Actuarial Status of the HI and SMI Trust Funds

by Barbara Klees and Carter Warfield*

This article is adapted from the 1986 annual reports of the Medicare Board of Trustees. It presents a summary of the current financial and actuarial status of the Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) Trust Funds. The Board found that the present financing schedule for the HI program is barely sufficient to ensure the payment of benefits through the late 1990's if the intermediate (II-A and II-B) assumptions underlying the estimates are realized. Although steps have been undertaken to reduce the rate of growth in payments to hospitals, the Board urges Congress to take remedial measures to bring future HI program costs and financing into balance. The Board found the SMI program to be actuarially sound but recommends that Congress take action to curtail the rapid growth in that part of Medicare.

This summary presents an overview of the information contained in the Annual Reports of the Trustees[1] required under title XVIII of the Social Security Act, Health Insurance for the Aged and Disabled, commonly known as Medicare. There are two basic programs under Medicare:

(1) Hospital insurance (HI), which pays for inpatient hospital care and other related care of those aged 65 or older and of the long-term disabled.
(2) Supplementary medical insurance (SMI), which pays for physicians' services, outpatient hospital services, and other medical expenses of those aged 65 or older and of the long-term disabled.

The HI program is financed primarily by payroll taxes, with the taxes paid by current workers used primarily to pay benefits to current beneficiaries. However, the HI program maintains a trust fund to provide a small reserve against fluctuations and to anticipate changes in the demographic makeup of the population. The SMI program is financed on an accrual basis with a contingency margin. This means that the SMI Trust Fund should always be somewhat greater than the claims that have been incurred by enrollees but not yet paid by the program. The trust funds hold all of the income not currently needed to pay benefits and related expenses. The assets of the funds may not be used for any other purpose; however, they may be invested in certain interest-bearing obligations of the U.S. Government.

The Secretaries of Treasury, Labor, Health and Human Services, and two public members serve as Trustees of the HI and SMI Trust Funds. The Secretary of Treasury is the Managing Trustee. The Administrator of the Health Care Financing Administration, the agency charged with administering the Medicare program, is the Secretary of the Board of Trustees.

Hospital Insurance Trust Fund

The hospital insurance program is financed primarily by payroll taxes. The HI contribution rates applicable to taxable earnings in each of the calendar years 1983 and later are shown in table 1. The maximum taxable amounts of annual earnings are shown for 1983 through 1986. After 1986, the automatic increase provisions in section 230 of the Social Security Act determine the maximum taxable amount.

*Division of Medicare Cost Estimates, Office of the Actuary, Health Care Financing Administration.

[1] **1986 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund** and **1986 Annual Report of the Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund**, March 31, 1986. Copies of the reports may be obtained from the Office of the Actuary, Health Care Financing Administration, Room 100, Equitable Building, 1705 Whitehead Road, Baltimore, Maryland 21207.

Table 1.—Contribution rates and maximum taxable amount of annual earnings

Calendar year	Maximum taxable amount of annual earnings	Contribution rate (percent of taxable earnings)	
		Employee and employer, each	Self-employed
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
Changes scheduled in present law:			
1987 and later ...	(1)	1.45	2.90

[1] Subject to automatic increase.

