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FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

LETTER

FROM THE

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

TRANSMITTING

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

MARCH 5 (legislative day, FEBRUARY 19), 1947.—Referred to the Committee on Finance

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE FEDERAL
OLD-AGE AND SURVIVORS INSURANCE TRUST FUND,
Washington, D. C., January 3, 1947.

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

SIRS: We have the honor to transmit to you the Seventh Annual Report of the Board of Trustees of the Federal old-age and survivors insurance trust fund, in compliance with the provisions of section 201 (b) of the Social Security Act, as amended.

Respectfully,

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

L. B. SCHWELLENBACH,
Secretary of Labor.

WATSON B. MILLER,
Federal Security Administrator.

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

INTRODUCTORY STATEMENT

This report is submitted to Congress in accordance with the requirement in section 201 of the Social Security Act, as amended, that the Board of Trustees of the Federal old-age and survivors insurance trust fund submit an annual report on the present and prospective operations and status of the trust fund. The present report, pertaining to the fiscal year ended June 30, 1946, the five fiscal years subsequent to that date, and the long-range actuarial status of the fund, is the seventh annual report which the Board of Trustees has submitted.

The Federal old-age and survivors insurance trust fund, which was established on January 1, 1940, is held by the Board of Trustees under authority of the Social Security Act. The three members of this Board serve in an ex officio capacity. From January 1, 1940, through the fiscal year covered by this report, 1945–46, the three members of the Board were the Secretary of the Treasury, the Secretary of Labor, and the Chairman of the Social Security Board. On July 16, 1946, the President's Reorganization Plan No. 2 went into effect; this plan abolished the three-member Social Security Board, and the functions of the Chairman of the Social Security Board as ex officio member of the Board of Trustees were taken over by the Federal Security Administrator. By agency order, the Commissioner for Social Security has been designated by the Administrator as his alternate on the Board. The remaining membership of the Board is unchanged. The Secretary of the Treasury serves as managing trustee. The present document is a joint report of the three trustees.

The fiscal year 1946 was dominated by the economic dislocations and readjustments occasioned by the reconversion from war to peace. Following VJ-day unemployment as measured by the United States Bureau of the Census rose and total industrial production declined sharply. The upward movement in unemployment, however, was checked in a relatively few months after reaching a peak of less than 3,000,000 in the first week of March 1946. In the last quarter of the fiscal year, unemployment was less than a third of the 1940 average. Total civilian employment declined after VJ-day but the drop in the early part of the year was partially offset by increases in employment in the last quarter. In June, due in large part to a seasonal rise in the labor force, total employment reached almost 57,000,000—a new peak of civilian employment. Nonagricultural employment in June 1946, however, was only slightly above the level in June of the previous year. Although production was considerably below wartime levels, production of goods and services in the last half of the fiscal year 1946 was at the highest point in peacetime history.

Despite the record volume of production of civilian goods, the high level of consumer income coupled with war-born shortages in consumer and producer's goods caused inflationary pressures on prices and wage rates.

Operations under the old-age and survivors insurance program have been substantially affected by reconversion activities. Wages on which contributions and wage credits were based declined in the first quarter of the fiscal year to approximately 8 percent below the level of the corresponding period of the preceding year; by the last quarter of the fiscal year wages covered under the program rose to approximately the wartime level. Contributions collected for the entire fiscal year 1946 were only 5 percent below the war peak. As a result of the cut-backs in war industries, many aged persons and women withdrew from the labor force. The number of claims for old-age and survivors insurance benefits rose sharply. During the fiscal year, 256,000 workers aged 65 and over entered the benefit rolls, in contrast to 133,000 in the preceding 12 months. The greatest relative increase in beneficiaries was in the number of retired workers and their wives, in contrast to years before in which survivors' claims rose more rapidly than claims for retirement benefits.

The war undoubtedly caused long-run changes of a more or less permanent character in various phases of our economy which will significantly affect the financing of old-age and survivors insurance. In earlier reports of the Board of Trustees an effort was made to outline the special influences of the war on the trust fund and to suggest the ways in which the higher wartime earnings, the shifts in the labor force during the war, the increased employment of women, the entrance of many other temporary workers, and the deferred wartime retirements would affect the finances of the old-age and survivors insurance trust fund in the years ahead. In the present report, a detailed analysis of these factors is omitted; however, in the statements on the expected operations during the immediate 5-year period ahead and on the actuarial status of the fund, wartime influences as well as the economic activities during the reconversion period have been taken into account. There are, of course, many uncertainties involved. Because of these uncertainties, the estimates which are contained in the report are of necessity uncertain, being subject to the assumptions regarding the economic outlook.

