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

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND,
Washington, D. C., January 2, 1950.

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 Tenth Annua 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.
MAURICE J. TOBIN,
Secretary of Labor.
OSCAR R. EWING,
Federal Security Administrator.

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

INTRODUCTORY STATEMENT

The Federal old-age and survivors insurance trust fund was established on January 1, 1940, under the provisions of section 201 of the Social Security Act, as amended. The fund is held by the Board of Trustees comprised of three ex officio members. The members of the Board are the Secretary of the Treasury, who is also the managing trustee; the Secretary of Labor; and the Federal Security Administrator.

This report, which is submitted jointly by the three trustees, describes the operations of the trust fund during the fiscal year ended June 30, 1949, the expected receipts and disbursements of the fund in the five fiscal years subsequent to that date, and the long-range actuarial status of the fund. It is the tenth annual report submitted by the Board of Trustees as required by the act.

Although employment in the last months of the fiscal year was less than in the corresponding months of the preceding fiscal year, for the year as a whole employment was at a high level. Average civilian employment in the 12 months ending June 1949 reached 59.2 million as compared with 58.7 million for the previous 12 months; average nonagricultural employment rose 0.5 million to a total of 51.1 million. Unemployment rose to 3.8 million in June 1949, and the average for the fiscal year was 2.6 million as compared with 2.1 million in the preceding 12 months.

These economic conditions affected both the receipts and the disbursements of the trust fund. Total wage payments on which contributions and wage credits are based were higher in the period affecting tax collections in fiscal year 1949 than in any corresponding prior period. As a result, contributions collected during the fiscal year were almost 5 percent above the collections in the preceding year and the largest on record. At the end of fiscal year 1949 there were 212,000 more persons receiving monthly benefits on the basis of their own wage records than at the end of fiscal year 1948; the corresponding increase from June 1947 to June 1948 was 171,000. The number of beneficiaries receiving benefits as wives or children of these primary beneficiaries increased by 67,000 as compared with 55,000 in the preceding year. The increase in the number of survivors of deceased workers who were receiving benefits amounted to 112,000 as compared with 105,000 in the preceding year.

The economic changes that have been produced by the war and its aftermath will have long-range effects on the financing of old-age and survivors insurance. These effects resulting, for example, from higher money earnings in covered employment, shifts in the labor force, increased employment of women, and the deferred retirement of older workers, cannot be fully appraised at this time. In the present report, these developments are taken into account in the statements on the expected operations of the trust fund during the next 5 years and on the actuarial status of the trust fund; but there are many uncertainties, and these uncertainties are present, of course, in the estimates contained in the report.

NATURE OF THE TRUST FUND

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

The Social Security Act of 1935 fixed the contribution rates for employees at 1 percent of taxable wages for the calendar years 1937, 1938, and 1939; employer rates were also fixed at 1 percent for the same period. The 1935 act provided that these rates should rise to 1½ percent on January 1, 1940, to 2 percent on January 1, 1943, to 2½ percent on January 1, 1946, and to 3 percent on January 1, 1949. The Social Security Act Amendments of 1939 modified this original schedule of contribution rates to provide that the rate of 1 percent each on employees and employers should continue in effect through 1942, but left the remainder of the schedule as originally enacted.

Successive annual acts of Congress, however, extended the 1-percent rates from 1943 through 1947. The Social Security Act Amendments of 1947 extend the 1-percent rates through 1949; at the end of 1949, accordingly, the 1-percent rates will have been in effect for 13 years. The amendments of 1947, however, provide that the rates shall rise to 1½ percent on January 1, 1950, and to 2 percent on January 1, 1952.

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

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

The Social Security Act Amendments of 1946 provide survivorship protection to certain World War II veterans for a period of 3 years following their discharge from the armed forces. Section 210 (d) of these amendments authorizes Federal appropriations to reimburse the Federal old-age and survivors insurance trust fund for such sums as are withdrawn to meet the additional cost (including administrative expenses) of the payments to survivors of World War II veterans under the amendments.

