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1975 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 1975 ANNUAL REPORT OF THE BOARD, PURSUANT TO SECTION 1817(b) OF THE SOCIAL SECURITY ACT, AS AMENDED

MAY 6, 1975.—Referred to the Committee on Ways and Means and ordered to be printed

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1975 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 1975 Annnal Report of the Board (10th Report), Pursuant to the Provisions of Section 1817(b) of the Social Security Act, as Amended

LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL HOSPITAL INSURANCE TRUST FUND,
Washington, D.C., May 2, 1975.

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

SIR: We have the honor to transmit to you the 1975 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the tenth 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.

JOHN T. DUNLOP,
Secretary of Labor.

CASPAR W. WEINBERGER,
Secretary of Health, Education, and Welfare.

JAMES B. CARDWELL,
Commissioner of Social Security.

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1975 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 1975, the tenth such report.

HIGHLIGHTS

The more important developments during fiscal year 1974, discussed in more detail in later sections, are indicated below:

(*a*) In July 1973, persons entitled to disability insurance benefits for at least two years and persons suffering from chronic kidney disease became eligible for protection under the hospital insurance program.

(*b*) The hospital insurance trust fund increased during fiscal year 1974, by an amount close to that projected in the 1974 Report. Income for fiscal 1974 amounted to $11.6 billion, up by 39 percent over fiscal 1973. Benefit payments and administrative expenses totalled $8.1 billion, 18 percent more than in fiscal 1973. The fund increased by $3.5 billion in fiscal 1974 to $7.9 billion on June 30, 1974.

(*c*) Approximately 23.4 million persons were protected by the hospital insurance program in June 1974, including 1.9 million disabled persons under age 65. About 5.3 million persons actually received benefits during fiscal year 1974. An estimated 100 million workers had earnings in calendar year 1973 that were taxable and creditable toward eligibility under the program.

(*d*) The trust fund earned $0.4 billion in interest during the year, equivalent to an annual rate of 6.7 percent.

(*e*) The Secretary of HEW promulgated a $92 inpatient deductible for calendar year 1975 and a $40 monthly premium for noninsured enrollees for fiscal year 1976.

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. For 1976 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, 1966–75, is also shown. Beginning with 1975, the maximum amount of earnings taxable each year is determined in the preceding year under the automatic increase provisions in section 230 of the Social Security Act, unless modified by intervening Congressional action.

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
1975	14,100	.90	.90
Changes scheduled in present law:			
1976–77	(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.

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.

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, 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.

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 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.

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 programs.

Congress has authorized expenditures from the trust funds for constructions, rental, and lease or purchase contract of office buildings and related facilities for the Social Security Administration. Both the capital costs of construction financed directly from the trust funds and the rental, lease, or purchase contract costs of acquiring facilities are included in trust fund expenditures. In 1974, construction of several large facilities was begun under purchase contract authority, wherein initial capital costs are 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 statements of the operations 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 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.

Summary of the Operations of the Trust Fund, Fiscal Year 1974

A statement of the income and disbursements of the Federal hospital insurance trust fund during fiscal year 1974 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 1973 are also shown in the table.

The total assets of the trust fund amounted to $4,369 million on June 30, 1973. During fiscal year 1974, total receipts amounted to $11,610 million and total disbursements were $8,065 million. The assets of the trust fund thus increased $3,545 million during the year to a total of $7,914 million on June 30, 1974.

Included in total receipts during fiscal year 1974 were $9,595 million representing contributions appropriated to the trust fund and $1,099 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, $92 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 $10,602 million, representing an increase of 38 percent over the amount for the preceding fiscal year. This growth in contribution income resulted primarily from (1) the higher level of employment and taxable earnings, (2) the increase in the combined employer-employee contribution rate from 1.2 percent to 2.0 percent (and the corresponding increase in the self-employed contribution rate) that became effective January 1, 1973, and (3) the two increases in the maximum annual amount of earnings taxable—from $9,000 to $10,800 and from $10,800 to $13,200—that became effective on January 1, 1973, and January 1, 1974, respectively. Although the increase in the contribution rate became effective in 1973, fiscal year 1974 was the first full fiscal year during which a combined employer-employee contribution rate in excess of 1.2 percent was operative. (The increase in net contribution income would have been larger had it not been for the decrease in the combined

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employer-employee contribution rate from 2.0 percent to 1.8 percent—and the corresponding decrease in the self-employed contribution rate—that became effective on January 1, 1974.) Similarly, although the first increase in the maximum annual amount of earnings taxable, from $9,000 to $10,800, became effective in 1973, the first full fiscal year during which earnings between $9,000 and $10,800 were taxable was 1974.

