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1968 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

LETTER

FROM

BOARD OF TRUSTEES

FEDERAL HOSPITAL INSURANCE TRUST FUND

TRANSMITTING

THE 1968 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

MARCH 27, 1968.—Referred to the Committee on Ways and Means, and ordered to be printed

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL HOSPITAL INSURANCE TRUST FUND,
Washington, D.C., March 25, 1968.

The SPEAKER OF THE HOUSE OF REPRESENTATIVES,
Washington, D.C.

SIR: We have the honor to transmit to you the 1968 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the third such report), in compliance with the provisions of section 201(c) of the Social Security Act, as amended.

Respectfully,

HENRY H. FOWLER,
Secretary of the Treasury,
and Managing Trustee of the Trust Fund.

W. WILLARD WIRTZ,
Secretary of Labor.

WILBUR J. COHEN,
Acting Secretary of Health,
Education, and Welfare.

ROBERT M. BALL,
Commissioner of Social Security,
and Secretary, Board of Trustees.

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THE 1968 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

The Board of Trustees

The Federal hospital insurance trust fund, established on July 30, 1965, is held by the Board of Trustees under the authority of section 1817(b) of the Social Security Act, as amended. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the managing trustee. The Commissioner of Social Security is secretary of the Board.

Fiscal Year Highlights

The fiscal year 1967 was the first full year of operation of the hospital insurance program insofar as benefit payments are concerned (since benefits were first available on July 1, 1966). Contributions had been collected during the latter half of the preceding fiscal year (i.e., on and after January 1, 1966).

Contributions in fiscal year 1967 amounted to $2,689 million from persons directly covered by the hospital insurance program, plus an additional $16 million with respect to railroad workers that was transferred from the railroad retirement account under the financial interchange provisions (which transfer is essentially the gross contributions less certain administrative expenses of the Railroad Retirement Board in connection with collecting the contributions and other matters relating to the hospital insurance program).

Total receipts of the trust fund amounted to $3,089 million in fiscal year 1967. In addition to contributions, receipts consisted of $46 million in interest on investments, and $338 million reimbursed from the general fund of the Treasury ($11 million for the long-range costs of benefits based on noncontributory credits for military service before 1957 and $327 million for the past actual costs of benefits, and the related administrative expenses, for uninsured persons).

Total disbursements from the trust fund in fiscal year 1967 amounted to $2,597 million. Of this amount, $2,508 million was paid out for benefits (this amount is based on Treasury statements; an additional $17 million has been identified by the fiscal intermediaries as benefit withdrawals in fiscal year 1967 that did not clear through the Treasury before July 1, 1967). The remaining $89 million was for administrative expenses, which thus represented 3.5 percent of benefit disbursements. The actual outgo for benefits in this first year of operation was 7 percent higher than the original estimate, made at the time the legislation was enacted.

The excess of total income over total outgo, amounting to $492 million, increased the total assets of the trust fund from $851 million on June 30, 1966, to $1,343 million on June 30, 1967.

After the close of fiscal year 1967, Congress enacted amendments to the Social Security Act and related sections of the Internal Revenue Code that significantly changed the financing provisions of the hospital insurance program, but that made no extensive changes in its benefit provisions, insofar as cost aspects are concerned. The maximum amount of earnings taxable and creditable toward benefits was raised to $7,800, beginning January 1968. The schedule of contribution rates for hospital insurance was revised upward to continue to reflect the intent of Congress that the program be self-supporting on a long-range basis. These and other provisions of the 1967 amendments are described more fully in another section of this report, and their effects are taken into account in the actuarial cost estimates presented in this report.

Estimates for the 3 fiscal years 1968–70 show that, as compared with fiscal year 1967, although both receipts and disbursements will increase steadily, the receipts will rise more rapidly, due to the increase in the maximum taxable earnings base in calendar year 1968 and to the scheduled rises in contribution rates in the law. Consequently, at the end of fiscal year 1970, this trust fund will amount to an estimated $4.1 billion, or an increase of $2.8 billion in the 3-year period. Receipts during fiscal year 1970 are estimated to total $5.3 billion, and disbursements, $4.4 billion.

