Actuarial Status of the Social Security and Medicare Programs

The Boards of Trustees for the two Social Security and the two Medicare Trust Funds recently released their annual reports to Congress detailing the operations of the trust funds during 1992 and their projected financial status for future years. Based on the Trustees' best estimates, the reports show:

- The Federal Old-Age and Survivors Insurance (OASI) Trust Fund is projected to be able to pay benefits for about 50 years. Congress will eventually need to take action to assure the long-range financial soundness of the program.
- The Federal Disability Insurance (DI) Trust Fund is projected to be exhausted in about 2 years. As a result, the Board urges that prompt legislative action be taken to improve the financial integrity of this trust fund by reallocating to the DI fund a larger share of the overall OASDI tax rate.
- The Federal Hospital Insurance (HI) Trust Fund is projected to be able to pay benefits for only about 6 years and is severely out of financial balance in the long-range. The Trustees urge the Congress to take additional actions designed to control HI program costs through specific program legislation and as a part of enacting comprehensive health care reform.
- The Federal Supplementary Medical Insurance (SMI) Trust Fund is financed on a year-by-year basis and is adequately financed. The Trustees urge the Congress to take additional actions designed to control SMI costs through specific program legislation and as a part of enacting comprehensive health care reform.

The Boards of Trustees of the four trust funds issued a joint summary of their 1993 annual reports to Congress. This article is adapted from the joint summary and from the more detailed annual reports.[1] It is organized into three sections: first, general information on the trust funds (how they are financed, administrative expenses, their status in 1992, and their short-range and long-range outlooks); next, the conclusions of the Trustees (including the conclusions from the more detailed annual reports); and then, a message from the Public Trustees.

The Annual Reports of the Boards of Trustees detail the operations of the two Social Security Trust Funds and the two Medicare Trust Funds. The Social Security Trust Funds are the Federal Old-Age and Survivors Insurance (OASI) Trust Fund, which pays retirement and survivors benefits, and the Federal Disability Insurance (DI) Trust Fund, which pays benefits after a worker becomes disabled. The Medicare Trust Funds are the Federal Hospital Insurance (HI) Trust Fund, which pays for hospital and related care ("Part A") for persons aged 65 or older and workers who are disabled, and the Federal Supplementary Medical Insurance (SMI) Trust Fund, which pays for physician and outpatient services ("Part B") for persons aged 65 or older and workers who are disabled. When both OASI and DI are considered together, they are called the OASDI program. Because OASI and DI are both financed by payroll taxes and income taxes on benefits, the OASI and DI Trust Funds are often combined for the purpose of evaluating the overall actuarial status of the OASDI program. The Medicare Trust Funds are not usually considered together because they are funded differently.

General Information

Financing

Most OASDI and HI revenue consists of taxes on earnings that are paid by employees, their employers, and the self-employed. The tax rates are set by law and apply to earnings that do not exceed the applicable earnings bases (which are also set by law and rise as average wages increase). In 1993, the earnings base for OASDI is $57,600 and for HI it is

$135,000. The rates employees and employers each are scheduled to pay under current law are:

Program	1990-99	2000 and later
Total	7.65	7.65
OASDI	6.20	6.20
OASI	5.60	5.49
DI	.60	.71
HI	1.45	1.45

Persons who are self-employed are charged the equivalent of the combined employer and employee shares, but only on 92.35 percent of net earnings. In addition, self-employed persons may deduct one-half of the combined tax from their income that is subject to Federal income tax.

All the trust funds receive income from interest earnings on trust fund assets and from miscellaneous sources. The OASI and DI Trust Funds also receive revenue from the income taxation of a portion of Social Security benefits for beneficiaries with significant levels of other income.

The SMI (or Part B) program is financed similarly to yearly renewable, term insurance. Participants pay premiums each year that cover about one-fourth of the cost; the rest is paid for by the Federal Government from general revenues. The 1993 monthly premium is $36.60.

In all trust funds, assets that are not needed to pay current benefits or administrative expenses (the only purposes for which trust funds may be used) are invested in special issue U.S. Government securities guaranteed as to both principal and interest and backed by the full faith and credit of the U.S. Government.

Administrative Expenses in 1992

The fiscal year 1992 cost of administrative expenses as a percentage of benefit payments was:

Program	Percent
OASDI	0.9
OASI	.7
DI	2.8
HI	1.5
SMI	3.4

Operations of the Trust Funds in 1992

All trust funds except DI showed an increase in assets during calendar year 1992. At the end of the year, 41.5 million persons were receiving OASDI benefits and about 35 million persons were covered under Medicare. Trust fund operations are shown in table 1.

