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1969 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

LETTER

FROM

BOARD OF TRUSTEES
FEDERAL HOSPITAL INSURANCE
TRUST FUND

TRANSMITTING

THE 1969 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

JANUARY 16, 1969.—Referred to the Committee on Ways and Means, and ordered to be printed

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL HOSPITAL INSURANCE TRUST FUND,
Washington, D.C., January 16, 1969.

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

SIR: We have the honor to transmit to you the 1969 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the fourth such report), in compliance with the provisions of section 201(c) of the Social Security Act, as amended.

Respectfully,

JOSEPH W. BARR,
Secretary of the Treasury,
and Managing Trustee of the Trust Funds.
WILLARD WIRTZ,
Secretary of Labor.
WILBUR J. COHEN,
Secretary of Health,
Education, and Welfare.
ROBERT M. BALL,
Commissioner of Social Security,
and Secretary, Board of Trustees.

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1969 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

The Federal hospital insurance trust fund, established on July 30, 1965, is held by the Board of Trustees under the authority of section 1817(b) of the Social Security Act, as amended. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the managing trustee. The Commissioner of Social Security is secretary of the Board.

FISCAL YEAR HIGHLIGHTS

The fiscal year 1968 was the second full year of operation of the hospital insurance program insofar as benefit payments are concerned (since benefits were first available on July 1, 1966). Contributions had been collected during the latter half of the preceding fiscal year (i.e., on and after January 1, 1966).

Contributions in fiscal year 1968 amounted to $3,514 million from persons directly covered by the hospital insurance program, plus an additional $44 million with respect to railroad workers that was transferred from the railroad retirement account under the financial interchange provisions.

Total receipts of the trust fund amounted to $3,902 million in fiscal year 1968. In addition to contributions, receipts consisted of $60 million in interest on investments, and $284 million reimbursed from the general fund of the Treasury ($11 million for the long-range costs of benefits based on noncontributory credits for military service before 1957 and $273 million for the past actual costs of benefits, and the related administrative expenses, for uninsured persons).

Total disbursements from the trust fund in fiscal year 1968 amounted to $3,815 million. Of this amount, $3,736 million was paid out for benefits (this amount is based on Treasury statements; some additional amounts have been identified by the fiscal intermediaries as benefit withdrawals in fiscal year 1968 that did not clear through the Treasury before July 1, 1968). The remaining $79 million was for administrative expenses, but this figure was relatively low because it included the effect of a negative adjustment item of $14 million for transactions in the previous year. Thus, the actual administrative expenses for fiscal year 1968 were about $93 million, which thus represented 4 percent of benefit disbursements. The actual outgo for benefits in this second year of operation was 11 percent higher than the cost estimate made in the 1968 annual report.

The excess of total income over total outgo, amounting to $87 million, increased the total assets of the trust fund from $1,343 million on June 30, 1967, to $1,431 million on June 30, 1968.

The maximum amount of earnings taxable and creditable toward benefits was raised to $7,800, beginning January 1, 1968. The contribution rate for hospital insurance was increased from a combined employer-employee rate of 1 percent to 1.2 percent, beginning January 1, 1968.

Estimates for the 3 fiscal years 1969–71 show that both receipts and disbursements will increase steadily. However, the disbursements will rise more rapidly, and by 1971, the receipts will be approximately equal to disbursements. After 1971, the disbursements will exceed the receipts, and the trust fund would be exhausted by 1976, unless additional financing is provided. It should be kept in mind, however, that under the conditions of the assumptions underlying the actuarial cost estimates, a significant amount of additional financing is almost certain to occur in the future as a matter of course, without action being taken solely for the sake of the hospital insurance program. The assumptions are made in the cost estimates for the hospital insurance system that earnings levels (and hospital costs similarly) will rise steadily in the future, but that, nonetheless, the maximum taxable earnings base for both this program and for old-age, survivors, and disability insurance will remain unchanged at $7,800 per year. It seems most likely that, if earnings do rise in the future (as they have in the past), then such earnings base will be increased (as it has in the past), and this will provide additional financing, without creating additional benefit liability.

