Click for Table of Contents

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1978 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

COMMUNICATION

FROM

THE BOARD OF TRUSTEES, FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

TRANSMITTING

THE 1978 ANNUAL REPORT OF THE BOARD, PURSUANT TO SECTION 201(c) OF THE SOCIAL SECURITY ACT

MAY 16, 1978.—Referred to the Committee on Ways and Means and ordered to be printed

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE
AND DISABILITY INSURANCE TRUST FUNDS,
Washington, D.C., May 15, 1978.

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES,
Washington, D.C.

SIR: We have the honor to transmit to you the 1978 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (the 38th such report), in compliance with the provisions of section 201(c) of the Social Security Act.

Respectfully,

W. MICHAEL BLUMENTHAL,
Secretary of the Treasury,
and Managing Trustee of the Trust Funds.
RAY MARSHALL,
Secretary of Labor.
JOSEPH A. CALIFANO, Jr.,
Secretary of Health, Education, and Welfare.
DON I. WORTMAN,
Acting Commissioner of Social Security
and Secretary, Board of Trustees.

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The PRESIDENT OF THE SENATE,
Washington, D.C.

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Click on a Topic Below

CONTENTS

1978 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

The Federal Old-Age and Survivors Insurance Trust Fund, established on January 1, 1940, and the Federal Disability Insurance Trust Fund, established on August 1, 1956, are held by the Board of Trustees under the authority of section 201(c) of the Social Security Act. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the Managing Trustee. The Commissioner of Social Security is Secretary of the Board. The Board of Trustees reports to the Congress once each year, in compliance with section 201(c)(2) of the Social Security Act. This report is the annual report for 1978, the 38th such report.

ADVISORY COUNCIL ON SOCIAL SECURITY

The Secretary of Health, Education, and Welfare on February 26, 1978, announced the appointment of an Advisory Council on Social Security under the provisions of section 706 of the Social Security Act. The Council consists of a Chairman and 12 members representing organizations of employers and of employees, self-employed persons, and the public.

Under the law, the Social Security Advisory Council is charged with making a comprehensive study of the status of the social security cash benefit and Medicare programs. This study is to include an examination of the financial status of the trust funds in relation to the long-term commitments of the programs, benefit levels, the scope of coverage, and other aspects of the programs, including their impact on public assistance.

The Council is required to submit its final reports to the Secretary of Health, Education, and Welfare no later than October 1, 1979. After the Council's reports are transmitted by the Secretary to the Congress and to the Board of Trustees of each of the trust funds, the Council will cease to exist. The Council's report and recommendations with respect to the old-age and survivors insurance and the disability insurance program will be included in the 1980 annual report of the Board of Trustees.

27–924—78——2

HIGHLIGHTS

The more important features of the 1978 annual report, discussed in greater detail in later sections, are given below:

(a) The Social Security Amendments of 1977, enacted on December 20, 1977, restore the financial soundness of the cash benefit program throughout the remainder of this century and into the early years of the next one. Beginning in 1981, the short-range and medium-range annual deficits of the old-age and survivors insurance and disability insurance trust funds that were projected in the 1977 annual report are eliminated because of the amendments. Estimates of the future operations and status of the trust funds are shown in later sections under three different sets of assumptions to indicate the general range of such estimates. Under the intermediate set of assumptions, the outgo of both trust funds combined is expected to exceed income in each calendar year through 1980. After 1980 it is estimated that income will exceed outgo in every year until after the turn of the century.

(b) Medium-range cost estimates are presented separately in this report in order to call attention to the status of the old-age and survivors insurance and disability insurance trust funds during the next 25 years, 1978–2002. Under the intermediate assumptions, annual outlays during the next 25 years are estimated to be, on the average, 10.64 percent of taxable payroll. The average scheduled tax rate of 11.67 percent is estimated to exceed average annual expenditures by 1.02 percent of taxable payroll during the next 25 years.

(c) With regard to the long-range actuarial status of the old-age and survivors insurance and disability insurance trust funds, annual outlays are estimated to be, on the average, 13.55 percent of taxable payroll over the 75-year period 1978–2052, under the intermediate assumptions. Annual tax income is estimated to be, on the average, 12.16 percent of taxable payroll over the 75-year period. The average annual deficit (i.e., the excess of outlays over tax income) over the 75-year period is estimated to be 1.40 percent of taxable payroll under the intermediate assumptions, as compared to the corresponding projected deficit of 8.20 percent shown in the 1977 annual report. The reduction of 6.80 percent of taxable payroll in the long-range deficit is largely due to the financing provisions and the benefit provisions in the 1977 amendments. During the second 25 years (2003–2027) of the long-range projection period, average annual expenditures are expected to exceed the average scheduled tax rate by 1.11 percent of taxable payroll. The deficit during the third 25-year period (2028–2052) is expected to increase to 4.10 percent of taxable payroll under the intermediate assumptions. Thus, the average annual deficit over the entire 75-year period is due to deficits expected to occur after the turn of the century.

These estimates, particularly for the period after the year 2002, should be interpreted with caution because the degree to which demographic and economic assumptions are expected to approximate actual future conditions is lower for later years than for earlier years.

(d) During fiscal year 1977, the assets of both trust funds combined declined by $3.9 billion, to a level of $39.6 billion on September 30, 1977. Income during the fiscal year amounted to $81.2 billion, up by 11 percent over the preceding 12-month period. Outgo totaled $85.1

billion—12 percent more than in the preceding 12 months. During the fiscal year, several changes occurred under the automatic increase provisions, affecting the comparison with the preceding 12 months. An automatic cost-of-living benefit increase of 5.9 percent became effective for June 1977. The published statement announcing the determination of the increase is shown in appendix B. The contribution and benefit base increased under the automatic provisions, from $15,300 to $16,500, effective January 1, 1977. The amount that a beneficiary may earn in a year and still receive all of his benefits under the retirement test (i.e., the annual exempt amount) also increased under the automatic provisions, from $2,760 to $3,000, effective January 1, 1977.

