

# Notes and Brief Reports

## Trust Fund Operations, 1961\*

The Treasury Department manages, in whole or in part, a number of Government trust funds. The social insurance and related trust funds account for the major portion of the assets of these trust funds. The group includes the old-age and survivors insurance trust fund, the disability insurance trust fund, the unemployment trust fund, the railroad retirement account, the civil-service retirement and disability fund, and the three veterans' life insurance funds.

### OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

The financial operations of the old-age, survivors, and disability insurance program are carried on through the Federal old-age and survivors insurance trust fund and the Federal disability insurance trust fund.

By permanent appropriation, amounts equivalent to 100 percent of current collections under the Federal Insurance Contributions Act (for covered employees) and under the Internal Revenue Code (for covered self-employed persons) are transferred to the trust funds on the basis of estimates made by the Secretary of the Treasury. Any differences between these estimates and the contributions actually payable on the basis of reported earnings are adjusted periodically. Contributions under voluntary agreements with States for the coverage of State and local government employees are deposited in the trust funds as they are received.

### Income-Outgo

Tax rates for the old-age and survivors insurance part of the program remained the same in 1961 as they were in 1960: 5½ percent for employees and employers combined and 4⅞ percent for the self-employed. The 1961 taxable earnings base of \$4,800 has been in effect since January 1, 1959.

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Contribution income in 1961 was only slightly (less than 4 percent) higher than in 1960, in contrast to the 35-percent increase from 1959 to 1960 that accompanied the tax-rate increases of 1960. With the tax rate, wage base, and statutory coverage remaining unchanged in 1961, the increase in net contributions may be attributed to higher employment in 1961 than in 1960. Appropriations of tax collections are made by the Treasury Department on an estimated basis and subsequently adjusted; the amount received in the trust fund in a given year is therefore adjusted by the amount of the correction during that year of past under- or over-appropriations of contributions. Income, disbursements, and total assets of the trust fund for 1960 and 1961 appear in table 1.

In 1961, earnings of the invested assets of the trust fund increased 6 percent. The total of \$546 million includes \$3 million earned in noncash form as amortization of discount on public issues acquired in the open market.

TABLE 1.—Operations of the old-age and survivors insurance trust fund, calendar years 1960 and 1961

(In thousands)

Item	1961	1960
Total assets, January 1.....	\$20,324,499	\$20,140,766
Receipts, calendar year:		
Contributions:		
Appropriations (taxes).....	10,589,087	10,208,596
Deposits arising from State agreements.....	782,104	737,139
Gross contributions.....	11,371,191	10,945,734
Less payments to Treasury for taxes subject to refunds.....	86,240	79,440
Net contributions.....	11,284,951	10,866,294
Interest and profit:		
On investments.....	545,847	514,868
On administrative expenses reimbursed from DI trust fund.....	2,205	877
Gross interest received.....	548,052	515,744
Less interest transferred to railroad retirement account.....	9,534	9,889
Net interest received.....	538,518	505,855
Total net receipts.....	11,823,469	11,372,150
Disbursements, calendar year:		
Benefit payments.....	11,861,589	10,676,628
Payments to railroad retirement account under the financial interchange.....	322,200	308,500
Total benefit payments and transfers with respect to benefits.....	12,183,789	10,985,128
Administrative expenses:		
Department of Health, Education, and Welfare.....	254,600	192,380
Treasury Department.....	42,338	38,973
Construction of headquarters building for Bureau of Old-Age and Survivors Insurance.....	2,309	5,250
Gross administrative expenses.....	299,247	236,603
Less receipts for sale of services, etc.....	106	138
Less reimbursement of administrative expenses from DI trust fund.....	60,273	33,176
Net administrative expenses.....	238,868	203,289
Total net disbursements.....	12,422,658	11,188,417
Net addition to trust fund.....	-599,189	183,733
Total assets, December 31.....	19,725,311	20,324,499

Two offsetting transfers of interfund interest had the net effect of reducing the trust fund's total interest and profit in 1961 by \$8 million: (1) \$10 million transferred with the payment to the railroad retirement account under the financial interchange provision in the Railroad Retirement Act and (2) \$2 million received from the disability insurance trust fund with reimbursed administrative expenses. Total receipts in 1961 were \$11,823 million, 4 percent more than in 1960.

TABLE 2.—Investments of the social security trust funds, by type and earnings, end of December, 1960 and 1961