Long-range cost estimates for the hospital insurance program indicate that the program has an actuarial balance of −0.29 percent of taxable payroll. The level-cost of benefit payments and administrative expenses combined, estimated over a future period of 25 years on an intermediate-cost basis, is 1.79 percent of taxable payroll. The level-equivalent of the graded schedule of contributions is estimated to be 1.50 percent of taxable payroll.

As will be discussed subsequently, several alternative methods of providing additional financing so as to restore the actuarial balance of the program are possible. This can be done either by increasing the maximum taxable earnings base or by speeding up the contribution schedule (or by a combination of these two methods), without increasing the ultimate contribution rate scheduled in present law. Again, it should be recognized that, with the rising future earnings levels assumed in the hospital insurance cost estimates, it is virtually inevitable (and even almost automatic in nature) that the taxable earnings base will rise, and thus a certain amount of additional financing will be available for the hospital insurance system. This would provide part—or perhaps even all—of the financing needed to restore the actuarial balance of the program. The earnings base would be raised under such circumstances, as it has in the past, because of the necessity of keeping the cash-benefits program up to date (which also would have its financial status improved by such action of increasing the earnings base).

Legislation in 1967–68

The 1967 amendments to the Social Security Act and related sections of the Internal Revenue Code (Public Law 90–248, approved Jan. 2, 1968) affect significantly both the immediate and long-range future levels of income and disbursement under the hospital insurance program. The schedule of contribution rates was revised upward to continue to reflect the intent that the program be self-supporting.

The more important changes, significant from an actuarial standpoint, are presented below:

1. The amount of annual earnings which are taxable has been increased from $6,600 to $7,800, effective January 1, 1968. Also, the tax schedule for employer, employee, and self-employed contribution rate now increases from 0.6 percent in 1968–72 by steps to 0.9 percent in 1987 and after. The corresponding rates under previous law were 0.5 percent and 0.8 percent, respectively.
2. Effective April 1, 1968, the outpatient hospital diagnostic services which were previously covered under hospital insurance will be covered for benefit purposes under the supplementary medical insurance program; since the beginning of the program, all other outpatient services had been covered under the latter program.
3. Effective January 1, 1968, a lifetime reserve of 60 additional days of hospital coverage are available after the exhaustion of the 90 days of coverage per spell of illness. The 60 added days involve cost-sharing, with the beneficiary paying a daily amount equal to half of the initial deductible (i.e., currently a payment of $20 per day).
4. Under the 1965 law, uninsured persons attaining age 65 in 1968 had to have 6 quarters of social security coverage in order to be eligible for hospital insurance. Under the 1967 law, this requirement is reduced to 3 quarters of coverage for 1968. For those attaining age 65 in subsequent years, this requirement increases by 3 quarters each year until the number of quarters so required equals or exceeds that required for fully insured status, at which time the special requirement becomes ineffective (since the regular insured status requirements for monthly benefits are easier to fulfill).

A summary of the principal provisions of the hospital insurance program as it is constituted following the enactment of the 1967 amendments (and after the effective dates thereof have occurred) is given in appendix IV.

Nature of the Trust Fund

The Federal hospital insurance trust fund was established on July 30, 1965, as a separate account in the U.S. Treasury to hold the amounts accumulated under the hospital insurance program. All the financial operations which relate to the system of hospital insurance are handled through this fund.

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

All employees in covered employment are required to pay contributions with respect to their wages, and their employers are also required to pay contributions with respect to their wages (cash tips, covered as wages begining in 1966 under the 1965 amendments, are an exception to this; employees pay contributions with respect to cash tips, but employers do not). All covered self-employed persons are required to pay contributions with respect to their self-employment income. In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount with the contributions being determined first on the wages and then on any self-employment income necessary to make up the annual maximum amount. The maximum amount of annual earnings to which the contribution rates are applied was $6,600 in calendar years 1966 and 1967. Beginning with calendar year 1968, the maximum amount is $7,800.

