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1988 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND

COMMUNICATION

From

THE BOARD OF TRUSTEES, FEDERAL SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND

Transmitting

THE 1988 ANNUAL REPORT OF THE BOARD, PURSUANT TO SECTION 1841(b) OF THE SOCIAL SECURITY ACT AS AMENDED

LETTER OF TRANSMITTAL

Board of Trustees of the
Federal Supplementary Medical Insurance Trust Fund
Washington, D.C., MAY 5, 1988

HONORABLE JAMES C. WRIGHT, JR.
Speaker of the House of Representatives
Washington, D.C.

HONORABLE GEORGE BUSH
President of the Senate
Washington, D.C.

GENTLEMEN:

We have the honor of transmitting to you the 1988 Annual Report of the Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund (the 23rd such report), in compliance with the provisions of section 1841(b) of the Social Security Act.

Respectfully,

James A. Baker III

JAMES A. BAKER, III,
Secretary of the Treasury, and
Managing Trustee of the Trust Fund

Ann McLaughlin

ANN McLAUGHLIN,
Secretary of Labor,
and Trustee

Otis R. Bowen M.D.

OTIS R. BOWEN, M.D.,
Secretary of Health and
Human Services, and Trustee

Mary Falvey Fuller

MARY FALVEY FULLER,
Trustee

Suzanne Denbo Jaffe

SUZANNE DENBO JAFFE,
Trustee

William L. Roper M.D.

WILLIAM L. ROPER, M.D.,
Administrator of the Health Care Financing
Administration, and Secretary,
Board of Trustees

Click on a Topic Below

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1988 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

The Federal Supplementary Medical Insurance Trust Fund, established on July 30, 1965, is held by the Board of Trustees under the authority of section 1841(b) of the Social Security Act, as amended. The Board has five members. Three serve in an ex officio capacity. These members are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health and Human Services. Two public members, Mary Falvey Fuller and Suzanne Denbo Jaffe, are provided for by the Social Security Amendments of 1983 (Public Law 98-21, enacted into law on April 20, 1983). The two public members were nominated by the President for a term of four years and were confirmed by the Senate.

By law, the Secretary of the Treasury is designated as the Managing Trustee, and the Administrator of the Health Care Financing Administration is designated as Secretary of the Board. The Board of Trustees reports to the Congress each year on the operation and status of the trust fund, in compliance with section 1841(b)(2) of the Social Security Act. This is the 1988 annual report, the twenty-third such report.

EXECUTIVE SUMMARY

The supplementary medical insurance (SMI) program pays for physician services, outpatient hospital services, and other medical expenses of both aged 65 and over and of those long term disabled. In Calendar Year (CY) 1987, 31.1 million people were covered under SMI. General revenue contributions during 1987 amounted to \$23.6 billion, accounting for 74.0 percent of all SMI income. About 23.3 percent of all income resulted from the premiums paid by the enrollees, with interest payments to the SMI fund accounting for the remaining 2.7 percent. Of the \$31.7 billion in SMI disbursements, \$30.8 billion was for benefit payments while the remaining \$0.9 billion was spent for administrative expenses. SMI administrative expenses were 2.9 percent of total disbursements.

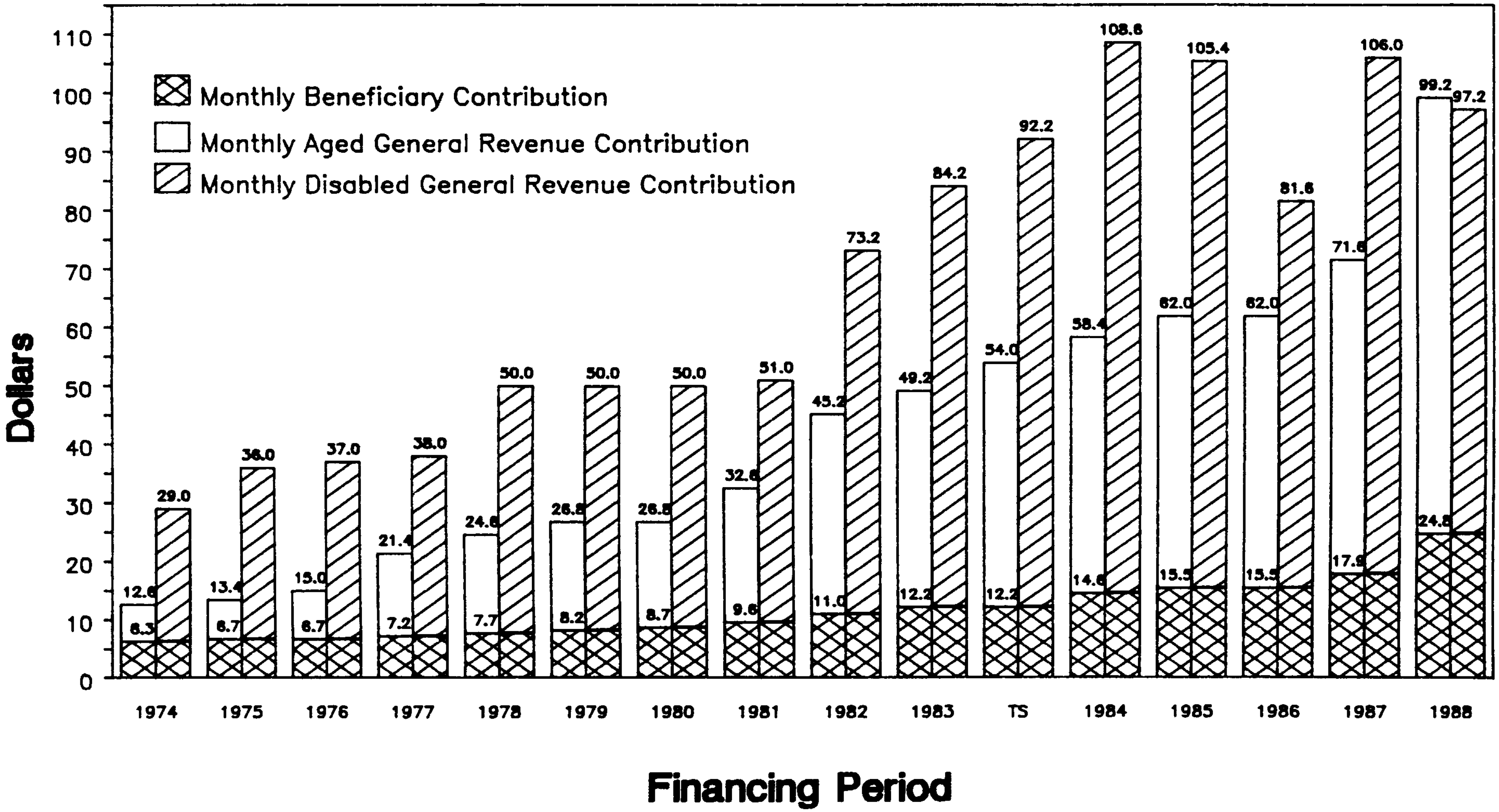
The SMI program is financed on an accrual basis with a contingency margin. This means that the SMI trust fund should always be somewhat greater than the claims that have been incurred by enrollees but not yet paid by the program. The trust fund holds all of the income not currently needed to pay benefits and related expenses. The assets of the fund may not be used for any other purpose; however, they may be invested in certain interest-bearing obligations of the U.S. Government.

