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1974 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

LETTER

FROM

BOARD OF TRUSTEES FEDERAL HOSPITAL INSURANCE TRUST FUND

TRANSMITTING

THE 1974 ANNUAL REPORT OF THE BOARD (NINTH REPORT), PURSUANT TO SECTION 1817(b) OF THE SOCIAL SECURITY ACT, AS AMENDED

JUNE 3, 1974.—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., May 31, 1974.

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

SIR: We have the honor to transmit to you the 1974 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the ninth such report), in compliance with the provisions of section 1817(b) of the Social Security Act, as amended.

Respectfully,

WILLIAM E. SIMON,
Secretary of the Treasury,
and Managing Trustee of the Trust Funds.
PETER J. BRENNAN,
Secretary of Labor.
CASPAR W. WEINBERGER,
Secretary of Health, Education, and Welfare.
JAMES B. CARDWELL,
Commissioner of Social Security.

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1974 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

The Federal hospital insurance trust fund, established on July 30, 1965, is held by the Board of Trustees under the authority of section 1817(b) of the Social Security Act, as amended. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the Managing Trustee. The Commissioner of Social Security is Secretary of the Board. The Board of Trustees reports to the Congress once each year in compliance with section 1817(b)(2) of the Social Security Act. This Report is the annual report for 1974, the ninth such report.

HIGHLIGHTS

The more important developments during fiscal year 1973, discussed in more detail in later sections, are indicated below:

(*a*) The hospital insurance trust fund increased during fiscal year 1973, by an amount close to that projected in the 1973 Report. Income for fiscal 1973 amounted to nearly $8.4 billion, up by 38 percent over fiscal 1972. Benefit payments and administrative expenses totalled slightly over $6.8 billion, 9 percent more than in fiscal 1972. The fund increased by $1.5 billion in fiscal 1973 to $4.4 billion on June 30, 1973.

(*b*) Approximately 21.1 million persons were protected by the hospital insurance program in June 1973. About 4.7 million persons actually received benefits during fiscal year 1973. An estimated 96 million workers had earnings in calendar year 1972 that were taxable and creditable toward eligibility under the program.

(*c*) The trust fund earned $196 million in interest during the year, equivalent to an annual rate of 6.4 percent.

(*d*) The Secretary of HEW promulgated an $84 inpatient deductible for calendar year 1974 and a $36 premium for non-insured enrollees for fiscal year 1975.

SOCIAL SECURITY AMENDMENTS SINCE 1973 REPORT

Since the passage of Public Law 92–603, the Social Security Act has been amended twice; both laws affected the financing of the hospital insurance system but no other substantial changes to the hospital insurance system were made. Public Law 93–66 provided for an increase in the maximum taxable amount of earnings in 1974 from $12,000 to $12,600. Public Law 93–233 further increased the maximum taxable amount of earnings in 1974 to $13,200 but reduced the employer-employee contribution rate, effective January 1, 1974, from 1.0% to 0.9%. The expected result of these amendments is to slow the growth of the trust fund somewhat during the next few years and to strengthen the financing in subsequent years. Details of the 1973 Amendments and their financial effect can be found in documents prepared by and for the Congress.

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 to hold the amounts accumulated under the hospital insurance program. All the financial operations which relate to the system of hospital insurance are handled through this fund.

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

All employees in covered employment are required to pay contributions with respect to their wages, and their employers are also required to pay contributions with respect to wages (cash tips, covered as wages beginning in 1966 under the 1965 amendments, are an exception to this; employees pay contributions with respect to cash tips, but employers do not). All covered self-employed persons are required to pay contributions with respect to their self-employment income. In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount with the contributions being determined first on the wages and then on any self-employment income necessary to make up the annual maximum amount.

The contribution rates applicable to taxable earnings in each of the calendar years 1966 and later are shown in table 1. The maximum amount of annual earnings taxable in each year, 1966–74, is also shown. For years after 1974, this amount is subject to automatic increases.

Except for amounts received by the Secretary of the Treasury under State agreements (to effectuate coverage under the program for State and local government employees) and deposited directly in the trust fund, all contributions are collected by the Internal Revenue Service and deposited in the general fund of the Treasury as internal revenue collections; then, on an estimated basis, the contributions received are immediately and automatically appropriated to the trust fund. The exact amount of contributions received is not known initially since (1) hospital insurance contributions, (2) old-age, survivors, and disability insurance contributions, and (3) 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.

Section 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, Education, and Welfare.

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.

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.

Certain persons not eligible for hospital insurance coverage 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.

