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1981 ANNUAL REPORT
FEDERAL HOSPITAL INSURANCE TRUST FUND

COMMUNICATION

FROM

THE BOARD OF TRUSTEES FEDERAL HOSPITAL INSURANCE TRUST FUND

TRANSMITTING

THE 1981 ANNUAL REPORT OF THE BOARD, PURSUANT TO SECTION 1817(b) OF THE SOCIAL SECURITY ACT

JULY 8, 1981.—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., July 2, 1981

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

SIR: We have the honor to transmit to you the 1981 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the 16th such report), in compliance with the provisions of section 1817(b) of the Social Security Act.

Respectfully,

Donald T. Regan

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

Raymond J. Donovan

RAYMOND J. DONOVAN,
Secretary of Labor,
and Trustee

Richard S. Schweiker

RICHARD S. SCHWEIKER,
Secretary of Health and Human Services,
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CAROLYNE K. DAVIS, Ph.D.,
Administrator of the Health Care Financing
Administration, and Secretary, Board of Trustees

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1981 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

The Federal Hospital Insurance Trust Fund, established on July 30, 1965, is held by the Board of Trustees under the authority of section 1817(b) of the Social Security Act, as amended. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health and Human Services. The Secretary of the Treasury is designated by law as the Managing Trustee. The Administrator of the Health Care Financing Administration is Secretary of the Board. The Board of Trustees reports to the Congress once each year in compliance with section 1817(b)(2) of the Social Security Act. This is the 1981 annual report, the sixteenth such report.

HIGHLIGHTS

(a) Disbursements of the hospital insurance trust fund in fiscal year 1980 were $24.3 billion, an increase of 19.4 percent over fiscal year 1979. Most of this increase was due to a substantial rise in the utilization and in the cost of hospital services. Increases in both payroll and nonpayroll expenses in hospitals were greater than comparable increases in the general economy.

(b) Income to the trust fund amounted to $25.4 billion, representing an increase of 16.0 percent in fiscal year 1980 over 1979. The majority of this increase was due to higher average earnings for persons in covered employment and increases in the maximum taxable amount of annual earnings.

(c) The trust fund increased from $13.4 billion to $14.5 billion at the end of fiscal year 1980. The effective annual rate of interest earned by the assets of the hospital insurance trust fund for the year ending June 30, 1980, was 8.2 percent.

(d) The Secretary of Health and Human Services promulgated an inpatient deductible of $204 for calendar year 1981 and a monthly premium of $89 for noninsured enrollees for the 12-month period beginning July 1981.

(e) Approximately 24.6 million persons aged 65 and over were protected by the hospital insurance program in July 1980. This represents about 95 percent of the aged population. An additional 2.9 million disabled beneficiaries had protection in the same month.

SOCIAL SECURITY AMENDMENTS SINCE THE 1980 TRUSTEES REPORT

Public Law 96-473, which was enacted October 19, 1980, enabled persons who were eligible for Social Security benefits (under section 202 of title II), but who had not applied for entitlement, to apply separately for hospital insurance benefits. The law became effective upon enactment.

Public Law 96-499, "The Omnibus Reconciliation Act of 1980" which was enacted on December 5, 1980, contains many provisions having impact on the Federal Hospital Insurance Trust Fund. They are:

(1) Medicare reimbursement is limited to the State Medicaid SNF rate, rather than the acute care rate, where a beneficiary requiring a lower level of care is inappropriately placed in a hospital. If occupancy is over 80 percent, hospitals will be paid the inpatient rate. Effective June 1, 1981.

(2) Through agreement with the Secretary, rural hospitals having 50 or fewer beds can be certified to use their acute and long-term care beds as "swing beds." Such hospitals would receive payments at the statewide Medicaid SNF rate. Effective June 1, 1981.

(3) The requirement that a beneficiary have a three-day period of hospitalization prior to becoming eligible for home health benefits under the HI program is eliminated effective July 1, 1981.

(4) An unlimited number of home health visits is provided, and occupational therapy becomes a qualifying criterion for such services. Effective July 1, 1981.

(5) The Medicare, Medicaid, and Maternal and Child Health Programs are required to perform common audits on providers which are reimbursed on a cost-related basis. Effective April 1, 1981.

(6) Coverage is extended for inpatient alcohol detoxification services within certain free-standing facilities. Effective April 1, 1981.

(7) Coverage is extended for hospital stays for certain dental services where the severity of the dental procedure warrants hospitalization. Effective July 1, 1981.

(8) A beneficiary may transfer from a hospital to a skilled nursing facility within 30 days and qualify for post-hospital extended care benefits. (This period was previously 14 days.) Effective upon enactment.

(9) Medicare would be the secondary payor in accident cases where care could be paid for under liability coverage or under no-fault insurance. Effective upon enactment.

(10) The Periodic Interim Payment (PIP) method of reimbursement is deferred for the last 3 weeks of September 1981.

NATURE OF THE TRUST FUND

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

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

In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount, with the contributions being determined first on the wages and then on any self-employment income up to the annual maximum amount.

The hospital insurance contribution rates applicable to taxable earnings in each of the calendar years 1966 and later are shown in table 1. For 1982 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 1966-81 are also shown. For 1975-78, the contribution and benefit bases were determined under the automatic increase provisions in section 230 of the Social Security Act. In 1979, 1980, and 1981, the bases increased to the specified amounts as provided under the 1977 amendments. After 1981, the automatic increase provisions will again be applicable.