(e) Increases in the contribution and benefit base and in the annual exempt amount under the retirement test were determined in October 1977 under the automatic increase provisions in the law. The new amounts effective for January 1, 1978, are $17,700 and $3,240, respectively. The published statement announcing the determination of these amounts is shown in appendix C. Under the 1977 amendments, the 1978 retirement test exempt amount for beneficiaries aged 65 and over was increased to $4,000, with further increases scheduled through 1982 and automatic increases thereafter. Beginning in 1982, the age at which the retirement test ceases to apply will be reduced from age 72 to age 70. For beneficiaries under age 65, the exempt amount remains at $3,240 for 1978 and is subject to the automatic provisions thereafter.

(f) An automatic cost-of-living benefit increase of 6.5 percent will become effective for June 1978.

(g) The trust funds earned interest amounting to $2.7 billion during fiscal year 1977. The effective annual rate of interest earned by the combined assets of the trust funds during the 12 months that ended June 30, 1977, was 6.9 percent.

(h) The number of persons receiving monthly benefits under the old-age, survivors, and disability insurance program totaled 33.7 million at the end of September 1977. An estimated 106 million workers had earnings in calendar year 1977 that were taxable and creditable toward benefits under the program.

Social Security Amendments Since the 1977 Report

On December 20, 1977, Public Law 95–216, the Social Security Amendments of 1977, was enacted. Details of these amendments can be found in documents prepared by and for the Congress. In particular, details of the financial effect of these amendments are shown in the Ways and Means Committee print entitled "Actuarial Cost Estimates for the Old-Age, Survivors, Disability, Hospital, and Supplemental Medical Insurance Systems, as Modified by Public Law 95–216" (dated March 3, 1978).

In addition, although not an amendment to the Social Security Act, Public Law 95–256, the Age Discrimination in Employment Act Amendments of 1977, enacted April 6, 1978, is expected to affect the social security program in the future. Principally, the law raises the permissible mandatory retirement age for most nonfederal workers from 65 to 70 and it eliminates the mandatory age-70 retirement age for most Federal civilian employees.

Nature of the Trust Funds

The Federal Old-Age and Survivors Insurance Trust Fund was established on January 1, 1940, as a separate account in the United States Treasury. All the financial operations of the old-age and survivors insurance system are handled through this fund. The Federal Disability Insurance Trust Fund—another separate account in the United States Treasury and thus a fund entirely separate from the old-age and survivors insurance trust fund—was established on August 1, 1956. All the financial operations of the system of monthly disability benefits payable to disabled insured workers under age 65 and to their dependents are handled through this fund.

The major sources of receipts of these two funds are (1) amounts appropriated to each of them under permanent appropriation on the basis of contributions paid by workers and their employers, and by individuals with self-employment income, in work covered by the old-age, survivors, and disability insurance program and (2) amounts deposited in each of them representing contributions paid by workers employed by State and local governments and by such employers with respect to work covered by the program. All employees, and their employers, in employment covered by the program are required to pay contributions with respect to the wages of individual workers. Cash tips, covered as wages beginning in 1966 (under the 1965 amendments), are an exception. Employees pay contributions with respect to cash tips, but prior to 1978 employers did not. Beginning in 1978 (under the 1977 amendments), employers are required to pay contributions on that part of tip income deemed to be wages under the Federal minimum wage law. All covered self-employed persons are required to pay contributions with respect to their self-employment income.

In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount, with the contributions being determined first on the wages and then on any self-employment income within the annual maximum amount. The amount of benefits that an individual (or his dependents or survivors) may become entitled to under the old-age, survivors, and disability insurance program is based on the individual's taxable earnings in each year. Therefore, the maximum amount of earnings taxable in a year is also the maximum amount of earnings creditable toward benefits in that year, and the maximum amount is referred to as the contribution and benefit base.

The contribution rates applicable to taxable earnings in each of the calendar years 1937 and later, and the allocation of the rates to finance expenditures from each of the two trust funds, are shown in table 1. For 1979 and later, the contribution rates shown are the rates scheduled in the provisions of present law. The contribution and benefit base for each year 1937–78 is also shown in table 1, as well as the base scheduled in the provisions of present law for each year 1979–81. For 1975–78, the contribution and benefit bases were determined under the automatic increase provisions in section 230 of the Social Security Act. For 1979–81, the base is scheduled to increase to specific amounts, as provided under the 1977 amendments. The automatic increase provisions will again be applicable after 1981.

