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SIXTH ANNUAL REPORT

OF THE

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

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

INTRODUCTORY STATEMENT

This report is submitted to Congress in accordance with the requirement in section 201 of the Social Security Act, as amended, that the board of trustees of the Federal old-age and survivors insurance trust fund submit an annual report on the present and prospective operations and status of the trust fund. The present report, pertaining to the fiscal year ended June 30, 1945, the five fiscal years subsequent to that date, and the long-range actuarial status of the fund, is the sixth annual report which the board of trustees has submitted.

The Federal old-age and survivors insurance trust fund, which was established on January 1, 1940, is held by the board of trustees under authority of the Social Security Act. The three members of this board, each of whom serves in an ex officio capacity, are the Secretary of the Treasury, the Secretary of Labor, and the Chairman of the Social Security Board. The Secretary of the Treasury serves as managing trustee. The present document is a joint report by all three of the trustees.

The Nation was at war throughout the fiscal year 1944-45 covered by this report. Accordingly, the operations under the old-age and survivors insurance program on which this document reports have been substantially affected by the highly abnormal economic and other conditions accompanying prosecution of the war—abnormalities which provide an inadequate basis for forecasting future developments under the program.

The Nation is now facing the problems of reconversion from war to peace. These problems increase greatly the difficulties of reporting on the expected operation and status of the fund during the 5-year period from July 1, 1945, to June 30, 1950. The time which has elapsed since the termination of hostilities both in the European and Pacific theaters of war is as yet too brief to provide a basis for judging the full impact of reconversion on employment opportunities and take-home pay—a factor which will greatly influence old-age and survivors insurance finances in the period immediately ahead.

The war itself will probably cause long-run changes of a permanent character in various phases of our economy which will significantly affect the financing of old-age and survivors insurance. The influences of the war and of its termination, however, will be even more direct and marked on operations during the immediate 5-year period ahead, for which forecasts are required by law. The most important unknown factor is the intensity and duration of economic dislocations during the reconversion period. The preparation of this sixth annual report therefore has been particularly difficult, and the estimates which it contains are presented with even greater reservations than would be necessary if the times were less abnormal.

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 covered workers and their employers toward old-age and survivors' insurance. The Federal Insurance Contributions Act requires all employees and employers, excepting those in specifically excluded employments, to pay contributions with respect to individual wages up to but not in excess of $3,000 per annum. These contributions are collected by the Bureau of Internal Revenue and are paid into the Treasury as internal-revenue collections. Sums equivalent to 100 percent of current collections (including taxes, interest, penalties, and additions to taxes) are transferred to the trust fund as such collections are received.

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

At the end of 1946, accordingly, the 1-percent rates of contribution will have been in effect for 10 years. Existing provisions of law provide for the 2½-percent rates to go into effect on January 1, 1947, and the 3-percent rates on January 1, 1949.

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

A third potential source of revenue for the trust fund is provided in section 902 of the Revenue Act of 1943. This law amended section 201 of the Social Security Act and authorizes, as a Government contribution, 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.

Expenditures under the old-age and survivors insurance program are paid out of the trust fund. These expenditures include old-age and survivors insurance benefits provided in title II of the Social Security Act and such reimbursements to the Treasury for administrative expenses incurred by the Social Security Board and the Treasury Department under the program as are authorized by section 201 (f) of the act. The Social Security Board certifies benefit payments to the managing trustee, who makes the payments from the trust fund in accordance therewith. Payments are made from an uninvested balance held in the fund to the account of the disbursing officer of the Treasury.

The Treasury is reimbursed from the trust fund for expenditures incurred by the Social Security Board and the Treasury Department in the administration of title II of the Social Security Act and the Federal Insurance Contributions Act. These reimbursements from the trust fund are made monthly, although their size is determined at 3-month intervals. Although limited to the amounts annually appropriated by Congress for such purposes, the cost of administering old-age and survivors insurance, thus, is not borne out of regular governmental revenues but out of the old-age and survivors insurance trust fund itself.

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

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

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

At the beginning of 1940 there were about 9,000,000 persons aged 65 and over, equivalent to 6.8 percent of the total population. According to a "medium" set of carefully developed estimates, the number of persons aged 65 and over may increase to about 19,000,000, or perhaps 12 percent of the population, within 40 years. The effect of the finances of the old-age and survivors insurance system of this expected change in the number of aged persons will be even greater than may at first appear. This is because, compared with the present situation, a larger proportion of aged persons 40 years hence is expected to be eligible to receive benefits under the program. The future financial soundness of the system, with its rising rates of disbursements, must rest on higher contribution rates or on the provision of income from other sources, or both. Prudent financial management of this system is of the utmost importance to the millions of persons who are already within its scope and to the Nation as a whole.

The trust fund, furthermore, serves in part as a reserve against 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.

SPECIAL INFLUENCES OF THE WAR ON THE TRUST FUND

The European hostilities came to an end on May 8, 1945, during the fiscal year covered by this report, and the Japanese phase ended shortly after the close of the fiscal year. All during the course of the war, and as a consequence thereof, the assets of the trust fund continued to increase more rapidly than had been anticipated for peacetime conditions. Contributions increased markedly from $688,000,000 in the fiscal year 1941 to $1,292,000,000 in the fiscal year 1944 and $1,310,000,000 in the fiscal year 1945. These increases were the result of the greater volume and continuity of covered employment as well as of the rise in average earnings. Approximately 48,000,000 workers received taxable wages in calendar year 1944 as compared with only 35,000,000 in 1940 and about 32,000,000 in 1938.

Benefit payments during the war, on the other hand, have been less than were expected, because of wartime employment opportunities. Thousands of aged workers who were eligible for benefits and who would have claimed them in more normal times continued in their work because of the war. In addition, many persons already on the benefit rolls returned to covered employment and thus suspended temporarily their benefit status. At the end of June 1945, about 18 percent of the aged workers, wives, and widows with young children already on the benefit rolls were not in actual receipt of benefits, because they remained in covered employment.

In net terms, the permanent effect of the war on the actuarial status of the trust fund is not clear. There are many complex relationships—involving contributions, benefits, and insured status—which make it impossible to give a categorical answer to the question of whether the eventual over-all effect of the war will be to increase or decrease the assets of the fund.

The discussion below of several factors bearing on this question and of the relationships between contributions and benefit payments takes no account of the more-or-less permanent changes which may evolve from 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.

(*a*) *Increased employment, steadier work, and higher wages.*—The general availability of steady work during the war, at higher rates of wages, increased total earnings in covered employment. Average taxable wages rose from $833 in the calendar year 1938 to $932 in 1940 and $1,379 in 1944; even with some reconversion drop-off during the latter part of the year, it is estimated that such average wages will be close to $1,300 in 1945. As a consequence of this increase in average earnings as well as of the rise which took place in the number of workers in covered employment, aggregate contributions, which are levied as a percentage of pay roll, totaled almost $1,300,000,000 in the fiscal year 1944 and slightly over this amount in the year 1945.

Such increases in wages and employment 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 applicable to these higher wage levels have been at the initial 1-percent rates established in the act, which are one-third of the rates now prescribed for later years. Therefore, while the war situation has resulted in a high wage base for contribution purposes, there has been created a more or less offsetting liability to be met over many years in the future when more and larger benefits will become due. The net ultimate effect of this item on the fund is indeterminate at this time.

