78th Congress }
1st Session } SENATE COMMITTEE PRINT

THIRD ANNUAL REPORT

OF THE

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

Printed for the use of the Committee on Finance

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1943

COMMITTEE ON FINANCE

WALTER F. GEORGE, Georgia, *Chairman*

DAVID I. WALSH, Massachusetts
ALBEN W. BARKLEY, Kentucky
TOM CONNALLY, Texas
JOSIAH W. BAILEY, North Carolina
BENNETT CHAMP CLARK, Missouri
HARRY FLOOD BYRD, Virginia
PETER G. GERRY, Rhode Island
JOSEPH F. GUFFEY, Pennsylvania
EDWIN C. JOHNSON, Colorado
GEORGE L. RADCLIFFE, Maryland
SCOTT W. LUCAS, Illinois
ROBERT M. LA FOLLETTE, JR., Wisconsin
ARTHUR H. VANDENBERG, Michigan
JAMES J. DAVIS, Pennsylvania
HENRY CABOT LODGE, JR., Massachusetts
JOHN A. DANAHER, Connecticut
ROBERT A. TAFT, Ohio
JOHN THOMAS, Idaho
HUGH A. BUTLER, Nebraska
EUGENE D. MILLIKIN, Colorado

CHRISTIE B. KENNEDY, *Clerk*

THIRD 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 created by section 201 of the Social Security Act, as amended, is held in accordance with the statute by a board of trustees composed of the Secretary of the Treasury, the Secretary of Labor, and the Chairman of the Social Security Board, all ex officio. The Secretary of the Treasury serves as managing trustee. The board of trustees is required by law to submit an annual report to Congress on the present and prospective status and operations of the trust fund.

This third report of the board of trustees is submitted at a time when the Nation is at war; it covers operations of the fund in a fiscal year in which the Nation at war during nearly 7 of the 12 months. The adjustments in economic life required to win the war have had their influence on the old-age and survivors insurance program as on other important phases of our national life. In such times it is peculiarly difficult to foresee for the next few years the year-by-year changes in the finances of the program. The changes which will occur will be closely related to the course of the conflict, its duration, and its effects on our economy. The difficulties of prediction extend to estimates of the war's effects on trust-fund operations.

The war has increased markedly the numbers of persons currently contributing and building up benefit rights under the old-age and survivors insurance program and has altered the age and sex composition of the contributors. Since June 1941, millions of persons have entered employment in industries covered by the insurance system. Many males of working age who were previously unemployed have found jobs. New entrants, however, consist in much greater proportion—than before the war—of women, persons below age 20, and persons over age 50. In addition, hundreds of thousands of persons self-employed or formerly employed in domestic service and agriculture—employments still excluded from coverage under the old-age and survivors insurance program—have obtained work in war industries covered by the program. Simultaneously, millions of other persons previously working in covered employment have left such employment to enter the armed forces or to work in Government arsenals, shipyards, and other governmental civilian employments. Both the net increase in the number of current contributors and the changes in the age, sex, and family composition of the contributors will have important influences on the finances of old-age and survivors insurance. Any additional benefit rights being accumulated by the

90960—43——1

new entrants and the interruption of benefit accumulations by those who have left employments covered under the act will affect future disbursements and the relationship between disbursements and contributions.

The various financial operations of the program are integrated through the old-age and survivors insurance trust fund. The trust fund is available for the payment of old-age and of survivors insurance benefits, and for reimbursement of expenditures incurred by the Social Security Board and the Treasury Department in the administration of the program. Benefits are paid out of the fund by the managing trustee in accordance with section 205 (i) of the Social Security Act, as amended, upon receiving certifications from the Social Security Board. Reimbursements for administrative expenses are made in accordance with section 201 (f) of the act, as amended, which directs the managing trustee to pay from the trust fund for each 3-month period the amount of administrative expenses of both the Social Security Board and the Treasury Department under title II of the Social Security Act and under the Federal Insurance Contributions Act.

Receipts of the trust fund during any year include amounts equivalent to the contributions of covered workers and their employers, and interest on, and proceeds from, the sale or redemption of any securities held by the trust fund during the year. Amounts equivalent to 100 percent of the taxes (including interest, penalties, and additions to taxes) received under the Federal Insurance Contributions Act and covered into the Treasury are appropriated to the trust fund each fiscal year. Under the provisions of this act all employees and employers, excepting those in employments specifically excluded, are called upon to pay contributions assessed on wages not in excess of $3,000 per annum. A contribution rate of 1 percent on each employer and employee has been in effect since the beginning of the program and, under the present law as amended, this rate will continue in effect until December 31, 1943. The contribution rate of each is scheduled to rise to 2 percent on January 1, 1944, to 2½ percent on January 1, 1946, and to 3 percent on January 1, 1949.

Funds not required to meet current disbursements are invested by the managing trustee. Securities eligible as investments for the fund are interest-bearing obligations of the United States and obligations guaranteed as to both principal and interest by the United States. Investments may be acquired on original issue at par or by purchase of outstanding obligations at the market price. The issuance of special obligations exclusively to the trust fund is authorized under the provisions of the Social Security Act. These obligations are required to bear interest at a rate equal to the average rate of interest borne by all interest-bearing obligations of the United States forming a part of the public debt, as computed at the end of the calendar month next preceding the date of issue. If such average rate is not a multiple of one-eighth of 1 percent, the rate on special obligations issued to the fund is required to be that multiple of one-eighth of 1 percent next lower than the average rate. Obligations acquired by the fund, other than special obligations, may be sold by the managing trustee at the market price, and special obligations may be redeemed at par plus accrued interest.