TABLE 1—CONTRIBUTION AND BENEFIT BASE AND CONTRIBUTION RATES

Calendar years	Contribution and benefit base	Contribution rates (percent of taxable earnings)					
		Employees and employers, each			Self-employed		
		OASDI	OASI	DI	OASDI	OASI	DI
1937–49	$3,000	1.000	1.000	----	----	----	----
1950	3,000	1.500	1.500	----	----	----	----
1951–53	3,600	1.500	1.500	----	2.2500	2.2500	----
1954	3,600	2.000	2.000	----	3.0000	3.0000	----
1955–56	4,200	2.000	2.000	----	3.0000	3.0000	----
1957–58	4,200	2.250	2.000	0.250	3.3750	3.0000	0.3750
1959	4,800	2.500	2.250	.250	3.7500	3.3750	.3750
1960–61	4,800	3.000	2.750	.250	4.5000	4.1250	.3750
1962	4,800	3.125	2.875	.250	4.7000	4.3250	.3750
1963–65	4,800	3.625	3.375	.250	5.4000	5.0250	.3750
1966	6,600	3.850	3.500	.350	5.8000	5.2750	.5250
1967	6,600	3.900	3.550	.350	5.9000	5.3750	.5250
1968	7,800	3.800	3.325	.475	5.8000	5.0875	.7125
1969	7,800	4.200	3.725	.475	6.3000	5.5875	.7125
1970	7,800	4.200	3.650	.550	6.3000	5.4750	.8250
1971	7,800	4.600	4.050	.550	6.9000	6.0750	.8250
1972	9,000	4.600	4.050	.550	6.9000	6.0750	.8250
1973	10,800	4.850	4.300	.550	7.0000	6.2050	.7950
1974	13,200	4.950	4.375	.575	7.0000	6.1850	.8150
1975	14,100	4.950	4.375	.575	7.0000	6.1850	.8150
1976	15,300	4.950	4.375	.575	7.0000	6.1850	.8150
1977	16,500	4.950	4.375	.575	7.0000	6.1850	.8150
1978	17,700	5.050	4.275	.775	7.1000	6.0100	1.0900
Changes scheduled in present law:							
1979	22,900	5.080	4.330	.750	7.0500	6.0100	1.0400
1980	25,900	5.080	4.330	.750	7.0500	6.0100	1.0400
1981	29,700	5.350	4.525	.825	8.0000	6.7625	1.2375
1982–84	(1)	5.400	4.575	.825	8.0500	6.8125	1.2375
1985–89	(1)	5.700	4.750	.950	8.5500	7.1250	1.4250
1990 and later	(1)	6.200	5.100	1.100	9.3000	7.6500	1.6500

[1] Subject to automatic increase.

Except for amounts received under State agreements (to effectuate coverage under the program for State and local government employees) and deposited directly in the trust funds, all contributions are collected by the Internal Revenue Service and deposited in the general fund of the Treasury as internal revenue collections. The contributions so received are immediately and automatically appropriated to the trust funds on an estimated basis. The exact amount of contributions received is not known initially since old-age, survivors, disability, and hospital insurance contributions and individual income taxes are not separately identified in collection reports received by the Treasury Department. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

An employee who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum can receive a refund of the contributions he paid on such excess wages. The amount of contributions subject to refund for any period is a charge against each of the trust funds in the ratio in which the amount was appropriated to or deposited in such trust funds for that period.

Another source from which receipts of the trust funds are derived is interest received on investments held by the funds. The investment procedures of the funds are described later in this section.

The income and expenditures of the trust funds are also affected by the provisions of the Railroad Retirement Act which provide for a system of coordination and financial interchange between the railroad retirement program and the old-age, survivors, and disability insurance program. Under these provisions, transfers between the railroad retirement account and the trust funds are made on an annual basis in order to place each trust fund in the same position as it would have been if railroad employment had always been covered under the Social Security Act.

Sections 217(g) and 229(b) of the Social Security Act authorize annual reimbursements from the general fund of the Treasury to the old-age and survivors insurance and disability insurance trust funds for any costs arising from the granting of noncontributory wage credits for military service, according to periodic determinations made by the Secretary of Health, Education, and Welfare.

Section 228 of the Social Security Act provides monthly cash benefits to certain persons aged 72 and over, almost all of whom are not eligible for cash benefits under other provisions of the old-age, survivors, and disability insurance program. Under section 228, all payments are made initially from the old-age and survivors insurance trust fund, with later reimbursement, with interest, from the general fund of the Treasury for the costs, including administrative expenses, of payments to persons who have less than three quarters of coverage. The reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest allowances, as the actual experience develops and is analyzed.

Under section 231 of the Social Security Act, a single reimbursement from the general fund of the Treasury was made in December 1977 to each of the two trust funds for the estimated total costs arising from the granting of noncontributory wage credits to individuals who were interned during World War II at a place within the United States operated by the Federal Government for the internment of U.S citizens of Japanese ancestry.

Section 201(i) of the Social Security Act authorizes the Managing Trustee to accept and deposit in the trust funds unconditional money gifts or bequests made for the benefit of the trust funds or any activity financed through such funds.

Expenditures for benefit payments and administrative expenses under the old-age, survivors, and disability insurance program are paid out of the trust funds. All expenses incurred by the Department of Health, Education, and Welfare and by the Treasury Department in carrying out the provisions of title II of the Social Security Act and of the Internal Revenue Code relating to the collection of contributions are charged to the trust funds. The Secretary of Health, Education, and Welfare certifies benefit payments to the Managing Trustee, who makes the payments from the respective trust funds in accordance therewith.

Section 222(d) of the Social Security Act provides for payments from the trust funds for the costs of vocational rehabilitation services furnished to disabled persons receiving benefits because of their disability. The total amount of funds that may be made available in a fiscal year for payments for the costs of such services, including applicable administrative expenses of State agencies, may not exceed a specified percentage of the benefits certified for payment to these types of beneficiaries in the preceding year. This limitation on the amount to be made available was 1 percent in each of the fiscal years 1966 (when such amounts were first made available) through 1972 and 1¼ percent in fiscal year 1973. Under present law, the limitation is 1½ percent in fiscal years after 1973.

Congress has authorized expenditures from the trust funds for construction, rental, and lease or purchase contract of office buildings and related facilities for the Social Security Administration. Both the capital costs of construction financed directly from the trust funds and the rental, lease, or purchase contract costs of acquiring facilities are included in trust fund expenditures. In 1972–75, construction of several large facilities was authorized under purchase contract authority, wherein initial capital costs are borne by the private sector. Under this method of facilities acquisition, trust fund expenditures for use and ultimate Government ownership of a facility are made over periods of from 10 to 30 years. Whatever the manner of acquisition, the net worth of facilities and other fixed capital assets is not carried in the statements of the operations of the trust funds presented in this report. This is because the value of fixed capital assets does not represent funds available for benefit or administrative expenditures, and therefore is not viewed as being a consideration in assessing the acturial status of the funds.