The annual reports of the Boards of Trustees make both short-range (10-year) and long-range (75-year) estimates. Short-range estimates are reported for all funds and long-range estimates are made for the OASI, DI, and HI Trust Funds. Because the future cannot be predicted with certainty, three alternative sets of economic and demographic assumptions are used to show a range of possibilities. Assumptions are made about economic growth, wage growth, inflation, unemployment, fertility, immigration, and mortality, as well as specific factors relating to disability, hospital, and medical services costs.

Alternative II, the intermediate assumptions, reflects the Trustees' best estimate of what the future experience will be. Alternative I is more optimistic and shows how the trust funds would operate if economic and demographic conditions are better than anticipated; alternative III is more pessimistic and shows how the trust funds would operate if these conditions are worse than anticipated.

Several tests, based on the intermediate assumptions, are used as an overall check on the financial status of the trust funds. For the OASI, DI, and HI Trust Funds, the *short-range test* is met if, throughout the next 10 years, the trust fund ratio (the projected amount of assets in the trust fund at the beginning of the year divided by the projected outgo for the year) is at least 100 percent. The short-range test is also met if the trust fund ratio is initially less than 100 percent, but reaches 100 percent within the first 5 years and stays at or above 100 percent throughout the remainder of the 10-year period, and there are sufficient assets to pay benefits on time every month during the 10 years.

The *long-range test* is met for these trust funds if a fund has an actuarial deficit of no more than 5 percent of the cost rate over 75 years, and the actuarial deficit for any period of the first 10 years or longer is less than a graduated amount of 5 percent. If the long-range test is met, the trust fund is said in said to be in "*close actuarial balance.*"

The SMI Trust Fund is actuarially sound for any period in which the trust fund assets and projected income are enough to cover the projected outgo and there are enough assets to cover costs incurred but not yet paid. The adequacy of the fund is measured only for years for which both the beneficiary premiums and the general revenue contributions have been set.

Short-Range Outlook (1993-2002)

The charts in this section and the next illustrate the status of the OASI, DI, and HI Trust Funds together because they are financed the same way. The SMI Trust Fund is financed differently and so its status is described separately.

Chart 1 shows the projected short-range trust fund ratio under alternative II assumptions for OASI, DI, and HI separately. It also shows what the ratio is for the combined OASI and DI Trust Funds.

The trust fund ratio line for OASI is over the 100-percent level at the beginning of the 10-year period and stays over that level through the year 2002.

Table 1.—Operations of the combined OASI and DI Trust Funds, and the HI and SMI Trust Funds, calendar year 1992

[In billions]

Item	OASDI	HI	SMI
Assets (end of 1991)	$280.7	$115.2	$17.8
Income during 1992	342.6	93.8	57.2
Outgo during 1992	291.9	85.0	50.8
Net increase	50.7	8.8	6.4
Assets (end of 1992)	331.5	124.0	24.2

Therefore, the OASI Trust Fund meets the short-range test of financial adequacy.

However, the trust fund ratio line for DI starts at 35 percent and does not reach the 100-percent level at any time in this period; it does not meet the short-range test. Moreover, the DI Trust Fund is expected to be exhausted in late 1995 under the intermediate, alternative II assumptions, and in early 1995 if economic and other conditions in the future turn out to be more pessimistic, as under alternative III assumptions.

The trust fund ratio line for the combined OASI and DI Trust Funds begins above the 100-percent level and stays over that level throughout the 10-year period; thus, the OASDI program, as a whole, meets the short-range test of financial adequacy.

Although the trust fund ratio line for HI is over the 100-percent level at the beginning of the 10-year period, it falls below that level in 1995. As a result, it does not meet the short-range test. Under alternative II assumptions, the projected year of exhaustion for the HI Trust Fund is 1999; under more adverse conditions, as in alternative III, it could be as soon as 1998.

The financing for the SMI Trust Fund has been set through 1993, and the projected operations of the trust fund meet the test of SMI actuarial soundness.

