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

to take into account the additional income from the increase in earnings in covered employment.

The cost estimate for the hospital insurance program assumes that the maximum taxable earnings base will remain at $7,800 for the next 25 years, as provided under the existing law. This is a conservative assumption and, in fact, can hardly be borne out in actual practice. Congress has increased the earnings base from time to time in the past as the general earnings level rose. This was necessary so that the cash-benefits program would be reasonably closely kept up to date. It is likely that the Congress will continue to increase the earnings base in the future if earning levels rise (as is assumed in the cost estimates). Any such increases in the earnings base would, of course, generate additional contributions, which would assist in the financing of the program.

Table 5 shows the estimated progress of the hospital insurance trust fund according to the intermediate-cost estimate for various future calendar years up through 1993. This estimate was prepared in the latter part of 1968, using the latest actual experience from the hospital insurance program. The figures on fiscal year basis as shown in table 4 are prepared on the same basis as figures in table 5.

TABLE 5.—PROGRESS OF HOSPITAL INSURANCE TRUST FUND, INTERMEDIATE-COST ESTIMATE[1]

[In millions]

Calendar year	Contributions[2]	Payments from general fund[1]	Benefit payments	Administrative expenses	Interest on fund[1]	Balance in fund at end of year
Actual data:						
1966	$1,874	$37	$891	[3] $107	$31	$944
1967	3,207	301	3,353	77	51	1,073
Estimated data:						
1968	$4,157	$1,003	$4,181	$96	$70	$2,026
1969	4,599	609	4,577	101	107	2,663
1970	4,823	499	5,029	106	123	2,973
1971	5,039	496	5,584	110	130	2,944
1972	5,249	487	6,135	116	117	2,546
1973	5,912	469	6,664	120	99	2,242
1974	6,139	444	7,157	125	77	1,620
1975	6,364	418	7,605	131	42	708
1980	9,230	285	9,909	160	(4)	(4)
1985	10,537	164	12,925	199	(4)	(4)
1990	13,461	66	16,830	245	(4)	(4)
1993	14,628	35	19,494	274	(4)	(4)

[1] Including transactions with respect to uninsured persons. The payments shown as being from the general fund of the Treasury do not include any interest-adjustment items (which are included in the interest column). The benefit payments and administrative expenses with respect to uninsured persons are included in their respective columns.

[2] Including transfers from the railroad retirement account under financial interchange provisions and reimbursement from the general fund of the Treasury for the cost of additional benefits arising from noncontributory military service wage credits.

[3] Including administrative expenses incurred in 1965.

[4] Fund exhausted in 1976.

The benefits with respect to the uninsured group, and the accompanying administrative expenses, are paid from the hospital insurance trust fund, with the intention being that there will be current reimbursement therefor from the general fund of the Treasury. These benefit payments will decrease slowly in the future because the effect of mortality on this closed group more than offsets the rising trend of hospitalization costs and the increasing hospital utilization per capita for this group, as the average age becomes higher. The estimated benefit payments and administrative expenses for this category for 1969 and the following 5 calendar years are as follows (in millions):

Calendar year:	*Outgo*
1969	$500
1970	500
1971	498
1972	483
1973	480
1974	458

The estimated level-cost of the benefits and administrative expenses under the hospital insurance program is 1.79 percent of taxable payroll. The level equivalent of the contribution schedule is estimated at 1.50 percent of taxable payroll. Therefore, the new actuarial cost estimate indicates that the program has an actuarial imbalance, −0.29 percent of taxable payroll on a level-cost basis. As shown in table 5, by 1971, the disbursements will exceed the income, and the trust fund would decrease thereafter and would be exhausted in 1977. It should be emphasized, however, that these estimates are based on the provisions of present law and do not reflect the more favorable financial results that would occur if the taxable earnings base is increased from the present $7,800—as it almost inevitably would be under the condition of rising earnings that is contained in the assumptions underlying the estimates.

The long-range actuarial cost estimates which have been presented here were developed in late 1968, subsequent of course to the 1968 report of the Board of Trustees. These new estimates show a much more unfavorable actuarial balance than the previous ones—namely, a negative balance of 0.29 percent of taxable payroll as compared with the previous positive balance of 0.03 percent. The decrease in the actuarial balance according to the new cost estimates arises because of several revised assumptions, principally because of higher assumed utilization rates for hospital and extended-care-facility services, as indicated by tabulated actual experience for 1966–67.

A discussion of the assumptions under which these new cost estimates have been made appears in appendix I.

Conclusion

New long-range actuarial cost estimates for the hospital insurance system have recently been completed. These indicate that the system has an unfavorable actuarial balance—0.29 percent of taxable payroll according to the intermediate-cost estimate on a level-cost basis computed over the next 25 years, under the assumption that the maximum taxable earnings base in present law will remain unchanged at $7,800 per year in all future years despite the assumption that the earnings level will increase significantly. If the assumption were made that the earnings base will be kept up to date in the future, by increasing it proportionately with increases in the general earnings level, the hospital insurance program would have a small positive actuarial balance (0.07 percent of taxable payroll). Accordingly, if the reasonable assumption that the earnings base will be kept up to date is made, the system can be said to have a favorable actuarial balance.

If, however, that reasonable assumption about the earnings base is not made, then new legislation would have to be sought to finance the system on an actuarially-sound basis. This situation could be achieved by speeding up the contribution schedule by increasing the rate on employers and workers to 0.75 percent each in 1973–75—instead of to 0.65 percent—and by moving up the ultimate rate of 0.9 percent each to 1976—instead of having it go into effect in 1987.

