II. TECHNICAL SECTION

A. SOCIAL SECURITY AMENDMENTS SINCE THE 1993 REPORT

Since the 1993 Annual Report was transmitted to Congress on April 6, 1993, the Omnibus Budget Reconciliation Act of 1993 (Public Law 103-66) was enacted on August 10, 1993. A section of this law affected the HI program. The more important changes, from a financial standpoint, are briefly described below:

(1) The limit on wages and self-employment income subject to the HI contribution rate is repealed, effective January 1, 1994.

(2) The maximum percentage of OASDI benefits that are subject to Federal income taxation under certain circumstances is increased, from 50 percent to 85 percent, for taxable years beginning in 1994 and later. The revenues resulting from this increase will be transferred to the HI trust fund.

(3) For payments to hospitals reimbursed under the prospective payment system (PPS), the update factors for discharges occurring during fiscal year 1994 are the market basket percentage increase minus 2.5 percentage points for urban hospitals and the market basket percentage increase minus 1.0 percentage point for rural hospitals. For fiscal year 1995, the update factor for urban hospitals under PPS will be the market basket percentage increase minus 2.5 percentage points; for rural hospitals under PPS, the update factor will be, as it was under prior law, the increase necessary to equalize the rural and "other urban" standardized amounts (where "other urban" indicates urban areas with populations of less than 1 million people). For fiscal years 1996 and 1997, the update factors for all hospitals under PPS will be the market basket percentage increase minus 2.0 percentage points and the market basket percentage increase minus 0.5 percentage points, respectively. In subsequent years, the update factor for all hospitals under PPS will be the market basket percentage increase.

    The update factors for the hospital-specific rates applicable to sole community hospitals and Medicare-dependent small rural hospitals are the market basket percentage increase minus 2.3 percentage points and the market basket percentage increase minus 2.2 percentage points, for fiscal years 1994 and 1995, respectively. For fiscal year 1996 and after, the annual update is equal to the update factors for all hospitals. The effective date of all updates for these hospitals is moved to October 1 of each year; it had previously been the first day of the hospital's accounting year.

The update factors for PPS-exempt hospitals will be, in general, the market basket percentage increase minus 1.0 percentage points, for each of fiscal years 1994 to 1997; however, the 1.0 percentage point reduction may be decreased for a hospital, subject to certain criteria being met. For fiscal years 1998 and after, the update factor for PPS-exempt hospitals will be the market basket percentage increase.

(4) There will be no change in the cost limits on per diem routine service costs for skilled nursing facilities, for cost reporting periods beginning in fiscal years 1994 and 1995. The update to the cost limits is delayed from October 1, 1992 to October 1, 1995. Return on equity payments are eliminated for proprietary skilled nursing facilities.

(5) The update factors for hospice care for fiscal years 1994 through 1997 are the market basket percentage increase minus 2.0, 1.5, 1.5, and 0.5 percentage points, respectively. In subsequent years, the update factors will be the market basket percentage increase.

(6) The period of time that Medicare is secondary payor for disabled beneficiaries has been extended, with a change in expiration date from September 30, 1995 to September 30, 1998. The secondary payor provision for end-stage renal disease (ESRD) beneficiaries that increased the period of time for which Medicare is secondary payor, from the first 12 months of an individual's entitlement on the basis of ESRD to the first 18 months, was due to expire on January 1, 1996; this expiration date has been extended to October 1, 1998. In addition, Medicare is now secondary payor for all beneficiaries with ESRD, not only those entitled to Medicare solely on the basis of ESRD.

(7) The cost-of-living updates for graduate medical education reimbursement are eliminated for cost reporting periods beginning in fiscal years 1994 and 1995, except for residents in primary care or obstetrics and gynecology. The initial residency period is now

defined as the period required for board eligibility; it was previously defined as period required for board eligibility plus one year.

(8) The per-visit cost limits for home health services will not be updated or adjusted, for cost reporting periods beginning on or after July 1, 1994 and before July 1, 1996. In addition, the previously-required adjustment for administrative and general costs of hospital-based home health agencies has been eliminated, for cost report periods beginning after fiscal year 1993.

(9) A reduced HI premium is now available to certain individuals aged 65 and over who are not otherwise entitled to HI benefits. This change is relatively insignificant to the financial status of the HI program, but is included here since it is a mandated change to the HI program's rates, in which readers are often interested. More information on this change can be found in Appendix D.

Detailed information regarding these changes and other less significant changes can be found in documents prepared by and for the Congress. The estimates found in this report reflect the anticipated effects of these changes.