Except for amounts received under State agreements (to effectuate coverage under the program for State and local government employees) and deposited directly in the trust fund, all contributions are collected by the Internal Revenue Service and deposited in the general fund of the Treasury as internal revenue collections. The contributions received are immediately and automatically appropriated to the trust fund, on an estimated basis. The exact amount of contributions received is not known initially since hospital insurance contributions, old-age, survivors, and disability insurance contributions, and individual income taxes are not separately identified in collection reports received by the Treasury Department. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

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

Another source from which receipts of the trust fund are derived is interest received on investments held by the fund. The investment procedures of the fund are described later in this section.

The income and expenditures of the trust fund are also affected by the provisions of the Railroad Retirement Act which provide for a system of coordination and financial interchange between the railroad retirement program and the hospital insurance program.

Sections 217(g) and 229(b) of the Social Security Act authorize annual reimbursements from the general fund of the Treasury to the hospital insurance trust fund for any costs arising from the granting of noncontributory wage credits for military service, according to periodic determinations made by the Secretary of Health and Human Services.

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

Under section 103 of the Social Security Amendments of 1965, hospital insurance benefits are provided to certain uninsured persons aged 65 and over. Such payments are made initially from the hospital insurance trust fund, with reimbursement from the general fund of the Treasury for the costs, including administrative expenses, of the payments. The reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest allowances, as the actual experience develops and is analyzed.

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

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

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

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

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

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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 and supplementary medical insurance programs. A sizable portion of the costs of such experiments and demonstration projects are paid from the hospital insurance and supplementary medical insurance trust funds.

Congress has authorized expenditures from the trust funds for construction, rental, and lease or purchase contracts of office buildings and related facilities for use in connection with the administration of the hospital insurance program. Both the capital costs of construction financed directly through the trust funds and the rental, lease, or purchase contract costs of acquiring 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, on a daily basis, in interest-bearing obligations of the U.S. Government (including special public-debt obligations described below), in obligations guaranteed as to both principal and interest by the United States, or in certain federally-sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. These obligations may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust fund. The law requires that such special public-debt obligations shall bear interest at a rate based on the average market yield (computed on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such month.

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

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

SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1980

A statement of the incomes and disbursements of the Federal Hospital Insurance Trust Fund in fiscal year 1980, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2. Corresponding amounts for fiscal year 1979 are also shown in the table.

The total assets of the trust fund amounted to $13,363 million on September 30, 1979. During fiscal year 1980, total receipts amounted to $25,415 million, and total disbursements were $24,288 million. The assets of the trust fund thus increased $1,127 million during the year to a total of $14,490 million on September 30, 1980.

Included in total receipts during fiscal year 1980 were $20,736 million representing contributions appropriated to the trust fund and $2,595 million representing amounts received in accordance with State agreements for coverage of state and local government employees and deposited in the trust fund. As an offset, $87 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 $23,244 million, representing an increase of 16.6 percent over the amount of $19,927 million for the preceding 12-month period. This growth in contribution income resulted primarily from (1) the higher level of earnings in covered employment; (2) the two increases in the maximum annual amount of earnings taxable--from $17,700 to $22,900 and from $22,900 to $25,900--that became effective on January 1, 1979, and January 1, 1980, respectively and (3) the increase in the combined tax rate from 2.0 percent to 2.1 percent--that became effective January 1, 1979.

The section entitled "Nature of the Trust Fund" referred to provisions of the Social Security Act under which certain persons aged 65 and over but not otherwise eligible for hospital insurance protection may obtain such protection by enrolling in the program and paying a monthly premium. Premiums collected from such voluntary participants in fiscal year 1980 amounted to about $16.6 million.

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

Again, the section entitled "Nature of the Trust Fund" referred to provisions under which the hospital insurance trust fund is to be reimbursed from the general fund of the Treasury for costs of paying benefits under this program on behalf of certain uninsured persons. The reimbursement in fiscal year 1980 amounted to $697 million, consisting of $679 million for benefit payments, $12 million for administrative expenses, and $6 million due the trust fund for interest on adjustments to costs in prior fiscal years.

The section entitled "Nature of the Trust Fund" referred to provisions under which the hospital insurance trust fund is to be reimbursed from the general fund of the Treasury for the costs of reviewing hospital admissions under the Medicaid and Maternal and Child Health programs by Professional Standards Review Organizations. The reimbursement in fiscal year 1980 amounted to $33 million.

The remaining $1,039 million of receipts consisted almost entirely of interest on the investments of the trust fund.

Of the $24,288 million in total disbursements, $23,796 million represented benefits paid directly from the trust fund for health services covered under title XVIII of the Social Security Act. As offsets to benefit payments, transfers were made from the supplementary medical insurance trust fund amounting to $6 million to adjust for the loss of interest caused by the delay in transferring payments for the costs of radiology and pathology services that were paid initially from the hospital insurance trust fund but that were liabilities of the supplementary medical insurance trust fund. Net benefit payments from the trust fund in fiscal year 1980, therefore, amounted to

$23,790 million, an increase of 19.6 percent over the corresponding amount of $19,891 million paid during the preceding 12 months. An additional $3 million in disbursements constituted payment for costs of experiments and demonstration projects in providing health care services.

The remaining $494 million of disbursements was for net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds--old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance--on the basis of provisional estimates. Similarly, the expenses of administering other programs of the Health Care Financing 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, adjustments to the allocations of administrative expenses and costs of construction for prior periods are effected by interfund transfers, including transfers between the hospital insurance and supplementary medical insurance trust funds and the program management general fund account, with appropriate interest allowances.

