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1982 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

COMMUNICATION

FROM

BOARD OF TRUSTEES, FEDERAL HOSPITAL INSURANCE TRUST FUND

TRANSMITTING

THE 1982 ANNUAL REPORT OF THE BOARD, PURSUANT TO SECTION 1817(b) OF THE SOCIAL SECURITY ACT, AS AMENDED

APRIL 5, 1982.—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., April 1, 1982

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

SIR: We have the honor to transmit to you the 1982 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the 17th such report), in compliance with the provisions of section 1817(b) of the Social Security Act.

Respectfully,

Donald T. Regan

DONALD T. REGAN,
Secretary of the Treasury,
and Managing Trustee of the Trust Fund

Raymond Donovan

RAYMOND J. DONOVAN,
Secretary of Labor,
and Trustee

Richard S. Schweiker

RICHARD S. SCHWEIKER,
Secretary of Health and Human Services,
and Trustee

Carolyne K. Davis

CAROLYNE K. DAVIS, Ph.D.,
Administrator of the Health Care Financing
Administration, and Secretary, Board of Trustees

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1982 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 and Human Services. The Secretary of the Treasury is designated by law as the Managing Trustee. The Administrator of the Health Care Financing Administration is Secretary of the Board. The Board of Trustees reports to the Congress once each year in compliance with section 1817(b)(2) of the Social Security Act. This is the 1982 annual report, the seventeenth such report.

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HIGHLIGHTS

(a) Disbursements of the hospital insurance trust fund in fiscal year 1981 were $29.3 billion, an increase of 20.5 percent over fiscal year 1980. Most of this increase was due to a substantial rise in the utilization and in the cost of hospital services. Increases in both payroll and nonpayroll expenses in hospitals were greater than comparable increases in the general economy.

(b) Income to the trust fund amounted to $32.9 billion, representing an increase of 29.3 percent in fiscal year 1981 over 1980. The majority of this increase was due to increases in the tax rate and in the maximum amount of taxable earnings.

(c) The trust fund increased from $14.5 billion to $18.1 billion at the end of fiscal year 1981. The effective annual rate of interest earned by the assets of the hospital insurance trust fund for the year ending June 30, 1981, was 8.9 percent.

(d) The Secretary of Health and Human Services promulgated an inpatient deductible of $260 for calendar year 1982 and a monthly premium of $113 for noninsured enrollees for the 12-month period beginning July 1982.

(e) Approximately 25.1 million persons aged 65 and over were protected by the hospital insurance program in July 1981. An additional 3.0 million disabled beneficiaries had protection in the same month.

SOCIAL SECURITY AMENDMENTS SINCE THE 1981 TRUSTEES REPORT

Public Law 97-35, "The Omnibus Budget Reconciliation Act of 1981," which was enacted on August 13, 1981, contains many provisions having an impact on the Federal Hospital Insurance Trust Fund. They are:

(1) Up to 50 hospitals may be awarded a "transitional allowance" for the closure, or conversion to approved use, of underutilized beds or services. Any hospital seeking such a "transitional allowance" must seek prior approval of the closure or conversion plan. The plan must be consistent with findings of an appropriate health planning agency and with any applicable State program for reducing the number of beds in the State. Only private non-profit or local government hospitals are eligible for allowances based upon complete closure and the closure cannot be for the purpose of replacing the existing plant. Effective for services furnished during an accounting year beginning on or after October 1, 1982, until January 1, 1984.

(2) Payments due to a Medicare provider may be withheld to offset Medicaid overpayments. State Medicaid agencies would then be reimbursed from the amount received. Effective upon enactment.

(3) The Secretary is given authority to assess civil penalties against Medicare practitioners and providers for fraudulent practices. Authorized actions include imposition of a civil penalty of up to $2,000 for each fraudulently claimed item or service, assessment of up to twice the amount of the fraudulent portion of a claim in lieu of damages, and denial of participation in Medicare to persons filing fraudulent claims. Persons subject to a monetary penalty would be given written

notice and an opportunity for an administrative hearing prior to imposition of the penalty. Effective upon enactment.

(4) The coinsurance payment which is imposed after the 60th day of covered hospital care is based on the deductible in effect for the calendar year in which the services are rendered rather than the calendar year when the spell-of-illness began. Effective January 1, 1982.

(5) The base of the formula that is used to determine the HI deductible is raised from $40 to $45. Effective January 1, 1982.

(6) The routine nursing differential used in determining reasonable costs for routine hospital services is reduced from 8.5 percent to no more than 5 percent. This provision applies only to cost accounting periods ending, or that portion of the period occurring, after September 30, 1981.

(7) Reimbursement limits applied to hospital routine operating costs are reduced from 112 to 108 percent of the mean. This provision applies only to cost accounting periods ending, or that portion of the period occurring, after September 30, 1981.

(8) Reimbursement limits applied to home health agency costs are reduced from the 80th to the 75th percentile of the average cost per visit and calculated by type of service. This provision applies only to cost accounting periods ending, or that portion of the period occurring, after September 30, 1981.

(9) Medicare becomes the secondary payer for the first 12 months after an individual, who has private group employer health insurance, is eligible for Medicare benefits solely because of ESRD. Reimbursement is limited to Medicare's share of those covered costs not covered by the private plan.

Any Medicare payments for services during this period would be conditional on reimbursement to the program when payment is made by the plan. Effective October 1, 1981. Tax deductions paid or incurred by an employer are not allowed if the plan differentiates between benefits to ESRD beneficiaries and other individuals covered by the plan. Effective for taxable years beginning on or after January 1, 1982.

(10) Utilization guidelines for Medicare intermediaries are required to establish a program for them to review claims on a sample basis for home health services in order to monitor whether they meet coverage criteria. Effective October 1, 1981.

(11) The 12-month statutory limit on agreements with skilled nursing facilities (SNFs) is repealed. Effective upon enactment.

(12) Several provisions of P.L. 97-35 repealed or amended legislation passed in the "Omnibus Reconciliation Act of 1980," P.L. 96-499. They include:

(a) Repealed coverage of inpatient services provided in free-standing alcohol detoxification facilities. Effective for inpatient stays beginning the 10th day after enactment.

(b) Repealed the one-time deferral of the Periodic Interim Payment (PIP) method of reimbursement. Effective upon enactment.

(c) Repealed the inclusion of occupational therapy as a basis for initial entitlement to home health services. However, in those situations where a course of home health treatment has been instituted because a patient needed skilled nursing care or physical or speech therapy, home health services would be continued even though the patient no longer required any skilled service other than occupational therapy. Effective for plans of treatment established beginning December 1, 1981.

(d) P.L. 96-499 exempted hospitals having an occupancy rate of over 80 percent from provisions limiting payment to hospitals for an inappropriate level of care. The occupancy test is no longer applicable. Instead, a non-public hospital's Medicare reimbursement would be reduced if there is an "excess capacity" of beds either in the institution or in the area.

Public Law 97-123, which was enacted on December 29, 1981, contained two provisions which have an impact on the Federal Hospital Insurance Trust Fund. They are:

(1) Interfund borrowing among the Federal Old Age and Survivors, the Federal Disability Insurance, and the Federal Hospital Insurance Trust Funds is permitted through December 1982 for the financing of mandated benefits. The loan cannot guarantee the payment of benefits more than six months in advance and must be repaid to the lending fund with interest equal to the interest the lending fund would have earned on the loan. The amount of any loan and the repayment schedule is determined by the Managing Trustee. Effective upon enactment.