Type of investment	[In millions]					
	Old-age and survivors insurance trust fund		Disability insurance trust fund		Unemployment trust fund	
	1961	1960	1961	1960	1961	1960
Total portfolio <sup>1</sup> .....	\$18,404	\$19,128	\$2,324	\$2,180	\$5,823	\$6,638
Public issues <sup>1</sup> .....	3,328	3,347	87	88	1,116	1,092
Treasury bonds.....	3,275	2,895	78	56	1,075	1,022
Marketable.....	2,210	1,830	78	56	330	276
2½ percent.....	4	4	—	—	—	4
2½ percent.....	301	953	2	—	7	7
2½ percent.....	206	225	18	18	10	10
2¾ percent.....	—	2	—	—	—	15
3 percent.....	110	110	10	10	10	10
3¼ percent.....	86	45	—	—	65	57
3½ percent.....	4	—	—	—	—	—
3½ percent.....	1,310	343	11	2	196	146
3½ percent.....	34	28	10	—	14	—
3½ percent.....	28	—	—	—	—	—
3¾ percent.....	50	40	9	9	—	8
3¾ percent.....	56	54	13	12	15	15
4 percent.....	25	25	5	5	5	5
4¼ percent.....	—	—	—	—	—	—
Nonmarketable.....	1,065	1,065	—	—	745	745
2¾ percent.....	1,065	1,065	—	—	745	745
Treasury notes.....	78	458	10	32	45	70
2½ percent.....	—	30	—	10	—	10
3½ percent.....	—	—	—	—	—	10
3½ percent.....	—	176	—	—	—	5
3¾ percent.....	—	20	—	7	25	15
4 percent.....	—	144	—	5	—	20
4½ percent.....	38	48	—	—	10	—
4¾ percent.....	15	15	5	5	—	—
5 percent.....	25	25	5	5	10	10
Net unamortized premium and discount <sup>1</sup> .....	-26	-6	-1	( <sup>2</sup> )	-4	-1
Accrued interest purchased.....	1	—	—	—	—	( <sup>2</sup> )
Public-debt obligations (special issues).....	15,076	15,782	2,237	2,093	4,707	5,547
Treasury bonds.....	14,372	13,715	1,801	1,474	—	—
2½ percent.....	4,560	4,825	—	188	—	—
2½ percent.....	8,572	8,890	—	1,287	—	—
3¼ percent.....	1,240	—	—	—	—	—
Treasury notes.....	436	1,934	331	386	—	—
2½ percent.....	100	1,430	30	68	—	—
2½ percent.....	336	504	223	319	—	—
3¼ percent.....	—	—	78	—	—	—
Treasury certificates of indebtedness.....	268	133	105	232	4,707	5,547
2½ percent.....	—	—	—	14	—	—
3 percent.....	—	—	—	—	4,707	—
3½ percent.....	—	—	—	—	—	80
3¼ percent.....	—	—	—	—	—	5,467
3½ percent.....	—	—	—	42	—	—
3¾ percent.....	—	—	—	89	—	—
4 percent.....	268	133	105	88	—	—

<sup>1</sup> Represents book value, including "net unamortized premium and discount," which refers to investments acquired above or below par values in open-market operations. "Premium" is the excess of the price paid in the open market over par value; "discount" is the amount by which the price is less than par value. The Treasury Department amortizes this positive or negative difference over the remaining life of the obligations. At any given time, the "net unamortized" figure represents a subtraction of the amount remaining to be written off between that time and maturity on issues bought at a premium from the amount still to be "written on" for issues bought at a discount.

<sup>2</sup> Less than \$500,000.

Source: *Daily Statement of the U.S. Treasury* and unpublished Treasury releases.

Benefits paid under the old-age and survivors insurance program rose 11 percent in 1961 to a total of \$11,862 million. Under the financial interchange, a payment of \$322 million pertaining to the fiscal year 1959-60 was made from the trust fund to the railroad retirement account to place the fund in the same position in which it would have been had railroad employment always been covered employment for old-age and survivors insurance purposes. The comparable payment in 1960 was \$308 million.

A 26-percent rise in gross administrative expenses paid from the old-age and survivors insurance trust fund in 1961 brought the total to \$299 million. The largest part of the increase is attributable to salaries and expenses of the Bureau of Old-Age and Survivors Insurance, which rose 32 percent to \$252 million. This rise in expenditure is compensated in part by an increase of more than 80 percent in the reimbursement from the disability insurance trust fund for expenses incurred for disability insurance operations. The net administrative expenses paid from the old-age and survivors insurance trust fund therefore amounted to \$239 million, 18 percent more than in 1960.

Assets of the trust fund at the close of 1961 totaled \$19,725 million, reflecting a 3-percent decrease during the year from the starting balance of \$20,324 million. Of the year-end assets, \$18,404 million (book value) was invested in United States Government securities (table 2), and the remainder was held in cash balances.

### Investments and Interest Rate

The entire decrease in total assets of the trust fund occurred in the invested assets portfolio; the cash balance of \$1.3 billion at the year's end was 10 percent higher than at the beginning. The portfolio itself totaled \$18,430 million (face value) compared with \$19,134 million a year earlier. Since June 1957, when the fund's invested assets were at an all-time high of \$22,263 million, investments have dropped steadily—with occasional interruption for a month or two—to the present low. During 1961 the highest point the investments reached was \$19,791 million in August.

All the decline occurred in the fund's holdings of special public-debt obligations. As shown in

table 2, the total amount invested in public issues (face value, excluding net unamortized premium and discount) remained approximately the same at the end of the year as at its start, although the character of these holdings changed considerably. The special-issue sector, which constituted 82 percent of the portfolio at the end of both 1961 and 1960, decreased by more than \$705 million or 4 percent during 1961.

Table 3 shows total investments of the old-age and survivors insurance trust fund at the end of each year since its inception, together with the computed average interest rate of the whole portfolio. The face value of the public-issue holdings has been used for purposes of comparison with the public debt and also because the average interest rate is computed from the face value and the coupon rate of the securities.