(*b*) *Employment of women and other temporary workers.*—Several million women not usually in the labor market entered employments covered by the programs during the course of the war. Many other persons, both male and female, not regularly in covered occupations were also temporarily employed in such occupations. About 5 million covered workers, for instance, in the calendar year 1944, had no covered employment prior to that year, while the corresponding figures for 1942 and 1943 were much higher—about 8 million each year. These figures may be compared with about 4½ million workers who entered covered employment for the first time in 1940, a figure which includes some workers in employments to which coverage was extended for the first time in that year.

To have insured status for survivors' benefits, at least 6 quarters of recent covered employment are generally necessary; and to have insured status for purposes of retirement at age 65 or later, 40 quarters are required (except for persons already above or nearing that age). Married women with insured status, whose husbands are also retired, derive their old-age benefits either as primary beneficiaries from their own wage credits or as wives by reason of their husbands' credits, whichever results in the greater benefit rate. To the extent that women temporarily at work in covered employment are already married or will later marry, it may be expected that benefits for them will usually derive from their husbands' accounts rather than from their own. Furthermore, the employment of married women does not increase substantially the amount of survivors' protection afforded by the program, because survivors' benefits for children derive from the father's employment in most instances. Married women who became insured during the war have a temporary insurance protection, however, in the form of a lump-sum payment in the event of death. It seems likely, on balance, that the contributions paid by married women and their employers during the war will result in a net gain to the fund.

Contributions paid by unmarried women also bring about a net increase in the fund, unless these women remain in covered employment long enough to gain fully insured status. Men who shift only temporarily from noncovered employments to covered employments and who do not attain fully insured status 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 large influx into covered employment of men and women, not normally a part of the sytem, should result in a net addition to the fund 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 were already eligible for retirement benefits remained on the job or returned to work and thereby deferred or interrupted their retirement. It is estimated that such persons totaled about 800,000 at the end of June 1945. Inasmuch as monthly benefits are not payable for months in which an individual earns $15 or more in covered employment, and to the extent that these deferments and suspensions exceed those which, except for the war, would have taken place, there has been an obvious net increase in the assets of the fund. The monthly benefits that will be payable to those who deferred retirement will be greater in amount by reason of their being determined, partly at least, on the wartime high wage levels; the average length of time during which these individuals will receive benefits, however, will be decreased. The net result of the factors mentioned in this paragraph will probably be an increase in the fund.

(d) *Suspensions among survivors.*—Widows and children who have qualified for survivors benefits are not eligible to receive monthly benefits for the months in which they are in covered employment, and, in addition, children aged 16 and 17 are ineligible for benefits for the months in which they are not in school. The wartime tendency for widows and older children to find work in covered employment has resulted in a net gain to the fund, in the same way as that discussed in the preceding paragraph. Although the wartime employment of many of these widows and children has been only of a temporary character, the wage credits received during this period may increase their own protection later and thus have some effect on the fund in the opposite direction. For example, these credits, added to others earned later, may result in fully insured status for some covered workers who otherwise never could become fully insured without such credits.

(e) *Military service.*—Military service is not covered employment under the present law. As a consequence, those who entered the armed forces from covered employment ceased to pay contributions and have had decreasing protection. After a period of time in the service—in general, equal to the period previously worked in covered employment—they lose any established insured status. The board of trustees does not believe, however, that any advantage should accrue to the fund at the expense of the loss of coverage by persons in the armed forces. It is of the opinion that such loss of coverage is an inequity which should be repaired. The President has already made recommendations to the Congress to extend coverage to military service with a view to preventing or correcting this loss in protection.

(*f*) *Governmental civilian employment.*—Public employment is excluded from coverage under the system. Well over 4,000,000 additional persons have worked in this type of employment at some time since the beginning of the war. As in the case of military service, those individuals with previous covered employment have had decreasing insurance protection under the system, and many have lost or will lose their insured status before they return to private employment; in any event, their average wage for benefit purposes is permanently lowered.

Wartime Government civilian employees have included a large proportion of married men with families. The married men who die while insured will have survivors benefits payable in smaller amounts than if they had not entered Government service; and those who remain in public employment for a sufficient period will have no survivors benefits payable because of the loss of their insured status prior to their death. In either case, the result will be a smaller outgo from the fund than otherwise. On the other hand, no contributions will be paid by Government workers 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 appears to be indeterminate. Steps should be taken, however, to remedy the loss of old-age and survivors insurance protection suffered by civilian workers temporarily employed by the Government during wartime.

SUMMARY OF OPERATIONS OF TRUST FUND, FISCAL YEAR 1945

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, 1944, and ended on June 30, 1945, 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 1945* [1]

Total assets of the trust fund, June 30, 1944		$5, 446, 390, 766. 54
Receipts, fiscal year 1945:		
Appropriations equivalent to contributions collected	$1, 309, 919, 400. 41	
Interest on investments	123, 853, 998. 15	
Total receipts	1, 433, 773, 398. 56	
Disbursements, fiscal year 1945:		
Benefit payments	239, 833, 904. 85	
Reimbursements for administrative expenses	26, 949, 640. 56	
Total disbursements	266, 783, 545. 41	
Net addition to trust fund		1, 166, 989, 853. 15
Total assets of the trust fund, June 30, 1945		6, 613, 380, 619. 69

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

The total receipts of the trust fund during the fiscal year 1945 amounted to 1,433.8 million dollars. Of this total, 1,309.9 million dollars 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 exceeded that appropriated in the preceding fiscal year by 1.4 percent. The additional 123.9 million dollars of receipts consisted of interest received on investments of the fund.

Disbursements from the trust fund during the fiscal year 1945 totaled 266.8 million dollars, of which 239.8 million dollars consisted of benefit payments and 26.9 million dollars of reimbursements to the general fund of the Treasury for administrative expenses of the insurance program. The total amount paid from the fund in the form of benefits during the fiscal year exceeded benefits paid in the fiscal year 1944 by 30 percent, reflecting the larger number of beneficiaries on the rolls. The figure for reimbursements for administrative expenses during the fiscal year is less than actual outlays for administration during the year, since it includes an adjustment for overreimbursements in prior fiscal years; hence, it is not comparable with corresponding figures for preceding years.

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

TABLE 2.—*Operations of the old-age and survivors insurance trust fund, by specified period, January 1, 1940, to June 30, 1945*

[In millions]

	Fiscal year ended in—					
	1940[1]	1941	1942	1943	1944	1945
Receipts:						
Assets transferred from old-age reserve account on Jan. 1, 1940	$1,724.4					
Appropriations equivalent to contributions collected		$688.1	$895.6	$1,130.5	$1,292.1	$1,309.9
Interest on investments	42.5	56.0	71.0	87.4	103.2	123.9
Total receipts	1,766.9	744.1	966.6	1,217.9	1,395.3	1,433.8
Disbursements:						
Benefit payments[2]	9.9	64.4	110.2	149.3	184.6	239.8
Reimbursements for administrative expense	12.3	26.8	26.8	27.5	[3] 32.6	[4] 26.9
Total disbursements	22.2	91.2	137.0	176.8	217.2	266.8
Total assets at end of period	1,744.7	2,397.6	3,227.2	4,268.3	5,446.4	6,613.4

[1] January to June 1940, fund having been established in place of old-age reserve account on Jan. 1, 1940.
[2] Amount of checks cashed and returned to Treasury.
[3] Includes some reimbursements applicable to outlays in other fiscal years.
[4] Adjusted for overreimbursements in prior years.