APPENDIXES

Appendix I. Assumptions and Methodology for Long-Range Cost Estimates

The basic assumptions and methodology for the long-range cost estimates for the hospital insurance program are described in this appendix.

(1) Past increases in hospital costs and in earnings

Table A presents a summary comparison of the annual increases in daily hospital costs and the corresponding increases in wages that have occurred since 1956 and up through 1968.

The annual increases in earnings are based on those in covered employment under the old-age, survivors, and disability insurance system as indicated by first-quarter taxable wages, which by and large are not affected by the maximum taxable earnings base. The data on increases in hospital costs are based on a series of average daily expense per patient day (including not only room and board but also other inpatient charges and other expenditures of hospitals) prepared by the American Hospital Association.

The annual increases in earnings fluctuated somewhat over the 10-year period up through 1965, although there were some deviations from the average annual rate of 3.6 percent; no upward or downward trend over the period is discernible. The annual increases in hospital costs likewise fluctuated from year to year during this period, around the average annual rate of 6.8 percent.

TABLE A.—COMPARISON OF ANNUAL INCREASE IN HOSPITAL COSTS AND IN WAGES

[In percent]

Year	Increase over previous year: Average wages in covered employment [1]	Increase over previous year: Average daily hospitalization costs [2]	Year	Increase over previous year: Average wages in covered employment [1]	Increase over previous year: Average daily hospitalization costs [2]
1956	5.7	4.5	1965	1.6	7.0
1957	5.5	7.7			
1958	3.3	8.6	Average for 1956–65	3.6	6.8
1959	3.3	6.8	1966	4.4	8.3
1960	4.3	6.8	1967	6.3	12.3
1961	3.1	8.5	1968	7.0	[3] 12.0
1962	4.2	5.3			
1963	2.4	5.6	Average for 1959–68	4.0	8.0
1964	3.1	6.9			

[1] Data are for calendar years (based on experience in 1st quarter of year).
[2] Data are for fiscal years ending in September of year shown. Data are from American Hospital Association, and "hospitalization costs" represents total hospital expense per patient day.
[3] Preliminary estimate made by Social Security Administration based on AHA data from a monthly sample.

Since 1957, hospital costs increased at a faster rate than earnings. The differential between these two rates of increase fluctuated widely, being as high as about 6 percent in some years and as low as a negative differential of about 1 percent in 1956 (with the next lowest differential being a positive one of about 1 percent in 1962). Over the latest 10-year period (1959–68), the differential of the average annual rate of increase in hospital costs over the average annual rate of increase in earnings was 4 percent. In the last 2 years, this differential was about 5½ percent.

(2) Effect on cost estimates of rising hospital costs

A major consideration in making cost estimates for hospital benefits, then, is how long and to what extent the tendency of hospital costs to rise more rapidly than the general earnings level will continue in the future, and whether or not it may, in the long run, be counterbalanced by a trend in the opposite direction. Some factors to consider are the relatively low wages of hospital employees (which have been rapidly "catching up" with the general level of wages, and obviously may be expected to "catch up" completely at some future date, rather than to increase indefinitely at a more rapid rate than wages generally) and the development of new medical techniques and procedures, which result in more highly skilled hospital personnel and a larger average number of personnel per patient.

There are, however, several possible counterbalancing factors. The higher costs involved for more refined and extensive treatments may be offset by the development of out-of-hospital facilities, shorter durations of hospitalization, and less expense for subsequent curative treatments as a result of preventive measures. Also, it is possible that at some time in the future, the productivity of hospital personnel will increase significantly as the result of changes in the organization of hospital services or for other reasons, so that, as in other fields of economic activity, the general wage level might increase more rapidly than hospitalization prices in the long run.

Perhaps the major consideration in making actuarial cost estimates for hospital benefits is that—unlike, the situation in regard to cost estimates for the monthly cash benefits, where the result is the opposite—an unfavorable cost result is shown when total earnings levels rise, unless the provisions of the system are kept up to date (insofar as the maximum taxable earnings base is concerned). The reason for this result is that it is assumed that hospital costs rise at least at the same rate over the long run as the total earnings level, whereas the contribution income rises less rapidly than the total earnings level, unless the earnings base is kept up to date.

The cost estimates are based on the assumption that both hospital costs and earnings will increase in the future for the entire 25-year period considered, while at the same time the earnings base will not change. The fact that the cost-sharing provisions (the initial hospital deductible and coinsurance features) are on a dynamic basis, which automatically varies after 1968 in accordance with changes in hospital costs, results in lower estimated costs than if these provisions were on a static, unchanging basis.

(3) Assumptions as to relative trends of hospital costs and earnings underlying cost estimates

As indicated previously, the financing basis of the hospital insurance program should be developed on a conservative basis. For the reasons brought out, the cost estimates should not be developed on a level-earnings basis, but rather they should assume dynamic conditions as to both earnings levels and hospitalization costs. Accordingly, it seems appropriate to make cost projections for only 25 years in the future and to develop the financing necessary for only this period (but with a resulting trust fund balance at the end of the period equal to about 1 year's disbursements).

Several estimates of the short-term future trend of average daily hospital costs have recently been made by persons with experience in this field. The American Hospital Association has estimated an annual rate of increase of as much as 15 percent for the next few years. The Blue Cross Association has made a corresponding estimate of 9 percent per year in the period up to 1970.

The intermediate-cost estimate uses the assumptions as shown in table B for the future increases of average daily hospital costs and general earnings levels. The annual rate of increase in hospital costs is assumed to be greater than the increase in general earnings during the next few years. It is merged gradually with the annual rate of increase in general earnings by 1975. Thereafter, both have the same annual increases.