(2) Social Security coverage was extended to the first six months of sick pay including payments by insurance companies and payments under State temporary disability insurance laws. Payments for non-work-related temporary disability paid under the Railroad Unemployment Insurance Act are similarly treated as taxable compensation under the Railroad Retirement Tax Act. Any portion of such sickness benefits paid for by employee contributions are not covered.

NATURE OF THE TRUST FUND

The Federal Hospital Insurance Trust Fund was established on July 30, 1965, as a separate account in the United States Treasury. All the financial operations of the hospital insurance program are handled through this fund.

The major sources of receipts of the trust 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 includes workers covered under the old-age, survivors, and disability insurance program and those covered under the railroad retirement program.

All employees, and their employers, in employment covered by the program are required to pay contributions with respect to the wages of individual workers. Cash tips, covered as wages beginning in 1966 under the 1965 amendments, are an exception. Employees pay contributions with respect to cash tips but, prior to 1978, employers did not. Beginning in 1978, under the 1977 amendments, employers are required to pay contributions on that part of the tip income deemed to be wages under the Federal minimum wage law. 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 up to the maximum annual amount.

The hospital insurance contribution rates applicable to taxable earnings in each of the calendar years 1966 and later are shown in table 1. For 1983 and later, the contribution rates shown are the rates scheduled in the provisions of present law. The maximum amount of annual earnings taxable in each year 1966-82 are also shown. For 1975-78, the contribution and benefit bases were determined under the automatic increase provisions in section 230 of the Social Security Act. In 1979, 1980, and 1981, the bases increased to the specified amounts as provided under the 1977 amendments. After 1981, the automatic increase provisions are again applicable.

Except for amounts received 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 deposited in the general fund of the Treasury as internal revenue collections. The contributions received are immediately and automatically appropriated to the trust fund, on an estimated basis. The exact amount of contributions received is not known initially since hospital insurance contributions, old-age, survivors, and disability insurance contributions, and individual income taxes are not separately identified in collection reports received by the Treasury Department. 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 contributions he paid on such excess wages. The amount of contributions 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 which provide for a system of coordination and financial interchange between the railroad retirement program and the hospital insurance program.

Sections 217(g) and 229(b) of the Social Security Act 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 wage credits for military service, according to periodic determinations made by the Secretary of Health and Human Services.

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Section 231 of the Social Security Act authorizes reimbursement from the general fund of the Treasury to the hospital insurance trust fund for any costs arising from the granting of noncontributory wage credits to individuals who were interned during World War II at a place within the United States operated by the Federal Government for the internment of persons of Japanese ancestry.

Under section 103 of the Social Security Amendments of 1965, hospital insurance benefits are provided to certain uninsured persons aged 65 and over. Such payments are made initially from the hospital insurance trust fund, with reimbursement from the general fund of the Treasury for the costs, including administrative expenses, of the payments. 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.

Section 1818 of the Social Security Act provides that certain persons not eligible for hospital insurance protection either on an insured basis or on the uninsured basis described in the previous paragraph may obtain protection by enrolling in the program and paying a monthly premium.

Section 201(i) of the Social Security Act authorizes the Managing Trustee to accept and deposit in the trust fund unconditional money gifts or bequests made for the benefit of the fund or any activity financed through the fund.

Expenditures for benefit payments and administrative expenses under the hospital insurance program are paid from the trust fund. All expenses incurred by the Department of Health and Human Services and by the Treasury Department in carrying out the provisions of title XVIII of the Social Security Act pertaining to the hospital insurance program and of the Internal Revenue Code relating to the collection of contributions are charged to the trust fund. The Secretary of Health and Human Services certifies benefit payments to the Managing Trustee, who makes the payments from the trust fund in accordance therewith.

Hospitals, at their option, are permitted to combine their billing for both hospital and physician components of radiology and pathology services rendered hospital inpatients by hospital-based physicians. Where hospitals elect this billing procedure, payments are made initially from the hospital insurance trust fund, with reimbursement from the supplementary medical insurance trust fund. The reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest allowance, as the actual experience develops and is analyzed.

The Social Security Amendments of 1972 provide that hospital admissions under all Federal Health Insurance programs be reviewed by Professional Standards Review Organizations. Under section 1168 of the Social Security Act, payments for the costs of such reviews are made initially from the hospital insurance trust fund, with reimbursement from the general fund of the Treasury for the costs of reviews of admissions covered under Federal programs other than the hospital insurance program. This provision was subsequently repealed.

The Social Security Amendments of 1967 and 1972 authorize the Secretary of Health and Human Services to develop and conduct a broad range of experiments and demonstration projects designed to determine various methods of increasing efficiency and economy in providing health care services, while maintaining the quality of such services, under the hopital insurance and supplementary medical insurance programs. A sizable portion of the costs of such experiments and demonstration projects are paid from the hospital insurance and supplementary medical insurance trust funds.

Congress has authorized expenditures from the trust funds for construction, rental, and lease or purchase contracts of office buildings and related facilities for use in connection with the administration of the hospital insurance program. Both the capital costs of construction financed directly through the trust funds and the rental, lease, or purchase contract costs of acquiring facilties are included in trust fund expenditures. In 1972-75, construction of several large facilities was authorized under purchase contract authority, wherein initial capital costs were borne by the private sector. Under this method of facilities acquisition, trust fund expenditures for use and ultimate Government ownership of a facility are made over periods of from 10 to 30 years. Whatever the manner of acquisition, the net worth of facilities and other fixed capital assets is not carried in the statement of the assets of the trust fund presented in this report. This is because the value of fixed capital assets does not represent funds available for benefit or administrative expenditures and, therefore, is not viewed as being a consideration in assessing the actuarial status of the funds.

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, on a daily basis, in interest-bearing obligations of the U.S. Government (including special public-debt obligations described below), 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. These obligations may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

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 bear interest at a rate based on the average market yield (computed 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 month.

TABLE 1.--CONTRIBUTION RATES AND MAXIMUM TAXABLE AMOUNT OF ANNUAL EARNINGS

Calendar Years	Maximum taxable amount of annual earnings	Contribution rate (Percent of taxable earnings) Employees and employers, each	Self-employed
Past experience:			
1966	$ 6,600	0.35	0.35
1967	6,600	0.50	0.50
1968-71	7,800	0.60	0.60
1972	9,000	0.60	0.60
1973	10,800	1.00	1.00
1974	13,200	0.90	0.90
1975	14,100	0.90	0.90
1976	15,300	0.90	0.90
1977	16,500	0.90	0.90
1978	17,700	1.00	1.00
1979	22,900	1.05	1.05
1980	25,900	1.05	1.05
1981	29,700	1.30	1.30
1982	32,400	1.30	1.30
Changes scheduled in present law:			
1983-84	Subject to	1.30	1.30
1985	automatic	1.35	1.35
1986 & later	increase.	1.45	1.45

SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1981

A statement of the incomes and disbursements of the Federal Hospital Insurance Trust Fund in fiscal year 1981, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2. Corresponding amounts for fiscal year 1980 are also shown in the table.

The total assets of the trust fund amounted to $14,490 million on September 30, 1980. During fiscal year 1981, total receipts amount to $32,863 million, and total disbursements were $29,260 million. The assets of the trust fund thus increased $3,603 million during the year to a total of $18,093 million on September 30, 1981.

