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1977 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

COMMUNICATION

FROM

THE BOARD OF TRUSTEES, FEDERAL HOSPITAL INSURANCE TRUST FUND

TRANSMITTING

THE 1977 ANNUAL REPORT OF THE BOARD, PURSUANT TO SECTION 1817(b) OF THE SOCIAL SECURITY ACT, AS AMENDED

MAY 10, 1977.—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., May 9, 1977.

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

SIR: We have the honor to transmit to you the 1977 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the 12th such report), in compliance with the provisions of section 1817(b) of the Social Security Act.

Respectfully,

W. MICHAEL BLUMENTHAL,
Secretary of the Treasury, and Managing Trustee of the Trust Fund.
RAY MARSHALL,
Secretary of Labor.
JOSEPH A. CALIFANO, Jr.,
Secretary of Health, Education, and Welfare.
JAMES B. CARDWELL,
Commissioner of Social Security and Secretary, Board of Trustees.

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1977 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. The Board of Trustees reports to the Congress once each year in compliance with section 1817 (b) (2) of the Social Security Act. This report is the annual report for 1977, the twelfth such report.

HIGHLIGHTS

(*a*) Disbursements of the hospital insurance trust fund were $12.6 billion in fiscal year 1976, an increase of 18½ percent over fiscal year 1975. Most of this increase was due to a substantial rise in the cost of hospital services. Increases in both payroll and nonpayroll expenses in hospitals were significantly greater than comparable increases in the general economy.

(*b*) Income to the trust fund amounted to $13.5 billion, representing an increase of 8 percent in fiscal year 1976 over 1975. The majority of this increase was due to higher average earnings for persons in covered employment and increases in the maximum taxable amount of annual earnings.

(*c*) The trust fund increased $1 billion, to $10. 8 billion at the end of fiscal year 1976. The effective annual rate of interest earned by the assets of the hospital insurance trust fund during fiscal year 1976 was 7.2 percent.

(*d*) The Secretary of Health, Education, and Welfare promulgated an inpatient deductible of $124 for calendar year 1977 and a monthly premium of $54 for noninsured enrollees for the 12-month period beginning July 1977.

(*e*) Approximately 22.4 million persons aged 65 and over were protected by the hospital insurance program in July 1976. This represents about 95 percent of the aged population. An additional 2.4 million disabled beneficiaries had protection in the same month.

(*f*) The current financing schedule of the program over the next 5 years is adequate to provide for program expenditures. However, tax rates scheduled in the mid-1980's and later are not sufficient to sustain the system, resulting in an average 25-year deficit of 1.16 percent of taxable payroll.

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SOCIAL SECURITY AMENDMENTS SINCE THE 1976 REPORT

During 1976 the following public laws affecting the operations of the Federal Hospital Insurance Trust Fund were enacted:

(*a*) Public Law 94–437, enacted September 30, 1976, which provides for Medicare reimbursement to Indian Health Service hospitals and skilled nursing facilities previously exempt from participation in medicare because they were considered to be Federal facilities obligated to provide services at public expense.

(*b*) Public Law 94–460, enacted October 8, 1976, which makes the definition of a health maintenance organization (HMO) under medicare the same as under the HMO Act, except that under medicare an HMO must offer the benefits covered under parts A and B of the program in lieu of the basic and supplemental benefits required under the HMO Act.

(*c*) Public Law 94–505, enacted October 15, 1976, which includes an amendment establishing an Office of the Inspector General in HEW to direct, conduct, supervise, and establish policies with respect to audits and investigations concerning all programs and operations within the Department, including antifraud and abuse activities related to the medicare program.

(*d*) Public Law 94–581, enacted October 21, 1976, which (1) clarifies the legal basis for reimbursement under medicare for services rendered to medicare patients in Veterans' Administration hospitals under a sharing agreement with a non-VA hospital and (2) provides that the Secretary of HEW, in consultation with the Administrator of Veterans' Affairs, will prescribe reimbursement rates for such medicare-covered services.

(*e*) Public Law 94–368, enacted July 16, 1976, which extends to October 1, 1977, the interim provisions of Public Law 93–233 under which teaching physicians may be reimbursed on a cost basis for inpatient hospital services under part A if the hospital in which they teach elects to receive payment for their services and all physicians in the hospital agree not to bill individually under part B for their professional services to medicare patients.

