Click for Table of Contents

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ANNUAL REPORT OF FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, FISCAL YEAR 1963

LETTER

FROM

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

TRANSMITTING

THE 24TH ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND, PURSUANT TO THE PROVISIONS OF SECTION 201(c) OF THE SOCIAL SECURITY ACT, AS AMENDED

MARCH 2, 1964.—Referred to the Committee on Ways and Means and ordered to be printed

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LETTER OF TRANSMITTAL

Board of Trustees of the Federal Old-Age and
Survivors Insurance and Disability Insurance Trust Funds
February 28, 1964, Washington, D.C.

The Speaker of the House of Representatives,
Washington, D.C.

Sirs: We have the honor to transmit to you the 24th Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, in compliance with the provisions of section 201(c) of the Social Security Act, as amended.

Respectfully,

Douglas Dillon

C. Douglas Dillon,
Secretary of the Treasury, and
Managing Trustee of the Trust Funds.

W. Willard Wirtz

W. Willard Wirtz,
Secretary of Labor.

Anthony J. Celebrezze

Anthony J. Celebrezze,
Secretary of Health, Education, and Welfare.

Robert M Ball

Robert M. Ball,
Commissioner of Social Security
and Secretary, Board of Trustees.

Click on a Topic Below

CONTENTS

Page

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

Fiscal Year Ending June 30, 1963

THE BOARD OF TRUSTEES

The Federal old-age and survivors insurance trust fund, established on January 1, 1940, and the Federal disability insurance trust fund, established on August 1, 1956, are held by the Board of Trustees under the authority of section 201 (c) of the Social Security Act, as amended. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the managing trustee. The Commissioner of Social Security is secretary of the Board.

ADVISORY COUNCIL ON SOCIAL SECURITY

The Secretary of Health, Education, and Welfare on June 9, 1963, announced the appointment of an Advisory Council on Social Security in compliance with the provisions of section 116 of the Social Security Amendments of 1956, as amended. The Council, which consists of the Commissioner of Social Security, as chairman, and 12 other persons representing employers, employees, self-employed persons, and the public, will make a comprehensive study of the old-age, survivors, and disability insurance program.

The Council is required to review the status of the old-age and survivors insurance trust fund and the disability insurance trust fund in relation to the long-term commitments of the old-age, survivors, and disability insurance program. In addition to reporting on the financing of the program, including recommendations for changes in contribution rates, the Council is required to report its findings and recommendations with respect to extensions of the coverage of the program, the adequacy of benefits, and all other aspects of the program. The report must be submitted not later than January 1, 1965, after which date the Council will cease to exist. The Council's report and recommendations will be included in the next annual report of the Board of Trustees.

FISCAL YEAR HIGHLIGHTS

Both the income and the outgo of the old-age and survivors insurance trust fund and of the disability insurance trust fund reached all-time highs in the fiscal year 1963. The estimated number of workers with taxable earnings under the program in calendar year 1962 reached a record high of 75 million.

For the old-age and survivors insurance trust fund, total receipts in fiscal year 1963 amounted to $13,843 million, or about 15 percent more than in fiscal year 1962. Total disbursements, amounting to $14,530 million, were about 10 percent greater than the disbursements made in the preceding year. Since disbursements exceeded receipts by $687 million, total assets of this trust fund decreased from $19,626 million on June 30, 1962, to $18,939 million on June 30, 1963. The major portion of the disbursements was for benefit payments, totaling $13,845 million. Payments to the railroad retirement account under the financial interchange provisions were $423 million. Administrative expenses were $263 million. The total number of old-age and survivors insurance beneficiaries at the end of the fiscal year was 17,226,000, about 7 percent more than at the beginning of the year. Retirement beneficiaries numbered 13,015,000, and survivor beneficiaries numbered 4,211,000.

The income of the old-age and survivors insurance trust fund in fiscal year 1963 consisted of $13,328 million in net tax contributions and $515 million in interest on investments. The 16-percent increase in contribution income was associated with the increases in contribution rates which became effective on January 1, 1962, and January 1, 1963.

Estimates for the 5 fiscal years 1964-68 show that although both receipts and disbursements will increase steadily, the receipts will rise somewhat more rapidly, due to the scheduled rise in contribution rates in the law. Consequently, at the end of fiscal year 1968, this trust fund will amount to an estimated $25.2 billion, or an increase of $6.2 billion in the 5-year period. Receipts during fiscal year 1968 are estimated to total $21.2 billion, and disbursements, $18.3 billion.