The formula for the interest rate on special public-debt obligations issued exclusively to the old-age and survivors insurance and the disability insurance trust funds was changed by Congress in the 1960 amendments to the Social Security Act to place the funds more nearly on a parity

with other investors in Government securities. The new formula provides for an interest rate "equal to the average market yield (computed by the Managing Trustee—the Secretary of the Treasury—on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States . . . which are not due or callable until after the expiration of four years from the end of such calendar month." The interest rate is rounded, as before, to the nearest 1/8 of 1 percent. Maturities continue to be fixed under the 1956 amendments "with due regard for the needs of the Trust Funds"—the statutory authority for spreading the maturities of the special public-debt obligations over the 15-year period they now cover.

When the new interest-rate formula was first applied, in October 1960, it immediately raised the rate on newly acquired special obligations from the 2 5/8 percent effective in September to 3 5/8 percent. In the 14 months from November 1960 to the end of 1961 the new formula has produced rates ranging from 3 5/8 percent through

TABLE 3.—Social security trust funds and interest-bearing public debt: Total investments and computed average interest rate (percent) <sup>1</sup> at end of specified periods, 1936–61

[Amounts in millions]

At end of—	Interest-bearing public debt		Social security trust fund investment portfolio (face value) <sup>2</sup>							
			Total amount	Percent of public debt	Old-age and survivors insurance trust fund		Disability insurance trust fund		Unemployment trust fund	
	Amount	Average interest rate			Amount	Average interest rate	Amount	Average interest rate	Amount	Average interest rate
1936	\$33,609	2.570	\$64	0.2					\$64	2.50
1937	36,715	2.568	1,138	3.1	\$513	3.00			625	2.50
1938	38,899	2.586	1,926	5.0	862	3.00			1,064	2.50
1939	41,445	2.598	2,944	7.1	1,435	3.00			1,509	2.50
1940	44,458	2.566	3,962	8.9	2,016	2.84			1,945	2.50
1941	57,451	2.409	5,408	9.5	2,736	2.66			2,732	2.49
1942	107,308	2.059	7,342	6.8	3,655	2.44			3,687	2.24
1943	164,508	1.956	9,874	6.0	4,779	2.22			5,095	1.89
1944	228,891	1.919	12,546	5.5	5,967	2.20			6,579	1.91
1945	275,694	1.965	14,562	5.3	7,054	2.14			7,508	1.93
1946	257,649	2.057	15,643	6.1	8,079	2.04			7,564	1.94
1947	254,205	2.144	17,363	6.8	9,262	2.09			8,101	2.05
1948	250,579	2.216	19,044	7.6	10,459	2.20			8,495	2.16
1949	255,019	2.208	19,417	7.6	11,722	2.20			7,695	2.16
1950	254,283	2.209	20,963	8.2	13,325	2.19			7,638	2.16
1951	257,070	2.308	23,438	9.1	15,012	2.20			8,426	2.18
1952	265,293	2.353	25,977	9.8	16,956	2.30			9,022	2.30
1953	272,881	1.414	27,832	10.2	18,288	2.41			9,544	2.41
1954	275,731	2.291	28,598	10.4	19,860	2.29			8,739	2.30
1955	277,799	2.490	29,853	10.7	21,101	2.31			8,753	2.31
1956	274,219	2.671	30,890	11.3	21,830	2.52			9,060	2.53
1957	272,874	2.889	31,276	11.5	21,566	2.55	\$612	2.57	9,097	2.66
1958	280,839	2.689	29,390	10.5	20,956	2.57	1,321	2.57	7,114	2.65
1959	287,704	3.300	27,830	9.7	19,159	2.62	1,794	2.64	6,878	2.79
1960	286,820	3.137	27,954	9.7	19,134	2.66	2,180	2.77	6,639	3.20
1961:										
June	285,672	3.072	27,659	9.7	19,553	2.73	2,386	2.91	5,720	2.99
December	292,689	3.135	26,581	9.1	18,430	2.78	2,325	2.91	5,827	3.00

<sup>1</sup> Beginning Dec. 31, 1958, the computed average interest rates on the public debt as reported in the *Daily Statement of the U.S. Treasury* are based on the rate of effective yield for issues sold at premiums or discounts. Before that date the computed rate was based on the coupon rates of the securities. The computed rates for the social security trust funds are based on coupon

rates of all securities composing the portfolio.

<sup>2</sup> Includes public and special Government obligations.

Source: *Daily Statement of the U.S. Treasury* and other Treasury Department releases.

4 percent. The June 1961 "rollover" of matured securities was at 3¾ percent.

Although the special public-debt obligations constitute more than four-fifths of the total portfolio and their interest rates under the new, current-yield formula are far higher than they had been, the average interest rate on the entire portfolio has shown only a fractional increase. The reason is, of course, that the new formula applies only to new investments. The greatest part of the special obligations has been frozen by maturities of up to 15 years at the lower rates prevailing before October 1960 under the formula based on the coupon rate of the long-term (more than 5 years) marketable public debt.