B. 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 HI program are handled through this fund.

The primary source of income to the trust fund is amounts appropriated to it under permanent authority on the basis of contributions paid by workers, their employers, and individuals with self-employment income, in work covered by the HI program. Beginning January 1, 1987, these appropriated amounts include contributions paid by, or on behalf of, workers employed by State and local governments and their employers, with respect to work covered by the program through State agreements. (Prior to 1987, such contributions were deposited directly into the trust fund.) The coverage of the HI program includes workers covered under the old-age, survivors, and disability insurance (OASDI) program, those covered under the railroad retirement program, and certain Federal, State, and local employees not otherwise covered under the OASDI program.

All employees and their employers in employment covered by the program are required to pay contributions on the wages of individual workers, including cash tips. All covered self-employed persons are required to pay contributions on their self-employment income.

In general, for calendar years prior to 1994, an individual's contributions were 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. An employee who paid contributions on wages in excess of the annual maximum amount (because of employment with two or more employers) was eligible for a refund of the excess employee contributions. The amount of contributions subject to refund for any period was a charge against the trust fund. The maximum amount of earnings on which contributions were payable in a year is called the contribution base. The contribution base has been eliminated effective January 1, 1994.

The HI contribution rates applicable to taxable earnings in each of the calendar years 1966 and later are shown in Table II.B1. For 1995 and later, the contribution rates shown are the rates scheduled in the provisions of present law. The contribution bases are also shown. For 1975 to 1978, the contribution bases were determined under the automatic-adjustment provisions in section 230 of the Social Security Act. The bases for 1979 to 1981 were specified in the law, as amended in 1977. For 1982 to 1990 and for 1992 and 1993, the automatic-adjustment provisions were again applicable. For calendar year 1991, the contribution base was specified in the law, as amended in 1990. The Omnibus Reconciliation Act of 1993 eliminated the contribution bases for calendar years 1994 and later; therefore, for those years, all earnings in covered employment are subject to the contribution rate.

TABLE II.B1. -- 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
1988	45,000	1.45	2.90
1989	48,000	1.45	2.90
1990	51,300	1.45	2.90
1991	125,000	1.45	2.90
1992	130,200	1.45	2.90
1993	135,000	1.45	2.90
1994	no limit	1.45	2.90
Changes scheduled in present law:			
1995 & later	no limit	1.45	2.90

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, on an estimated basis, to the trust fund. The exact amount of contributions received is not known initially since HI contributions, OASDI 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 estimated 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.

Since 1984, up to one-half of an individual's or couple's OASDI benefits has been subject to Federal income taxation under certain circumstances, and the proceeds from this taxation have been allocated to the OASI and DI trust funds. Beginning in 1994, the maximum percentage of OASDI benefits so taxed is increased under certain circumstances, from 50 percent to 85 percent, and the revenue attributable to this increased portion of benefits subject to taxation is allocated to the HI trust fund.

Another substantial source of trust fund income is interest credited from investments in government securities 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 HI 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 HI 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 HI 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.

Two sections of the statute authorize HI benefits for uninsured persons aged 65 and over. Section 103 of the Social Security Amendments of 1965 provided transitional entitlement to HI benefits to those who were 65 before 1968 or who attained age 65 after 1967 and had at least three quarters of covered employment. This entitlement does not apply for those who reach 65 after 1973. Section 278 of the Tax Equity and Fiscal Responsibility Act of 1982 added similar transitional entitlement for those federal employees who would retire before having a chance to earn sufficient quarters of Medicare-qualified federal employment. This provision allows those who were employed by the Federal Government during and before January, 1983, to have the necessary quarters of federal employment counted toward their Medicare entitlement. Such payments are made initially from the HI 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 HI 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 HI 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 HI 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 HI trust fund. The reimbursements so made were on a provisional basis and are subject to adjustment, with appropriate interest allowance.

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 HI and supplementary medical insurance (SMI) programs. A sizable portion of the costs of such experiments and demonstration projects is paid from the HI and SMI 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 HI 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 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. These special issue securities are redeemable at par value at all times, and so are not subject to the uncertainty of price fluctuations as interest rates change.

From December 29, 1981, until January 1, 1988, the Social Security Act authorized 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. Interfund loans under the borrowing authority were made to the OASI trust fund from the DI and HI trust funds in 1982, and were fully repaid by May 1986. In this report, the assets of the HI trust fund at the end of 1982 through 1985, inclusive, do not include the amounts owed to the trust fund. This procedure is followed because the borrowed amounts were available to the borrowing fund for the payment of benefits or other obligations, while such amounts were not readily available to the lending fund.

C. SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1993

A statement of the revenue and disbursements of the Federal Hospital Insurance Trust Fund in fiscal year 1993, and of the assets of the fund at the beginning and end of the fiscal year, is presented in Table II.C1.

The total assets of the trust fund amounted to $120,633 million on September 30, 1992. During fiscal year 1993, total revenue amounted to $97,101 million, and total disbursements were $91,604 million. The assets of the trust fund thus increased $5,497 million during the year to a total of $126,131 million on September 30, 1993.