Expenditures for benefit payments and administrative expenses under the hospital insurance program are paid out of the trust fund. All expenses incurred by the Department of Health, Education, and Welfare and by the Treasury Department in carrying out the provisions of Title XVIII of the Social Security Act 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, Education, and Welfare certifies benefit payments to the Managing Trustee, who makes the payment from the trust fund in accordance therewith.

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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 allowances, as the actual experience develops and is analyzed.

The Social Security Amendments of 1967 and 1972 authorize the Secretary of Health, Education, and Welfare 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 and supplementary medical insurance programs. The costs of such experiments and demonstration projects are paid out of the hospital insurance and supplementary medical insurance trust funds. The costs paid out of the hospital insurance trust fund are included as part of benefit payments in the financial statements of operations of the trust fund as set forth in subsequent sections of this report.

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

That portion of the trust fund which, in the judgment of the Managing Trustee, is not required to meet current expenditures for benefits and administration is invested, 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 by the Managing Trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of four years from the end of such calendar month.

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

Calendar years	Maximum taxable amount of annual earnings	Contribution rates (percent of taxable earnings): Employees and employers, each	Contribution rates (percent of taxable earnings): Self-employed
Past experience:			
1966	$6,600	0.35	0.35
1967	6,600	.50	.50
1968–71	7,800	.60	.60
1972	9,000	.60	.60
1973	10,800	1.00	1.00
1974	13,200	.90	.90
Changes scheduled in present law:			
1975–77	(1)	.90	.90
1978–80	(1)	1.10	1.10
1981–85	(1)	1.35	1.35
1986 and later	(1)	1.50	1.50

1 Subject to automatic increase after 1974.

Summary of the Operations of the Trust Fund, Fiscal Year 1973

A statement of the income and disbursements of the Federal hospital insurance trust fund during fiscal year 1973 and of the assets of the fund at the beginning and the end of the fiscal year is presented in table 2. Comparable amounts for fiscal year 1972 are also shown in the table.

The total assets of the trust fund amounted to $2,859 million on June 30, 1972. During fiscal year 1973, total receipts amounted to $8,352 million and total disbursements were $6,842 million. The assets of the trust fund thus increased $1,510 million during the year to a total of $4,369 million on June 30, 1973.

Included in total receipts during fiscal year 1973 were $6,993 million representing contributions appropriated to the trust fund and $725 million representing amounts received by the Secretary of the Treasury in accordance with State agreements for coverage of State and local government employees and deposited in the trust fund. As an offset, $55 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 $7,663 million, representing an increase of 47 percent over the amount for the preceding fiscal year. This growth in contribution income resulted primarily from (1) the increase in the combined employer–employee contribution rate from 1.2 percent to 2.0 percent that became effective January 1, 1973, (2) the higher level of employment and taxable earnings, and (3) the two increases in the maximum annual amount of earnings taxable—from $7,800 to $9,000 and from $9,000 to $10,800—that became effective on January 1, 1972, and January 1, 1973, respectively. Although the first increase in the maximum annual amount of earnings taxable, from $7,800 to $9,000, became effective in 1972, the first full fiscal year during which earnings between $7,800 and $9,000 were taxable was 1973.

Reference has been made in an earlier section to 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. In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of $62,705,000 from the railroad retirement account to the hospital insurance trust fund would place this fund in the same position, as of June 30, 1972, as it would have been if railroad employment had always been covered under the Social Security Act. This amount was transferred to the trust fund in August 1972, together with interest to the date of transfer amounting to $533,000.

Reference has also been made earlier to provisions under which the hospital insurance trust fund is to be reimbursed annually from the general fund of the Treasury for the costs of granting noncontributory credits for military service. In accordance with these provisions, the Secretary of Health, Education, and Welfare made a determination in 1970 of the level annual appropriations to the trust fund necessary to amortize over a 44-year period, beginning in fiscal year 1972, the estimated total additional costs, for military service performed before 1957, arising from payments that have been made since July 1966 and that will be made in future years, taking into account the amounts of annual appropriations in fiscal years 1966–71 that have been deposited into the trust funds. The annual amount resulting from this determination was $48 million. Thus, a reimbursement amounting to $48 million was received by the trust fund in December 1972.

Again, reference has been made earlier 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 in behalf of certain uninsured persons. The reimbursement in fiscal year 1973 amounted to $381 million, consisting of $370 million for benefit payments, $19 million for administrative expenses, and, as an offset, $8 million due the general fund for net interest on adjustments to costs in prior fiscal years.