The trust fund serves in part as a reserve against 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.

The trust fund, furthermore, can provide an interest-earning reserve to meet a part of the inevitable future long-term rise in benefit disbursements, and serves as 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 because it is expected that for many decades the number of persons aged 65 and over will be increasing and that an increasing proportion of such aged persons will be qualifying for benefits under the old-age and survivors insurance system. At the beginning of 1940, there were about 9,000,000 persons aged 65 and over, equivalent to 6.8 percent of the total population. According to carefully developed estimates, the number of persons aged 65 and over may increase to about 22,000,000 or 14.4 percent of the population within 40 years. The effect of such expected change in the number of aged persons will be even greater on the finances of the old-age and survivors insurance system than may at first appear, because a larger proportion of aged persons 40 years hence will be eligible to receive benefits under the program than the corresponding proportion of the aged persons in the present population. 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.

Influences of the War on the Trust Fund

As a consequence of the war, the trust fund has increased more rapidly than was anticipated earlier. Contributions have increased markedly as a result of the increase in the level of earnings and the greater continuity of and the rise in employment. Benefit payments have been less, due in part to the increase in employment opportunities occasioned by war production. Many persons already on the rolls suspended their benefit status by returning to covered employment; at the end of June 1942 about 10 percent of benefits payable to primary annuitants and young widows were in such suspended status. In addition, many thousands who were eligible for benefits and who probably would have claimed them in more normal times have elected to remain at their jobs.

The ultimate influences of the war on the trust fund are not as clear as are the effects for the period of the war and for the immediate post-war years. There are many and complex relationships—among contributions, benefits, and insured status—which do not permit of a clear or categorical answer as to whether the over-all effect of the war will eventually be a net increase or decrease in the assets of the fund. A discussion of the effects of the war and of the relationships between contributions and benefits which is presented here takes no account of permanent changes which may be wrought by the war in the long run level of wages, in the composition of the labor force and of the population, or in the characteristics of employment. The length of the war itself is a prime factor; some elements which would operate to increase the assets of the fund if the war is of short duration would operate to decrease the assets if war conditions obtain for a longer period.

(*a*) *Increased employment, steadier work, and higher wages.*—The general availability of work of a steady character and at higher wages has increased earnings in covered employment. As a consequence, the contributions to the trust fund, based on a percentage of pay roll, are at a high level. These increases also have an obverse effect in that the higher wage credits accumulating will increase future monthly benefits payable at death or retirement. Also, the tax rates now applicable to these higher wage levels are at the initial rate established in the act, which is one-third of the rate prescribed for later years. Therefore, while this situation results in an abnormal insurge of contributions to the trust fund during this period, there is a more or less offsetting liability created for settlement over many years in the future when more and larger benefits will become due. The net ultimate effect on the assets of the fund is indeterminate at this time.

(*b*) *Employment of women and other temporary workers.*—Several million women not usually employed are currently at work in employments covered by the act. Many other persons not regularly in covered occupations are temporarily so employed. To gain insured status for survivors benefits at least 6 quarters of covered employment are necessary, and to gain insured status for purposes of retirement at age 65 or later, 40 quarters are required (except for those already above or nearing that age). With respect to retirement, married women with insured status whose husbands are also retired, will derive their benefits either from their own wage credits or by reason of their husbands' credits, whichever result in the greater benefit. Consequently, to the extent that married women make up a portion of the women currently at work, it may be expected that benefits for them will usually derive from their husbands' accounts rather than their own. Furthermore, the employment of married women does not increase substantially the amount of survivors protection afforded by the program, since survivors benefits for children derive from the father's employment in most instances. Married women insured during the war have a temporary protection, however, in the form of a lump-sum payment at death. It is therefore likely that their contributions to the fund during the war years result in a net addition to the fund. Unmarried women will, through their contributions, also bring about an increase in the fund unless a very long war permits them to gain fully insured status of a permanent character, or unless they remain in covered employment after the war. Men shifting only temporarily from noncovered employments would increase the fund more or less, depending on the proportion with families and the duration of their covered employment. In summary, it may be said that the heavy increases in covered employment of men and women not normally a part of the system should result in a net addition to the fund if the war is not greatly prolonged, and if a large proportion of these persons return to noncovered employment or, in the case of married women, return to the home.

(*c*) *Deferred retirements and suspensions of benefits.*—With the need for maximum use of available manpower many individuals above the age of 65 who are already eligible for retirement benefits have remained on the job or returned to work, and thereby deferred or interrupted their retirement. Since monthly benefits are not payable for months in which an individual is working in covered employment and to the extent that these deferments and suspensions exceed those which, except for the war, would have taken place, there is an obvious increase in the assets of the fund. However, the benefits paid to those who deferred retirement to a later age than otherwise, will be greater in amount by reason of being determined, partly at least, on the currently high wage levels. The net result of the factors mentioned in this paragraph will be an increase to the fund.

