TABLE 7.—*Treasury disbursements for benefit payments, distributed by classifications of beneficiaries, fiscal years 1941–48, subject to the assumptions and limitations stated in the text* [1]

[In millions]

Fiscal year	Total benefit disbursements	Disbursed to primary beneficiaries	Disbursed to wives and children of primary beneficiaries	Disbursed to survivors of deceased insured workers			
				Monthly benefits			Lump-sum payments
				Total	Aged widows and parents	Younger widows and children	
Past disbursements:[2]							
1941	$64.3	$31.4	$5.3	$15.3	$1.5	$13.8	$12.3
1942	110.2	54.9	9.6	31.6	4.1	27.5	14.1
1943	149.3	72.4	12.7	47.5	7.9	39.6	16.7
Estimated future disbursements:							
1944	181.0	84.0	15.0	63.0	12.0	51.0	19.0
1945	214.0	94.0	17.0	81.0	18.0	63.0	22.0
1946:							
Alternative I	255	109	21	101	24	77	24
Alternative II	268	120	23	102	24	78	23
1947:							
Alternative I	307	131	27	123	32	91	26
Alternative II	365	183	32	126	32	94	24
1948:							
Alternative I	365	155	35	148	41	107	27
Alternative II	455	239	43	149	40	109	24

[1] In interpreting the estimates in this table, reference should be made to the accompanying text which describes the uncertainties of the underlying assumptions.
[2] Partly estimated.

On the other hand, the lower the conditions of employment during the next 5 years, the larger will be the volume of benefit payments to retired workers who have attained age 65 and to their wives and children. As is indicated in table 8, a considerable proportion of the workers aged 65 and over who have been eligible for primary benefits in the past have remained in covered employment (or, if they had left covered employment, later returned to it) and are not receiving benefits. Under a continuation of high or relatively high employment conditions, it may be expected that, for any one attained age, the proportion of eligible workers receiving primary benefits will remain relatively constant; though, since the average attained age of eligible workers will continually increase, the over-all proportion receiving primary benefits may be expected to increase under any except the most unusual conditions.

NATURE OF THE TRUST FUND

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

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

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. Since 1978, under the 1977 amendments, employers have been required to pay contributions on that part of the tip income deemed to be wages under the Federal minimum wage law. All covered self-employed persons are required to pay contributions with respect to their self-employment income.

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

The hospital insurance contribution rates applicable to taxable earnings in each of the calendar years 1966 and later are shown in table 1. For 1988 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 1966-87 are also shown. For 1975-78, the contribution and benefit bases were determined under the automatic increase provisions in section 230 of the Social Security Act. In 1979, 1980, and 1981, the bases increased to the specified amounts as provided under the 1977 amendments. After 1981, the automatic increase provisions are again applicable.

Except for amounts received under State agreements (to effectuate coverage under the program for State and local Government employees) and deposited directly in the trust fund, all contributions are collected by the Internal Revenue Service and deposited in the general fund of the Treasury as internal revenue collections. The contributions received are 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.

Prior to May 1983 and after June 1984, the internal revenue collections were transferred to the trust funds immediately upon receipt. For May 1983 through June 1984, estimated total collections for each month were credited to the trust funds on the first day of the month. As the actual collections were received during the month, they were deposited in the general fund of the Treasury and remained there. The trust funds paid interest to the general fund to reimburse it for the interest lost because of this provision.

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 of trust fund income 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, prior to modification by the Social Security Amendments of 1983, authorized annual reimbursement from the general fund of the Treasury to the hospital insurance trust fund for costs arising from the granting of deemed wage credits for military service prior to 1957, according to quinquennial determinations made by the Secretary of Health and Human Services. These sections, as modified by the Social Security Amendments of 1983, provided for a lump sum transfer in 1983 for costs arising from such wage credits. In addition, the lump sum transfer included combined employer-employee HI taxes on the noncontributory wage credits for military service after 1965 and before 1984. After 1983, HI taxes on military wage credits are credited to the fund on July 1 of each year. The Social Security Amendments of 1983 also provided for (1) quinquennial adjustments to the lump sum amount transferred in 1983 for costs arising from pre-1957 deemed wage credits and (2) adjustments as deemed necessary to any previously transferred amounts representing HI taxes on noncontributory wage credits.

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 deemed 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.

Prior to fiscal year 1984, hospitals, at their option, were permitted to combine their billing for both hospital and physician components of radiology and pathology services rendered to hospital inpatients by hospital-based physicians. Where hospitals elected this billing procedure, payments were made initially from the hospital insurance trust fund. The reimbursements so made were 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 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 is 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 and lease, or purchase contract costs of acquiring facilities are included in trust fund expenditures. In 1972-75, construction of several large facilities was authorized under purchase contract authority, wherein initial capital costs were borne by the private sector. Under this method of facilities acquisition, trust fund expenditures for use and ultimate Government ownership of a facility are made over periods of from 10 to 30 years. Whatever the manner of acquisition, the net worth of facilities and other fixed capital assets is not carried in the statement of the assets of the trust fund presented in this report. This is because the value of fixed capital assets does not represent funds available for benefit or administrative expenditures and, therefore, is not viewed as being a consideration in assessing the actuarial status of the funds.

That portion of the trust fund which, in the judgment of the Managing Trustee, is not required to meet current expenditures for benefits and administration, is invested, 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.

The Social Security Act authorizes borrowing among the OASI, DI, and HI trust funds when necessary "to best meet the need for financing the benefit payments" from the three funds. The timing and amounts of the loans are largely at the discretion of the Managing Trustee, although no loans can be made after 1987. Loans may not be made from a trust fund if its assets (excluding any amounts borrowed) represent less than 10 percent of its current annual rate of expenditures.

The law also specifies that interest on borrowed amounts will be paid monthly at a rate "equal to the rate which the lending trust fund would earn on the amount involved if the loan were an investment."

In this report, the assets of a trust fund include any amounts owed to other trust funds. The assets of a trust fund to which amounts are owed do not include such amounts. This procedure is followed because borrowed amounts are available for the payment of benefits or other obligations of the borrowing fund, while such amounts are not readily available to the lending fund.