Financing for the SMI program is established annually on the basis of standard monthly premium rates (paid by or on behalf of all participants) and monthly actuarial rates determined separately for aged and disabled beneficiaries (on which general revenue contributions are based). Prior to the 6-month transition period (July 1, 1983 through December 31, 1983), these rates were applicable in the 12-month periods ending June 30. Beginning January 1, 1984, the annual basis was changed to calendar years. Monthly actuarial rates are equal to one-half the monthly amounts necessary to finance the SMI program. These rates determine the amount to be contributed from general revenues on behalf of each enrollee. Based on the formula in the law, the Government contribution effectively makes up the difference between twice the monthly actuarial rates and the standard monthly premium rate. Figure 1 presents these values for financing periods since 1974. This figure clearly indicates the extent to which general revenue financing is the major source of income for the program.

Operations of the SMI Program

Historical and projected operations of the fund through 1990 are shown in Tables 5 and 6 in this report. As can be seen, income has exceeded disbursements for most of the historical years. At the time that financing was being established for CY 1988, assets appeared not to be sufficient to cover outstanding liabilities and an appropriate contingency for these liabilities. Therefore, the financing was established to amortize this unfunded liability and begin to build the assets to a level necessary to maintain the actuarial soundness of the program. On an accrual basis, income is projected to exceed disbursements in CY 1988. However, the trust fund balance is projected to decrease through CY 1988. This apparent inconsistency arises from a provision in the law whereby the Social Security benefit checks, normally delivered on January 3, 1988, were delivered on December 31, 1987. Consequently, the premiums withheld from the checks and the general revenue contribution were added to the SMI trust fund in CY 1987 and not in CY 1988. If the trust fund balance were adjusted to credit these transactions in CY 1988, the trust fund balance would be projected to increase through CY 1988 and would increase in future years.

Figure 1
SMI Monthly Per Capita Income



Financing Period:

For periods 1983 and earlier, the financing period is July 1 through June 30.

Transitional semester (TS), the financing period is July 1, 1983 through December 31, 1983.

The financial status of the program depends on both the total net assets and liabilities. It is, therefore, necessary to examine the incurred experience of the program, since it is this experience which is used to determine the actuarial rates discussed above and which forms the basis of the concept of actuarial soundness as it relates to the SMI program.

Actuarial Soundness of the SMI Program

The concept of actuarial soundness, as it applies to the SMI program, is closely related to the concept as it applies to private group insurance. The SMI program is essentially yearly renewable term insurance financed from premium income paid by the enrollees, from income contributed from general revenue in proportion to premium payments, and from interest payments on the trust fund assets.

In testing the actuarial soundness of the SMI program, it is not appropriate to look beyond the period for which the enrollee premium rate and level of general revenue financing have been established. The primary tests of actuarial soundness, then, are that: (1) assets and income for years for which financing has been established be sufficient to meet the projected benefits and associated administrative expenses incurred for that period and (2) assets be sufficient to cover projected liabilities that will have been incurred by the end of that time but will not have been paid yet. Even if these tests of actuarial soundness are not met, the program can continue to operate if the trust fund remains at a level adequate to permit the payment of claims as presented. However, to protect against the possibility that cost increases under the program will be higher than assumed, assets should be sufficient to cover the impact of a moderate degree of variation between actual and projected costs.