For the first time, however, at the June 1961 "rollover" of maturing special obligations, some of these lower-interest-rate special obligations not maturing at that time were redeemed and immediately reinvested at the higher interest rate afforded by the new formula. Altogether, obligations totaling \$636 million were redeemed—\$53 million out of an original \$465 million issue of 2½-percent special Treasury notes of 1963 and a

total of \$583 million in special 2½- and 2¾-percent Treasury bonds maturing from 1964 through 1974. The proceeds, plus an additional \$21 million, were invested in new 1975 and 1976 special bonds bearing interest at 3¾ percent. These transactions left the special-obligation sector of the portfolio with \$16,200 million divided into 15 equal sums of \$1,080 million, maturing annually from June 30, 1962, through 1976. The sector was divided, according to interest rate, as follows: 34 percent at a 2½-percent rate, 56 percent at a 2¾-percent rate, and 10 percent at a 3¾-percent rate.

#### DISABILITY INSURANCE TRUST FUND

The 1956 amendments established the disability insurance trust fund. The fund, which was activated as of January 1, 1957, has received contributions from the beginning at the rate of ¼ of 1 percent of payroll each from employers and employees and of ⅜ of 1 percent from the self-employed. The first disability benefits were paid in August 1957.

TABLE 4.—Operations of the disability insurance trust fund, calendar years 1960 and 1961

[In thousands]

Item	1961	1960
Total assets, January 1.....	\$2,288,839	\$1,825,206
Receipts, calendar year:		
Contributions and transfers:		
Appropriations (taxes).....	976,743	949,556
Deposits arising from State agreements.....	70,777	70,120
Gross contributions.....	1,047,520	1,019,676
Less payments to Treasury for taxes subject to refund.....	9,500	9,750
Net contributions.....	1,038,020	1,009,926
Plus transfers from railroad retirement account under the financial interchange.....		4,700
Net insurance contributions and transfers.....	1,038,020	1,014,626
Interest and profit:		
On investments.....	67,933	54,128
On transfer from railroad retirement account.....		151
Gross interest received.....	67,933	54,279
Less interest transferred to OASI trust fund with administrative expenses.....	2,205	877
Less interest transferred to railroad retirement account.....	148	
Net interest received.....	65,581	53,403
Total net receipts.....	1,103,600	1,068,028
Disbursements, calendar year:		
Benefit payments.....	887,137	568,167
Payments to railroad retirement account under the financial interchange.....	5,000	
Total benefit payments and transfers with respect to benefits.....	892,137	568,167
Administrative expenses:		
Department of Health, Education, and Welfare.....	60,273	33,176
Treasury Department.....	3,413	3,052
Total administrative expenses.....	63,686	36,229
Total disbursements.....	955,822	604,396
Net addition to trust fund.....	147,779	463,632
Total assets, December 31.....	2,436,617	2,288,839

#### Income-Outgo

In 1961 the gross income of the trust fund was \$1,048 million, and net contributions were \$1,038 million, or 2 percent more than in the preceding year. Refunds for tax overpayment were \$10 million in each year. The financial interchange with the railroad retirement account resulted in a payment to the disability trust fund from the account of \$5 million in 1960. In 1961 the payment went in the other direction: \$5 million was paid to the account from the disability trust fund. This loss of income was more than compensated for, however, by a 23-percent increase (to \$66 million) in net interest received during the year. Total net receipts of \$1,104 million were therefore 3 percent larger than 1960 receipts. Details of the trust fund's financial operations in 1960 and 1961 are shown in table 4.

In this fourth full year of operation, disability benefit payments rose to \$887 million, 56 percent higher than in 1960. The increase is the result of the 1960 amendments making benefits payable to disabled workers under age 50 and their dependents.

Administrative expenses reimbursed to the old-age and survivors insurance trust fund in 1961 totaled \$60 million or 82 percent more than in 1960. In both years the reimbursement referred to expenses incurred in the immediately preceding fiscal year. By comparison, the \$46 million reimbursed in 1959 related to expenses for the 2 fiscal years 1957-58 and 1958-59. The payments represent expenses incurred in the Department of Health, Education, and Welfare. Treasury Department expenses in connection with disability insurance, which have totaled about \$3 million a year, are transferred from the trust fund to general funds as incurred.

Benefit payments and administrative costs together amounted to \$951 million, or 57 percent more than expenditures for the same purposes in 1960. When the \$5 million transferred to the railroad retirement account under the financial interchange is included, expenditures totaled \$956 million or 58 percent more than in the preceding year.

Since total receipts advanced only \$36 million in 1961 while total expenditures increased \$351 million, the net addition to the trust fund for the year amounted to only \$148 million—a decrease of 68 percent from the 1960 amount. Total assets at the end of 1961 were \$2,437 million. The fund has grown steadily since its inception, although at a decreasing rate. In 1961, total assets increased 6 percent and in 1960, 25 percent. In both years, 95 percent of the total assets was in investments and 5 percent was in cash.