Included in total receipts during fiscal year 1981 were $27,482 million representing contributions appropriated to the trust fund and $3,032 million representing amounts received in accordance with State agreements for coverage of state and local government employees and deposited in the trust fund. As an offset, $89 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base.

Net contributions amounted to $30,425 million, representing an increase of 30.9 percent over the amount of $23,244 million for the preceding 12-month period. This growth in contribution income resulted primarily from (1) the higher level of earnings in covered employment; (2) the two increases in the maximum annual amount of earnings taxable--from $22,900 to $25,900 and from $25,900 to $29,700--that became effective on January 1, 1980, and January 1, 1981, respectively, and (3) the increase in the combined tax rate from 2.1 percent to 2.6 percent--that became effective January 1, 1981.

The section entitled "Nature of the Trust Fund" referred to provisions of the Social Security Act under which certain persons aged 65 and over but not otherwise eligible for hospital insurance protection may obtain such protection by enrolling in the program and paying a monthly premium. Premiums collected from such voluntary participants in fiscal year 1981 amounted to about $20.8 million.

In accordance with the provisions of the Railroad Retirement Act which coordinate the railroad retirement and the hospital insurance programs and which govern the financial interchange arising from the allocation of costs between the two systems, the Railroad Retirement Board and the Secretary of Health and Human Services determined that a transfer of $246,700,000 from the railroad retirement account to the hospital insurance trust fund would place this fund in the same position, as of September 30, 1980, in which it would have been if railroad employment had always been covered under the Social Security Act. This amount, together with interest to the date of transfer amounting to $29,768,000, was transferred to the trust fund in June 1981.

In accordance with provisions for annual reimbursement from the general fund of the Treasury for the cost of granting noncontributory wage credits for military service, the Secretary of Health, Education, and Welfare determined in 1975 the level annual appropriation necessary to amortize the estimated total additional costs for military service prior to 1957. This cost is amortized over a 39-year period, which began in fiscal year 1977, with an allowance for the appropriations which were made for fiscal years 1966-76. The annual amount resulting from this determination was $141 million.

Again, the section entitled "Nature of the Trust Fund" referred to provisions under which the hospital insurance trust fund is to be reimbursed from the general fund of the Treasury for costs of paying benefits under this program on behalf of certain uninsured persons. The reimbursement in fiscal year 1981 amounted to $659 million, consisting of $652 million for benefit payments, $12 million for administrative expenses, and, as an offset, $5 million due from the trust fund to the general fund of the Treasury for interest on adjustments to costs in prior fiscal years.

The section entitled "Nature of the Trust Fund" referred to provisions under which the hospital insurance trust fund is to be reimbursed from the general fund of the Treasury for the costs of reviewing hospital admissions under the Medicaid and Maternal and Child Health programs by Professional Standards Review Organizations. The reimbursement in fiscal year 1981 amounted to $34 million.

The remaining $1,307 million of receipts consisted almost entirely of interest on the investments of the trust fund.

Of the $29,260 million in total disbursements, $28,913 million represented benefits paid directly from the trust fund for health services covered under title XVIII of the Social Security Act. As offsets to benefit payments, transfers were made from the supplementary medical insurance trust fund amounting to $6 million to adjust for the loss of interest caused by the delay in transferring payments for the costs of radiology and pathology services that were paid initially from the hospital insurance trust fund but that were liabilities of the supplementary medical insurance trust fund. Net benefit payments from the trust fund in fiscal year 1981, therefore, amounted to $28,907 million, an increase of 21.5 percent over the corresponding amount of $23,790 million paid during the preceding 12 months. An additional $2 million in disbursements constituted payment for costs of experiments and demonstration projects in providing health care services.

The remaining $351 million of disbursements was for net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds--old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance--on the basis of provisional estimates. Similarly, the expenses of administering other programs of the Health Care Financing Adminstration are also allocated and charged directly to the general fund of the Treasury on a provisional basis. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are effected by interfund transfers, including transfers between the hospital insurance and supplementary medical insurance trust funds and the program management general fund account, with appropriate interest allowances.

Table 3 compares the actual experience in fiscal year 1981 with the estimates presented in the 1980 and 1981 annual reports. The section entitled "Nature of the Trust Fund" referred to the appropriation of contributions to the trust funds on an estimated basis, with subsequent periodic adjustments to account for differences from the amounts of contributions actually payable on the basis of reported earnings. In interpreting the figures in table 3, it should be noted that the "actual" amount of contributions in fiscal year 1981 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1981 does not reflect adjustments to contributions for fiscal year 1981 that were to be made after September 30, 1981.

The assets of the hosital insurance trust fund at the end of fiscal year 1980 totaled $14,490 million, consisting of $14,656 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations and as an offset, an extension of credit of $166 million against securities to be redeemed. The assets of the hospital insurance trust fund at the end of fiscal year 1981 totaled $18,093 million, consisting of $18,191 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations and as an offset, an extension of credit of $99 million against securities to be redeemed. This was covered by the redemption of securities early in October 1981. Table 4 shows the total assets of the fund and their distribution at the end of fiscal years 1980 and 1981.

The net increase in the par value of the investments held by the fund during fiscal year 1980 amounted to $1,493 million. New securities at a total par value of $27,784 million were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was $26,292 million. Included in these amounts are $24,905 million in certificates of indebtedness that were acquired and $24,803 million in certificates of indebtedness that were redeemed during the fiscal year.

The net increase in the par value of the investments held by the fund during fiscal year 1981 amounted to $3,535 million. New securities at a total par value of $37,147 million were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was $33,611 million. Included in these amounts are $32,458 million in certificates of indebtedness that were acquired and $32,060 million in certificates of indebtedness that were redeemed within the fiscal year.

The effective annual rate of interest earned by the assets of the hospital insurance trust fund during the 12 months ending on June 30, 1981, was 8.9 percent. (This period is used because interest on special issues is paid semiannually on June 30 and December 31.) The interest rate on public-debt obligations issued for purchase by the trust fund in June 1981 was 13 percent, payable semiannually.

TABLE 2.--STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1980 AND 1981

(In thousands of dollars)

	Fiscal Year 1980	Fiscal Year 1981
Total assets of the trust fund, beginning of period	$13,362,700	$14,489,913
Receipts:		
Contributions:		
Appropriations	$20,735,922	$27,482,186
Deposits arising from State agreements	2,595,087	3,031,534
Gross Contributions	23,331,009	30,513,721
Less payment into the Treasury for contributions subject to refund	87,240	88,500
Net contributions	23,243,769	30,425,221
Premiums collected from voluntary participants	16,566	20,759
Transfer from railroad retirement account	244,280	276,468
Reimbursement from general fund of Treasury for costs of--		
Noncontributory credits for military service	141,000	141,000
Benefits for uninsured persons:		
Benefit payments	678,425	652,384
Administrative expenses	12,000	11,900
Interest on adjustments to costs in prior fiscal years	6,481	-5,284
Total reimbursement for costs for benefits for uninsured persons	696,906	659,000
Review of Medicaid, and Maternal and Child Health hospital admissions	33,250	33,600
Interest:		
Interest on investments	1,039,925	1,271,713
Interest on amounts of interfund transfers 1/	-972	35,566
Total interest	1,038,953	1,307,279
Total receipts	$25,414,724	$32,863,326
Disbursements:		
Benefit payments:		
Paid directly from the trust fund for the costs of health services	23,796,365	28,913,417
Less transfers from the supplementary medical insurance trust fund for reimbursement of interest loss related to transfer payments made in conjunction with the costs of radiology and pathology services 2/	6,000	6,000
Net benefit payments	23,790,365	28,907,417
Costs of experiments and demonstration projects 2/	3,054	1,664
Administrative expenses:		
Department of Health and Human Services 3/	478,889	551,291
Treasury Department	2,813	7,437
Construction of facilities	2,404	339
Gross administrative expenses	484,106	559,067
Interfund transfers due to reimbursement of:		
Social Security Administration expenses 4/	10,014	7,326
Health Care Financing Administration expenses 4/	0	-215,154
Less receipts from sale of supplies, materials, etc	29	11
Net administrative expenses	494,091	351,229
Total disbursements	24,287,511	29,260,310
Net addition to the trust fund	1,127,213	3,603,016
Total assets of the trust fund, end of period	$14,489,913	$18,092,929