(4) Assumptions as to hospital utilization rates underlying cost estimates

The hospital utilization assumptions for the cost estimates in this report are founded on the hypothesis that current practices in this field will not change relatively more in the future than past experience has indicated. In other words, no account is taken of the possibility that there will be a drastic change in philosophy as to the best medical practices, so as, for example, to utilize in-hospital care to a much greater extent than is now the case, or vice versa.

The hospital utilization rates used for the cost estimate are based on the 1966–67 actual experience from the hospital insurance program. The aggregate hospital utilization rate in 1967 for the insured population was 3.8 days per person per year. In preparing the actuarial cost estimate, utilization rates were derived for males and females separately. For each sex, utilization rates for each quinquennial age group are established up to age 85. The population aged 85 and over is considered one group. The actual experience for the first few months of 1968 showed that the aggregate utilization remained fairly constant at 3.8 days. For the intermediate-cost estimate, it was assumed that the utilization rate for each age group will remain at the 1967 level. However, since the average age will increase, the aggregate rate will also increase gradually over the long-range future. It is possible that the experience in the first 18 months of operation was atypically high because a relatively large utilization occurred for optional surgical procedures for persons who previously did not have insurance that were deferred until the program began. If this is so, the assumption of continuing utilization at the 1966–67 level is conservative, being on the high side.

TABLE B.—ASSUMPTIONS AS TO FUTURE RATES OF INCREASE IN HOSPITAL COSTS AND EARNINGS IN COVERED EMPLOYMENT

[In percent]

Calendar year	Increase over previous year	
	Average daily hospital cost	Average earnings in covered employment
1968	13.0	5.9
1969	12.0	5.0
1970	9.0	4.5
1971	7.5	4.1
1972	6.5	3.8
1973	5.5	3.7
1974	4.5	3.6
1975 and after	3.5	3.5

(5) Assumptions as to hospital per diem rates underlying cost estimates

The average daily cost of hospitalization in 1967 based on the interim payments was $43.03. From the few final hospital cost reports submitted, the average final payment rates were 4 percent higher than the interim payment rates. The figure of $43.03 was adjusted upward by 4 percent, $44.76. The latter figure was used for 1967 and was projected into the future in the manner described in appendix I.

(6) Effect of cost-sharing provisions in hospital charges

The cost-sharing provisions (coinsurance and deductibles) provide financial participation and incentive to insured persons. Through this mechanism, the insured person, it is believed, would limit his utilization of medical services to his necessary needs, and the potential for overutilization would be minimized.

Based on the actual experience, insured persons, on the average, paid 6 percent of the charges in 1968. Thus, the cost to the hospital insurance program was reduced by 6 percent. The actuarial cost estimate has taken this factor into account.

(7) Assumptions as to extended care facility benefits underlying cost estimates

(a) *Utilization rates.*—The actual experience from the hospital insurance program (projected for future years) was used in the actuarial cost estimate. The experience showed an aggregate utilization rate of 1 day per person per year for 1967, the first year that extended care facility benefits were provided. Separate utilization rates were derived for males and females by quinquennial age group.

In 1967, there was a shortage of extended care facilities in many communities. The construction of these facilities was on the increase. The number of participating extended care facility beds certified under the program increased 13 percent from July 1967 to July 1968.

The actuarial cost estimate assumes that the utilization rate is directly proportional to the number of available extended care facility beds. The average number of extended care facility beds per capita was calculated for the seven

States which had the highest number of beds per capita in July 1968. The assumption was made that the average number of beds per capita for the entire United States will reach this level by 1976. Table C shows the projected rate of increase in utilization based on the above assumptions.

(*b*) *Per diem rates.*—The actual experience in 1967 for the insured population showed that the average daily cost of extended care facility services was $18.16. Preliminary data for 1968 indicate that the average daily cost has increased 12 percent in 1968 over 1967. Some of the considerations stated previously for the tendency of hospital costs to rise more rapidly than the general earnings level also apply to extended care facilities. The major considerations are the relatively low wages of health personnel, which are catching up with the general level of wages; the development of new medical techniques and treatments resulting in increasing unit expense; and the rising construction costs of these facilities.

The assumption was made that the rate of increase in the average daily cost of extended care facility services will not be as steep as for hospital costs. Table D shows the projected rates of increase in average daily cost of extended care facility services as assumed in the actuarial cost estimate.

TABLE C.—ASSUMPTIONS AS TO FUTURE RATES OF INCREASES IN UTILIZATION RATES OF EXTENDED CARE FACILITIES

[In percent]

Calendar year	Increase over previous year	Calendar year	Increase over previous year
1968	13	1973	8
1969	14	1974	6
1970	13	1975	5
1971	12	1976	3
1972	10	1977 and after	0

TABLE D.—ASSUMPTIONS AS TO FUTURE RATES OF INCREASES IN AVERAGE DAILY COST OF EXTENDED CARE FACILITIES

[In percent]

Calendar year	Increase over previous year	Calendar year	Increase over previous year
1968	12.0	1972	6.5
1969	10.0	1973	5.5
1970	8.7	1974	4.5
1971	7.5	1975 and after	3.5

(*c*) *Effect of coinsurance.*—For the insured population, the actual experience in 1968 shows an average length of stay in extended care facilities of 60 days. Thus, through the coinsurance provision, the insured persons paid an average of 17.2 percent of the total covered charges. This factor was taken into account in the actuarial cost estimate.

(*8*) *Assumptions as to home health service benefits*

The cost of home health service benefits is measured in terms of dollars per year per capita. The actual experience in 1967 for the hospital insurance program showed a cost of $1.30 per capita.