NATURE OF THE TRUST FUND

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

The Social Security Act of 1935 fixed the contribution rates for employees at 1 percent of taxable wages for the calendar years 1937, 1938, and 1939; employer rates were also fixed at 1 percent for the same period. The 1935 law provided that these rates should rise to 1½ percent on January 1, 1940, to 2 percent on January 1, 1943, to 2½ percent on January 1, 1946, and to 3 percent on January 1, 1949. The social-security amendments of 1939 modified this original schedule of contribution rates to provide that the rate of 1 percent each on employees and employers should continue in effect through 1942, but left the remainder of the schedule as originally enacted. The Revenue Act of 1942 provided that the 1-percent rates should continue through 1943. Public Law 211 of the Seventy-eighth Congress extended the 1-percent rates further through February 29, 1944, while the Revenue Act of 1943 extended the same rates throughout 1944. Public Law 495 of the Seventy-eighth Congress further continued the 1-percent rates throughout 1945, while the Revenue Act of 1945 extended them through 1946. The Social Security Act amendments of 1946 continued the 1-percent rate for an additional year through 1947.

At the end of 1947, accordingly, the 1-percent rates of contribution will have been in effect for 11 years. Existing provisions of law provide for the 2½-percent rates to go into effect on January 1, 1948, and the 3-percent rates 1 year later on January 1, 1949.

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

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

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

Expenditures under the old-age and survivors insurance program are paid out of the trust fund. These expenditures for the fiscal year ended 1946 and previous years include old-age and survivors insurance benefits provided in title II of the Social Security Act and such reimbursements to the Treasury for administrative expenses incurred under the program as are authorized by section 201 (f) of the act. Beginning with the fiscal year 1947, pursuant to the Labor-Federal Security appropriation Act of 1947, approved July 26, 1946, wages and salaries for the Bureau of Old-Age and Survivors Insurance are charged directly to the trust fund and are not reimbursed from the fund as they were in the preceding fiscal years. After July 16, 1946, the effective date of the Reorganization Plan No. 2, the Federal Security Administration certifies benefit payments to the managing trustee, who makes the payments from the trust fund in accordance therewith. Prior to July 16, 1946, certifications for payments were made by the Social Security

Board. Payments are made from an uninvested balance held in the fund to the account of the disbursing officer of the Treasury.

The managing trustee invests that portion of the trust fund which, in his judgment, is not required to meet current expenditures for benefits or administration. The Social Security Act restricts permissible investments of the trust fund to interest-bearing obligations of the United States Government or to obligations guaranteed as to both principal and interest by the United States. Regular obligations of these types may be acquired on original issue at par or by purchase of outstanding obligations at their market price. In addition, the Social Security Act authorizes the issuance of special obligations exclusively to the trust fund. Such special obligations are required to bear interest at a rate equal to the average rate of interest, computed as of the end of the calendar month next preceding the date of their issue, borne by all interest-bearing obligations of the United States forming a part of the public debt (where such average rate is not a multiple of one-eighth of 1 percent, the rate of interest on such special obligations is required to be the multiple of one-eighth of 1 percent next lower than such average rate).

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

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

At the beginning of 1946 there were about 10,000,000 persons aged 65 and over, equivalent to 7.3 percent of the total population. According to a "medium" estimate of the United States Bureau of the Census, the number of persons aged 65 and over may increase to about 20,000,000 or about 12 percent of the population, at the end of 40 years. The effect on the finances of the old-age and survivors insurance system of this expected change in the number of aged persons will be even greater than may at first appear. This is because, compared with the present situation, a larger proportion of aged persons 40 years hence is expected to be eligible to receive benefits under the program. The future financial soundness of the system, with its rising rates of disbursements, must rest on higher contribution rates or on the provision of income from other sources, or both. Prudent financial management of this system is of the utmost importance to the millions of persons who are already within its scope and to the Nation as a whole.

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

SUMMARY OF OPERATIONS OF TRUST FUND, FISCAL YEAR 1946

A statement of the income and disbursements of the Federal old-age and survivors insurance trust fund in the fiscal year which began on July 1, 1945, and ended on June 30, 1946, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 1.