1/ A positive figure represents a transfer of interest to the hospital insurance trust fund from the other trust funds. A negative figure represents a transfer of interest from the hospital insurance trust fund to the other trust funds.

2/ For explanation, see text.

3/ Includes administrative expenses of the intermediaries.

4/ A positive figure represents a transfer from the hospital insurance trust fund to the other trust funds. A negative figure represents a transfer to the hospital insurance trust fund from the other trust funds.

NOTE: Totals do not necessarily equal the sum of rounded components.

TABLE 3.--COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, FISCAL YEAR 1981
(Dollar amounts in millions)

Item	Actual Amount	Comparison of actual experience with estimates for fiscal year 1981 published in-- 1981 Report: Estimated Amount	1981 Report: Actual as percentage of estimate	1980 Report: Estimated Amount	1980 Report: Actual as percentage of estimate
Net contributions	$30,425	$30,242	101	$30,019	101
Benefit payments	$28,907	$28,171 1/	103	$26,862	108

1/ Includes an adjustment of $515 million due to the temporary delay in the Periodic Interim Payment method of reimbursement provision provided for by "The Omnibus Reconciliation Act of 1980" (P.L. 96-497). This provision was repealed by "The Omnibus Reconciliation Act of 1981" (P.L. 97-35).

TABLE 6.—ASSETS OF THE HOSPITAL INSURANCE TRUST FUND BY TYPE AT THE END OF FISCAL YEARS 1980 and 1981 1/

	September 30, 1980	September 30, 1981
Investments in public-debt obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
11 1/8-percent, 1981	$ 1,273,417,000.00	—
14 7/8-percent, 1982	—	$ 1,673,217,000.00
Bonds:		
7 1/8-percent, 1992	324,479,000.00	324,479,000.00
7 3/8-percent, 1983	163,760,000.00	152,155,000.00
7 3/8-percent, 1984	165,760,000.00	165,760,000.00
7 3/8-percent, 1985	165,759,000.00	165,759,000.00
7 3/8-percent, 1986	165,759,000.00	165,759,000.00
7 3/8-percent, 1987	165,759,000.00	165,759,000.00
7 3/8-percent, 1988	163,760,000.00	165,760,000.00
7 3/8-percent, 1989	163,760,000.00	165,760,000.00
7 3/8-percent, 1990	571,444,000.00	571,444,000.00
7 1/2-percent, 1983	109,372,000.00	109,372,000.00
7 1/2-percent, 1984	109,372,000.00	109,372,000.00
7 1/2-percent, 1985	109,373,000.00	109,373,000.00
7 1/2-percent, 1986	109,373,000.00	109,373,000.00
7 1/2-percent, 1987	109,373,000.00	109,373,000.00
7 1/2-percent, 1988	109,372,000.00	109,372,000.00
7 1/2-percent, 1989	109,372,000.00	109,372,000.00
7 1/2-percent, 1990	109,372,000.00	109,372,000.00
7 1/2-percent, 1991	680,816,000.00	680,816,000.00
7 5/8 percent, 1982	296,097,000.00	—
7 5/8-percent, 1983	405,685,000.00	405,685,000.00
7 5/8-percent, 1984	405,685,000.00	405,685,000.00
7 5/8-percent, 1985	405,685,000.00	405,685,000.00
7 5/8-percent, 1986	405,685,000.00	405,685,000.00
7 5/8-percent, 1987	405,685,000.00	405,685,000.00
7 5/8-percent, 1988	405,684,000.00	405,684,000.00
7 5/8-percent, 1989	405,684,000.00	405,684,000.00
8 1/4-percent, 1982	45,347,000.00	—
8 1/4-percent, 1983	45,347,000.00	45,347,000.00
8 1/4-percent, 1984	45,347,000.00	45,347,000.00
8 1/4-percent, 1985	45,347,000.00	45,347,000.00
8 1/4-percent, 1986	45,346,000.00	45,346,000.00
8 1/4-percent, 1987	45,346,000.00	45,346,000.00
8 1/4-percent, 1988	45,347,000.00	45,347,000.00
8 1/4-percent, 1989	45,347,000.00	45,347,000.00
8 1/4-percent, 1990	45,347,000.00	45,347,000.00
8 1/4-percent, 1991	45,347,000.00	45,347,000.00
8 1/4-percent, 1992	201,684,000.00	201,684,000.00
8 1/4-percent, 1993	726,163,000.00	726,163,000.00
8 3/4-percent, 1982	123,296,000.00	—
8 3/4-percent, 1983	123,297,000.00	123,297,000.00
8 3/4-percent, 1984	123,297,000.00	123,297,000.00
8 3/4-percent, 1985	123,297,000.00	123,297,000.00
8 3/4-percent, 1986	123,297,000.00	123,297,000.00
8 3/4-percent, 1987	123,297,000.00	123,297,000.00
8 3/4-percent, 1988	123,297,000.00	123,297,000.00
8 3/4-percent, 1989	123,297,000.00	123,297,000.00
8 3/4-percent, 1990	123,297,000.00	123,297,000.00
8 3/4-percent, 1991	123,297,000.00	123,297,000.00
8 3/4-percent, 1992	123,297,000.00	123,297,000.00
8 3/4-percent, 1993	123,297,000.00	123,297,000.00
8 3/4-percent, 1994	869,460,000.00	869,460,000.00
9 3/4-percent, 1982	130,210,000.00	—
9 3/4-percent, 1983	130,209,000.00	130,209,000.00
9 3/4-percent, 1984	130,209,000.00	130,209,000.00
9 3/4-percent, 1985	130,209,000.00	130,209,000.00
9 3/4-percent, 1986	130,210,000.00	130,210,000.00
9 3/4-percent, 1987	130,210,000.00	130,210,000.00
9 3/4-percent, 1988	130,210,000.00	130,210,000.00
9 3/4-percent, 1989	130,210,000.00	130,210,000.00
9 3/4-percent, 1990	130,210,000.00	130,210,000.00
9 3/4-percent, 1991	130,210,000.00	130,210,000.00
9 3/4-percent, 1992	130,210,000.00	130,210,000.00
9 3/4-percent, 1993	130,210,000.00	130,210,000.00
9 3/4-percent, 1994	130,210,000.00	130,210,000.00
9 3/4-percent, 1995	979,670,000.00	979,670,000.00
13 -percent, 1983	—	197,607,000.00
13 -percent, 1984	—	197,607,000.00
13 -percent, 1985	—	197,607,000.00
13 -percent, 1986	—	197,606,000.00
13 -percent, 1987	—	197,606,000.00
13 -percent, 1988	—	197,606,000.00
13 -percent, 1989	—	197,606,000.00
13 -percent, 1990	—	197,606,000.00
13 -percent, 1991	—	197,606,000.00
13 -percent, 1992	—	197,606,000.00
13 -percent, 1993	—	197,606,000.00
13 -percent, 1994	—	197,606,000.00
13 -percent, 1995	—	197,606,000.00
13 -percent, 1996	—	1,277,276,000.00
Total public-debt obligations sold only to this fund (special issues)	$14,606,077,000.00	$18,141,479,000.00
Investments in federally-sponsored agency obligations:		
Participation certificates:		
Federal Assets Liquidation Trust—		
Government National Mortgage Association:		
5.20-percent, 1982	50,000,000.00	50,000,000.00
Total investments	$14,656,077,000.00	$18,191,479,000.00
Undisbursed balance	-166,163,900.03 2/	-98,549,787.63 2/
Total assets	$14,489,913,099.97	$18,092,929,212.37