During 1967, the number of qualifying facilities was limited. These facilities have been expanding. It is anticipated that they will continue to expand in the future. Preliminary data for 1968 showed that the utilization per capita has increased 15 percent over 1967. The cost per home visit has increased 12 percent.

The assumptions were made that the rate of increase in the cost per home visit will be the same as the increase in the average daily cost of extended care facility services (shown in table D). Assumptions as to the future rates of increase in the utilization of home health services are shown in table D.

(*9*) *Administrative expenses*

Administrative expenses per capita in connection with the hospital insurance program, including those of the fiscal intermediaries that are reimbursable under the program, were calculated for 1968. The expense per capita amounted to $4.90.

This cost per capita was projected first to increase in the future at the same rate of increase as general wages. However, it is also assumed that the cost per capita will decrease 1 percent per year in the future due to increases in productivity resulting from improvements in methods and efficiency.

(10) Interest rate

An interest rate of 4.50 percent is used in determining the level-costs of the benefit payments and administrative expenses and the level-equivalent of the contributions. However, in developing the progress of the trust fund, a higher rate is used in the first 10 years—namely, 5 percent initially, gradually declining to a level of 4.5 percent after 1975. As of December 31, 1968, the average yield of the total investments of the trust fund was 5.24 percent. The 4.50 percent rate used for the level-cost calculations thus is on the low side, so that this assumption somewhat overstates the cost of the program.

(11) Timing of benefit payments

The estimates of benefit payments on a year-by-year basis are made on the assumption that the suppliers of services will be reimbursed from the trust fund concurrently as the services are furnished to the insured individual (in long-duration cases, periodically)—and not by advance payments. In other words, the year-by-year cost estimates for the benefit payments are on an "accrual" basis. Any short advance or deferment of benefit payments would have some effect on the year-by-year estimates (especially for the first year of operation), but would have no significant effect on the long-range costs or financing basis.

(12) Other changes in assumptions

The new population projection that was used in the cost estimates made for the old-age, survivors, and disability insurance system in late 1968 (and used in the 1969 report of the Board of Trustees for this program), was also used in the cost estimate of this report.

Appendix II. Legislative History Affecting the Trust Fund

Board of Trustees.—Beginning with July 30, 1965, when the Federal hospital insurance trust fund was established, the three members of the Board of Trustees, who serve in an ex officio capacity, have been the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. Since the establishment of the fund, the Secretary of the Treasury has been managing trustee. The Commissioner of Social Security has been secretary of the Board of Trustees. The Board of Trustees meets not less frequently than once each calendar year.

Contribution rates.—The Social Security Amendments of 1965, which established the hospital insurance program, fixed the contribution rates for employees and their employers and for self-employed persons at 0.35 percent for 1966 and 0.50 percent for 1967–72, with rates increasing thereafter to 0.80 percent beginning in 1987. The maximum amount of earnings to which these rates are applicable, first established at $6,600 per year, was increased to $7,800 by the 1967 amendments, which also increased the contribution rates, as shown previously in the main text.

Special refunds of employee contributions.—With respect to wages, refunds to employees who work for more than one employer during the course of a year and pay contributions on such wages in excess of the statutory maximum are paid from the Treasury account for refunding internal revenue collections. Beginning in 1968, railroad compensation may be included with wages in determining whether a refund is due, but only with respect to hospital insurance contributions. The managing trustee pays, from time to time, from the hospital insurance trust fund into the Treasury, as repayments to the account for refunding internal revenue collections, the amount of contributions which are subject to refund.

Credits for military service.—The Social Security Act Amendments of 1946 provided survivor-insurance protection to certain World War II veterans for a period of 3 years following their discharge from the Armed Forces. The 1950 amendments provided noncontributory $160 monthly wage credits to persons who served in the Armed Forces during World War II, and amendments in 1952–56 provided similar noncontributory credits on account of active military or naval service from July 25, 1947, through December 31, 1956. The 1956 amendments

provided contributory coverage for military personnel beginning January 1, 1957. The 1967 amendments provide noncontributory credits of $100 a month (generally) as an allowance for the value of living expenses provided.

The trust fund is to 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 from September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 and 1967. The statutory provisions that provide for the financing of these noncontributory credits for military service are set forth in appendix III.

Coordination of hospital insurance and railroad retirement program.—Public Law 234, approved October 30, 1951, amended the Railroad Retirement Act to provide a basis of coordinating the railroad retirement program with the old-age and survivors insurance system, and this is also applicable to the hospital insurance system as a result of Public Law 89–97. The 1951 legislation provides that the railroad wage credits of workers who die or retire with less than 10 years of railroad employment shall be transferred to the old-age and survivors insurance system. These amendments did not affect workers who acquire 10 years or more of railroad service. That is, the survivors of over-10-year railroad workers will, as under the 1946 amendments to the Railroad Retirement Act, receive benefits under one program or the other based on combined wage records, while retirement benefits will be payable under both systems to individuals with 10 or more years of railroad service who also qualify under old-age and survivors insurance.

With respect to the financial relationships with the railroad retirement system, when it has a different maximum earnings base than the hospital insurance program, the latter program will cover railroad employees directly in the same manner as other covered workers, their contributions will go directly into the hospital insurance trust fund, and their benefit payments will be paid directly from this trust fund. When the two bases are the same, the hospital insurance taxes will be collected by the railroad retirement system, along with the railroad retirement taxes, and will be transferred to the hospital insurance trust fund through the financial interchange provisions. Under either case, the hospital and related benefits with respect to railroad workers will be paid from the hospital insurance trust fund, and the administrative expenses in connection with the hospital insurance program that are paid by the railroad retirement system but would otherwise have been paid by the hospital insurance trust fund are reimbursed to the railroad retirement account through the financial interchange provisions.