Table 3 compares the actual experience in fiscal year 1980 with the estimates presented in the 1979 and 1980 annual reports. The section entitled "Nature of the Trust Fund" referred to the appropriation of contributions to the trust funds on an estimated basis, with subsequent periodic adjustments to account for differences from the amounts of contributions actually payable on the basis of reported earnings. In interpreting the figures in table 3, it should be noted that the "actual" amount of contributions in fiscal year 1980 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1980 does not reflect adjustments to contributions for fiscal year 1980 that were to be made after September 30, 1980.

The assets of the hospital insurance trust fund at the end of fiscal year 1979 totaled $13,363 million, consisting of $13,164 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations and an undisbursed balance of $199 million. The assets of the hospital insurance trust fund at the end of fiscal year 1980 totaled $14,490 million, consisting of $14,656 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations and as an offset, an extension of credit of $166 million against securities to be redeemed. This was covered by the redemption of securities early in October 1980. Table 4 shows the total assets of the fund and their distribution at the end of fiscal years 1979 and 1980.

The net increase in the par value of the investments held by the fund during fiscal year 1979 amounted to $1,406 million. New securities at a total par value of $24,193 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 $22,787 million. Included in these amounts are $21,693 million in certificates of indebtedness that were acquired and $21,257 million in certificates of indebtedness that were redeemed during the fiscal year.

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

The effective annual rate of interest earned by the assets of the hospital insurance trust fund during the 12 months ending on June 30, 1980, was 8.2 percent. (This period is used because interest on special issues is paid semiannually on June 30 and December 31.) The interest rate on public-debt obligations issued for purchase by the trust fund in June 1980 was 9 3/4 percent, payable semiannually.

TABLE 2.--STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND
DURING FISCAL YEARS 1979 AND 1980

(In thousands of dollars)

	Fiscal year 1979		Fiscal year 1980	
Total assets of the trust fund, beginning of period		$11,796,031		$13,362,700
Receipts:				
Contributions:				
Appropriations	$18,042,375		$20,735,922	
Deposits arising from State agreements	1,989,592		2,595,087	
Gross contributions	20,031,967		23,331,009	
Less payment into the Treasury for contributions subject to refund	105,390		87,240	
Net contributions		19,926,577		23,243,769
Premiums collected from voluntary participants		16,507		16,566
Transfer from railroad retirement account		191,149		244,280
Reimbursement from general fund of Treasury for costs of--				
Noncontributory credits for military service		141,000		141,000
Benefits for uninsured persons:				
Benefit payments	707,877		678,425	
Administrative expenses	12,100		12,000	
Interest on adjustments to costs in prior fiscal years	13,872		6,481	
Total reimbursement for costs for benefits for uninsured persons		733,849		696,906
Review of Medicaid, and Maternal and Child Health hospital admissions		33,000		33,250
Interest:				
Interest on investments	868,493		1,039,925	
Interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs 1/	-884		-972	
Total interest		867,609		1,038,953
Total receipts		$21,909,691		$25,414,724
Disbursements:				
Benefit payments:				
Paid directly from the trust fund for the costs of health services	19,896,562		23,796,365	
Less transfers from the supplementary medical insurance trust fund for reimbursement of interest loss related to transfer payments made in conjunction with the costs of radiology and pathology services 2/	6,000		6,000	
Net benefit payments		19,890,562		23,790,365
Costs of experiments and demonstration projects 2/		7,897		3,054
Administrative expenses:				
Department of Health and Human Services 3/	421,392		478,889	
Treasury Department	17,354		2,813	
Construction of facilities	232		2,404	
Gross administrative expenses	438,979		484,106	
Interfund transfers due to adjustment in allocation of:				
Administrative expenses	5,518		9,968	
Costs of construction 4/	75		46	
Less receipts from sale of supplies, materials, etc	8		29	
Net administrative expenses		444,565		494,091
Total disbursements		20,343,022		24,287,511
Net addition to the trust fund		1,566,668		1,127,213
Total assets of the trust fund, end of period		$13,362,700		$14,489,913

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

2/ For explanation, see text.

3/ Includes administrative expenses of the intermediaries.

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

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

Table 3.--COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, FISCAL YEAR 1980
(Dollar amounts in millions)

Item	Actual Amount	Comparison of actual experience with estimates for fiscal year 1980 published in-- 1980 report: Estimated Amount	1980 report: Actual as percentage of estimate	1979 report: Estimated Amount	1979 report: Actual as percentage of estimate
Net contributions	$23,244	$23,414	99	$23,434	99
Benefit payments	23,790	23,399	102	23,450	101