That portion of each trust fund which, in the judgment of the Managing Trustee, is not required to meet current expenditures for benefits and administration is invested, on a daily basis, in interest-bearing obligations of the U.S. Government (including special public-debt obligations described below), in obligations guaranteed as to both principal and interest by the United States, or in certain federally sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. These obligations may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust funds that shall bear interest at a rate based on the average market yield (computed 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 4 years from the end of such calendar month.

Summary of the Operations of the Federal Old-Age and Survivors Insurance Trust Fund, Fiscal Year 1977

Beginning with fiscal year 1977, the period of time covered by the fiscal year of the U.S. Government was changed from the 12 months beginning on July 1 of each year and ending on June 30 of the following year to the 12 months beginning on October 1 of each year and ending on September 30 of the following year, in accordance with the Congressional Budget Act of 1974 (Public Law 93–344). This Act further provided that the calendar quarter July-September 1976 be a period of transition from fiscal year 1976, which ended on June 30, 1976, to fiscal year 1977, which began on October 1, 1976.

A statement of the income and disbursements of the Federal Old-Age and Survivors Insurance Trust Fund in fiscal year 1977, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2. Corresponding amounts for the transition quarter

July-September 1976 (which were not presented in last year's annual report) are also shown in the table.

TABLE 2.—STATEMENT OF OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING THE TRANSITION QUARTER, JULY-SEPTEMBER 1976, AND DURING FISCAL YEAR 1977

[In thousands]

	July–September 1976	Fiscal year 1977
Total assets of the trust fund, beginning of period	$37,979,876	$37,055,202
Receipts:		
Contributions:		
Appropriations	14,259,092	61,517,723
Deposits arising from State agreements	1,846,756	7,676,046
Gross contributions	16,105,843	69,193,769
Less payment into the Treasury for contributions subject to refund		298,960
Net contributions	16,105,848	68,894,809
Reimbursement from general fund of the Treasury for costs of:		
Noncontributory credits for military service		378,000
Payments to noninsured persons aged 72 and over:		
Benefit payments		208,652
Administrative expenses		2,640
Interest		24,610
Total reimbursement for payments to noninsured persons aged 72 and over		235,902
Interest:		
Interest on investments	80,432	2,275,080
Interest on amounts transferred from the supplemental security income general fund account due to adjustment in allocation of administrative expenses		15,033
Gross interest	80,432	2,290,113
Less interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs		3,130
Less interest on amounts transferred to the disability insurance trust fund due to adjustment in allocation of costs of vocational rehabilitation services		95
Net interest	80,432	2,286,888
Gifts	8	10
Total receipts	16,186,287	71,795,610
Disbursements:		
Benefit payments	16,875,545	71,270,51
Transfer to railroad retirement account		1,207,841
Payment for costs of vocational rehabilitation services for disabled beneficiaries:		
For the current period	1,714	6,797
Transfers to the disability insurance trust fund due to adjustment in allocation of costs for fiscal year 1976 and the transition quarter		705
Total payment for costs of vocational rehabilitation services	1,714	7,502
Administrative expenses:		
Department of Health, Education, and Welfare	195,119	830,303
Treasury Department	25,851	127,902
Construction of facilities for Social Security Administration	12,725	14,733
Expenses of the Department of Health, Education, and Welfare for administration of vocational rehabilitation program for disabled beneficiaries	12	48
Interfund transfers due to adjustment in allocation of:		
Administrative expenses		19,229
Costs of construction		2,415
Gross administrative expenses	233,707	994,630
Less transfers from the supplemental security income general fund account due to adjustment in allocation of administrative expenses		1,887
Less receipts from sales of supplies, materials, etc.	4	6
Net administrative expenses	233,703	992,737
Total disbursements	17,110,961	73,478,599
Net addition to the trust fund	−924,674	−1,682,989
Total assets of the trust fund, end of period	37,055,202	35,372,213

Note: Totals do not necessarily equal the sum of rounded components.

The total assets of the old-age and survivors insurance trust fund amounted to $37,055 million on September 30, 1976. During fiscal year 1977, total receipts amounted to $71,796 million and total disbursements were $73,479 million. The assets of the trust fund thus decreased $1,683 million during the year to a total of $35,372 million on September 30, 1977.

Included in total receipts during fiscal year 1977 were $61,518 million representing contributions appropriated to the fund and $7,676 million representing amounts received by the Secretary of the Treasury in accordance with State agreements for coverage of State and local government employees and deposited in the trust fund. As an offset, $299 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base.

Net contributions amounted to $68,895 million, an increase of 12.2 percent over the amount of $61,408 million for the preceding 12-month period. Growth in contribution income resulted primarily from (1) the higher level of earnings in covered employment and (2) the two increases in the maximum annual amount of earnings taxable—from $14,100 to $15,300 effective on January 1, 1976, and from $15,300 to $16,500 effective on January 1, 1977. Although the first increase in the maximum annual amount of earnings taxable, from $14,100 to $15,300, became effective in 1976, earnings between $14,100 and $15,300, which were taxable during all of fiscal year 1977, were taxable during only part of the preceding 12-month period.

Reference has been made in an earlier section to provisions of the Social Security Act under which the old-age and survivors insurance and disability insurance trust funds are to be reimbursed annually from the general fund of the Treasury for costs of granting noncontributory credits for military service and for the costs of payments to certain noninsured persons aged 72 and over who have less than three quarters of coverage.

In accordance with section 217(g), the Secretary of Health, Education, and Welfare made a determination in 1975 of the level annual appropriations to the trust funds necessary to amortize over a 39-year period, beginning in fiscal year 1977, the estimated total additional costs, for military service performed before 1957, arising from payments that have been made after August 1950 and that will be made in future years, taking into account the amounts of annual appropriations in fiscal years 1966–76 that have been deposited into the trust funds. The annual amounts resulting from this determination were $354 million for the old-age and survivors insurance trust fund and $92 million for the disability insurance trust fund. In accordance with section 229(b), the Secretary determined that the old-age and survivors insurance trust fund should receive reimbursement of $24 million, and the disability insurance trust fund should receive reimbursement of $11 million, for additional costs attributable to noncontributory credits for military service performed after 1956. Thus, reimbursements amounting to $378 million for the old-age and survivors insurance trust fund and $103 million for the disability insurance trust fund were received in December 1976.