Under the Internal Revenue Code, as amended, the contribution rate for hospital insurance for employees and their employers of 0.50 percent each that was in effect in calendar year 1967 increased to 0.60 percent each on January 1, 1968; the contribtuion rate for the self-employed also rose from 0.50 to 0.60 percent. The following table shows the scheduled tax rates in the present law:

Calendar years	Percent of taxable earnings: Employees and employers, each [1]	Percent of taxable earnings: Self-employed
1968–72	0.60	0.60
1973–75	.65	.65
1976–79	.70	.70
1980–86	.80	.80
1987 and after	.90	.90

[1] Only the employee tax is paid on tips that are taxable as wages.

Except for amounts received by the Secretary of the Treasury under State agreements (to effectuate coverage under the program for State and local government employees) and deposited directly in the trust fund, all contributions are collected by the Internal Revenue Service and deposited in the general fund of the Treasury as internal revenue collections; then, on an estimated basis, the contributions received are immediately and automatically appropriated to the trust fund. The exact amount of contributions received is not known initially since (1) hospital insurance taxes, (2) old-age, survivors, and disability insurance taxes, and (3) income taxes withheld are not separately identified in tax-collection reports received by the Treasury Department from the district offices of the Internal Revenue Service. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

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

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

The income and expenditures of the trust fund are also affected by the provisions of the Railroad Retirement Act of 1937, as amended, which provide for a system of coordination and financial interchange between the railroad retirement program and the hospital insurance program. A description of the legislative provisions governing the allocation of costs between the two programs appears in appendix II.

Sections 217(g) and 229(b) of the Social Security Act, as amended by the 1967 amendments, authorize annual reimbursements from the general fund of the Treasury to the hospital insurance trust fund for any costs arising from the granting of noncontributory credits for military service, according to periodic determinations made by the Secretary of Health, Education, and Welfare. A summary of the legislative history of the financing of noncontributory credits for military service performed before 1957 appears in appendix II.

Section 203 of the Social Security Amendments of 1965 provides hospital insurance benefits to certain uninsured persons aged 65 and over. Such payments are made initially from the hospital insurance trust fund, with later reimbursement from the general fund of the Treasury. A description of the legislative provisions governing the allocation of costs between the trust fund and the general fund of the Treasury appears in appendix II.

Under a decision of the Comptroller General of the United States (B-4906) dated October 11, 1951, receipts derived from the sale of surplus supplies and materials are credited to and form a part of the trust fund, where the initial outlays therefor were paid from the trust fund.

Under section 1106(b) of the Social Security Act, as amended, the Secretary of Health, Education, and Welfare is authorized to charge outside persons, agencies, and organizations for providing certain services not directly related to the hospital insurance program. The Social Security Administration has accumulated a unique body of information in the course of the administration of the program. Situations arise when it is in the public interest to use this information to perform certain services for outside parties, such as the preparation of statistical tabulations for research purposes, when such services can be performed without violating the confidentiality of the records or interfering unduly with the administration of the program. Such services could not properly be provided at the expense of the trust fund. Receipts derived from performance of these services are equal to the cost of providing them; in some instances the receipts are credited to the trust fund to counterbalance administrative expenses already paid from the trust fund (in which case such amount is netted out of the figures on administrative expenses in the financial statements of the trust fund), while in other instances such receipts are not credited to the trust fund, and the applicable administrative expenses are met directly from them. Accordingly, such administrative expenses, and the offsetting receipts, do not have any effect on the financial statements of the trust fund.