TABLE 4.--ASSETS OF THE HOSPITAL INSURANCE TRUST FUND, BY TYPE AT THE END OF FISCAL YEARS 1979 AND 1980 1/

	September 30, 1979	September 30, 1980
Investments in public-debt obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
9 -percent, 1980	$1,173,357,000.00	-------
11 1/8-percent, 1981	-------	$1,275,417,000.00
Bonds:		
7 1/8-percent, 1997	524,479,000.00	524,479,000.00
7 3/8-percent, 1981	165,760,000.00	-------
7 3/8-percent, 1982	165,760,000.00	-------
7 3/8-percent, 1983	165,760,000.00	165,760,000.00
7 3/8-percent, 1984	165,760,000.00	165,760,000.00
7 3/8-percent, 1985	165,759,000.00	165,759,000.00
7 3/8-percent, 1986	165,759,000.00	165,759,000.00
7 3/8-percent, 1987	165,759,000.00	165,759,000.00
7 3/8-percent, 1988	165,760,000.00	165,760,000.00
7 3/8-percent, 1989	165,760,000.00	165,760,000.00
7 3/8-percent, 1990	571,444,000.00	571,444,000.00
7 1/2-percent, 1981	109,372,000.00	-------
7 1/2-percent, 1982	109,372,000.00	-------
7 1/2-percent, 1983	109,372,000.00	109,372,000.00
7 1/2-percent, 1984	109,372,000.00	109,372,000.00
7 1/2-percent, 1985	109,373,000.00	109,373,000.00
7 1/2-percent, 1986	109,373,000.00	109,373,000.00
7 1/2-percent, 1987	109,373,000.00	109,373,000.00
7 1/2-percent, 1988	109,372,000.00	109,372,000.00
7 1/2-percent, 1989	109,372,000.00	109,372,000.00
7 1/2-percent, 1990	109,372,000.00	109,372,000.00
7 1/2-percent, 1991	680,816,000.00	680,816,000.00
7 5/8-percent, 1981	405,685,000.00	-------
7 5/8-percent, 1982	405,685,000.00	296,097,000.00
7 5/8-percent, 1983	405,685,000.00	405,685,000.00
7 5/8-percent, 1984	405,685,000.00	405,685,000.00
7 5/8-percent, 1985	405,685,000.00	405,685,000.00
7 5/8-percent, 1986	405,685,000.00	405,685,000.00
7 5/8-percent, 1987	405,685,000.00	405,685,000.00
7 5/8-percent, 1988	405,684,000.00	405,684,000.00
7 5/8-percent, 1989	405,684,000.00	405,684,000.00
8 1/4-percent, 1981	45,347,000.00	-------
8 1/4-percent, 1982	45,347,000.00	45,347,000.00
8 1/4-percent, 1983	45,347,000.00	45,347,000.00
8 1/4-percent, 1984	45,347,000.00	45,347,000.00
8 1/4-percent, 1985	45,347,000.00	45,347,000.00
8 1/4-percent, 1986	45,346,000.00	45,346,000.00
8 1/4-percent, 1987	45,346,000.00	45,346,000.00
8 1/4-percent, 1988	45,347,000.00	45,347,000.00
8 1/4-percent, 1989	45,347,000.00	45,347,000.00
8 1/4-percent, 1990	45,347,000.00	45,347,000.00
8 1/4-percent, 1991	45,347,000.00	45,347,000.00
8 1/4-percent, 1992	201,684,000.00	201,684,000.00
8 1/4-percent, 1993	726,163,000.00	726,163,000.00
8 3/4-percent, 1980	47,739,000.00	-------
8 3/4-percent, 1981	123,296,000.00	-------
8 3/4-percent, 1982	123,296,000.00	123,296,000.00
8 3/4-percent, 1983	123,297,000.00	123,297,000.00
8 3/4-percent, 1984	123,297,000.00	123,297,000.00
8 3/4-percent, 1985	123,297,000.00	123,297,000.00
8 3/4-percent, 1986	123,297,000.00	123,297,000.00
8 3/4-percent, 1987	123,297,000.00	123,297,000.00
8 3/4-percent, 1988	123,297,000.00	123,297,000.00
8 3/4-percent, 1989	123,297,000.00	123,297,000.00
8 3/4-percent, 1990	123,297,000.00	123,297,000.00
8 3/4-percent, 1991	123,297,000.00	123,297,000.00
8 3/4-percent, 1992	123,297,000.00	123,297,000.00
8 3/4-percent, 1993	123,297,000.00	123,297,000.00
8 3/4-percent, 1994	849,460,000.00	849,460,000.00
9 3/4-percent, 1982	-------	130,210,000.00
9 3/4-percent, 1983	-------	130,209,000.00
9 3/4-percent, 1984	-------	130,209,000.00
9 3/4-percent, 1985	-------	130,209,000.00
9 3/4-percent, 1986	-------	130,210,000.00
9 3/4-percent, 1987	-------	130,210,000.00
9 3/4-percent, 1988	-------	130,210,000.00
9 3/4-percent, 1989	-------	130,210,000.00
9 3/4-percent, 1990	-------	130,210,000.00
9 3/4-percent, 1991	-------	130,210,000.00
9 3/4-percent, 1992	-------	130,210,000.00
9 3/4-percent, 1993	-------	130,210,000.00
9 3/4-percent, 1994	-------	130,210,000.00
9 3/4-percent, 1995	-------	979,670,000.00
Total public-debt obligations sold only to this fund (special issues)	$13,113,539,000.00	$14,606,077,000.00
Investments in federally-sponsored agency obligations:		
Participations certificates:		
Federal Assets Liquidation Trust-Government National Mortgage Association:		
5.20-percent, 1982	50,000,000.00	50,000,000.00
Total investments	$13,163,539,000.00	$14,656,077,000.00
Undisbursed balance	199,160,799.73	(166,163,900.03)
Total assets	$13,362,699,799.73	$14,489,913,099.97

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

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE PERIOD OCTOBER 1, 1980 TO DECEMBER 31, 1983

The expected operations of the trust fund during fiscal years 1981-83 are shown in table 5, together with the past experience of the program. The projection shown in table 5--and the entirety of this section--is based on two intermediate sets of projection assumptions labeled alternative II-A and alternative II-B, which are presented in detail in appendix A. The economic assumptions underlying these two alternative sets of assumptions are described in detail in the 1981 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Disability Insurance Trust Funds.