Long-range cost estimates for the hospital insurance program indicate that the program has a small positive actuarial balance. The level-cost of benefit payments and administrative expenses combined, estimated over a period of 25 years on an intermediate-cost basis, is 1.38 percent of taxable payroll, as compared with the level-equivalent of the graded schedule of contributions of 1.41 percent of taxable payroll.

Legislation in 1967

The 1967 amendments to the Social Security Act and related sections of the Internal Revenue Code (Public Law 90–248, approved January 2, 1968) affect significantly both the immediate and long-range future levels of income and disbursement under the hospital insurance program. The schedule of contribution rates was revised upward to continue to reflect the intent that the program be self-supporting.

The more important changes, significant from an actuarial standpoint, are presented below:

(1) The amount of annual earnings which are taxable has been increased from $6,600 to $7,800, effective January 1, 1968. Also, the tax schedule for employer, employee, and self-employed contribution rate now increases from 0.6 percent in 1968–72 by steps to 0.9 percent in 1987 and after. The corresponding rates under previous law were 0.5 percent and 0.8 percent, respectively.

(2) Effective April 1, 1968, the outpatient hospital diagnostic services which were previously covered under hospital insurance will be covered for benefit purposes under the supplementary medical insurance program; since the beginning of the program,

all other outpatient services had been covered under the latter program.

(3) Effective January 1, 1968, a lifetime reserve of 60 additional days of hospital coverage are available after the exhaustion of the 90 days of coverage per spell of illness. The 60 added days involve cost-sharing, with the beneficiary paying a daily amount equal to half of the initial deductible (i.e., currently, a payment of $20 per day).

(4) Under the 1965 law, uninsured persons attaining age 65 in 1968 had to have six quarters of social security coverage in order to be eligible for hospital insurance. Under the 1967 law, this requirement is reduced to three quarters of coverage for 1968. For those attaining age 65 in subsequent years, this requirement increases by three quarters each year until the number of quarters so required equals or exceeds that required for fully insured status, at which time the special requirement becomes ineffective (since the regular insured status requirements for monthly benefits are easier to fulfill).

A summary of the principal provisions of the hospital insurance program as it is constituted following the enactment of the 1967 amendments (and after the effective dates thereof have occurred) is given in appendix IV.

Nature of the Trust Fund

The Federal hospital insurance trust fund was established on July 30, 1965, as a separate account in the U.S. Treasury to hold the amounts accumulated under the hospital insurance program. All the financial operations which relate to the system of hospital insurance are handled through this fund.

The major sources of receipts of this fund are (1) amounts appropriated to it under permanent appropriation on the basis of contributions paid by workers and their employers, and by individuals with self-employment income, in work covered by the hospital insurance program and (2) amounts deposited in it representing contributions paid by workers employed by State and local governments and by such employers with respect to work covered by the program. The coverage of the hospital insurance program is identical with that of the old-age, survivors, and disability insurance program.

All employees in covered employment are required to pay contributions with respect to their wages, and their employers are also required to pay contributions with respect to their wages (cash tips, covered as wages beginning in 1966 under the 1965 amendments, are an exception to this; employees pay contributions with respect to cash tips, but employers do not). All covered self-employed persons are required to pay contributions with respect to their self-employment income. In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount with the contributions being determined first on the wages and then on any self-employment income necessary to make up the annual maximum amount. The maximum amount of annual earnings to which the contribution rates are applied was $6,600 in calendar years 1966 and 1967. Beginning with calendar year 1968, the maximum amount is $7,800.

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Under the Internal Revenue Code, as amended, the contribution rate for hospital insurance for employees and their employers of 0.35 percent each that was in effect in calendar year 1966 increased to 0.50 percent each on January 1, 1967; the contribution rate for the self-employed also rose from 0.35 to 0.50 percent. The following table shows the scheduled tax rates in the present law:

Calendar years	Percent of taxable earnings	
	Employees and employers, each [1]	Self-employed
1967	0.50	0.50
1968-72	.60	.60
1973-75	.65	.65
1976-79	.70	.70
1980-86	.80	.80
1987 and after	.90	.90

[1] Only the employee tax is paid on tips that are taxable as wages.

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

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

Another 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 later in this section.

The income and expenditures of the trust fund are also affected by the provisions of the Railroad Retirement Act of 1937, as amended, which provide for a system of coordination and financial interchange between the railroad retirement program and the hospital insurance program. A description of the legislative provisions governing the allocation of costs between the two programs appears in appendix II.