Expenditures for benefit payments and administrative expenses under the hospital insurance program are paid out of the trust fund. All expenses incurred by the Department of Health, Education, and Welfare and by the Treasury Department in carrying out the provisions of title XVIII of the Social Security Act, as amended, and of the Internal Revenue Code relating to the collection of contributions, are charged to the trust fund. The Secretary of Health, Education, and Welfare certifies benefit payments to the managing trustee, who makes the payment from the trust funds in accordance therewith.

Congress has authorized expenditures from the trust fund for construction of office buildings and related facilities for the Social Security Administration. The costs of such construction are included as part of the administrative expenses in the financial statements of operations of the trust fund as set forth in subsequent sections of this report. The net worth of the resulting facilities—just as the net worth of all other capital assets—is not carried as an asset in such statements.

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, in obligations guaranteed as to both principal and interest by the United States, or in certain federally-sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. Obligations of these types may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

In addition, 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 have maturities fixed with due regard for the needs of the trust fund and shall bear interest at a rate based on the average market yield (computed by the managing trustee 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 calendar month. Where such average market yield is a multiple of one-eighth of 1 percent, this is taken as the rate of interest on such special obligations; otherwise such rate is the multiple of one-eighth of 1 percent nearest such market yield.

Interest on public issues held by the trust fund is received by the fund at the time the interest is paid on the particular issues held. Interest on special public-debt obligations issued specifically for purchase by the trust fund is payable semiannually or at redemption, if earlier.

Marketable public issues acquired by the fund may be sold at any time by the managing trustee at their market price. Special public-debt obligations issued for purchase by the trust fund may be redeemed at par plus accrued interest. Interest receipts and proceeds from the sale or redemption of obligations held in the trust fund are available for investment in the same manner as other receipts of the fund. Interest earned by the invested assets of the trust fund will provide income to meet a portion of future benefit disbursements. The role of interest in meeting future benefit payments is indicated in tables 4 and 5.

In addition to serving as a source of income, the assets of the trust fund assure the continued payment of benefits without sharp changes in contribution rates during periods of short-run adverse fluctuations in total income and expenditures.

Summary of the Operations of the Trust Fund, Fiscal Year 1968

A statement of the income and disbursements of the Federal hospital insurance trust fund during fiscal year 1968 and of the assets of the fund at the beginning and end of the fiscal year is presented in table 1.

TABLE 1.—STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEAR 1968

Total assets of the trust fund, June 30, 1967			$1,343,220,688.21
Receipts, fiscal year 1968:			
Contributions:			
Appropriations	$3,256,739,393.85		
Deposits arising from State agreements	279,359,902.07		
Gross contributions	3,536,099,295.92		
Less payment into the Treasury for contributions subject to refund	22,050,000.00		
Net contributions		$3,514,049,295.92	
Transfers from railroad retirement account		44,049,000.00	
Reimbursements from general fund of the Treasury for costs of—			
Noncontributory credits for military service		11,000,000.00	
Benefits for uninsured persons:			
Benefit payments		262,000,000.00	
Administrative expenses		10,631,000.00	
Interest:			
Interest on investments	59,963,967.14		
Interest on net amount of reimbursements for administrative expenses and construction transferred from old-age and survivors insurance trust fund	691,000.00		
Total interest		60,654,967.14	
Total receipts		3,902,384,263.06	
Disbursements, fiscal year 1968:			
Benefit payments		3,736,321,864.53	
Administrative expenses:			
Department of Health, Education, and Welfare	86,968,754.84		
Treasury Department	5,456,546.68		
Reimbursement to old-age and survivors insurance trust fund for costs of construction for fiscal year 1967	92,905.00		
Gross administrative expenses	92,518,206.52		
Less receipts from sale of surplus supplies, materials, etc	25,226.64		
Less reimbursement from old-age and survivors insurance trust fund due to adjustment in allocation of administrative expenses for fiscal year 1967	13,846,329.00		
Net administrative expenses		78,646,650.88	
Total disbursements		3,814,968,515.41	
Net addition to the trust fund			87,415,747.65
Total assets of the trust fund, June 30, 1968			1,430,636,435.86

The total assets of the trust fund amounted to $1,343 million on June 30, 1967. By the end of fiscal year 1968 the assets amounted to $1,431 million, an increase of $87 million.