The primary tests for actuarial soundness and trust fund adequacy can be viewed by direct examination of absolute dollar levels. In providing an appropriate contingency or margin for variation, however, there must also be some relative measure. The relative measure or ratio used for this purpose is the ratio of the assets less liabilities to the following year's incurred expenditures. Figure 2 shows this ratio for historical years and for projected years under the intermediate assumptions (Alternative II-B), as well as high (pessimistic) and low (optimistic) cost sensitivity scenarios.

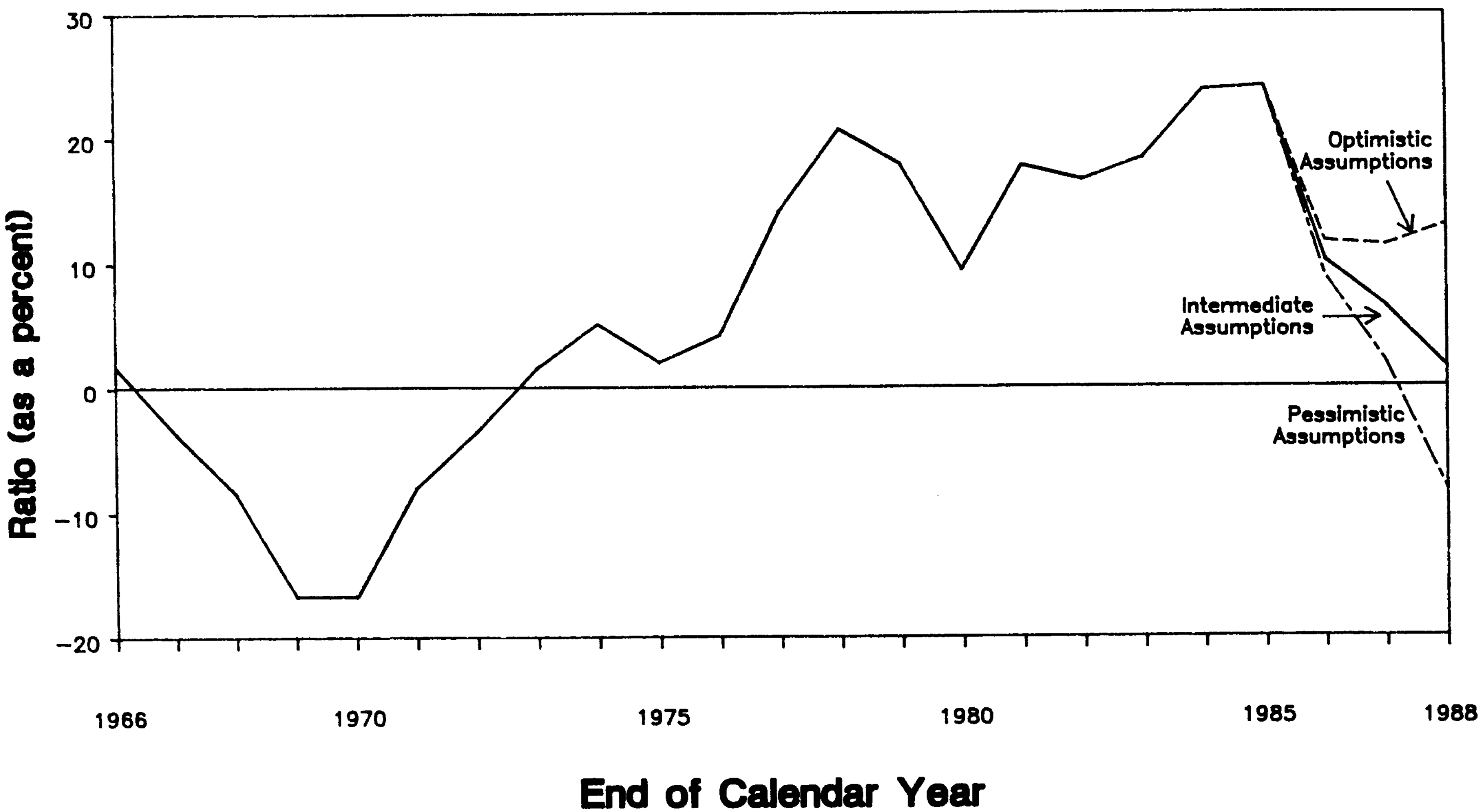
Financing for CY 1988 was established to amortize the unfunded liability and to begin to build the excess of assets over liabilities to a more appropriate level to maintain the actuarial soundness of the trust fund.

Conclusion of the Board of Trustees

The financing established through December 1988 is sufficient to cover projected benefits and administrative costs incurred through that time period, and to maintain a level of trust fund assets which is adequate to cover the impact of a small degree of variation between actual costs and projected costs. The SMI program can thus be said to be actuarially sound.

Although the SMI program is financially sound, the Board notes with concern the rapid growth in the cost of the program. Growth rates have been so rapid that outlays of the program have doubled in the last five years. For the same time period, the program grew 40 percent faster than the economy as a whole. This growth rate shows no sign of abating despite recent efforts to control the cost of the program. The Board recommends that Congress continue to work to curtail the rapid growth in the SMI program.

Figure 2
Actuarial Status of the SMI Trust Fund



Note: The actuarial status of the SMI trust fund is measured by the ratio of the end of year assets less liabilities to the following year incurred expenditures.

SOCIAL SECURITY AMENDMENTS SINCE THE 1987 REPORT

Since the 1987 Annual Report was transmitted to Congress, the Omnibus Budget Reconciliation Act of 1987 (Public Law 100-203) was enacted on December 22, 1987 and contained the following changes:

(1) Payment reductions of 2.324 percent required by the November 20, 1987 sequester order continued until March 31, 1988. Both the 1987 prevailing charges, customary charges for physician services, and the 1987 maximum allowable actual charges (MAAC) for nonparticipating physicians were extended through March 31, 1988.