Sections 217(g) and 229(b) of the Social Security Act, as amended by the 1967 amendments, authorize annual reimbursements from the general fund of the Treasury to the hospital insurance trust fund for any costs arising from the granting of noncontributory credits for military service, according to periodic determinations made by the Secretary of Health, Education, and Welfare. A summary of the legislative history of the financing of noncontributory credits for military service performed before 1957 appears in appendix II.

Section 203 of the Social Security Amendments of 1965 provides hospital insurance benefits to certain uninsured persons aged 65 and over. Such payments are made initially from the hospital insurance trust fund, with later reimbursement from the general fund of the Treasury. A description of the legislative provisions governing the allocation of costs between the trust fund and the general fund of the Treasury appears in appendix II.

Under a decision of the Comptroller General of the United States (B-4906) dated October 11, 1951, receipts derived from the sale of surplus supplies and materials are credited to and form a part of the trust fund, where the initial outlays therefor were paid from the trust fund.

Under section 1106(b) of the Social Security Act, as amended, the Secretary of Health, Education, and Welfare is authorized to charge outside persons, agencies, and organizations for providing certain services not directly related to the hospital insurance program. The Social Security Administration has accumulated a unique body of information in the course of the administration of the program. Situations arise when it is in the public interest to use this information to perform certain services for outside parties, such as the preparation of statistical tabulations for research purposes, when such services can be performed without violating the confidentiality of the records or interfering unduly with the administration of the program. Such services could not properly be provided at the expense of the trust fund. Receipts derived from performance of these services are equal to the cost of providing them; in some instances, the receipts are credited to the trust fund to counterbalance administrative expenses already paid from the trust fund (in which case such amount is netted out of the figures on administrative expenses in the financial statements of the trust fund), while in other instances, such receipts are not credited to the trust fund, and the applicable administrative expenses are met directly from them. Accordingly, such administrative expenses, and the offsetting receipts, do not have any effect on the financial statements of the trust fund.

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

Congress has authorized expenditures from the trust fund for construction of office buildings and related facilities for the Social Security Administration. The costs of such construction are included as part of the administrative expenses in the financial statements of operations of the trust fund as set forth in subsequent sections of this report. The net worth of the resulting facilities—just as the net worth of all other capital assets—is not carried as an asset in such statements.

That portion of the trust fund which, in the judgment of the managing trustee, is not required to meet current expenditures for benefits and administration, is invested in interest-bearing obligations of the U.S. Government, in obligations guaranteed as to both principal and interest by the United States, or in certain federally-sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. Obligations of these types may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

In addition, the Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust fund. The law requires that such special public-debt obligations shall have maturities fixed with due regard for the needs of the trust fund and shall bear interest at a rate based on the average market yield (computed by the managing trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such calendar month. Where such average market yield is a multiple of one-eighth of 1 percent, this is taken as the rate of interest on such special obligations; otherwise, such rate is the multiple of one-eighth of 1 percent nearest such market yield.

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

Marketable public issues acquired by the fund may be sold at any time by the managing trustee at their market price. Special public-debt obligations issued for purchase by the trust fund may be redeemed at par plus accrued interest. Interest receipts and proceeds from the sale or redemption of obligations held in the trust fund are available for investment in the same manner as other receipts of the fund. Interest earned by the invested assets of the trust fund will provide income to meet a portion of future benefit disbursements. The role of interest in meeting future benefit payments is indicated in tables 4 and 5.

In addition to serving as a source of income, the assets of the trust fund assure the continued payment of benefits without sharp changes in contribution rates during periods of short-run adverse fluctuations in total income and expenditures.

Summary of the Operations of the Trust Fund, Fiscal Year 1967

Contributions to finance benefits for insured persons under the hospital insurance program became payable on wages received, and on self-employment income for taxable years beginning on or after January 1, 1966. A statement of the income and disbursements of the Federal hospital insurance trust fund for the fiscal year 1967 is presented in table 1.