(*d*) *Suspensions among survivors.*—Widows and their children who have qualified for survivors' benefits are eligible to receive monthly benefits for the months in which they are not in covered employment, and, in the case of children 16–17, for the months in which they are in school. The present tendency for widows and older children to find covered employment results in an increase to the fund, in the same way as that discussed in the preceding paragraph. Although the present employment of many of these widows and children may only be temporary, the wage credits received during this period may increase their own protection later, and thus some effect on the fund in the opposite direction.

(*e*) *Military service.*—Military service is not covered employment under the act. Those who enter the armed forces from covered employment cease to pay contributions and have decreasing protection. After a lapse of a time in the service—in general, equal to the time previously in covered employment—they will lose any established insured status. Any higher mortality occasioned by war casualties thus far has been mainly among single men, resulting largely in the payment of lump sums rather than monthly benefits to survivors. Only a relatively small additional charge to the fund results from these casualties. However, as more men with children are exposed to the risk of war casualties, the increase in monthly survivors' benefits will result in larger charges to the fund. On the other hand, as a result of any higher mortality arising from war casualties, the fund will be relieved of some future old age benefits which would have been payable had these men survived to old age. In summary, the net result of the factor of military service on the trust fund is dependent on extra mortality which may eventuate and on the proportion of men with families involved and, hence, is as yet indeterminate.

(*f*) *Government civilian employment.*—Public employment is excluded from coverage under the act. Perhaps 2,000,000 persons have entered this type of work since the beginning of the war. As in the case of military service, those individuals with previous covered employment have decreasing insurance protection under the system and may eventually lose insured status. However, unlike military service, wartime Government civilian employees include a large proportion of married men with families. The married men who die will either have survivors benefits payable in smaller amounts than if they had not entered Government service, or if their public employment is sufficiently extended will have no survivors benefits payable at all because of the expiry of the insured status. In either case, the result will be a lesser outgo from the fund than otherwise. On the other hand, there will be no contributions from any Government workers nor benefit rights accumulated while they are working in the public service. The contributions otherwise payable during this period might have exceeded the value of the added benefit rights. Consequently, for Government civilian employees, the net effect on the fund seems also to be indeterminate.

Summary of Operations of the Trust Fund, Fiscal Year 1942

The statement of income and disbursements of the old-age and survivors trust fund in the period from July 1, 1941, to June 30, 1942, and of the assets of the fund at the end of the fiscal year 1942, is presented in table 1.

Table 1.—*Statement of operations of the Federal old-age and survivors insurance trust fund during the fiscal year 1942* [1]

Total assets of the trust fund, June 30, 1941		$2, 397, 615, 082. 40
Receipts (fiscal year 1942)	$966, 625, 401. 05	
Appropriations by Congress	895, 618, 838. 82	
Interest on investments	71, 006, 562. 23	
Disbursements (fiscal year 1942)	137, 046, 338. 20	
Benefit payments	110, 280, 702. 20	
Reimbursements for administrative expenses	26, 765, 636. 00	
Net addition to the trust fund during fiscal year 1942 (receipts less disbursements)		829, 579, 062. 85
Total assets of the trust fund, June 30, 1942		3, 227, 194, 145. 25

[1] On basis of the Daily Statement of the United States Treasury (unrevised).

Disbursements from the trust fund totaled $137,000,000 during the fiscal year 1942, of which $110,000,000 consisted of benefit payments and $27,000,000 of reimbursements to the general fund for administrative expenses of the insurance program.

Total benefit payments during the fiscal year exceeded those of the previous year by more than 71 percent, reflecting the addition of new beneficiaries and the continued payments to many of those in receipt of benefits in the previous year. Table 2 shows a distribution of these payments by type of benefit.

TABLE 2.—*Estimated distribution of Treasury disbursements for benefit payments under the old-age and survivors insurance program during fiscal year 1942*

Type of benefit	Amount disbursed in millions	Percentage of total
Primary (payable to retired insured wage earners age 65 or over)	$54.9	50
Wife's (payable to wives, age 65 or over, of primary beneficiaries)	8.4	8
Widow's (payable to widows, age 65 or over, of deceased insured wage earners)	3.8	3
Parent's (payable to dependent parents, age 65 or over, of deceased insured wage earners)	.3	(2)
Child's (payable to unmarried children under age 18 who are dependent upon primary beneficiaries or who were dependent upon deceased insured wage earners) [1]	18.1	16
Widow's current (payable to widows of deceased insured wage earners while widow has in her care a child entitled to child's benefits)	10.6	10
Total monthly benefits	96.1	87
Lump sums:		
1939 act (payable in those cases in which no survivor of a deceased insured wage earner could be immediately entitled to monthly benefits)	14.0	13
1935 act (payable in those cases in which the death of the wage earner occurred prior to 1940)	.1	(2)
Total	110.2	100

[1] Of the total, $1.2 million was paid to children of primary beneficiaries and $16.9 million to children of deceased insured wage earners. These amounts represented respectively, 1 percent and 15 percent of the aggregate benefit payments during the fiscal year.
[2] Less than 0.5 percent.