(2) For the April 1, 1988 delayed update of the prevailing charges for physician services, the update will be separated into two categories, primary care services and other. Primary care services are defined as physician services which constitute office medical services, emergency department services, home medical services, skilled nursing, intermediate care and long term care medical services, or nursing home, boarding home, domiciliary, or custodial care medical services. On April 1, 1988, the prevailing charges for primary care services for participating physicians will increase 3.6 percent; in CY 1989, the increase will be 3.0 percent. On April 1, 1988, the prevailing charges for other services for participating physicians will increase 1.0 percent; in CY 1989, the increase will also be 1.0 percent.

Nonparticipating physicians receive 95.5 percent of the participating physician prevailing charges for the period April 1, 1988 to December 31, 1988 and 95 percent beginning January 1, 1989.

(3) For the nine month period beginning April 1, 1988, the prevailing charges for certain overpriced procedures such as cataract, coronary artery bypass, pacemaker implantation, and total hip replacement surgeries will be reduced 2 percent from the 1987 prevailing charge levels. In addition, there is a linear sliding scale reduction from 0 to 15 percent of three thirteenths of a percentage point for each percent by which the prevailing charge exceeds 85 percent, but is no more than 150 percent of the weighted national average. Therefore, no procedure will be reduced lower than 85 percent of the weighted 1987 national average for that procedure. In addition, the reduced payment amounts will be the basis for application of the Medicare Economic Index (MEI) in the future.

Beginning January 1, 1988, for nonparticipating physicians, there is a limit on the actual charges for these procedures which is 125 percent of the reduced prevailing charges, plus one half of the amount that the physician's MAAC from the previous 12 months exceeds this level. This is effective until one year after the Secretary reports to the Congress on the relative value scale or December 31, 1990, whichever is earlier.

(4) After April 1, 1988, the customary charges for nonprimary care services of most new physicians will be set at 80 percent of the prevailing charge level, adjusted by the MEI for participating and nonparticipating physicians. New physicians who practice in rural manpower shortage areas and the primary care services of new physicians in any area will be calculated using the 50th percentile of the weighted customary charges in the locality.

(5) Physician services furnished in an ambulatory surgical center or a hospital outpatient department on an assignment basis are subject to the $75 SMI deductible and a 20 percent coinsurance.

(6) For clinical diagnostic laboratory tests, there was a payment freeze for the first three months of CY 1988. After that time, the fee schedule amounts paid for automated tests and tests subject to the lowest charge levels prior to the implementation of the fee schedule are reduced by 8.3 percent. In addition, the Consumer Price Index (CPI) update will not be applied to the fee schedule for the remainder of CY 1988. Furthermore, until a national fee schedule is established, the payment ceiling for a given test is equal to 100 percent of the median of all fee schedule amounts for that test in that setting.

(7) The aggregate payment for capital and noncapital costs for hospital outpatient radiology and diagnostic services is limited to the lesser of (a) the reasonable costs or customary charges, or (b) a blended payment amount derived from a formula which sums proportions of reasonable costs or customary charges with prevailing charges. The limits for radiology will be effective on October 1, 1989.

(8) The maximum payment per enrollee for mental health services is increased to $450 for CY 1988 and to $1,100 for calendar year 1989 and later.

(9) No Medicare payment may be issued, mailed, or transmitted before a certain number of days have elapsed since receipt. This time period is 10 days, effective July 1, 1988, and 14 days for Fiscal Year 1989.

(10) Individuals who re-establish entitlement to disability benefits, irrespective of the time off the rolls, may be covered by Medicare without a waiting period if their current impairment is the same as, or directly related to, that in their previous period of disability.

(11) The SMI premium rate must equal 25 percent of the annual projected program costs per aged beneficiary through CY 1989.

Detailed information regarding these changes can be found in documents prepared by and for the Congress.

NATURE OF THE TRUST FUND

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

The major sources of receipts of the trust fund are: (1) contributions of the Federal Government that are authorized to be appropriated and transferred from the general fund of the Treasury and (2) premiums paid by eligible persons who are voluntarily enrolled in the program. Eligible persons aged 65 and over have been able to enroll in the program since its inception in July 1966. Since July 1973, disabled persons under age 65, who have met certain eligibility requirements, have also been able to enroll in the program.

The premiums paid by enrollees are based on the standard monthly premium rate, which is the same for enrollees aged 65 and over and for disabled enrollees under age 65. Premiums paid for Fiscal Years (FY) 1967 through 1973 were matched by an equal amount of Government contributions. Beginning July 1973, the amount of Government contributions corresponding to premiums paid by each of the two groups of enrollees is determined by applying a ratio (known as the matching rate), prescribed in the law for each group, to the amount of premiums received from that group of enrollees. The ratio is equal to: (1) twice the amount of the monthly actuarial rate applicable to the particular group of enrollees, minus the amount of the standard monthly premium rate, divided by (2) the amount of the standard monthly premium rate.

Standard monthly premium rates and actuarial rates are promulgated each year by the Secretary of Health and Human Services. The standard monthly premium rates in effect from July 1966 through June 1983, the rate for July 1983 through December 1983, and the rates for CY 1984 through 1988 are shown in Table 1. Actuarial rates and the corresponding matching rates in effect from July 1973 through June 1983, the rates applicable for July 1983 through December 1983, and the rates for CY 1984 through 1988 are also shown. For a detailed discussion of the determination of the actuarial and premium rates, see Appendix B.