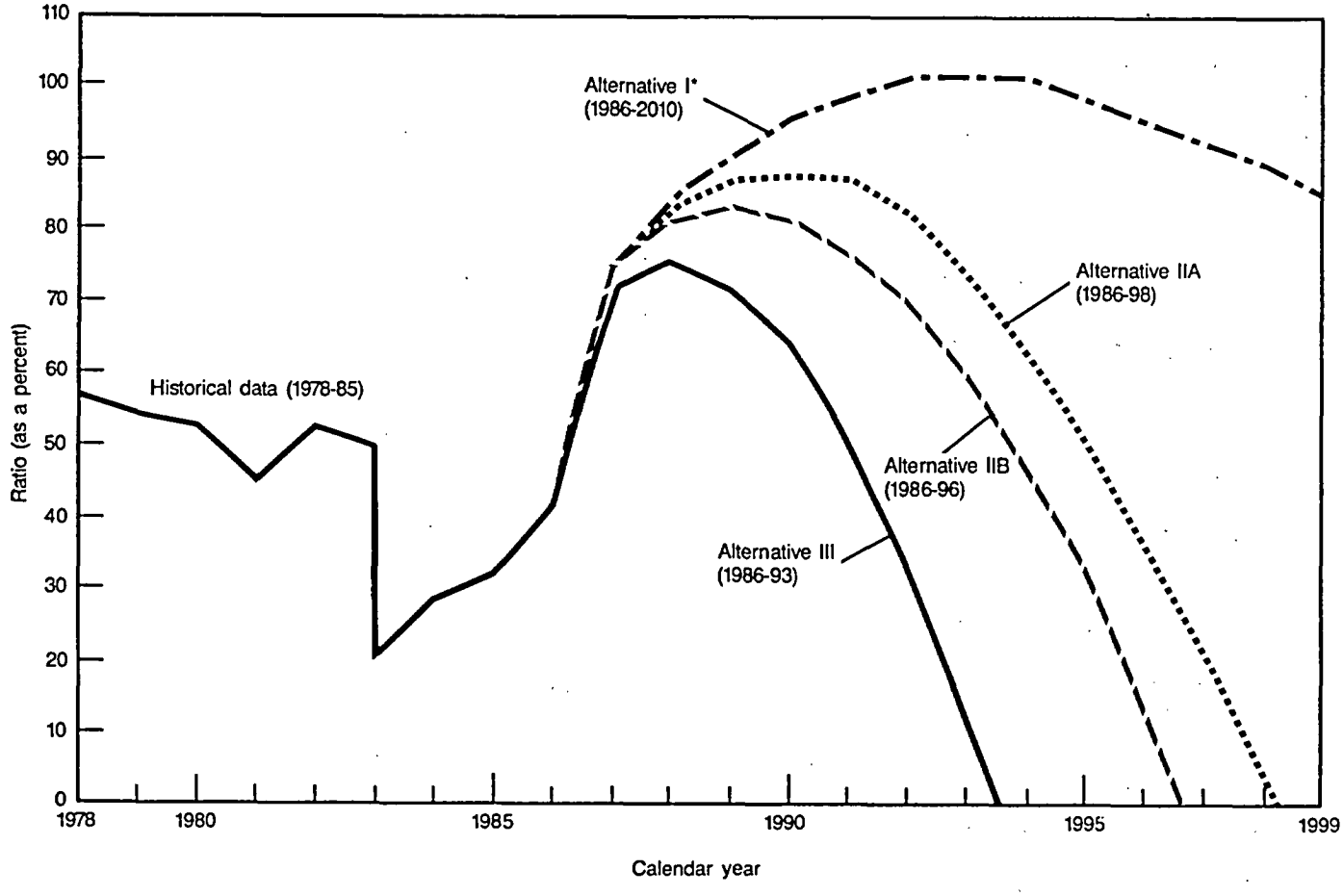
Operations of the HI Program

In calendar year 1985, over 27 million persons aged 65 or older and about 3 million disabled persons under age 65 were covered under HI, financed primarily by the contributions of 122 million workers through payroll taxes. Payroll taxes during 1985 amounted to $47.6 billion, accounting for 92.6 percent of all HI income. Interest payments to the HI fund amounted to 6.5 percent of all HI income for 1985. The remaining 0.9 percent consisted primarily of transfers from the Railroad Retirement Account and the general fund of the Treasury (in accordance with provisions for the collection of taxes from railroad workers, the collection of taxes on deemed military service wage credits, and reimbursement to the fund for benefits for certain uninsured persons) and premiums paid by voluntary enrollees. Of the $48.4 billion in HI disbursements, $47.6 billion was for benefit payments while the remaining $0.8 billion was spent for administrative expenses. The HI administrative expenses were 1.7 percent of total disbursements. In calendar year 1985, the HI Trust Fund was credited with an additional $1.8 billion, representing a partial repayment of the interfund loan made to the Federal Old-Age and Survivors Insurance Trust Fund in December 1982.

Actuarial Status of the HI Trust Fund

The Board of Trustees has adopted the general financing principle that annual income to the HI

Chart 1. — Short-term HI Trust Fund ratios



*The trust fund remains solvent under alternative I during this 25-year projection period.
Note: The trust fund ratio is defined as the ratio of assets at the beginning of the year to disbursements during the year.