The remaining $196 million of receipts consisted almost entirely of interest on the investments of the trust fund.

Of the $6,842 million in total disbursements, $6,654 million represented benefits paid directly from the trust fund for health services covered under Title XVIII of the Social Security Act and about $842,000 represented amounts paid under incentive reimbursement arrangements. As offsets to benefit payments, transfers were made from the supplementary medical insurance trust fund consisting of $6 million for certain 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 1973, therefore, amounted to $6,649 million, an increase of 8.8 percent over the corresponding amount paid in fiscal year 1972.

The remaining $193 million of disbursements was for net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds—old-age insurance, disability insurance, hospital insurance, and supplementary medical insurance—on the basis of provisional estimates. 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 transfers among the four trust funds, with appropriate interest allowances.

Table 3 compares the actual experience in fiscal year 1973 with the estimates presented in the 1973 Annual Report of the Board of Trustees. Reference was made in an earlier section 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 1973 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1973 does not reflect adjustments to contributions for fiscal year 1973 that were to be made after June 30, 1973. The estimated contributions and benefit payments in the 1973 report were both quite close to actual experience.

The assets of the trust fund at the end of fiscal year 1973 totaled $4,369 million, consisting of $4,222 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations, and an undisbursed balance of $146 million. Table 4 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1972 and 1973.

The net increase in the par value of the investments held by the fund during fiscal year 1973 amounted to $1,338 million. New securities at a total par value of $10,614 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 $9,275 million. Included in these amounts is $8,454 million in certificates of indebtedness that were acquired and redeemed within the fiscal year.

The effective annual rate of interest earned by the assets of the hospital insurance trust fund during fiscal year 1973 was 6.4 percent. The interest rate on public-debt obligations issued for purchase by the trust fund in June 1973 was 6⅝ percent, payable semiannually.

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TABLE 2.—STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1972 AND 1973

[In thousands of dollars]

	Fiscal year 1972	Fiscal year 1973
Total assets of the trust fund, beginning of year	3,103,106	2,858,725
Receipts:		
Contributions:		
Appropriations	4,743,453	6,993,232
Deposits arising from State agreements	533,753	724,930
Gross contributions	5,277,206	7,718,163
Less payment into the Treasury for contributions subject to refund	51,315	55,044
Net contributions	5,225,891	7,663,119
Transfer from railroad retirement account	66,106	63,238
Reimbursements from general fund of the Treasury for costs of—		
Noncontributory credits for military service	48,000	48,000
Benefits for uninsured persons:		
Benefit payments	496,000	369,699
Administrative expenses	19,033	19,496
Gross reimbursement for costs of benefits for uninsured persons	515,033	389,195
Less interest on adjustments to costs in prior fiscal years	11,682	7,780
Net reimbursement for costs of benefits for uninsured persons	503,351	381,415
Interest:		
Interest on investments	187,427	195,673
Interest on transfers from the supplementary medical insurance trust fund for reimbursement of costs of incentive reimbursement arrangements paid initially from the hospital insurance trust fund [1]	5	
Interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs	348	155
Total interest	187,781	195,828
Total receipts	6,031,128	8,351,599
Disbursements:		
Benefit payments:		
Paid directly from the trust fund for costs of—		
Health services	6,114,314	6,653,977
Incentive reimbusement arrangements [2]	905	842
Gross benefit payments	6,115,220	6,654,819
Less transfers from the supplementary medical insurance trust fund for reimbursement of payments made initially from the hospital insurance trust fund for costs of—		
Radiology and pathology services [2]	6,000	6,000
Incentive reimbursement arrangements [1]	81	
Net benefit payments	6,109,139	6,648,819
Administrative expenses:		
Department of Health, Education, and Welfare [3]	159,606	180,475
Treasury Department	6,607	8,844
Construction of facilities for Social Security Administration	1,144	919
Interfund transfers due to adjustment in allocation of—		
Administrative expenses [4]	−1,101	2,776
Construction costs [4]	118	−172
Gross administrative expenses	166,375	192,842
Less receipts from sale of surplus supplies, materials, etc	5	3
Net administrative expenses	166,370	192,839
Total disbursements	6,275,509	6,841,658
Net addition to the trust fund	−244,381	1,509,942
Total assets of the trust fund, end of year	2,858,725	4,368,666

[1] Beginning March 1972 incentive reimbursement payments are being made on a current basis from each of the 2 trust funds, hospital insurance and supplementary medical insurance, so that no transfer was necessary in fiscal year 1973.
[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 social security trust funds. A negative figure represents a transfer to the hospital insurance trust fund from the other social security trust funds.