27-924—78——3

A reimbursement amounting to $236 million for the costs of monthly payments to certain noninsured persons aged 72 and over was transferred from the general fund of the Treasury to the old-age and survivors insurance trust fund in fiscal year 1977. This reimbursement, made under section 228, reflected the costs of payments made in fiscal year 1975 and adjustments in the costs of payments made in prior fiscal years.

The old-age and survivors insurance trust fund received $10,180 in gifts in fiscal year 1977 under the provisions authorizing the deposit of money gifts or bequests in the old-age and survivors insurance and disability insurance trust funds.

The remaining $2,287 million of receipts consisted of interest on the investments of the trust fund and net interest on amounts of interfund transfers arising out of adjustments in the allocation of administrative expenses, construction costs, and the costs of vocational rehabilitation services for prior fiscal years.

Of the $73,479 million in total disbursements, $71,271 million was for benefit payments, an increase of 11.6 percent over the corresponding amount of $63,834 million paid in the preceding 12-month period. This increase was due to (1) the automatic cost-of-living benefit increases of 6.4 percent and 5.9 percent, which became effective for June 1976 and June 1977, respectively, under the automatic provisions in section 215(i), and (2) the continuing growth in both the total number of beneficiaries and the average benefit amounts resulting from the rising level of earnings. Although the first automatic benefit increase of 6.4 percent became effective in 1976, the resulting higher benefit levels, which were in effect during all of fiscal year 1977, were in effect during only part of the preceding 12-month period.

In accordance with the provisions of the Railroad Retirement Act which coordinate the railroad retirement and the old-age and survivors insurance programs and which govern the financial interchanges arising from the allocation of costs between the two systems, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of $1,140,700,000 to the railroad retirement account from the old-age and survivors insurance trust fund would place this trust fund in the same position as of June 30, 1976, as it would have been if railroad employment had always been covered under the Social Security Act. This amount was transferred to the railroad retirement account in June 1977, together with interest to the date of transfer amounting to $67,141,000.

Expenditures of the old-age and survivors insurance program for the costs of vocational rehabilitation services amounted to about $7.5 million. These services were furnished to disabled adults—dependents of old-age beneficiaries and survivors of deceased insured workers—who were receiving monthly benefits from the old-age and survivors insurance trust fund because of their disability.

The remaining $993 million of disbursements from the old-age and survivors insurance trust fund represents net administrative expenses. The expenses of administering the programs financed through the four trust funds—the old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance trust funds—are allocated and charged directly to each trust fund on the basis of provisional estimates. Similarly, the expenses of administering the supplemental security income program are also allocated and charged directly to the general fund of the Treasury on a provisional basis. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are effected by interfund transfers, including transfers between the old-age and survivors insurance trust fund and the supplemental security income general fund account, with appropriate interest allowances.

Net administrative expenses charged to the old-age and survivors insurance trust fund and to the disability insurance trust fund in fiscal year 1977 totaled $1,370 million. This amount represented 1.8 percent of contribution income and 1.7 percent of expenditures for benefit payments and payments for the costs of vocational rehabilitation services during the fiscal year. Corresponding percentages for each of the last 5 years for the old-age, survivors, and disability insurance system as a whole and for each trust fund separately are shown in table 3.

TABLE 3.—RELATIONSHIP OF NET ADMINISTRATIVE EXPENSES OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM TO CONTRIBUTION INCOME AND BENEFIT PAYMENTS, BY TRUST FUND, FISCAL YEARS 1973–77

Fiscal year	Total [1]—Administrative expenses as a percentage of— Total contribution income	Total benefit payments [2]	Old-age and survivors insurance trust fund—Administrative expenses as a percentage of— Contribution income	Benefit payments [2]	Disability insurance trust fund [1]—Administrative expenses as a percentage of— Contribution income	Benefit payments [2]
1973	2.0	1.9	1.6	1.6	4.5	4.7
1974	1.6	1.6	1.5	1.5	2.5	2.5
1975	1.7	1.8	1.5	1.5	3.4	3.3
1976	1.8	1.7	1.6	1.5	3.4	2.9
July–September 1976	1.7	1.6	1.5	1.4	3.3	2.7
1977	1.8	1.7	1.4	1.4	4.2	3.4

[1] The percentages shown for fiscal years 1974 and later reflect the effect of a change in the method of allocating administrative expenses among the four trust funds, which resulted in lower proportions allocated to the disability insurance trust fund. The percentages for fiscal year 1974 also reflect the effect of applying the modified method of allocating expenses retroactively to fiscal year 1973, with a resulting larger interfund transfer to the disability insurance trust fund in fiscal year 1974, than would have otherwise occurred.

[2] In determining the percentages shown, payments for the costs of vocational rehabilitation services are included with benefit payments.

Note: In interpreting the figures in the above table, reference should be made to the accompanying text.

In table 4, the experience with respect to actual amounts of contributions and benefit payments in fiscal year 1977 is compared with the estimates for fiscal year 1977 which appeared in the 1976 and 1977 annual reports. The actual experience for each trust fund was quite close, relatively, to the estimates. Reference was made in an earlier section to the appropriation of contributions to the trust funds on an estimated basis, with subsequent periodic adjustments to account for differences from the amounts of contributions actually payable on the basis of reported earnings. In interpreting the figures in table 4, it should be noted that the "actual" amount of contributions in fiscal year 1977 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1977 does not reflect adjustments to contributions for fiscal year 1977 that were to be made after September 30, 1977.