NATURE OF THE TRUST FUND

The Federal Hospital Insurance Trust Fund was established on July 30, 1965, as a separate account in the United States Treasury to hold the amounts accumulated under the hospital insurance program. All the financial operations which relate to the hospital insurance system 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 includes workers covered under the old-age, survivors, and disability insurance program and those covered under the railroad retirement program.

All employees, and their employers, in employment covered by the program are required to pay contributions with respect to the wages of individual workers (cash tips, covered as wages beginning 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 contribution rates applicable to taxable earnings in each of the calendar years 1966 and later are shown in table 1. For 1978 and later, the contribution rates shown are the rates scheduled in the provisions of present law. The maximum amount of annual earnings taxable in each year, 1966–77, is also shown. Beginning with 1975, the maximum amount of earnings taxable each year is determined in the preceding year under the automatic increase provisions in section 230 of the Social Security Act, unless modified by intervening congressional action.

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 hospital insurance contributions, old-age, survivors, and disability insurance contributions, and individual income taxes are not separately identified in collection reports received by the Treasury Department. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

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 contributions he paid on such excess wages. The amount of contributions 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 which provide for a system of coordination and financial interchange between the railroad retirement program and the hospital insurance program.

Sections 217(g) and 229(b) of the Social Security Act 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 wage credits for military service, according to periodic determinations made by the Secretary of Health, Education, and Welfare.

Section 231 of the Social Security Act authorizes reimbursement from the general fund of the Treasury to the hospital insurance trust fund for any costs arising from the granting of noncontributory wage credits to individuals who were interned during World War II at a place within the United States operated by the Federal Government for the internment of persons of Japanese ancestry.

Under section 103 of the Social Security Amendments of 1965, hospital insurance benefits are provided to certain uninsured persons aged 65 and over. Such payments are made initially from the hospital insurance trust fund, with reimbursement from the general fund of the Treasury for the costs, including administrative expenses, of the payments. The reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest allowances, as the actual experience develops and is analyzed.

Section 1818 of the Social Security Act provides that certain persons not eligible for hospital insurance protection either on an insured basis or on the uninsured basis described in the previous paragraph may obtain protection by enrolling in the program and paying a monthly premium.

Section 201(i) of the Social Security Act authorizes the Managing Trustee to accept and deposit in the trust fund unconditional money gifts or bequests made for the benefit of the fund or any activity financed through the fund.

Expenditures for benefit payments and administrative expenses under the 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 pertaining to the hospital insurance program 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 fund in accordance therewith.

Hospitals, at their option, are permitted to combine their billing for both hospital and physician components of radiology and pathology services rendered hospital inpatients by hospital-based physicians. Where hospitals elect this billing procedure, payments are made initially from the hospital insurance trust fund, with reimbursement from the supplementary medical insurance trust fund. 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 Social Security Amendments of 1967 and 1972 authorize the Secretary of Health, Education, and Welfare to develop and conduct a broad range of experiments and demonstration projects designed to determine various methods of increasing efficiency and economy in providing health care services, while maintaining the quality of such services, under the hospital insurance and supplementary medical insurance programs. The costs of such experiments and demonstration projects are paid out of the hospital insurance and supplementary medical insurance trust funds.

Congress has authorized expenditures from the trust funds for construction, rental, and lease or purchase contract of office buildings and related facilities for the Social Security Administration. Both the capital costs of construction financed directly from the trust funds and the rental, lease, or purchase contract costs of acquiring facilities are included in trust fund expenditures. In 1972–75, construction of several large facilities was authorized under purchase contract authority, wherein initial capital costs are borne by the private sector. Under this method of facilities acquisition, trust fund expenditures for use and ultimate Government ownership of a facility are made over periods of from 10 to 30 years. Whatever the manner of acquisition, the net worth of facilities and other fixed capital assets is not carried in the statements of the operations of the trust fund presented in this report. This is because the value of fixed capital assets does not represent funds available for benefit or administrative expenditures, and therefore is not viewed as being a consideration in assessing the actuarial status of the funds.

That portion of the trust fund which, in the judgment of the Managing Trustee, is not required to meet current expenditures for benefits and administration is invested, on a daily basis, in interest-bearing obligations of the U.S. Government (including special public-debt obligations described below), in obligations guaranteed as to both principal and interest by the United States, or in certain federally-sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for 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.

The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust fund. The law requires that such special public-debt obligations shall bear interest at a rate based on the average market yield (computed 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.