Reference has been made in an earlier section 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 1974, the first year the premiums were payable, amounted to about $4 million.

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 $98,069,000 from the railroad retirement account to the hospital insurance trust fund would place this fund in the same position, as of June 30, 1973, 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 1973, together with interest to the date of transfer amounting to $1,113,000.

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 1973.

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 1974 amounted to $451 million, consisting of $445 million for benefit payments, $8 million for administrative expenses, and, as an offset, $2 million due the general fund for net interest on adjustments to costs in prior fiscal years.

Reference has also been made in an earlier section to provisions under which money gifts or bequests may be deposited in the trust fund. In fiscal year 1974, the trust fund received a gift of $12.

The remaining $405 million of receipts consisted almost entirely of interest on the investments of the trust fund.

Of the $8,065 million in total disbursements, $7,812 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 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 1974, therefore, amounted to $7,806 million, an increase of 17.4 percent over the corresponding amount paid in fiscal year 1973.

Reference has been made in an earlier section to provisions which authorize payment from the trust fund for costs of experiments and demonstration projects in providing health care services. In fiscal year 1974, payments for such costs amounted to about $707,000.

The remaining $258 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 1974 with the estimates presented in the 1974 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 1974 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1974 does not reflect adjustments to contributions for fiscal year 1974 that were to be made after June 30, 1974. The estimated contributions and benefit payments in the 1974 report were both quite close to actual experience.

The assets of the trust fund at the end of fiscal year 1974 totaled $7,914 million, consisting of $7,864 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations, and an undisbursed balance of $49 million. Table 4 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1973 and 1974.

The net increase in the par value of the investments held by the fund during fiscal year 1974 amounted to $3,642 million. New securities at a total par value of $15,229 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 $11,587 million. Included in these amounts is $11,577 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 1974 was 6.7 percent.

The interest rate on public-debt obligations issued for purchase by the trust fund in June 1974 was 7⅝ percent, payable semiannually.

TABLE 2.—STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1973 AND 1974

[In thousands]

	Fiscal year 1973	Fiscal year 1974
Total assets of the trust fund, beginning of year	$2,858,725	$4,368,666
Receipts:		
Contributions:		
Appropriations	6,993,232	9,595,278
Deposits arising out of State agreements	724,930	1,099,424
Gross contributions	7,718,163	10,694,702
Less payment into the Treasury for contributions subject to refund	55,044	92,432
Net contributions	7,663,119	10,602,270
Premium collected from voluntary participants		4,281
Transfer from railroad retirement account	63,238	99,182
Reimbursement from general fund of Treasury for costs of—		
Noncontributory credits for military service	48,000	48,000
Benefits for uninsured persons:		
Benefit payments	369,699	445,000
Administrative expenses	19,496	8,101
Gross reimbursement for costs of benefits for uninsured persons	389,195	453,101
Less interest on adjustments to costs in prior fiscal years	7,780	2,321
Net reimbursement for costs of benefits for uninsured persons	381,415	450,780
Interest:		
Interest on investments	195,673	405,523
Interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs [1]	155	−269
Total interest	195,828	405,254
Total receipts [2]	8,351,599	11,609,767
Disbursements:		
Benefit payments:		
Paid directly from the trust fund for costs of health services	6,653,977	7,811,980
Less transfers from the supplemental medical insurance trust fund for reimbursement of payments made initially from the hospital insurance trust fund for costs of radiology and pathology services [3]	6,000	6,000
Net benefit payments	6,647,977	7,805,980
Costs of experiments and demonstration projects [3]	842	707
Administrative expenses:		
Department of Health, Education, and Welfare [4]	180,475	243,893
Treasury Department	8,844	11,142
Construction of facilities for Social Security Administration	919	172
Interfund transfers due to adjustment in allocation of—		
Administrative expenses [5]	2,776	2,827
Construction costs [5]	−172	32
Gross administrative expenses	192,842	258,066
Less receipts from sale of supplies, materials, etc	3	18
Net administrative expenses	192,839	258,048
Total disbursements	6,841,658	8,064,735
Net addition to the trust fund	1,509,942	3,545,032
Total assets of the trust fund, end of year	4,368,666	7,913,699