At the end of each year through 1988, if the combined assets of the OASI and DI trust funds exceed 15 percent of the estimated outgo in the next year, such excess over 15 percent must be used to repay any amounts owed to the HI trust fund. The same rule applies to loans from the OASI and DI trust funds to the HI trust fund, although no such loans are anticipated. In any case, all interfund loans must be completely repaid before 1990.

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

Calendar Years	Maximum taxable amount of annual earnings	Contribution rate (Percent of taxable earnings) Employees and employers, each	Self-employed
Past experience:			
1966	$ 6,600	0.35	0.35
1967	6,600	0.50	0.50
1968-71	7,800	0.60	0.60
1972	9,000	0.60	0.60
1973	10,800	1.00	1.00
1974	13,200	0.90	0.90
1975	14,100	0.90	0.90
1976	15,300	0.90	0.90
1977	16,500	0.90	0.90
1978	17,700	1.00	1.00
1979	22,900	1.05	1.05
1980	25,900	1.05	1.05
1981	29,700	1.30	1.30
1982	32,400	1.30	1.30
1983	35,700	1.30	1.30
1984	37,800	1.30	2.60
1985	39,600	1.35	2.70
1986	42,000	1.45	2.90
1987	43,800	1.45	2.90
Changes scheduled in present law:			
1988 & later	Subject to automatic increase	1.45	2.90

SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1986

A statement of the income and disbursements of the Federal Hospital Insurance Trust Fund in fiscal year 1986, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2.

The total assets of the trust fund amounted to $21,277 million on September 30, 1985. During fiscal year 1986, total receipts amounted to $67,056 million,[1/] and total disbursements were $49,685 million. The assets of the trust fund thus increased $17,370 million during the year to a total of $38,648 million on September 30, 1986.

Included in total receipts during fiscal year 1986 were $47,845 million representing contributions appropriated to the trust fund and $5,320 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, $145 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.

1/ Includes a loan repayment of $10,613 million from the Federal Old-Age and Survivors Insurance Trust Fund.

Net contributions amounted to $53,020 million, representing an increase of 14.0 percent over the amount of $46,490 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 $37,800 to $39,600 and from $39,600 to $42,000 that became effective January 1, 1985, and January 1, 1986 respectively; and (3) the two increases in the combined tax rate from 2.6 percent to 2.7 percent and from 2.7 percent to 2.9 percent effective January 1, 1985, and January 1, 1986, respectively.

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 1986 amounted to about $40 million.

In accordance with the provisions of the Railroad Retirement Act which coordinate the railroad retirement and the hospital insurance programs and which govern the financial interchange arising from the allocation of costs between the two systems, the Railroad Retirement Board and the Secretary of Health and Human Services determined that a transfer of $321 million from the railroad retirement account to the hospital insurance trust fund would place this fund in the same position, as of September 30, 1985, in which it would have been if railroad employment had always been covered under the Social Security Act. This amount, together with interest to the date of transfer amounting to $43 million, was transferred to the trust fund in June 1986.

In accordance with provisions for the appropriation to the trust fund of HI taxes on noncontributory military wage credits as discussed in the section entitled "Nature of the Trust Fund," the trust fund was credited on July 1, 1986 with $91 million for calendar year 1986 taxes on wage credits, and was debited $805 million due to the 1985 quinquennial adjustment to the lump sum amount transferred in 1983 for costs arising from pre-1957 deemed wage credits.

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 1986 amounted to $566 million, consisting of $573 million for benefit payments, $8 million for administrative expenses, and -$15 million for interest on adjustments to costs in prior fiscal years.

The remaining $3,167 million of receipts consisted almost entirely of interest on the investments of the trust fund and interest on interfund borrowing.

The final repayment of principal and interest of the interfund loan to the old-age and survivors insurance trust fund from the hospital insurance trust fund is shown in table 2.

Of the $49,685 million in total disbursements, $49,018 million represented benefits paid directly from the trust fund for health services covered under Title XVIII of the Social Security Act. Benefit payments increased 2.5 percent in fiscal year 1986 over the corresponding amount of $47,841 million paid during the preceding 12 months.

The remaining $667 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 affected 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 1986 with the estimates presented in the 1985 and 1986 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 1986 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions for fiscal year 1986 does not reflect adjustments to contributions for fiscal year 1986 that were to be made after September 30, 1986.

The assets of the hospital insurance trust fund at the end of fiscal year 1985 totaled $21,277 million, consisting of $21,131 million in the form of obligations and an undisbursed balance of $146 million. The assets of the hospital insurance trust fund at the end of fiscal year 1986 totaled $38,648 million, consisting of $38,314 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations and an undisbursed balance of $334 million. Table 4 shows the total assets of the fund and their distribution at the end of fiscal years 1985 and 1986.

New securities at a total par value of $87,573 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 $70,409 million. Thus, the net increase in the par value of the investments held by the fund during fiscal year 1986 amounted to $17,164 million.

The effective annual rate of interest earned by the assets of the hospital insurance trust fund during the 12 months ending on June 30, 1986, was 11.0 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 1986 was 8.375 percent, payable semiannually.

TABLE 2.—STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND
DURING FISCAL YEAR 1986
(In thousands of dollars)

Total assets of the trust fund, beginning of period	$21,277,241
Receipts:	
Appropriation of employment taxes	$47,845,171
Refunds of employment taxes	(145,300)
Deposits arising from State agreements	5,320,057
Interest on investments:	
Collected	2,764,489
Paid to general fund-normalized tax crediting	0
Amortization of premium and discount net	18,267
Other	27
Interest on interfund borrowing	382,935
Premiums collected from voluntary participants	39,567
Transfer from railroad retirement account	321,100
Transitional uninsured coverage	566,000
Adjustment for pre-1957 military service credits	(805,000)
Military service credits of 1986	91,000
Interest on reimbursements, SSA 1/	(387)
Interest on reimbursements HCFA 1/	1,171
Interest on reimbursements, railroad	43,291
Total receipts	$56,442,387
Interfund loan transfer 1/	10,613,270
Expenditures:	
Benefit payments	49,017,992
Administrative expenses:	
Treasury administrative expenses	29,589
Salaries and expenses SSA	290,511
Salaries and expenses, HCFA 2/	341,418
Salaries and expenses, Office of Secretary	8,629
Construction	8,464
Professional Standard Review Organization	462
Reimbursement of SSA expenses 3/	0
Reimbursement of HCFA expenses 3/	(15,139)
Payment Assessment Committee	2,354
Public Health Service	893
Other	1
Total expenditures	49,685,172
Total assets of the trust fund, end of period	$38,647,727

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

2/ Includes administrative expenses of the intermediaries.