The distribution of benefit payments, by type of benefit, in fiscal years 1944 and 1945 is shown in table 3. About 60 percent of the amounts paid from the fund as benefit payments in the fiscal year 1945 were accounted for by monthly benefits to persons age 65 or over—retired wage earners and their wives and aged widows and parents of deceased wage earners. This proportion was about the same as in the preceding year but with a slightly smaller proportion during 1945 in the form of primary benefits. Approximately 29 percent of the 1945 payments represented monthly benefit payments on behalf of children of deceased or retired workers and payments to widows who had children of deceased wage earners in their care; most of these widows were under age 65. The balance of the benefits paid in the fiscal year 1945 consisted almost entirely of lump-sum amounts paid in cases where no survivor of an insured wage earner dying after 1939 was immediately entitled to monthly benefits.

TABLE 3.—*Estimated distribution of Treasury disbursements for benefits under the old-age and survivors insurance program, by type of benefit, fiscal years 1944 and 1945*

Type of benefit	1944		1945	
	Amount (in millions)	Percent of total	Amount (in millions)	Percent of total
Total	$184.6	100	$239.8	100
Monthly benefits	165.6	90	214.1	89
Primary (retired wage earners 65 or over)	86.8	47	109.1	46
Wife's (wives 65 or over of primary beneficiaries)	13.9	8	17.8	7
Widow's (widows 65 or over of wage earners)	11.4	6	16.9	7
Parent's (parents 65 or over of deceased wage earners)	.7	(1)	.8	(1)
Child's (dependents of retired or deceased wage earners)	35.1	19	[2] 46.6	19
Widow's current (widows of wage earners with child beneficiary)	17.7	10	22.9	10
Lump-sum benefits (no survivor of deceased wage earner entitled to monthly benefits or wage earner died before 1940)	19.0	10	25.7	11

[1] Less than 0.5 percent.
[2] Includes $45,200,000 paid to children of deceased insured wage earners and $1,400,000 paid to children of primary beneficiaries.

At the end of the fiscal year 1945, approximately 1,106,000 persons were receiving monthly benefits, amounting to $242,000,000 on an annual basis. At the end of the preceding fiscal year, the monthly benefit rolls included 840,000 persons to whom monthly benefits were being paid at an annual rate of $184,000,000. The average monthly benefit in force for different types of family groups in the middle of the fiscal year 1945 was as follows: Retired worker only (with no eligible dependent), $23; retired worker and wife, $37.60; widow (aged 65 or over) only, $20.20; widow and one child, $34.20; widow and two children, $47.40; and widow and three or more children, $50.40.

The total assets of the old-age and survivors insurance trust fund, as reported in the fifth annual report of the board of trustees, amounted to $5,446,000,000 on June 30, 1944. These assets increased to $6,613,000,000 by the end of the fiscal year 1945, as the result of an excess of receipts over disbursements amounting to $1,167,000,000 during the fiscal year. Table 4 compares the total assets of the trust fund and their distribution, by type, at the end of the fiscal years 1944 and 1945. The assets of the fund at the end of the fiscal year 1945 consisted of $6,546,000,000 in the form of obligations of the United States Government, $32,000,000 to the credit of the fund account, and $35,000,000 to the credit of the disbursing officer.

TABLE 4.—*Assets of Federal old-age and survivors insurance trust fund, by type, at end of fiscal years 1944 and 1945* [1]

	June 30, 1944	June 30, 1945
Total assets	$5,446,390,766.54	$6,613,380,619.69
Total investments	5,408,870,130.00	6,546,281,050.00
Public issues	643,370,130.00	1,238,681,050.00
Treasury bonds:		
2½-percent bonds of 1962-67	49,000,000.00	49,000,000.00
2½-percent bonds of 1963-68	100,000,000.00	100,000,000.00
2½-percent bonds of 1964-69	50,000,000.00	50,000,000.00
2½-percent bonds of 1965-70	[2] 400,035,880.00	400,000,000.00
2½-percent bonds of 1966-71	....	295,000,000.00
2½-percent bonds of 1967-72	44,334,250.00	[3] 344,681,050.00
Special issues	4,765,500,000.00	5,307,600,000.00
Treasury notes	4,385,500,000.00	3,659,600,000.00
2½-percent notes:		
Maturing June 30, 1945	725,900,000.00	....
Maturing June 30, 1946	319,200,000.00	319,200,000.00
2¾-percent notes: Maturing June 30, 1946	603,000,000.00	603,000,000.00
2¼-percent notes:		
Maturing June 30, 1946	228,000,000.00	228,000,000.00
Maturing June 30, 1947	450,400,000.00	450,400,000.00
2⅛-percent notes: Maturing June 30, 1947	240,000,000.00	240,000,000.00
2-percent notes: Maturing June 30, 1947	459,000,000.00	459,000,000.00
1⅞-percent notes:		
Maturing June 30, 1947	261,000,000.00	261,000,000.00
Maturing June 30, 1948	1,109,000,000.00	1,109,000,000.00
Certificates of indebtedness:		
1⅞-percent certificates of indebtedness	380,000,000.00	1,648,000,000.00
Maturing June 30, 1945	380,000,000.00	....
Maturing June 30, 1946	....	1,648,000,000.00
Uninvested balances	37,520,636.54	67,099,569.69
To credit of fund account	16,136,282.27	32,007,240.42
To credit of disbursing officer	21,384,354.27	35,092,329.27

[1] On basis of Daily Statement of U. S. Treasury.
[2] Includes $35,880 accrued interest paid on investments.
[3] Includes $346,800 accrued interest paid on investments.

That portion of the assets of the trust fund not required in his judgment for the meeting of current withdrawals was invested by the managing trustee during the fiscal year 1945, in accordance with the provisions of section 201 (c) of the Social Security Act, as amended. That 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 purchased for the trust fund and that regular obligations may be acquired through purchase of outstanding obligations in the open market as well as on original issue at par. Investments made for the fund during the fiscal year, however, as in previous years, consisted only of direct obligations of the United States purchased on original issue.

The net increase in the investments owned by the fund during the fiscal year 1945 amounted to $1,137,000,000. New securities totaling $2,723,000,000 were acquired through the investment of receipts accruing to the fund and the reinvestment of securities maturing during the year. Securities redeemed during the year totaled $1,586,000,000, including $726,000,000 of 2½-percent special Treasury notes which matured on June 30, 1945, and $860,000,000 of 1⅞-percent special certificates of indebtedness maturing on June 30, 1945, which were redeemed at various times throughout the year.