About 61 percent of the total payments made represented monthly benefits to persons over 65—retired workers and their wives, aged widows, and parents of deceased workers. Approximately another 26 percent represented monthly benefit payments on behalf of children of deceased or retired workers, and payments to widows—most of whom were under age 65—who had such children of deceased workers in their care. The balance of the payments represented lump-sum amounts paid in those cases in which no survivor of a deceased worker could be immediately entitled to monthly benefits or the death of a worker occurred prior to 1940. At the end of June 1942, approximately 530,000 persons were receiving monthly benefits amounting to $115,000,000 on an annual basis. At the end of the preceding fiscal year monthly benefit rolls included 336,000 persons to whom monthly benefits at an annual rate of $73,000,000 were being paid.

At the end of the fiscal year 1941 total assets of the old-age and survivors insurance trust fund, as reported in the second annual report of the board of trustees, amounted to $2,398,000,000. By June 30, 1942, these assets had increased to $3,227,000,000.

Receipts of the trust fund during the fiscal year 1942 amounted to $967,000,000. Of this total, $896,000,000 represented the annual appropriation to the trust fund of an amount equal to contributions collected under the Federal Insurance Contributions Act and covered into the Treasury during the fiscal year. The remaining $71,000,000 consisted of interest received on investments of the fund.

Amounts received by the fund during the fiscal year were invested by the managing trustee in accordance with section 201 (c) of the Social Security Act, as amended. Net investments acquired by the fund totaled $821,000,000. During the year, $1,350,000,000 of new securities were acquired through the investment of receipts accruing to the fund and the reinvestment of $382,000,000 of 3-percent old-age reserve account notes which matured on June 30, 1942. An additional $147,000,000 of 3-percent special Treasury notes were redeemed during the year.

All but $68,000,000 of the new investments were in the form of special Treasury notes; the $68,000,000 was invested in publicly offered series of 2½-percent Treasury bonds, partly of the 1967–72 series and partly of the series 1962–67. The special notes, in accordance with the provisions of the act, were acquired at par and bear interest at rates varying from 2.25 to 2.5 percent. The rates on these notes were determined by the average rate of interest on the interest-bearing public debt at the end of the month preceding the date of their issue. The 2½-percent publicly offered Treasury bonds were acquired on original issue at par, plus, in the case of the 1967–72 series, interest accruing from the time of issue. As a result of changes during the year in the amounts and distribution of the invested assets of the fund, the average interest rate on investments held by the fund as of June 30, 1942, was 2.51 percent, as compared with 2.72 percent as of June 30, 1941.

Table 3 compares the total assets of the trust fund and their distribution by type at the end of the fiscal years 1941 and 1942. The total assets of $3,227,000,000 held by the fund at the end of the fiscal year 1942 consisted of $3,202,000,000 in the form of obligations of the United States Government, $20,000,000 to the credit of the disbursing officer, and $5,000,000 to the credit of the fund account.

TABLE 3.—*Distribution of the assets of the Federal old-age and survivors insurance trust fund at the end of the fiscal years 1941 and 1942* [1]

	June 30, 1941	June 30, 1942
Total assets of the trust fund	$2,397,615,082.40	$3,227,194,145.25
Total investments held	2,380,600,000.00	3,201,634,250.00
3-percent special Treasury notes	1,052,500,000.00	523,800,000.00
Maturing June 30, 1942	382,000,000.00	
Maturing June 30, 1943	497,400,000.00	497,400,000.00
Maturing June 30, 1944	173,100,000.00	26,400,000.00
2½-percent special Treasury notes	1,328,100,000.00	1,328,100,000.00
Maturing June 30, 1944	283,000,000.00	283,000,000.00
Maturing June 30, 1945	725,900,000.00	725,900,000.00
Maturing June 30, 1946	319,200,000.00	319,200,000.00
2⅜-percent special Treasury notes maturing June 30, 1946		603,000,000.00
2¼-percent special Treasury notes		678,400,000.00
Maturing June 30, 1946		228,000,000.00
Maturing June 30, 1947		450,400,000.00
Treasury bonds		68,334,250.00
2½-percent Treasury Bonds, 1967–72		44,334,250.00
2½-percent Treasury Bonds, 1962–67		24,000,000.00
Unexpended balance	17,015,082.40	25,559,895.25
To credit of fund account	6,237,575.95	5,176,138.57
To credit of disbursing officer	10,777,506.45	20,383,756.68

[1] On basis of the Daily Statement of the United States Treasury (unrevised).

STATEMENT ON THE EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE FISCAL YEARS 1943-47

Under the provisions of section 201 (b) of the Social Security Act, as amended, the board of trustees is required each year to report to the Congress on the expected operation and status of the trust fund during the next ensuing 5 fiscal years. In order to do this, estimates must be made as to the income and disbursements of the trust fund for each of the 5 years. The income of the fund depends largely upon the rate of contribution and the amount of taxable pay rolls in covered employments. The disbursements from the fund depend largely upon the number of persons eligible for benefits and the number of these eligible persons who choose to receive benefits rather than to work in covered employments. Consequently, both the income and disbursements of the fund are intimately related to economic conditions.