TABLE 1.—*Statement of operations of the Federal old-age and survivors insurance trust fund during the fiscal year 1946* [1]

Total assets of the trust fund, June 30, 1945		$6, 613, 380, 619. 69
Receipts, fiscal year 1946:		
Appropriations equivalent to contributions collected	$1, 238, 218, 447. 01	
Interest on investments	147, 765, 515. 37	
Total receipts	1, 385, 983, 962. 38	
Disbursements, fiscal year 1946:		
Benefit payments	320, 510, 091. 90	
Reimbursements for administrative expenses	37, 426, 918. 22	
Total disbursements	357, 937, 010. 12	
Net addition to trust fund		1, 028, 046, 952. 26
Total assets of the trust fund, June 30, 1946		7, 641, 427, 571. 95

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

The total receipts of the trust fund during the fiscal year 1946 amounted to $1,386.0 million. Of this total, $1,238.2 million represented the sum of the amounts equal to contributions received under the Federal Insurance Contributions Act and covered into the Treasury, which were appropriated to the trust fund during the year under the continuing appropriation in section 201 (a) of the Social Security Act, as amended. The total amount appropriated dropped only 5 percent below the record wartime appropriation in the preceding fiscal year. The additional $147.8 million of receipts consisted of interest received on investments of the fund.

Disbursements from the trust fund during the fiscal year 1946 totaled $357.9 million, of which $320.5 million consisted of benefit payments and $37.4 million of reimbursements to the general fund of the Treasury for administrative expenses of the insurance program. The total amount paid from the fund in the form of benefits during the fiscal year exceeded benefits paid in the fiscal year 1945 by 34 percent, reflecting the larger number of beneficiaries on the rolls.

A summary of receipts, disbursements, and changes in the assets of the old-age and survivors insurance trust fund during each fiscal year since it was established on January 1, 1940, is presented in table 2.

TABLE 2.—*Operations of the old-age and survivors insurance trust fund by specified period, January 1, 1940, to June 30, 1946*

[In millions]

	Fiscal year ended in—						
	1940 [1]	1941	1942	1943	1944	1945	1946
Receipts:							
Assets transferred from old-age reserve account in Jan. 1, 1940	$1,724.4						
Appropriations equivalent to contributions collected		$688.1	$895.6	$1,130.5	$1,292.1	$1,309.9	$1,238.2
Interest on investments	42.5	56.0	71.0	87.4	103.2	123.9	147.8
Total receipts [2]	1,766.9	744.1	966.6	1,217.9	1,395.3	1,433.8	1,386.0
Disbursements:							
Benefit payments [3]	9.9	64.3	110.3	149.3	184.6	239.8	320.5
Reimbursements for administrative expense	12.3	26.8	26.8	27.5	[4] 32.6	[5] 26.9	37.4
Total disbursements [2]	22.2	91.2	137.0	176.8	217.2	266.8	357.9
Total assets at end of period [2]	1,744.7	2,397.6	3,227.2	4,268.3	5,446.4	6,613.4	7,641.4

[1] January–June 1940, fund having been established in place of old-age reserve account on Jan. 1, 1940.
[2] Totals do not necessarily represent the sum of rounded components.
[3] Based on checks cashed and returned to Treasury.
[4] Includes some reimbursements applicable to outlays in other fiscal years.
[5] Adjusted for overreimbursements in prior years.

The distribution of benefit payments by type of benefit in fiscal years 1945 and 1946 is shown in table 3. Approximately 64 percent of the amounts paid from the fund as benefit payments in the fiscal year 1946 were accounted for by monthly benefits to persons age 65 or over—retired wage earners and their wives, and aged widows and parents of deceased wage earners. Approximately 28 percent of the 1946 payments represented monthly benefits on behalf of children of deceased or retired workers, and payments to widows who had children of deceased wage earners in their care; most of these widows were under 65. The balance of the benefits paid in the fiscal year 1946 consisted almost entirely of lump-sum amounts in cases where no survivor of an insured wage earner dying after 1939 was immediately entitled to monthly benefits.

TABLE 3.—*Estimated distribution of Treasury disbursements for benefit payments under the old-age and survivors insurance program, by type of benefit, fiscal years 1945 and 1946*

[In millions]

Type of benefit	1945		1946	
	Amount	Percent of total	Amount	Percent of total
Total	$239.8	100	$320.5	100
Monthly benefits	214.1	89	294.5	92
Primary (retired wage earners 65 or over)	109.1	46	153.9	48
Wife's (wives 65 or over of primary beneficiaries)	17.8	7	25.2	8
Widow's (widows 65 or over of wage earners)	16.9	7	23.7	8
Parent's (parents 65 or over of deceased wage earners)	.8	(1)	1.0	(1)
Child's (dependents of retired or deceased wage earners)	46.6	19	[2] 60.9	19
Widow's current (widows of wage earners with child beneficiary)	22.9	10	29.8	9
Lump-sum benefits (no survivor of deceased wage earner entitled to monthly benefits or wage earner died before 1940)	25.7	11	26.0	8

[1] Less than 0.5 percent.
[2] Includes $58,900,000 paid to children of deceased insured wage earners and $2,000,000 paid to children of primary beneficiaries.

