than 10 years of railroad service (and also for all survivor cases).

Financial interchange provisions are established so that the trust funds are to be placed in the same financial position in which they would have been if railroad employment had always been covered under the program. It is estimated that over the long range the net effect of these provisions will be a relatively small loss to the old-age, survivors, and disability insurance system since the reimbursements from the railroad retirement system will be somewhat smaller than the net additional benefits paid on the basis of railroad earnings.

8. Reimbursement for Costs of Military Service Wage Credits

Another important element affecting the financing of the program arose through legislation in 1956 that provided for reimbursement from general revenues for past and future expenditures in respect to the noncontributory credits that had been granted for persons in military service before 1957. The cost estimates contained here reflect the effect of these reimbursements (which are included as contributions), based on the assumption that the required appropriations will be made in the future, as the Council has strongly recommended should be done.

D. INTERMEDIATE-COST ESTIMATES

1. Purposes of Intermediate-Cost Estimates

The long-range intermediate-cost estimates are developed from the low- and high-cost estimates by averaging them (using the dollar estimates and developing therefrom the corresponding estimates relative to payroll). The intermediate-cost estimate does not represent the most probable estimate, since it is impossible to develop any such figures. Rather, it has been set down as a convenient and readily available single set of figures to use for comparative purposes.

The Congress, in enacting the 1950 act and subsequent legislation, was of the belief that the old-age survivors and disability insurance program should be on a completely self-supporting basis. Therefore, a single estimate is necessary in the development of a tax schedule intended to make the system self-supporting. Any specific schedule will necessarily be somewhat different from what will actually be required to obtain exact balance between contributions and benefits. This procedure, however, does make the intention specific, even though in actual practice future changes in the tax schedule might be necessary. Likewise, exact self-support cannot be obtained from a specific set of integral or rounded fractional tax rates increasing in orderly intervals, but rather this principle of self-support should be aimed at as closely as possible.

2. Interest Rate Used in Cost Estimates

The interest rate used for computing the level-costs is 3½ percent for the intermediate-cost estimate. This is somewhat above the average yield of the investments of the trust funds at the end of 1963 (about 3 percent), but is below the rate currently being obtained for new investments (about 4¼ percent).

3. Actuarial Balance of System as Modified by Proposal

Table A summarizes the actuarial balance of the existing old-age, survivors, and disability insurance program in terms of percentages of taxable payroll, according to the intermediate-cost estimate, and gives corresponding information for the program as it would be changed by the recommendations of the Council (and also for programs that are intermediate steps between the present program and these recommendations). For purposes of comparability, the data for the present program are shown on both the basis of measuring costs over perpetuity and the basis of measuring costs over only a 75-year period (as recommended by the Council). The data for the proposed program, as shown here and as shown elsewhere in this report, are on the 75-year cost basis.

Information on the actuarial balance of the proposed hospital insurance program is contained in a table in Part II, which shows that the level-cost of the benefits for all beneficiaries is estimated at .90 percent of taxable payroll, while the level-equivalent of the contribution schedule is also estimated at .90 percent of taxable payroll. Included in the foregoing cost figures is the level-cost of the benefits for the disability insurance beneficiaries, which is estimated at .05 percent of taxable payroll. It should be noted that the recommended 0.15 percent contribution from general revenues for a period of 50 years has an estimated level-cost of 0.10 percent of taxable payroll.

4. Year-by-Year Projections of Income and Outgo

Table B shows the estimated operations of the old-age and survivors insurance trust fund in various future years according to the intermediate-cost estimate, as well as giving actual data for the past 14 years. Table C shows corresponding data for the disability insurance trust fund, while Table D relates to the hospital insurance trust fund. With respect to the latter table, it should be observed that the benefit-disbursement estimates do not include the *total* hospital insurance benefit payments made to railroad retirement beneficiaries, but rather only the net effect of the financial-interchange provisions for these benefits. It will also be remembered that the estimate of total benefit payments includes the payments with respect to persons who are not eligible for cash benefits, whereas the estimates relating to the hospital insurance trust fund that were made for the King-Anderson bill and the Senate-approved version of the legislation considered in 1964 did not include such payments (since they were to be financed currently out of the General Treasury, and not through direct trust-fund operations).

It is interesting to note that for each of the three trust funds separately, the short-range cost estimates indicate that the balance in the trust fund at the end of each year increases steadily during 1966-72 and in most instances quite closely approximates one year's benefit payments.

Tables E and F show long-range year-by-year cost projections for the old-age and survivors insurance trust fund and for the disability insurance trust fund, respectively, under the low-cost and high-cost estimates.

Table G presents the actuarial balance of the old-age, survivors, and disability insurance program as it would be changed by the recommendations of the Council, in terms of percentages of taxable payroll according to the low-cost and high-cost estimates. It will be noted that the level-cost of the benefits of the old-age, survivors, and disability insurance program according to the low-cost estimate is 8.9 percent of taxable payroll, which approximates the 9.4 percent combined employer-employee contribution rate that is recommended for 1971-75. This basis is in accordance with one of the financing principles enunciated by both this Council and the last one in regard to the next-to-last step in the contribution schedule (to be reached in the next few years).