During the next 5 years economic conditions will be determined largely by the course of the war, and by the readjustments following the war if peace should come during the period. Since it is impossible to predict the length of the war and the economic conditions which will develop during and after the war, there are presented three alternative sets of income and disbursements for the 5-year period, each set based in part on different assumptions as to the duration of the war and as to economic developments during and following the war. The assumptions underlying these estimates are intended to represent possible patterns of development. The variation in income and disbursements as between the different alternative estimates illustrate the difficulties of making forecasts even 5 years ahead in times as uncertain as the present. Each set of estimates assumes that the statutory coverage of old-age, and survivors insurance will remain the same as at present throughout the period under consideration. The computations related to tax income made in connection with the estimates are based on the present statutory rates of contribution, which are 1 percent on each employer and employee during the calendar year 1943, 2 percent during the calendar years 1944 and 1945, and 2½ percent during the calendar years 1946 and 1947.

Estimates of the income and disbursements of the trust fund for each of the fiscal years 1943 to 1947, together with an estimate of the amount of the fund at the beginning and the end of each fiscal year, are presented in table 4. The table is divided into two parts. In one part are presented the estimates for fiscal years 1943 and 1944. The estimates for these 2 years are common to all three alternative sets of estimates, and are the same as those shown in the President's 1944 Budget. The estimates for these years assume a continued rise in employment because of the entry into covered employment of young workers, women, and older workers in sufficient numbers to more than offset the number of men leaving covered employment for the armed forces. They assume a continued rise in pay rolls because of the increase in employment and because of a slight rise in average taxable wages resulting from a concentration of workers in the high-wage durable-goods industries, from a moderate rise in wage rates, and from an increase in the average hours of work per week.

TABLE 4.—*Estimates of the operations of the Federal old-age and survivors insurance trust fund, fiscal years 1943-47, subject to the assumptions and limitations stated in the text* [1]

[In millions]

	Estimates for fiscal years 1943 and 1944		Alternative estimates for fiscal years 1945-47, assuming —								
			I. Increasingly high level of employment and pay rolls throughout the period; low rate of retirement among aged			II. High level of employment and pay rolls including a short period of moderate decline; medium rate of retirement among aged			III. Medium level of employment and pay rolls, including a period of moderately severe decline; high rate of retirement among aged		
	1943	1944	1945	1946	1947	1945	1946	1947	1945	1946	1947
Fund at beginning of year	$3,227	$4,236	$5,666	$8,229	$11,101	$5,666	$8,122	$10,352	$5,666	$8,101	$9,594
Transactions during year:											
Appropriations (taxes) [2]	1,105	1,556	2,710	3,025	3,700	2,620	2,495	3,110	2,620	1,930	2,350
Interest on investments	88	109	145	200	265	145	195	240	145	185	215
Total income	1,193	1,665	2,855	3,225	3,965	2,765	2,690	3,350	2,765	2,115	2,565
Benefit payments	155	205	260	320	380	275	425	515	295	585	775
Administrative expenses	29	30	32	33	35	34	35	36	35	37	38
Total disbursements	184	235	292	353	415	309	460	551	330	622	813
Net increase in fund	1,009	1,430	2,563	2,872	3,550	2,456	2,230	2,799	2,435	1,493	1,752
Fund at end of year	4,236	5,666	8,229	11,101	14,651	8,122	10,352	13,151	8,101	9,594	11,346

[1] In interpreting the estimates of this table reference should be made to the accompanying text which describes the uncertainties in the underlying assumptions.

[2] The appropriations are estimated on the statutory rates of contribution—1 percent on each, employer and employee, in the calendar year 1943, 2 percent in 1944-45, and 2½ percent in 1946-47.

In the other part of table 4 are presented three alternative sets of estimates for fiscal years 1945 to 1947, illustrating the uncertainty as to developments during this period. Alternative I assumes a continuation of war conditions throughout the period. Employment is assumed to rise slightly above the level of 1944 as labor reserves are more completely utilized. Pay rolls in covered employments rise to a greater extent than employment because of increased hours of work, the further concentration of workers in war industries, and moderate increase in average earnings. No sharp and substantial price changes are assumed, however. The rate of retirement from covered employment of persons eligible for benefits is assumed to be low because of the employment opportunities available. In this case, aggregate income for the 5 fiscal years 1943-47 would be about $12.9 billion. Disbursements would aggregate about $1.5 billion, with the highest expected annual disbursements about $0.4 billion. The trust fund at the beginning of the period would amount to seven and eight-tenths times the highest expected annual disbursement during the period because of the assumption of a low rate of retirement from covered employment of persons eligible for benefits.

Alternative II assumes that during the first half of the period 1945-47 industry will be reconverted in large part to peacetime production and that during the second half economic activity will be maintained near the level reached in 1944. The reconversion is assumed to take place in an orderly manner. Pay rolls drop during the reconversion period because of a reduction in the hours of work, because of a shifting of workers from high-wage to low-wage industries and because of an increase in short-term employment. A subsequent rise in pay rolls is assumed because of an increase in economic activity resulting largely from the expenditure of wartime savings on consumer goods and from expenditures connected with the rehabilitation of war-devastated countries. Because of the relatively high level of employment during most of the period, there is assumed to be a moderate number of aged persons eligible for retirement benefits remaining in covered employment. Under alternative II aggregate income during the period of 5 fiscal years ending in 1947 would amount to about $11.7 billion. Aggregate disbursements for the period would be about $1.7 billion, with the highest expected annual disbursement about $0.6 billion. The trust fund at the beginning of fiscal year 1943 would amount to 5.9 times the highest expected annual disbursement during the period of 5 fiscal years.