The estimates of income from hospital insurance contributions are at a considerably higher level during the period projected than during the past. This occurs primarily as a result of the increases in the hospital insurance tax rate which took place on January 1, 1979, and on January 1, 1981, and the higher earnings bases scheduled in the law.

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

Estimated income to the trust fund which is appropriated from general revenues to reimburse the program for the cost of coverage of noninsured persons is the same as the estimates of disbursements for such persons, net of corrections for differences between costs and amounts transferred for previous years. Premium income and disbursements for other noninsured persons over age 65 who may enroll in the hospital insurance program on a voluntary basis are based on an estimated enrollment of 22,000 in fiscal year 1981.

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

Estimated reimbursement from general revenues for the cost, paid initially from the hospital insurance trust fund, of Professional Standard Review Organization (PSRO) review of hospital admissions under Federal programs other than the hospital insurance program is based on estimates of the payments for such reviews, net of corrections for differences between payments and amounts transferred in previous years.

The investment of new assets received during fiscal years 1981-83 is assumed to be in the form of special public-debt obligations bearing interest rates ranging from 12 5/8 percent, payable semiannually, in 1981 to 9 percent in 1983. The average effective annual rate of interest on the assets held by the hospital insurance trust fund on September 30, 1980 was 8.8 percent.

Disbursements for benefits are projected to increase sharply in fiscal years 1981-83, primarily as a result of the high rate of increase in hospital costs reimbursable under the program. The expenditures for benefit payments shown in table 5 differ slightly from those shown in the 1982 Federal budget. These estimates are based on more recent demographic and economic projections, and they do not reflect the implementation of proposed changes in regulations which were included in the budget.

The actual operation of the hospital insurance program is organized, in general, on a calendar year basis. Earnings subject to taxation and the applicable tax rates are established by calendar year, as are the inpatient deductible and other cost sharing amounts. The projected operations of the trust fund on a calendar year basis are shown in table 6, according to the same assumptions as used in table 5. The ratios of assets in the trust fund at the beginning of each calendar year to total disbursements during that year are shown in table 7 for past years and as projected through 1983.

Table 5.--OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1967-83
(In millions)

	Income								Disbursements			Trust Fund	
Fiscal Year 1/	Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Reimbursement for military wage credits	Reimbursement for PSRO review	Interest on investments	Total income	Benefit payments	Administrative expenses 2/	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	596	[illegible]
1970	4,785	64	617		11		137	5,614	4,804	149	4,953	661	2,577
1971	4,898	66	863		11		180	6,018	5,442	150	5,592	426	[illegible]
1972	5,226	66	503		48		188	6,031	6,108	167	6,276	-245	2,859
1973	7,663	63	381		48		196	8,352	6,648	194	6,842	1,510	[illegible]
1974	10,602	99	451	$ 4	48		405	11,610	7,806	259	8,065	3,545	7,914
1975	11,291	132	481	6	48		609	12,568	10,353	259	10,612	1,956	9,870
1976	12,031	138	610	8	48		709	13,544	12,267	312	12,579	965	10,836
T.Q.	3,366	143	0 3/	2	0		5	3,516	3,315	69	3,404	112	10,948
1977	13,649	0 4/	803 3/	11	141		770	15,374	14,906	301	15,207	167	11,115
1978	16,677	214 4/	688	12	143 5/	$29	780	18,543	17,411	451	17,862	681	11,796
1979	19,927	191	734	17	141	33	868	21,910	19,891	452	20,343	1,567	13,363
1980	23,244	244	697	17	141	33	1,039	25,415	23,794	494	24,288	1,127	14,490
Projection:													
Alternative II-A													
1981	30,242	276	659	21	141	31	1,362	32,732	27,656	453	28,109	4,623	19,113
1982	35,712	359	808	25	207	16	1,941	39,068	32,881	455	33,336	5,732	24,845
1983	39,940	401	740	29	207	15	2,539	43,871	37,399	505	37,904	5,967	30,612
Alternative II-B													
1981	30,242	276	659	21	141	31	1,362	32,732	27,656	453	28,109	4,623	19,113
1982	35,690	359	808	25	207	16	1,940	39,045	32,995	455	33,450	5,595	24,704
1983	40,113	401	749	29	207	15	2,548	44,062	37,847	508	38,355	5,707	30,415

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 September 30, 1976, is labeled "T.Q.," the transition quarter; fiscal years 1977-83 cover the interval from October 1 through September 30.

2/ Includes costs of experiments and demonstration projects.