Investments.—Since the inception of the program, provision has been made for the investment of funds which are not required to meet current disbursements. As provided in the Social Security Act, the funds may be invested only in interest-bearing obligations of the U.S. Government or in obligations guaranteed as to both principal and interest by the United States; or the funds may be invested in certain federally-sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. These obligations may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price. In addition, the Social Security Act authorizes the issuance of public-debt obligations for purchase by the trust funds.

Special issues acquired after enactment bear interest at a rate equal to the average market yield (computed on the basis of market quotations as of the end of the calendar month next preceding their issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable for 4 or more years from the time the special obligations are issued, such average market yield being rounded to the nearest one-eighth of 1 percent.

APPENDIX III. STATUTORY PROVISIONS, AS OF DECEMBER 31, 1968, CREATING THE TRUST FUND, DEFINING THE DUTIES OF THE BOARD OF TRUSTEES, FINANCING THE COST OF NONCONTRIBUTORY CREDITS FOR MILITARY SERVICE, FINANCING THE COST OF BENEFITS FOR PRESENTLY UNINSURED INDIVIDUALS, AND PROVIDING FOR ADVISORY COUNCILS ON SOCIAL SECURITY

(Sec. 217(g), sec. 218 (e) (1), (h), and (j), sec. 229 (b), sec. 706, and sec. 1817 of the Social Security Act, as amended, and sec. 103(c) of the Social Security Amendments of 1965)

FEDERAL HOSPITAL INSURANCE TRUST FUND

SEC. 1817. (a) There is hereby created on the books of the Treasury of the United States a trust fund to be known as the "Federal Hospital Insurance Trust Fund" (hereinafter in this section referred to as the "Trust Fund"): The Trust Fund shall consist of such amounts as may be deposited in, or appropriated to, such fund as provided in this part. There are hereby appropriated to the Trust Fund for the fiscal year ending June 30, 1966, and for each fiscal year thereafter, out of any moneys in the Treasury not otherwise appropriated, amounts equivalent to 100 per centum of——

(1) the taxes imposed by sections 3101(b) and 3111(b) of the Internal Revenue Code of 1954 with respect to wages reported to the Secretary of the Treasury or his delegate pursuant to subtitle F of such Code after December 31, 1965, as determined by the Secretary of the Treasury by applying the applicable rates of tax under such sections to such wages, which wages shall be certified by the Secretary of Health, Education, and Welfare on the basis of records of wages established and maintained by the Secretary of Health, Education, and Welfare in accordance with such reports; and

(2) the taxes imposed by section 1401(b) of the Internal Revenue Code of 1954 with respect to self-employment income reported to the Secretary of the Treasury or his delegate on tax returns under subtitle F of such Code, as determined by the Secretary of the Treasury by applying the applicable rate of tax under such section to such self-employment income, which self-employment income shall be certified by the Secretary of Health, Education, and Welfare on the basis of records of self-employment established and maintained by the Secretary of Health, Education, and Welfare in accordance with such returns.

The amounts appropriated by the preceding sentence shall be transferred from time to time from the general fund in the Treasury to the Trust Fund, such amounts to be determined on the basis of estimates by the Secretary of the Treasury of the taxes, specified in the preceding sentence, paid to or deposited into the Treasury; and proper adjustments shall be made in amounts subsequently transferred to the extent prior estimates were in excess of or were less than the taxes specified in such sentence.

(b) With respect to the Trust Fund, there is hereby created a body to be known as the Board of Trustees of the Trust Fund (hereinafter in this section referred to as the "Board of Trustees") composed of the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare, all ex officio. The Secretary of the Treasury shall be the Managing Trustee of the Board of Trustees (hereinafter in this section referred to as the "Managing Trustee"). The Commissioner of Social Security shall serve as the Secretary of the Board of Trustees. The Board of Trustees shall meet not less frequently than once each calendar year. It shall be the duty of the Board of Trustees to——

(1) Hold the Trust Fund;

(2) Report to the Congress not later than the first day of April of each year on the operation and status of the Trust Fund during the preceding fiscal year and on its expected operation and status during the current fiscal year and the next 2 fiscal years;

(3) Report immediately to the Congress whenever the Board is of the opinion that the amount of the Trust Fund is unduly small; and

(4) Review the general policies followed in managing the Trust Fund, and recommend changes in such policies, including necessary changes in the provisions of law which govern the way in which the Trust Fund is to be managed.

The report provided for in paragraph (2) shall include a statement of the assets of, and the disbursements made from, the Trust Fund during the preceding fiscal year, an estimate of the expected income to, and disbursements to be made from, the Trust Fund during the current fiscal year and each of the next 2 fiscal years, and a statement of the actuarial status of the Trust Fund. Such report shall be printed as a House document of the session of the Congress to which the report is made.

(c) It shall be the duty of the Managing Trustee to invest such portion of the Trust Fund as is not, in his judgment, required to meet current withdrawals. Such investments may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purpose such obligations may be acquired (1) on original issue at the issue price, or (2) by purchase of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of public-debt obligations for purchase by the Trust Fund. Such obligations issued for purchase by the Trust Fund shall have maturities fixed with due regard for the needs of the Trust Fund and shall bear interest at a rate equal to the average market yield (computed by the Managing Trustee on the basis of market quotations as of the end of the calendar month next preceeding the date of such issue) on all marketable interest-bearing obligations of the United States then 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; except that where such average market yield is not a multiple of one-eighth of 1 percent, the rate of interest on such obligations shall be the multiple of one-eighth of 1 percent nearest such market yield. The Managing Trustee may purchase other interest-bearing obligations of the United States or obligations guaranteed as to both principal and interest by the United States, on original issue or at the market price, only where he determines that the purchase of such other obligations is in the public interest.