3/ 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 1986
(Dollar amounts in millions)

		Comparison of actual experience with estimates for fiscal year 1986 published in--			
		1986 Report 1/		1985 Report 1/	
Item	Actual Amount	Estimated Amount	Actual as percentage of estimate	Estimated Amount	Actual as percentage of estimate
Net contributions	$53,020	$52,674	101	$52,767	100
Benefit payments	$49,018	$48,591	101	$48,753	101

1/ Alternative II-B.

TABLE 4.—ASSETS OF THE HOSPITAL INSURANCE TRUST FUND BY TYPE
AT THE END OF FISCAL YEARS 1985 AND 1986 1/

	September 30, 1985	September 30, 1986
Investments in public-debt obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
10 3/8-percent, 1986	$822,475,000.00	------
10 5/8-percent, 1986	1,248,147,000.00	------
7 1/4-percent, 1987	------	$837,712,000.00
7 3/4-percent, 1987	------	80,040,000.00
Bonds:		
8 1/4-percent, 1993	622,286,000.00	622,286,000.00
8 3/8-percent, 1987	------	905,522,000.00
8 3/8-percent, 1988	------	1,231,586,000.00
8 3/8-percent, 1989	------	1,231,586,000.00
8 3/8-percent, 1990	------	1,231,586,000.00
8 3/8-percent, 1991	------	1,231,586,000.00
8 3/8-percent, 1992	------	1,231,586,000.00
8 3/8-percent, 1993	------	1,162,901,000.00
8 3/8-percent, 1994	------	1,059,024,000.00
8 3/8-percnet, 1995	------	1,059,024,000.00
8 3/8-percent, 1996	------	1,059,024,000.00
8 3/8-percent, 1997	------	1,059,023,000.00
8 3/8-percent, 1998	------	1,231,586,000.00
8 3/8-percent, 1999	------	1,231,586,000.00
8 3/8-percent, 2000	------	1,231,586,000.00
8 3/8-percent, 2001	------	2,509,152,000.00
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, 1993	130,210,000.00	130,210,000.00
9 3/4-percent, 1994	130,210,000.00	130,210,000.00
9 3/4-percent, 1995	979,670,000.00	979,670,000.00
10 3/8-percent, 1987	427,022,000.00	83,104,000.00
10 3/8-percent, 1988	427,022,000.00	427,022,000.00
10 3/8-percent, 1989	427,022,000.00	427,022,000.00
10 3/8-percent, 1990	427,022,000.00	427,022,000.00
10 3 8-percent, 1991	427,023,000.00	427,023,000.00
10 3/8-percent, 1992	427,023,000.00	427,023,000.00
10 3/8-percent, 1998	427,022,000.00	427,022,000.00
10 3/8-percent, 1999	427,022,000.00	427,022,000.00
10 3/8-percent, 2000	1,277,566,000.00	1,277,566,000.00
10 3/4-percent, 1987	588,410,000.00	588,410,000.00
10 3/4-percent, 1988	588,410,000.00	588,410,000.00
10 3/4-percent, 1989	588,410,000.00	588,410,000.00
10 3/4-percent, 1990	588,410,000.00	588,410,000.00
10 3/4-percent, 1991	588,410,000.00	588,410,000.00
10 3/4-percent, 1992	588,410,000.00	588,410,000.00
10 3/4-percent, 1998	588,410,000.00	588,410,000.00
13 -percent, 1993	197,606,000.00	197,606,000.00
13 -percent, 1994	197,606,000.00	197,606,000.00
13 -percent, 1995	197,606,000.00	197,606,000.00
13 -percent, 1996	1,177,276,000.00	1,177,276,000.00
13 1/4-percent, 1993	272,853,000.00	272,853,000.00
13 1/4-percent, 1994	272,853,000.00	272,853,000.00
13 1/4-percent, 1995	272,853,000.00	272,853,000.00
13 1/4-percent, 1996	272,853,000.00	272,853,000.00
13 1/4-percent, 1997	1,450,129,000.00	1,450,129,000.00
13 3/4-percent, 1986	5,652,000.00	------
13 3/4-percent, 1987	262,135,000.00	262,135,000.00
13 3/4-percent, 1988	262,135,000.00	262,135,000.00
13 3/4-percent, 1989	262,135,000.00	262,135,000.00
13 3/4-percent, 1990	262,135,000.00	262,135,000.00
13 3/4-percent, 1991	262,134,000.00	262,134,000.00
13 3/4-percent, 1992	262,134,000.00	262,134,000.00
13 3/4-percent, 1998	262,134,000.00	262,134,000.00
13 3/4-percent, 1999	850,544,000.00	850,544,000.00
Total public-debt obligations sold only to this fund (special issues)	$20,721,142,000.00	$37,885,060,000.00
Investments in federally-sponsored agency obligations:		
Participation certificates:		
Federal Assets Liquidation Trust-Government National Mortgage Association:		
5.10-percent, 1987	50,000,000.00	50,000,000.00
6.40-percent, 1987	75,000,000.00	75,000,000.00
6.05-percent, 1988	65,000,000.00	65,000,000.00
6.45-percent, 1988	35,000,000.00	35,000,000.00
6.20-percent, 1988	230,000,000.00	230,000,000.00
Unamortized Premium & Discount (Net)	(44,746,342.50)	(26,479,157.10)
Total investments	$21,131,395,657.50	$38,313,580,842.90
Undisbursed balance	145,845,581.01	334,145,911.98
Total assets	$21,277,241,238.51	$38,647,726,754.88

1/ Certificates of indebtedness and bonds are carried at par value, which is the same as book value. Book value for participation certificates is par value plus net unamortized premium and discount.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE PERIOD OCTOBER 1, 1986 TO DECEMBER 31, 1989

The expected operations of the trust fund during fiscal years 1987-89 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 1987 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

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 18,000 in fiscal year 1987.