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

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

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

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Table 6.--OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1966-83
(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	Reimbursement for FERO review	Interest on investments	Total income	Benefit payments	Administrative expenses 1/	Total disbursements	Net increase in fund	Fund at end of year
Historical Data:													
1966	$ 1,858	$ 16	$ 26		$ 11		$ 32	$1,943	$ 891	$ 108	$ 999	$ 944	944
1967	3,152	44	301		11		51	3,559	3,353	77	3,430	129	1,073
1968	4,116	54	1,022		22		74	5,287	4,179	99	4,277	1,010	2,083
1969	4,473	64	617		11		113	5,279	4,739	118	4,857	422	2,505
1970	4,881	66	863		11		158	5,979	5,124	157	5,281	698	3,202
1971	4,921	66	503		48		193	5,732	5,751	150	5,900	-168	3,034
1972	5,731	63	381		48		180	6,403	6,318	185	6,503	-99	2,935
1973	9,944	99	451	2	48		278	10,821	7,057	232	7,289	3,532	6,467
1974	10,844	132	471	5	48		523	12,024	9,099	272	9,372	2,652	9,119
1975	11,502	138	621	7	48		664	12,980	11,315	266	11,581	1,399	10,517
1976	12,727	143	0 2/	9	141		746	13,766	13,340	339	13,679	88	10,605
1977	14,114	0 3/	803 2/	12	143 4/		784	15,856	15,737	283	16,019	-163	10,442
1978	17,324	214 3/	688	13	141	$29	805	19,213	17,682	496	18,178	1,035	11,477
1979	20,768	191	734	16	141	33	942	22,825	20,623	450	21,073	1,751	13,228
1980	23,848	244	697	18	141	33	1,116	26,097	25,064	512	25,577	521	13,749
Projection:													
Alternative II-A													
1981	32,539	276	659	22	207	31	1,559	35,293	29,135	453	29,588	5,705	19,454
1982	36,641	359	808	26	207	16	2,237	40,294	33,575	470	34,045	6,249	25,703
1983	40,818	401	740	31	207	15	2,810	45,022	38,691	516	39,207	5,815	31,518
Alternative II-B													
1981	32,539	276	659	22	207	31	1,559	35,293	29,135	453	29,588	5,705	19,454
1982	36,637	359	808	26	207	16	2,241	40,294	33,732	470	34,202	6,092	25,546
1983	41,014	401	749	31	207	15	2,815	45,232	39,253	521	39,774	5,458	31,004

1/ Includes costs of experiments and demonstration projects.

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

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

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

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

Calendar Year	Ratio
Historical Data:	
1967	28%
1968	25
1969	43
1970	47
1971	54
1972	47
1973	40
1974	69
1975	79
1976	77
1977	66
1978	57
1979	54
1980	52
Projection:	
Alternative II-A	
1981	46
1982	57
1983	66
Alternative II-B	
1981	46
1982	57
1983	64

ACTUARIAL STATUS OF THE TRUST FUND

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

The projected expenditures under the program, expressed as percentages of taxable payroll, are summarized for selected years over the next 25-year period in table 8. The ratio of expenditures to taxable payroll has increased from 0.95 percent in 1967 to 2.19 percent in 1980, reflecting both the higher rate of increase in hospital costs than in earnings subject to hospital insurance taxes and the extension of hospital insurance benefits to disabled beneficiaries and persons suffering from end-stage renal disease. Further increases in this ratio to 2.67 percent in 1985, and 5.04 percent by the year 2000 under alternative II-A, and 2.73 percent in 1985 and 5.44 percent by the year 2000 under alternative II-B, result from the assumption that the cost of institutional health care will continue to increase at a higher rate than taxable earnings. (See appendix A for a description of the methodology and assumptions used in these projections.)

The allowances necessary to build the trust fund to the level of a half year's disbursements and to maintain it at that level, after accounting for the offsetting effect of interest earnings, are also shown in table 8. The tax rates scheduled in the law are sufficient to build the trust fund to a level higher than a half year's disbursements and maintain it at or above the 50 percent level through most of the 1980's. However, beginning in 1988, additional financing will be required to maintain the trust fund at the desired level. For purposes of display in table 8, the allowance for trust fund building and maintenance is solely for maintaining the trust fund at the 50 percent level throughout the 25-year projection period.

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

The projected total costs of the program under alternatives II-A and II-B expressed as percentages of taxable payroll, and the tax rates scheduled under current law are shown in table 8 for selected years over the 25-year period 1981-2005. The total cost of the program including expenditures plus trust fund building and maintenance, exceeds the tax rate in nearly every year in both projections. Furthermore, expenditures for benefits and administrative expenses alone exceed the corresponding tax rates for all future years beginning in the late 1980's. The trust fund as a percent of a year's disbursements is projected to increase to a level of about 70 percent in 1987 under alternative II-A assumptions. The trust fund is projected to decline rapidly thereafter until it is completely exhausted in about 1993. Under alternative II-B the trust fund is projected to increase to a level of about 67 percent in 1984 and then decline until it is completely exhausted in about 1991.

The actuarial balance of the hospital insurance program is defined to be the excess of the average tax rate for the 25-year valuation period over the average cost of the program, expressed as a percent of taxable payroll, for the same period. The average tax rate for the 25-year period 1981-2005 is 2.84 percent. The average cost to the program under alternative II-A is 4.02 percent of taxable payroll, composed of 3.94 percent for program expenditures and .08 percent for maintenance of the trust fund. The average cost of the program under alternative II-B is 4.28 percent of taxable payroll, composed of 4.19 percent for program expenditures and .09 percent for maintenance of the trust fund. The resulting actuarial blances, as shown in table 9, are a deficit of 1.18 percent and 1.44 percent of taxable payroll for alternatives II-A and II-B, respectively.

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

Since future economic, demographic, and health care usage and cost experience may differ considerably from either set of intermediate assumptions on which the cost estimates were based, projections also have been prepared on the basis of two alternative sets of assumptions. The estimated operations of the hospital insurance trust fund during calendar years 1979-95 are summarized in table 10 for all four alternatives, and table 11 compares the actuarial balance under each of the four. The assumptions underlying alternatives II-A and II-B, the intermediate projections, are presented in substantial detail in appendix A. The assumptions used in preparing alternative projections I and III are also summarized in appendix A. The projections shown in the statement of expected operations and status of the trust fund through December 31, 1983, contained earlier in this report, are based on the assumptions contained in alternatives II-A and II-B.