[1] A positive figure represents a transfer of interest to the hospital insurance trust fund from the other social security trust funds. A negative figure represents a transfer of interest from the hospital insurance trust funds to the other social security trust funds.
[2] Includes a gift amounting to $12.
[3] For explanation, see text.
[4] Includes administrative expenses of the intermediaries.
[5] 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 HOSPITAL INSURANCE TRUST FUND, FISCAL YEAR 1974

[Dollar amounts in millions]

Item	Actual amount	Estimated amount published in 1974 report	Actual as percentage of estimate
Net contributions	$10,602	$10,581	100
Benefit payments	7,806	7,731	101

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 1973 AND 1974

	June 30, 1973		June 30, 1974	
	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
6⅝-percent, 1980	2,159,064,000	2,159,064,000.00	2,159,064,000	2,159,064,000.00
7⅝-percent, 1977	544,120,000	544,120,000.00	534,947,000	534,947,000.00
Bonds:				
7⅝-percent, 1981			405,685,000	405,685,000.00
7⅝-percent, 1982			405,685,000	405,685,000.00
7⅝-percent, 1983			405,685,000	405,685,000.00
7⅝-percent, 1984			405,685,000	405,685,000.00
7⅝-percent, 1985			405,685,000	405,685,000.00
7⅝-percent, 1986			405,685,000	405,685,000.00
7⅝-percent, 1987			405,685,000	405,685,000.00
5⅝-percent, 1988			405,685,000	405,685,000.00
7⅝-percent, 1988			405,684,000	405,684,000.00
7⅝-percent, 1989			405,684,000	405,684,000.00
Total public-debt obligations sold only to this fund (special issues)	4,172,365,000	4,172,365,000.00	7,814,355,000	7,814,355,000.00
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	4,222,365,000	4,222,365,000.00	7,864,355,000	7,864,355,000.00
Undisbursed balances		146,301,420.67		49,343,661.03
Total assets		4,368,666,420.67		7,913,698,661.03

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

Advisory Council on Social Security

Pursuant to section 706 of the Social Security Act, an Advisory Council on Social Security was appointed by the Secretary of Health, Education, and Welfare in April 1974. The Council submitted its reports on March 6, 1975. The following recommendation of the Council would have a very significant impact on the financing of the hospital insurance program and the future integrity of the hospital insurance trust fund:

Employee-employer taxes: The OASDI tax rate should be gradually increased, as OASDI costs increase, and the increases should be met by reallocating taxes now scheduled in the law for part A (hospital insurance) of the Medicare program. Income lost to the hospital insurance program by this reallocation should be made up from the general funds of the Treasury.

Additional revenues for the social security cash benefits program will be required through increased contribution rates, an increase in the earnings base or some combination of these two elements. However, the Board is opposed to the use of additional general revenue financing for the hospital insurance program.

Expected Operation and Status of the Trust Fund During Period July 1, 1974, to September 30, 1977

The expected operation of the trust fund during fiscal years 1975 and 1976, the transition period July through September of 1976, and fiscal year 1977 (on the new October through September basis) is shown in Table 5, together with the past experience of the program.