Chart 1.—Trust fund ratio and short-range test of financial adequacy

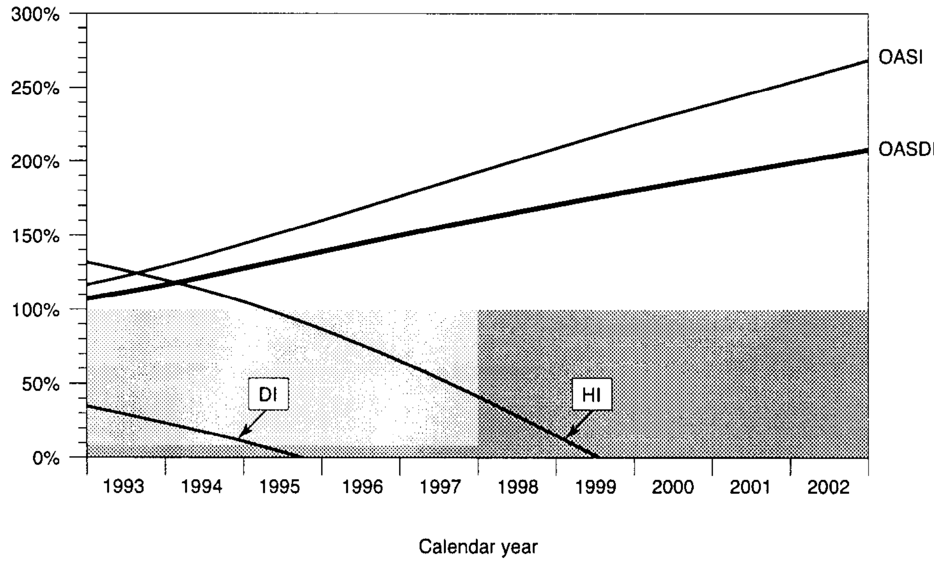
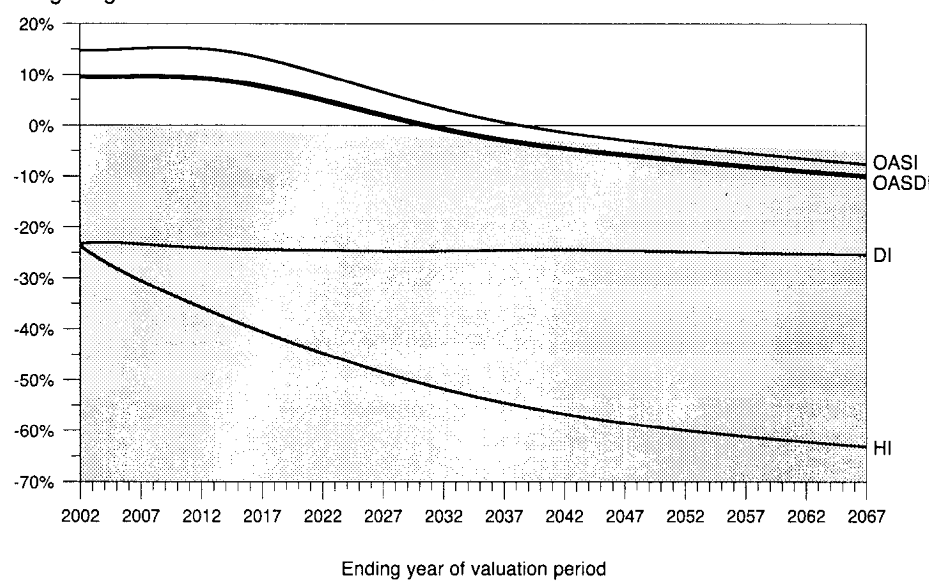


Chart 2.—Actuarial balance as a percentage of summarized cost rate and long-range test of close actuarial balance



Long-Range Outlook (1993-2067)

Chart 2 shows the actuarial balance, as a percentage of the cost rate (the outgo from the trust fund expressed as a percentage of taxable payroll) for OASI, DI, and HI separately under the alternative II assumptions. It also shows the actuarial balance for the combined OASI and DI trust funds.

For a trust find to meet the long-range test of close actuarial balance, the actuarial balance line for that trust fund must stay above the shaded area throughout the 75-year period. The triangle above the shaded area but below the 0-percent level shows the range of allowable deficits a fund can have and still be in close actuarial balance.

None of the three trust funds is in close actuarial balance over the next 75 years. However, the chart shows that the actuarial balance line for OASI, as well as for the OASDI program as a whole, stays above the shaded area for many years to come.

The actuarial balance line for DI alone starts well into the shaded area and declines slightly over the 75-year period.