At the end of the fiscal year 1946, approximately 1.5 million persons were receiving monthly benefits, amounting to $339 million on an annual basis. At the end of the preceding fiscal year, the monthly benefit rolls included 1.1 million persons to whom monthly benefits were being paid at an annual rate of $242 million. The average monthly benefit in current payment status for different types of family groups as of June 30, 1946, was as follows: Retired male worker only (with no eligible dependent), $24.80; retired worker and wife, $38.80; retired female worker only (with no eligible dependent), $19.80; widow (aged 65 or over) only, $20.20; widowed mother and one child, $34.20; widowed mother and two children, $48; and widowed mother and three or more children, $51.

The total assets of the old-age and survivors insurance trust fund, as reported in the sixth annual report of the board of trustees, amounted to $6,613 million on June 30, 1945. These assets increased to $7,641 million by the end of the fiscal year 1946, as the result of an excess of receipts over disbursements amounting to $1,028 million during the fiscal year. Table 4 compares the total assets of the trust fund and their distribution at the end of the fiscal years 1945 and 1946. The assets of the fund at the end of the fiscal year 1946 consisted of $7,549 million in the form of obligations of the United States Government, $44 million to the credit of the fund account, and $49 million to the credit of the disbursing officer.

TABLE 4.—*Assets of Federal old-age and survivors' insurance trust fund, by type, at end of fiscal year 1945 and 1946* [1]

	June 30, 1945	June 30, 1946
Total assets	$6,613,380,619.69	$7,641,427,571.95
Total investments	6,546,281,050.00	7,548,734,250.00
Treasury bonds (public issues)	1,238,681,050.00	1,638,334,250.00
2½-percent bonds of 1962–67	49,000,000.00	49,000,000.00
2½-percent bonds of 1963–68	100,000,000.00	100,000,000.00
2½-percent bonds of 1964–69	50,000,000.00	50,000,000.00
2½-percent bonds of 1965–70	400,000,000.00	400,000,000.00
2½-percent bonds of 1966–71	295,000,000.00	295,000,000.00
2½-percent bonds of 1967–72	344,681,050.00	744,334,250.00
Special issues	5,307,600,000.00	5,910,400,000.00
Treasury notes:		
2½-percent notes: Maturing June 30, 1946	319,200,000.00	
2⅜-percent notes: Maturing June 30, 1946	603,000,000.00	
2¼-percent notes:		
Maturing June 30, 1946	228,000,000.00	
Maturing June 30, 1947	450,400,000.00	450,400,000.00
2⅛-percent notes: Maturing June 30, 1947	240,000,000.00	240,000,000.00
2-percent notes: Maturing June 30, 1947	459,000,000.00	459,000,000.00
1⅞-percent notes:		
Maturing June 30, 1947	251,000,000.00	251,000,000.00
Maturing June 30, 1948	1,109,000,000.00	1,109,000,000.00
Certificates of indebtedness:		
1⅞-percent certificates of indebtedness:		
Maturing June 30, 1946	1,648,000,000.00	
Maturing June 30, 1947		3,401,000,000.00
Uninvested balances	67,099,569.69	92,693,321.95
To credit of fund account	32,007,240.42	43,526,625.17
To credit of disbursing officer	35,092,329.27	49,166,696.78

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

That portion of the assets of the trust fund not required, in his judgment, to meet current withdrawals was invested by the managing trustee during the fiscal year 1946, in accordance with the provisions of section 201 (c) of the Social Security Act, as amended. This section provides that direct obligations of the United States Government as well as obligations guaranteed as to both principal and interest by the United States may be acquired through purchase of outstanding obligations in the open market as well as an original issue at par. Investments made for the fund during the fiscal year, however, as in previous years, consisted only of direct obligations of the United States purchased on original issue.

The net increase in the investments owned by the fund during the fiscal year 1946 amounted to $1,002 million. New securities totaling $4,489 million were acquired through the investment of receipts accruing to the fund and the reinvestment of securities maturing during the year. Securities redeemed during the year totaled $3,486 million, including the following which matured on June 30, 1946: $319 million of 2½ percent special Treasury notes; $603 million of 2⅜ percent special Treasury notes; $228 million of 2¼ percent special Treasury notes; and $2,156 million of 1⅞ percent special certificates of indebtedness.