Public Law 642, enacted June 14, 1948, which amends the definition of the term "employee" as used in the Social Security Act, results in the exclusion from coverage of certain services previously held covered under title II of the act. While the amended definition is made retroactive to August 14, 1935, certain wage credits established under the former definition will remain credited to the individual's account. The law authorizes an appropriation to the trust fund from general revenues equal to the estimated total amount of benefits paid and to be paid under title II of the Social Security Act that would not have been paid had the amended definition been in effect beginning August 14, 1935.

Expenditures for benefit payments and administrative expenses under the old-age and survivors insurance program are paid out of the trust fund. These expenditures for the fiscal year ended 1946 and previous years included such reimbursements to the Treasury for administrative expenses incurred under the program as were authorized by section 201 (f) of the act. Successive acts of Congress have modified the procedures in accounting for these expenses. Thus, during fiscal years 1947 and 1948 progressively increasing portions of the program's administrative expenses incurred by the Federal Security Agency were charged directly to the trust fund and not reimbursed from the fund as they had been in the preceding fiscal years. Beginning with fiscal year 1949, all expenses incurred by all offices of the Federal Security Agency in carrying out the provisions of title II of the Social Security Act, as amended, are charged directly to the trust fund. Under the President's Reorganization Plan No. 2, effective July 16, 1946, the Federal Security Administrator certifies benefit payments to the managing trustee, who makes the payments from the trust fund in accordance therewith. Prior to July 16, 1946, certifications for payments were made by the Social Security Board. Payments are made from an uninvested balance held in the fund to the account of the disbursing officer of the Treasury.

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

Interest on regular obligations held by the trust fund is received by the fund at the time the interest becomes payable on the particular series held. Interest on special obligations is received semiannually on June 30 and December 31. 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. Interest receipts and proceeds from the sale or redemption of obligations held in the trust fund are available for investment in the same manner as other receipts of the fund.

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.

On June 30, 1949, there were about 11,300,000 persons aged 65 and over, a number equivalent to 7½ percent of the total population. It is estimated that by the end of 50 years the number of persons aged 65 and over may be 1½ to 2½ times as large as on June 30, 1949, and represent from 10 to 16 percent of the population. The effect on the finances of the old-age and survivors insurance system of this expected change in the number of aged persons will be even greater than may at first appear because, compared with the present situation, a much larger proportion of aged persons 50 years hence is expected to be eligible to receive benefits under the program. The future financial soundness of this system, with its rising rates of disbursements, is of the utmost importance to the millions of persons who are already within its scope and to the Nation as a whole.

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

SUMMARY OF OPERATIONS OF TRUST FUND, FISCAL YEAR 1949

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, 1948, and ended on June 30, 1949, 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 1949* [1]

Total assets of the trust fund, June 30, 1948		$10,046,681,157.89
Receipts, fiscal year 1949:		
Appropriations equivalent to contributions collected	$1,690,295,704.58	
Transfers from general fund	3,279,400.00	
Interest and profits on investments	230,194,240.15	
Total receipts	1,923,769,344.73	
Disbursements, fiscal year 1949:		
Benefit payments	607,036,339.93	
Administrative expenses	53,464,875.11	
Total disbursements	660,501,215.04	
Net addition to trust fund		1,263,268,129.69
Total assets of the trust fund, June 30, 1949		11,309,949,287.58

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

The total receipts of the trust fund during the fiscal year 1949 amounted to $1,923.8 million. Of this total, $1,690.3 million represented the sum of the amounts equal to contributions received under the Federal Insurance Contributions Act and covered into the Treasury, which were appropriated to the trust fund during the year under the continuing appropriation in section 201 (a) of the Social Security Act, as amended. The total amount appropriated represented a 5-percent increase over appropriations in the preceding fiscal year. The additional $233.5 million of receipts consisted of $230.2 million of interest and profits on investments of the fund and $3.3 million transferred from general funds of the Treasury in accordance with section 210 (d) of the Social Security Act, as amended.