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.

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 for any activity financed through the fund.

Expenditures for benefit payments and administrative expenses under the program are paid out of the trust fund. All expenses incurred by the Department of Health and Human Services and by the Department of the Treasury in carrying out the SMI provisions of Title XVIII of the Social Security Act 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.

Table 1.—STANDARD MONTHLY PREMIUM RATES, ACTUARIAL RATES, AND MATCHING RATES

	Standard monthly premium rate	Monthly actuarial rate		Matching rate	
		Enrollees aged 65 and over	Disabled enrollees under age 65	Enrollees aged 65 and over	Disabled enrollees under age 65
July 1966 - March 1968	$ 3.00	----	----	----	----
April 1968 - June 1970	4.00	----	----	----	----
12-month period ending June 30 of --					
1971	5.30	----	----	----	----
1972	5.60	----	----	----	----
1973	5.80	----	----	----	----
1974*	6.30	$ 6.30	$14.50	1.0000	3.6032
1975	6.70	6.70	18.00	1.0000	4.3731
1976	6.70	7.50	18.50	1.2388	4.5224
1977	7.20	10.70	19.00	1.9722	4.2778
1978	7.70	12.30	25.00	2.1948	5.4935
1979	8.20	13.40	25.00	2.2683	5.0976
1980	8.70	13.40	25.00	2.0805	4.7471
1981	9.60	16.30	25.50	2.3958	4.3125
1982	11.00	22.60	36.60	3.1091	5.6545
1983	12.20	24.60	42.10	3.0328	5.9016
July 1983 - December 1983	12.20	27.00	46.10	3.4262	6.5574
Calendar year					
1984	$14.60	$29.20	$54.30	3.0000	6.4384
1985	15.50	31.00	52.70	3.0000	5.8000
1986	15.50	31.00	40.80	3.0000	4.2645
1987	17.90	35.80	53.00	3.0000	4.9218
1988	24.80	49.60	48.60	3.0000	2.9194

* In accordance with limitations on the costs of health care imposed under Phase III of the Economic Stabilization program, the standard premium rate for July and August 1973 was set at $5.80 and $6.10, respectively. Effective September 1973, the rate increased to $6.30.

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 hospital insurance (HI) and SMI programs. A sizeable portion of such costs of such experiments and demonstration projects are paid out of the HI and SMI trust funds, with the remainder funded through general revenues.

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 SMI program. Both the capital costs of construction financed directly from the trust fund and the rental and lease, or purchase contract costs of acquiring facilities 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 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. Obligations of these types 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 calendar month.

SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1987

A statement of the income and disbursements of the Federal Supplementary Medical Insurance Trust Fund in FY 1987 and of the assets of the fund at the beginning and end of the fiscal year is presented in Table 2.

The total assets of the trust fund amounted to $9,432 million on September 30, 1986. During FY 1987, total receipts amounted to $27,797 million, and total disbursements were $30,837 million. Total assets thus decreased $3,039 million during the year to a total of $6,392 million on September 30, 1987.

Of the total receipts, $5,897 million represented premium payments by (or on behalf of) enrollees aged 65 and over, and $582 million represented premium payments by (or on behalf of) disabled enrollees under age 65. Total premium payments amounted to $6,480 million, an increase of 13.7 percent over the amount of $5,699 million for the preceding year. This increase in premiums from enrollees resulted primarily from: (1) the growth of the number of persons enrolled in the SMI program and (2) the increase from $15.50 to $17.90 per month in the standard premium rate that became effective on January 1, 1987.

Contributions received from the general fund of the treasury amounted to $20,299 million, which accounted for 73 percent of total receipts. This amount consisted of $17,579 million representing contributions relating to premiums paid by enrollees aged 65 and over, and $2,720 million representing contributions relating to the premiums paid by disabled enrollees under age 65. The remaining $1,019 million of receipts consisted almost entirely of interest on the investments of the trust fund.

Table 2.--STATEMENT OF OPERATIONS OF THE SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND DURING FISCAL YEAR 1987
(In thousands)

Total assets of the trust fund, beginning of period		$9,431,764
Receipts:		
Premiums from enrollees:		
Enrollees aged 65 and over	$5,897,171	
Disabled enrollees under age 65	582,340	
Total premiums		6,479,511
Transfers from general fund of the Treasury:		
Government contributions:		
Supplementary premiums of enrollees aged 65 and over	17,578,859	
Supplementary premiums of disabled enrollees under age 65.	2,720,429	
Total Government contributions		20,299,288
Other		12
Interest:		
Interest on investments		1,017,628
Interest on amounts of interfund transfers*		1,000
Total receipts		27,797,439
Disbursements:		
Benefit payments		29,937,137
Administrative expenses:		
Treasury administrative expenses	-1,416	
Salaries and expenses - SSA	158,978	
Salaries and expenses - HCFA	714,568	
Salaries and expenses Office of Secretary	16,427	
Construction	9,559	
Professional Standard Review Organization	0	
Public Health Service	0	
Reimbursement of SSA expenses	0	
Reimbursement of HCFA expenses	0	
Pay Assessment Commission	513	
Office of Personnel Management expenses	42	
Physicians Payment Review	1,000	
Total administrative expenses		899,672
Total disbursements		30,836,809
Net addition to the trust fund		-3,039,370
Total assets of the trust fund, end of period		6,392,394

*A positive figure represents a transfer of interest to the SMI trust fund from the other trust funds. A negative figure represents a transfer of interest from the SMI trust fund to the other trust funds.