Of the new securities acquired, $4,089 million were in the form of special certificates of indebtedness, $688 million of which were redeemed during the year, and $3,401 million of which mature on June 30, 1947. These certificates were acquired at par and bear an interest rate of 1⅞ percent, this rate being determined by the average rate of interest on the interest-bearing public debt which prevailed at the end of the month preceding the date of issue of these securities. The remaining $400 million of securities acquired during the fiscal year were 2½ percent publicly offered Treasury bonds, 1967–72 series, dated November 15, 1945, on which $489,600 of accrued interest was paid. During the year, $346,800 of accrued interest paid out in the preceding fiscal year was received. The investment transactions of the trust fund during the fiscal year 1946 are summarized in table 5.

TABLE 5.—*Investment transactions of the old-age and survivors insurance trust fund, fiscal year 1946* [1]

Purchases		$4, 488, 653, 200
Special issues: Certificates of indebtedness	$4, 089, 000, 000	
Public issues: Treasury bonds	399, 653, 200	
Redemptions, special issues		3, 486, 200, 000
Treasury notes	1, 150, 200, 000	
Certificates of indebtedness	2, 336, 000, 000	
Net increase in investments		1, 002, 453, 200

[1] As recorded in Daily Statement of the United States Treasury.

The average rate of interest on the interest-bearing public debt, which determines the rates at which special obligations are issued to the old-age and survivors insurance trust fund, varies with changes in the composition of the public debt and with changes in the particular rates of interest on different classes of securities. During the fiscal year 1946 the average rate of interest on the public debt rose slightly: The rate was 1.996 percent on June 30, 1946, as compared with 1.936 on June 30, 1945. Because the rate remained below 2 percent, the interest rate on all special issues acquired during the fiscal year continued to be 1⅞ percent, the same rate at which special issues were acquired during the previous fiscal year. The average interest rate on all investment holdings of the fund declined in about the same degree in the fiscal year 1946 as it did in the previous fiscal year; it was 2.05 percent as of June 30, 1946, as compared with 2.13 percent on June 30, 1945, and 2.19 percent on June 30, 1944.

STATEMENT OF THE EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING FISCAL YEARS 1947–51

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

The income of the fund depends on the amount of taxable pay rolls in covered employment and the rates of contributions, and on the interest earnings of the fund. The disbursements from the fund depend on the number of persons, among those eligible for benefits, who apply for and receive benefits instead of continuing to work in covered employments, on the amounts of benefit to which they are entitled on the basis of past earnings, and on the operation of mortality rates on covered workers and beneficiaries. Consequently, both the income and the disbursements of the fund are substantially affected by general economic conditions.

The end of the war and the near-completion of reconversion have removed some of the uncertainty that dominated the estimates prepared for earlier reports. Nevertheless it is not possible to predict the course of economic events during the next 5 years with complete confidence. Although the outlook appears to be good, there is no assurance that economic activity will continue at a high level throughout the ensuing 5-year period.

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

For both alternative I and alternative II, it is assumed that the present statutory coverage of old-age and survivors insurance will remain unchanged throughout the period under consideration. The computations of tax income are based on present statutory rates of contribution, which are 1 percent each on employer and employee on wages paid during the calendar years 1946 and 1947, 2½ percent each during the calendar year 1948, and 3 percent each during the calendar years 1949, 1950, and 1951.

The two sets of estimates of the income and disbursements of the trust fund for each of the five fiscal years 1947 to 1951, together with the resulting assets of the fund at the beginning and the end of each fiscal year, are presented in table 6. In addition, figures for actual experience in the fiscal years 1941 to 1946 are shown.

Alternative I, which shows a relatively large increase in trust fund assets, is based on the assumption that a high level of employment and earnings is maintained without any major break at least through calendar year 1950. It is assumed that as current production approaches demand the upward movement of the price level will taper off, but that hourly wage rates will continue to increase slowly. Weekly earnings are assumed to increase somewhat less than hourly wage rates because of a gradual shortening of the work week. Unemployment is assumed to remain at a low level. On this assumption, the normal growth of the labor force plus some increase in average annual earnings push estimated pay rolls above the wartime peak.