TABLE A.—*Summary of actuarial balances of existing and proposed old-age, survivors, and disability insurance program, in terms of percentages of taxable payroll, intermediate-cost estimate.*

[In percent]			
Item	OASI	DI	Total
Present program, \$4,800 earnings base, perpetuity cost basis			
Level-cost of benefits.....	8.72	.64	9.36
Level-equivalent of contribution schedule.....	8.62	.50	9.12
Actuarial balance.....	-.10	-.14	-.24
Present program, \$4,800 earnings base, 75-year cost basis			
Level-cost of benefits.....	8.46	.63	9.09
Level-equivalent of contribution schedule.....	8.60	.50	9.10
Actuarial balance.....	+.14	-.13	+.01
Present program, \$6,000-7,200 earnings base for contributions only and \$4,800 earnings base for benefit purposes, 75-year cost basis.			
Level-cost of benefits.....	7.20	.54	7.74
Level-equivalent of contribution schedule.....	8.60	.50	9.10
Actuarial balance.....	+1.40	-.04	+1.36
Present program, \$6,000-7,200 earnings base for both contributions and benefit purposes, 75-year cost basis			
Level-cost of benefits.....	7.91	.59	8.50
Level-equivalent of contribution schedule.....	8.60	.50	9.10
Actuarial balance.....	+.69	-.09	+.60
Proposed program, \$6,000-7,200 earnings base, 75-year cost basis			
Level-cost of benefits.....	9.41	.72	10.13
Level-equivalent of contribution schedule.....	9.42	.75	10.17
Actuarial balance.....	+.01	+.03	+.04

NOTE.—The level-costs of the benefits take into account administrative expenses, railroad retirement financial interchange provisions, and interest on the trust fund existing as of December 31, 1965. The taxable payroll is reduced to take into account the lower contribution rate for the self-employed as compared with the combined employer-employee rate.

TABLE B.—Progress of old-age and survivors insurance trust fund under proposed program, intermediate-cost estimate ¹

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Railroad retirement financial inter-change ²	Interest on fund ¹	Balance in fund at end of year ³
Actual data						
1951.....	\$3,367	\$1,885	\$81	-----	\$417	\$15,540
1952.....	3,819	2,194	88	-----	365	17,442
1953.....	3,945	3,006	88	-----	414	18,707
1954.....	5,163	3,670	92	-\$21	447	20,576
1955.....	5,713	4,968	119	-7	454	21,063
1956.....	6,172	5,715	132	-5	526	22,519
1957.....	6,825	7,347	4 162	-2	556	22,393
1958.....	7,566	8,327	4 194	124	552	21,864
1959.....	8,052	9,842	184	282	532	20,141
1960.....	10,866	10,677	203	318	516	20,324
1961.....	11,285	11,862	239	332	548	19,725
1962.....	12,059	13,356	256	361	526	18,337
1963.....	14,541	14,217	281	423	521	18,480
Estimated data (short-range estimate)						
1964.....	\$15,688	\$14,902	\$300	\$403	\$565	\$19,128
1965.....	16,014	15,640	324	399	593	19,372
1966.....	20,170	19,380	354	411	626	20,023
1967.....	21,739	20,515	356	451	679	21,119
1968.....	23,389	21,451	363	485	756	22,965
1969.....	24,607	22,401	370	486	787	25,102
1970.....	25,390	23,377	377	471	887	27,154
1971.....	28,392	24,343	384	466	1,030	31,383
1972.....	29,634	25,332	391	442	1,225	36,077
Estimated data (long-range estimate)						
1975.....	\$28,576	\$27,077	\$402	\$380	\$1,061	\$34,530
1980.....	34,962	31,594	444	120	1,844	59,188
1990.....	40,017	40,309	524	-60	2,991	92,090
2000.....	46,418	45,002	576	-110	4,068	125,275
2020.....	56,041	62,189	744	-135	8,286	247,883

¹ An interest rate of 3.5 percent is used in determining the level costs, but in developing the progress of the trust fund a varying rate in the early years has been used, which is equivalent to such fixed rate.

² A negative figure indicates payment to the trust fund from the railroad retirement account, and a positive figure indicates the reverse.