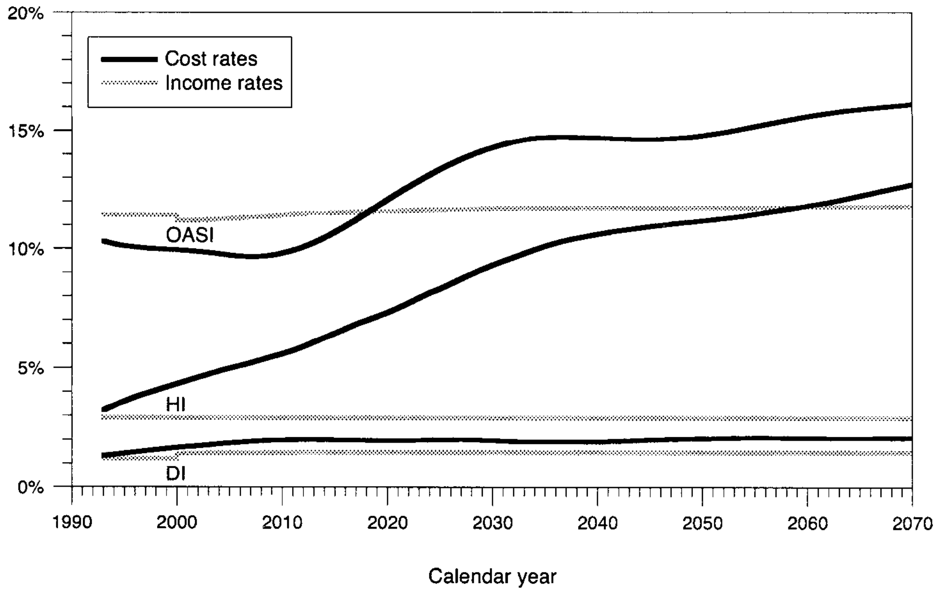
The actuarial balance line for HI also starts well into the shaded area but then declines sharply over the long-range period.

The projected year of exhaustion for the OASI Trust Fund under intermediate assumptions does not occur until 2044—51 years from now. For the combined OASI and DI Trust Funds, the year of exhaustion would be 2036—in 43 years.

Another useful way to view the outlook for the trust funds is to compare the income rate for each fund with its estimated cost rate. The income rates for the OASI, DI, and HI Trust Funds remain relatively constant over the 75-year period, while the cost rates increase by widely differing amounts. This is shown graphically in chart 3, based on the intermediate assumptions.

For OASI, the income rate is projected to remain significantly above the cost rate for a number of years. Starting in about 2010, however, the

Chart 3.—Income rates and cost rates



OASI cost rate will begin increasing rapidly as the "baby boom" generation begins to reach retirement age. In 2017 and later, the cost rate for OASI exceeds the income rate under the intermediate assumptions.

The cost rate for DI is slightly higher than the income rate initially, and the shortfall is projected to increase slowly over the 75-year period.

The projected cost rate for HI also is higher than the income rate throughout the next 75 years but by rapidly growing amounts—by the end of the period, the HI cost rate is projected to be roughly 4 times the HI income rate.

Conclusions

The status of the Social Security and Medicare programs can be summarized by looking at table 2, which shows the results of the tests used to evaluate the financial status of the trust funds and at the number of years before each trust fund is expected to be exhausted under the intermediate assumptions.

Based on the Trustees' best estimates (using the alternative II assumptions):

- The OASI Trust Fund is projected to be able to pay benefits for about the next 50 years. Because the fund is not in close actuarial balance for the 75-year long-range period, the Board recommends continued study of possible ways of addressing the deficits for those future years.

- The DI Trust Fund is not adequately financed in the short range or the long range, but it will be able to continue paying benefits for about 2 years. The Board recommends prompt action by the Congress to allocate to the DI Trust Fund a larger portion of the combined OASDI tax rate in order to improve the financial integrity of the DI program.

  A reallocation of the OASDI tax rate is possible because the combined OASI and DI Trust Funds are estimated to continue growing for more than 30 years into the future and would not be exhausted until 2036. Although the need is not immediate, the Board recommends that action be taken in due course to strengthen the long-range financing of the combined OASDI program.

- The HI Trust Fund is estimated to be able to pay benefits for only about 6 years and is severely out of actuarial balance over the next 75 years. Because of the magnitude of the projected actuarial deficit in the HI program and the high probability that the HI Trust Fund will be exhausted before the turn of the century, the Trustees urge the Congress to take additional actions to control HI program costs through specific prgram legislation and as a part of enacting comprehensive health care reform.