Disbursements from the trust fund during the fiscal year 1949 totaled $660.5 million, of which $607.0 million consisted of benefit payments, and $53.5 million 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 1948 by 19 percent, the increase reflecting primarily the larger number of persons drawing benefits. A summary of receipts and disbursements of the old-age and survivors insurance trust fund during each of the 9 years from July 1, 1940, through June 30, 1949, is presented in table 2.

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TABLE 2.—*Operations of the old-age and survivors insurance trust fund by specified period, Jan. 1, 1940, to June 30, 1949*

[In millions]

	Fiscal year ended in—									
	1940 [1]	1941	1942	1943	1944	1945	1946	1947	1948	1949
Receipts:										
Appropriations equivalent to contributions collected	[2] $1,724	$688	$896	$1,130	$1,292	$1,310	$1,238	$1,459	$1,616	$1,690
Transfers from general fund [3]								(4)	1	3
Interest on investments	42	56	71	87	103	124	148	163	191	[5] 230
Total receipts [6]	1,767	744	967	1,218	1,395	1,434	1,386	1,623	1,807	1,924
Disbursements:										
Benefit payments	10	64	110	149	185	240	321	426	512	607
Administrative expenses	12	27	27	27	[7] 33	[8] 27	37	41	47	53
Total disbursements [6]	22	91	137	177	217	267	358	466	559	661
Total assets at end of period [6]	1,745	2,398	3,227	4,268	5,446	6,613	7,641	8,798	10,047	11,310

[1] January–June 1940, fund having been established in place of old-age reserve account on Jan. 1, 1940.
[2] Represents assets transferred from old-age reserve account on Jan. 1, 1940. Appropriations equivalent to contributions collected became effective July 1, 1940; appropriations authorized under sec. 201 (a) of the Social Security Act of 1935 were made prior to Jan. 1, 1940.
[3] To meet the additional costs of benefits to survivors of certain World War II veterans as defined in title II of the Social Security Act amendments of 1946.
[4] Less than $0.5 million.
[5] Includes $138,668 profit on investments.
[6] Totals do not necessarily represent the sum of rounded components.
[7] Includes some reimbursements applicable to outlays in other fiscal years.
[8] Adjusted for overreimbursements in prior years.

The ratio of administrative expenditures of the fund to contributions collected and benefits paid is shown in table 3.

TABLE 3.—*Relationship of administrative charges against old-age and survivors insurance trust fund to old-age and survivors insurance contributions and benefit payments*

Fiscal year	Administrative charges against the OASI trust fund as a percentage of—		Fiscal year	Administrative charges against the OASI trust fund as a percentage of—	
	OASI contributions collected	Benefit payments		OASI contributions collected	Benefit payments
1941	3.9	41.7	1946	3.0	11.7
1942	3.0	24.3	1947	2.8	9.6
1943	2.4	18.4	1948	2.9	9.3
1944	2.5	17.7	1949	3.2	8.8
1945	2.1	11.2			

The distribution of benefit payments in fiscal years 1948 and 1949 by type of benefit is shown in table 4. Approximately 73 percent of the total benefit payments from the fund in the fiscal year 1949 were accounted for by monthly benefits to persons aged 65 or over—retired wage earners and their wives, and aged widows and parents of deceased wage earners. Approximately 22 percent of the 1949 benefit payments represented monthly benefits on behalf of children of deceased or retired workers and payments to widows—practically all of them under age 65—who had children of deceased wage earners in their care. The balance of the benefits paid in the fiscal year 1949 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 4.—*Estimated distribution of Treasury disbursements for benefit payments under the old-age and survivors insurance program, by type of benefit, fiscal years 1948 and 1949*

[In millions]