1/ The assets are carried at par value, which is the same as book value.

2/ The negative figure represents an extension of credit which was covered by redemption of securities on the first day of the following month.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE PERIOD OCTOBER 1, 1981 TO DECEMBER 31, 1984

The expected operations of the trust fund during fiscal years 1982-84 are shown in table 5, together with the past experience of the program. The projection shown in table 5—and the entirety of this section—is based on two intermediate sets of projection assumptions labeled alternative II-A and alternative II-B, which are presented in detail in Appendix A. The economic assumptions underlying these two alternative sets of assumptions are described in detail in the 1982 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Disability Insurance Trust Funds.

The estimates of income from hospital insurance contributions are at a considerably higher level during the period projected than during the past. This occurs primarily as a result of the increase in the hospital insurance tax rate which took place on January 1, 1981, and the higher earnings bases scheduled in the law.

Income received through the financial interchange between the railroad retirement account and the trust fund under the provisions of the Railroad Retirement Act is estimated on the same basis as income from hospital insurance contributions. Estimates of the corresponding outgo are included in the disbursement items.

Estimated income to the trust fund which is appropriated from general revenues to reimburse the program for the cost of coverage of noninsured persons is the same as the estimates of disbursements for such persons, net

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of corrections for differences between costs and amounts transferred for previous years. Premium income and disbursements for other noninsured persons over age 65 who may enroll in the hospital insurance program on a voluntary basis are based on an estimated enrollment of 22,000 in fiscal year 1982.

Reimbursement from general revenues for military wage credits is projected at $207 million for fiscal year 1982 and after. This is based on the determination made by the Secretary of Health and Human Services in 1980 of the level annual appropriations necessary to amortize the additional costs arising from these wage credits.

Estimated reimbursement from general revenues for the cost, paid initially from the hospital insurance trust fund, of Professional Standard Review Organization (PSRO) review of hospital admissions under Federal programs other than the hospital insurance program is based on estimates of the payments for such reviews, net of corrections for differences between payments and amounts transferred in previous years. Beginning in fiscal year 1982, in accordance with provisions of "The Omnibus Reconciliation Act of 1981" (P.L. 97-35), the hospital insurance trust fund will no longer pay for PSRO review of hospital admissions for Federal programs other than the hospital insurance program.

The investment of new assets received during fiscal years 1982-84 is assumed to be in the form of special public-debt obligations bearing interest rates ranging from 13 5/8 percent, payable semiannually in 1982, to 9 3/4 percent in 1984. The average effective annual rate of interest on the assets held by the hospital insurance trust fund on September 30, 1980, was 10.1 percent.

The total income for fiscal year 1983 and calendar year 1982 in table 5 and 6, respectively, is reduced by the amounts to be loaned on December 31, 1982, by the hospital insurance trust fund under the interfund borrowing provisions of P.L. 97-123. The amounts to be loaned are $779 million and $5,313 million under alternative II-A and II-B, respectively.

Disbursements for benefits are projected to increase sharply in fiscal years 1982-84, primarily as a result of the high rate of increase in hospital costs reimbursable under the program. The expenditures for benefit payments shown in table 5 differ slightly from those shown in the 1983 Federal budget. These estimates are based on more recent demographic and economic projections, and they do not reflect the implementation of proposed changes in regulations which were included in the budget.

The actual operation of the hospital insurance program is organized, in general, on a calendar year basis. Earnings subject to taxation and the applicable tax rates are established by calendar year, as are the inpatient deductible and other cost sharing amounts. The projected operations of the trust fund on a calendar year basis are shown in table 6, according to the same assumptions as used in table 5. The ratios of assets in the trust fund at the beginning of each calendar year to total disbursements during that year are shown in table 7 for past years and as projected through 1984.

TABLE 5.--OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1967-84
(In millions)

	Income								Disbursements			Trust Fund	
Fiscal Year 1/	Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Reimbursement for military wage credits	Reimbursement for PSRO review	Interest on investments	Total income	Benefits payments	Administrative expenses2/	Total disbursements	Net increase in fund	Fund at end of year
Historical Data:													
1967	$ 2,689	$ 16	$327		$ 11		$ 46	$ 3,089	$ 2,508	$ 89	$ 2,597	$ 492	$ 1,343
1968	3,514	44	273		11		61	3,902	3,736	79	3,815	88	1,431
1969	4,423	54	749		22		96	5,344	4,654	104	4,758	586	2,017
1970	4,785	64	617		11		137	5,614	4,804	149	4,953	661	2,677
1971	4,898	66	863		11		180	6,018	5,442	150	5,592	426	3,103
1972	5,226	66	503		48		188	6,031	6,108	167	6,276	-245	2,859
1973	7,663	63	381		48		196	8,352	6,648	194	6,842	1,510	4,369
1974	10,602	99	451	$ 4	48		405	11,610	7,806	259	8,065	3,545	7,914
1975	11,291	132	481	6	48		609	12,568	10,353	259	10,612	1,956	9,870
1976	12,031	138	610	8	48		709	13,544	12,267	312	12,579	966	10,836
T.Q.	3,366	143	0 3/	2	0		5	3,516	3,315	89	3,404	112	10,948
1977	13,649	0 4/	803 3/	11	141		770	15,374	14,906	301	15,207	167	11,115
1978	16,677	214 4/	688	12	143 5/	$29	780	18,543	17,411	451	17,862	681	11,796
1979	19,927	191	734	17	141	33	868	21,910	19,891	452	20,343	1,567	13,363
1980	23,244	244	697	17	141	33	1,039	25,415	23,790	497	24,288	1,127	14,490
1981	30,425	276	659	21	141	34	1,307	32,863	28,907	353	29,260	3,603	18,093
Projection:													
Alternative II-A													
1982	34,992	344	808	25	207	0	1,901	38,277	33,788	564	34,352	3,925	22,018
1983	38,174	382	889	32	207	0	2,347	41,252 6/	39,050	605	39,655	1,597	23,615
1984	41,476	398	770	39	207	0	2,635	45,525	44,486	647	45,133	392	24,007
Alternative II-B													
1982	34,359	344	808	25	207	0	1,881	37,624	33,788	564	34,352	3,272	21,365
1983	37,590	375	889	32	207	0	2,270	36,050 6/	39,445	613	40,058	-4,008	17,357
1984	41,605	392	795	39	207	0	2,402	45,440	45,828	670	46,498	-1,058	16,299

1/ For 1967 through 1976, fiscal years cover the interval from July 1 through June 30; the three-month interval from July 1, 1976, through September 30, 1976, is labeled "T.Q.," the transition quarter; fiscal years 1977-84 cover the interval from October 1 through September 30.