- The SMI program, though actuarially sound, has experienced rapid growth: program outlays have increased 60 percent in the past 5 years and grew 22 percent faster than the economy as a whole. Because this growth shows little sign of abating, the Trustees urge the Congress to take additional actions to control SMI costs through specific program legislation and as a part of enacting comprehensive health care reform.

Table 2.—Financial status of the OASI, DI, HI, and SMI programs

Trust fund	Is the test met? Short range (10 years)	Long range (75 years)	Years until exhaustion
OASDI	Yes	No	43
OASI	Yes	No	51
DI	No	No	2
HI	No	No	6
	The SMI Trust Fund meets its test of actuarial soundness.		

OASI and DI Trustees' Report [2]

Over the next 10 years, the OASI Trust Fund is expected to grow rapidly from a current level in excess of 100 percent of annual outgo to more than 2.5 times annual outgo by the year 2002. As a result, the OASI Trust Fund passes the short-range test of financial adequacy by a wide margin. However, the DI Trust Fund is not adequately financed. Outgo from the DI Trust Fund exceeded income in 1992, and outgo is expected to continue to surpass income until the fund is exhausted in 1995, 2 years earlier than the year of exhaustion that was projected in the 1992 Annual Report.

The OASI and DI Trust Funds, if combined, would be adequately financed over the next 10 years, and for many years thereafter. At the beginning of 1993, the combined assets of the trust funds represented about 107 percent of combined expenditures for 1993. The combined funds are projected to continue to grow during the next 10 years, and for many years thereafter, under alternative I and II assumptions. However, although the assets of the combined funds, in nominal dollars, continue to grow under alternative III for the next 15 years (1993 through 2007), the projected ratio of assets to annual expenditures begins to decline in 1998.

Although the combined trust funds are well financed over the next 10 years and are expected to continue growing, in nominal dollars, for about the next three decades under the intermediate assumptions, the OASDI program is not in close actuarial balance over the next 75 years, based on these assumptions. The estimates indicate that the combined trust funds would be sufficient to enable the timely payment of benefits for about the next 43 years. Relative to annual expenditures, the combined trust funds would continue to grow during the next two decades, reaching a peak of about 3 times annual expenditures. Considering each fund separately, the OASI Trust Fund would have sufficient funds for the next 51 years, but, as noted above, the DI Trust Fund would be exhausted in 1995, underscoring the need for corrective legislation. On the basis of the more pessimistic assumptions in alternative III, the combined funds would be sufficient to enable timely payment of benefits for about the next 24 years. The DI fund by itself, however, would be exhausted early in 1995. Based on the more optimistic assumptions of alternative I, the combined funds would continue to grow throughout the next 75 years, and they would be sufficient to enable timely payment of benefits during all of the long-range period. However, even under the optimistic assumptions, the DI fund would be exhausted as early as 1997 without corrective legislation.

For each of the next 24 years, OASDI income from payroll taxes and income taxes on benefits is expected to exceed total expenditures based on the intermediate assumptions. Starting about 15-20 years from now, however, OASDI costs as a percentage of taxable payroll are projected to begin increasing rapidly as the "baby boom" generation reaches retirement age. In contrast, the program's income from payroll taxes and income taxes on benefits will represent a relatively level percentage of taxable payroll.

Therefore, under the intermediate assumptions, the OASDI cost rate is projected to exceed the income rate from 2017 through the end of the projection period, with the shortfall reaching 4.81 percent of taxable payroll by 2067, the end of the 75-year projection period. Based on the less favorable conditions assumed in alternative III, the crossover point would be reached in about 1997, and the shortfall would grow eventually to 13.46 percent of payroll by 2067. With more favorable conditions, such as the alternative I assumptions, the cost rate would exceed the income rate only briefly (2027 through 2037); after 2037, the income rate would exceed the cost rate, reaching a positive balance of 0.57 percent of payroll by the end of the 75-year period.

Although, under the intermediate assumptions, the OASDI annual balances become negative after the first 24 years, the availability of interest earnings, in addition to tax revenues, results in projected trust fund growth (in dollars) that would continue for another 8 years. Because expenditures are estimated to increase at a faster rate than assets, however, OASDI assets would decline relative to annual disbursements—from about 3.0 times to about 2.3 times annual expenditures—during the same time period.