Alternative III differs from alternative II in that it assumes reconversion to take place more slowly and peacetime production to rise at a slower rate. The level of employment accordingly is assumed to be lower throughout the period 1945–47 under alternative III than under alternative II. Taxable pay rolls drop below the level of alternative II because of the lower level of employment and because of shorter hours of work and somewhat lower average earnings. Because of the less favorable employment conditions, it is assumed that a larger number of persons eligible to receive benefits would retire from covered employment than under alternative II. The aggregate income of the trust fund for the 5 fiscal years 1943–47 under alternative III would amount to about $10.3 billion. Aggregate disbursements would be about $2.2 billion, with the highest expected annual disbursement about $0.8 billion. The trust fund at the beginning of the period would amount to 4.0 times the amount of the highest expected annual disbursement during the period.

The alternatives I and III are not intended to represent the two extremes of income and disbursement experience in the ensuing 5 fiscal years. It is possible that under conditions similar to those suggested for alternative I, the income would be higher and the disbursements lower than has been indicated in this estimate. Similarly, the income might be lower and the disbursements higher than have been shown for alternative III. Nor is alternative II intended to represent the most plausible experience to be expected; it merely illustrates an intermediate possibility.

A generally high level of employment and pay rolls during the 5 fiscal year period would tend to result in an increase in the number of insured workers and in their average wages and, hence, the average amount of the benefits payable under their retirement or death. However, because of the assumed employment opportunities and the urgency of war production, many of the aged workers who will be eligible for benefits will remain in covered employment so long as such employment conditions continue and they are capable of holding jobs. Conversely, a reduction in the level of employment may be expected to result in the retirement or termination of employment of many aged workers who are eligible for benefits.

On June 30, 1942, monthly benefits aggregating $75,000,000 per year were being paid to 237,000 aged retired workers and 69,000 aged wives.

In contrast, it is estimated that an additional 585,000 aged workers and 165,000 aged wives could have been receiving monthly benefits in the amount of about $225,000,000 per year, had the workers eligible to benefits terminated their employment. Table 5 illustrates the prospective growth during the 5-fiscal-year period, under the three alternative assumptions as to employment conditions, of the number of workers over age 65 who will be receiving old-age benefits or will be eligible for old-age benefits upon termination of their employment. The number or proportion of the aged eligible for benefits who will be in receipt of benefit payments at any time during the period is expected to be influenced largely by the then current employment conditions.

TABLE 5.—*Alternative illustrations of number of wage earners eligible for retirement benefits* [1] *(including those receiving retirement benefits) at the end of each of the fiscal years 1942–47, subject to the assumptions and limitations stated in the text*

[In thousands]

	Estimated number of wage earners eligible for retirement benefits [1] (including those receiving retirement benefits)		
	Alternative I	Alternative II	Alternative III
End of fiscal year—			
1942 [2]	825	825	825
1943	1,025	1,025	1,025
1944	1,250	1,250	1,250
1945	1,500	1,475	1,450
1946	1,800	1,700	1,625
1947	2,100	1,900	1,800

[1] Excludes wives, widows, and parents eligible for benefits.
[2] On June 30, 1942, there were 237,000 wage earners receiving retirement benefits.

In addition to the aged workers eligible for benefits, wives and children of these workers become eligible for benefits upon the workers' retirements. Furthermore, benefits are paid to widows, children, or parents of deceased wage earners eligible for survivors monthly benefits or lump-sum payments. The monthly survivors insurance benefits paid to widows, children, and parents during the fiscal year 1942 were approximately $33,000,000. The lump-sum benefits amounted to about $14,000,000. These survivors benefits may be predicted with relative accuracy since they depend largely on mortality experience which remains relatively constant. The monthly survivors insurance benefits may be expected to increase each year for the next 5 fiscal years by approximately $20,000,000 per year. The amount of lump-sum benefits is expected to increase slowly to about $30,000,000 in 1947, because a constantly growing number of persons will be insured at death.

As pointed out above, the amount of old-age benefits being paid at any time depends on employment and other conditions influencing the retirement of aged workers otherwise eligible for benefits. There seems to be some indication from current experience that one-quarter to one-third of all the aged workers who are eligible for benefits are now retired from employment because of incapacity for substantial work. The actions of the remainder in retiring from employment or the actions of their employers in discharging them from their employment are expected to be highly sensitive to general employment conditions.

Table 6 presents illustrations, under the three alternative assumptions of employment conditions during the 5-fiscal-year period, of the number of wage earners eligible for retirement benefits at the end of the fiscal year 1947 and the aggregate number of persons eligible for retirement or survivors monthly benefits at that time. The table also illustrates the aggregate amount of benefit payments which might be expected in the fiscal year 1947 under the alternative bases for the estimates of the 5-fiscal-year experience and under different assumptions as to the proportion of those eligible for old-age benefits who will be retired and receiving insurance benefits.