TABLE 4.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, FISCAL YEAR 1977

[Amounts in millions]

	Old-age and survivors insurance trust fund		Disability insurance trust fund	
	Net contributions	Benefit payments	Net contributions	Benefit payments
Actual amount	$68,895	$71,271	$8,900	$11,135
Estimated amount published in 1977 report	$68,468	$71,298	$8,998	$11,147
Actual as percentage of estimate	101	100	99	100
Estimated amount published in 1976 report	$68,909	$71,155	$9,057	$10,811
Actual as percentage of estimate	100	100	98	103

Note: In interpreting the figures in the above table, reference should be made to the accompanying text.

At the end of fiscal year 1977, about 33.7 million persons were receiving monthly benefits under the old-age, survivors, and disability insurance program. About 28.9 million of these persons were receiving monthly benefits from the old-age and survivors insurance trust fund. The distribution of benefit payments in the transition quarter and in fiscal year 1977, by type of beneficiary, is shown in table 5. Approximately 73 percent of the total benefit payments from the old-age and survivors insurance trust fund in fiscal year 1977 was accounted for by monthly benefits to retired workers and their dependents and about 16 percent by monthly benefits to aged survivors and disabled widows or widowers of deceased workers. Approximately 10 percent of the benefit payments represented monthly benefits on behalf of children of deceased workers and monthly benefits to widowed mothers and fathers who had children of deceased workers in their care.

TABLE 5.—ESTIMATED DISTRIBUTION OF BENEFIT PAYMENTS FROM THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE OF BENEFICIARY AND PAYMENT, IN THE TRANSITION QUARTER, JULY-SEPTEMBER 1976, AND IN FISCAL YEAR 1977

[Amounts in millions]

	July-September 1976		Fiscal Year 1977	
	Amount	Percent of total	Amount	Percent of total
Total	$16,875.5	100	$71,270.5	100
Monthly benefits	16,799.4	100	70,949.7	100
Retired workers and their dependents	12,338.0	73	52,074.5	73
Retired workers	11,106.2	66	46,893.1	66
Wives and husbands	1,052.2	6	4,444.0	6
Children	179.6	1	737.4	1
Survivors of deceased workers	4,417.7	26	18,713.7	26
Aged widows and widowers	2,711.9	16	11,472.1	16
Disabled widows and widowers	54.9	(1)	233.2	(1)
Parents	12.7	(1)	51.2	(1)
Children	1,358.0	8	5,788.6	8
Widowed mothers and fathers caring for child beneficiaries	280.1	2	1,168.6	2
Noninsured persons aged 72 and over[2]	43.8	(1)	161.5	(1)
Lump-sum death payments	76.1	(1)	320.8	(1)

[1] Less than 0.5 percent.
[2] The trust fund is reimbursed from the general fund of the Treasury for the costs of payments to beneficiaries with less than three quarters of coverage.

Note: Totals do not necessarily equal the sum of rounded components.

Benefit payments to noninsured persons aged 72 and over amounted to $162 million, or less than ½ percent of total benefit payments from the trust fund. As stated earlier, the costs of such payments to persons who have fewer than three quarters of coverage are reimbursable from the general fund of the Treasury. About 97 percent of the total amount of the payments made in fiscal year 1977 to noninsured persons aged 72 and over went to persons with fewer than three quarters of coverage.

The balance of the benefits paid during fiscal year 1977 consisted of lump-sum death payments.

The assets of the old-age and survivors insurance trust fund at the end of the transition quarter July–September 1976 totaled $37,055 million, consisting of $37,042 million in the form of obligations of the U.S. Government or of federally sponsored agency obligations, and an undisbursed balance of $13 million. The assets of the old-age and survivors insurance trust fund at the end of fiscal year 1977 totaled $35,372 million, consisting of $35,398 million in the form of obligations of the U.S. Government or of federally sponsored agency obligations, and, as an offset, an extension of credit amounting to $25 million against securities to be redeemed within the following few days. Table 6 shows the total assets of the fund and their distribution at the end of the transition quarter and at the end of fiscal year 1977.

TABLE 6.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT THE END OF THE TRANSITION QUARTER, JULY-SEPTEMBER 1976, AND AT THE END OF FISCAL YEAR 1977

	September 30, 1976		September 30, 1977	
	Par value	Book value[1]	Par value	Book value[1]
Investments in public-debt obligations:				
Public issues:				
Treasury notes:				
8 percent, 1977	$15,000,000	$15,000,000.00		
Treasury bonds:				
2¾-percent, investment series B, 1975–80	1,064,902,000	1,064,902,000.00	$1,064,902,000	$1,064,902,000.09
3-percent, 1995	70,170,000	70,151,228.23	70,170,000	70,152,252.10
3¼-percent, 1978–83	60,200,000	59,805,431.42	60,200,000	59,864,616.62
3¼-percent, 1985	25,700,000	24,953,790.23	25,700,000	25,040,727.35
3½-percent, 1980	449,450,000	451,231,157.82	449,450,000	450,794,956.02
3½-percent, 1990	556,250,000	550,592,346.51	556,250,000	551,016,670.71
3½-percent, 1998	552,037,000	545,219,764.45	552,037,000	545,528,469.61
4-percent, 1980	153,100,000	153,083,789.14	153,100,000	153,088,652.74
4⅛-percent, 1989–94	91,300,000	90,768,522.57	91,300,000	90,798,748.77
4¼-percent, 1975–85	78,023,000	77,842,894.22	78,023,000	77,863,877.54
4¼-percent, 1987–92	33,000,000	34,153,132.68	33,000,000	34,046,689.68
6⅜-percent, 1984	31,500,000	31,859,497.89	31,500,000	31,814,087.61
7-percent, 1981	50,000,000	49,803,333.13	50,000,000	49,843,333.09
7½-percent, 1988–93	99,934,000	98,590,341.20	99,934,000	98,669,769.32
7⅝-percent, 2002–07			15,000,000	14,991,248.32
7⅞-percent, 1995–2000	22,180,000	21,467,483.10	22,180,000	21,498,128.94
8-percent, 1996–2001	90,500,000	90,403,810.56	90,500,000	90,407,683.92
8¼-percent, 2000–05	22,450,000	22,444,050.30	22,450,000	22,444,249.14
8⅜-percent, 1995–2000	50,000,000	50,722,222.25	50,000,000	50,691,919.25
8½-percent, 1994–99	6,352,000	6,515,590.24	6,352,000	6,508,372.96
Total investments in public issues	3,522,048,000	3,509,510,385.94	3,522,048,000	3,509,966,453.78
Obligations sold only to this fund (special issues):				
Certificates of indebtedness:				
7 percent, 1978			5,180,294,000	5,180,294,000.00
7⅛ percent, 1977	4,582,664,000	4,582,664,000.00		
7⅛ percent, 1978			1,649,440,000	1,649,440,000.00
7¼ percent, 1977	1,248,386,000	1,248,386,000.00		
Notes:				
5¾ percent, 1979	1,821,626,000	1,821,626,000.00		
6⅝ percent, 1980	4,547,285,000	4,547,285,000.00	326,153,000	326,153,000.00