Table 2.—Estimated operations of the Hospital Insurance Trust Fund during calendar years 1985-2010, 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) [2]
Alternative I (optimistic):						
1985 [3]	$51.4	$48.4	$1.8	$4.8	$20.5	32
1986	59.9	50.1	10.6	20.4	40.9	41
1987	63.4	54.4	...	9.0	49.9	75
1988	68.3	59.7	...	8.6	58.5	84
1989	73.2	64.9	...	8.3	66.9	90
1990	77.6	70.0	...	7.6	74.5	96
1991	82.5	75.6	...	6.9	81.4	99
1992	86.2	80.5	...	5.7	87.1	101
1993	90.7	85.9	...	4.8	91.9	101
1994	94.8	91.2	...	3.6	95.6	101
1995	99.7	97.2	...	2.5	98.1	98
2000	129.1	128.9	...	.3	104.2	81
2005	165.9	165.9	...	.1	103.7	62
2010	210.6	210.2	...	.5	105.1	50
Alternative II-A (intermediate):						
1985 [3]	51.4	48.4	1.8	4.8	20.5	32
1986	59.8	50.1	10.6	20.3	40.8	41
1987	63.6	54.5	...	9.1	49.9	75
1988	68.2	60.4	...	7.8	57.7	83
1989	72.9	66.4	...	6.5	64.3	87
1990	77.7	72.9	...	4.8	69.1	88
1991	82.0	79.9	...	2.1	71.2	87
1992	86.3	87.2	...	−1.0	70.2	82
1993	90.3	95.0		−4.8	65.5	74
1994	94.7	103.3	...	−8.6	56.9	63
1995	99.0	112.1	...	−13.1	43.8	51
1996	103.7	120.9	...	−17.1	26.7	36
1997	108.4	129.9	...	−21.5	5.2	21
1998	113.2	139.7	...	−26.6	[4]	4
Alternative II-B (intermediate):						
1985 [3]	51.4	48.4	1.8	4.8	20.5	32
1986	59.6	50.1	10.6	20.1	40.6	41
1987	62.9	54.5	...	8.5	49.1	75
1988	67.1	60.5	...	6.7	55.7	81
1989	72.3	67.3	...	5.0	60.8	83
1990	77.6	74.8	...	2.8	63.6	81
1991	82.4	82.7	...	−.3	63.3	77
1992	87.3	91.0	...	−3.7	59.5	70
1993	91.9	99.9	...	−8.0	51.5	60
1994	96.8	109.4	...	−12.6	38.9	47
1995	101.5	119.6	...	−18.1	20.8	33
1996	106.6	129.9	...	−23.2	[5]	16
Alternative III (pessimistic):						
1985 [3]	51.4	48.4	1.8	4.8	20.5	32
1986	59.5	50.3	10.6	19.9	40.4	41
1987	62.7	56.0	...	6.8	47.1	72
1988	65.3	62.3	...	2.9	50.0	76
1989	70.6	70.5	...	.1	50.1	71
1990	73.7	78.6	...	−5.0	45.1	64
1991	77.7	88.6	...	−10.9	34.2	51
1992	81.9	99.6	...	−17.7	16.5	34
1993	85.6	111.9	...	−26.4	[6]	15

[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 1985 represent actual experience.

[4] Trust fund depleted in calendar year 1998.

[5] Trust fund depleted in calendar year 1996.

[6] Trust fund depleted in calendar year 1993.

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

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 disbursements. At the beginning of 1986, the trust fund was below this desired level. However, on January 31, 1986, the outstanding balance of the loan made to the Federal Old-Age and Survivors Insurance Trust Fund in December 1982 was repaid, creating a balance in the HI Trust Fund estimated to be greater than the 50 percent level.

Projections were made using four alternative sets of assumptions: optimistic (alternative I), two intermediate sets (alternatives II-A and II-B), and pessimistic (alternative III). Under both sets of intermediate assumptions, the trust fund ratio is projected to increase until about 1989 and then decline steadily until the fund is completely exhausted in the late 1990's. Under alternative I, the trust fund is projected to remain

solvent throughout the first 25-year projection period. Under alternative III, the trust fund is projected to increase to a level of about 76 percent in 1988 and then decrease rapidly until the fund is exhausted in 1993.

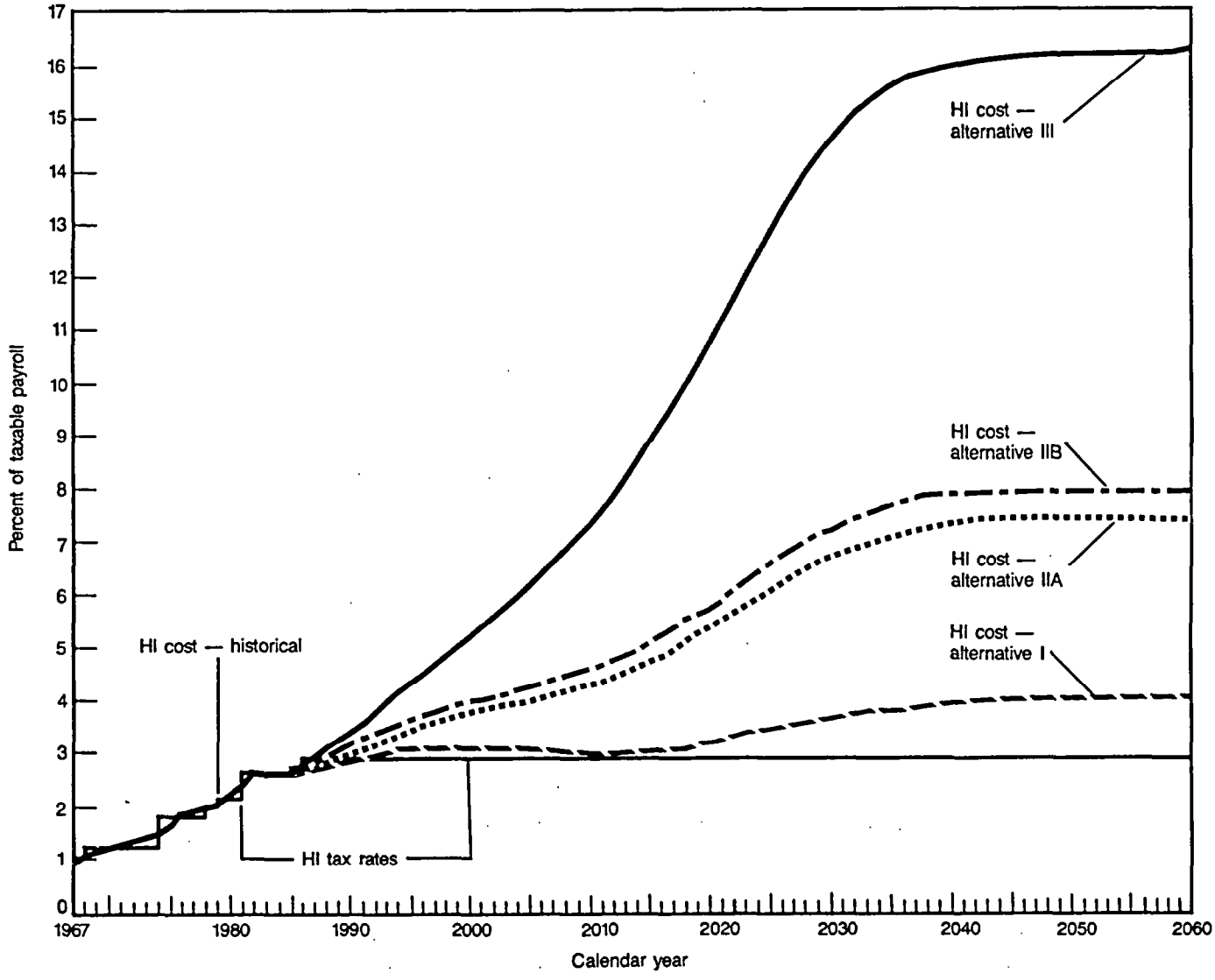
Table 2 in this report summarizes the estimated operations of the HI Trust Fund under the four alternative sets of assumptions. Chart 1 shows historic trust fund ratios for recent years and projected ratios under the four sets of assumptions.