Of the new securities acquired, $2,128,000,000 were in the form of special certificates of indebtedness, $480,000,000 of which matured on

June 30, 1945, and $1,648,000,000 of which mature on June 30, 1946. These certificates were acquired at par and bear an interest rate of 1⅞ percent, this rate being determined by the average rate of interest on the interest-bearing public debt which prevailed at the end of the month preceding the date of issue of these securities. The remaining $595,000,000 of securities acquired during the fiscal year were 2½-percent publicly offered Treasury bonds, $295,000,000 of the 1966–71 series, and $300,000,000 of the 1967–72 series. The investment transactions of the trust fund during the fiscal year 1945 are summarized in table 5.

TABLE 5.—*Investment transactions of the old-age and survivors insurance trust fund, fiscal year 1945* [1]

Purchases	$2, 723, 346, 800
Special issues: Certificates of indebtedness	2, 128, 000, 000
Public issues: Treasury bonds	[2] 595, 346, 800
Redemptions	1, 585, 900, 000
Special issues:	
Treasury notes	725, 900, 000
Certificates of indebtedness	860, 000, 000
Net increase in investments	1, 137, 446, 800

[1] As recorded in Daily Statement of U. S. Treasury.
[2] Includes $346,800 accrued interest paid on investments.

The average rate of interest on the interest-bearing public debt, which determines the rates at which special obligations are issued to the old-age and survivors insurance trust fund, varies with changes in the composition of the public debt and with changes in the particular rates of interest on different classes of securities. During the fiscal year 1945 the average rate of interest on the public debt fluctuated within fairly narrow limits and was 1.94 percent on June 30, 1945, as compared with 1.93 percent on June 30, 1944. Because of this small variation, the interest rate on all special issues acquired during the fiscal year continued to be 1⅞ percent, the same rate at which special issues were acquired during the previous fiscal year. The average interest rate on all investment holdings of the fund declined in about the same degree in the fiscal year 1945 as it did in the previous fiscal year; it was 2.13 percent as of June 30, 1945, as compared with 2.19 percent on June 30, 1944, and 2.26 percent on June 30, 1943.

STATEMENT OF THE EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE FISCAL YEARS 1946–50

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

The income of the fund depends on the amount of taxable pay rolls in covered employment and the rates of contributions, and on the interest earnings of the fund. The disbursements from the fund depend not only on the number of persons eligible for benefits but also on the proportion of these eligible persons who apply for and receive benefits instead of continuing to work in covered employments. Consequently, both the income and the disbursements of the fund are intimately related to economic conditions.

This report presents two sets of estimates based on alternative assumptions as to economic developments during the five fiscal years from July 1, 1945, to June 30, 1950. One assumption represents employment and earnings conditions which may be expected in the event the transition from a war to a peace economy is completed with a minimum of economic maladjustment. The estimates based on this assumption yield a relatively large increase in trust fund assets. The other assumption represents conditions which might occur if the remaining stages of reconversion are slow and accompanied by moderately severe business and industrial dislocation. This assumption results in estimates yielding a smaller increase in trust fund assets.

For both sets of estimates, it is assumed that the present statutory coverage of old-age and survivors insurance will remain unchanged throughout the period under consideration. The computations related to tax income are based on present statutory rates of contribution, which are 1 percent each on employer and employee on wages paid during the calendar years 1945 and 1946, 2½ percent during the calendar years 1947 and 1948, and 3 percent during the calendar years 1949 and 1950.

The two sets of estimates of the income and disbursements of the trust fund for each of the five fiscal years 1946 to 1950, together with the resulting assets of the fund at the beginning and the end of each fiscal year, are presented in table 6. In addition, figures for actual experience in the fiscal years 1941 to 1945 are shown.

TABLE 6.—*Operations of the Federal old-age and survivors insurance trust fund, fiscal years 1941-50, subject to the assumptions and limitations stated in the text* [1]

[In millions]

Fiscal year	Fund beginning of year	Transactions during year: Income: Total	Income: Contributions [2]	Income: Interest on investments	Disbursements: Total	Disbursements: Benefit payments	Disbursements: Administrative expenses	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	966	895	71	137	110	27	829	3,227
1943	3,227	1,218	1,131	87	177	149	28	1,041	4,268
1944	4,268	1,395	1,292	103	217	185	[3] 32	1,178	5,446
1945	5,446	1,434	1,310	124	267	240	[3] 27	1,167	6,613
Estimated future experience:									
1946	6,613	1,275	1,128	147	358	323	[3] 35	917	7,530
1947:									
Alternative I	7,530	1,724	1,562	162	442	407	35	1,282	8,812
Alternative II	7,530	1,570	1,410	160	518	481	37	1,052	8,582
1948:									
Alternative I	8,812	3,269	3,075	194	515	480	35	2,754	11,566
Alternative II	8,582	2,922	2,735	187	605	569	36	2,317	10,899
1949:									
Alternative I	11,566	3,713	3,465	248	585	549	36	3,128	14,694
Alternative II	10,899	3,180	2,949	231	691	654	37	2,489	13,388
1950:									
Alternative I	14,694	4,440	4,128	312	654	618	36	3,786	18,480
Alternative II	13,388	3,719	3,438	281	760	723	37	2,959	16,347

[1] In interpreting the estimates in this table, reference should be made to the accompanying text which describes the underlying assumptions and their uncertainties. Alternative I assumes an orderly reconversion with a rapid return to a high level of employment; alternative II assumes a longer and more difficult period of reconversion.

[2] Amounts equal to contributions are automatically appropriated to the trust fund. Estimates for fiscal years 1946-50 are based on statutory rates of 1 percent each on employers and employees in calendar years 1945 and 1946, 2½ percent each in 1947 and 1948, and 3 percent each in 1949 and 1950.

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

At the end of 1945, it appears that the major proportion of the problems of physical reconversion has been solved. In alternative I it is assumed that the remaining phases of the transition from a war- to a peace-time economy follow in an orderly manner. Despite some immediate increase, unemployment is assumed to decline to a fairly low level within 2 years after the date of Japan's surrender.

Pay rolls are assumed in alternative I to decline substantially in fiscal year 1946 because of the temporary rise in unemployment, the shift of workers from war industries to lower-paid employment in consumer-goods industries, and the decline in hours of work accompanied by the termination of overtime payments. With the completion of reconversion, pay rolls are assumed to increase above the levels to which they fall during the reconversion period and by the end of the 5-year period to reach a level slightly above the peak wartime fiscal year.

Benefit disbursements under alternative I are assumed to increase considerably during each phase of reconversion, because a substantial number of older workers and also many widows with young children leave the labor market and either become entitled to benefits or resume receipt of benefits temporarily suspended on account of their employment during the war. It is assumed, nevertheless, that a rather large number of persons eligible for retirement benefits remain in employment.

Under alternative I, aggregate income during the period of 5 fiscal years ending in 1950 would amount to 14.4 billion dollars, including 13.3 billion dollars in contributions and 1.1 billion dollars in interest. Aggregate disbursements for the period would be about 2.6 billion dollars, with the highest expected annual disbursement about 0.7 billion dollars. The trust fund at the beginning of the fiscal year 1946 would amount to 10.1 times the highest expected annual disbursement during the succeeding period of 5 fiscal years.

The other set of estimates, alternative II, is based on the assumption that the remaining stages of the transition from a war- to a peace-time economy take place much more slowly than under alternative I and are accompanied by a substantial amount of unemployment and short-term and part-time employment. Employment conditions, moreover, are assumed to improve at a slower rate than under alternative I.