Type of benefit	1948		1949	
	Amount	Percent of total	Amount	Percent of total
Total	[1] $511.7	100	[1] $607.0	100
Monthly benefits	480.4	94	574.8	95
Primary (retired wage earners 65 or over)	272.4	53	333.0	55
Wife's (wives 65 or over of primary beneficiaries)	44.2	9	53.8	9
Widow's (widows 65 or over of wage earners)	41.9	8	53.6	9
Parent's (parents 65 or over of deceased wage earners)	1.8	(2)	2.1	(2)
Child's (dependent of retired wage earners)	3.3	1	4.0	1
Child's (dependents of deceased wage earners)	81.5	16	90.6	15
Widow's current (widows of wage earners with child beneficiary)	35.3	7	37.8	6
Lump-sum benefits (no survivor of deceased wage earner immediately entitled to monthly benefits or wage earner died before 1940)	31.3	6	32.2	5

[1] Includes additional benefits of $3.5 million for fiscal year 1948 and $3.6 million for fiscal year 1949 paid under sec. 210 to survivors of certain deceased World War II veterans. Amount is reimbursable to trust fund from the general fund of the Treasury.

[2] Less than 0.5 percent.

The total of $607.0 million paid in benefits during fiscal year 1949 includes $2.9 million for additional monthly benefits and $0.7 million for additional lump sums paid under section 210 to survivors of certain deceased World War II veterans. Under the provisions of the Social Security Act Amendments of 1946, the trust fund will be reimbursed for these payments to the survivors of veterans.

At the end of the fiscal year 1949, approximately 2.6 million persons in 1.8 million families were receiving monthly benefits at an annual rate of $618 million. At the end of the preceding fiscal year, the monthly benefit rolls included 2.2 million persons in about 1.5 million families to whom monthly benefits were being paid at an annual rate of $509 million. The average monthly benefit in current payment status for different types of family groups as of June 30, 1949, was as follows: Retired male worker only, $26.20; retired worker and wife, $41; retired female worker only, $20.40; widow (aged 65 and over) only, $20.70; widowed mother and one child, $36.30; widowed mother and two children, $50.20; and widowed mother and three or more children, $53.30.

The total assets of the old-age and survivors insurance trust fund, as reported in the ninth annual report of the Board of Trustees, amounted to $10,047 million on June 30, 1948. These assets increased to $11,310 million by the end of the fiscal year 1949, as the result of an excess of receipts over disbursements amounting to $1,263 million during the fiscal year. Table 5 shows a comparison of the total assets of the trust fund and their distribution at the end of the fiscal years 1948 and 1949. The assets of the fund at the end of the fiscal year 1949 consisted of $11,231 million in the form of obligations of the United States Government, $12 million to the credit of the fund account, and $67 million to the credit of the disbursing officer. The asset value of these obligations, as carried on the books of the Treasury Department and shown in this report, is the principal cost—gross purchase price less amount paid for accrued interest—at time of acquisition.

In accordance with the provisions of section 201 (c) of the Social Security Act, as amended, the managing trustee invested during fiscal year 1949 that portion of the assets of the trust fund which, in his judgment, was not required to meet current withdrawals. This section provides that direct obligations of the United States Government as well as obligations guaranteed as to both principal and interest by the United States may be acquired through purchase of outstanding obligations in the open market or on original issue at par. Prior to fiscal year 1948, investments made for the fund consisted only of direct obligations of the United States purchased on original issue. During fiscal years 1948 and 1949, however, investments included purchases of outstanding obligations of the United States in the open market.

TABLE 5.—*Assets of Federal old-age and survivors insurance trust fund, by type, at end of fiscal year 1948 and 1949* [1]