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

Of the $30,837 million in total disbursements, $29,937 million represented: (1) benefits paid directly from the trust fund for health services covered under Title XVIII of the Social Security Act and (2) costs of experiments and demonstration projects in providing health care services.

The remaining $900 million of disbursements was for administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds--old age and survivors insurance, disability insurance, HI, and SMI--on the basis of provisional estimates. Similarly, the expenses of administering other programs of the Health Care Financing Administration 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, the allocations of administrative expenses and costs of construction for prior periods are adjusted by interfund transfers. This adjustment includes transfers between the HI and SMI trust funds and the program management general fund account, with appropriate interest allowances.

In Table 3, the experience with respect to actual amounts of enrollee premiums, Government contributions, and benefit payments in FY 1987 is compared with the estimates for FY 1987 which appeared in the 1986 and 1987 annual reports.

Table 4 shows a comparison of the total assets of the fund and their distribution at the end of FY 1986 and at the end of FY 1987. The assets of the trust fund at the end of FY 1986 totaled $9,432 million, consisting of $9,424 million in the form of obligations of the U.S. Government, and an undisbursed balance of $7 million. The assets of the trust fund at the end of FY 1987 totaled $6,392 million, consisting of $6,166 million in the form of obligations of the U.S. Government and

Table 3.--COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND, FISCAL YEAR 1987
(Dollar amounts in millions)

		Comparison of actual experience with estimates for FY 1987 published in--			
		1987 report		1986 report	
Item	Actual amount	Estimated amount	Actual as percentage of estimate	Estimated amount	Actual as percentage of estimate
Premiums from enrollees	$ 6,480	$ 6,418	101	$ 7,065	92
Government contributions	20,299	20,251	100	19,816	102
Benefit payments	29,937	29,488	102	29,208	102

Table 4.--ASSETS OF THE SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND AT THE END OF FISCAL YEARS 1986 AND 1987*

	September 30, 1986	September 30, 1987
Investments in public-debt obligations sold only to this fund (special issues):		
Certificates of indebtedness	—	—
Bonds:		
7 1/8-percent, 1989-92	$306,553,000.00	—
7 3/8-percent, 1989-90	85,057,000.00	—
7 1/2-percent, 1989-91	97,691,000.00	—
7 5/8-percent, 1989	61,963,000.00	—
8 1/4-percent, 1989-93	717,706,000.00	$110,095,000.00
8 3/8-percent, 2001	444,270,000.00	444,270,000.00
8 3/4-percent, 1989-94	691,398,000.00	399,662,000.00
9 3/4-percent, 1995	115,003,000.00	115,003,000.00
10 3/8-percent, 1989-2000	2,560,107,000.00	1,895,771,000.00
10 3/4-percent, 1988-98	1,279,093,000.00	897,291,000.00
13 1/4-percent, 1988-97	1,287,189,000.00	1,076,184,000.00
13 3/4-percent, 1988-99	1,778,366,000.00	1,227,792,000.00
Total investments in public-debt obligations	9,424,396,000.00	6,166,068,000.00
Undisbursed balance	7,368,140.25	226,325,935.86
Total assets	9,431,764,140.25	6,392,393,935.86

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

an undisbursed balance of $226 million. A comparison of assets of the trust fund with liabilities for incurred but unpaid benefits (and related administrative expenses) is shown in a later section.

The net decrease in the par value of the investments held by the fund during FY 1987 amounted to $3,258 million. New securities at a total par value of $26,692 million were acquired during the fiscal year through the investment of receipts and reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the year was $29,950 million. Included in these amounts is $26,390 million in certificates of indebtedness that were acquired, and $26,390 million in certificates of indebtedness that were redeemed, within the fiscal year.

The effective annual rate of interest earned by the assets of the SMI trust fund for the 12 months ending on June 30, 1987 was 10.5 percent. This period is used because interest on special issues is paid semiannually on June 30 and December 31. The interest rate on special issues purchased by the trust fund in June 1987 was 8 5/8 percent, payable semiannually.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE PERIOD OCTOBER 1, 1987 TO DECEMBER 31, 1990

Financing for the SMI program is established annually on the basis of standard monthly premium rates (paid by or on behalf of the enrollees) and actuarial rates (on which general revenue contributions are based). Beginning January 1, 1984, the annual basis has been the calendar year. The allowable fee limits for physician services has also been established to apply to calendar years, beginning January 1, 1987.

Although standard premium rates and actuarial rates have been set only for periods through December 31, 1988, projections are presented through December 31, 1990 to conform with the requirements of Section 1841(b) of the Social Security Act. It has been assumed in this report that financing after that time will be established to cover the incurred expenses of the program as provided by the provisions described in the "Nature of the Trust Fund" section.

The projections shown in the following tables are based on two sets of economic assumptions labeled Alternative A and Alternative B. These alternatives reflect two different levels of expectation of future performance of the economy. Appendix A presents an explanation of the effects of Alternative A and Alternative B on the projections in this report. For the projection period shown in this report, the variation in economic performance between Alternative A and Alternative B does not significantly affect the operations of the SMI program.

The January 1, 1988 update of the allowable fee limits for physician services was delayed until April 1, 1988 by Public Law 100-203. Under both sets of projections, it is assumed that the April 1, 1988 increase will be 1.7 percent, and the January 1, 1989 increase will be 2.0 percent.