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

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

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

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TABLE C.—Progress of disability insurance trust fund under proposed program, intermediate-cost estimate ¹

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Railroad retirement financial inter-change ²	Interest on fund ¹	Balance in fund at end of year
Actual data						
1957	\$702	\$57	³ \$3	—	\$7	\$649
1958	906	249	³ 12	—	25	1,379
1959	891	457	50	—\$22	40	1,825
1960	1,010	568	36	—5	53	2,289
1961	1,038	887	64	5	66	2,437
1962	1,046	1,105	66	11	68	2,368
1963	1,099	1,210	68	20	66	2,235
Estimated data (short-range estimate)						
1964	\$1,153	\$1,318	\$80	\$20	\$64	\$2,034
1965	1,187	1,471	87	20	56	1,699
1966	1,876	1,784	100	20	52	1,723
1967	2,072	1,897	109	20	54	1,823
1968	2,231	1,946	103	15	60	2,050
1969	2,347	1,999	109	15	70	2,344
1970	2,424	2,053	114	15	83	2,669
1971	2,499	2,106	119	15	95	3,023
1972	2,577	2,161	124	10	109	3,414
Estimated data (long-range estimate)						
1975	\$2,475	\$2,230	\$106	—\$4	\$133	\$4,210
1980	2,672	2,446	109	—8	182	5,678
1990	3,058	2,752	110	—11	313	9,632
2000	3,547	3,241	124	—11	537	16,310

¹ An interest rate of 3.5 percent is used in determining the level costs, but in developing the progress of the trust fund a varying rate in the early years has been used, which is equivalent to such fixed rate.

² A negative figure indicates payment to the trust fund from the railroad retirement account, and a positive figure indicates the reverse.

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

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

TABLE D.—Estimated progress of hospital insurance trust fund under proposed program, intermediate-cost estimate ¹

[In millions]

Calendar year	Contributions from worker and employer	Contributions from Government	Benefit Payments and administrative expenses ²	Interest on fund ¹	Balance in fund at end of year
Estimated data (short-range estimate)					
1966	\$1,808	\$339	\$1,007	\$29	\$1,169
1967	2,219	430	2,204	47	1,661
1968	2,389	464	2,438	65	2,141
1969	2,513	489	2,683	81	2,541
1970	2,597	506	2,958	93	2,779
1971	2,676	520	3,201	98	2,872
1972	2,760	538	3,456	98	2,812
Estimated data (long-range estimate)					
1975	\$2,634	\$510	\$3,031	\$195	\$6,132
1980	2,842	552	3,295	251	7,795
1990	3,254	632	3,835	381	11,677
2000	3,776	732	4,052	621	19,006

¹ An interest rate of 3.5 percent is used in determining the level-costs, but in developing the progress of the trust fund a varying rate in the early years has been used, which is equivalent to such fixed rate.

² The net payment to (or from) the railroad retirement system is included here.

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

TABLE E.—Estimated progress of old-age and survivors insurance trust fund under proposed program, low-cost and high-cost estimates

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Railroad retirement financial inter-change ¹	Interest on fund ²	Balance in fund at end of year
Low-cost estimate						
1975	\$29,181	\$26,493	\$372	\$350	\$1,537	\$46,526
1980	36,062	30,614	410	85	2,835	84,099
1990	42,679	38,320	483	-105	6,006	171,992
2000	50,887	42,137	530	-100	11,216	318,705
High-cost estimate						
1975	\$27,971	\$27,659	\$431	\$410	\$678	\$22,979
1980	33,863	32,576	478	155	1,029	35,421
1990	37,355	42,298	566	15	473	16,498
2000	41,947	47,866	621	-60	(³)	(³)

¹ A negative figure indicates payment to the trust fund from the railroad retirement account, and a positive figure indicates the reverse.

² At interest rates of 3.75 percent for the low-cost estimate and 3.25 percent for the high-cost estimate.

³ Fund exhausted in 1993.

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

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TABLE F.—Estimated progress of disability insurance trust fund under proposed program, low-cost and high-cost estimates

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Railroad retirement financial interchange ¹	Interest on fund ²	Balance in fund at end of year
Low-cost estimate						
1975.....	\$2,527	\$2,079	\$97	—\$8	\$226	\$6,638
1980.....	2,755	2,267	98	—12	348	10,047
1990.....	3,261	2,540	96	—16	723	20,567
2000.....	3,888	3,035	106	—16	1,369	38,556
High-cost estimate						
1975.....	\$2,424	\$2,381	\$115	-----	\$56	\$1,868
1980.....	2,589	2,625	121	—\$4	43	1,511
1990.....	2,855	2,965	124	—6	(³)	(³)
2000.....	3,207	3,447	141	—6	(³)	(³)

¹ A negative figure indicates payment to the trust fund from the railroad retirement account, and a positive figure indicates the reverse.
² At interest rates of 3.75 percent for the low-cost estimate and 3.25 percent for the high-cost estimate.
³ Fund exhausted in 1988.

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

TABLE G.—Actuarial balances of proposed old-age, survivors, and disability insurance program, in terms of percentages of taxable payroll, low-cost and high-cost estimates, 75-year cost basis

[In percent]

Item	OASI	DI	Total
Low-cost estimate			
Level-cost of benefits.....	8.26	0.64	8.90
Level-equivalent of contribution schedule.....	9.39	.75	10.14
Actuarial balance.....	1.13	.11	1.24
High-cost estimate			
Level-cost of benefits.....	10.94	0.83	11.77
Level-equivalent of contribution schedule.....	9.44	.75	10.19
Actuarial balance.....	—1.50	— .08	—1.58