	June 30, 1948		June 30, 1949	
	Par value	Principal cost [2]	Par value	Principal cost [2]
Investments:				
Treasury bonds (public issues):				
2¼-percent bonds of 1959–62	$4,205,000	$4,222,974.87	$4,205,000	$4,222,974.87
2½-percent bonds of 1962–67	58,650,000	58,909,070.33	58,650,000	58,909,070.33
2½-percent bonds of 1963–68	116,480,000	116,777,993.79	116,480,000	116,777,993.79
2½-percent bonds of 1964–69	83,654,000	84,116,525.45	83,654,000	84,116,525.45
2½-percent bonds of 1965–70	455,447,500	[3] 456,062,334.34	455,447,500	456,043,647.54
2½-percent bonds of 1966–71	305,677,500	305,848,805.58	305,677,500	305,848,805.58
2½-percent bonds of 1967–72	1,197,023,250	1,201,841,552.46	1,197,023,250	[4] 1,201,751,208.25
Total Treasury bonds	2,221,137,250	2,227,779,256.82	2,221,137,250	2,227,670,225.81
Special issues:				
Certificates of indebtedness:				
2⅛-percent certificates:				
Maturing June 30, 1949	7,709,000,000	7,709,000,000.00		
Maturing June 30, 1950			9,003,000,000	9,003,000,000.00
Total special issues	7,709,000,000	7,709,000,000.00	9,003,000,000	9,003,000,000.00
Total investments	9,930,137,250	9,936,779,256.82	11,224,137,250	11,230,670,225.81
Uninvested balances:				
To credit of fund account		35,014,860.78		12,409,429.90
To credit of disbursing officer		74,887,040.29		66,869,631.87
Total assets		10,046,681,157.89		11,309,949,287.58

[1] On basis of Daily Statement of the U. S. Treasury.
[2] Gross purchase price less amount paid for accrued interest.
[3] Includes $18,686.80 accrued interest paid on investments.
[4] Includes $6,756.42 accrued interest paid on investments.

The par value of the net increase in the investments owned by the fund during the fiscal year 1949 amounted to $1,294 million. New securities whose gross purchase price totaled $10,281 million were acquired through the investment of receipts of the fund and the reinvestment of funds made available from the sale or maturity of securities during the year. Securities, consisting entirely of 2⅛ percent special certificates of indebtedness, were redeemed during the year at their par value of $8,979 million. In addition, $8 million of Treasury bonds were sold in the open market for the first time, providing an additional source of income to the fund in the form of a profit amounting to $138,668.43. This profit represents the difference between the proceeds received at time of sale, after deduction for accrued interest and investment expenses, and the principal cost at time of purchase.

Of the new securities acquired, $10,273 million were in the form of special certificates of indebtedness, $1,270 million of which were redeemed during the year and $9,003 million of which mature on June 30, 1950. These certificates were acquired at par and bear an interest rate of 2⅛ 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 $8 million of securities acquired during the fiscal year were 2½ percent Treasury bonds purchased at a premium in the open market but yielding a higher rate of return than special securities issuable to the trust fund at the time such marketable issues were acquired.

The average rate of interest on the interest-bearing public debt, which determines the interest rate at which special obligations are issued to the old-age and survivors insurance trust fund, varies with changes in the composition of the public debt and with changes in the particular rates of interest on different classes of securities. During the fiscal year 1949 the average rate of interest on the public debt rose slightly: The rate was 2.236 percent on June 30, 1949, as compared with 2.182 percent on June 30, 1948. Because the rate exceeded 2⅛ percent but remained less than 2¼ percent during the entire fiscal year, the interest rate on all special issues acquired during the fiscal year continued to be 2⅛ percent.

STATEMENT OF THE EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING FISCAL YEARS 1950–54

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

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

In this as in previous reports 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 somewhat less optimistic assumptions. Because alternative II does not reflect the effect on income should a deep depression materialize during the next 5 years, the differences between the two estimates are not great.

For both alternative I and alternative II, it is assumed that present statutory coverage of old-age and survivors insurance will remain unchanged throughout the period under consideration. The computations of tax income are based on present statutory rates of contribution, which are 1 percent each on employer and employee on wages paid during the calendar year 1949, 1½ percent each during the calendar years 1950 and 1951, and 2 percent each during the calendar years 1952, 1953, and 1954.