Net receipts of the trust fund amounted to $3,902 million. Of this total, $3,257 million represented tax collections appropriated to the trust fund and $279 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the trust fund. As an offset, $22 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base. Net contributions amounted to $3,514 million, representing an increase of 31 percent over the amount for the preceding fiscal year. This large increase resulted from (1) the high level of employment and taxable earnings, (2) the increase in the maximum annual amount of earnings taxable from $6,600 to $7,800 that became effective on January 1, 1968, (3) the increase, from 1 to 1.2 percent, in the combined employer-employee contribution rate designated to finance benefits from the hospital insurance trust fund that also went into effect on January 1, 1968, and (4) the increase, from 0.7 to 1 percent, in the combined employer-employee contribution rate that went into effect on January 1, 1967. Although the last change became effective in 1967, fiscal year 1968 was the first full year during which it was operative.

Reference has been made in an earlier section to provisions of the Railroad Retirement Act which coordinate the railroad retirement program with hospital insurance. A description of the legislative provisions governing the financial interchanges arising from the allocation of costs between the two systems is contained in appendix II. In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of $43,613,000 from the railroad retirement account to the hospital insurance trust fund would place this fund in the same position as of June 30, 1967, as it would have been if railroad employment had always been covered under the Social Security Act. This amount was transferred to the trust fund in September 1967, together with interest to the date of transfer amounting to $436,000.

Reference has also been made earlier to provisions under which the hospital insurance trust fund is to be reimbursed annually from the general fund of the Treasury for costs of granting noncontributory credits for military service performed before 1957, according to a determination made by the Secretary of Health, Education, and Welfare in September 1966. The annual amount of this determination for this trust fund was $14.2 million. The trust fund received $11 million in July 1967 as reimbursement for the costs of granting these noncontributory credits.

Again, reference has been made earlier to provisions under which the hospital insurance trust fund is to be reimbursed annually from the general fund of the Treasury for costs (including administrative expenses) of paying benefits under this program to certain uninsured persons. 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. The reimbusement in fiscal year 1968 amounted to $273 million, of which $262 million was for benefit payments and $11 million was for administrative expenses.

The remaining $61 million of receipts consisted of interest on the investments of the trust fund and on the net amount of reimbursements for administrative expenses and construction that was transferred from the old-age and survivors insurance trust fund.

Disbursements of the trust fund amounted to $3,815 million, representing $3,736 million in benefit payments and $79 million in net administrative expenses.

Table 2 compares the actual experience in fiscal year 1968 with the estimates presented in the 1968 annual report of the Board of Trustees. Reference was made in an earlier section to the appropriation of contributions to the trust funds on an estimated basis, with subsequent periodic adjustments to account for differences from the amounts of contributions actually payable on the basis of reported earnings. In interpreting the figures in table 3, it should be noted that the "actual" amount of contributions in fiscal year 1968 reflect the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1968 does not reflect adjustments to contributions for fiscal year 1968 that are to be made after June 30, 1968. Estimated contributions were about 3 percent higher than the actual experience, and estimated benefit payments were 10 percent lower than the actual experience. Estimated assets at the end of the fiscal year were 52 percent higher than the actual assets, largely because of the differences between estimated and actual contributions and benefit payments.

TABLE 2.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, FISCAL YEAR 1968

[Amounts in millions]

	Actual amount	Estimated amount published in 1968 report	Estimate as percentage of actual
Net contributions	$3,514	$3,613	103
Benefit payments	3,736	3,369	90
Assets, end of year	1,431	2,168	152

Note.—In interpreting the figures in the above table, reference should be made to the accompanying text.