Medium-range estimates, based on the assumption that economic activity will continue to expand throughout the period 1963-80, show continued increases in receipts, disbursements, and assets of the old-age and survivors insurance trust fund. According to these estimates, if the provisions of present law are assumed to remain unchanged, the assets of the trust fund will rise rapidly, reaching a total of $120 billion at the end of calendar year 1980. On the other hand, if the maximum taxable earnings base and the benefit provisions of present law are assumed to be amended periodically so as to keep the program in line with changes in levels of average earnings, the assets of the trust fund will rise less rapidly, reaching a total of $89 billion by 1980.

Long-range cost estimates for the old-age and survivors insurance program indicate that the program is in close actuarial balance. The level-cost of benefit payments and administrative expenses combined is estimated to range from 7.63 to 10.09 percent of taxable payroll, depending on the combination of cost assumptions chosen. On the basis of intermediate-cost assumptions, the level-cost is 8.71 percent of taxable payroll, as compared with the level-equivalent of the graded schedule of contributions of 8.61 percent of taxable payroll.

Total receipts of the disability insurance trust fund amounted to $1,144 million in fiscal year 1963, about 5 percent higher than in the preceding year. Total disbursements of $1,257 million were about 16 percent greater than disbursements in fiscal year 1962. Since disbursements exceeded receipts by $113 million, total assets of this trust fund decreased from $2,507 million at the beginning of fiscal year 1963, to $2,394 million at the end of the year.

Income to the disability insurance trust fund in fiscal year 1963 was composed of $1,077 million in net contributions and $67 million in net interest. Components of the total disbursements were $1,171 million in benefit payments, $20 million in payments to the railroad retirement account, and $67 million in administrative expenses. At the end of fiscal year 1963, the number of disabled workers and their dependents receiving monthly benefits from the disability insurance trust fund had risen to 1,382,000, or 20 percent more than at the end of fiscal year 1962.

According to estimates for the 5 fiscal years 1964-68, income of the disability insurance trust fund will rise very slowly, since the scheduled contribution rate remains level; disbursements, on the other hand, will rise more rapidly. Outgo is expected to exceed income in each year, and the trust fund is expected to decline. At the end of fiscal year 1968, assets are estimated at $1.2 billion. The long-range cost estimates show a level-cost for benefit payments and administrative expenses combined which ranges from 0.57 percent to 0.74 percent of taxable payroll, depending on the combination of cost assumptions used. On the basis of intermediate-cost assumptions, such level-cost is 0.64 percent of taxable payroll, as compared with the level contribution rate of 0.50 percent of taxable payroll. The Board of Trustees recommends that additional financing be made available to this fund through a small reallocation of future contribution income from the old-age and survivors insurance trust fund to the disability insurance trust fund.

NATURE OF THE TRUST FUNDS

The Federal old-age and survivors insurance trust fund was established on January 1, 1940, as a separate account in the U.S. Treasury to hold the amounts accumulated under the old-age and survivors insurance program. All the financial operations of the program through July 31, 1956, were handled through this fund. The Social Security Amendments of 1956, which became law August 1, 1956, provided for the creation of the Federal disability insurance trust fund--a fund entirely separate from the old-age and survivors insurance trust fund--through which are handled all financial operations in connection with the system of monthly disability benefits payable to insured workers and to their dependents. The financial operations of the old-age, survivors, and disability insurance program which relate to the system of old-age and survivors insurance benefits continue to be handled through the old-age and survivors insurance trust fund.

The primary source of receipts of the two funds is amounts deposited in or appropriated to each of them under permanent appropriation on the basis of contributions paid by workers and their employers, and by individuals with self-employment income, in work covered by the old-age, survivors, and disability insurance program. All employees and their employers in employment covered by the program are required to pay contributions with respect to the wages of individual workers. All covered self-employed persons are required to pay contributions with respect to their self-employment income. In general, beginning with calendar year 1959, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a maximum of $4,800, with the contributions being determined first on the wages and then on any self-employment income necessary to make up the $4,800.

Under the Internal Revenue Code, as amended, the contribution rate for employees and their employers of 3 1/8 percent each that was in effect in calendar year 1962 was increased to 3 5/8 percent each on January 1, 1963; the contribution rate for the self-employed rose from 4.7 to 5.4 percent. The following table shows the scheduled increases in tax rates in the present law:

Calendar years	Percent of taxable earnings	
	Employees and employers, each	Self-employed
1963-65	3 5/8	5.4
1966-67	4 1/8	6.2
1968 and after	4 5/8	6.9

The Social Security Act, as amended in 1956, provides that beginning January 1, 1957, from the total contribution income based on these rates, contributions at the rate of one-fourth of 1 percent each for employees and employers, and three-eighths of 1 percent for the self-employed, shall be allocated to the disability insurance trust fund.