TABLE 1.—STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEAR 1967

Total assets of the trust fund, June 30, 1966			$851,203,534.41
Receipts, fiscal year 1967:			
Contributions:			
Appropriations	$2,482,722,429.53		
Deposits arising from State agreements	205,961,977.52		
Total contributions		$2,688,684,407.05	
Transfers from railroad retirement account		16,305,000.00	
Reimbursement from general fund of the Treasury for costs of—			
Noncontributory credits for military service		11,000,000.00	
Benefits for uninsured persons:			
Benefit payments		270,000,000.00	
Administrative expenses		56,850,000.00	
Interest:			
Interest on investments	$45,882,460.55		
Less interest on amounts transferred to old-age and survivors insurance trust fund for reimbursement of administrative expenses	84,145.00		
Net interest		45,798,315.55	
Total receipts		3,088,637,722.60	
Disbursements, fiscal year 1967: Benefit payments		2,507,772,978.73	
Administrative expenses:			
Department of Health, Education, and Welfare	$81,904,942.34		
Treasury Department	4,100,700.64		
Reimbursement to old-age and survivors insurance trust fund for administrative expenses [1]	2,850,292.00		
Gross administrative expenses	88,855,934.98		
Less receipts from sale of surplus supplies, materials, etc	8,344.91		
Net administrative expenses		88,847,590.07	
Total disbursements		2,596,620,568.80	
Net addition to the trust fund			492,017,153.80
Total assets of the trust fund, June 30, 1967			1,343,220,688.21

[1] Amount represents sum of (a) $2,107,000 for a payment made initially from the old-age and survivors insurance trust fund in fiscal year 1967 for expenses of the Public Health Service and (b) $743,292 due to adjustment in interfund allocation of expenses of the Department of Health, Education, and Welfare for fiscal year 1966.

The total receipts of the trust fund amounted to $3,089 million. Of this total, $2,483 million represented tax collections appropriated to the trust fund and $206 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the trust fund. About $16 million represented a transfer from the railroad retirement account under the financial interchange provisions (described in app. II). In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of $16,200,000 from the railroad retirement account to the hospital insurance trust fund would place this fund in the same position as of June 30, 1966, as it would have been if railroad employment had always been covered under the Social Security Act. This amount, together with interest thereon for 2 months amounting to $105,000, was transferred to the trust fund on August 31, 1966.

Reference has been made earlier to provisions under which the hospital insurance trust fund is to be reimbursed annually from the general fund of the Treasury for costs of granting noncontributory credits for military service performed before 1957, according to a determination made by the Secretary of Health, Education, and Welfare in September 1965. The annual amount of this determination for this trust fund was $14.2 million. The first annual reimbursement, for fiscal year 1966 and amounting to $11.0 million, was received in July 1966.

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Reference has also been made earlier to provisions under which the hospital insurance trust fund is to be reimbursed annually from the general fund of the Treasury for costs (including administrative expenses) of paying benefits under this program to certain uninsured persons. The reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest allowances, as the actual experience develops and is analyzed. The first reimbursements were made in fiscal year 1967 and amounted to $327 million, of which $270 million was with respect to benefit payments, and $57 million was with respect to administrative expenses (for fiscal year 1966, as well as for fiscal year 1967); the administrative expenses were relatively high because of the one-time expense of determining the eligibility of these persons.

The remaining $46 million of receipts consisted of net interest on the investments of the trust fund.

Disbursements of the trust fund amounted to $2,597 million, representing $2,508 million in benefit payments and $89 million in net administrative expenses. Benefit payments under the program began in July 1966 and were thus effective for the entire fiscal year.

The assets of the trust fund at the end of fiscal year 1967 totaled $1,343 million, consisting of $1,192 million in the form of obligations of the U.S. Government, $107 million in securities of federally sponsored agencies, and $45 million in undisbursed balances (table 2a).