The adequacy of the financing of the HI program on a long-range basis 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. The actuarial balance is defined to be the excess of the average tax rate for the valuation period over the average cost of the program expressed as a percentage of taxable payroll. Table 3 compares the actuarial balance under each of the four sets of assumptions for the 75-year projection period 1986–2060. Chart 2 shows the year-by-year costs as a percentage of taxable payroll for each of the four sets of assumptions, as well as the scheduled tax rates. The cost figures include amounts for maintaining the trust fund at the level of a half-year's disbursements, as recommended by the Board of Trustees.

Chart 2 emphasizes the inadequacy of the financing of the HI program by illustrating the divergence of the program costs and scheduled tax rates under each set of assumptions.

Table 4 presents a comparison of the projected experience in the 1985 and 1986 Trustees' Reports. The following tabulation shows the major reasons for

Chart 2. — Estimated HI cost and tax rates



Note: HI projected cost includes an allowance for maintaining the trust fund balance at a level of a half year's outgo after accounting for the offsetting effect of interest earnings.

the change in the 75-year actuarial balance of the HI program from the 1985 report.

Valuation period	−0.07
Base estimate	+.14
Change in prospective payment rates	+.06
Economic and demographic assumptions	−.22
Hospital assumptions	−.14
Net effect, all changes	−.23
Actuarial balance, alternative II-B:	
1985 report	−2.79
1986 report	−3.02

Conclusion

The present financing schedule for the hospital insurance program is barely sufficient to ensure the payment of benefits and maintain the fund at a level of one-half year's disbursements over the next 7–9 years if the assumptions underlying the estimates are realized. The trust fund would be exhausted in the late 1990's under both alternatives II-A and II-B. Under the more pessimistic assumptions, the fund would be exhausted in 1993. Under the more optimistic alternative I assumption, the trust fund would remain solvent at least through the first 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. This depletion is projected to occur during the late 1990's under the intermediate assumptions, and could occur as early as 1993 if the pessimistic assumptions are realized.

The Board notes that promising steps have begun to reduce the rate of growth in payments to hospitals. 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 before the end of the century, the Board believes that early corrective action is essential to avoid the need for later, potentially precipitous changes. The Board, therefore, urges that Congress take early remedial measures to bring future HI program costs and financing into balance.

Table 3.—Seventy-five year actuarial balance of the hospital insurance program under alternative sets of assumptions

[Figures in percents]

Alternative assumption	Contribution rate [1]	Cost rate	Actuarial balance [2]
1986-2010:			
I (optimistic)	2.90	2.96	−0.06
II-A (intermediate)	2.90	3.56	−.66
II-B (intermediate)	2.90	3.72	−.82
III (pessimistic)	2.90	4.87	−1.97
2011-35:			
I (optimistic)	2.90	3.34	−.44
II-A (intermediate)	2.90	5.76	−2.86
II-B (intermediate)	2.90	6.18	−3.28
III (pessimistic)	2.90	11.85	−8.95
2036-60:			
I (optimistic)	2.90	3.96	−1.06
II-A (intermediate)	2.90	7.33	−4.43
II-B (intermediate)	2.90	7.86	−4.96
III (pessimistic)	2.90	16.06	−13.16
1986-2060:			
I (optimistic)	2.90	3.42	−.52
II-A (intermediate)	2.90	5.55	−2.65
II-B (intermediate)	2.90	5.92	−3.02
III (pessimistic)	2.90	10.93	−8.03