In each of the 5 years, pay rolls are assumed to be lower under alternative II than under alternative I, because, in addition to a higher level of unemployment, a shorter workweek is assumed and a smaller proportion of workers is assumed to be employed in manufacturing. Throughout the 5-year period, taxable wages are estimated to remain substantially below the peak wartime fiscal year despite small gains over the level to which they decline in the reconversion period. Benefit disbursements under alternative II, on the other hand, increase more rapidly than under alternative I, because a much 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 1946–50 under alternative II would amount to 12.7 billion dollars, including 11.7 billion dollars in contributions and 1.0 billion dollars in interest. Aggregate disbursements would be 2.9 billion dollars, with the highest expected annual disbursement about 0.8 billion dollars. The trust fund at the beginning of the period would amount to about 8.7 times the highest expected annual disbursements during the period.

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

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

TABLE 7.—*Treasury disbursements for benefit payments, distributed by classifications of beneficiaries, fiscal years 1941–50, subject to the assumptions and limitations stated in the text* [1]

[In millions]

Fiscal year	Total benefit disbursements	Disbursed to primary beneficiaries	Disbursed to wives and children of primary beneficiaries	Disbursed to survivors of deceased insured workers: Monthly benefits: Total	Monthly benefits: Aged widows and parents	Monthly benefits: Younger widows and children	Lump sum payments
Past disbursements: [2]							
1941	$64.3	$31.4	$5.3	$15.3	$1.5	$13.8	$12.3
1942	110.2	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
Estimated future disbursements:							
1946	323	158	27	113	25	88	25
1947:							
Alternative I	407	206	37	138	33	105	26
Alternative II	481	271	46				
1948:							
Alternative I	480	246	45	162	42	120	27
Alternative II	569	323	57				
1949:							
Alternative I	549	282	51	187	53	134	29
Alternative II	654	372	66				
1950:							
Alternative I	618	319	59	211	65	146	29
Alternative II	723	410	73				

[1] In interpreting the estimates in this table, reference should be made to the accompanying text, which describes the underlying assumptions.
[2] 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 and to their wives and children. As is indicated in table 8, a considerable proportion of the workers aged 65 and over who were eligible for primary benefits in the past remained in covered employment (or, if they left covered employment later returned to it) and did not receive benefits. During the course of fiscal year 1945, however, this proportion began to decrease, since, largely because of cut-backs in war production, many of these older workers withdrew from covered employment. After the ending of hostilities in August 1945, the volume of such withdrawals was accelerated; thus, in the first 5 months of fiscal year 1946, 90,000 older workers were awarded primary benefits, as contrasted with 48,000 in the corresponding period of fiscal year 1945 and 35,000 in the corresponding period of fiscal year 1944. This represents the effect of an increased rate of withdrawal on the part of older workers, which may be expected to continue for some time to come, with a consequent decrease in the proportion of older workers remaining in covered employment and an increase in the proportion in receipt of primary benefits.

TABLE 8.—*Wage earners eligible for and receiving primary benefits, by attained age of wage earners, fiscal years 1941–50, subject to the assumptions and limitations stated in the text* [1]

Middle of fiscal year (Jan. 1)	All wage earners age 65 and over			Wage earners 65 to 69			Wage earners age 70 and over		
	Number eligible for benefits [2]	Persons receiving benefits		Number eligible for benefits [2]	Persons receiving benefits		Number eligible for benefits [2]	Persons receiving benefits	
		Number	Proportion of total number eligible		Number	Proportion of total number eligible		Number	Proportion of total number eligible
	Thousands	*Thousands*	*Percent*	*Thousands*	*Thousands*	*Percent*	*Thousands*	*Thousands*	*Percent*
Actual experience:									
1941	554	112	20	390	85	22	164	28	17
1942	698	200	29	478	134	28	220	66	30
1943	838	260	31	551	153	28	287	107	37
1944	1,010	306	30	629	156	25	381	151	40
1945	1,184	378	32	699	167	24	485	211	44
Estimated future experience:									
1946	1,361	535	39	760	209	28	601	326	54
1947:									
Alternative I	1,527	687	45	812	250	31	715	437	61
Alternative II	1,507	850	56	797	357	45	710	493	69
1948:									
Alternative I	1,663	807	49	856	282	33	807	525	65
Alternative II	1,617	1,046	65	825	445	54	792	601	76
1949:									
Alternative I	1,775	905	51	893	309	35	882	596	68
Alternative II	1,701	1,173	69	850	504	59	851	669	79
1950:									
Alternative I	1,891	1,003	53	927	330	36	964	673	70
Alternative II	1,802	1,264	70	882	529	60	920	735	80

[1] In interpreting the estimates in this table, reference should be made to the accompanying text, which describes the underlying assumptions.
[2] Figures for 1941–45 are partly estimated.

During the war the unusual conditions that prevailed operated to create maximum employment of aged workers. Especially favorable employment opportunities were caused by the withdrawal of younger workers into the armed forces coincident with a demand for increased personnel in industry. In addition, large numbers of older persons who otherwise would have retired because of health or for other reasons continued at work. During peacetime, however, even under the favorable employment conditions of alternative I, the number of workers aged 65 or over will be a substantially smaller proportion of the total number of workers.

If the lower employment conditions assumed in alternative II should materialize, it is expected that even larger proportions of eligible workers will be obliged to leave covered employment, even at ages 65 to 69. The result is that, 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 according to attained age for the middle (January 1) of each of the fiscal years 1941 through 1950. For attained ages 65 to 69, the growth in the number of eligible workers is gradual but uninterrupted under both alternatives. This growth results partly from the increase in the population at these attained ages but primarily from the fact that with each passing year a larger proportion of the persons attaining age 65 have fully insured status. In the calendar year 1940, a worker attaining age 65 would not have been fully insured if he had left covered employment more than 1½ or 2 years previous to his attainment of age 65—for example, due to permanent total disability—but in the calendar year 1950 numerous persons attaining age 65 will be fully insured even though they left covered employment before the age of 60.

The aging of the program has an even greater effect on the number fully insured at attained ages 70 and over. This number is expected to increase more than fivefold between January 1, 1941, and January 1, 1950, even under the lower employment assumptions of alternative II. At the latter date, the number eligible at these attained ages should comprise more than one-half of the total number of eligible persons. Moreover, the average age of all eligible persons within the age group 70 and over will be continuously increasing.

The estimates presented above result in a net increase in the trust fund during the 5-year period of about $12,000,000,000 under alternative I and about $10,000,000,000 under alternative II. Although a range in the estimated net additions to the fund within which actual experience may fall is thus indicated, it by no means represents the maximum possible range of variation. For example, it is entirely possible that an even higher level of postwar business activity may result than has been assumed under alternative I. In this case the amount of contribution income would probably be greater than has been estimated; in addition, the proportion of workers aged 65 and over remaining in employment could be greater than that anticipated under alternative I—even though less than during wartime—and benefit payments correspondingly lower. The total result would be an even greater growth in the trust fund than has been estimated under alternative I. On the other hand, a larger volume of unemployment and a lower level of production than assumed in alternative II would lead to smaller net increases in the fund, due both to lower contribution and interest income and to higher benefit payments resulting from increased retirement.