TABLE 5.—OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, FISCAL YEARS 1967–77

[In millions]

Fiscal year[1]	Income							Disbursements			Trust fund	
	Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from 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 8 4	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
1974	10,602	99	451	$4	48	405	11,610	7,806	259	8,065	3,545	7,914
Projection:												
1975	11,258	132	471	5	48	617	12,531	10,231	287	10,518	2,013	9,927
1976	11,803	140	622	5	48	717	13,335	11,729	343	12,072	1,263	11,190
Transition	3,219	[2] 0	[3] 0	1	0	7	3,227	3,142	85	3,227	0	11,190
1977	13,856	[2] 194	[3] 728	6	48	804	15,636	14,137	374	14,511	1,125	12,315

[1] For 1967 through 1976, fiscal years cover the interval from July 1 through June 30; the 3-month interval from July 1, 1976, through Sept. 30, 1976, is labelled the "transition" period; fiscal year 1977 covers the interval from Oct. 1, 1976, through Sept. 30, 1977.

[2] The 1977 transfer is for contributions during the 5-quarter period covering fiscal year 1976 and the "transition" period.

[3] The 1977 transfer is for benefits and administrative expenses during the 5-quarter period covering fiscal year 1977 and the "transition" period.

The estimates of income from hospital insurance contributions are at a considerably higher level during the period projected than during the earlier years of the program, primarily as a result of the increased hospital insurance tax rates beginning January 1, 1973. Income during successive years of the projection is increased also 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 are based on an estimated enrollment of 11,000.

Reimbursement from general revenues for military wage credits is 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 is paid in the appropriate period.

Estimated disbursements for benefits and administrative expenses increase sharply in fiscal years 1975 and 1976, jointly as a result of the coverage of eligible disabled beneficiaries and persons suffering from chronic kidney disease beginning in fiscal year 1974 and as a result of the high rate of increase in reimbursement levels for hospital costs recognized by the program.

The expenditures for benefit payments shown in Table 5 are slightly higher than those shown in the current Federal Budget. Benefit payments in Table 5 reflect more recent program experience and a slightly revised schedule of implementation of certain changes in regulations.

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 1966-77

[In millions]

Calendar year	Income							Disbursements			Trust fund	
	Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from 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
1974	10,844	132	471	5	48	523	12,024	9,101	271	9,372	2,652	9,119
Projection:												
1975	11,342	140	622	5	48	642	12,799	10,956	316	11,272	1,527	10,646
1976	12,435	[1] 194	[2] 0	6	48	723	13,406	12,689	357	13,046	360	11,006
1977	14,194	164	[2] 728	6	48	773	15,913	14,670	381	15,051	862	11,868

[1] The 1976 transfer is for contributions during the 15-month period beginning July 1975 and ending September 1976.

[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.

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 1977. 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. After dropping slightly during both of the following two years, it increased to 69 percent in 1974; the ratio is expected to increase to 81 percent in 1975 and to follow a generally increasing trend over the next several years, exceeding 100 percent of expenditures during the early 1980's.

TABLE 7.—RATIO OF ASSETS AT THE BEGINNING OF THE YEAR TO EXPENDITURES DURING THE YEAR FOR THE HOSPITAL INSURANCE TRUST FUND

[Percent]

Calendar year	Ratio
Historical data:	
1967	28
1968	25
1969	43
1970	47
1971	54
1972	47
1973	40
1974	69
Projection:	
1975	81
1976	82
1977	73

Actuarial Status of the Trust Fund

The hospital insurance program is a mature, long-range social insurance program. In recognition of this and acting on the recommendation of the 1971 Advisory Council, the Board of Trustees has adopted the general principle that the financing of the program should be on a current cost basis, with the trust fund maintained at a level approximately equal to one year's expenditures. The current cost for a specific year is the ratio of (1) the cost of benefits and administration for insured persons for the year plus an amount required to maintain the trust fund at the level of the next year's expenditures to (2) the total payroll subject to hospital insurance taxation.

The adequacy of the contribution schedule under current law, to provide for benefits and administrative expenses for insured persons and to maintain the trust fund at the level of the next year's expenditures, is measured by comparing on a year-to-year basis the actual contribution rates specified by law with the corresponding current costs. If the trust fund is not equal to the level of the next year's disbursements at the beginning of the 25-year valuation period, an additional allowance must be made for increasing it to that level.