The two sets of estimates of the income and disbursements of the trust fund for each of the five fiscal years 1950 to 1954, together with the resulting assets of the fund at the beginning and the end of each year, are presented in table 6. In addition, the figures for actual experience in fiscal years 1941 to 1949 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 through calendar year 1954. Hourly wage rates, and therefore weekly earnings and average annual taxable wages, are assumed to increase gradually in accordance with established long-time trends. Unemployment is assumed to remain at a low level. Benefit disbursements are assumed to increase substantially, primarily because of the long-range upward trend in the number of beneficiaries.

Under alternative I, aggregate income during the period of five fiscal years ending in 1954 would amount to $17.3 billion, including $15.5 billion in contributions and appropriations and $1.8 billion in interest. Aggregate disbursements for the period would be about $4.8 billion, with the highest expected annual disbursement about $1,130 million. The trust fund at the beginning of the fiscal year 1950 would amount to about 10.0 times the highest expected annual disbursement during the succeeding five fiscal years.

The other set of estimates, alternative II, is based on the assumption of a moderately severe economic readjustment beginning in the middle of calendar year 1951. It is assumed that during the adjustment period there will be a substantial increase in unemployment and in short-term and part-time employment, and that the long-time upward trend in wage rates will be interrupted for about 2 years, with subsequent gains in average hourly earnings less rapid than under alternative I and a fairly slow rate of recovery during the remainder of the period. As a result, estimated covered pay rolls in the periods affecting tax collections during fiscal years 1952–54, and therefore estimated contributions, are lower under alternative II than under alternative I. Estimated benefit disbursements, on the other hand, increase more rapidly under alternative II than under alternative I because a larger number of older workers withdraw from or are unable to find jobs in covered employment.

The aggregate income of the fund for the five fiscal years 1950–54 under alternative II would amount to $15.5 billion, including $13.8

billion in contributions and appropriations and $1.7 billion in interest. Aggregate disbursements would be $5.1 billion, with the highest expected annual disbursement about $1,233 million. The trust fund at the beginning of the fiscal year 1950 would amount to about 9.2 times the highest expected annual disbursement during the period.

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

The 1946 amendments to the Railroad Retirement Act, contained in Public Law 572, establish a system of survivors insurance and, in effect, amend the present survivors insurance system contained in title II of the Social Security Act. Under both systems, eligibility for and the amount of benefits payable to survivors, in general, will be based on an insured worker's combined earnings record under the two programs. As a result of this coordination, some survivors will become eligible under old-age and survivors insurance who otherwise would not have become eligible; on the other hand, some survivors who would have become eligible under old-age and survivors insurance will instead receive railroad survivors benefits. In addition, some survivors who in any event would have been eligible under old-age and survivors insurance will now receive larger benefits. Although no specific provision is contained in these amendments for the allocation of costs between the two systems, the legislation states that, not later than January 1, 1950, a joint report should be made setting forth the actual experience under each system and recommending such legislation as deemed advisable for the equitable distribution, between the two systems, of the financial burdens arising from awarded claims. It is believed, however, that the net additional disbursements, if any, will not constitute a serious drain on the trust fund during the five fiscal years 1950–54.

Public Law 642, enacted June 14, 1948, which amends the definition of the term "employee" as used in the Social Security Act, results in the exclusion from coverage of certain services previously held covered under title II of the act. While the amended definition is made retroactive to August 14, 1935, certain wage credits established under the former definition will remain credited to the individual's account. The law authorizes an appropriation to the trust fund from general revenues equal to the total amount of benefits paid and to be paid under title II of the Social Security Act, as estimated by the Federal Security Agency, that would not have been paid had the amended definition been in effect beginning August 14, 1935. The estimate has been submitted to the Congress. Since the timing of this appropriation is uncertain, income from this source is excluded from the appropriations shown in table 6.