The transfers from general revenues for military wage credits are based on provisions of the Social Security Amendments of 1983, as described in the "Nature of the Trust Fund" section.

The investment of new assets received during fiscal years 1987-89 is assumed to be in the form of special public-debt obligations bearing interest rates ranging from 7.125 percent to 8.25 percent, payable semiannually. The average effective annual rate of interest on the assets held by the hospital insurance trust fund on September 30, 1986, was 9.9 percent.

Disbursements for benefits are projected to increase in fiscal years 1987-89, primarily as a result of the increase in hospital payment rates and hospital admissions under the program. The expenditures for benefit payments shown in table 5 differ from those shown in the 1988 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 expenditures for benefit payments shown in this section are based on the assumption that for fiscal year 1988, the prospective payment rates will be increased by the hospital input price index minus two percent from the levels determined for fiscal year 1987 (as required by Section 9302 of Public Law 99-509).

The actual operations of the hospital insurance program are 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 1989.

TABLE 5.--OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1967-89
(In millions)

	Income							Disbursements				Trust Fund	
Fiscal Year 1/	Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Payments for military wage credits	Interest on investments and other income 2/	Total income	Benefits payments 3/	Administrative expenses 4/	Total disbursements	Interfund borrowing transfers 5/	Net increase fund	Fund at end of year
Historical Data:													
1967	$ 2,689	$ 16	$327		$ 11	$ 46	$ 3,089	$ 2,508	$ 89	$ 2,597		$ 492	$ 1,343
1968	3,514	44	273		11	61	3,902	3,736	79	3,815		88	1,431
1969	4,423	54	749		22	96	5,344	4,654	104	4,758		586	2,017
1970	4,785	64	617		11	137	5,614	4,804	149	4,953		661	2,677
1971	4,898	66	863		11	180	6,018	5,442	150	5,592		426	3,103
1972	5,226	66	503		48	188	6,031	6,108	167	6,276		-245	2,859
1973	7,663	63	381		48	196	8,352	6,648	194	6,842		1,510	4,369
1974	10,602	99	451	$ 4	48	405	11,610	7,806	259	8,065		3,545	7,914
1975	11,291	132	481	6	48	609	12,568	10,353	259	10,612		1,956	9,870
1976	12,031	138	610	8	48	709	13,544	12,267	312	12,579		966	10,836
T.Q.	3,366	143	0 6/	2	0	5	3,516	3,315	89	3,404		112	10,948
1977	13,649	0 7/	803 6/	11	141	770	15,374	14,906	301	15,207		167	11,115
1978	16,677	214 7/	688	12	143 8/	809	18,543	17,411	451	17,862		681	11,796
1979	19,927	191	734	17	141	901	21,910	19,891	452	20,343		1,567	13,363
1980	23,244	244	697	17	141	1,072	25,415	23,790	497	24,288		1,127	14,490
1981	30,425	276	659	21	141	1,341	32,863	28,907	353	29,260		3,603	18,093
1982	34,390	351	808	25	207	1,829	37,611	34,343	521	34,864		2,747	20,840
1983	36,387	358	878	26	3,663 9/	2,629	43,940	38,102	522	38,624	$-12,437	-7,121	13,719
1984	41,364	351	752	35	250	2,812	45,563	41,476	633	42,108		3,455	17,174
1985	46,490	371	766	38	86	3,182	50,933	47,841	813	48,654	1,824	4,103	21,277
1986	53,020	364	566	40	-714 10/	3,167	56,442	49,018	667	49,685	10,613	17,370	38,648
Alternative II-A													
1987	57,413	360	447	47	93	4,030	62,390	48,164	836	49,000		13,390	52,038
1988	61,115	353	475	50	93	4,978	67,064	53,031	877	53,908		13,156	65,194
1989	64,961	349	457	55	95	5,828	71,745	59,156	943	60,099		11,646	76,840
Alternative II-B													
1987	57,112	360	447	47	93	4,027	62,086	48,164	836	49,000		13,086	51,734
1988	60,544	351	475	50	93	4,971	66,484	53,031	878	53,909		12,575	64,309
1989	64,094	346	458	55	95	5,829	70,877	59,259	943	60,202		10,675	74,984

1/ For 1967 through 1976, fiscal years cover the interval from July 1 through June 30; the three-month interval from July 1, 1976, through September 30, 1976, is labeled "T.Q.," the transition quarter; fiscal years 1977-84 cover the interval from October 1 through September 30.
2/ Other income includes recoveries of amounts reimbursed from the trust fund which are not obligations of the trust fund and other miscellaneous income.
3/ Includes costs of Peer Review Organizations (beginning with the implementation of the Prospective Payment System on October 1, 1983).
4/ Includes costs of experiments and demonstration projects.
5/ A loan to the OASI trust fund would still be an asset of the HI trust fund. However, since these assets are not immediately available for payment of HI benefits, they are subtracted out of the HI fund in the year the loan is made. A negative amount is a loan to the OASI trust fund. Repayments of principal are added back into the fund in the year repayment is made. A positive amount is a repayment of principal to the HI trust fund.
6/ The 1977 transfer is for benefits and administrative expenses during the five-quarter period covering the transition quarter and fiscal year 1977.
7/ The 1978 transfer is for contributions during the five-quarter period covering the transition quarter and fiscal year 1977.
8/ Includes $2 million in reimbursement from general revenues for costs arising from the granting of deemed wage credits to persons of Japanese ancestry who were interned during World War II.
9/ Includes the lump sum general revenue transfer of $3,456 million as provided for by Section 151 of P.L. 98-21.
10/ Includes the lump sum general revenue transfer of -$805 million as provided for by Section 151 of P.L. 98-21.