### **Investments and Interest Rate**

There was a 7-percent increase in the portfolio of the disability insurance trust fund during 1961 (table 2). The ratio of public-issue holdings to special public-debt obligations has decreased slightly; in 1961 it was 1 to 26, with \$87 million invested in public issues and \$2,237 million in special issues, compared with 1 to 24 in 1960 and 1 to 23 in 1959. Among the special obligations the tendency continues to increase the proportion invested in the longest-term issues. During 1961 the shortest-term certificates of indebtedness decreased from 11 percent of all special public-debt obligations to 5 percent, and the medium-maturity special notes dropped from 18 percent to 15 percent of all special issues. The amount of

the difference was absorbed in the longest-term special bonds, which increased from 70 percent to 80 percent of all special public-debt obligations held at the end of the year.

The same statutory provisions that govern the old-age and survivors insurance trust fund control the interest rate on special obligations issued to the disability insurance trust fund. At the end of 1960, shortly after the current-yield formula became effective, the disability insurance trust fund still held 2½-percent certificates of indebtedness acquired under the coupon-rate formula, as well as certificates bearing interest at 3½ percent, 3¾ percent, and 4 percent. The 2½-percent certificates were “used up” (that is, redeemed for benefit payments) in January. This procedure continued throughout the year: the cash for operation was obtained from the lowest-rate certificates and incoming money went into higher-rate certificates as the current-yield formula indicated. The June 1961 “rollover” was accomplished at 3¾-percent interest, which became the low rate in July and disappeared in August. By the end of the year even the 3½-percent certificates that dated from July had all disappeared and only the 4-percent certificates that dated from September remained.

In contrast to the redemption and reinvestment of part of the nonmaturing longer-term issues of the old-age and survivors insurance trust fund, the action taken with the disability insurance trust fund's longer-term special issues at the June 20 “rollover” was similar to the action in past years. The only redemptions were of special issues maturing on that date. The proceeds plus the incoming money, a total of \$438 million, were then invested in 3¾-percent certificates, notes, and bonds. These transactions left the special-obligation sector of the portfolio with \$167 million maturing June 30, 1962, and \$2,132 million maturing in equal sums of \$152 million annually from June 30, 1963 through 1976. The sector was divided, according to interest rate, as follows: 11 percent invested at a 2½-percent rate, 70 percent at a 2½-percent rate, and 19 percent at a 3¾-percent rate.

### **UNEMPLOYMENT TRUST FUND**

In 1961 the unemployment trust fund was composed of 58 accounts—one for each of the 52

State unemployment insurance programs, plus the railroad unemployment insurance account, the railroad unemployment insurance administration account, the Federal unemployment account, the employment security administration account, the Federal extended compensation account, and the temporary extended railroad unemployment insurance account. On December 31, 1961, the fund's total assets amounted to \$5,841 million, reflecting a decrease of 12 percent in the course of the year. In 1959 and 1960 assets had declined at an annual rate of about 3 percent.

### Income-Outgo

Taken together, the 52 State accounts represent more than 99 percent of the total trust fund, with assets of \$5,186 million at the year's end. The State unemployment insurance programs deposited \$2,495 million in their respective accounts during the year, 9 percent more than in 1960. Transfers, loans, and interest increased the receipts of the fund to \$2,702 million. Withdrawals of \$3,512 million were, however, 28 percent more than 1960 withdrawals and accounted for the bulk of the \$812 million decline.<sup>1</sup> Of the total decrease, \$810 million was in the State accounts, which ended the year with only 88 percent of the preceding year's total assets.

The Federal unemployment account, which exists for the purpose of extending loans to State accounts that may be in temporary financial difficulty, began the year with a balance of \$7 million and ended it with \$4 million. The sole income was \$7 million in interest earned by the present funds in the account and by the loans outstanding to the State accounts. The sole outgo consisted of the final transfers to Pennsylvania of \$10 million, completing the initial advance to that State of \$112 million.

Until the 1960 amendments to the Social Security Act the administrative expenses of the employment security program at both State and Federal levels were not paid from the trust fund but from earmarked Federal unemployment taxes appropriated on a general-revenue basis. In the third quarter of 1960, however, the employment

security administration account was activated as part of the unemployment trust fund. By the end of 1960 it had accumulated \$4 million in Federal unemployment tax receipts and interest, less refunds and administrative costs. In 1961 the new account received \$440 million in tax receipts, earned more than \$1 million in interest, and paid out \$601 million for Federal (Treasury Department and Department of Labor) and State employment security administrative expenses and a small amount for tax refunds.

The 1960 legislation established a revolving fund from general funds to be used each year to tide the employment security administration account over the periods of low tax collections. Federal unemployment tax collections are usually highest in the first quarter of each year, with a secondary high in the third quarter. During 1961, \$406 million was transferred to the account from the revolving fund in the form of interest-bearing loans, and \$250 million was transferred back to the fund. The employment security administration account ended 1961 with a balance of slightly less than \$1 million.

The railroad unemployment insurance account continues to have financial difficulties. From this account are paid cash sickness and maternity benefits to railroad workers, as well as unemployment insurance benefits. The account was able to end 1961 with a balance of \$16 million, almost two-thirds higher than 1960's year-end balance, only because it cut repayments to the railroad retirement account by more than half (\$27 million) while continuing to borrow at the same rate (about \$128 million a year). Deposits of employer tax collections dropped 7 percent during the year to \$147 million, and benefit payments rose 13 percent to \$242 million. Interest earned was less than \$250,000. The outstanding loan balance at the end of 1961 amounted to \$248 million, more than 15 times total assets.