TABLE 6.—*Operations of the Federal old-age and survivors insurance trust fund, fiscal years 1941–54, subject to the assumptions and limitations stated in the text* [1]

[In millions]

Fiscal year	Fund at beginning of year [2]	Transactions during year: Income: Total	Transactions during year: Income: Appropriations [3]	Transactions during year: Income: Interest on investments	Transactions during year: Disbursements: Total	Transactions during year: Disbursements: Benefit payments	Transactions during year: Disbursements: Administrative expenses	Transactions during year: Net increase in fund	Fund at end of year
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	1,431	1,310	124	267	240	[4] 27	1,167	6,613
1946	6,613	1,386	1,238	148	358	321	37	1,028	7,641
1947	7,641	1,623	1,460	163	466	426	41	1,157	8,798
1948	8,798	1,807	1,617	191	559	512	47	1,248	10,047
1949	10,047	1,924	1,694	230	661	607	53	1,263	11,310
Estimated future experience:									
1950	11,310	2,506	2,249	257	783	725	58	1,723	13,033
1951	13,033	2,818	2,519	300	868	807	61	1,950	14,983
1952:									
Alternative I	14,983	3,534	3,190	344	957	894	63	2,577	17,560
Alternative II	14,983	2,903	2,565	338	1,034	968	66	1,869	16,852
1953:									
Alternative I	17,560	4,140	3,737	403	1,045	980	65	3,095	20,655
Alternative II	16,852	3,560	3,178	382	1,142	1,077	65	2,418	19,270
1954:									
Alternative I	20,655	4,257	3,789	468	1,130	1,064	66	3,127	23,782
Alternative II	19,270	3,745	3,311	434	1,233	1,167	66	2,512	21,782

[1] In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Alternative I assumes a continuing high level of employment and earnings throughout the period; Alternative II assumes a moderately severe readjustment with a fairly slow recovery. Estimates were prepared November 1949.

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

[3] Include 100 percent of contributions which are automatically appropriated to the trust fund, and reimbursements equivalent to any additional payments arising from the extension of survivors insurance protection to certain veterans of World War II (Social Security Act Amendments of 1946). Estimated contributions for fiscal years 1950-54 are based on statutory rates of 1 percent each on employers and employees in calendar year 1949, 1½ percent each in 1950 and 1951, and 2 percent each thereafter.

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

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

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

TABLE 7.—*Treasury disbursements for benefit payments, distributed by classification of beneficiaries, fiscal years 1941–54, subject to the assumptions and limitations stated in the text* [1]

[In millions]

Fiscal year	Total benefit disbursements [2]	Disbursed to primary beneficiaries	Disbursed to wives and children of primary beneficiaries	Disbursed to survivors of deceased insured workers			
				Monthly benefits			Lump-sum payments
				Total	Aged widows and parents	Younger widows and children	
Past disbursements: [3]							
1941	$64.3	$31.4	$5.3	$15.3	$1.5	$13.8	$12.3
1942	110.3	54.9	9.6	31.6	4.1	27.5	14.1
1943	149.3	72.4	12.7	47.5	7.9	39.6	16.7
1944	184.6	86.8	15.2	63.6	12.1	51.5	19.0
1945	239.8	109.1	19.2	85.8	17.7	68.1	25.7
1946	320.5	153.9	27.2	113.4	24.7	88.7	26.0
1947	425.6	219.2	38.4	139.4	33.8	105.6	28.5
1948	511.7	272.4	47.5	160.5	43.7	116.8	31.3
1949	607.0	333.0	57.7	184.0	55.6	128.4	32.2
Estimated future disbursements:							
1950	725	410	71	210	69	141	34
1951	807	455	79	237	84	153	36
1952:							
Alternative I	894	504	87	265	101	164	38
Alternative II	968	568	97				
1953:							
Alternative I	980	550	95	295	119	176	40
Alternative II	1,077	634	108				
1954:							
Alternative I	1,064	595	102	325	138	187	42
Alternative II	1,167	683	117				

[1] In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared November 1949.
[2] Totals do not necessarily equal the sum of rounded components.
[3] Partly estimated.

On the other hand, the lower the level of employment during the next 5 years, the larger will be the volume of benefit payments to retired workers who have attained age 65, to their aged wives, and to their children. As is indicated in table 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. Since fiscal year 1945, however, this proportion has decreased as the volume of withdrawals of older workers from covered employment has increased more rapidly than the growth in the number eligible for primary benefits. This trend is expected to continue for some time to come, even under the favorable employment conditions assumed under alternative I, with a consequent increase in the proportion in receipt of primary benefits.