TABLE 3.—ASSETS OF THE HOSPITAL INSURANCE TRUST FUND, BY TYPE, AT END OF FISCAL YEARS 1967 AND 1968

	June 30, 1967		June 30, 1968	
	Par value	Book value [1]	Par value	Book value
Investments in public-debt obligations sold only to this fund (special issues):				
Certificates of indebtedness:				
4¾-percent, 1968	$15,718,000	$15,718,000.00		
Notes:				
4¾-percent, 1969	46,131,000	46,131,000.00		
4¾-percent, 1972	46,131,000	46,131,000.00	$46,131,000	$46,131,000.00
4¾-percent, 1973	46,131,000	46,131,000.00	46,131,000	46,131,000.00
4¾-percent, 1974	415,179,000	415,179,000.00	415,179,000	415,179,000.00
4⅞-percent, 1970	46,131,000	46,131,000.00		
4⅞-percent, 1971	576,226,000	576,226,000.00	255,794,000	255,794,000.00
5⅝-percent, 1975			495,529,000	495,529,000.00
Total public-debt obligations sold only to this fund (special issues)	1,191,647,000	1,191,647,000.00	1,258,764,000	1,258,764,000.00
Investments in federally-sponsored agency obligations:				
Agency securities:				
Federal Land Bank bonds:				
5⅞-percent, 1967	15,000,000	15,000,000.00		
Federal National Mortgage Association debentures:				
6-percent, 1969	41,500,000	41,520,894.07	41,500,000	41,512,248.19
Participation certificates:				
Federal assets liquidation trust—Federal National Mortgage Association:				
5.20-percent, 1982	50,000,000	50,000,000.00	50,000,000	50,000,000.00
Federal assets financing trust—Federal National Mortgage Association:				
6.30-percent, 1971			20,000,000	20,000,000.00
Total investments in federally-sponsored agency obligations	106,500,000	106,520,894.07	111,500,000	111,512,248.19
Total investments	1,298,147,000	1,298,167,894.07	1,370,264,000	1,370,276,248.19
Undisbursed balances		45,052,794.14		60,360,187.67
Total assets		1,343,220,688.21		1,430,636,435.86

[1] Par value, plus unamortized premium, less discount outstanding.

The assets of the trust fund at the end of fiscal year 1968 totaled $1,431 million, consisting of $1,259 million in the form of obligations of the U.S. Government, $112 million in securities of federally-sponsored agencies, and $60 million in undisbursed balances (table 3).

The net increase in the par value of the investments owned by the fund during the fiscal year 1968 amounted to $72 million. New securities at a total par value of $4,625 million (including $20 million of federally-sponsored agency obligations) were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the maturity of securities. The par value of securities redeemed during the fiscal year was $4,553 million. A summary of transactions for the fiscal year, by type of security, is presented in table 4.

The public-debt obligations issued for purchase by the hospital insurance trust fund are to have maturities fixed with due regard for the needs of the trust fund. In implementing the similar provision for the old-age and survivors insurance and disability insurance trust funds, the maturity dates for the holdings of special issues are spread as nearly as practicable in equal amounts over a 15-year period.

On June 30, 1968, special issues held by the hospital insurance trust fund were distributed in equal amounts of $46,131,000 maturing in each of the 2 years 1972 and 1973. In addition, $255,794,000 was invested in 5-year notes bearing 4⅞ percent interest and maturing on June 30, 1971; $415,179,000 was invested in 7-year notes bearing 4¾ percent interest and maturing on June 30, 1974; and $495,529,000 was invested in 7-year notes bearing 5⅝ percent interest and maturing on June 30, 1975.