TABLE 2-a.—ASSETS OF THE HOSPITAL INSURANCE TRUST FUND, BY TYPE, AT END OF FISCAL YEARS 1966 AND 1967

	June 30, 1966		June 30, 1967	
	Par value	Book value[1]	Par value	Book value[1]
Investments in public-debt obligations sold only to this fund (special issues):				
Certificates of indebtedness:				
4¾ percent, 1968			$15,718,000	$15,718,000.00
4⅞ percent, 1967	$52,383,000	$52,383,000.00		
Notes:				
4¾ percent, 1969			46,131,000	46,131,000.00
4¾ percent, 1972			46,131,000	46,131,000.00
4¾ percent, 1973			46,131,000	46,131,000.00
4¾ percent, 1974			415,179,000	415,179,000.00
4⅞ percent, 1968	52,383,000	52,383,000.00		
4⅞ percent, 1969	52,383,000	52,383,000.00		
4⅞ percent, 1970	52,383,000	52,383,000.00	46,131,000	46,131,000.00
4⅞ percent, 1971	576,226,000	576,226,000.00	576,226,000	576,226,000.00
Total, public-debt obligations sold only to this fund (special issues)	785,758,000	785,758,000.00	1,191,647,000	1,191,647,000.00
Investments in federally-sponsored agency obligations:				
Agency securities:				
Federal Land Bank Bonds: 5⅞ percent 1967			15,000,000	15,000,000.00
Federal National Mortgage Association debentures: 6 percent, 1969			41,500,000	41,520,894.07
Participation certificates:				
Federal Assets Liquidation Trust, Federal National Mortgage Association: 5.20 percent, 1982			50,000,000	50,000,000.00
Total, investments in federally-sponsored agency securities			106,500,000	106,520,894.07
Total investments	785,758,000	785,758,000.00	1,298,147,000	1,298,167,894.07
Undisbursed balances		65,445,534.41		45,052,794.14
Total assets		851,203,534.41		1,343,220,688.21

[1] Par value, plus unamortized premium, less discount outstanding.

The net increase in the par value of the investments owned by the fund during the fiscal year 1967 amounted to $512 million. New securities at a total par value of $3,471 million (including $106,500,000 of federally-sponsored agency obligations) were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the maturity or sale of securities. The par value of securities redeemed during the fiscal year was $2,958 million. A summary of transactions for the fiscal year, by type of security, is presented in table 2b.

TABLE 2-b.—STATEMENT OF TRANSACTIONS IN PUBLIC-DEBT AND IN FEDERALLY-SPONSORED AGENCY SECURITIES FOR THE HOSPITAL INSURANCE TRUST FUND DURING THE FISCAL YEAR 1967

[All amounts represent par values]

	Acquisitions	Dispositions
Public-debt obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
4⅜ percent, 1967	$279,657,000	$279,657,000
4½ percent, 1967	272,394,000	272,394,000
4⅝ percent, 1967	164,872,000	164,872,000
4¾ percent, 1967	1,011,181,000	1,011,181,000
4¾ percent, 1968	15,718,000	0
4⅞ percent, 1967	0	52,383,000
5 percent, 1967	529,740,000	529,740,000
5⅛ percent, 1967	359,304,000	359,304,000
5⅜ percent, 1967	177,866,000	177,866,000
Notes:		
4¾ percent, 1969	46,131,000	0
4¾ percent, 1972	46,131,000	0
4¾ percent, 1973	46,131,000	0
4¾ percent, 1974	415,179,000	0
4⅞ percent, 1968	0	52,383,000
4⅞ percent, 1969	0	52,383,000
4⅞ percent, 1970	0	6,252,000
Total, public-debt obligations sold only to this fund (special issues)	3,364,304,000	2,958,415,000
Federally sponsored agency obligations:		
Agency securities:		
Federal Land Bank bonds, 5⅞ percent, 1967	15,000,000	0
Federal National Mortgage Association debentures, 6 percent, 1969	41,500,000	0
Participation certificate: Federal Assets Liquidation Trust, Federal National Mortgage Association, 5.20 percent, 1982	50,000,000	0
Total, federally-sponsored agency obligations	106,500,000	0
Total transactions	3,470,804,000	2,958,415,000

The public-debt obligations issued for purchase by the hospital insurance trust fund are to have maturities fixed with due regard for the needs of the trust fund. In implementing the similar provision for the old-age and survivors insurance and disability insurance trust funds, the maturity dates for the holdings of special issues are spread as nearly as practicable in equal amounts over a 15-year period.

On June 30, 1967, special issues held by the hospital insurance trust fund were distributed in equal amounts of $46,131,000 maturing in each of the 4 years, 1969, 1970, 1972, and 1973. In addition, $415,-179,000—representing 9 years' annual amounts at the foregoing $46,131,000 rate—was invested in 7-year notes bearing 4¾-percent interest and maturing on June 30, 1974; $576,226,000—representing approximately 11 years' annual amounts at a rate of $52,383,000—was invested in 5-year notes bearing 4⅞-percent interest and maturing on June 30, 1971; and $15,718,000 was invested in 1-year certificates of indebtedness maturing on June 30, 1968.