[1] As scheduled under present law.
[2] Expressed as a percentage of taxable payroll. Includes amounts for trust fund building and maintenance.
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 4.—Status of the Hospital Insurance Trust Fund from the 1985 and 1986 Trustees' Reports

Alternative assumption	Year trust fund exhausted		75-year actuarial balance of the HI program (percent) [1]	
	1985	1986	1985	1986
I (optimistic)	(2)	(2)	−0.38	−0.52
II-A (intermediate)	2000	1998	−2.40	−2.65
II-B (intermediate)	1998	1996	−2.79	−3.02
III (pessimistic)	1992	1993	−7.97	−8.03

[1] The actuarial balance of the hospital insurance program is defined to be the excess of the average tax rate for the valuation period over the average cost of the program, expressed as a percent of taxable payroll, for the same period.
[2] The trust fund is solvent at least through the end of the first 25-year projection period.

Supplementary Medical Insurance Trust Fund

Financing for the SMI program is established annually on the basis of standard monthly premium rates (paid by or on behalf of all participants) and monthly actuarial rates determined separately for aged and disabled beneficiaries (on which general revenue contributions are based). Before the 6-month transition period (July 1, 1983, through December 31, 1983), these rates were applicable in the 12-month pe-

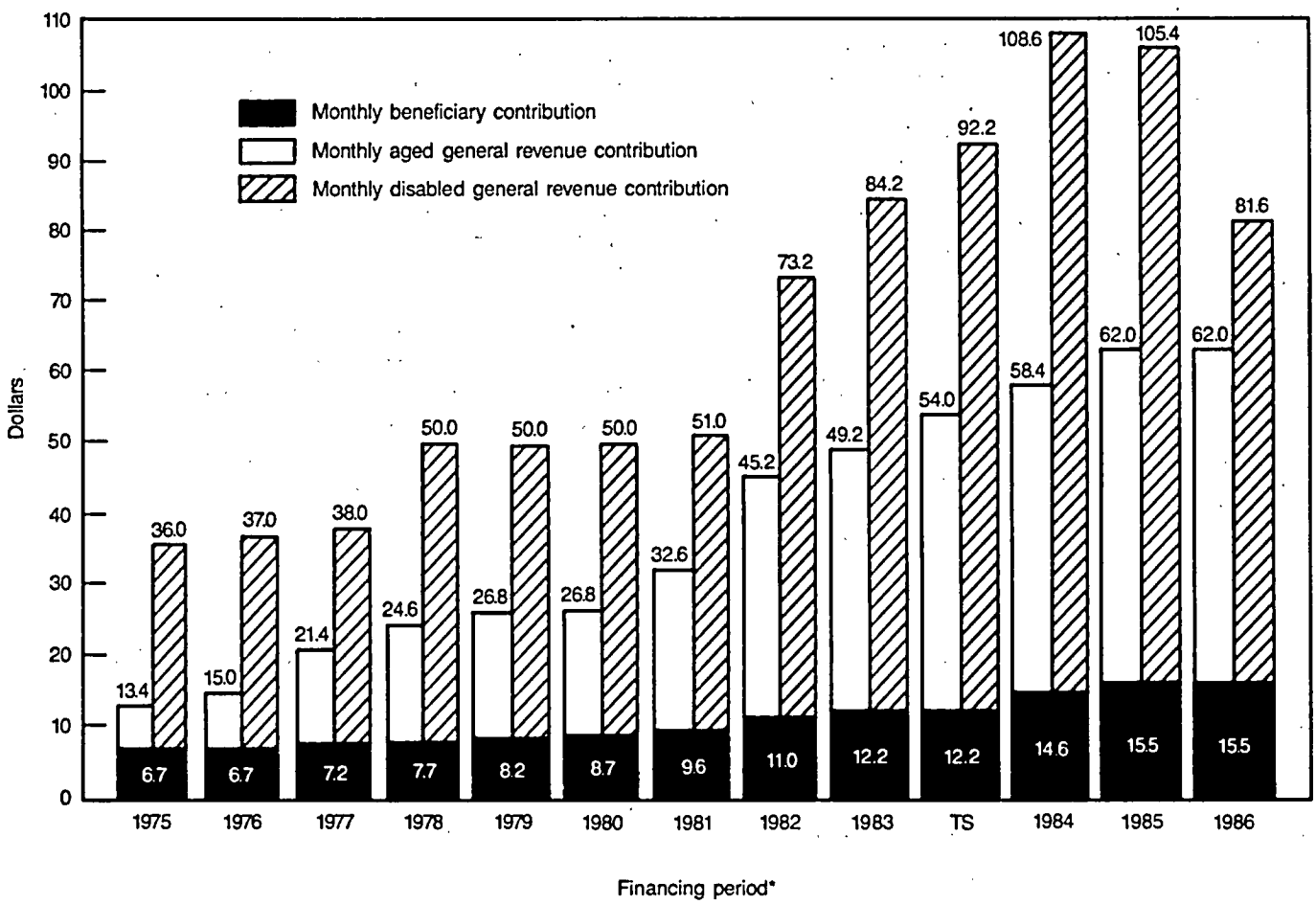
riods ending June 30. Beginning January 1, 1984, the period for which rates were applicable was changed to calendar years. Monthly actuarial rates are equal to one-half the monthly amounts necessary to finance the SMI program. These rates determine the amount to be contributed from general revenues on behalf of each enrollee. Based on the formula in the law, the Government contribution effectively makes up the difference between twice the monthly actuarial rates and the standard monthly premium rate. Chart 3 presents these values for financing periods since 1975. The extent to which general revenue financing is becoming the major source of income for the program is clearly indicated in this chart.