Furthermore, no attempt has been made to illustrate the effect on the trust fund of marked changes in prices or wage rates. Such changes would substantially affect the dollar amount of contribution income, while having relatively little effect on benefit payments, and thus could produce much larger variations from the figures shown in table 6 than the other factors cited.

ACTUARIAL STATUS OF THE TRUST FUND

The board of trustees is required by section 201 (b) of the Social Security Act to report each year on the actuarial status of the trust fund. The present section discusses that status. Under old-age and survivors insurance, benefits accrue to the aged and to orphaned children and their widowed mothers surviving deceased wage earners. Thus, certain basic cost factors must be recognized in analysis of the costs of the program. These include (*a*) population; (*b*) mortality; (*c*) family composition; (*d*) years of credited employment prior to qualification for benefits; (*e*) remarriage of widowed beneficiaries; (*f*) employment of widowed beneficiaries, older children, and aged; and (*g*) income in covered employment and its distribution among calendar quarters (as affected by a changing workweek, changing productivity, effectiveness of collective bargaining, long-term trends, cyclical changes, etc.).

(*a*) *Population.*—Population development depends upon the progress of the existing population as changed by future births, deaths, immigration, and emigration. The 1940 census showed some 600,000 more persons aged 65 and over than had been indicated as probable by the 1930 census and later deaths and migration. The underregistration of children probably continued into the 1940 census. The Bureau of the Census has made comprehensive reports on the errors and biases believed present in the latest enumeration.

Birth rates declined for a number of years, due to the increasing percentage of the population past the childbearing ages, the increasing proportion at the middle ages where childbearing is less frequent, and changed attitudes toward the size of the family. However, the long decline of birth rates lasting into the thirties has been reversed since 1937. There also appears to be a marked increase in the rate of first births and a more moderate increase in the rate of second births, tending to increase both the proportion of the insured population with dependents and the number of dependents. This increases the amount of insurance for survivors benefits under old-age and survivors insurance. The diminution in the proportion of large families has had only a limited effect upon benefits under this program, since aggregate benefits for a family are not increased for children beyond the fourth child in the absence of a mother drawing benefits, nor beyond the third child with the mother drawing benefits.

Immigration, which had been heavy up to the beginning of World War I and more moderate in the 1920's, was definitely checked in the 1930's, and most population forecasts have assumed that no return to the old immigration rates may be expected.

Another population factor to be considered is that of emigration. The war led to one type of emigration of considerable magnitude in the expeditionary forces to Africa, England, Europe, Asia, and the Pacific. After the last war, some members of our expeditionary forces did not return but continued to live as private individuals in the countries where they had been stationed during the war. The postwar foreign manpower requirements of such agencies as the Allied Military Government and United Nations Relief and Rehabilitation Administration, and the use of American technicians in many countries of the world, may be heavy. The 1943 report of the National Resources Planning Board on future population development gives certain adjustment figures to recognize the effects of the war. Extensive analysis of this and similar material will be made over the next few years. It will call for periodic adjustment in cost estimates.

The possibile future progress of the population has been indicated in two different reports: (1) The 1935 report prepared by the staff employed by the Committee on Economic Security in developing long-range cost estimates for the original program of old-age benefits; and (2) the National Resources Committee's report on future population trends issued in 1938. The actual experience from which projections were made in that report did not go beyond 1936. In the light of the as yet unpredictable population results of the war, it has seemed well to retain in the low-cost assumptions the rather cautious population forecast made by the staff of the Committee on Economic Security, as representative of one reasonable rate of growth. At the same time the National Resources Committee's medium population forecast of 1938 which has been used in other studies seems suitable as an indication of the potential increase under high-cost assumptions. Table 9 indicates the two assumptions used as to population growth for the group aged 20 to 64, inclusive, and the group aged 65 and over.

TABLE 9.—*Estimated population of United States aged 20 to 64 and 65 and over, in selected years, 1955–2000*

[In thousands]

Calendar year	Ages 20-64			Ages 65 and over		
	Total	Men	Women	Total	Men	Women
Low assumptions (Committee on Economic Security):						
1955	88,400	44,100	44,300	12,200	6,000	6,200
1960	89,400	44,600	44,800	13,600	6,600	7,000
1980	90,600	45,600	45,000	17,000	7,900	9,100
2000	87,400	44,100	43,300	18,200	8,600	9,600
High assumptions (National Resources Committee medium):						
1955	88,200	43,900	44,300	12,800	6,200	6,600
1960	89,500	44,600	44,900	14,800	7,100	7,700
1980	91,600	46,300	45,300	22,100	10,400	11,700
2000	90,800	46,300	44,500	26,400	12,800	13,600

It is not believed that future population progress is exactly represented by either of the two series used. The striking sequence of depression, recovery, recession, war, and reconversion, with tremendous unsettled influences throughout the world, leave doubtful in any nation the future trends of mortality, fertility, or migration. The figures shown in table 9 represent two possible developments. Because both series have been used for some time and because the detailed 1940 census data and the National Resources Planning Board population study of 1943 [1] have not yet been adequately adapted for cost purposes, use of these older bases has been continued in this report, with both series extended from their terminal year of 1980 to the year 2000.

(*b*) *Mortality.*—Mortality rates, by age and sex, have been steadily improving since the turn of the century for both sexes and virtually all ages up to 60, with very little change at ages above 60. Both the National Resources Committee study of 1938 and the National Resources Planning Board study of 1943 make assumptions of a future improvement in mortality as plausibly indicated by the past history of mortality improvement. In the low-cost assumptions discussed in this section, very little improvement in mortality rates is assumed. In the high-cost assumptions, some improvement is assumed, but their assumption of improvement beyond age 65 is believed by many to be too optimistic.

Mortality is of major importance for estimates of future benefits for the aged, and of importance also in determining potential deaths among the younger fathers which will give rise to mothers' and children's, and ultimately older widows', survivor benefits. Studies are still under way, both in the Social Security Board and in the Bureau of the Census, as to what current mortality rates may be after allowing for corrections of errors and bias in the most recent census; and following these there will be further studies along the line of the recent National Resources Planning Board's mortality forecasts. Such remarkable developments as insulin, penicillin, the sulfa drugs, and other more recent discoveries carry potential mortality improvements, particularly at the middle and higher ages, which may yet justify the lighter mortality assumed in the high-cost illustrations.

(*c*) *Family composition.*—Births have significance for old-age and survivors insurance costs, not alone because of their importance in building up the population of the future but also because the system provides an orphaned child under the age of 18 with one-half of a primary benefit and a widowed mother with three-fourths of a primary benefit so long as she has children in her care. The maximum benefit payable to a family is twice the primary benefit. Thus the distribution of families by size is of importance in determining the extent of prospective benefits.

The early claims experience is probably not typical because of lags in getting under way and the sequence of falling and rising birth rates over the last 15 years. During the next few years, as a result of the recently increased birth rate through 1943, a smaller proportion of nonchild families and a change in the distribution of orphan children by age is expected.