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

TABLE 6.—OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1966-89
(In millions)

Calendar Year	Income: Payroll taxes	Income: Transfers from railroad retirement account	Income: Reimbursement for uninsured persons	Income: Premiums from voluntary enrollees	Income: Reimbursement for military wage credits	Income: Interest on investments and other income 1/	Income: Total income	Disbursements: Benefits payments 2/	Disbursements: Administrative expenses 3/	Disbursements: Total disbursements	Interfund borrowing transfers 4/	Trust Fund: Net increase fund	Trust 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 5/	9	141	746	13,766	13,340	339	13,679		88	10,605
1977	14,114	0 6/	803 5/	12	143 7/	784	15,856	15,737	283	16,019		-163	10,442
1978	17,324	214 6/	688	13	141	834	19,213	17,682	496	18,178		1,035	11,477
1979	20,768	191	734	16	141	975	22,825	20,623	450	21,073		1,751	13,228
1980	23,848	244	697	18	141	1,149	26,097	25,064	512	25,577		521	13,749
1981	32,959	276	659	22	207	1,603	35,725	30,342	384	30,726		4,999	18,748
1982	34,586	351	808	24	207	2,058	38,034	35,631	513	36,144	$-12,437	-10,583	8,164
1983	37,259	358	878	27	3,456 8/	2,557	44,535	39,337	540	39,877		4,693	12,858
1984	42,288	351	752	33	250	3,046	46,720	43,257	629	43,887		2,834	15,691
1985	47 576	371	766	41	-719 9/	3,362	51,397	47,580	834	48,414	1,824	4,808	20,499
1986	54 583	364	566	43	91	3,619	59,267	49,758	664	50,422	10,613	19,458	39,957
Projection:													
Alternative II-A													
1987	58,350	360	447	49	93	4,423	63,722	48,303	839	49,142		14,580	54,537
1988	61,687	353	475	50	93	5,356	68,014	55,074	890	55,964		12,050	66,587
1989	65,892	349	457	56	95	6,142	72,991	60,496	961	61,457		11,534	78,121
Alternative II-B													
1987	57,943	360	447	49	93	4,415	63,307	48,303	839	49,142		14,165	54,122
1988	61,076	351	475	50	93	5,339	67,384	55,087	891	55,978		11,406	65,528
1989	64,917	346	458	56	95	6,116	71,988	60,659	960	61,619		10,369	75,897

1/ Other income includes recoveries of amounts reimbursed from the trust fund which are not obligations of the trust fund and other miscellaneous income.
2/ Includes costs of Peer Review Organizations (beginning with the implementation of the Prospective Payment System on October 1, 1983).
3/ Includes costs of experiments and demonstration projects.
4/ A loan to the OASI trust fund would still be an asset of the HI trust fund. However, since these assets are not immediately available for payment of HI benefits, they are subtracted out of the HI fund in the year the loan is made. A negative amount is a loan to the OASI trust fund. Repayments of principal are added back into the fund in the year repayment is made. A positive amount is a repayment of principal to the HI trust fund.
5/ 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.
6/ 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.
7/ Includes $2 million in reimbursement from general revenues for costs arising from the granting of deemed wage credits to persons of Japanese ancestry who were interned during World War II.
8/ Includes the lump sum general revenue transfer of $3,456 million as provided for by Section 151 of P.L. 98-21.
9/ Includes the lump sum general revenue transfer of -$805 million as provided for by Section 151 of P.L. 98-21.

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

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

Calendar Year	Ratio
Historical Data:	
1967	28%
1968	25
1969	43
1970	47
1971	54
1972	47
1973	40
1974	69
1975	79
1976	77
1977	66
1978	57
1979	54
1980	52
1981	45
1982	52
1983	20
1984	29
1985	32
1986	41
Projection:	
Alternative II-A	
1987	81
1988	97
1989	108
Alternative II-B	
1987	81
1988	97
1989	106

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 at least equal to annual outlays of the program plus an amount to maintain a balance in the trust fund equal to a minimum of one-half year's expenditures. This principle reflects the view that a small fund is needed for the contingency that future income and outgo may differ substantially from projected levels. In addition, the fund should begin to build a reserve to prepare for the shift in the demographic makeup of the population which occurs before the middle of the next century.

In keeping with the Board's principle, the total cost of the program for projected years is the sum of (1) expenditures under the program and (2) an allowance for maintaining the fund at the level of at least a half year's disbursements. The adequacy of the financing of the hospital insurance program is measured by comparing the costs of the program, expressed as percentages of taxable payroll, to the tax rates specified in the law. In projecting expenditures under the program, only costs attributable to insured beneficiaries are considered, since benefits and administrative costs for noninsured persons are financed through general revenue transfers and premium payments rather than through payroll taxes. The allowance for maintaining the trust fund balance at the level of at least a half year's outgo is after accounting for the fund's interest earnings. At the beginning of 1987, the trust fund balance was above the minimum desired level.

The historical costs of the hospital insurance program, expressed as percentages of taxable payroll, are shown in table 8. The projected 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 for selected years over the 75-year period 1987-2061, are shown in table 9. The ratio of expenditures to taxable payroll has increased from 0.94 percent in 1967 to 2.58 percent in 1986, 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 and end-stage renal disease beneficiaries. Further increases in this ratio under both alternative II-A and alternative II-B result from the projection that the cost of the hospital insurance program 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.)

As mentioned, 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 projection period and all projection 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 level of one-half year's expenditures. 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 actuarial balance of the hospital insurance program is defined to be the difference between the average tax rate for the valuation period and the average cost of the program, expressed as a percent of taxable payroll, for the same period. The actuarial balance under alternatives II-A and II-B for the 75-year period 1987-2011 are shown in table 10. The average tax rate for the period is 2.90 percent. The average cost of the program under alternative II-A is 4.91 percent of taxable payroll, composed of 4.92 percent for program expenditures and -0.01 percent for maintenance of the trust fund. The average cost of the program under alternative II-B is 5.20 percent of taxable payroll, composed of 5.20 percent for program expenditures and 0.00 percent for maintenance of the trust fund. A negative or zero average maintenance amount occurs because with the current tax rate scheduled in the law the trust fund builds up a reserve above the minimum desired level in the early projection years, and then draws upon that reserve to support program costs until the fund falls below the minimum desired level.