TABLE 6.—*Operations of the Federal old-age and survivors insurance trust fund, fiscal years 1941–51, subject to the assumptions and limitations stated in the text* [1]

[In millions]

Fiscal year	Fund beginning of year [2]	Transactions during year							Fund at end of year
		Income			Disbursements			Net increase in fund	
		Total	Contributions [3]	Interest on investments	Total	Benefit payments	Administrative expenses		
Past experience:									
1941	$1,745	$744	$688	$56	$91	$64	$27	$653	$2,398
1942	2,398	967	896	71	137	110	27	830	3,227
1943	3,227	1,218	1,130	87	177	149	27	1,041	4,268
1944	4,268	1,395	1,292	103	217	185	[4] 33	1,178	5,446
1945	5,446	1,434	1,310	124	267	240	[4] 27	1,167	6,613
1946	6,613	1,386	1,238	148	358	321	37	1,028	7,641
Estimated future experience: [5]									
1947:									
Alternative I	7,641	1,565	1,403	162	464	423	41	1,101	8,742
Alternative II	7,641	1,572	1,409	163	464	423	41	1,108	8,749
1948:									
Alternative I	8,742	2,186	1,994	192	552	507	45	1,634	10,376
Alternative II	8,749	2,126	1,935	191	622	576	46	1,504	10,253
1949:									
Alternative I	10,376	4,069	3,829	240	635	590	45	3,434	13,810
Alternative II	10,253	3,645	3,411	234	728	683	45	2,917	13,170
1950:									
Alternative I	13,810	4,803	4,489	314	720	674	46	4,083	17,893
Alternative II	13,170	4,300	4,004	296	828	782	46	3,472	16,642
1951:									
Alternative I	17,893	4,951	4,556	395	807	761	46	4,144	22,037
Alternative II	16,642	4,411	4,046	365	916	870	46	3,495	20,137

[1] In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions and their uncertainties. Alternative I assumes a continuing high level of employment and earnings throughout the period; alternative II assumes a brief recession with a fairly rapid recovery. Estimates were prepared September 1946.

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

[3] Amounts equal to contributions are automatically appropriated to the trust fund. Estimates for fiscal years 1947–51 are based on statutory rates of 1 percent each on employers and employees in calendar years 1946 and 1947, 2½ percent each in 1948, and 3 percent each thereafter.

[4] Represent charges against trust fund in respective fiscal years; actual administrative expenditures were about $30,000,000 in fiscal year 1944 and about $29,000,000 in fiscal year 1945.

[5] Excludes any payments, or reimbursements therefore, arising from (1) extension of survivors insurance protection to certain veterans of World War II (sec. 201, Public Law 719, 79th Cong.); and (2) coordination of survivors insurance provisions under the Railroad Retirement Act and title II of the Social Security Act (Public Law 572, 79th Cong.).

Benefit disbursements are assumed to increase substantially under alternative I, primarily because of the long-range upward trend in the number of beneficiaries. This trend, it is assumed, is augmented somewhat in the first year of the estimate period by the continued withdrawal from employment of persons eligible for benefits who were at work because of the wartime conditions in the labor market. The level of estimated disbursements, however, is lower under alternative I than under alternative II.

Under alternative I, aggregate income during the 5-fiscal-year period ending in 1951 would amount to $17.6 billion, including $16.3 billion in contributions and $1.3 billion in interest. Aggregate disbursements for the period would be about $3.2 billion, with the highest expected annual disbursement about $805 million. The trust fund at the beginning of the fiscal year 1947 would amount to about 9½ times the highest expected annual disbursement during the succeeding 5 fiscal years.

The other set of estimates, alternative II, is based on the assumption that prices will rise rapidly through most of the calendar year 1947. Wage rates and earnings are assumed to rise also, though less rapidly than prices. This development is assumed to terminate in a recession when prices reach levels that consumers and businesses are generally unwilling or unable to pay. During this downswing it is assumed that there will be a substantial increase in unemployment and in short-term and part-time work. The recession, however, is assumed to be brief and recovery fairly rapid.

In each of the 5 years except the fiscal year 1947, estimated pay rolls are smaller under alternative II than under alternative I because of a lower level of employment. Estimates of benefit disbursements under alternative II, on the other hand, increase more rapidly than under alternative I because a much larger number of older workers are assumed to withdraw from or to be unable to find jobs in covered employment.

The aggregate income of the fund for the 5 fiscal years, 1947–51, under alternative II would amount to $16.0 billion, including $14.8 billion in contributions and $1.2 billion in interest. Aggregate disbursements would be $3.6 billion, with the highest expected annual disbursement about $915 million. The trust fund at the beginning of the period would amount to about 8½ times the highest expected annual disbursements during the period.

The 1946 amendments to title II of the Social Security Act (Public Law 719) provide survivors insurance protection for a limited period to certain veterans of World War II. Specific provision is made in this legislation authorizing appropriations, out of general revenues,to the trust fund of amounts necessary to meet the additional cost of these benefits. These disbursements are clearly in the nature of reimbursable transactions, independently financed and employing the trust fund primarily as a practical mechanism for facilitating coordination of these benefit payments with potential survivors benefits under the old-age and survivors insurance program. It has, accordingly, been deemed appropriate to exclude from tables 6 and 7 estimates of any payments, or reimbursements therefor, arising from these amendments.