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

Table 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 1954. The growth in the numer 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 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 1953 numerous persons attaining age 65 will be fully insured even though they left covered employment after reaching age 56.

TABLE 8.—*Wage earners eligible for and receiving primary benefits by attained age of wage earners, fiscal years 1941–54, subject to the assumptions and limitations stated in the text* [1]

Middle of fiscal year (Jan. 1)	All wage earners aged 65 and over			Wage earners aged 65–69			Wage earners aged 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	1,016	306	30	608	156	26	408	151	37
1945	1,253	378	30	708	167	24	545	211	39
1946	1,465	518	35	794	212	27	671	306	46
1947	1,653	702	42	860	271	32	793	430	54
1948	1,817	875	48	920	325	35	897	550	61
1949	1,964	1,048	53	975	380	39	989	668	68
Estimated future experience:									
1950	2,125	1,285	60	1,030	475	46	1,095	810	74
1951	2,275	1,395	61	1,080	500	46	1,195	895	75
1952:									
Alternative I	2,420	1,520	63	1,130	530	47	1,290	990	77
Alternative II	2,395	1,685	70	1,110	635	57	1,285	1,050	82
1953:									
Alternative I	2,565	1,645	64	1,175	560	48	1,390	1,085	78
Alternative II	2,500	1,880	75	1,130	720	64	1,370	1,160	85
1954:									
Alternative I	2,705	1,760	65	1,220	585	48	1,485	1,175	79
Alternative II	2,610	2,005	77	1,160	760	66	1,450	1,245	86

[1] In interpreting the estimates in this table reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared November 1949.
[2] Figures for 1941–49 are partly estimated.

Although the number of eligible workers aged 65–69 is expected to treble between January 1, 1941, and January 1, 1954, 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 eightfold during this period, even under the lower-employment assumptions of alternative II. At the latter date, the estimated number eligible at these attained ages will comprise about 55 percent of the total number of eligible persons.

The estimates presented above result in a net increase in the trust fund during the 5-year period of about $12.5 billion under alternative I and about $10.5 billion under alternative II. It is entirely possible under alternative I that the amount of contribution income may be greater and benefit payments lower than has been estimated. The total result would be an even greater growth in the trust fund than is indicated under this alternative. On the other hand, lower contribution and interest income together with higher benefit payments than shown under alternative II, would lead to smaller net increases in the trust fund.

ACTUARIAL STATUS OF THE TRUST FUND

Section 201 (b) of the Social Security Act requires the Board of Trustees to present each year a statement of the actuarial status of the trust fund. In the seventh annual report of the Board, new cost illustrations were presented taking into account the foreseeable effects of the war and the brief postwar period to the date of that report. In the succeeding reports no essential changes were made in these cost estimates other than to allow for the new contribution schedule introduced in the Social Security Act Amendments of 1947. The consideration of social security legislation by the Congress, resulting in the passage of H. R. 6000 by the House of Representatives on October 5, 1949, necessitated extensive actuarial cost estimating for various proposed changes. Accordingly, new cost bases involving postwar developments have not been fully developed but are being worked upon.

In view of the striking economic changes due to the war, many of which have been discussed in some length in previous reports, two sets of cost illustrations have been prepared, one being based on "high" economic assumptions (intended to represent close to full employment with average annual wages at about the level prevailing in 1944–46), and the other being based on "low" economic assumptions (intended to represent crudely and on the average employment conditions similar to those prevailing in 1940–41 combined with the annual wage level prevailing in 1941–42). In view of the current level of wage and 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 and very likely even above the high economic assumptions.

Within each of the two sets of assumptions there is a further subdivision into a low-cost example and a high-cost example, which will indicate the range present as a result of possible variations in such factors as mortality, fertility, retirement rates, and movement be-