See footnotes at end of table.

TABLE 6.—ASSETS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE, AT THE END OF THE TRANSITION QUARTER, JULY-SEPTEMBER 1976, AND AT THE END OF FISCAL YEAR 1977—Continued

	September 30, 1976		September 30, 1977	
	Par value	Book value [1]	Par value	Book value [1]
Investments in public-debt obligations—Continued				
Obligations sold only to this fund—Continued				
(special issues):				
Bonds:				
7⅛-percent, 1981			$125,846,000	$125,846,000.00
7⅛-percent, 1982			125,846,000	125,846,000.00
7⅛-percent, 1983			125,846,000	125,846,000.00
7⅛-percent, 1984			125,846,000	125,846,000.00
7⅛-percent, 1985			125,846,000	125,846,000.00
7⅛-percent, 1986			125,847,000	125,847,000.00
7⅛-percent, 1987			125,847,000	125,847,000.00
7⅛-percent, 1988			125,847,000	125,847,000.00
7⅛-percent, 1989			125,847,000	125,847,000.00
7⅛-percent, 1990			125,847,000	125,847,000.00
7⅛-percent, 1991			125,848,000	125,848,000.00
7⅛-percent, 1992			2,014,741,000	2,014,741,000.00
7⅜-percent, 1981	$688,956,000	$688,956,000.00	688,956,000	688,956,000.00
7⅜-percent, 1982	688,956,000	688,956,000.00	688,956,000	688,956,000.00
7⅜-percent, 1983	688,956,000	688,956,000.00	688,956,000	688,956,000.00
7⅜-percent, 1984	688,956,000	688,956,000.00	688,956,000	688,956,000.00
7⅜-percent, 1985	688,956,000	688,956,000.00	688,956,000	688,956,000.00
7⅜-percent, 1986	688,956,000	688,956,000.00	688,956,000	688,956,000.00
7⅜-percent, 1987	688,955,000	688,955,000.00	688,955,000	688,955,000.00
7⅜-percent, 1988	688,956,000	688,956,000.00	688,956,000	688,956,000.00
7⅜-percent, 1989	688,956,000	688,956,000.00	688,956,000	688,956,000.00
7⅜-percent, 1990	1,366,865,000	1,366,865,000.00	1,366,865,000	1,366,865,000.00
7½-percent, 1981	522,029,000	522,029,000.00	522,029,000	522,029,000.00
7½-percent, 1982	522,029,000	522,029,000.00	522,029,000	522,029,000.00
7½-percent, 1983	522,029,000	522,029,000.00	522,029,000	522,029,000.00
7½-percent, 1984	522,029,000	522,029,000.00	522,029,000	522,029,000.00
7½-percent, 1985	522,029,000	522,029,000.00	522,029,000	522,029,000.00
7½-percent, 1986	522,028,000	522,028,000.00	522,028,000	522,028,000.00
7½-percent, 1987	522,029,000	522,029,000.00	522,029,000	522,029,000.00
7½-percent, 1988	522,029,000	522,029,000.00	522,029,000	522,029,000.00
7½-percent, 1989	522,029,000	522,029,000.00	522,029,000	522,029,000.00
7½-percent, 1990	522,029,000	522,029,000.00	522,029,000	522,029,000.00
7½-percent, 1991	1,888,893,000	1,888,893,000.00	1,888,893,000	1,888,893,000.00
7⅝-percent, 1981	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7⅝-percent, 1982	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7⅝-percent, 1983	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7⅝-percent, 1984	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7⅝-percent, 1985	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7⅝-percent, 1986	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7⅝-percent, 1987	677,910,000	677,910,000.00	677,910,000	677,910,000.00
7⅝-percent, 1988	677,909,000	677,909,000.00	677,909,000	677,909,000.00
7⅝-percent, 1989	677,909,000	677,909,000.00	677,909,000	677,909,000.00
Total obligations sold only to this fund (special issues)	32,977,799,000	32,977,799,000.00	31,332,779,000	31,332,779,000.00
Total investments in public-debt obligations	36,499,847,000	36,487,309,385.94	34,854,827,000	34,842,745,453.78
Investments in federally sponsored agency obligations:				
Participation certificates:				
Federal Assets Liquidation Trust—Government National Mortgage Association:				
5.10-percent, 1987	50,000,000	50,000,000.00	50,000,000	50,000,000.00
5.20-percent, 1982	100,000,000	100,000,000.00	100,000,000	100,000,000.00
Federal Assets Financing Trust—Government National Mortgage Association:				
6.05-percent, 1988	65,000,000	64,861,875.52	65,000,000	64,874,063.08
6.20-percent, 1988	230,000,000	230,000,000.00	230,000,000	230,000,000.00
6.40-percent, 1987	75,000,000	75,000,000.00	75,000,000	75,000,000.00
6.45-percent, 1988	35,000,000	35,000,000.00	35,000,000	35,000,000.00
Total investments in federally sponsored agency obligations	555,000,000	554,861,875.52	555,000,000	554,874,063.08
Total investments	37,054,847,000	37,042,171,261.46	35,409,827,000	35,397,619,516.86
Undisbursed balances [2]		13,030,860.53		−25,406,511.59
Total assets		37,055,202,121.99		35,372,213,005.27

[1] Par value, plus unamortized premium, less discount outstanding.
[2] The negative figure represented an extension of credit against securities to be redeemed within the following few days.