The 1946 amendments to the Railroad Retirement Act, contained in Public Law 572, establish a system of survivors insurance, and, in effect, amend the present survivors insurance system contained in title II of the Social Security Act. Under both systems, eligibility for and the amount of benefits payable to survivors, in general, will be based on an insured worker's combined earnings record under the two programs. As a result of this coordination, some survivors will become eligible under old-age and survivors insurance who otherwise would not have become eligible; on the other hand, some survivors who would have become eligible under old-age and survivors insurance will instead receive railroad survivors benefits. Because of the lack of relevant data, it is not possible at present to prepare estimates of the effect of these amendments on short-range disbursements from the trust fund. However, it is believed that the net additional disbursements, if any, will not constitute a serious drain on the trust fund during the five fiscal years 1947–51. Moreover, although no specific provision is contained in these amendments for the allocation of costs between the two systems, the legislation states that, not later than January 1, 1950, a joint report should be made setting forth the actual experience under each system and recommending such legislation as deemed advisable for the equitable distribution, between the two systems, of the financial burdens arising from awarded claims. Therefore, tables 6 and 7 do not include any estimates of disbursements arising from these amendments.

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

In general, the larger the volume of employment the larger will be the number of workers who are insured under the program and, therefore, the larger will be the number of deaths which will give rise to valid claims for survivors' benefits. However, the amount paid out for survivors' benefits will not be affected significantly by variations in economic conditions. While favorable opportunities for employment will operate to increase the number of new death claims, such a high employment situation will tend to have counterbalancing effects such as that of inducing many of the widows and other children eligible for survivors' benefits to forego them by working in covered employment. On balance, the amount paid out for survivors' benefits will differ so little whether the economic conditions of alternative I or alternative II are assumed that a single set of estimates is deemed appropriate for both alternatives (table 7).

On the other hand, the lower the level of employment during the next 5 years, the larger will be the volume of benefit payments to retired workers who have attained age 65, and to their wives and children. As is indicated in table 8, a considerable proportion of the workers aged 65 and over who were eligible for primary benefits in the past remained in covered employment (or, if they left covered employment, later returned to it) and did not receive benefits. During the course of fiscal years 1945 and 1946, however, this proportion began to decrease—slowly at first and then accelerating—as the volume of withdrawals of older workers from covered employment increased; thus, in the last 6 months of fiscal year 1946, 148,000 older workers were awarded primary benefits, as contrasted with 77,000 in the corresponding period of fiscal year 1945 and 53,000 in 1944. This represents the effect of an increased rate of withdrawal on the part of older workers, which may be expected to continue for some time to come, even under the favorable employment conditions assumed under alternative I, with a consequent decrease in the proportion of older workers remaining in covered employment and an increase in the proportion in receipt of primary benefits.

TABLE 7.—*Treasury disbursements for benefit payments, distributed by classifications of beneficiaries, fiscal years 1941–51, subject to the assumptions and limitations stated in the text* [1]

[In millions]

Fiscal year	Total benefit disbursements [2]	Disbursed to primary beneficiaries	Disbursed to wives and children of primary beneficiaries	Disbursed to survivors of deceased insured workers			
				Monthly benefits			Lump-sum payments
				Total	Aged widows and parents	Younger widows and children	
Past disbursements: [3]							
1941	$64.3	$31.4	$5.3	$15.3	$1.5	$13.8	$12.3
1942	110.3	54.9	9.6	31.6	4.1	27.5	14.1
1943	149.3	72.4	12.7	47.5	7.9	39.6	16.7
1944	184.6	86.8	15.2	63.6	12.1	51.5	19.0
1945	239.8	109.1	19.2	85.8	17.7	68.1	25.7
1946	320.5	153.9	27.2	113.4	24.7	88.7	26.0
Estimated future disbursements: [4]							
1947	423	218	39	140	33	107	26
1948:							
Alternative I	507	268	47	164	43	121	28
Alternative II	576	327	57				
1949:							
Alternative I	590	315	56	189	54	135	30
Alternative II	683	395	69				
1950:							
Alternative I	674	364	65	214	66	148	31
Alternative II	782	457	80				
1951:							
Alternative I	761	414	74	240	79	161	33
Alternative II	870	507	90				

[1] In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared September 1946.
[2] Totals do not necessarily equal the sum of rounded components.
[3] Partly estimated.
[4] Excludes any payments arising from (1) extension of survivors insurance protection to certain veterans of World War II (sec. 201, Public Law 719, 79th Cong.) and (2) coordination of survivors insurance provisions under the Railroad Retirement Act and title II of the Social Security Act (Public Law 572, 79th Cong.).