The 5-year notes were acquired on June 30, 1966, under the following circumstances: If, on June 30, 1966, the trust fund holdings of special issues had been spread equally over a 15-year period, it would have been necessary for the Treasury to issue, for purchase by the trust fund, approximately $52,383,000 of bonds maturing in each of the 10 years, 1972–81, which spreading was accomplished for the first 5 years by notes in the amount of $52,383,000, maturing on June 30 of each year in the period 1967–71. Such bonds—with more than 5 years to maturity—would have been required, under the then-existing law (31 U.S.C. 752 and 753(a)), to bear an interest rate no higher than 4¼ percent. On the other hand, the application of section 1817(c) of the Social Security Act, relating to the determination of the interest rate on special issues, resulted in a rate of 4⅞ percent. Accordingly, the sum of $523,843,000 that would have been invested in bonds maturing during the period 1972–81 was, instead, invested in notes that had the longest possible duration to maturity—that is, in 4⅞-percent notes maturing June 30, 1971—which were in addition to the $52,383,000 of notes that had the same maturity date, which were issued as part of the normal 15-year spread, as mentioned previously.

The 7-year notes were acquired on June 30, 1967 under the following circumstances. The amount then available for investment in special issues was $569,290,000. The existing investments at that time were the aforementioned $576,226,000 of 5-year notes maturing June 30, 1971 and the balance of $46,131,000 of the 4⅞% notes maturing June 30, 1970—of which there had originally been $52,383,000, but the difference had to be redeemed during the fiscal year 1967 to meet expenditures—as did also the entire amounts of the similar obligations maturing on June 30 of 1967, 1968, and 1969. The $569,290,000 was divided into 12 units equal to the foregoing $46,131,000 amount, with a remaining balance of $15,718,000, which was invested in 1-year certificates of indebtedness maturing June 30, 1968. The 12 units of $46,131,000 were invested in notes such that one unit would mature in each of the 3 years, 1969, 1972, and 1973, and the other nine units were invested in 7-year notes maturing June 30, 1974. All these investments on June 30, 1967 bore the 4¾-percent interest rate then applicable.

The investment of the remaining nine units was in 7-year notes—rather than being spread out over the future at 1-year intervals—because the law (31 U.S.C. 753(a)) limiting the maturity date for notes to not more than 5 years from date of purchase was amended (Public Law 90–39, approved June 30, 1967), extending the limitation to 7 years.

As a result, the investments may be viewed as being in units of $46,131,000 maturing at annual intervals as of June 30 of each year from 1969 through 1974—the 1971 unit being part of the $576,226,000 of notes maturing then—plus an additional eight such units in notes maturing on June 30, 1974.

Table 3 compares the actual experience in the fiscal year with the estimates presented in the previous two reports. The actual net contributions have been somewhat higher than the estimates, due to increases in earnings being greater than had been assumed. The actual benefit payments were about 5 to 7 percent higher than the estimates.

TABLE 3.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, FISCAL YEAR 1967

[Dollar amounts in millions]

	Actual amount	1966 report		1967 report	
		Estimated amount	Estimate as percentage of actual	Estimated amount	Estimate as percentage of actual
Net contributions	$2,689	$2,385	89	$2,646	98
Benefit payments	2,508	2,338	93	2,395	95
Assets, end of year	1,343	1,095	82	1,444	108

Note.—In interpreting the figures in the above table, reference should be made to the accompanying text. Amendments affecting the benefit costs were enacted in 1966, but these had a relatively minor—although increasing—effect.

However, in comparing the data for benefit payments in fiscal year 1967, the first full year of operation, caution should be exercised because the lag in making payment of benefits might be more than had been assumed, so that the comparison would be less close than it appears to be.

Expected Operations and Status of the Trust Fund During the Period July 1, 1967, to June 30, 1970

In the following statement of the expected operations and status of the hospital insurance trust fund during the period July 1, 1967, to June 30, 1970, it is assumed that present statutory provisions affecting the hospital insurance program remain unchanged throughout the period. The income and disbursements of the program, however, are affected by general economic conditions, hospital utilization rates under this new program, and hospitalization costs, as well as by legislative provisions. Because it is difficult to forecast these factors, the assumptions and the resulting cost estimates presented here are subject to some uncertainty. This statement of the expected operations of the trust fund should therefore be read with full recognition of the difficulties involved in making the estimates.