TABLE 3.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND FISCAL YEAR 1973

[Dollar amounts in millions]

Item	Actual amount	Estimated amount published in 1973 report	Actual as percentage of estimate
Net contributions	$7,663	$7,710	99
Benefit payments	6,649	6,710	99

Note.—In interpreting the figures in the above table, reference should be made to the accompanying text.

TABLE 4.—ASSETS OF THE HOSPITAL INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1972 AND 1973

	June 30, 1972		June 30, 1973	
	Par value	Book value [1]	Par value	Book value [1]
Investments in public-debt obligations sold only to this fund (special issues):				
Notes:				
5¾ percent, 1979	$537,999,000	$537,999,000.00	$537,999,000	$537,999,000.00
6⅛ percent, 1978	931,182,000	931,182,000.00	931,182,000	931,182,000.00
6½ percent, 1976	445,419,000	445,419,000.00		
6⅝ percent, 1980			2,159,064,000	2,159,064,000.00
7⅝ percent, 1977	919,358,000	919,358,000.00	544,120,000	544,120,000.00
Total public-debt obligations sold only to this fund (special issues)	2,833,958,000	2,833,958,000.00	4,172,365,000	4,172,365,000.00
Investments in federally sponsored agency obligations: Participation certificates: Federal assets liquidation trust—Government National Mortgage Association: 5.20 percent, 1982	50,000,000	50,000,000.00	50,000,000	50,000,000.00
Total investments	2,883,958,000	2,883,958,000.00	4,222,365,000	4,222,365,000.00
Undisbursed balance		[2] −25,233,199.85		146,301,420.67
Total assets		2,858,724,800.15		4,368,666,420.67

[1] Par value, plus unamortized premium, less discount outstanding.
[2] A minus figure represents an overdraft which is covered by the redemption of securities on the 1st working day of the following month.

Advisory Council on Social Security

The Secretary of Health, Education, and Welfare on April 23, 1974, announced the appointment of an Advisory Council on Social Security under the provisions of section 706 of the Social Security Act. The Council, which consists of a Chairman and 12 members representing organizations of employers and of employees, self-employed persons, and the public, is making a comprehensive study of the old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance programs.

The Council is required to review the status of the old-age and survivors insurance trust fund, the disability insurance trust fund, the hospital insurance trust fund, and the supplementary medical insurance trust fund in relation to the long-term commitments of the programs. The Council will review the scope of coverage, the adequacy of benefits, and other aspects of these four programs, including their impact on public assistance. The Council is required to submit its final reports to the Secretary of Health, Education, and Welfare no later than January 1, 1975. After the Council's reports are transmitted by the Secretary to the Congress and to the Board of Trustees of each of the trust funds, the Council will cease to exist. The Council's report and recommendations with respect to the hospital insurance program will be included in the next annual report of the Board of Trustees.

Expected Operation and Status of the Trust Fund During Period July 1, 1973 to June 30, 1976

The expected operation of the trust fund during the next three fiscal years is shown in table 5, together with the past experience of the program.

TABLE 5.—OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, FISCAL YEARS 1967–76

[In millions]

Fiscal year	Income							Disbursements			Trust fund	
	Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums for voluntary enrollees	Reimbursement for military wage credits	Interest on investments	Total income	Benefit payments	Administrative expenses	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	5,443	149	5,592	426	3,103
1972	5,226	66	503		48	188	6,031	6,109	166	6,276	−245	2,859
1973	7,663	63	381		48	196	8,352	6,649	193	6,842	1,510	4,369
Projection:												
1974	10,581	99	451	$3	48	359	11,541	7,731	285	8,016	3,525	7,894
1975	11,264	125	478	3	48	541	12,459	9,436	335	9,771	2,688	10,582
1976	12,458	137	479	4	48	691	13,817	10,980	359	11,339	2,478	13,060

The estimates of income from hospital insurance contributions are at a considerably higher level during the period projected than during prior years, primarily as a result of the increased hospital insurance tax rates beginning January 1, 1973. Income during fiscal years 1974 and 1975 is increased also by the change in the earnings base to $13,200 that took place on January 1, 1974. Income during fiscal years 1975 and 1976 is increased by the projected increases in the earnings bases, in accordance with the automatic adjustment provisions.

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.