TABLE II.C1. -- STATEMENT OF OPERATIONS OF THE HI TRUST FUND DURING FISCAL YEAR 1993
(In thousands of dollars)

Total assets of the trust fund, beginning of period	$120,633,106
Revenue:	
Appropriation of employment taxes	$83,161,263
Refunds of employment taxes	-13,050
Deposits arising from State agreements	-1,574
Interest on investments	10,542,222
Premiums collected from voluntary participants	622,498
Transfer from railroad retirement account	355,700
Transitional uninsured coverage	367,000
Military service credits of 1993	80,818
Reimbursement, program management general fund	117,862
Interest on reimbursements, SSA[1]	18,837
Interest on reimbursements, Railroad Retirement	44,800
Transfer from SMI catastrophic coverage reserve fund	1,804,517
Other	501
Total revenue	$97,101,394
Disbursements:	
Benefit payments	$90,738,311
Administrative expenses:	
Treasury administrative expenses	53,947
Salaries and expenses, SSA[2]	384,162
Salaries and expenses, HCFA[3]	402,004
Salaries and expenses, Office of Secretary	18,282

TABLE II.C1. -- STATEMENT OF OPERATIONS OF THE HI TRUST FUND DURING FISCAL YEAR 1993
(In thousands of dollars)

Payment Assessment Committee	3,726
Policy and Research	3,472
Total disbursements	$91,603,903
Total assets of the trust fund, end of period	$126,130,598

[1]A positive figure represents a transfer of the HI trust fund from the other trust funds. A negative figure represents a transfer from the HI trust fund to the other trust funds.
[2]For facilities, goods, and services provided by the Social Security Administration (SSA).
[3]Includes administrative expenses of the intermediaries.

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

Included in total revenue during fiscal year 1993 was $83,161 million representing contributions appropriated to the trust fund. As an offset, $13 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, and $2 million was transferred from the trust fund to State and local governments for overpayments from previous State agreements for coverage of State and local government employees.

Net contributions amounted to $83,147 million, representing an increase of 2.7 percent over the amount of $80,978 million for the preceding 12-month period. This growth in contribution income resulted primarily from (1) the higher level of earnings in covered employment and (2) the two increases in the maximum annual amount of earnings taxable from $125,000 to $130,200 and from $130,200 to $135,000 that became effective January 1, 1992, and January 1, 1993, respectively.

Section II.B referred to provisions under which the HI 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 1993 amounted to $367 million ($328 million for the non-federal uninsured and $39 million for the federal uninsured), consisting of $362 million for benefit payments and $5 million for administrative expenses.

Section II.B referred to provisions of the Social Security Act under which certain persons not otherwise eligible for HI protection may obtain such protection by enrolling in the program and paying a monthly premium. Premiums collected from such voluntary participants in fiscal year 1993 amounted to about $622 million.

In accordance with the provisions of the Railroad Retirement Act which coordinate the railroad retirement and the HI 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 about $356 million in principal and $25 million in interest from the railroad retirement program's Social Security Equivalent Benefit Account to the HI trust fund would place this fund in the same position, as of September 30, 1992, 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 about $20 million, was transferred to the trust fund in June 1993.

In accordance with provisions for the appropriation to the trust fund of HI taxes on noncontributory military wage credits as discussed in section II.B, the trust fund was credited on July 1, 1993 with $81 million for calendar year 1993 taxes on wage credits.

In accordance with Public Law 102-394, which was enacted on October 6, 1992, funds in the SMI catastrophic coverage reserve fund were transferred to the HI trust fund, to compensate for the increased cost to the HI fund in 1989 resulting from the Medicare Catastrophic Coverage Act of 1988. On March 31, 1993, $1.8 billion was transferred to the HI trust fund.

The remaining $10,679 million of revenue consisted almost entirely of interest credited from the investments held by the trust fund.

Of the $91,604 million in total disbursements, $90,738 million represented benefits paid directly from the trust fund for health services covered under title XVIII of the Social Security Act. Benefit payments increased 12.3 percent in fiscal year 1993 over the corresponding amount of $80,784 million paid during the preceding 12 months.

The remaining $866 million of disbursements was for net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds--OASI, DI, HI, and SMI--on the basis of provisional estimates. Similarly, the expenses of administering other programs of the Health Care Financing Administration are also allocated and charged directly to the general fund of the Treasury on a provisional basis. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are effected by interfund transfers, including transfers between the HI and SMI trust funds and the program management general fund account, with appropriate interest allowances.

Table II.C2 compares the actual experience in fiscal year 1993 with the estimates presented in the 1992 and 1993 annual reports. Section II.B 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 II.C2, it should be noted that the "actual" amount of contributions in fiscal year 1993 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions for fiscal year 1993 does not reflect adjustments to contributions for fiscal year 1993 that were to be made after September 30, 1993.