TABLE 6.—*Alternative illustrations of the number of wage earners eligible for retirement benefits [1] (including those receiving retirement benefits) at the end of fiscal year 1947, the aggregate number of persons eligible for retirement or survivors monthly benefits [2] at the end of the year and the total amount of benefit payments (including survivors benefits) in fiscal year 1947, under varying assumptions as to the proportion of those eligible for retirement benefits [1] who will be in receipt of benefits at some time during the year—subject to the assumptions and limitations stated in the text*

	Number of wage earners eligible for retirement benefits [1] (including those receiving retirement benefits) at the end of fiscal year 1947	Number of persons eligible for retirement or survivors monthly benefits [2] (including those receiving benefits) at the end of fiscal year 1947	Amount of benefit payments (including survivors benefits [3]) in fiscal year 1947, assuming indicated proportion of those eligible for retirement benefits to be receiving benefits at some time during the year			
			25 percent	50 percent	75 percent	100 percent
Alternative I	2,100,000	3,700,000	$330,000,000	$520,000,000	$725,000,000	$920,000,000
Alternative II	1,900,000	3,400,000	315,000,000	490,000,000	680,000,000	865,000,000
Alternative III	1,800,000	3,300,000	310,000,000	475,000,000	660,000,000	830,000,000

[1] Excludes wives, widows, and parents eligible for benefits.
[2] Includes wage earners, wives, widows, children, and parents eligible for benefits.
[3] Survivors benefits (monthly benefits and lump-sum payments) in fiscal year 1947 amount to about $160,000,000 under each alternative, irrespective of the proportion of the eligibles assumed to be receiving retirement benefits.

It should be noted that, to allow comparison with the 5-year estimates of table 4, the illustrative amounts of benefit disbursements include survivors monthly benefits and lump-sum payments as well as old-age benefits. They represent, therefore, more than the amount of benefits paid to the aged retired workers alone. The benefit payments shown in table 6 represent aggregate benefit payments which might be substituted for the corresponding benefit payments for the fiscal year 1947 shown in table 4. Such a substitution would permit rough comparisons of the amount of the trust fund at the beginning of the 5-fiscal-year period with different estimates as to the annual amounts of disbursements over the period.

ACTUARIAL STATUS OF THE TRUST FUND

The period from the middle of 1947, the close of the survey in the previous section, to 1950—the latter date taken as a convenient starting point for a discussion of the long-range trend—is purposely left open. No predictions, with any reliability, can be made for the transition from war and immediate post-war conditions to a stable peacetime situation to follow. The only elements which can be projected with confidence are—

(1) The demographic fact that the population is aging and that there will be for years into the future a steady increase, both relative and absolute, in the number of individuals over age 65; and

(2) The steadily rising percentage of the aged with insured status.

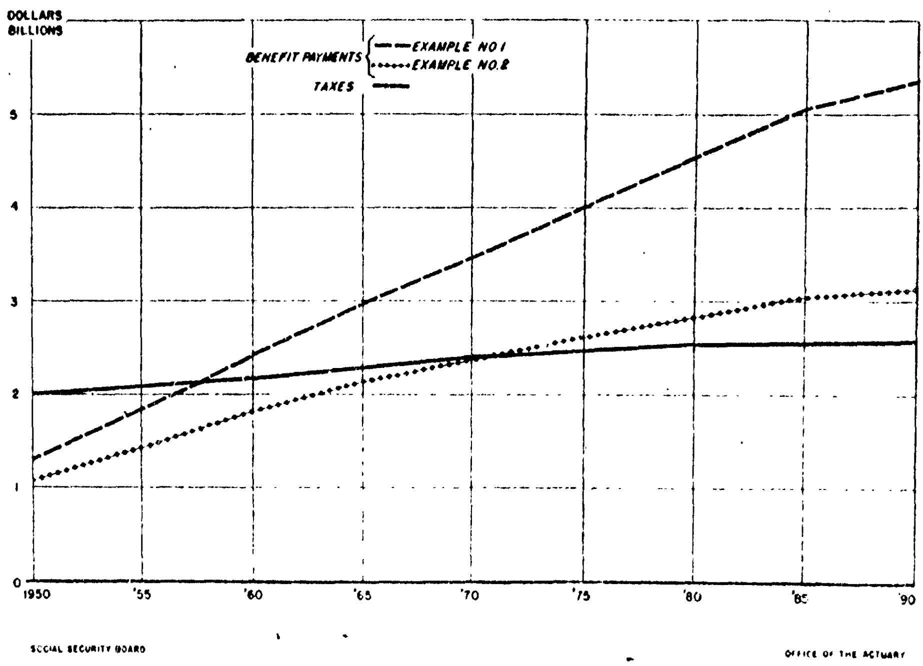
Consequently, owing to these two factors, the number of persons receiving old-age benefits under title II of the Social Security Act may, over a 50-year period, increase to some 40 times the current number.

Under the program, monthly benefit payments are made both to survivors of deceased insured employees and to the retired insured employees and their dependents. Because of the substantial stability in the annual mortality rate among insured workers as a group, and the limitation of benefit payments for any individual child to a maximum period of 18 years, the total outgo for benefits to survivors will reach a relatively matured condition considerably earlier than will be the case for the retirement benefits. In the long run it is not expected that benefits payable on account of death before retirement will constitute more than one-fourth of the cost of the program. The remaining three-fourths of the costs will comprise disbursements for old-age retirement protection; the number of aged beneficiaries may be expected to increase more or less steadily for perhaps a century.