Income to the trust fund appropriated from general revenues to reimburse the program for the cost of noninsured persons for coverage paid for by the federal government is estimated to be the same as the estimates of disbursements for such persons, net of corrections for differences between costs and reimbursements for previous years. Premium income and disbursements for other noninsured persons over age 65 who are permitted to enroll in the hospital insurance program beginning in fiscal year 1974 are based on an estimated enrollment of 7,000.

Reimbursement from general revenues for military wage credits are projected at $48 million in each year, based on the determination made by the Secretary of Health, Education, and Welfare in 1970 of the level annual appropriations necessary to amortize the additional costs arising from these wage credits. The estimates assume that the amount of appropriation due for such military service wage credits are paid in the appropriate period.

Estimated disbursements for benefits and administrative expenses increase sharply in fiscal years 1974 and 1975, primarily as a result of the coverage of some disabled beneficiaries and persons suffering from chronic kidney disease beginning in July 1973. Due to the delay between the date on which services are performed and reimbursement for the cost of such services is paid from the trust fund, the full effect of the coverage of these new beneficiaries is not reflected in disbursements for benefit payments during 1974.

The expenditures for benefit payments shown in table 5 are different from those shown in the current Federal Budget. The budget document incorporates Phase 4 regulations of the Economic Stabilization Program, which would reduce the rate of increase in hospital costs recognized by the program for reimbursement purposes. Benefit payments in table 5 also reflect lower projected outlays for disabled beneficiaries eligible for Medicare, based on a more recent evaluation of experience to date.

The actual operation of the hospital insurance program is, in general, organized 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 basis as used in table 5. Further discussion of the financing of the program is on a calendar year basis.

TABLE 6.—OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, CALENDAR YEARS 1966–76

[In millions]

Calendar year	Income							Disbursements			Trust fund	
	Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums for voluntary enrollees	Reimbursement for military wage credits	Interest on investments	Total income	Benefit payments	Administrative expenses	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	149	5,900	−168	3,034
1972	5,731	63	381	----------	48	180	6,403	6,319	184	6,503	−99	2,935
1973	9,944	99	451	$2	48	278	10,821	7,057	232	7,289	3,532	6,467
Projection:												
1974	10,665	125	478	3	48	440	11,759	8,686	330	9,016	2,743	9,210
1975	11,810	137	479	3	48	592	13,069	10,250	346	10,596	2,473	11,683
1976	13,091	141	479	4	48	734	14,497	11,709	371	12,080	2,417	14,100

The ratios of the balance in the trust fund at the beginning of each calendar year to the total disbursements during that year are shown in table 7 for past years and as projected through 1976. The ratio of the fund to such disbursements grew gradually until it reached approximately the level of one half of a year's expenditures as of the beginning of 1971. The ratio fell during both of the following two years, but is expected to increase to 72% of 1974 expenditures at the beginning of that year, to reach 100% of 1977 expenditures by the beginning of that year, and to exceed 130% of 1980 expenditures by the beginning of that year.

TABLE 7.—*Ratio of assets at the beginning of the year to expenditures during the year for the hospital insurance trust fund*

	Ratio (percent)
Historical data (calendar year):	
1967	28
1968	25
1969	43
1970	47
1971	54
1972	47
1973	40
Projection:	
1974	72
1975	87
1976	97

ACTUARIAL STATUS OF THE TRUST FUND

The hospital insurance program, as a mature long-range social insurance program, is financed on a current-cost basis. The proportion of persons over age 65 who are currently eligible for benefits can be expected to increase at a relatively low rate in future years. Although the proportion of the population who have been disabled more than two years is gradually increasing, the impact of the increase on the expenditures of the program is relatively small. Similarly, the number of persons covered as a result of chronic kidney disease is projected to grow rapidly, but accounts for only a small proportion of total expenditures. It is appropriate to finance such a system on a pay-as-you-go basis, if modified to avoid abrupt changes in the tax rates and to maintain a suitable fund for adverse contingencies. The Board of Trustees, acting on the recommendation of the 1971 Advisory Council, has adopted these general financing principles.

The adequacy of the contribution rates specified by the current law to support the hospital insurance system is measured by comparison with the "current costs" for the program over the 25-year valuation period. The current cost for the program in any year is essentially the combined employer-employee contribution rate that would be just sufficient to (1) provide the benefit payments and administrative expenses for the year and (2) maintain the trust fund at the level of the following year's disbursements.

To finance the program over future years using these concepts, two further considerations must be taken into account. If the trust fund is not currently equal to the desired level of expected disbursements during the next year, the "current-costs" must be modified to adjust the growth (or decline) of the trust fund to a path that will lead to