TABLE 4.—STATEMENT OF TRANSACTIONS IN PUBLIC-DEBT AND IN FEDERALLY-SPONSORED AGENCY OBLIGATIONS FOR THE HOSPITAL INSURANCE TRUST FUND DURING THE FISCAL YEAR 1968

[All amounts represent par values]

	Acquisitions	Dispositions
Public-debt obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
4¾ percent, 1968	0	$15,718,000
5 percent, 1968	$315,170,000	315,170,000
5⅛ percent, 1968	502,440,000	502,440,000
5¼ percent, 1968	247,772,000	247,772,000
5⅜ percent, 1968	794,951,000	794,951,000
5⅝ percent, 1968	2,249,549,000	2,249,549,000
Notes:		
4¾ percent, 1969	0	46,131,000
4⅞ percent, 1970	0	46,131,000
4⅞ percent, 1971	0	320,432,000
5⅝ percent, 1975	495,529,000	0
Total obligations sold only to this fund (special issues)	4,605,411,000	4,538,294,000
Federally-sponsored agency obligations:		
Agency securities:		
Federal Land Bank bonds: 5⅞ percent, 1967	0	15,000,000
Participation certificates:		
Federal Assets Financing Trust—Federal National Mortgage Association: 6.30 percent, 1971	20,000,000	0
Total federally-sponsored agency obligations	20,000,000	15,000,000
Total transactions	4,625,411,000	4,553,294,000

The 7-year notes maturing on June 30, 1975, were acquired on June 30, 1968, under circumstances similar to those under which the 5-year notes maturing on June 30, 1971, and the 7-year notes maturing on June 30, 1974, were acquired. A description of these investment operations is contained in the 1968 annual report.

Expected Operations and Status of the Trust Fund During the Period July 1, 1968 to June 30, 1971

In the following statement of the expected operations and status of the hospital insurance trust fund during the period July 1, 1968 to June 30, 1971, it is assumed that present statutory provisions affecting the hospital insurance program remain unchanged throughout the period. The income and disbursements of the program, however, are affected by general economic conditions, hospital utilization rates, and hospitalization costs, as well as by legislative provisions. Because it is difficult to forecast these factors, the assumptions and the resulting cost estimates presented here are subject to some uncertainty. This statement of the expected operations of the trust fund should therefore be read with full recognition of the difficulties involved in making the estimates.

Estimates are presented in table 4 to show the expected operations of the trust fund in fiscal years 1969–71. They are based on the assumption that economic activity will expand throughout the period, with employment and earnings increasing steadily through 1971.

Under this assumption, the estimated number of persons with taxable earnings under the hospital insurance program is expected to increase from 90.4 million during calendar year 1968 to 95.7 million during calendar year 1971; their taxable earnings are estimated to increase from $375 billion in 1968 to $419 billion in 1971. The increase in estimated income from contributions in fiscal years 1969–71 reflects the assumed upward trend in the levels of employment and earnings. Benefit disbursements increase from fiscal year 1969 to 1971 because of the long-range upward trend in the number of beneficiaries under the program and the assumed increase in hospitalization costs per unit of service.

TABLE 4.—ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, FISCAL YEARS 1966–71

[In millions]

Item	Actual, 1966	Actual, 1967	Actual, 1968	Estimated 1969	Estimated 1970	Estimated 1971
Income:						
Contributions [1]	$909	$2,689	$3,514	$4,450	$4,651	$4,860
Interest on investments [2]	6	46	61	112	134	137
Transfers from railroad retirement account		16	44	54	62	62
Reimbursement for uninsured persons [3]		327	273	730	609	500
Reimbursement for military service wage credits		11	11	22	11	14
Total income	915	3,089	3,902	5,368	5,467	5,573
Disbursements:						
Benefit payments		2,508	3,736	4,367	4,940	5,451
Administrative expenses [4]	64	89	79	104	104	106
Total disbursements	64	2,597	3,815	4,471	5,044	5,557
Net increase in fund	851	492	88	897	423	16
Fund at end of year	851	1,343	1,431	2,328	2,751	2,767

[1] Adjusted to exclude refunds of employee taxes paid on wages in excess of maximum taxable earnings base.
[2] Includes net profits on marketable investments, adjustment for interest on administrative expenses reimbursed to the old-age and survivors insurance trust fund, and for interest on reimbursement for uninsured persons.
[3] Reimbursement for benefit costs and additional administrative expenses for uninsured persons is made currently from general fund of the Treasury.
[4] Receipts from sales of surplus materials, services, etc., are deducted from gross administrative expenses.