TABLE 1.—CONTRIBUTION RATES AND MAXIMUM TAXABLE AMOUNT OF ANNUAL EARNINGS

Calendar years	Maximum taxable amount of annual earnings	Contribution rates (percent of taxable earnings)	
		Employees and employers, each	Self-employed
Past experience:			
1966	$6,600	0.35	0.35
1967	6,600	.50	.50
1968–71	7,800	.60	.60
1972	9,000	.60	.60
1973	10,800	1.00	1.00
1974	13,200	.90	.90
1975	14,100	.90	.90
1976	15,300	.90	.90
1977	16,500	.90	.90
Changes scheduled in present law:			
1978–80	(1)	1.10	1.10
1981–85	(1)	1.35	1.35
1986 and later	(1)	1.50	1.50

[1] Subject to automatic increase.

Summary of the Operations of the Trust Fund, Fiscal Year 1976

A statement of the income and disbursements of the Federal Hospital Insurance Trust Fund during fiscal year 1976 and of the assets of the fund at the beginning and the end of the fiscal year is presented in table 2. Comparable amounts for fiscal year 1975 are also shown in the table.

The total assets of the trust fund amounted to $9,870 million on June 30, 1975. During fiscal year 1976, total receipts amounted to $13,544 million and total disbursements were $12,579 million. The assets of the trust fund thus increased $966 million during the year to a total of $10,836 million on June 30, 1976.

Included in total receipts during fiscal year 1976 were $10,780 million representing contributions appropriated to the trust fund and $1,314 million representing amounts received by the Secretary of the Treasury in accordance with State agreements for coverage of State and local government employees and deposited in the trust fund. As an offset, $63 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 $12,031 million, representing an increase of 7 percent over the amount for the preceding fiscal year. This growth in contribution income resulted primarily from (1) the higher level of taxable earnings and (2) the two increases in the maximum annual amount of earnings taxable—from $13,200 to $14,100 and from $14,100 to $15,300—that became effective on January 1, 1975, and January 1, 1976, respectively. Although the first increase in the maximum annual amount of earnings taxable, from $13,200 to $14,100, became effective in 1975, the first full fiscal year during which earnings between $13,200 and $14,100 were taxable was 1976.

Reference has been made in an earlier section to provisions of the Social Security Act under which certain persons aged 65 and over but not otherwise eligible for hospital insurance protection may obtain such protection by enrolling in the program and paying a monthly premium. Premiums collected from such voluntary participants in fiscal year 1976 amounted to about $8 million.

In accordance with the provisions of the Railroad Retirement Act which coordinate the railroad retirement and the hospital insurance programs and which govern the financial interchange arising from the allocation of costs between the two systems, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of $135,544,000 from the railroad retirement account to the hospital insurance trust fund would place this fund in the same position, as of June 30, 1975, 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 1975, together with interest to the date of transfer amounting to $2,178,000.

In accordance with provisions for annual reimbursement from the general fund of the Treasury for the costs of granting noncontributory wage credits for military service, the Secretary of Health, Education, and Welfare made a determination in 1970 of the level annual appropriations to the trust fund necessary to amortize over a 44-year period, beginning in fiscal year 1972, the estimated total additional costs, for military service performed before 1957, arising from payments that have been made since July 1966 and that will be made in future years, taking into account the amounts of annual appropriations in fiscal years 1966–71 that have been deposited into the trust funds. The annual amount resulting from this determination was $48 million. Thus, a reimbursement amounting to $48 million was received by the trust fund in December 1975.

Again, reference has been made earlier to provisions under which the hospital insurance trust fund is to be reimbursed from the general fund of the Treasury for costs of paying benefits under this program on behalf of certain uninsured persons. The reimbursement in fiscal year 1976 amounted to $610 million, consisting of $597 million for benefit payments, $9 million for administrative expenses, and $4 million due the trust fund for interest on adjustments to costs in prior fiscal years.

In accordance with provisions referred to in an earlier section under which money gifts or bequests may be deposited in the trust fund, the trust fund received gifts amounting to about $13,000 in fiscal year 1976.

The remaining $709 million of receipts consisted almost entirely of interest on the investments of the trust fund.