The four alternative sets of assumptions were selected in order to indicate the general range in which the cost of the program reasonably might be expected to fall. The alternative I assumptions are somewhat more optimistic than both alternative II assumptions, resulting in a lower average cost over the 25-year period and a stronger trust fund development. Alternatives I and III provide for a fairly wide range of possible experience. Actual experience reasonably may be expected to fall within the range, but no guarantee can be made that this will be the case, particularly in light of the wide variations in experience that have occurred since the beginning of the program. The projected trust fund development under alternative III also provides a measure of the strength of the financing of the program.

An adequate financing schedule ought to be sufficiently strong to withstand, for a period of several consecutive years, conditions in the general economy and in the hospital sector which are substantially more adverse than anticipated under either alternative II-A or alternative II-B.

Under alternative II-A and alternative II-B, the trust fund as a percent of a year's disbursements is projected to increase in the early 1980's and to decline rapidly thereafter until it is completely exhausted in about 1993 and 1991, respectively. Under alternative I, the trust fund is projected to grow steadily until about 1990, then to decline steadily until the fund is completely exhausted in 1998. Under alternative III, the trust fund as a percent of a year's disbursements is projected to increase in the early 1980's, then decrease rapidly with complete exhaustion of the fund by 1989. These projections do not reflect any reduction in disbursements due to proposed changes in regulations which were included in the 1982 Federal budget but which have not yet been implemented.

The divergence in outcomes among the four alternatives is reflected both in the estimated operations of the trust fund and in the 25-year average costs. The variations in the underlying assumptions, as shown in appendix A, can be characterized as (1) moderate in terms of magnitude of the differences on a year-by-year basis and (2) persistent over the duration of the 25-year period. Under both sets of intermediate assumptions, program costs are projected to grow at a rate which gradually declines to an ultimate level of approximately 3 percent more rapidly than taxable payroll. Under alternative I, program costs are projected to grow at a somewhat lower rate which gradually declines to an ultimate difference of 1.3 percent. Similarly, alternative III follows a pattern whereby program costs initially increase at a somewhat higher rate, gradually declining to an ultimate difference of about 5.2 percent. Recent experience has indicated that economic conditions producing results as adverse as those under alternative III can occur. In view of this and because of the wide range of possible experience, it is important that a substantial balance be maintained in the hospital insurance trust fund as a reserve for contingencies.

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

Calendar Year	Expenditures under the program 1/	Trust fund building and maintenance 2/	Total cost of the program	Tax rate scheduled in the law 3/	Difference
Historical Data:					
1967	0.95%				
1968	1.05				
1969	1.13				
1970	1.21				
1971	1.33				
1972	1.31				
1973	1.34				
1974	1.42				
1975	1.69				
1976	1.83				
1977	1.95				
1978	2.02				
1979	2.00				
1980	2.19				
Projection:					
Alternative II-A					
1981	2.27%	.08%	2.35%	2.60%	+0.25%
1982	2.35	.08	2.43	2.60	+0.17
1983	2.43	.08	2.51	2.60	+0.09
1984	2.55	.08	2.63	2.60	-0.03
1985	2.67	.08	2.75	2.70	-0.05
1990	3.39	.08	3.47	2.90	-0.57
1995	4.27	.08	4.35	2.90	-1.45
2000	5.04	.08	5.12	2.90	-2.22
2005	5.80	.08	5.88	2.90	-2.98
Average 4/	3.94	.08	4.02	2.84	-1.18
Alternative II-B					
1981	2.27%	.09%	2.36%	2.60%	+0.24%
1982	2.36	.09	2.45	2.60	+0.15
1983	2.46	.09	2.55	2.60	+0.05
1984	2.58	.09	2.67	2.60	-0.07
1985	2.73	.09	2.82	2.70	-0.12
1990	3.55	.09	3.64	2.90	-0.74
1995	4.55	.09	4.64	2.90	-1.74
2000	5.44	.09	5.53	2.90	-2.63
2005	6.38	.09	6.49	2.90	-3.59
Average 4/	4.19	.09	4.28	2.84	-1.44

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

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

3/ Rates for employees and employers combined.

4/ Average for the 25-year period 1981-2005.

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

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

	Alternative II-A	Alternative II-B
Average contribution rate, scheduled under present law*	2.84%	2.84%
Average cost of the program:*		
Expenditures, for benefit payments and administrative costs for insured beneficiaries	3.94	4.19
Maintaining the trust fund, at the level of one half year's expenditures	.08	.09
Total cost of the program	4.02	4.28
Actuarial balance	-1.18%	-1.44%

* Average for the 25-year period 1981-2005.