The net decrease in the par value of the investments owned by the fund during the transition quarter amounted to $913 million. New securities at a total par value of $16,148 million were acquired during the transition quarter through the investment of receipts. All of these new securities were certificates of indebtedness. The par value of securities redeemed during the transition quarter was $17,060 million, including $10,316 million in certificates of indebtedness. In addition, $90 million in 7½-percent notes maturing in August 1976 were exchanged for equal amounts of 8-percent bonds maturing in August 2001. Although the interest rate on bonds is generally limited to 4¼ percent by the provisions of 31 U.S.C. 752, amendments to these provisions authorize the issuance of bonds at rates of interest exceeding 4¼ percent, subject to certain restrictions. Public Law 92–5, enacted March 17, 1971, amended the provisions to authorize the issuance to the public and to Government accounts of up to a total of $10 billion in bonds at rates of interest exceeding 4¼ percent. Public Law 93–53, enacted July 1, 1973, further amended the provisions of 31 U.S.C. 752 by (1) removing the $10 billion limitation on the aggregate face amount of such bonds that may be issued and (2) limiting the amount of such bonds that may be held by the public at any one time to $10 billion.

The net decrease in the par value of the investments owned by the fund during fiscal year 1977 amounted to $1,645 million. New securities at a total par value of $78,571 million were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was $80,216 million. Included in these amounts is $71,143 million in certificates of indebtedness that were acquired, and $70,144 million in certificates of indebtedness that were redeemed, within the fiscal year. In addition, $15 million in 8-percent notes maturing in February 1977 were exchanged for equal amounts of 7⅝-percent bonds maturing in February 2007.

The effective annual rate of interest earned by the assets of the old-age and survivors insurance trust fund during the 12 months ending on June 30, 1977 was 6.9 percent. (This period is used because interest on special issues is paid semiannually on June 30 and December 31.) The interest rate on special issues purchased by the trust fund in June 1977 was 7⅛ percent, payable semiannually.

The 1956 amendments provided that the public-debt obligations issued for purchase by the old-age and survivors insurance trust fund and the disability insurance trust fund shall have maturities fixed with due regard for the needs of the funds. Under these amendments, the general practice in the past was to spread the maturity dates for the holdings of special issues as nearly as practicable in equal amounts over a 15-year period.

However, the interest rate on special issues acquired in June of each year 1966–77, as determined under section 201(d) of the Social Security Act, was higher than the maximum rate of 4¼ percent to which the interest rate on long-term issues (bonds) is generally limited. Thus, the former practice of spreading maturity dates over a 15-year period could not be followed, beginning with special issues acquired in June 1966, until the enactment of Public Law 93–53 on July 1, 1973. Accordingly, the entire amounts available for investment in June of each year 1966–73 were invested in short-term issues (notes). As a result at the end of fiscal year 1977, the old-age and survivors insurance trust fund still held $326 million in a special issue consisting of a 7-year note that will mature on June 30, 1980 (table 6).

On June 30, 1974, the investment practice in effect before 1966 was reinstated. As a result, the old-age and survivors insurance trust fund held $24,177 million in special issues at the end of September 1977 that were acquired in 1974–77 and were distributed in virtually equal amounts of about $2,015 million maturing in each of the years 1981–1992 (table 6). The investment operations of the fund in fiscal years 1976 and earlier are described in the 1977, and earlier, annual reports.

Summary of the Operations of the Federal Disability Insurance Trust Fund, Fiscal Year 1977

A statement of the income and disbursements of the Federal Disability Insurance Trust Fund during fiscal year 1977 (which began on October 1, 1976 and ended on September 30, 1977), and of the assets of the fund at the beginning and end of the fiscal year is presented in table 7. Corresponding amounts for the transition quarter July-September 1976 (which were not presented in last year's annual report) are also shown in the table.

The total assets of the disability insurance trust fund amounted to $6,459 million on September 30, 1976. During fiscal year 1977, total receipts amounted to $9,375 million and total disbursements were $11,590 million. The assets of the trust fund thus decreased $2,215 million during the year to a total of $4,243 million on September 30, 1977.

Included in total receipts were $8,134 million representing contributions appropriated to the fund, and $805 million representing amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the fund. As an offset, $39 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base.

Net contributions amounted to $8,900 million, an increase of 10.2 percent over the amount of $8,076 million for the preceding 12-month period. This increase is accounted for by the same factors that accounted for the increase in contributions to the old-age and survivors insurance trust fund (described in the preceding section).

In addition, the trust fund received $103 million in December from the general fund of the Treasury, as reimbursement for the costs of noncontributory credits for military service. Of this amount, $92 million was reimbursed in accordance with section 217(g) and $11 million was in accordance with section 229(b), as described in the preceding section.

Provisions governing the financial interchanges between the railroad retirement account and the disability insurance trust fund are similar to those referred to in the preceding section relating to the old-age and survivors insurance trust fund. The determination made as of June 30, 1976, required that a transfer of $300,000 be made from the railroad retirement account to the disability insurance trust fund. This amount was transferred to the trust fund in June 1977, together with interest to the date of transfer amounting to $18,000.