Estimates are presented in table 4 to show the expected operations of the trust fund in fiscal years 1968–70. They are based on the assumption that economic activity will expand throughout the period, with employment and earnings increasing steadily through 1970. Under this assumption, the estimated number of persons with taxable earnings under the hospital insurance program is expected to increase from $86.7 million during calendar year 1967 to $92.3 million during calendar year 1970; their taxable earnings are estimated to increase from $329 billion in 1967 to $369 billion in 1968 and to $402 billion in 1970. The increase in estimated income from contributions in fiscal years 1968–70 reflects the assumed upward trend in the levels of employment and earnings, as well as the effect of the scheduled increase in contribution rates and maximum taxable earnings base, effective on January 1, 1968. Benefit disbursements increase from fiscal year 1968 to 1970 because of the long-range upward trend in the number of beneficiaries under the program and the assumed increase in hospitalization costs per unit of service.

TABLE 4.—ACTUAL AND ESTIMATED FUTURE OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, FISCAL YEARS 1966-70

[In millions of dollars]

Item	Actual, 1966	Actual, 1967	Estimated		
			1968	1969	1970
Income:					
Contributions [1]	$909	$2,689	$3,613	$4,356	$4,541
Interest on investments [2]	6	46	69	131	179
Transfers from railroad retirement account		16	44	55	65
Reimbursement for uninsured persons [3]		327	541	465	471
Reimbrusement for military service wage credits		11	11	11	11
Disbursements:					
Benefit payments		2,508	3,369	3,865	4,258
Administrative expenses [4]	64	89	83	97	105
Net increase in fund	851	492	825	1,056	904
Fund at end of year	851	1,343	2,168	3,225	4,129

[1] Adjusted to exclude refunds of employee taxes paid on wages in excess of maximum taxable earnings base.
[2] Includes net profits on marketable investments, adjustment for interest on administrative expenses reimbursed to the old-age and survivors insurance trust fund, and adjustment for interest on reimbursement for uninsured persons.
[3] Reimbursement for benefit costs and additional administrative expenses for uninsured persons is made currently from general fund of the Treasury (including interest adjustment therefor).
[4] Receipts from sales of surplus materials, services, etc., are deducted from gross administrative expenses.

Note.—In interpreting the estimates, reference should be made to the accompanying text which describes the underlying assumptions. Estimates were prepared in December 1967.

Income of the trust fund is expected to exceed outgo in each of the fiscal years 1968–70. During this period, there is an estimated net increase in the trust fund of $2.8 billion.

Reference has been made earlier to the financial interchanges between the railroad retirement account and the trust fund under the provisions of the Railroad Retirement Act. The estimates shown in table 4 reflect the effect of future financial interchanges.

Section 217(g) of the Social Security Act, as amended by the 1965 amendments, provides that the trust fund shall be reimbursed from general revenues for expenditures resulting from the provisions that granted noncontributory $160 monthly wage credits to persons who served in the Armed Forces at some time during the period September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 that granted survivor protection to certain World War II veterans for a period of 3 years after leaving service. A description of the legislative history of provisions relating to credit for military service is contained in appendix II. The estimated total additional costs arising from payments that will be made in future years are intended to be amortized by level annual appropriations to the trust fund over a 50-year period beginning in fiscal year 1966 according to a determination made by the Secretary of Health, Education, and Welfare in September 1965 (the amount so determined was $14.2 million). Periodically, the estimated amount of annual payment will be refigured to reflect actual costs incurred and revision in the future estimates.

The first reimbursement, for fiscal year 1967, amounting to $11 million, was received by the trust fund in July 1967 (i.e., in fiscal year 1968). A like amount has been appropriated for fiscal year 1968, and it is assumed that the reimbursement will be received by the trust fund in July 1968. Moreover, the Budget Document of the United States for the fiscal year 1969 makes similar provision for another reimbursement to the trust fund. The estimates shown in table 4 reflect the effect of past reimbursements and assume that future reimbursements will be made in similar fashion.