The actuarial balance of the OASDI program as a whole over the next 75 years is a deficit of 1.46 percent of taxable payroll, based on the intermediate assumptions. Because of a number of offsetting changes, this deficit is the same as the deficit shown in the 1992 Annual Report. The deficit represents about 10 percent of the estimated cost rate over the next 75 years, and is therefore larger than the maximum 5-percent level allowed over that period by the test for close actuarial balance. Furthermore, beginning with the 1993-2037 period, and for all successively longer periods through the full 75-year period, the actuarial balances are deficits that are larger than the maximum levels allowed for close actuarial balance. Thus, the OASDI program is not in close actuarial balance in the long range.

Each trust fund, separately, is also out of close actuarial balance in the long range. On the basis of the intermediate assumptions, the OASI Trust Fund has an actuarial deficit of 0.97 percent of taxable payroll for the full 75-year valuation period, representing 7.6 percent of the OASI long-range cost rate. The DI Trust Fund's actuarial deficit of 0.49 percent of taxable payroll is much larger relative to the DI long-range cost rate—representing 25 percent of the cost rate.

When the 1992 Annual Report was released in early April of last year, the Board of Trustees made a separate report to the Congress on the unfavorable financial status of the DI Trust Fund, as required under section 709 of the Social Security Act. In December 1992, following a careful analysis of the DI program, the Board sent a letter to the Congress recommending a reallocation of tax rates between the OASI and DI Trust Funds to remedy the estimated financial shortfall in the DI fund in the next few years. Based on the estimates in this Annual Report, the Board is sending a separate letter to the Congress recommending a specific reallocation of the tax rates. Because of the imminent depletion of the DI Trust Fund, the Board recommends prompt enactment of the tax-rate reallocation.

In view of the lack of close actuarial balance in the OASDI program over the next 75 years, extensive study should continue on possible ways of addressing the long-range deficits of the program.

HI Trustees' Report [3]

The balance in the Federal Hospital Insurance Trust Fund at the beginning of 1993 was 132 percent of estimated outgo for calendar year 1993, above the minimum 100-percent level recommended by the Board of Trustees. However, the tax rates specified in the law are only sufficient, along with interest earnings and assets in the fund, to support program expenditures only over the next 6 years, under the Trustees' intermediate assumptions. Also, the trust fund does not meet the short-range test of financial adequacy, which was described in a previous section of this report. Under all of the three sets of assumptions, the HI Trust Fund is projected to become exhausted within the next 5-7 years. Any significant adverse deviation from these projections could result in the inability of the fund to meet its obligations even sooner than projected.

Over the 75-year projection period, the tax rate necessary to provide for benefits and administrative expenses far exceeds the tax rate scheduled in the law in most years. The actuarial balance (including the cost of attaining a trust fund balance at the end of the period equal to 100 percent of the following year's estimated expenditures, and including an offset to cost due to the beginning trust fund balance) is -2.11 for the first 25-year projection period, -3.94 for the first 50-year projection period, and -5.11 over the entire 75-year projection period, under the alternative II assumptions. The actuarial balances for the 25-year subperiods (including neither the trust fund balance at the beginning of the period nor the cost of attaining a non-zero trust fund balance at the end of the subperiod) are -2.04, -6.14, and -8.58 for the first, second, and third 25-year subperiods, respectively, under the alternative II assumptions. The trust fund does not meet the Trustees' long-range test of financial adequacy under any of the three assumption sets. In order to bring the HI program into actuarial balance even for the first 25-year projection period under the alternative II assumptions, either outlays will have to be reduced by 42 percent or income increased by 73 percent (or some combination thereof).

Currently about four covered workers support each HI enrollee. This ratio will begin to decline rapidly early in the next century. By the middle of that century, only about two covered workers will support each enrollee. As the post-World War II "baby boomers" become eligible for benefits, the annual rate of increase in program costs as a percentage of taxable payroll rises substantially, from about 2 percent in 2010 to 3 percent in 2015 under alternative II. Not only are the anticipated reserves and financing of the HI program inadequate to offset this demographic change, but under all the assumptions the HI Trust Fund is projected to become exhausted even before the major demographic shift begins to occur. Exhaustion is projected to occur before the turn of the century—in 1999 under the alternative II assumptions—and could occur as early as 1998 if the pessimistic assumptions were realized.