The current costs of the hospital insurance program over the next 25 years are summarized in Table 8, along with that part of the current cost required to actually pay disbursements in each year. For purposes of comparison, the latter are also shown for past years.

TABLE 8.—EXPENDITURES AND CURRENT COSTS OF THE HOSPITAL INSURANCE PROGRAM AS A PERCENT OF TAXABLE PAYROLL[1]

[Percent]

Calendar year	Expenditures[2]	Current cost[3]
Historical data:		
1967	0.95	
1968	1.03	
1969	1.09	
1970	1.17	
1971	1.30	
1972	1.26	
1973	1.37	
1974	1.50	
Projection:		
1975	1.73	1.83
1976	1.82	1.91
1977	1.85	1.94
1978	1.90	1.99
1979	1.97	2.05
1980	2.06	2.13
1985	2.60	2.64
1990	3.10	3.13
1995	3.58	3.61
Average cost[4]		2.86

[1] Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple employer "excess wages."
[2] Benefit payments and administrative expenses for insured beneficiaries.
[3] Includes provision for maintenance of fund equal to next year's expenditures.
[4] The average cost is the average of the "current costs" for the 25-year period 1975–99, adjusted to build the trust fund to 100 percent of the following year's expenditures.

As can be seen from Table 8, the ratio of expenditures to taxable payroll has increased from 0.95 percent in 1967 to an estimated 1.50 percent in 1974, reflecting both the higher rate of increase in hospital costs than in earnings subject to hospital insurance taxes and the extension of hospital benefits to disabled beneficiaries and persons suffering from chronic kidney disease. Further increases in this ratio to 2.06 percent in 1980 and to 3.58 percent in 1995 result from the assumed continued increases in the cost of institutional health care at a higher rate than in taxable earnings (see Appendix A for a description of the methodology and assumptions used in this projection).

The additional allowance necessary to maintain the trust fund at the level of 100 percent of the next year's disbursements (provided the trust fund is already at the level of the current year's disbursements at the beginning of the year) will be at a reasonably high level in the short run as a result of increases in disbursements due primarily to the relatively high rates of increase projected for hospital costs. In the long run, this factor is relatively less important. The current cost is estimated to be 1.83 percent for 1975, and it is projected to increase to 2.13 percent by 1980 and to 3.61 percent by 1995.

Since the level of the hospital insurance trust fund at the beginning of calendar year 1975 is 81 percent of the projected disbursements during 1975, provision must be made for increasing the trust fund to the desired level. The average allowance required for this purpose over the 25-year projection period is added to the average of the current costs over this period to obtain the average cost of 2.86 percent of taxable payroll. Table 9 compares the average cost with the average combined contribution rate under current law for the same 25-year period. The actuarial balance of −0.16 percent of taxable payroll is 5.6 percent of the average cost.

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

	Percent
Average contribution rate in present schedule	2.70
Average current cost	2.86
Actuarial balance	−0.16

*For the 25-year period 1975–99.

CONCLUSION

The present financing schedule for the hospital insurance program is adequate over most of the 25-year valuation period to provide the expenditures anticipated, provided that the assumptions underlying the estimates prove to be realistic. The trust fund balance at the beginning of calendar year 1975 is 81 percent of the projected expenditures for that year, below the level of one year's expenditures recommended by the 1971 Advisory Council. The ratio of fund to expenditures is expected to increase, with the trust fund balance projected to reach 100 percent of the following year's expenditures by the early 1980's. Balances greater than the 100 percent level are projected throughout the 1980's, reflecting contribution rates during these years that are slightly in excess of those required to meet the financing objective.

The negative actuarial balance shown in Table 9 (−0.16 percent of taxable payroll) reflects the fact that the contribution rates in present law are not adequate to provide for program expenditures anticipated and to maintain the trust fund at the level of 100 percent of the following year's expenditures through the end of the 25-year valuation period. The relatively large amounts accumulated in the trust fund in the 1980's are drawn down in the last few years of the valuation period, and the fund is exhausted at the end of the period.