In calendar year 1985, 29.9 million persons were covered under SMI. General revenue contributions during 1985 amounted to $18.3 billion, accounting for 72.7 percent of all SMI income. About 22.4 percent of all income resulted from the premiums paid by the participants, with interest payments to the SMI fund accounting for the remaining 4.9 percent. Of the $23.9 billion in SMI disbursements, $22.9 billion was for benefit payments while the remaining $0.9 billion was spent for administrative expenses. SMI administrative expenses were 3.9 percent of total disbursements.

Operations of the SMI Program

Projected operations of the fund through 1988 are shown in tables 5 and 6. As shown, income has exceeded disbursements for most of the historical years. However, at the time that financing was being established for calendar year 1986, assets appeared to be more than sufficient to cover the incurred costs and an appropriate contingency. Therefore, the financing was established to reduce the assets to a more desirable level. As a result, in calendar year 1986, disbursements are projected to exceed income, and the trust fund balance is projected to decrease through calendar year 1986. By the end of calendar year 1987, though, the trust fund balance is projected to increase. The financial status of the program depends on both the total net assets and liabilities. It is, therefore, necessary

Chart 3. — SMI monthly per capita income



*For periods 1983 and earlier, the financing period is July 1 through July 30. For the transitional semester (TS), the financing period is July 1, 1983, through December 31, 1983. For 1984 through 1986, the financing period is January 1 through December 31.

to examine the incurred experience of the program, since it is this experience that is used to determine the actuarial rates discussed and that forms the basis of the concept of actuarial soundness as it relates to the SMI program.

Actuarial Soundness of the SMI Program

The concept of actuarial soundness, as it applies to the SMI program, is closely related to the concept as it applies to private group insurance. The SMI program is essentially yearly renewable term insurance financed from premium income paid by the enrollees and from income contributed from general revenue in proportion to premium payments.

In testing the actuarial soundness of the SMI program, it is not appropriate to look beyond the period for which the enrollee premium rate and level of general revenue financing have been established. The primary tests of actuarial soundness, then, are that (1) assets for years for which financing has been established be sufficient to meet the projected benefits and associated administrative expenses incurred for that period, and (2) assets be sufficient to cover projected liabilities that will have been incurred by the end of that time but will not have been paid yet. Even if these tests of actuarial soundness are not met, the program can continue to operate if the trust fund remains at a level adequate to permit the payment of claims as presented. However, to protect against the possibility that cost increases under the program will be higher than assumed, assets should be sufficient to cover the impact of a moderate degree of projection error.

The primary tests for actuarial soundness and trust fund adequacy can be viewed by direct examination of absolute dollar levels. In providing an appropriate contingency or margin for error, however, there must be some relative measure. The relative measure or ratio used for this purpose is the ratio of net surplus or deficit to the following year's incurred expenditures. Chart 4 shows this ratio for historical years and for projected years under the intermediate assumptions (alternative II-B), as well as high- and low-cost sensitivity scenarios.

Financing for calendar year 1986 was established to

Table 5.—Estimated progress of Supplementary Medical Insurance Trust Fund (cash basis) for fiscal years 1986–88 and actual data for 1967–85

[In millions]