These data exclude the operations and balances of the railroad unemployment insurance administration fund. Under the 1958 amendments to the Railroad Unemployment Insurance Act this fund was set up as an account in the unemployment trust fund. Its September 30 balance is added to that of the railroad unemployment insurance account to determine the tax rate for the coming year. The administration fund balance averaged slightly more than \$4 million each quarter of 1961. Amounts in excess of \$6 million

<sup>1</sup>Withdrawals from the State accounts do not represent actual benefit payments but sums transferred by the States from these accounts for deposit in their own local accounts, from which the benefits are paid.

must be turned over to the railroad unemployment insurance account each year. Since the combined balance of the railroad unemployment insurance account and the administration fund was less than \$300 million on September 30, 1961, the rate for 1962 remains at the maximum of 3¾ percent.

Two new accounts in the unemployment trust fund were activated in the second quarter of 1961 for the financial administration of the temporary extended unemployment compensation programs. These programs were established by Public Laws 87-6 and 87-7 of March 24, 1961, to aid persons exhausting their benefit rights under the regular State and railroad unemployment insurance programs. Both accounts, the Federal extended compensation account and the temporary extended railroad unemployment insurance account, received non-interest-bearing advances from general funds that were immediately transferred to reimburse for the payment of these benefits. In the last 3 quarters of 1961, advances of \$658 million were made to the Federal account and \$20 million to the railroad account for extended benefits.

Extended benefits will be paid for weeks of unemployment up to the end of March 1962 (June 1962 in some specified instances). Income to the two accounts to repay the general fund advances will accrue from a temporary tax raise. For tax years 1962 and 1963, employers subject to the Federal unemployment tax will pay an additional 0.4 percent of taxable payroll and subject railroad employers will pay an additional tax of 0.25 percent. Provision is made for full repayment from the railroad unemployment insurance account of the total sum advanced for the railroad extended benefits, whether or not proceeds from the additional tax equal the total advance. It is envisioned that the increased Federal unemployment tax might yield more than enough to repay the general fund advances. Provision is therefore made to distribute any excess collections to the States on a pro rata basis.

### **Investments and Interest Rate**

The assets of all the accounts in the unemployment trust fund are invested by the Secretary of the Treasury for the trust fund as a unit. Interest and profit on investments are distributed quarterly among all the accounts on the basis of the average

daily balance of each account. The types of investments permitted are the same as those for the old-age and survivors insurance and disability insurance trust funds.

The unemployment trust fund's invested assets declined in 1961 by \$815 million to \$5,823 million. This 12-percent decrease was more than three times the drop experienced in 1960. At the end of each year since 1957 the portfolio has been smaller than at the beginning, with the entire decrease in the special-obligation sector of the portfolio. Holdings of public issues increased \$4 million in 1960 and \$24 million in 1961 to a total of \$1,120 million at the end of 1961.

The Government securities held by the three social security trust funds at the end of 1961 totaled \$26,581 million, about 9 percent of the total public debt and fractionally lower than the proportion a year earlier (table 3). On December 31, 1961, special obligations amounted to \$22,021 million, 83 percent of the total investment portfolios of the three funds. In 1959 and 1960, one-fourth of all special-obligation holdings of the three funds was in the form of special certificates of indebtedness, maturing the following June 30, but at the end of 1961 only 23 percent of the special obligations (19 percent of the total portfolios of all three funds) was invested in securities of 1-year maturity.

The nature of the unemployment trust fund and of the program it finances is essentially different from that of the other two social security trust funds. This difference is reflected in the character of its investment portfolio. All the special obligations of this fund—and special obligations constitute 95 percent of its total investments—are 1-year maturities. The interest-rate formula governing issuance to the unemployment trust fund of special public-debt obligations also differs from the formula now applicable to the other two funds. It continues to be the average coupon interest rate on the total interest-bearing debt at the end of the preceding month, rounded to the next lowest ⅛ of 1 percent.

The unemployment trust fund began 1961 with the bulk of its special certificates bearing an interest rate of 3¼ percent. A relatively small amount bore a rate of 3⅛ percent. During the year the rate declined to 3 percent, where it remained. The average rate on the entire interest-bearing public debt at the end of December 1961

*(Continued on page 24)*

TABLE 2.—Contributions and taxes collected under selected social insurance and related programs, by specified period, 1958–62

(In thousands)