It is also important to consider the trends in those deaths which terminate husband-wife families, the trends in divorce which have the same effect, and determinations as to what constitutes a separation of spouses to be recognized under the law. Important also are the age relationship between husband and wife and the differential mor-

[1] National Resources Planning Board, Estimates of Future Population of the United States, 1940-2000. August 1943.

tality by sex and by marital condition. Experience has shown that at almost all ages women have a lighter mortality than men and that the mortality of married persons is significantly lower than that of single or ex-married persons. The large proportion of marriages in which the wife is younger than the husband results in a predominance of terminations of marriage by the husband's rather than the wife's death. Further studies concerning these various factors are planned in order to secure a more complete understanding of the relationships.

Thus, the three elements—population, mortality, and family composition—constitute the warp and woof for estimates of future potential beneficiaries, with the other influences discussed in (*d*) through (*g*) below forming the specific patterns of beneficiaries.

Old-age insurance beneficiaries are composed of several different types of recipients. Table 10 shows the various illustrative rates of growth in the number of beneficiaries, distinguishing between male primary beneficiaries, female primary beneficiaries, wives of male primary beneficiaries, children of primary beneficiaries, aged widows of male primary beneficiaries or of deceased employees, and wholly dependent aged parents of deceased covered employees without widows or children.

TABLE 10.—*Old-age insurance recipients of monthly benefits in selected years 1955–2000*

[In thousands]

Calendar year	Male primary beneficiaries	Female primary beneficiaries	Wives of primary beneficiaries	Children of primary beneficiaries	Aged widows	Dependent parents
Low assumptions:						
1955	1,300	200	400	60	450	80
1960	1,700	350	550	80	750	110
1980	3,700	1,100	1,100	160	2,300	130
2000	4,500	1,400	1,400	170	3,300	130
High assumptions:						
1955	1,800	250	600	85	450	140
1960	2,500	450	850	100	800	200
1980	5,700	1,500	2,100	250	2,600	300
2000	8,400	2,500	3,400	300	4,500	250

Whereas old-age insurance beneficiaries make up the bulk of the prospective recipients under old-age and survivors insurance, the young survivors, composed of half-orphaned and full-orphaned children and widowed mothers of the former, will be responsible for a considerable amount of benefits. Table 11 lists the two groups separately for inspection and for comparison between the high and low examples. In table 10 the high assumptions show, as expected, a larger number of beneficiaries; this is because the lighter mortality rates of the National Resources Committee population projections result in a greater number and proportion of aged persons. This lighter mortality, plus the assumed lower birth rate, has the opposite effect in table 11; here the assumed population projection results in a smaller number of child and mother beneficiaries under the high assumptions than under the low.

TABLE 11.—*Young survivor insurance recipients of monthly benefits in selected years, 1955–2000*

[In thousands]

Calendar year	Low assumptions		High assumptions	
	Orphaned children	Widowed mothers	Orphaned children	Widowed mothers
1955	1,200	300	1,100	250
1960	1,400	350	1,200	300
1980	1,600	400	1,200	250
2000	1,600	400	1,200	250

(*d*) *Credited employment and insured status.*—The number of persons who gain protection through becoming "insured" under old-age and survivors insurance depends upon the volume and pattern of their work in employments covered by the program and upon the amount of taxable wages earned in such work. A discussion of the latter factor is presented later under item (*g*). The old-age and survivors insurance program covers primarily employees in industry and commerce. Illustrations are presented in table 12 showing the percentage of the population assumed to be insured by virtue of current or previous work experience for age groups above and below 65.

TABLE 12.—*Proportion of the population insured*[1] *under old-age and survivors insurance in selected years, 1955–2000 (including primary beneficiaries)*

Calendar year	Low assumptions (percent)				High assumptions (percent)			
	Men		Women		Men		Women	
	20 to 64	65 and over	20 to 64	65 and over	20 to 64	65 and over	20 to 64	65 and over
1955	54	30	18	5	64	34	22	5
1960	56	34	19	7	66	40	24	7
1980	59	54	21	18	71	60	30	19
2000	60	60	21	21	71	71	32	32

[1] "Insured," as distinct from "covered," means sufficient participation in covered employment to have become eligible for benefits upon death or retirement; a person may be "covered" (i. e., with past or current wage credits) without having reached or maintained an "insured" status.

The percentages shown in table 12 for ages 65 and above include primary beneficiaries drawing benefits to the extent shown by table 13, which indicates the proportion under both low and high assumptions.

TABLE 13.—*Proportion of the population aged 65 and over receiving primary benefits (excludes women eligible to receive benefits as wives, widows, and parents)*

Calendar year	Low assumptions (percent)		High assumptions (percent)	
	Men	Women	Men	Women
1955	22	3.5	29	4
1960	26	5	35	6
1980	46	13	55	13
2000	52	14	66	14

The proportions of the population shown in tables 12 and 13 are derived from application of the coverage and insured-status specifications of old-age and survivors insurance to the end results of qualification through a sufficient number of quarters with a covered wage of at least $50.

In the several tables presented above, only potential long-range trends have been set down without recognition of cyclical or periodic irregularities. Bearing this in mind, certain trends may be observed in these illustrative tables of numbers of beneficiaries:

(1) An over-all uptrend in beneficiaries under all types of old-age benefits—save in the quantitatively unimportant case of dependent parents;

(2) Very slight increase, if any, after 1960 in the number of children and widowed mothers who are beneficiaries;

(3) The relatively and increasingly small proportion of survivor benefits in relation to old-age benefits;

(4) The relatively rapid advance in the percent insured at age 65 and over (including those drawing benefits) when compared with the percent insured aged 20 to 64, inclusive; and

(5) The rapid rise in the percent drawing primary benefits from 1955 to 1980, and the slowing down of the increase in the percent in the following 20 years.

(*e*) *Remarriage rates.*—Remarriage of "young widows" is a rather important cost factor. The greatest possible duration of benefits occurs among the younger widows, who, as mothers of young children, can expect to receive benefits for many years. These are also the women with the greatest chance of remarriage. Among the older mothers with fewer prospective years of benefit receipt (their children being nearer age 18), the probability of remarriage is lower. Remarriage rates are affected both by age of widow and duration of widowhood.

Use of remarriage rates results in considerable reduction in the prospective cost of benefits to young widows. It also results in considerable reduction in the deferred portion of benefits otherwise payable to widows upon reaching age 65. This serves as a tangible reduction in the volume of "life insurance" afforded by the program when such "life insurance" is interpreted as the present value, in case of the worker's death, of prospective benefit payments to his surviving dependents. It is estimated that at the present time the program is providing approximately $50,000,000,000 of "life insurance" protection for survivors.

(*f*) *Employment of beneficiaries.*—During the depression, it is probable that many children who should have been in school were working. Moreover, the labor market was increased by many married women seeking employment to reinforce what they hoped might be only a temporary inadequacy in their husband's income. As indicated quantitatively earlier in this report, during the war years, a very large group of elderly persons have acquired eligibility for benefits under old-age and survivors insurance. Many of these, after receiving some benefits, returned to work and suspended their benefits. There are also many instances where covered employees have announced their intention to retire but have postponed retirement. The greatest proportion of those eligible, however, have shown no evidence of intention to retire. The abnormal work opportunities during the war were also shared by older children, by widowed mothers, and by aged wives of potential primary beneficiaries. Thus, assumptions as to the employment of beneficiaries are indissolubly interwoven with all the other cost elements entering into the number and cost of benefits.