(d) Any obligations acquired by the Trust Fund (except public-debt obligations issued exclusively to the Trust Fund) may be sold by the Managing Trustee at the market price, and such public-debt obligations may be redeemed at par plus accrued interest.

(e) The interest on, and the proceeds from the sale or redemption of, any obligations held in the Trust Fund shall be credited to and form a part of the Trust Fund.

(f) (1) The Managing Trustee is directed to pay from time to time from the Trust Fund into the Treasury the amount estimated by him as taxes imposed under section 3101(b) which are subject to refund under section 6413(c) of the Internal Revenue Code of 1954 with respect to wages paid after December 31, 1965. Such taxes shall be determined on the basis of the records of wages established and maintained by the Secretary of Health, Education, and Welfare in accordance with the wages reported to the Secretary of the Treasury or his delegate pursuant to subtitle F of the Internal Revenue Code of 1954, and the Secretary of Health, Education, and Welfare shall furnish the Managing Trustee such information as may be required by the Managing Trustee for such purpose. The payments by the Managing Trustee shall be covered into the Treasury as repayments to the account for refunding internal revenue collections.

(2) Repayments made under paragraph (1) shall not be available for expenditures but shall be carried to the surplus fund of the Treasury. If it subsequently appears that the estimates under such paragraph in any particular period were too high or too low, appropriate adjustments shall be made by the Managing Trustee in future payments.

(g) There shall be transferred periodically (but not less often than once each fiscal year, to the Trust Fund from the Federal Old-Age and Survivors Insurance Trust Fund and from the Federal Disability Insurance Trust Fund amounts equivalent to the amounts not previously so transferred which the Secretary of Health, Education, and Welfare shall have certified as overpayments, other than amounts so certified to the Railroad Retirement Board) pursuant to section 1870(b) of this Act. There shall be transferred periodically (but not less often than once each fiscal year) to the Trust Fund from the Railroad Retirement Account amounts equivalent to the amounts not previously so transferred which the Secretary of Health, Education, and Welfare shall have certified as overpayments to the Railroad Retirement Board pursuant to section 1870(b) of this Act.

(h) The Managing Trustee shall also pay from time to time from the Trust Fund such amounts as the Secretary of Health, Education, and Welfare certi-

fies are necessary to make the payments provided for by this part, and the payments with respect to administrative expenses in accordance with section 201(g)(1).

FINANCING THE COST OF BENEFITS IN CASE OF VETERANS

SEC. 217. * * *

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(g)(1) In September 1965, and in every fifth September thereafter up to and including September 2010, the Secretary shall determine the amount which, if paid in equal installments at the beginning of each fiscal year in the period beginning—

(A) with July 1, 1965, in the case of the first such determination, and

(B) with the July 1 following the determination in the case of all other such determinations,

and ending with the close of June 30, 2015, would accumulate, with interest compounded annually, to an amount equal to the amount needed to place each of the Trust Funds and the Federal Hospital Insurance Trust Fund in the same position at the close of June 30, 2015, as he estimates they would otherwise be in at the close of that date if section 210 of this Act as in effect prior to the Social Security Act Amendments of 1950, and this section, had not been enacted. The rate of interest to be used in determining such amount shall be the rate determined under section 201(d) for public-debt obligations which were or could have been issued for purchase by the Trust Funds in the June preceding the September in which such determination is made.

(2) There are authorized to be appropriated to the Trust Funds and the Federal Hospital Insurance Trust Fund—

(A) for the fiscal year ending June 30, 1966, an amount equal to the amount determined under paragraph (1) in September 1965, and

(B) for each fiscal year in the period beginning with July 1, 1966, and ending with the close of June 30, 2015, an amount equal to the annual installment for such fiscal year under the most recent determination under paragraph (1) which precedes such fiscal year.

(3) For the fiscal year ending June 30, 2016, there is authorized to be appropriated to the Trust Funds and the Federal Hospital Insurance Trust Fund such sums as the Secretary determines would place the Trust Funds and the Federal Hospital Insurance Trust Fund in the same position in which they would have been at the close of June 30, 2015, if section 210 of this Act as in effect prior to the Social Security Act Amendments of 1950, and this section, had not been enacted.

(4) There are authorized to be appropriated to the Trust Funds and the Federal Hospital Insurance Trust annually, as benefits under this title and part A of title XVIII are paid after June 30, 2015, such sums as the Secretary determines to be necessary to meet the additional costs, resulting from subsections (a), (b), and (e), of such benefits (including lump-sum death payments).

PAYMENTS AND REPORTS BY STATES

SEC. 218. * * *

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(e)(1) Each agreement under this section shall provide—

(A) that the State will pay to the Secretary of the Treasury, at such time or times as the Secretary of Health, Education, and Welfare may by regulations prescribe, amounts equivalent to the sum of the taxes which would be imposed by sections 3101 and 3111 of the Internal Revenue Code of 1954 if the services of employees covered by the agreement constituted employment as defined in section 3121 of such code; and

(B) that the State will comply with such regulations relating to payments and reports as the Secretary of Health, Education, and Welfare may prescribe to carry out the purposes of this section.