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

Table 10.--ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1980-95, UNDER ALTERNATIVE SETS OF ASSUMPTIONS
(Dollar amounts in billions)

Calendar year	Total income	Total disbursements	Net increase in fund	Fund at end of year	Ratio of assets to disbursements 1/ (percent)
			ALTERNATIVE I		
1980 2/	26.1	25.6	0.5	13.7	52
1981	35.4	29.6	5.8	19.6	46
1982	40.7	33.8	6.9	26.5	58
1983	45.8	38.6	7.2	33.7	69
1984	50.7	43.8	6.9	40.6	77
1985	57.3	49.5	7.8	48.4	82
1986	66.3	55.5	10.8	59.3	87
1987	71.7	61.6	10.1	69.4	96
1988	75.9	67.2	8.7	78.0	103
1989	81.1	73.8	7.3	85.3	106
1990	85.5	80.3	5.1	90.4	106
1991	89.6	87.5	2.1	92.5	103
1992	94.1	95.4	-1.3	91.2	97
1993	98.5	104.0	-5.5	85.7	88
1994	103.0	112.4	-9.4	76.3	76
1995	107.6	121.3	-13.7	62.6	63
			ALTERNATIVE II-A		
1980 2/	26.1	25.6	0.5	13.7	52
1981	35.3	29.6	5.7	19.5	46
1982	40.3	34.0	6.2	25.7	57
1983	45.0	39.2	5.8	31.5	66
1984	49.7	45.1	4.6	36.1	70
1985	56.1	51.6	4.5	40.6	70
1986	65.2	58.8	6.4	47.0	69
1987	70.8	66.8	4.0	51.0	70
1988	75.5	75.2	0.3	51.3	68
1989	80.1	83.5	-3.4	47.9	61
1990	84.5	93.0	-8.5	39.3	51
1991	88.4	103.4	-15.0	24.3	38
1992	92.2	114.9	-22.7	1.6	21
1993	95.8	127.6	-31.8	3/	1
			ALTERNATIVE II-B		
1980 2/	26.1	25.6	0.5	13.7	52
1981	35.3	29.6	5.7	19.5	46
1982	40.3	34.2	6.1	25.5	57
1983	45.2	39.8	5.5	31.0	64
1984	50.1	46.1	4.0	35.0	67
1985	56.9	53.5	3.4	38.4	65
1986	66.1	61.5	4.5	42.9	62
1987	71.7	70.3	1.4	44.4	61
1988	76.9	79.7	-2.9	41.5	56
1989	81.6	89.3	-7.7	33.8	46
1990	86.2	100.3	-14.2	19.6	34
1991	90.2	112.6	-22.4	4/	17
			ALTERNATIVE III		
1980 2/	26.1	25.6	0.5	13.7	52
1981	35.5	29.6	5.9	19.7	46
1982	40.7	34.8	5.9	25.6	56
1983	45.6	41.2	4.4	29.9	62
1984	51.7	49.9	1.7	31.7	60
1985	59.6	60.2	-0.6	31.1	53
1986	70.2	72.0	-1.8	29.3	43
1987	77.3	85.6	-8.3	21.0	34
1988	83.9	101.3	-17.4	3.6	21
1989	90.3	118.8	-28.5	5/	3

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

2/ Figures for 1980 represent actual experience.

3/ Trust fund depleted in calendar year 1993.

4/ Trust fund depleted in calendar year 1991.

5/ Trust fund depleted in calendar year 1989.

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

Table 11.--ACTUARIAL BALANCE OF THE HOSPITAL INSURANCE PROGRAM, UNDER ALTERNATIVE SETS OF ASSUMPTIONS

	Alternative			
	I	II-A	II-B	III
Average contribution rate, scheduled under present law 1/	2.84%	2.84%	2.84%	2.84%
Average cost of the program, for expenditures and for trust fund maintenance 2/	3.26	4.02	4.28	5.64
Actuarial balance	-0.42	-1.18	-1.44	-2.80

1/ Average for the 25-year period 1981-2005.

2/ Average for the 25-year period 1981-2005, expressed as a percent of taxable payroll.

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

CONCLUSION

The present financing schedule for the hospital insurance program is not adequate to provide for the expenditures anticipated over the entire 25-year valuation period if the assumptions underlying the estimates are realized. Tax rates currently specified in the law (including the scheduled increases in 1981, 1985, and 1986) are sufficient, along with interest earnings, to support program expenditures over the next 8 to 10 years. The financing for the remainder of the 25-year valuation period is not sufficient to provide for projected benefits and administrative expenses. The average percent of payroll necessary to provide for benefits and administrative expenses plus maintenance of the trust fund at the level of a half year's disbursements exceeds the average tax rate scheduled in the law, producing an average deficit of 1.18 percent of taxable payroll under alternative II-A and 1.44 percent under alternative II-B over the entire 25-year projection period. Even under the more optimistic alternative I assumptions, the present financing schedule will result in the fund being exhausted before the turn of the century.

The trust fund balance at the beginning of 1981 was 46 percent of the projected disbursements for 1981, slightly below the level of a half year's disbursements. The ratio of fund to disbursements is projected to increase to a level of about 70 and 67 percent by the mid-1980's under alternatives II-A and II-B, respectively. The trust fund is projected to decline thereafter, until it is completely exhausted in the early 1990's under both intermediate alternatives. Under the less optimistic alternative III assumptions, the decline of the trust fund is accelerated, with complete exhaustion of the fund by 1989.

The hospital insurance trust fund is not in imminent danger of being unable to provide benefits which become payable. However, the present financing schedule is not adequate for the entire 25-year projection period: and, by about 1988, disbursements exceed income, leading to complete exhaustion of the fund in the early 1990's. The Board recommends that Congress take action to examine ways of strengthening the long-range financing of the hospital insurance system. The Board also recommends that action be taken to curtail the rapid growth in the cost of the hospital insurance program which has occurred during recent years and which is anticipated in the future.

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