The costs per enrollee for institutional and other services under the SMI program are projected to increase an average of 16.2 percent for CY 1988 and 15.7 percent for CY 1989. These increases represent price increases and increases due to other factors.

Table 5 shows the projected operations of the trust fund on a fiscal year basis through FY 1990. The level of the trust fund decreased in FY 1987 for two reasons. First, the actuarial rates for this period were set to reduce the assets to a more appropriate level. Second, actual expenditures exceeded the estimate made at the time of promulgation.

Table 6 shows the corresponding development on a calendar year basis. The trust fund balance at the end of CY 1987 is higher than it ordinarily would be. Section 708 of Title VII of the Social Security Act modifies the delivery day of Social Security benefit checks when the regularly designated delivery day falls on a Saturday, Sunday or legal public holiday. As a result, the benefit checks were delivered on December 31, 1987 instead of January 3, 1988, a Sunday. Consequently, the SMI premiums withheld from the checks ($692 million) and the general revenue contributions ($2,178 million) were added to the SMI trust fund on December 31, 1987 instead of January 3, 1988. If the benefit checks had been delivered in January 1988, the trust fund balance at the end of CY 1987 would have been $5,524 million instead of $8,394 million.

The actuarial rates for CY 1988 were promulgated with specific margins to begin to amortize the unfunded liability and to build assets to more desirable

Table 5.—ESTIMATED PROGRESS OF THE SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND (CASH BASIS)
FISCAL YEARS 1988-1990 AND ACTUAL DATA FOR 1967-1987
(In millions)

	Income				Disbursements			
Fiscal year 1/	Premiums from enrollees	Government contributions 2/	Interest and other income 3/	Total income	Benefit payments	Administrative expenses	Total disbursements	Balance in fund at end of year 4/
Historical:								
1967	$ 647	$ 623	$ 15	$1,285	$ 664	$ 135 5/	$ 799	$ 486
1968	698	634	21	1,353	1,390	142	1,532	307
1969	903	984	24	1,911	1,645	195	1,840	378
1970	936	928	12	1,876	1,979	217	2,196	57
1971	1,253	1,245	18	2,516	2,035	248	2,283	290
1972	1,340	1,365	29	2,734	2,255	289	2,544	481
1973	1,427	1,430	45	2,902	2,391	246	2,637	746
1974	1,704	2,029	76	3,809	2,874	409	3,283	1,272
1975	1,887	2,330	105	4,322	3,765	405	4,170	1,424
1976	1,951	2,939	104	4,994	4,672	528	5,200	1,219
T.Q.	539	878	4	1,421	1,269	132	1,401	1,239
1977	2,193	5,053	137	7,383	5,867	475	6,342	2,279
1978	2,431	6,386	228	9,045	6,852	504	7,356	3,968
1979	2,635	6,841	363	9,839	8,259	555	8,814	4,994
1980	2,928	6,932	415	10,275	10,144	593	10,737	4,532
1981	3,320	8,747	372	12,439	12,345	883	13,228	3,743
1982	3,831	13,323	473	17,627	14,806	754	15,560	5,810
1983	4,227	14,238	682	19,147	17,487	824	18,311	6,646
1984	4,907	16,811	807	22,525	19,473	899	20,372	8,799
1985	5,524	17,898	1,155	24,577	21,808	922	22,730	10,646
1986	5,699	18,076	1,228	25,004	25,169	1,049	26,217	9,432
1987	6,480	20,299	1,018	27,797	29,937	900	30,837	6,392
Projected:								
Alternative A:								
1988	8,719	25,418	703	34,840	33,992	1,067	35,059	6,173
1989	10,341	31,137	733	42,211	38,347	1,123	39,470	8,914
1990	11,065	34,212	900	46,177	43,568	1,185	44,753	10,338
Alternative B:								
1988	8,719	25,418	703	34,840	33,992	1,065	35,057	6,175
1989	10,341	31,137	735	42,213	38,356	1,119	39,475	8,913
1990	11,095	34,242	908	46,245	43,611	1,179	44,790	10,368

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; FY 1977-90 cover the interval from October 1 through September 30.
2/ The payments shown as being from the general fund of the Treasury include certain interest-adjustment items.
3/ Other income includes recoveries of amounts reimbursed from the trust fund which are not obligations of the trust fund and other miscellaneous income.
4/ The financial status of the program depends on both the total net assets and the liabilities of the program (See Table 9).
5/ Administrative expenses shown include those paid in FY 1966 and 1967.

Table 6.--ESTIMATED PROGRESS OF SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND (CASH BASIS) CALENDAR YEARS 1988-1990 AND ACTUAL DATA FOR 1966-1987
(In millions)