DEPOSITS IN TRUST FUNDS; ADJUSTMENTS

SEC. 218. * * *

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(h)(1) All amounts received by the Secretary of the Treasury under an agreement made pursuant to this section shall be deposited in the Trust Funds and the Federal Hospital Insurance Trust Fund in the ratio in which amounts are

appropriated to such Funds pursuant to subsection (a)(3) of section 201, subsection (b)(1) of such section, and subsection (a)(1) of section 1817, respectively.

(2) If more or less than the correct amount due under an agreement made pursuant to this section is paid with respect to any payment of remuneration, proper adjustments with respect to the amounts due under such agreement shall be made, without interest, in such manner and at such times as may be prescribed by regulations of the Secretary of Health, Education, and Welfare.

(3) If an overpayment cannot be adjusted under paragraph (2), the amount thereof and the time or times it is to be paid shall be certified by the Secretary of Health, Education, and Welfare to the Managing Trustee, and the Managing Trustee, through the Fiscal Service of the Treasury Department and prior to any action thereon by the General Accounting Office, shall make payment in accordance with such certification. The Managing Trustee shall not be held personally liable for any payment or payments made in accordance with a certification by the Secretary of Health, Education, and Welfare.

FAILURE TO MAKE PAYMENTS

SEC. 218. * * *

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(j) In case any State does not make, at the time or times due, the payments provided for under an agreement pursuant to this section, there shall be added, as part of the amounts due, interest at the rate of 6 per centum per annum from the date due until paid, and the Secretary of Health, Education, and Welfare may, in his discretion, deduct such amounts plus interest from any amounts certified by him to the Secretary of the Treasury for payment to such State under any other provision of this Act. Amounts so deducted shall be deemed to have been paid to the State under such other provision of this Act. Amounts equal to the amounts deducted under this subsection are hereby appropriated to the Trust Funds in the ratio in which amounts are deposited in such Funds pursuant to subsection (h)(1).

FINANCING THE COST OF BENEFITS FOR DEEMED MILITARY SERVICE WAGES AFTER 1967

SEC. 229. * * *

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(*b*) There are authorized to be appropriated to the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, and the Federal Hospital Insurance Trust Fund annually, as benefits under this title and part A of title XVIII are paid after December 1967, such sums as the Secretary determines to be necessary to meet (1) the additional costs, resulting from subsection (a), of such benefits (including lump-sum death payments), (2) the additional administrative expenses resulting therefrom, and (3) any loss in interest to such trust funds resulting from the payment of such amounts. Such additional costs shall be determined after any increases in such benefits arising from the application of section 217 have been made.

FINANCING THE COST OF BENEFITS FOR PRESENTLY UNINSURED INDIVIDUALS

SEC. 103. * * *

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(*c*) There are authorized to be appropriated to the Federal Hospital Insurance Trust Fund (established by section 1817 of the Social Security Act) from time to time such sums as the Secretary deems necessary for any fiscal year, on account of—

(1) payments made or to be made during such fiscal year from such Trust Fund under part A of title XVIII of such Act with respect to individuals who are entitled to hospital insurance benefits under section 226 of such Act solely by reason of this section,

(2) the additional administrative expenses resulting or expected to result therefrom, and

(3) any loss in interest to such Trust Fund resulting from the payment of such amounts,

in order to place such Trust Fund in the same position at the end of such fiscal year in which it would have been if the preceding subsections of this section had not been enacted.

ADVISORY COUNCIL ON SOCIAL SECURITY

SEC. 706. (a) During 1969 (but not before February 1, 1969) and every fourth year thereafter (but not before February 1 of such fourth year) the Secretary shall appoint an Advisory Council on Social Security for the purpose of reviewing the status of the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, the Federal Hospital Insurance Trust Fund, and the Federal Supplementary Medical Insurance Trust Fund in relation to the long-term commitments of the old-age, survivors, and disability insurance program and the programs under parts A and B of title XVIII, and of reviewing the scope of coverage and the adequacy of benefits under, and all other aspects of, these programs, including their impact on the public assistance programs under this Act.

(b) Each such Council shall consist of a Chairman and 12 other persons, appointed by the Secretary without regard to the provisions of title 5, United States Code, governing appointments in the competitive service. The appointed members shall, to the extent possible, represent organizations of employers and employees in equal numbers, and represent self-employed persons and the public.

(c) (1) Any Council appointed hereunder is authorized to engage such technical assistance, including actuarial services, as may be required to carry out its functions, and the Secretary shall, in addition, make available to such Council such secretarial, clerical, and other assistance and such actuarial and other pertinent data prepared by the Department of Health, Education, and Welfare as it may require to carry out such functions.

(2) Appointed members of any such Council, while serving on business of the Council (inclusive of travel time), shall receive compensation at rates fixed by the Secretary, but not exceeding $100 per day and, while so serving away from their homes or regular places of business, they may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by section 5703 of title 5, United States Code, for persons in the Government employed intermittently.

(d) Each such Council shall submit reports (including any interim reports such Council may have issued) of its findings and recommendations to the Secretary not later than January 1 of the second year after the year in which it is appointed, and such reports and recommendations shall thereupon be transmitted to the Congress and to the Board of Trustees of each of the Trust Funds. The reports required by this subsection shall include—

(1) a separate report with respect to the old-age, survivors and disability insurance program under title II and of the taxes imposed under sections 1401(a), 3101(a), and 3111(a) of the Internal Revenue Code of 1954,

(2) a separate report with respect to the hospital insurance program under part A of title XVIII and of the taxes imposed by sections 1401(b), 3101(b), and 3111(b) of the Internal Revenue Code of 1954, and

(3) a separate report with respect to the supplementary medical insurance program established by part B of title XVIII and of the financing thereof.