Fiscal year [1]	Income				Disbursements			
	Total income	Premiums from participants	Government contributions [2]	Interest and other income [3]	Total disbursements	Benefit payments	Administrative expenses	Balance in fund at end of year [4]
Historical								
1967	$1,285	$647	$623	$15	$799	$664	[5] $135	$486
1968	1,353	698	634	21	1,532	1,390	142	307
1969	1,911	903	984	24	1,840	1,645	195	378
1970	1,876	936	928	12	2,196	1,979	217	57
1971	2,516	1,253	1,245	18	2,283	2,035	248	290
1972	2,734	1,340	1,365	29	2,544	2,255	289	481
1973	2,902	1,427	1,430	45	2,637	2,391	246	746
1974	3,809	1,704	2,029	76	3,283	2,874	409	1,272
1975	4,322	1,887	2,330	105	4,170	3,765	405	1,424
1976	4,994	1,951	2,939	104	5,200	4,672	528	1,219
TQ	1,421	539	878	4	1,401	1,269	132	1,239
1977	7,383	2,193	5,053	137	6,342	5,867	475	2,279
1978	9,045	2,431	6,386	228	7,356	6,852	504	3,968
1979	9,839	2,635	6,841	363	8,814	8,259	555	4,994
1980	10,275	2,928	6,932	415	10,737	10,144	593	4,532
1981	12,439	3,320	8,747	372	13,228	12,345	883	3,743
1982	17,627	3,831	13,323	473	15,560	14,806	754	5,810
1983	19,147	4,227	14,238	682	18,311	17,487	824	6,646
1984	22,525	4,907	16,811	807	20,372	19,473	899	8,799
1985	24,577	5,524	17,898	1,155	22,730	21,808	922	10,646
Projected								
Alternative II-A:								
1986	24,766	5,658	17,973	1,135	26,703	25,755	948	8,709
1987	27,626	7,065	19,816	745	30,208	29,210	998	6,127
1988	36,596	7,802	28,194	600	34,378	33,325	1,053	8,345
Alternative II-B:								
1986	24,766	5,658	17,973	1,135	26,702	25,754	948	8,710
1987	27,627	7,065	19,816	746	30,202	29,208	994	6,135
1988	36,621	7,830	28,188	603	34,402	33,352	1,050	8,354

[1] Fiscal years 1967 through 1976 cover the interval from July 1 through June 30; the 3-month interval from July 1, 1976, through September 30, 1976, is labeled "TQ," the transition quarter; fiscal years 1977–88 cover the interval from October 1 through September 30.

[2] The payments shown as being from the general fund of the Treasury include certain interest-adjustment items.

[3] Other income includes recoveries of amounts reimbursed from the trust fund that are not obligations of the trust fund and other miscellaneous income.

[4] The financial status of the program depends on both the total net assets and the liabilities of the program.

[5] Includes expenses paid in fiscal years 1966 and 1967.

Table 6.—Estimated progress of Supplementary Medical Insurance Trust Fund (cash basis) for calendar years 1986–88 and actual data for 1966–85

[In millions]

Calendar year	Income				Disbursements			
	Total income	Premiums from participants	Government contributions [1]	Interest and other income [2]	Total disbursements	Benefit payments	Administrative expenses	Balance in fund at end of year [3]
Historical								
1966	$324	$322	$0	$2	$203	$128	$75	$122
1967	1,597	640	933	24	1,307	1,197	110	412
1968	1,711	832	858	21	1,702	1,518	184	421
1969	1,839	914	907	18	2,061	1,865	196	199
1970	2,201	1,096	1,093	12	2,212	1,975	237	188
1971	2,639	1,302	1,313	24	2,377	2,117	260	450
1972	2,808	1,382	1,389	37	2,614	2,325	289	643
1973	3,312	1,550	1,705	57	2,844	2,526	318	1,111
1974	4,124	1,804	2,225	95	3,728	3,318	410	1,506
1975	4,673	1,918	2,648	107	4,735	4,273	462	1,444
1976	5,977	2,060	3,810	107	5,622	5,080	542	1,799
1977	7,805	2,247	5,386	172	6,505	6,038	467	3,099
1978	9,056	2,470	6,287	299	7,755	7,252	503	4,400
1979	9,768	2,719	6,645	404	9,265	8,708	557	4,902
1980	10,874	3,011	7,455	408	11,245	10,635	610	4,530
1981	15,374	[4] 3,722	[4] 11,291	361	14,028	13,113	915	5,877
1982	16,580	[4] 3,697	[4] 12,284	599	16,227	15,455	772	6,230
1983	19,824	4,236	14,861	727	18,984	18,106	878	7,070
1984	23,180	5,167	17,054	959	20,552	19,661	891	9,698
1985	25,106	5,613	18,250	1,243	23,880	22,947	933	10,924
Projected								
Alternative II-A:								
1986	24,303	5,689	17,702	912	27,526	26,565	961	7,701
1987	31,324	7,523	23,189	612	31,242	30,229	1,013	7,783
1988	35,765	7,894	27,216	655	35,443	34,376	1,067	8,105
Alternative II-B:								
1986	24,303	5,689	17,702	912	27,522	26,562	960	7,705
1987	31,325	7,523	23,190	612	31,243	30,234	1,009	7,787
1988	35,779	7,932	27,184	663	35,478	34,415	1,063	8,088

[1] The payments shown as being from the general fund of the Treasury include certain interest-adjustment items.

[2] Other income includes recoveries of amounts reimbursed from the trust fund that are not obligations of the trust fund and other miscellaneous income.

[3] The financial status of the program depends on both the total net assets and the liabilities of the program.

[4] Section 708 of title VII of the Social Security Act modified the provisions for the delivery of social security benefit checks when the regularly designated delivery day falls on a Saturday, Sunday, or legal public holiday. Delivery of benefit checks normally due January 1982 occurred on December 31, 1981. Consequently, the SMI premiums withheld from the checks ($264 million) and the general revenue matching contributions ($883 million) were added to the SMI Trust Fund on December 31, 1981. These amounts are excluded from the premium income and general revenue income for calendar year 1982.