TABLE II.C2. -- COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE HI TRUST FUND, FISCAL YEAR 1993
(Dollar amounts in millions)

		Comparison of actual experience with estimates for fiscal year 1993 published in--			
		1993 report		1992 report	
Item	Actual amount	Estimated amount[1]	Actual as percentage of estimate	Estimated amount[1]	Actual as percentage of estimate
Net contributions	$83,147	$82,657	101	$84,859	98
Benefit payments	$90,738	$90,118	101	$83,242	109

[1] Under the intermediate assumptions, which were called "Alternative II."

The assets of the HI trust fund at the end of fiscal year 1992 totaled $120,633 million, consisting of $120,647 million in the form of obligations of the U.S. Government obligations and, as an offset, an extension of credit of $13 million against securities to be redeemed. The assets of the HI trust fund at the end of fiscal year 1993 totaled $126,131 million, consisting of $126,078 million in the form of U.S. Government obligations and an undisbursed balance of $52 million. Table II.C3 shows the total assets of the fund and their distribution at the end of fiscal years 1992 and 1993.

TABLE II.C3. -- ASSETS OF THE HI TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1992 AND 1993[1]

	September 30, 1992	September 30, 1993
Investments in public-debt obligations sold only to the trust funds (special issues):		
Certificates of indebtedness:		
5 5/8-percent, 1994	-------	$1,160,387,000.00
6 5/8-percent, 1993	$846,655,000.00	-------
Bonds:		
6 1/4-percent, 1995-2008	-------	13,269,693,000.00
7 3/8-percent, 1994-2007	19,468,420,000.00	18,600,459,000.00
8 1/8-percent, 1994-2006	18,132,248,000.00	17,230,975,000.00
8 3/8-percent, 1993	580,357,000.00	-------
8 3/8-percent, 1994-2001	10,440,005,000.00	9,380,981,000.00
8 5/8-percent, 1993	686,250,000.00	-------
8 5/8-percent, 1994-2002	8,685,404,000.00	8,572,945,000.00
8 3/4-percent, 1993	2,309,049,000.00	-------
8 3/4-percent, 1994-2005	35,538,365,000.00	35,538,365,000.00
9 1/4-percent, 1993	1,034,541,000.00	-------
9 1/4-percent, 1994-2003	13,540,817,000.00	13,540,817,000.00
9 3/4-percent, 1993	130,210,000.00	-------
9 3/4-percent, 1994-1995	1,109,880,000.00	1,109,880,000.00
10 3/8-percent, 1998-2000	2,131,610,000.00	2,131,610,000.00
10 3/4-percent, 1998	588,410,000.00	588,410,000.00
13 -percent, 1993	197,606,000.00	-------
13 -percent, 1994-1996	1,572,488,000.00	1,572,488,000.00
13 1/4-percent, 1993	272,853,000.00	-------
13 1/4-percent, 1994-1997	2,268,688,000.00	2,268,688,000.00
13 3/4-percent, 1998-1999	1,112,678,000.00	1,112,678,000.00
Total investments	$120,646,534,000.00	$126,078,376,000.00
Undisbursed balance[2]	-13,427,565.71	52,221,829.52
Total assets	$120,633,106,434.29	$126,130,597,829.52

[1]Certificates of indebtedness and bonds are carried at par value, which is the same as book value.
[2]Negative figures represent extension of credit against securities to be redeemed within the following few days.

New securities at a total par value of $107,766 million were acquired during the fiscal year through the investment of revenue and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was $102,334 million. Thus, the net increase in the par value of the investments held by the fund during fiscal year 1993 amounted to $5,432 million.

The effective annual rate of interest earned by the assets of the HI trust fund during the 12 months ending on June 30, 1993, was 9.01 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 1993 was 6.25 percent, payable semiannually.

D. ACTUARIAL METHODOLOGY AND PRINCIPAL ASSUMPTIONS FOR THE HOSPITAL INSURANCE COST ESTIMATES

This section describes the basic methodology and assumptions used in the estimates for the HI program under the intermediate assumptions. In addition, sensitivity testing of program costs under two alternative sets of assumptions is presented.

1. Assumptions

Both the economic and demographic assumptions underlying the projections shown in this report are consistent with those in the 1994 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance (OASDI) Trust Funds. These assumptions are described in more detail in that report.

2. Program Cost Projection Methodology

The principal steps involved in projecting the future costs of the HI program are (1) establishing the present cost of services provided to beneficiaries, by type of service, to serve as a projection base; (2) projecting increases in payment amounts for inpatient hospital services under the program; (3) projecting increases in payment amounts for SNF, HHA, and hospice services covered under the program; and (4) projecting increases in administrative costs. The major emphasis is directed toward expenditures for inpatient