The Trustees note that some steps have been taken to reduce the rate of growth in payments to hospitals, including the implementation of prospective payment and diagnosis-related groups. Initial experience under the prospective payment system for hospitals suggests that this payment mechanism may be an effective means of constraining the growth in hospital payments and improving the efficiency of the hospital industry. Nonetheless, projected costs for the HI program far exceed projected revenues over the 75-year long-range period. As a result, the HI program is severely out of financial balance and the Trustees believe that Congress must take timely action to fundamentally reform the HI program and control related program costs.

The long-range status of the HI program has deteriorated over the years as measured by the actuarial balances reported in this report and the reports of prior years. In addition, this year the HI Trust Fund fails to meet the short-range test of financial adequacy. In view of the worsening condition of the HI Trust Fund and the failure of the fund to meet the short-range test of financial adequacy, the Board of Trustees is making a separate report to alert the Congress of the unfavorable financial status of the HI Trust Fund as required under section 709 of the Social Security Act.

The HI program is projected to increase from 1.4 percent of GDP (gross domestic product) in calendar year 1992 to 5.1 percent of GDP in calendar year 2065. This rapid growth is attributable primarily to (1) increases in hospital admissions and (2) increases in reported case mix. With the magnitude of the projected actuarial deficit in the HI program and the high probability that the HI Trust Fund will be exhausted before the turn of the century, the Trustees urge the Congress to take additional actions designed to control HI program costs through specific program legislation and as a part of enacting comprehensive health care reform. The Trustees believe that prompt, effective, and decisive action is necessary.

SMI Trustees' Report [4]

The financing for the SMI program has been established through December 1993 by the setting of the standard monthly premium rate (paid by or on behalf of each enrollee) of $36.60 for calendar year 1993 and of actuarial rates that determine the amount to be contributed from general revenue on behalf of each enrollee. General revenue contributions are expected to account for 72.3 percent of all SMI income during calendar year 1993.

Under alternative II assumptions used in this report, disbursements are estimated to exceed income during calendar year 1993 by $1,967 million. Income is composed of premiums paid by the enrollees, general revenue contributions, and interest earned by the trust fund. As a result, the assets in the trust fund on a cash basis are estimated to decrease from $24.2 billion at the end of calendar year 1992 to $22.3 billion at the end of calendar year 1993. However, after adjusting for the January 1993 income received in December 1992 and despite the fact that the passage of P.L. 102-394 authorized the transfer of the funds in the SMI catastrophic coverage reserve fund to the HI Trust Fund after the calendar year 1993 financing had been established, income is projected to exceed disbursements for calendar year 1993, and the assets in the trust fund are projected to increase from $20.0 billion at the end of calendar year 1992 to $22.3 billion at the end of calendar year 1993.

The main reason for the decrease in assets during calendar year 1993 is the receipt of the January 1993 income in December 1992. Otherwise the assets would increase during calendar year 1993 despite the financing for calendar year 1993 being established specifically to reduce assets. As a result, the excess of assets over liabilities is expected to increase from $15,431 million at the end of December 1992 to $16,833 million by the end of December 1993, which represents 25.2 percent of the following year's projected incurred expenditures. Under more pessimistic assumptions as to cost increases, assets based on financing already established will still be sufficient to cover outstanding liabilities. Hence, the financing established through December 1993 is sufficient to cover projected benefit and administrative costs incurred through that time period, and to maintain a level of trust fund assets adequate to cover the impact of a reasonable degree of variation between actual and projected costs.

Even though the projections under alternative II show that the financing is adequate through 1993, the lack of experience under the newly implemented physician fee schedule contributes to greater uncertainty of the projections. If volume and intensity of services increase by more than expected, then SMI assets could be reduced more than projected, possibly to an unacceptably low level.

Although the SMI program is currently actuarially sound, the Trustees note with great concern the past and projected rapid growth in the cost of the program despite the slower growth for calendar year 1992. Growth rates have been so rapid that outlays of the program have increased 60 percent in aggregate and 47 percent per enrollee in the past 5 years. For the same time period, the program grew 22 percent faster than the economy despite recent efforts to control the cost of the program. As a result, the incurred disbursements of the program are projected to increase from 0.87 percent of GDP in calendar year 1992 to 4.40 percent of GDP in calendar year 2065. This rapid growth is attributable primarily to the inability to control (1) the growth in the volume of services billed per beneficiary and (2) the reported case mix intensity (the reporting of services that receive higher reimbursement). Given the past and projected cost of the program, the Trustees urge the Congress to promptly take additional actions designed to control SMI costs through specific program legislation and as a part of enacting more comprehensive health care reform. The Trustees believe that prompt, effective, and decisive action is necessary.