Calendar year	Income				Disbursements			Balance in fund at end of year 3/
	Premiums from enrollees	Government contributions 1/	Interest and other income 2/	Total income	Benefit payments	Administrative expenses	Total disbursements	
Historical:								
1966	$ 322	$ 0	$ 2	$ 324	$ 128	$ 75	$ 203	$ 122
1967	640	933	24	1,597	1,197	110	1,307	412
1968	832	858	21	1,711	1,518	184	1,702	421
1969	914	907	18	1,839	1,865	196	2,061	199
1970	1,096	1,093	12	2,201	1,975	237	2,212	188
1971	1,302	1,313	24	2,639	2,117	260	2,377	450
1972	1,382	1,389	37	2,808	2,325	289	2,614	643
1973	1,550	1,705	57	3,312	2,526	318	2,844	1,111
1974	1,804	2,225	95	4,124	3,318	410	3,728	1,506
1975	1,918	2,648	107	4,673	4,273	462	4,735	1,444
1976	2,060	3,810	107	5,977	5,080	542	5,622	1,799
1977	2,247	5,386	172	7,805	6,038	467	6,505	3,099
1978	2,470	6,287	299	9,056	7,252	503	7,755	4,400
1979	2,719	6,645	404	9,768	8,708	557	9,265	4,902
1980	3,011	7,455	408	10,874	10,635	610	11,245	4,530
1981	3,722 4/	11,291 4/	361	15,374	13,113	915	14,028	5,877
1982	3,697 4/	12,284 4/	599	16,580	15,455	772	16,227	6,230
1983	4,236	14,861	727	19,824	18,106	878	18,984	7,070
1984	5,167	17,054	959	23,180	19,661	891	20,552	9,698
1985	5,613	18,250	1,243	25,106	22,947	933	23,880	10,924
1986	5,722	17,802	1,141	24,665	26,239	1,060	27,299	8,291
1987	7,409 5/	23,560 5/	875	31,844	30,820	920	31,740	8,394
Projected:								
Alternative A:								
1988	8,711 5/	25,991 5/	632	35,334	35,024	1,079	36,103	7,625
1989	10,653	30,527	838	42,018	39,595	1,138	40,733	8,910
1990	11,201	35,441	954	47,596	45,039	1,201	46,240	10,266
Alternative B:								
1988	8,711 5/	25,991 5/	633	35,335	35,025	1,076	36,101	7,628
1989	10,653	30,527	843	42,023	39,612	1,134	40,746	8,905
1990	11,241	35,481	967	47,689	45,096	1,194	46,290	10,304

1/ The payments shown as being from the general fund of the Treasury include certain interest-adjustment items.

2/ Other income includes recoveries of amounts reimbursed from the trust fund which are not obligations of the trust fund and other miscellaneous income.

3/ The financial status of the program depends on both the total net assets and the liabilities of the program. (See Table 9).

4/ Section 708 of Title VII of the Social Security Act modified the provisions for the delivery of Social Security benefit checks when the regularly designated delivery day falls on a Saturday, Sunday or legal public holiday. Delivery of benefit checks normally due January 1982 occurred on December 31, 1981. Consequently, the SMI premiums withheld from the checks ($264 million) and the general revenue matching contributions ($883 million) were added to the SMI trust fund on December 31, 1981. These amounts are excluded from the premium income and general revenue income for CY 1982.

5/ Delivery of benefit checks normally due January 1988 occurred on December 31, 1987. Consequently, the SMI premiums withheld from the checks ($692 million) and the general revenue matching contributions ($2,178 million) were added to the SMI trust fund on December 31, 1987. These amounts are excluded from the premium income and general revenue income for CY 1988. (Refer to footnote 4).

levels. Based on these actuarial rates and the above economic assumptions, the fund is projected to reach a level of $7.6 billion under both alternatives by the end of CY 1988 and then increase to $8.9 billion by the end of CY 1989.

Table 7 shows the calendar year average increases in aggregate and per capita benefit payments through CY 1990. As a measure of program growth relative to the economy as a whole, Table 7 shows SMI benefit expenditures as a percent of the gross national product (GNP). In CY 1987, the program grew on a per capita basis 15.1 percent and, on an aggregate basis, increased from 0.62 percent to 0.69 percent of GNP.

TABLE 7.--GROWTH IN TOTAL CASH BENEFITS UNDER THE SUPPLEMENTARY MEDICAL INSURANCE PROGRAM THROUGH DECEMBER 31, 1990

Calendar year	Aggregate benefits (millions)	Percent change	Per capita benefits	Percent change	SMI benefits as a percent of GNP
Historical:					
1967	$1,197		$66.97		0.15
1968	1,518	26.8	82.27	22.8	0.17
1969	1,865	22.9	97.86	19.0	0.19
1970	1,975	5.9	101.30	3.5	0.19
1971	2,117	7.2	106.68	5.3	0.19
1972	2,325	9.8	114.91	7.7	0.19
1973	2,526	8.6	122.02	6.2	0.19
1974	3,318	31.4	144.47	18.4	0.23
1975	4,273	28.8	179.96	24.6	0.27
1976	5,080	18.9	207.39	15.2	0.28
1977	6,038	18.9	239.27	15.4	0.30
1978	7,252	20.1	279.58	16.8	0.32
1979	8,708	20.1	326.86	16.9	0.35
1980	10,635	22.1	389.87	19.3	0.39
1981	13,113	23.3	471.15	20.8	0.43
1982	15,455	17.9	545.55	15.8	0.49
1983	18,106	17.2	627.79	15.1	0.53
1984	19,661	8.6	670.77	6.8	0.52
1985	22,947	16.7	768.25	14.5	0.57
1986	26,239	14.3	861.37	12.1	0.62
1987	30,820	17.5	991.73	15.1	0.69
Projected:					
Alternative A:					
1988	35,024	13.6	1,105.42	11.5	0.74
1989	39,595	13.1	1,226.46	10.9	0.78
1990	45,039	13.7	1,370.38	11.7	0.83
Alternative B:					
1988	35,025	13.6	1,105.45	11.5	0.74
1989	39,612	13.1	1,226.99	11.0	0.78
1990	45,096	13.8	1,372.12	11.8	0.84