2/ Includes costs of experiments and demonstration projects.

3/ The 1977 transfer is for benefits and administrative expenses during the five-quarter period covering the transition quarter and fiscal year 1977.

4/ The 1978 transfer is for contributions during the five-quarter period covering the transition quarter and fiscal year 1977.

5/ Includes $2 million in reimbursement from general revenues for costs arising from the granting of noncontributory wage credits to persons of Japanese ancestry who were interned during World War II.

6/ Total income for 1983 is reduced by amounts assumed to be loaned on December 31, 1982, by the HI Trust Fund under the interfund borrowing provisions. These amounts are $779 million and $5,313 million under alternatives II-A and II-B, respectively.

TABLE 6.--OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1966-84
(In millions)

	Income								Disbursements			Trust Fund	
Calendar Year	Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Reimbursement for military wage credits	Reimbursement for PSRO review	Interest on investments	Total income	Benefits payments	Administrative expenses1/	Total disbursements	Net increase in fund	Fund at end of year
Historical Data:													
1966	$ 1,858	$ 16	$ 26		$ 11		$ 32	$ 1,943	$ 891	$108	$ 999	$ 944	$ 944
1967	3,152	44	301		11		51	3,559	3,353	77	3,430	129	1,073
1968	4,116	54	1,022		22		74	5,287	4,179	99	4,277	1,010	2,083
1969	4,473	64	617		11		113	5,279	4,739	118	4,857	422	2,505
1970	4,881	66	863		11		158	5,979	5,124	157	5,281	698	3,202
1971	4,921	66	503		48		193	5,732	5,751	150	5,900	-168	3,034
1972	5,731	63	381		48		180	6,403	6,318	185	6,503	-99	2,935
1973	9,944	99	451	$ 2	48		278	10,821	7,057	232	7,289	3,532	6,467
1974	10,844	132	471	5	48		523	12,024	9,099	272	9,372	2,652	9,119
1975	11,502	138	621	7	48		664	12,980	11,315	266	11,581	1,399	10,517
1976	12,727	143	0 2/	9	141		746	13,766	13,340	339	13,679	88	10,605
1977	14,114	0 3/	803 2/	12	143 4/		784	15,856	15,737	283	16,019	-163	10,442
1978	17,324	214 3/	688	13	141	$29	805	19,213	17,682	496	18,178	1,035	11,477
1979	20,768	191	734	16	141	33	942	22,825	20,623	450	21,073	1,751	13,228
1980	23,848	244	697	18	141	33	1,116	26,097	25,064	512	25,577	521	13,749
1981	32,959	276	659	22	207	34	1,569	35,725	30,342	384	30,726	4,999	18,748
Projection:													
Alternative II-A													
1982	35,474	344	808	27	207	0	2,058	38,139 5/	35,097	573	35,670	2,469	21,217
1983	38,904	382	889	34	207	0	2,408	42,824	40,439	616	41,055	1,769	22,986
1984	42,285	398	770	40	207	0	2,539	46,239	45,951	657	46,608	-369	22,617
Alternative II-B													
1982	34,702	344	808	27	207	0	2,022	32,797 5/	35,097	573	35,670	-2,873	15,875
1983	38,463	375	889	34	207	0	2,269	42,237	40,995	627	41,622	615	16,490
1984	42,476	392	795	40	207	0	2,235	46,145	47,587	685	48,272	-2,127	14,363

1/ Includes costs of experiments and demonstration projects.

2/ No transfer is made in 1976 because of the change in transfer dates from December to March. The 1977 transfer is for benefits and administrative expenses during the 15-month period beginning July 1976 and ending September 1977.

3/ No transfer is made in 1977 because of the change in transfer dates from August to June. The 1978 transfer is for contributions during the five-quarter period covering the transition quarter and fiscal year 1977.

4/ Includes $2 million in reimbursement form general revenues for costs arising from the granting of noncontributory wage credits to persons of Japanese ancestry who were interned during World War II.

5/ Total income for 1982 is reduced by the amounts assumed to be loaned on December 31, 1982, by the HI Trust Fund under the interfund borrowing provisions. These amounts are $779 million and $5,313 million under alternatives II-A and II-B, respectively.

TABLE 7.--RATIO OF ASSETS IN THE FUND AT THE BEGINNING OF THE YEAR TO DISBURSEMENTS DURING THE YEAR FOR THE HOSPITAL INSURANCE TRUST FUND
(In percent)

Calendar Year	Ratio
Historical Data:	
1967	28%
1968	25
1969	43
1970	47
1971	54
1972	47
1973	40
1974	69
1975	79
1976	77
1977	66
1978	57
1979	54
1980	52
1981	45
Projection:	
Alternative II-A	
1982	53
1983	52
1984	49
Alternative II-B	
1982	53
1983	38
1984	34

ACTUARIAL STATUS OF THE TRUST FUND

The Board of Trustees has adopted the general financing principle that annual income to the hospital insurance program should be approximately equal to annual outlays of the program plus an amount to maintain a balance in the trust fund equal to one-half year's expenditures. This principle reflects the view that a small fund is needed for the contingency that future income and outgo may differ substantially from projected levels, but that it is unnecessary and impractical to fund fully the future benefits of workers as they accrue the right to those future benefits.

The projected expenditures under the program, expressed as percentages of taxable payroll, are summarized for selected years over the next 25-year period in table 8. The ratio of expenditures to taxable payroll has increased from 0.95 percent in 1967 to 2.39 percent in 1981, reflecting both the higher rate of increase in hospital costs than in earnings subject to hospital insurance taxes and the extension of hospital insurance benefits to disabled beneficiaries and persons suffering from end-stage renal disease. Further increases in this ratio to 2.94 percent in 1985, and 6.18 percent by the year 2005 under alternative II-A, and 3.06 percent in 1985 and 7.03 percent by the year 2005 under alternative II-B, result from the assumption that the cost of institutional health care will continue to increase at a higher rate than taxable earnings. (See appendix A for a description of the methodology and assumptions used in these projections.)

The allowances necessary to build the trust fund to the level of a half year's disbursements and to maintain it at that level, after accounting for the offsetting effect of interest earnings, are also shown in table 8.

The tax rates scheduled in the law are sufficient to maintain the trust fund at the level of a half year's disbursements only through 1983 under alternative II-A. Under alternative II-B the trust fund is projected to decline immediately below the desired level. Additional financing will be required beginning early in the 1980's to maintain the trust fund at the level of a half year's disbursements. For purposes of display in table 8, the allowance for trust fund building and maintenance is solely for maintaining the trust fund at the 50 percent level throughout the 25-year projection period. In table 8 the interfund loan to the old age and survivor insurance trust fund in calendar year 1982 is reflected in the calendar year 1982 cost under alternative II-A. The loan is assumed to be repaid with interest during the 25-year projection period and, therefore, will have no effect on the 25-year average cost. However, under alternative II-B, the loan is assumed not to be repaid, and hence is reflected in both the calendar year 1982 cost and the 25-year average cost.