Message from the Public Trustees

Five persons serve on the Social Security and Medicare Boards of Trustees. Three members are from the Federal Government (the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health and Human Services), and two members are appointed by the President and confirmed by the Senate to represent the public. For the 1993 annual reports, the Public Trustees were Stanford G. Ross and David M. Walker. In the 1993 summary, the Public Trustees included the following message.

Based on the best estimates of the Trustees, the short-range (10-year) projections show that:

- The Federal Disability Insurance (DI) Trust Fund, which pays disability benefits, is projected to be exhausted in 1995. As a result, the Trustees urge prompt legislative action to address the near-term financial needs of the DI Trust Fund. The Public Trustees also recommend that additional research be undertaken on a priority basis to better understand the reasons for the recent adverse financial experience of the DI program and likely longer range demands in our society for Disability Insurance benefits.
- The Federal Hospital Insurance (HI) Trust Fund, which pays inpatient hospital expenses, is projected to experience a rapidly deteriorating financial condition and to be exhausted in 1999. As required by section 709 of the Social Security Act, the Board of Trustees is notifying the Congress of this urgent condition. The Public Trustees believe that prompt, effective, and decisive action is necessary to reform the HI program through specific program legislation and as part of comprehensive health care reform.
- The Federal Supplementary Medical Insurance (SMI) Trust Fund, which pays doctor bills and other outpatient expenses, is financed on a year-by-year basis and is currently actuarially sound on that limited basis. However, the cost of SMI is projected to continue to rise sharply. As a result, prompt, effective, and decisive congressional action also should be taken to reform this program.
- The Federal Old-Age and Survivors Insurance (OASI) Trust Fund, which pays retirement benefits, is well financed over the next 10 years and presents no immediate concern. Indeed, the OASI fund is able to provide resources for reallocation to the DI fund to meet that program's near-term financing needs.

In addition, the long-range (75-year) projections show that:

- None of the trust funds that are measured over a 75-year period—OASI, DI, or HI—meets the Trustees' long-range tests of financial solvency. However, the financial imbalances of the programs differ greatly in both timing and magnitude, and it is important to understand these differences.
- The OASI Trust Fund is projected to have adequate funds to meet benefit payments for about 50 years, but it is not adequately financed over the entire 75-year projection period. Although the financing needs of the OASI program are manageable—

with a deficit of less than 1 percent of taxable payroll—this program is so important to the retirement security of the American people that its long-range financing needs should be considered whenever legislative proposals are presented regarding financing resources that might be used for OASI.

- The DI Trust Fund is projected to have a shortfall over the 75-year period that is relatively small in the overall OASDI context—less than 0.5 percent of taxable payroll. However, additional financing beyond that needed in the short term should be provided only after a full review of the DI program is completed.

The Public Trustees made the following points about the Medicare program:

- The HI and SMI programs have both experienced rapid growth in costs. Under present law the cost of these programs is projected to increase significantly in the future. As a result, the programs are projected to represent an increasing percentage of the Federal budget and the overall economy.

- Based on the Trustees' understanding of the reasons for the rapid growth in the cost of these programs and the projected insolvency of the HI Trust Fund in about 6 years, they believe that the HI and SMI programs are unsustainable in their present form. As a result, the Congress should address the need for fundamental reform of the HI and SMI programs as an integral part of comprehensive health care reform legislation. Otherwise, there is a great danger that the resources available for health care may be allocated without sufficient consideration of the dramatic future increases in HI and SMI costs that are currently projected.

Notes

[1] Material for this article is based on *Status of the Social Security and Medicare Programs: A Summary of the 1993 Annual Reports*, April 1993, and the Annual Reports of the Social Security (OASI and DI) and Medicare (HI and SMI) Boards of Trustees, April 6, 1993. Single copies of the *Summary* and full reports are available from the Social Security Administration, Office of Public Inquiries, Room 4100 Annex Building, 6401 Security Boulevard, Baltimore, MD 21235.

[2] *1993 Annual Report of the Boards of Trustees of the Federal OASI and DI Trust Funds*, pp. 33-35.

[3] *1993 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund*, pp. 26-28.

[4] *1993 Annual Report of the Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund*, pp. 25-27.