Period	Retirement, disability, and survivor				Unemployment		
	Old-age and survivors insurance <sup>1 2</sup>	Disability insurance <sup>2 3</sup>	Federal civil service <sup>4</sup>	Railroad retirement <sup>2</sup>	State unemployment insurance <sup>5</sup>	Federal unemployment taxes <sup>6</sup>	Railroad unemployment insurance <sup>7</sup>
Fiscal year: <sup>8</sup>							
1958-59.....	\$7,565,086	\$894,995	\$1,515,852	\$525,369	\$1,675,286	\$324,020	\$102,014
1959-60.....	9,842,685	987,079	1,509,695	606,931	2,164,757	341,108	152,998
1960-61.....	11,292,676	1,022,002	1,745,833	570,812	2,361,279	345,356	152,709
7 months ended:							
January 1960.....	3,936,544	422,104	860,960	323,507	1,123,040	32,050	74,633
January 1961.....	5,038,001	444,222	1,015,659	309,643	1,250,743	36,213	79,513
January 1962.....	4,878,606	448,744	985,790	288,871	1,363,618	52,207	73,872
1961							
January.....	287,326	21,670	159,785	12,842	83,875	32,045	748
February.....	1,385,958	123,931	120,024	77,142	196,811	289,106	5,422
March.....	1,175,534	112,588	169,832	47,953	17,059	14,702	31,663
April.....	664,441	62,464	121,205	14,285	246,944	1,943	1,328
May.....	1,961,004	172,435	145,841	77,262	613,259	2,293	4,173
June <sup>9</sup> .....	1,067,736	106,362	173,773	44,527	36,463	1,099	30,610
July.....	283,727	24,569	122,328	14,261	246,803	710	688
August.....	1,805,395	163,566	192,353	84,163	499,030	865	10,288
September.....	756,692	72,749	101,949	55,296	12,150	635	24,867
October.....	215,960	27,180	130,669	1,306	153,877	775	1,029
November.....	1,264,602	108,381	125,281	75,893	321,159	851	8,642
December.....	416,584	42,126	160,862	46,716	22,248	567	27,695
1962							
January.....	135,655	10,173	143,348	11,235	108,351	47,803	662

<sup>1</sup> Represents contributions of employees, employers, and the self-employed in employments covered by old-age and survivors insurance; beginning January 1951, on an estimated basis, with suitable subsequent adjustments; beginning May 1951, includes deposits in the trust fund by States under voluntary coverage agreements; beginning December 1952, adjusted for employee tax refunds.

<sup>2</sup> Excludes all transfers between old-age, survivors, and disability insurance system and railroad retirement account under the financial interchange provisions of the Railroad Retirement Act.

<sup>3</sup> Represents contributions of employees, employers, and the self-employed in employments covered by disability insurance, on an estimated basis with suitable subsequent adjustments; includes deposits in the trust fund by States under voluntary coverage agreements; beginning 1959 adjusted for employee tax refunds.

<sup>4</sup> Represents employee and employing agency (Government) contributions.

<sup>5</sup> Represents deposits in State clearing accounts of contributions plus penalties and interest collected from employers and, in 3 States, contributions from employees; excludes contributions collected for deposit in State temporary disability insurance funds. Data reported by State agencies.

<sup>6</sup> Represents taxes paid by employers under the Federal Unemployment Tax Act.

<sup>7</sup> Beginning 1947, also covers railroad temporary disability insurance.

<sup>8</sup> Except for State unemployment insurance, as shown in the *Final Statement of Receipts and Expenditures of the U. S. Government*.

Source: *Monthly and Final Statement of Receipts and Expenditures of the U. S. Government* and other Treasury reports, unless otherwise noted.

## TRUST FUND OPERATIONS

(Continued from page 22)

was 3.135 percent; therefore any special obligations issued to the trust fund in January 1962 would bear interest at the rate of 3 1/8 percent.

## RELATED TRUST FUNDS

The railroad retirement account received a total of \$1,001 million in 1961, about 2 percent less than its 1960 income. Benefits for railroad workers similar to those under the old-age, survivors, and disability insurance system are paid from this account. Of this sum, \$547 million was contribution income, \$126 million was net interest, and \$327 million was the net proceeds of the financial interchange with the old-age, survivors, and disability insurance trust funds. For the first time the interchange favored the railroad retirement account from both the other trust funds. In the preceding 2 years the payment had

been from the railroad account to the disability fund. Railroad retirement benefit payments of \$1,006 million (5 percent more than in 1960) and administrative expenses of \$10 million reduced the total assets of the account from \$3,740 million to \$3,725 million.

The bulk of these assets was invested in U.S. Government securities: \$3,135 million in 3-percent special Treasury notes and \$338 million in public issues. Seven percent of the fund's assets, \$250 million, was in outstanding loans to the railroad unemployment insurance account at the end of the year. About \$2 million was held in unobligated cash balances. The interest rate on special public-debt obligations issued to the railroad retirement account is set by law at 3 percent.