Except for amounts received by the Secretary of the Treasury under State agreements (to effect coverage under the program for State and local government employees) and deposited directly in the trust funds, all contributions are collected by the Internal Revenue Service and are paid into the Treasury as internal revenue collections. However, sums equivalent to 100 percent of these taxes are transferred to the trust funds from time to time. Such transfers are first made on the basis of estimated tax receipts. The exact amount is not known since old-age, survivors, and disability insurance and income taxes withheld are not separately identified in tax-collection reports received by the Treasury Department from the district offices of the Internal Revenue Service. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

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

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

The income and expenditures of the trust funds are also affected by Public Law 234, approved October 30, 1951, which amended the Railroad Retirement Act to provide a system of coordination and financial interchange between the railroad retirement and old-age and survivors insurance programs. Public Law 880, approved August 1, 1956, amended Public Law 234 to include financial interchanges between the railroad retirement and the disability insurance programs. A description of the legislative provisions governing the allocation of costs between the two programs appears in appendix II.

Under a decision of the Comptroller General of the United States (B-4906) dated October 11, 1951, receipts derived from the sale of miscellaneous supplies and reimbursable services are credited to and form a part of the trust funds, where the initial outlays therefore were paid from the trust funds. Formerly, these moneys were credited to the general fund of the Treasury as miscellaneous receipts.

Under Public Law 85-840 approved August 28, 1958, the Secretary of Health, Education, and Welfare is authorized to charge for providing certain services not directly related to the old-age, survivors, and disability insurance programs. The Social Security Administration has accumulated a unique body of information in the course of the administration of the program. Situations arise when it is in the public interest to use this information to perform certain services, such as the preparation of statistical tabulations for research purposes, when such services can be performed without interfering unduly with the administration of the program. Such services could not properly be provided at the expense of the trust funds. Receipts derived from performance of these services are credited to and form a part of the trust funds.

Public Law 719, approved August 10, 1946, provided noncontributory survivor protection to certain veterans of World War II. The legislation provided, and the old-age and survivors insurance trust fund received, reimbursement from the general fund of the Treasury for the additional costs arising from these provisions. Under Public Law 734, approved August 28, 1950, these additional costs arising after August 31, 1950, were borne by the trust fund. Public Law 881, approved August 1, 1956, provides that the old-age and survivors insurance trust fund shall be reimbursed for all additional costs arising after August 31, 1950, from the 1946 provisions. Public Law 881 also provides that (1) the old-age and survivors insurance trust fund shall be reimbursed for all past and future additional expenditures resulting from the provisions that granted noncontributory $160 monthly wage credits to persons who served in the Armed Forces from September 16, 1940, through December 31, 1956; and (2) the disability insurance trust fund shall be reimbursed for all additional expenditures after July 31, 1956, resulting from these provisions. Public Law 85-840 broadened the provisions of prior law dealing with noncontributory wage credits of $160 for each month of active military service for the United States to provide such credits for certain American citizens who served in the Armed Forces of our allies during

World War II. As in the case of the other noncontributory credit for military service, the trust funds will be reimbursed for the additional costs arising from the new provisions. A summary of the legislative history of the financing of credit for military service appears in appendix II.

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

Congress has authorized expenditures from the trust funds for construction of an office building and related facilities for the Social Security Administration.

The managing trustee invests that portion of each trust fund which, in his judgment, is not required to meet current expenditures for benefits and administration. The Social Security Act restricts permissible investments of the trust funds to interest-bearing obligations of the U.S. Government or to obligations guaranteed as to both principal and interest by the United States. Obligations of these types may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price. In addition, the Social Security Act authorizes the issuance of public-debt obligations for purchase by the trust funds. The law requires that such public-debt obligations shall have maturities fixed with due regard for the needs of the trust funds and shall bear interest at a rate equal to the average market yield (computed by the managing trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such calendar month; where such average market yield 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 nearest such market yield.

Interest on public issues held by the trust funds is received by the funds at the time the interest is paid on the particular issues held. Interest on public-debt obligations issued specifically for purchase by the trust funds is payable semiannually or at redemption.

Public issues acquired by the funds may be sold at any time by the managing trustee at their market price. Public-debt obligations issued for purchase by the trust funds may be redeemed at par plus accrued interest. Interest receipts and proceeds from the sale or redemption of obligations held in the trust funds are available for investment in the same manner as other receipts of the funds. Interest earned by the invested assets of the trust funds will provide income to meet a portion of future benefit disbursements. The role of interest in meeting future benefit payments is indicated in tables 19 and 20.

In addition, the assets of the trust funds assure the continued payment of benefits without sharp changes in contribution rates during periods of short-run fluctuations in total income and expenditures.