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 have also been prepared on the basis of two additional alternative sets of assumptions. The estimated operations of the hospital insurance trust fund during calendar years 1986-2011 are summarized in table 11 for all four alternatives. Table 12 compares the actuarial balance for the 75-year period 1987-2061, as well as the first, second, and third 25-year projection periods, under each of the four alternatives. 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 projections under alternatives 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, 1989, 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 projection period and a stronger trust fund development. The alternative III assumptions are somewhat more pessimistic than both alternative II assumptions, resulting in a higher average cost over the projection period and a weaker trust fund development. Alternative III thus reflects the possible impact, in the near future, of conditions which are significantly more adverse than those assumed under either of the intermediate alternatives. 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 both alternatives II-A and II-B, the trust fund as a percent of a year's disbursements is projected to increase until about 1992 and then decline steadily until it is completely exhausted just after the turn of the century. Under alternative I, the trust fund is projected to remain solvent throughout the first two 25-year projection periods. Under alternative III, the trust fund as a percent of a year's disbursements is projected to increase to a level of about 98 percent in 1989 and then decrease rapidly until the fund is exhausted in 1996. These projections do not reflect any reduction in disbursements due to proposed changes in regulations which were included in the 1988 Federal Budget but which have not been implemented.

The divergence in outcomes among the four alternatives is reflected both in the estimated operations of the trust fund and in the 75-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 projection period. During the first 25-year projection period, under both sets of intermediate assumptions, program expenditures are projected to grow at a rate which gradually declines to a level of about one percent more than taxable payroll by 2011. Under alternative I, program expenditures are projected to grow at a somewhat lower rate which gradually declines to a level slightly lower than the rate for taxable payroll. Similarly, alternative III follows a pattern whereby program expenditures initially increase at a somewhat higher rate, gradually declining to a difference of about 3 percent by 2011. 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 balance be maintained in the hospital insurance trust fund as a reserve for contingencies.

A valuation period of 75 years is needed to present fully the future contingencies that reasonably may be expected, such as the impact of the large shift in the demographic composition of the population which occurs after the turn of the century. As table 9 indicates, estimated expenditures under the program, expressed as a percent of taxable payroll, increase rapidly during the second 25 years of the projection period. This rapid increase in costs occurs because the relatively large number of persons born during the period between the end of World War II and the early 1960's will reach retirement age and begin to receive benefits, while the relatively small number of persons born during later years will comprise the labor force. During the last 25 years of the projection period, the projected expenditures under the program stabilize.

Costs beyond the initial 25-year projection period for alternatives II-A and II-B are based upon the assumption that costs per unit of service will increase at the same rate as earnings increase. Thus, changes in the outyears primarily reflect the impact of the changing demographic composition of the population. Costs beyond the initial 25-year projection period for alternatives I and III begin by assuming that program cost increases, relative to taxable payroll increases, are approximately 2 percent less rapid and 2 percent more rapid, respectively, than the results under both sets of intermediate assumptions. The 2 percent differential gradually decreases until the year 2036 when program cost increases, relative to taxable payroll, are approximately the same as under both sets of intermediate assumptions. Under alternative I, amounts for maintaining the fund at the minimum desired level are included only in the last 25-year projection period, since current tax rates are sufficient to support the program and maintain the fund above the minimum desired level throughout the first 50 years of the projection period.

The 75-year actuarial balance of the hospital insurance program under alternative II-B, as seen in table 10, is -2.30 percent of taxable payroll. The corresponding actuarial balance as reported in the 1986 annual report was -3.02 percent of taxable payroll. The major reasons for the change in the 75-year actuarial balance are:

(1) Change in valuation period: Deletion of 1986 and the addition of 2061 to the 75-year projection period substitutes a relatively bad year for a good year with respect to the operations of the hospital insurance trust fund. The net effect on the actuarial balance is -0.07 percent.

(2) Updating the projection base: The cost as a percent of payroll for 1986 was less than estimated in the 1986 annual report. The net effect of this change is +0.05 percent on the actuarial balance.

(3) Legislation since the 1986 report: Two major legislative changes were enacted since the 1986 report. These are described in detail in the "Social Security Amendments Since the 1986 Trustees Report" section of this report. The net effect of these changes is +0.24 percent.

(4) Economic and demographic assumptions: Changes in the economic and demographic assumptions described in Appendix A result in a +0.34 percent change on the actuarial balance. Projected outlays are lower than in the 1986 report because projected inflation rates in the Consumer Price Index (CPI), hourly earnings, and hourly wages are lower. However, the affect of lower hourly wages on contribution income is partly mitigated by the assumption that workers will work more hours per year and that the growth in the work force will be greater in the short term.

(5) Hospital assumptions: Changes in the hospital assumptions described in Appendix A result in a +0.16 percent change on the actuarial balance. The primary factor contributing to the change is a lower non-labor hospital price assumption resulting from a rebasing of the hospital input price index.

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

Calendar Year	Expenditures Under the Program 1/
1967	0.94%
1968	1.04
1969	1.12
1970	1.20
1971	1.32
1972	1.30
1973	1.33
1974	1.42
1975	1.69
1976	1.83
1977	1.95
1978	2.01
1979	1.99
1980	2.20
1981	2.39
1982	2.65
1983	2.67 2/
1984	2.63
1985	2.65
1986	2.58

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. Gratuitous credits for military service after 1956 are included in taxable payroll.

2/ Deemed credits for military service before 1984 were attributed to the year in which such service had occurred. If all such credits had been attributed in 1983, expenditures under the program in 1983 would have been lower by .19 percent of taxable payroll.

NOTE: Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income before 1984, on tips, and on multiple-employer "excess wages," as compared with the combined employer-employee rate.