The civil-service retirement disability fund received contributions from employees and the Government totaling \$1,732 million in 1961, and its invested assets earned interest amounting to \$283 million. Benefits during the year totaled

(Continued on page 28)

TABLE 6.—Number of recipients of public assistance in the United States, by month, January 1961–January 1962<sup>1</sup>

[Except for general assistance, includes cases receiving only vendor payments for medical care]

Year and month	Old-age assistance	Medical assistance for the aged <sup>2</sup>	Aid to dependent children <sup>3</sup>			Aid to the blind	Aid to the permanently and totally disabled	General assistance <sup>5</sup>	
			Families	Total <sup>4</sup>	Children			Cases	Recipients
Number of recipients									
1961									
January.....	2,326,123	16,734	815,329	3,118,231	2,406,382	107,182	374,360	478,000	1,437,000
February.....	2,320,105	18,678	825,023	3,156,289	2,435,213	106,752	374,728	506,000	1,552,000
March.....	2,318,077	21,492	840,220	3,212,228	2,478,101	106,513	377,481	525,000	1,608,000
April.....	2,302,265	27,998	848,045	3,242,796	2,502,243	106,201	379,343	497,000	1,476,000
May.....	2,300,018	41,388	868,320	3,335,112	2,575,516	105,992	381,203	439,000	1,205,000
June.....	2,295,925	46,247	877,961	3,382,095	2,612,611	105,601	383,675	405,000	1,040,000
July.....	2,292,102	52,030	881,111	3,397,465	2,625,285	105,141	386,219	386,000	975,000
August.....	2,290,212	59,093	893,102	3,452,832	2,669,117	104,893	388,487	391,000	985,000
September.....	2,282,626	60,928	897,483	3,479,325	2,689,615	104,394	389,869	380,000	951,000
October.....	2,279,170	66,396	901,912	3,496,988	2,703,750	104,166	391,793	380,000	950,000
November.....	2,272,565	71,655	909,285	3,527,786	2,728,484	103,741	393,212	394,000	999,000
December.....	2,267,670	72,159	921,102	3,580,624	2,769,084	103,425	395,530	411,000	1,069,000
1962									
January.....	2,258,450	64,690	934,705	3,638,847	2,815,621	102,831	397,310	415,000	1,103,000
Percentage change from previous month									
1961									
January.....	-0.3	+12.1	+1.1	+1.2	+1.2	-0.3	+0.1	+10.8	+15.5
February.....	-3	+11.6	+1.2	+1.2	+1.2	-4	+1	+5.9	+8.0
March.....	-1	+15.1	+1.8	+1.8	+1.8	-2	+7	+3.7	+3.6
April.....	-7	+30.3	+9	+1.0	-1.0	-3	+5	-5.3	-8.2
May.....	-1	+47.8	+2.4	+2.8	+2.9	-2	+5	-11.6	-18.4
June.....	-2	+11.7	+1.1	+1.4	+1.4	-4	+6	-7.8	-13.7
July.....	-2	+12.5	+4	+5	+5	-4	+7	-4.8	-6.3
August.....	-1	+13.6	+1.4	+1.6	+1.7	-2	+6	+1.3	+1.0
September.....	-3	+3.1	+5	+8	+8	-5	+4	-2.8	-3.4
October.....	-2	+9.0	+5	+5	+5	-2	+5	-1	-2
November.....	-3	+7.9	+8	+9	+9	-4	+4	+3.8	+5.2
December.....	-2	+7	+1.3	+1.5	+1.5	-3	+6	+4.4	+7.0
1962									
January.....	-4	-10.4	+1.5	+1.6	+1.7	-6	+5	+6.3	+10.8

<sup>1</sup> For definition of terms see the *Bulletin*, October 1957, p. 18. All data subject to revision.

<sup>2</sup> Program initiated in October 1960 under the Social Security Amendments of 1960. Before 1962, excludes Puerto Rico; data not reported.

<sup>3</sup> Beginning May 1961 includes data on aid to dependent children of unemployed parents and, beginning June 1961, data on aid to dependent children receiving foster-family care, authorized by P. L. 87-31.

<sup>4</sup> Includes as recipients the children and 1 parent or other adult relative in families in which the requirements of at least 1 such adult were considered in determining the amount of assistance.

<sup>5</sup> Partly estimated. Excludes Idaho for all months and Indiana beginning January 1962; data not available.

<sup>6</sup> Percentage change based on data excluding Indiana.

(Continued from page 24)

\$909 million, 11 percent more than in 1960, and \$105 million was refunded to persons leaving Federal employment. The cost of administering the civil-service retirement program is a charge against the general funds of the Treasury rather than against the fund. Invested assets amounted to \$11,379 million at the end of 1961, and cash balances of \$102 million brought total assets up to \$11,481 million.

With the passage of Public Law 87-350 on October 4, 1961, the civil-service fund uses the same "current yield" formula applicable to the old-age, survivors, and disability insurance system for calculating the interest rate on special obligations. (The formula used in the immediately preceding years had been based on the average coupon rate of the marketable public debt of more than 5-year maturity.) The new law provides that the current portfolio is to be

redeemed and reinvested in equal annual installments for 10 years beginning in 1962. At the time of its passage, securities totaling \$2.7 billion, about one-fourth of the special-obligation portfolio, had maturity dates of 1-4 years after the 1972 conversion deadline.

Special public-debt obligations of all types totaled \$42,520 million at the end of 1961, about 15 percent of the outstanding interest-bearing public debt. The three social security funds together hold about 51 percent of all special obligations—a slightly lower proportion than in the 6 preceding years. Most of the remaining special obligations are held by the related trust funds. The civil-service fund held 25 percent in 1961 and 22 percent in 1960. For the past few years the three veterans' life insurance funds have held 15-16 percent of the special obligations (which constitute their total portfolio), and the railroad retirement account about 7-8 percent.