Note.—Estimates were prepared in December 1968.

Income of the trust fund is expected to exceed outgo in each of the fiscal years 1969–71. During this period, there is an estimated net increase in the trust fund of $1.3 billion.

Reference has been made earlier to the financial interchanges between the railroad retirement account and the trust fund under the provisions of the Railroad Retirement Act. The estimates shown in table 4 reflect the effect of future financial interchanges.

Section 217(g) of the Social Security Act, as amended by the 1965 amendments, provides that the trust fund shall be reimbursed from general revenues for expenditures resulting from the provisions that granted noncontributory $160 monthly wage credits to persons who served in the Armed Forces at some time during the period September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 that granted survivor protection to certain World War II veterans for a period of 3 years after leaving service. A description of the legislative history of provisions relating to credit for military service is contained in appendix II. The estimated total additional costs arising from payments that will be made in future years are intended to be amortized by level annual appropriations to the trust fund over a 50-year period beginning in fiscal year 1966 according to a determination made by the Secretary of Health, Education, and Welfare in September 1965 (the amount so determined was $14.2 million). Periodically, the estimated amount of annual payment will be refigured to reflect actual costs incurred and revision in the future estimates.

The reimbursement for fiscal year 1968, amounting to $11 million, was received by the trust fund in July 1968 (i.e., in fiscal year 1969). A like amount has been appropriated for fiscal year 1969, and it is assumed that the reimbursement will be received by the trust fund in July 1970. Moreover, the budget of the United States for the fiscal year 1970 makes similar provision for another reimbursement to the trust fund. The estimates shown in table 4 reflect the effect of past reimbursements and assume that future reimbursements will be made in similar fashion.

Actuarial Status of the Trust Fund

Hospital insurance benefit payments will increase for many years—not only in terms of dollars, but also as a percentage of taxable payroll. Estimates covering a 25-year future period are needed, therefore, to indicate the extent to which the cost will increase and to indicate whether the scheduled tax rates and taxable earnings base are adequate to maintain the system on an actuarially-sound basis over this period (after also taking into account, interest earnings on the trust fund).

The long-range actuarial cost estimates for the hospital insurance program are made over a future period of 25 years, whereas the long-range actuarial cost estimates for the old-age, survivors, and disability insurance program are made over a 75-year future period. It is believed that a 25-year projection period for the hospital insurance program is as far ahead as should be considered because of the uncertainties as to future hospital practices.

The benefit cost will rise in future years because there will be greater numbers of people over age 65. During recent years, hospitalization costs have increased more rapidly than general earning levels, and it is likely that this trend will continue for some years. In the long run, it is expected that hospitalization costs will increase at the same rate as general wages.

The cost estimate for the hospital insurance program assumes that earnings in covered employment will rise in the future. This is a different approach from the assumptions used in the cost estimates for the old-age, survivors, and disability insurance system. Under the latter program, a level-earnings assumption is used to provide a margin of safety, because increases in earnings, with no changes in the program, result in lower cost when it's expressed as a percentage of payroll. In other words, this assumption provides a margin that can be used, when earnings rise, to increase old-age, survivors, and disability insurance benefits without changing the contribution rates.

On the other hand, the actuarial cost estimate for the hospital insurance program assumes that hospitalization costs will have a rising trend. The major cause is that wages are increasing and about 60 percent of the hospital costs are due to wages. Since the trend of increasing wages is reflected in the benefit cost, then it is only realistic