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

Table 8 contains an analysis of workers eligible for primary benefits by age attained as of the middle (January 1) of each of the fiscal years 1941 through 1951. The growth in the number of eligible workers aged 65–69 is gradual but uninterrupted under both alternatives. This growth results partly from the increase in the population at these attained ages, but primarily from the fact that with each passing year a larger proportion of the persons attaining age 65 have fully insured status. In the calendar year 1940, a worker attaining age 65 would not have been fully insured if he had left covered employment more than 1½ or 2 years previous to his attainment of age 65—for example, due to a permanent disability—but in the calendar year 1951 numerous persons attaining age 65 will be fully insured even though they left covered employment before the age of 60.

The aging of the program has an even greater effect on the number fully insured at attained ages 70 and over. This number is expected to increase more than sixfold between January 1, 1941, and January 1, 1951, even under the lower employment assumptions of alternative II. At the latter date, the number eligible at these attained ages should comprise more than one-half of the total number of eligible persons. Moreover, the average age of all eligible persons within the age group 70 and over will be continuously increasing.

TABLE 8.—*Wage earners eligible for and receiving primary benefits by attained age of wage earners, fiscal years 1941–51, subject to the assumptions and limitations stated in the text* [1]

Middle of fiscal year (Jan. 1)	All wage earners age 65 and over			Wage earners 65–69			Wage earners age 70 and over		
	Number eligible for benefits [2]	Persons receiving benefits		Number eligible for benefits [2]	Persons receiving benefits		Number eligible for benefits [2]	Persons receiving benefits	
		Number	Proportion of total number eligible		Number	Proportion of total number eligible		Number	Proportion of total number eligible
Actual experience:	*Thous.*	*Thous.*	*Pct.*	*Thous.*	*Thous.*	*Pct.*	*Thous.*	*Thous.*	*Pct.*
1941	548	112	20	376	85	23	172	28	16
1942	680	200	29	445	134	30	235	66	28
1943	831	260	31	522	153	29	309	107	35
1944	1,022	306	30	612	156	25	410	151	37
1945	1,221	378	31	705	167	24	516	211	41
1946	1,426	518	36	789	212	27	637	306	48
Estimated future experience:									
1947	1,597	712	45	844	261	31	753	451	60
1948:									
Alternative I	1,750	871	50	890	301	34	860	570	66
Alternative II	1,728	1,041	60	874	414	47	854	627	73
1949:									
Alternative I	1,908	1,012	53	937	336	36	971	676	70
Alternative II	1,856	1,258	68	902	503	56	954	755	79
1950:									
Alternative I	2,063	1,149	56	984	369	38	1,079	780	72
Alternative II	1,979	1,426	72	937	576	61	1,042	850	82
1951:									
Alternative I	2,215	1,283	58	1,025	397	39	1,190	886	74
Alternative II	2,114	1,549	73	976	606	62	1,138	943	83

[1] In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared September 1946.
[2] Figures for 1941–46 are partly estimated.

The estimates presented above result in a net increase in the trust fund during the 5-year period of about $14.4 billion under alternative I and about $12.5 billion under alternative II. Although a range in the estimated net additions to the fund within which actual experience may fall is thus indicated, it by no means represents the maximum possible range of variation. For example, it is entirely possible under alternative I that the amount of contribution income would be greater and benefit payments lower than has been estimated. The total result would be an even greater growth in the trust fund han is indicated under this alternative. On the other hand, lower contrition and interest income together with higher benefit payments, than shown under alternative II, would lead to smaller net increases in the trust fund. It must be reemphasized that the estimates presented above are based on the statutory contribution rate schedule which provides for a 2½-percent rate each on employers and employees in the calendar year 1948 and a 3-percent rate thereafter, and do not assume a continuation of the present contribution rate of 1 percent each on employer and employee.

ACTUARIAL STATUS OF THE TRUST FUND

In accordance with section 201 (b) of the Social Security Act, the Board of Trustees is required to present each year a statement of the actuarial status of the trust fund. In the previous three reports of the Board, the same cost illustrations were used. These in effect were prepared largely on the basis of prewar data and assumptions. The sixth annual report indicated that actuarial study was under way to make use of additional data on population, coverage, and other pertinent subjects in a revision of the illustrations of the long-run costs of old-age and survivors insurance. Such revision is necessarily a continuous process. With the war over and reconversion well progressed, it is possible to prepare new cost illustrations taking into account the foreseeable effects of the war and the brief postwar period to date.

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