The accompanying chart illustrates by two examples the possible trend, over a 40-year period (1950–90), of future contribution income and future benefit payments. The range in the benefit figures shown in the chart does not represent minimum or maximum values; the single line for contribution income implies a knowledge of taxable pay rolls that obviously does not exist. The examples are merely illustrative of reasonable projections. This chart is the same as that presented in the second annual report of the board of trustees. The values and assumptions upon which the chart is based are those discussed by the actuarial consultant of the Social Security Board, in the hearings relative to the Social Security Act Amendments of 1939 before the Committee on Ways and Means, House of Representatives, Seventy-sixth Congress, pages 2473–2488.

Three years' experience has now accumulated in the payment of claims under the amended act, experience limited by the small extent of early eligibility, by a lag in getting under way, and further affected by the transition to war and the war itself. Within these limitations, this experience yields useful information for correcting and refining some of the underlying assumptions. Many of the detailed results of the 1940 census have already become available; others are currently expected. Actuarial study is consequently under way whereby revised long-range cost estimates will be forthcoming. The results of such actuarial analysis are not far enough toward completion to utilize for the purposes of the present report. In preparing such new estimates, there is present the as yet uncertain long-range effects both of the depression of the 1930's and the present war. The long-range

ILLUSTRATIVE TRENDS OF BENEFIT PAYMENTS AND TAXES UNDER 1939 AMENDMENTS



results of the depression have been, to some extent, counteracted by the increased employment opportunities of the war years. The extent of the period over which such high employment and wage rates will be maintained is indefinite. It is linked not only to the length of the war and the immediate period of readjustment, but also to the postwar economy. Furthermore, the long-range results of the operations of the program will be influenced by the more permanent levels and trends of national income, wages, and employment.

As indicated in the chart and by the derived averages shown in table 7, taxes during most of the decade 1950–60 (at the rate of 6 percent of taxable pay roll) are expected to exceed benefits. This would result in a continuation of fund accumulation, which fund will provide interest earnings to meet a portion of the benefit payments. If benefit payments under the program should follow the growth curve of example 2, such payments would begin to exceed taxes in about 30 years from the present time; but because of the interest earnings of the fund, total annual income might continue to exceed annual benefits indefinitely without the need for additional contributions above the 6-percent rate. If, however, future experience should more closely approximate the curve of example 1, benefits would exceed taxes within approximately 20 years and would probably exceed the sum of taxes and interest on the fund within the following 5 or 10 years; and since the prior accumulation in the trust fund under the conditions of this example would cover excess disbursements for only a limited period, additional contributions above the 6-percent rate would eventually be required. Because of the cumulative nature of the growth of the benefit payments, any long-term financial needs of the program would be apparent well in advance, and, therefore, could be met, without serious shock or disturbance to the national economy by a succession of moderate changes in the financial provisions.

TABLE 7.—*Average annual benefit payments (2 estimates) and tax income of the Federal old-age and survivors insurance trust fund for future quinquennial periods, 1950–90* [1]*—subject to the limitations stated in the text*

[In billions]

Quinquennium	Average annual benefit payments		Average annual tax income	Quinquennium	Average annual benefit payments		Average annual tax income
	Example No. 1	Example No. 2			Example No. 1	Example No. 2	
1951-55	$1.6	$1.3	$2.0	1971-75	$3.8	$2.5	$2.4
1955-60	2.2	1.7	2.1	1976-80	4.3	2.7	2.5
1961-65	2.8	2.0	2.2	1981-85	4.8	2.9	2.6
1963-70	3.3	2.3	2.3	1986-90	5.2	3.1	2.6

[1] The figures in this table are based on the chart.

Expected Relation Between the Size of the Trust Fund and Disbursements

The board of trustees has indicated in its previous annual reports that the trust fund would apparently exceed three times the highest annual expenditures anticipated during the succeeding 5 fiscal years. A similar relationship is now expected for the 5 fiscal years ending June 30, 1947.

However, it has previously been pointed out that the ratio of the trust fund at the beginning of fiscal year 1943 to the highest annual disbursements of the period under the three alternatives presented would be 7.8, 5.9, and 4.0, respectively. Also it was pointed out that these ratios do not indicate the highest or the lowest which may be reasonably anticipated.

The board of trustees has repeatedly emphasized in its annual reports that the primary consideration with respect to the size of the trust fund is its adequacy to assure the financial integrity of the social insurance program. Because of the large measure of uncertainty with regard to economic developments in the next 5 years—particularly in a post-war phase, which may have its inception during this period—and in view of the absence so far of any benefit-payment experience during any sustained period of declining economic activity, serious consideration must be given to the implications of that alternative estimate under which the trust fund would represent little more than three times the highest annual disbursement which may be expected for the ensuing 5 fiscal year period. Only after additional years of benefit experience, including experience in periods of contrasting economic conditions, will it be possible to determine the long-range adequacy of the trust fund with reasonable assurance.

Moreover, neither the present nor the immediately prospective level of employment can be confidently considered representative of what is likely to be the long-term experience. The probable future level of benefit payments is high and the trend of such payments will be an ascending one over the next generation and longer. With present benefit payments in the magnitude of $150,000,000 a year, the actuarial analysis appearing on pages 14–16 indicates that over the period of several decades the disbursements will be multiplied manyfold in volume. Prudent management requires emphasis on the long-range relationship of income and disbursements. Having regard for these long-range as well as for the short-range commitments, and also for fiscal and economic relationships, the board of trustees believes that the trust fund, augmented by contributions in accordance with the schedule contained in the present law, is not excessive in size.

O