After the date of the transmittal to the Congress of the reports required by this subsection, the Council shall cease to exist.

APPENDIX IV. SUMMARY OF PRINCIPAL PROVISIONS

Public Law 89-97, approved July 30, 1965, amended the Social Security Act and related provisions of the Internal Revenue Code by establishing the hospital insurance program. A summary of its provisions, as amended by Public Law 90-248, approved January 2, 1968, is as follows:

I. COVERAGE PROVISIONS (FOR CONTRIBUTION PURPOSES)

(a) All workers covered by old-age, survivors, and disability insurance system.

(b) All railroad workers (covered directly by system, and not through financial interchange provisions, if railroad retirement taxable wage base is not the same as the hospital insurance base; if bases are the same, railroad retirement

system collects contributions and transfers them to hospital insurance trust fund through financial interchange provisions;[1] hospital insurance trust fund pays benefits to suppliers of services in either case).

II. Persons Protected (for Benefit Purposes)

(*a*) Insured persons—all individuals aged 65 or over who are eligible for any type of old-age, survivors, and disability insurance or railroad retirement monthly benefit (i.e., as insured workers, dependents, or survivors), without regard to whether retired (i.e., no earnings test).

(*b*) Uninsured persons—individuals who attain age 65 before 1968 who are not eligible for any type of monthly benefit under the old-age, survivors, and disability insurance or railroad retirement programs, who are citizens or aliens lawfully admitted for permanent residence with at least 5 consecutive years of residence, and who are not covered under the Federal Employees Health Benefits Act of 1959 (including certain individuals who could have been covered if they had so elected) and have not been convicted of any offense listed in section 202(u) of the Social Security Act. (Sec. 103(b)(1) of Public Law 89–97 also excluded individuals who are members of any organization referred to in section 210(a)(17) of the Social Security Act. This provision was held to be unconstitutional by a Federal court, and its enforcement was enjoined). Those in this category attaining age 65 after 1967 must have certain amounts of old-age, survivors, and disability insurance or railroad retirement coverage to be eligible for hospital insurance benefits—namely, three quarters of coverage for each year after 1966 and before age 65, so that the provision becomes ineffective for men attaining age 65 after 1975 (for women, 1974), since then the "regular" insured status conditions for cash benefits are easier to meet.

III. Benefits Provided

(*a*) Hospital benefits—full cost of all hospital services (i.e., including room and board, operating room, laboratory tests and X-rays, drugs, dressings, general nursing services, and services of interns and residents in training) for semi-private accommodations for up to 90 days in a "spell of illness" (a period beginning with the 1st day of hospitalization and ending after the person has been out of a hospital and an extended care facility for 60 consecutive days), after a deductible of $40 and coinsurance of $10 per day for all days after the 60th one and also a deductible of the cost of the first three pints of blood; in addition to such 90 days per spell of illness, a lifetime reserve of 60 days with coinsurance of $20 per day is available; after 1968, the deductible and the coinsurance amounts will be automatically adjusted to reflect changes in hospital costs after 1966; lifetime maximum of 190 days for psychiatric hospital care.

(*b*) Extended care facility (skilled nursing home or convalescent wing of hospital) benefits—following at least 3 days of hospitalization, beginning within 14 days of leaving hospital, and for continued care of a condition for which a person was hospitalized, up to 100 days of such care in a spell of illness, with coinsurance of $5 per day for all days after the 20th one; after 1968, the $5 coinsurance will be automatically adjusted to reflect changes in hospital costs after 1966.

(*c*) Home health services benefits—following at least 3 days of hospitalization, begining within 14 days of leaving hospital or extended care facility, up to 100 visits in the next 365 days and before the beginning of the next spell of illness; such services are essentially for homebound persons and include visiting nurse services and various types of therapy treatment, including out-patient hospital services when equipment cannot be brought to the home.

(*d*) Services not covered—services obtained outside of the United States (except for emergency services for an illness occurring in the United States and the foreign hospital involved was closer, or substantially more accessible, than the nearest adequate U.S. hospital), elective "luxury" services (such as private room or television), custodial care, hospitalization for services not necessary for the treatment of illness or injury (such as elective cosmetic surgery), services performed in a Federal institution (such as a Veterans' Administration hospital), and cases eligible under workmen's compensation.

[1] Public Law 89–212, approved September 20, 1965, provided that the railroad retirement wage base will, in the future, be automatically adjusted so as to be the same as the earnings base under the hospital insurance system.

(*c*) Administration—by Department of Health, Education, and Welfare. Each provider of services can nominate a fiscal intermediary (such as Blue Cross, other health insurance organizations, or State agencies) or can deal directly with the Department. The providers of services are reimbursed on a "reasonable cost" basis, and the fiscal intermediaries are reimbursed for their reasonable costs of administration. The providers of services must meet certain standards, including establishment of utilization review committees for hospitals and extended care facilities, development of transfer agreements between hospitals and extended care facilities, and quality care.

IV. Financing

(*a*) Insured persons—on a long-range self-supporting basis (just as under the old-age, survivors, and disability insurance system), through separate schedule of increasing tax rates on covered workers (see table in "Nature of the Trust Fund" section), with same maximum taxable earnings base as scheduled for the old-age, survivors, and disability insurance system, $7,800; same rate applies to employees, employers, and self-employed (unlike under the old-age, survivors, and disability insurance system).

(*b*) Hospital insurance trust fund—separate trust fund, with separate board of trustees (same membership as for old-age and survivors insurance and disability insurance trust funds) and with same investment procedures.

(*c*) Uninsured persons—from general revenues, through the hospital insurance trust fund.

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