TABLE 9.--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 maintenance 2/	Total cost of the program 3/	Tax rate scheduled in the law 4/	Difference
Alternative II-A					
1987	2.55%	0.35%	2.90%	2.90%	0.00%
1988	2.60	0.30	2.90	2.90	0.00
1989	2.68	0.22	2.90	2.90	0.00
1990	2.78	0.12	2.90	2.90	0.00
1995	3.13	-0.23	2.90	2.90	0.00
2000	3.34	-0.44	2.90	2.90	0.00
2005	3.54	0.02	3.56	2.90	-0.66
2010	3.78	0.01	3.79	2.90	-0.89
2015	4.15	0.02	4.17	2.90	-1.27
2020	4.69	0.01	4.70	2.90	-1.80
2025	5.32	0.02	5.34	2.90	-2.44
2030	5.87	0.01	5.88	2.90	-2.98
2035	6.19	0.02	6.21	2.90	-3.31
2040	6.33	0.02	6.35	2.90	-3.45
2045	6.37	0.02	6.39	2.90	-3.49
2050	6.36	0.02	6.38	2.90	-3.48
2055	6.34	0.02	6.36	2.90	-3.46
2060	6.34	0.01	6.35	2.90	-3.45
Averages:					
1987-2011	3.26	-0.05	3.21	2.90	-0.31
2012-2036	5.15	0.01	5.16	2.90	-2.26
2037-2061	6.35	0.01	6.36	2.90	-3.46
1987-2061	4.92	-0.01	4.91	2.90	-2.01
Alternative II-B					
1987	2.57	0.33	2.90	2.90	0.00
1988	2.63	0.27	2.90	2.90	0.00
1989	2.73	0.17	2.90	2.90	0.00
1990	2.84	0.06	2.90	2.90	0.00
1995	3.22	-0.32	2.90	2.90	0.00
2000	3.48	0.03	3.51	2.90	-0.61
2005	3.73	0.02	3.75	2.90	-0.85
2010	4.01	0.01	4.02	2.90	-1.12
2015	4.41	0.02	4.43	2.90	-1.53
2020	4.98	0.02	5.00	2.90	-2.10
2025	5.66	0.01	5.67	2.90	-2.77
2030	6.23	0.03	6.26	2.90	-3.36
2035	6.58	0.03	6.61	2.90	-3.71
2040	6.73	0.03	6.76	2.90	-3.86
2045	6.77	0.02	6.79	2.90	-3.89
2050	6.76	0.03	6.79	2.90	-3.89
2055	6.74	0.02	6.76	2.90	-3.86
2060	6.74	0.02	6.76	2.90	-3.86
Averages:					
1987-2011	3.39	-0.05	3.34	2.90	-0.44
2012-2036	5.47	0.02	5.49	2.90	-2.59
2037-2061	6.75	0.02	6.77	2.90	-3.87
1987-2061	5.20	0.00	5.20	2.90	-2.30

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. Gratuitous credits for military service after 1956 are included in taxable payroll.

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

3/ Totals do not necessarily equal the sum of rounded components.

4/ Rates for employees and employers combined.

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

TABLE 10.--SEVENTY-FIVE YEAR ACTUARIAL BALANCE OF THE HOSPITAL INSURANCE PROGRAM, EXPRESSED AS A PERCENT OF TAXABLE PAYROLL 1/

	Alternative II-A	Alternative II-B
Average contribution rate, scheduled under present law	2.90%	2.90%
Average cost of the program		
Expenditures for benefit payments and administrative costs for insured beneficiaries............	4.92	5.20
Maintaining the trust fund at the level of at least one-half year's expenditures.....................	-0.01	0.00
Total cost of the program 2/....	4.91	5.20
Actuarial balance....................	-2.01	-2.30

1/ Average for the 75-year period 1987-2061.
2/ Totals do not necessarily equal sum of rounded components.

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

TABLE 11.--ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1986-2010, UNDER ALTERNATIVE SETS OF ASSUMPTIONS
(Dollar amounts in billions)

Calendar Year	Total income	Total disbursements	Interfund borrowing transfers 1/	Net increase in fund	Fund at end of year	Ratio of assets to disbursements (percent)
			ALTERNATIVE I			
1986 3/	$59.3	$50.4	$10.6	$19.5	$40.0	41
1987	63.9	49.1		14.8	54.8	81
1988	68.5	55.9		12.6	67.4	98
1989	73.7	60.8		12.9	80.3	111
1990	79.0	66.1		12.9	93.2	121
1991	84.1	71.1		13.0	106.2	131
1992	89.0	75.7		13.3	119.5	140
1993	93.7	80.2		13.5	133.0	149
1994	98.4	84.7		13.7	146.7	157
1995	103.3	89.3		14.0	160.7	164
2000	135.7	116.0		19.8	246.3	195
2005	179.0	148.2		30.8	375.7	233
2010	233.6	187.5		46.1	573.4	281
			ALTERNATIVE II-A			
1986 3/	59.3	50.4	10.6	19.5	40.0	41
1987	63.7	49.1		14.6	54.5	81
1988	68.0	56.0		12.1	66.6	97
1989	73.0	61.5		11.5	78.1	108
1990	78.2	67.8		10.4	88.5	115
1991	83.3	74.1		9.2	97.8	120
1992	88.4	80.5		7.8	105.6	121
1993	93.2	87.2		6.1	111.7	121
1994	98.2	94.2		4.0	115.7	119
1995	103.2	101.6		1.6	117.3	114
1996	108.5	109.1		-0.6	116.7	107
1997	114.1	116.9		-2.8	113.8	100
1998	120.0	125.3		-5.3	108.5	91
1999	126.2	134.3		-8.1	100.4	81
2000	132.6	144.0		-11.4	89.0	70
2001	139.1	154.1		-15.0	73.9	58
2002	145.7	164.9		-19.2	54.8	45
2003	152.5	176.5		-24.0	30.8	31
2004	159.5	188.8		-29.3	1.5	16
2005	166.7	201.9		-35.3	4/	1
			ALTERNATIVE II-B			
1986 3/	59.3	50.4	10.6	19.5	40.0	41
1987	63.3	49.1		14.2	54.1	81
1988	67.4	56.0		11.4	65.5	97
1989	72.0	61.6		10.4	75.9	106
1990	77.3	68.4		8.9	84.8	111
1991	82.7	75.4		7.4	92.1	112
1992	88.3	82.6		5.7	97.8	112
1993	93.7	90.1		3.7	101.5	109
1994	99.3	98.0		1.2	102.7	103
1995	104.9	106.5		-1.6	101.1	96
1996	110.7	115.2		-4.5	96.6	88
1997	116.7	124.3		-7.7	88.9	78
1998	122.8	134.2		-11.4	77.5	66
1999	129.2	144.9		-15.7	61.8	53
2000	135.8	156.4		-20.6	41.2	40
2001	142.5	168.5		-26.1	15.2	24
2002	149.3	181.4		-32.1	5/	8
			ALTERNATIVE III			
1986 3/	59.3	50.4	10.6	19.5	40.0	41
1987	62.0	49.1		12.9	52.8	81
1988	64.5	56.1		8.4	61.2	94
1989	68.9	62.6		6.4	67.6	98
1990	72.3	69.8		2.6	70.2	97
1991	77.4	78.4		-1.0	69.1	90
1992	82.4	88.0		-5.6	63.6	79
1993	87.5	98.5		-11.1	52.5	65
1994	92.4	110.1		-17.7	34.9	48
1995	97.2	122.7		-25.5	9.4	28
1996	101.9	136.1		-34.2	6/	7