The adequacy of the financing of the hospital insurance program under current law is measured by comparing on a year-by-year basis the actual tax rates specified by law with the corresponding total costs of the program, expressed as percentages of taxable payroll. If these two items are exactly equal in each year of the 25-year projection period and all projections assumptions are realized, tax revenues along with interest income will be sufficient to provide for benefits and administrative expenses for insured persons and to maintain the trust fund at the 50 percent level. In practice, however, tax rate schedules generally are designed with rate changes occurring only at intervals of several years, rather than with continual yearly increases to match exactly with projected cost increases. To the extent that small differences between the yearly costs of the program and the corresponding tax rates occur for short periods of time and are offset by subsequent differences in the reverse direction, the substance of the financing objectives will have been met.

The projected total costs of the program under alternatives II-A and II-B expressed as percentages of taxable payroll, and the tax rates scheduled under current law are shown in table 8 for selected years over the 25-year period 1982-2006. The total cost of the program including expenditures, the loan to the old-age and survivors insurance trust fund, plus trust fund building and maintenance, exceeds the tax rate in every year in both projections. Furthermore, expenditures for benefits and administrative expenses alone exceed the corresponding tax rates for all years with the exception of 1982 under alternative II-A. The trust fund as a percent of a year's disbursements is projected to decrease slightly to a level of about 52 percent in 1983 under alternative II-A assumptions and then to decline steadily thereafter until it is completely exhausted in about 1989. Under alternative II-B the trust fund is projected to decline steadily until it is completely exhausted in 1987.

The actuarial balance of the hospital insurance program is defined to be the excess of the average tax rate for the 25-year valuation period over the average cost of the program, expressed as a percent of taxable payroll, for the same period. The average tax rate for the 25-year period 1982-2006 is 2.86 percent. The average cost to the program under alternative II-A is 4.49 percent of taxable payroll, composed of 4.40 percent for program expenditures and .09 percent for maintenance of the trust fund. The average cost of the program under alternative II-B is 4.93 percent of taxable payroll, composed of 4.83 percent for program expenditures and .10 percent for maintenance of the trust fund. The resulting actuarial balances, as shown in table 9, are a deficit of 1.63 percent and 2.07 percent of taxable payroll for alternatives II-A and II-B, respectively.

Long-range cost estimates for the hospital insurance program have been made, since the beginning of the program, for the 25-year period beginning with the year of the report. A relatively long valuation period, such as 25 years, is necessary in order to depict the pattern of rising costs which will ensue if trends over the past two decades continue into the future. Even a valuation period as long as 25 years fails to present fully the future contingencies that reasonably may be expected, such as the impact of the demographic shift after the turn of the century which is discussed in the old-age, survivors, and disability insurance report. On the other hand, the degree of uncertainty concerning future hospital costs, relative to the remainder of the economy, is sufficiently great as to limit the usefulness of projections beyond 25 years. A precise prediction of the future is not possible, even in the short range; however, both short- and long-range estimates can be made, based on reasonable assumptions, which will indicate the trend and general range of future costs.

Since future economic, demographic, and health care usage and cost experience may differ considerably from either set of intermediate assumptions on which the cost estimates were based, projections also have been prepared on the basis of two alternative sets of assumptions. The estimated operations of the hospital insurance trust fund during calendar years 1981-91 are summarized in table 10 for all four alternatives, and table 11 compares the actuarial balance under each of the four. The assumptions underlying alternatives II-A and II-B, the intermediate projections, are presented in substantial detail in appendix A. The assumptions used in preparing alternative projections I and III are also summarized in appendix A. The projections shown in the statement of expected operations and status of the trust fund through December 31, 1984, contained earlier in this report, are based on the assumptions contained in alternative II-A and II-B.

The four alternative sets of assumptions were selected in order to indicate the general range in which the cost of the program reasonably might be expected to fall. The alternative I assumptions are somewhat more optimistic than both alternative II assumptions, resulting in a lower average cost over the 25-year period and a stronger trust fund development. Alternatives I and III provide for a fairly wide range of possible experience. Actual experience reasonably may be expected to fall within the range, but no guarantee can be made that this will be the case, particularly in light of the wide variations in experience that have occurred since the beginning of the program. The projected trust fund development under alternative III also provides a measure of the strength of the financing of the program. An adequate financing schedule ought to be sufficiently strong to withstand, for a period of several consecutive years, conditions in the general economy and in the hospital sector which are substantially more adverse than anticipated under either alternative II-A or alternative II-B.

Under alternative II-A and alternative II-B, the trust fund as a percent of a year's disbursements is projected to decline steadily until it is completely exhausted in about 1989 and 1987, respectively. Under alternative I, the trust fund is projected to grow slowly until about 1987, then to decline steadily until the fund is completely exhausted in 1991. Under alternative III, the trust fund as a percent of year's disbursements is projected to decrease with complete exhaustion of the fund by 1986. These projections do not reflect any reduction in disbursements due to proposed changes in regulations which were included in the 1983 Federal budget but which have not been implemented.

The divergence in outcomes among the four alternatives is reflected both in the estimated operations of the trust fund and in the 25-year average costs. The variations in the underlying assumptions, as shown in appendix A, can be characterized as (1) moderate in terms of magnitude of the differences on a year-by-year basis and (2) persistent over the duration of the 25-year period. Under both sets of intermediate assumptions, program costs are projected to grow at a rate which gradually declines to an ultimate level of approximately 3 percent more rapidly than taxable payroll. Under alternative I, program costs are projected to grow at a somewhat lower rate which gradually declines to an ultimate difference of 1.2 percent. Similarly, alternative III follows a pattern whereby program costs initially increase at a somewhat higher rate, gradually declining to an ultimate difference of about 5.4 percent. Recent experience has indicated that economic conditions producing results as adverse as those under alternative III can occur. In view of this and because of the wide range of possible experience, it is important that a substantial balance be maintained in the hospital insurance trust fund as a reserve for contingencies.

TABLE 8.—COST AND TAX RATES OF THE HOSPITAL INSURANCE PROGRAM, EXPRESSED AS A PERCENT OF TAXABLE PAYROLL

Calendar Year	Expenditures under the program 1/	Trust fund building and maintenance 2/	Total cost of the program	Tax rate scheduled in the law 3/	Difference
Historical Data:					
1967	0.95%				
1968	1.05				
1969	1.13				
1970	1.21				
1971	1.33				
1972	1.31				
1973	1.34				
1974	1.42				
1975	1.69				
1976	1.83				
1977	1.95				
1978	2.02				
1979	2.00				
1980	2.21				
1981	2.39				
Projection:					
Alternative II-A					
1982	2.60% 5/	0.09%	2.69%	2.60%	-0.09%
1983	2.68	0.09	2.77	2.60	-0.17
1984	2.80	0.09	2.89	2.60	-0.29
1985	2.94	0.09	3.03	2.70	-0.33
1990	3.68	0.09	3.77	2.90	-0.87
1995	4.59	0.09	4.68	2.90	-1.78
2000	5.40	0.09	5.49	2.90	-2.59
2005	6.18	0.09	6.27	2.90	-3.37
Average 4/	4.40	0.09	4.49	2.86	-1.63
Alternative II-B					
1982	2.98% 5/	0.10%	3.08%	2.60%	-0.48%
1983	2.75	0.10	2.85	2.60	-0.25
1984	2.90	0.10	3.00	2.60	-0.40
1985	3.06	0.10	3.16	2.70	-0.46
1990	3.93	0.10	4.03	2.90	-1.13
1995	5.00	0.10	5.10	2.90	-2.20
2000	6.01	0.10	6.11	2.90	-3.21
2005	7.03	0.10	7.13	2.90	-4.23
Average 4/	4.83	0.10	4.93	2.86	-2.07

1/ Costs attributable to insured beneficiaries only. Benefits and administrative costs for noninsured persons are financed through general revenue transfers and premium payments rather than through payroll taxes.