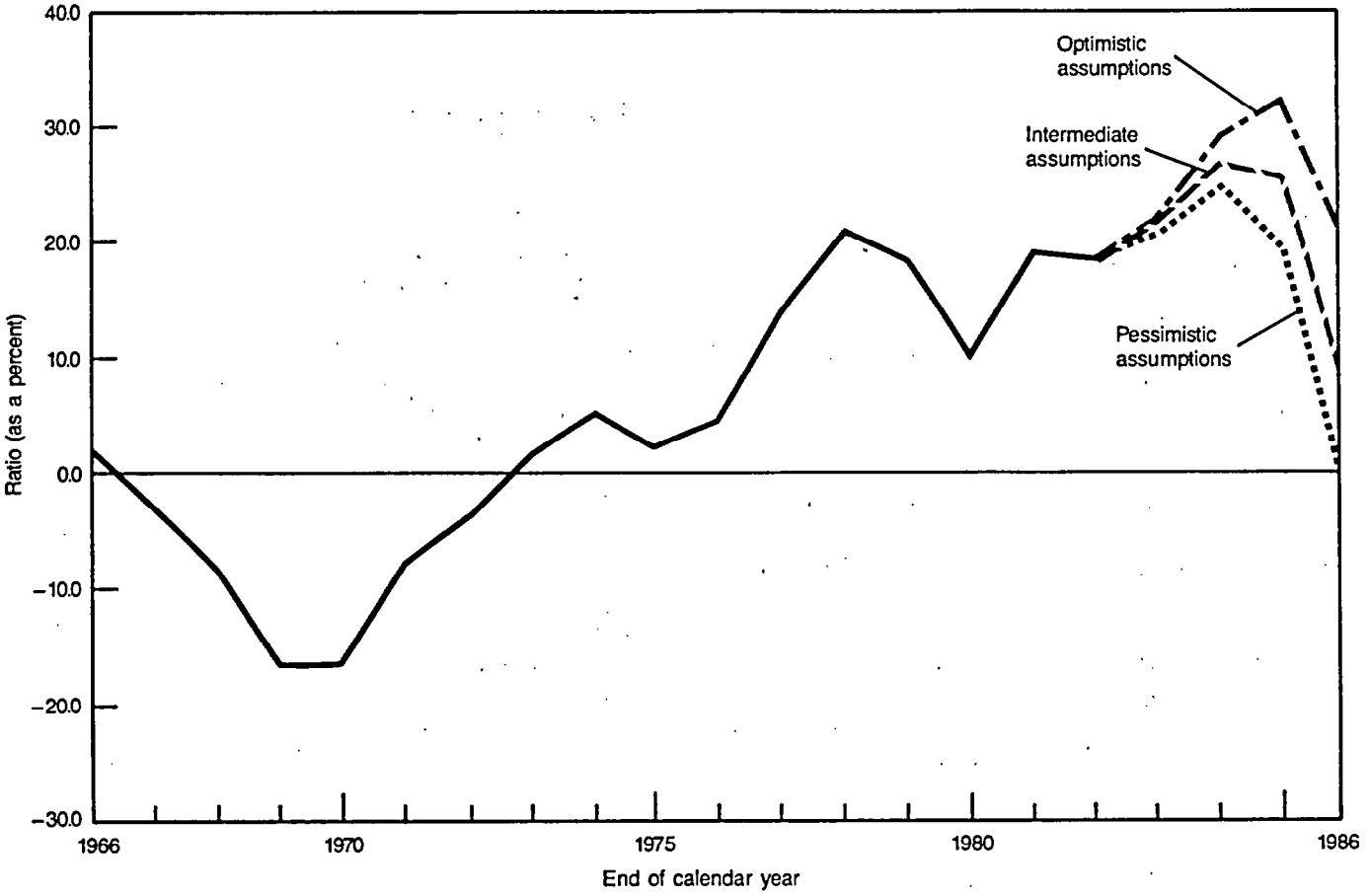
reduce the excess of assets over liabilities to a more appropriate level. As a result, the excess of assets over liabilities is expected to decrease by December 31, 1986, to a level that more appropriately accommodates a contingency for projection errors.

Conclusion

The financing established through December 1986 is sufficient to cover projected benefit and administrative costs incurred through that time period, and to maintain a level of trust fund assets that is adequate to cover the impact of a moderate degree of projection error. The SMI program can thus be said to be actuarially sound.

Although the SMI program is financially sound, the Board notes with concern the rapid growth in the cost of the program. The Board recommends that Congress take action to curtail the rapid growth in the SMI program.

Chart 4. — Actuarial status of the SMI Trust Fund



Note: The actuarial status of the SMI Trust Fund is measured by the ratio of the end-of-year surplus or deficit to the incurred expenditures for the following year.