(*g*) *Income in covered employment.*—One of the most striking changes in earned income on record has taken place since 1938. Whereas a considerable group of individuals in nonwar employments had little change in their wage incomes, large groups in manufacturing had marked increases both in their basic rates of pay and in the number of hours in their working week. Moreover, there was a great falling off in partial unemployment, with a greater stability of work from week to week. This change in wage-income status has given a great many more persons quarters of coverage than had been the case in prewar years. The increase in the persistency of employment, and thus in the number of quarters credited, results, at least temporarily, in an increase in the number of persons with an insured status—either fully or currently insured; it also results in a higher average wage.

A sumptions as to future covered wages are essential in developing illustrative actuarial projections. The trend of wages in the past has been unquestionably of an upward character. The level of earnings at the end of the reconversion period and their movement thereafter will, of course, affect contributions and benefits under the program, since both are geared to covered earnings. Some indirect recognition of uncertainties with respect to wages is given in the adoption of low and high sets of average wage assumptions.

The data derived from old-age and survivors insurance records are not yet fully useful for long-range cost purposes. Average reported wages were much lower in the early years of the system than they are currently. The increase which has occurred is indicated in table 14.

TABLE 14.—*Average taxable wages of workers with taxable wages under old-age and survivors insurance, by year and sex, 1937–45*

Calendar year	Average taxable wage			Calendar year	Average taxable wage		
	Total	Men	Women		Total	Men	Women
1937	$900	$1,041	$540	1942	$1,128	$1,363	$609
1938	833	960	506	1943	1,294	1,594	786
1939	881	1,016	536	1944 [1]	1,379	1,689	845
1940	932	1,076	556	1945 [1]	1,299	1,585	792
1941	1,019	1,191	578				

[1] Preliminary estimates.

The high assumptions use an average annual taxable wage of $2,000 for men working in four quarters of a year, $1,000 for men working three quarters, $400 for men working two quarters, and $200 for those working one quarter. The corresponding average wage figures used for women under the high assumptions are $1,200 for four quarters, $600 for three quarters, $240 for two quarters, and $120 for one quarter. Under the low assumptions, the four-quarter average wage assumption used for males is $1,500, with $750 used for three quarters, $300 for two quarters, and $150 for one quarter. The low four-quarter average used for women is $900, $450 being used for three quarters, $180 for two quarters, and $90 for one quarter. The ratios to the annual four-quarter averages of approximately 50 percent for three quarters, 20 percent for two quarters, and 10 percent for one quarter parallel fairly closely the actual ratios observable in old-age and survivors insurance wage data for 1940–43.

For purposes of determining the number of employed men under the low assumption, the male labor-force percentages, by age, of the 1940 census after substraction of those seeking work were applied to the assumed future male populations; for the high assumption, corresponding percentages from the 1930 census of gainful workers were applied, they being relatively high in comparison with the subsequent years. For women, percentages of the total female population represented by the 1940 female labor force minus those seeking work were applied against the assumed future female populations for the low assumption, while the total 1940 female labor force percentages, plus small assumed future increases, were used for the high assumption, these being higher than those for 1930. It has been further assumed that the labor-force characteristics of those in covered employment will bear the same relation to those of all workers as existed in 1940 under old-age and survivors insurance.

Because the coverage of the system excludes several large categories of employment (agricultural, domestic, railroad, and public employment and the self-employed), there is a flow of workers between covered and noncovered employments as well as between covered employment and unemployment. The restricted coverage necessarily will result in large numbers of workers who have not had sufficient contact with the program to establish or maintain the insured status necessary for benefit qualification. The extent of contact is a function both of stability of covered jobs and of age; older persons are more settled in their work than younger persons. Table 15 illustrates differences in the extent of contact workers had with the program in 1943. Other data pertinent to this matter were presented by the Chairman of the Social Security Board in his testimony before the Ways and Means Committee of the House on January 13, 1944.[2]

TABLE 15.—*Percentage distribution of workers in covered employment under old-age and survivors insurance, by number of quarters with taxable wages, 1943* [1]

Number of calendar quarters with taxable wages in 1943	Amount of taxable wages in 1943			Age at end of 1943		
	Total	Under $1,000	$1,000 and over	Total	Under age 35	Age 35 and over
Total	100.0	100.0	100.0	100.0	100.0	100.0
1 quarter only	15.3	32.0	0.2	15.3	19.5	10.6
2 quarters only	13.8	25.6	3.1	13.8	17.6	9.8
3 quarters only	13.1	18.8	7.8	13.1	15.1	10.8
4 quarters	57.8	23.6	88.9	57.8	47.8	68.8

[1] Preliminary data, partly estimated and subject to revision. Includes all persons who earned any taxable wages during the calendar year.

The carrying through of the prospective progress of the program using the elements discussed above furnishes reasonable illustrations of future beneficiaries and costs, neither the lowest nor the highest conceivable, the values derived being within the outside boundaries of

[2] Hearings on an amendment, adopted by the Senate, to the revenue bill of 1943 (H. R. 3687) freezing the social-security tax rate at 1 percent for 1944, pp. 17-18.

possibility. Experience to date is very limited, the payment of monthly benefits having begun only in 1940. As payments got under way, the limitations of coverage and the insured-status requirement excluded large numbers of potential beneficiaries. Payments were further delayed by the "lag" with which any new program commences. In recent years, as the lag has lessened, payments among the relatively small number yet eligible to receive them have been limited by delays in the claiming of benefits occasioned by the war. The long-range illustrations look beyond these various limitations and furnish some indication of the trend in the costs of the old-age and survivors insurance program.

Table 16 sums up the previous discussion in terms of illustrative numbers of beneficiaries. The category "younger survivors" comprises orphaned children and their widowed mothers. Widows aged 65 and over are included under the "old age" category.

TABLE 16.—*Old-age and survivors insurance beneficiaries in receipt of benefits in selected years, 1955–2000*

[In thousands]

Calendar year	Low assumptions			High assumptions		
	Old-age beneficiaries	Younger survivors	Lump sum [1]	Old-age beneficiaries	Younger survivors	Lump sum [1]
1955	2,500	1,500	270	3,300	1,300	270
1960	3,500	1,700	300	4,900	1,500	300
1980	8,500	2,000	550	12,500	1,400	550
2000	10,900	2,000	600	19,300	1,400	750

[1] Represent number of deaths during the year resulting in lump-sum benefits.

Two estimates, based on lower and higher assumptions, of the evel cost of the benefits now provided by the system are 4 percent land 7 percent of covered pay rolls. Illustrative cost estimates for quinquennial years from 1955 to 2000 have been included in previous reports. (See p. 27 of fifth annual report of board of trustees.) The most recent illustrations which have been prepared were long-run cost completed in 1943–44 and are published in detail in Issues in Social Security, a report to the Committee on Ways and Means of the House of Representatives by the committee's social security technical staff, pages 149–256 (Government Printing Office, 1946).

The various influences of the war, such as those described in an earlier part of this report, make it desirable to revise the long-run cost illustrations, but there has not been sufficient time to accomplish this task as yet. Some of the preliminary work has already been started, however, and it is expected that revised illustrations will be presented in the next report of the trustees.

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