2/ Allowance for maintaining the trust fund balance at the level of a half year's outgo after accounting for the offsetting effect of interest earnings.

3/ Rates for employees and employers combined.

4/ Average for the 25-year period 1982-2006.

5/ Takes into account amounts to be loaned to the old-age and survivors insurance trust fund under the interfund borrowing provisions. The loan is assumed not repaid under alternative II-B; it is repaid in 1998 under alternative II-A.

NOTE: Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

TABLE 9.--ACTUARIAL BALANCE OF THE HOSPITAL INSURANCE PROGRAM, EXPRESSED AS A PERCENT OF TAXABLE PAYROLL

	Alternative II-A	Alternative II-B
Average contribution rate, scheduled under present law*	2.86%	2.86%
Average cost of the program:*		
Expenditures, for benefit payments and administrative costs for insured beneficiaries	4.40	4.83
Maintaining the trust fund, at the level of one-half year's expenditures	.09	.10
Total cost of the program	4.49	4.93
Actuarial balance	-1.63%	-2.07%

* Average for the 25-year period 1982-2006.

NOTE: Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

TABLE 10.—ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1981-91, UNDER ALTERNATIVE SETS OF ASSUMPTIONS
(Dollar amounts in billions)

Calendar Year	Total Income	Total disbursements	Net increase in fund	Fund at end of year	Ratio of assets to disbursements 1/ (percent)
			ALTERNATIVE I		
1981 2/	$35.7	$30.7	$5.0	$18.7	45%
1982	37.9 3/	35.7	2.2	21.0	53
1983	43.3	41.2	2.1	23.1	51
1984	47.7	47.1	0.5	23.6	49
1985	53.7	53.5	0.2	23.8	44
1986	62.2	60.1	2.1	25.9	40
1987	67.3	67.1	0.2	26.1	39
1988	72.2	74.6	-2.4	23.8	35
1989	76.9	82.4	-5.5	18.2	29
1990	80.6	89.7	-9.1	9.2	20
1991	85.2	98.6	-13.4	4/	9
			ALTERNATIVE II-A		
1981 2/	35.7	30.7	5.0	18.7	45
1982	38.1 3/	35.7	2.5	21.2	53
1983	42.8	41.1	1.8	23.0	52
1984	46.2	46.6	-0.4	22.6	49
1985	51.9	53.3	-1.4	21.2	42
1986	60.0	60.8	-0.8	20.4	35
1987	65.2	69.1	-4.0	16.5	30
1988	70.1	78.6	-8.5	8.0	21
1989	74.7	88.5	-13.8	5/	9
			ALTERNATIVE II-B		
1981 2/	35.7	30.7	5.0	18.7	45
1982	32.8 3/	35.7	-2.9	15.9	53
1983	42.2	41.6	0.6	16.5	38
1984	46.1	48.3	-2.1	14.4	34
1985	51.5	55.6	-4.0	10.3	26
1986	59.3	63.4	-4.2	6.2	16
1987	63.7	72.1	-8.4	6/	9
			ALTERNATIVE III		
1981 2/	35.7	30.7	5.0	18.7	45
1982	31.3 3/	35.7	-4.4	14.4	53
1983	41.3	41.6	-0.3	14.1	35
1984	44.5	48.7	-4.1	9.9	29
1985	50.4	58.1	-7.7	2.3	17
1986	58.6	68.8	-10.1	7/	3

1/ Ratio of assets in the trust fund at the beginning of the year to disbursements during the year.

2/ Figures for 1981 represent actual experience.

3/ Total income for 1982 reflect amounts assumed to be loaned on December 31, 1982, by the HI trust fund under the interfund borrowing provisions. These amounts are $914 million, $779 million, $5,313 million, and $6,680 million under alternatives I, II-A, II-B, and III, respectively.

4/ Trust fund depleted in calendar year 1991.

5/ Trust fund depleted in calendar year 1989.

6/ Trust fund depleted in calendar year 1987.

7/ Trust fund depleted in calendar year 1986.

NOTE: Totals do not necessarily equal the sum of rounded components.

TABLE 11.—ACTUARIAL BALANCE OF THE HOSPITAL INSURANCE PROGRAM, UNDER ALTERNATIVE SETS OF ASSUMPTIONS

	Alternative			
	I	II-A	II-B	III
Average contribution rate, scheduled under present law 1/	2.86%	2.86%	2.86%	2.86%
Average cost of the program, for expenditures and for trust fund maintenance 2/	3.72	4.49	4.93	6.59
Actuarial balance	-0.86	-1.63	-2.07	-3.73

1/ Average for the 25-year period 1982-2006.

2/ Average for the 25-year period 1982-2006, expressed as a percent of taxable payroll.

NOTE: Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

CONCLUSION

The present financing schedule for the hospital insurance program is not adequate to provide for the expenditures anticipated over the entire 25-year valuation period if the assumptions underlying the estimates are realized. Tax rates currently specified in the law (including the scheduled increases in 1985 and 1986) are sufficient, along with interest earnings and assets in the fund, to support program expenditures and to make the required loans to the old-age and survivors insurance trust fund only over the next five to seven years. The financing for the remainder of the 25-year valuation period is not sufficient to provide for projected benefits and administrative expenses. The average tax rate necessary to provide for benefits and administrative expenses plus maintenance of the trust fund at the level of a half year's disbursements exceeds the average tax rate scheduled in the law, producing an average deficit of 1.63 percent of taxable payroll under alternative II-A and 2.07 percent under alternative II-B over the entire 25-year projection period. Even under the more optimistic alternative I assumptions, the present financing schedule will result in the fund being exhausted during the early 1990's.

The trust fund balance at the beginning of 1982 was at about the level of a half year's disbursements. The ratio of fund to disbursements is projected to decline through the 1980's until completely exhausted in 1989 and 1987 under alternative II-A and II-B, respectively. Under the less optimistic alternative III assumptions, the decline of the trust fund is accelerated, with complete exhaustion of the fund by 1986.

Although the hospital insurance trust fund is not in immediate danger of being unable to provide benefits which become payable, the present financing schedule is not adequate to ensure the payment of benefits even through the remainder of this decade. Disbursements exceed income in the near future leading to complete exhaustion of the fund in the latter half of the 1980's. The interfund loan to the old-age and survivors insurance trust fund will not be repaid in time to delay the time of exhaustion of the hospital insurance trust fund, thus further weakening the financial status of the hospital insurance trust fund. In order to bring the hospital insurance program into close actuarial balance, either disbursements of the program will have to be reduced or financing increased by more than one-third.

The National Commission on Social Security Reform established by the President will be addressing the financial status of the Social Security trust funds. The Commission's report is due by December 31, 1982. In addition, the Administration has recommended a package of legislative proposals intended to help curtail the rapid growth of the cost of the hospital insurance program. The Board recommends enactment of these proposals or of similar ones which will accomplish the same objective of curtailing the rapid growth of the hospital insurance program.