1/ A loan of $12.4 billion to the OASI trust fund was made in 1982. This loan was still an asset of the HI trust fund; however, since these assets were not immediately available for payment of HI benefits, they were subtracted from the HI fund balance. The positive amounts shown represent repayments of principal to the HI trust fund.
2/ Ratio of assets in the trust fund at the beginning of the year to disbursements during the year.
3/ Figures for 1986 represent actual experience.
4/ Trust fund depleted in calendar year 2005.
5/ Trust fund depleted in calendar year 2002.
6/ Trust fund depleted in calendar year 1996.

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

TABLE 12.--SEVENTY-FIVE YEAR ACTUARIAL BALANCE OF THE HOSPITAL INSURANCE PROGRAM UNDER ALTERNATIVE SETS OF ASSUMPTIONS

	Alternative			
	I	II-A	II-B	III
1987-2011:				
Average contribution rate 1/	2.90%	2.90%	2.90%	2.90%
Average cost of the program 2/	2.71	3.21	3.34	4.41
Actuarial balance	+0.19	-0.31	-0.44	-1.51
2012-2036:				
Average contribution rate 1/	2.90	2.90	2.90	2.90
Average cost of the program 2/	2.97	5.16	5.49	10.47
Actuarial balance	-0.07	-2.26	-2.59	-7.57
2037-2061:				
Average contribution rate 1/	2.90	2.90	2.90	2.90
Average cost of the program 2/	3.43	6.36	6.77	13.78
Actuarial balance	-0.53	-3.46	-3.87	-10.88
1987-2061:				
Average contribution rate 1/	2.90	2.90	2.90	2.90
Average cost of the program 2/	3.04	4.91	5.20	9.55
Actuarial balance	-0.14	-2.01	-2.30	-6.65

1/ As scheduled under present law.
2/ Expressed as a percent of taxable payroll. Includes amounts for trust fund maintenance. Under alternative I, maintenance amounts are included only in the last 25-year projection period.

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

CONCLUSION

The balance in the Federal Hospital Insurance Trust Fund at the beginning of 1987 was at the level of 81 percent of estimated outgo for calendar year 1987. This is above the 50 percent level recommended by the Board of Trustees. The tax rates specified in the law are sufficient, along with interest earnings and assets in the fund, to support program expenditures and maintain the trust fund at a level of at least 50 percent of one year's outgo over the next twelve to fourteen years under the intermediate assumptions. Even though the trust fund is expected to be able to pay benefits and administrative expenses as they become due until just after the turn of the century under the intermediate assumptions (2002 under alternative II-B, 2005 under alternative II-A), any significant adverse deviation from these projections could result in the inability of the fund to meet its obligations much sooner than projected. In order to bring the hospital insurance program into close actuarial balance even for the first 25-year projection period under alternative II-B assumptions, either outlays will have to be reduced by 13 percent or income increased by 15 percent (or some combination thereof).

Over the 75-year projection period, the average tax rate necessary to provide for benefits and administrative expenses plus maintain the fund at a level of at least a half-year's disbursements exceeds the average tax rate scheduled in the law, producing an average deficit of 2.30 percent of taxable payroll under alternative II-B and 2.01 percent under alternative II-A. For the first 25-year projection period, the average deficit is 0.31 and 0.44 percent of taxable payroll for alternative II-A and alternative II-B, respectively. The average deficit grows to 2.26 and 2.59 percent of taxable payroll for alternatives II-A and II-B respectively, during the second 25-year projection period, and to 3.46 and 3.87 percent of taxable payroll for alternatives II-A and II-B respectively, during the third 25-year projection period.

There are currently over four covered workers supporting each HI enrollee. This ratio will begin to decline rapidly early in the next century. By the middle of that century, there will be only slightly more than two covered workers supporting each enrollee. Not only are the anticipated reserves and financing of the HI program inadequate to offset this demographic change, but under all but the most optimistic assumptions, the HI trust fund is projected to become exhausted even before the major demographic shift begins to occur. Exhaustion is projected to occur just after the turn of the century under the intermediate assumptions, and could occur as early as 1996 if the pessimistic assumptions are realized.

The Board notes that promising steps to begin reducing the rate of growth in payments to hospitals have already been taken. Initial experience under the prospective payment system for hospitals suggests that this payment mechanism is an effective means of constraining the growth in hospital payments and improving the efficiency of the hospital industry. Efforts focused on improving the efficiency and reducing the costs of the health care delivery system need to be continued, in close combination with mechanisms that will assure that the quality of health care is not adversely affected.

Because of the magnitude of the projected actuarial deficit in the HI program and the probability that the HI trust fund will be exhausted just after the turn of the century, the Board believes that early corrective action is essential in order to avoid the need for later, potentially precipitous changes. The Board, therefore, urges that the Congress take early remedial measures to bring future HI program costs and financing into balance.