Of the $12,579 million in total disbursements, $12,273 million represented benefits paid directly from the trust fund for health services covered under title XVIII of the Social Security Act. As offsets to benefit payments, transfers were made from the supplementary medical insurance trust fund amounting to $6 million to adjust for the loss of interest caused by the delay in transferring payments for the costs of radiology and pathology services that were paid initially from the hospital insurance trust fund but that were liabilities of the supplementary medical insurance trust fund. Net benefit payments from the trust fund in fiscal year 1976, therefore, amounted to $12,267 million, an increase of 18.5 percent over the corresponding amount paid in fiscal year 1975. An additional $4 million in disbursements constituted payment for costs of experiments and demonstration projects in providing health care services.

The remaining $308 million of disbursements was for net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds—old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance—on the basis of provisional estimates. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are effected by transfers among the four trust funds, with appropriate interest allowances.

Table 3 compares the actual experience in fiscal year 1976 with the estimates presented in the 1975 and 1976 annual reports. 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 1976 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1976 does not reflect adjustments to contributions for fiscal year 1976 that were to be made after June 30, 1976. The estimated contributions in both the 1975 and 1976 annual reports were relatively close to the actual experience. Actual benefit payments were 5 percent higher than estimated in the 1975 report and only 1 percent higher than estimated in the 1976 report.

The assets of the trust fund at the end of fiscal year 1976 totaled $10,836 million, consisting of $10,942 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations, and, as an offset, an overdraft of $106 million which was covered by the redemption of securities on July 1, 1976. Table 4 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1975 and 1976.

The net increase in the par value of the investments held by the fund during fiscal year 1976 amounted to $1,181 million. New securities at a total par value of $14,748 million were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was $13,567 million. Included in these amounts is $12,974 million in certificates of indebtedness that were acquired and redeemed within the fiscal year.

The effective annual rate of interest earned by the assets of the hospital insurance trust fund during fiscal year 1976 was 7.2 percent. The interest rate on public-debt obligations issued for purchase by the trust fund in June 1976 was 7.5 percent, payable semiannually.

TABLE 2.—STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1975 AND 1976

[In thousands of dollars]

	Fiscal year 1975	Fiscal year 1976
Total assets of the trust fund, beginning of year	$7,913,699	$9,870,039
Receipts:		
Contributions:		
Appropriations	10,131,791	10,780,479
Deposits arising from State agreements	1,214,297	1,313,803
Gross contributions	11,346,088	12,094,282
Less payment into the Treasury for contributions subject to refund	55,000	62,784
Net contributions	11,291,088	12,031,498
Premiums collected from voluntary participants	5,685	7,696
Transfer from railroad retirement account	132,497	137,722
Reimbursement from general fund of Treasury for costs of noncontributory credits for military service	48,000	48,000
Benefits for uninsured persons:		
Benefit payments	470,000	597,000
Administrative expenses	11,353	9,000
Interest on adjustments to costs in prior fiscal years	1,052	4,430
Total reimbursement for costs of benefits for uninsured persons	482,405	610,430
Interest:		
Interest on investments	607,134	707,546
Interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs	1,054	1,380
Total interest	608,189	708,926
Gifts	8	13
Total receipts	12,567,872	13,544,285

TABLE 2.—STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1975 AND 1976—Continued

[In thousands of dollars]

	Fiscal year 1975	Fiscal year 1976
Disbursements:		
Benefit payments:		
Paid directly from the trust fund for the costs of health services	$10,359,011	$12,272,757
Less transfers from the supplementary medical insurance trust fund for reimbursement of interest loss related to transfer payments made in conjunction with the costs of radiology and pathology services [1]	6,000	6,000
Net benefit payments	10,353,011	12,266,757
Costs of experiments and demonstration projects [1]	2,379	3,625
Administrative expenses:		
Department of Health, Education, and Welfare [2]	258,613	302,801
Treasury Department	7,808	13,901
Construction of facilities for Social Security Administration	206	120
Interfund transfers due to adjustment in allocation of construction costs	205	104
Gross administrative expenses	266,833	316,926
Less interfund transfers due to adjustment in allocation of administrative expenses	10,690	8,680
Less receipts from sale of supplies, materials, etc	---	18
Net administrative expenses	256,142	308,228
Total disbursements	10,611,532	12,578,610
Net addition to the trust fund	1,955,340	965,675
Total assets of the trust fund, end of year	9,870,039	10,835,714

[1] For explanation, see text.
[2] Includes administrative expenses of the intermediaries.

TABLE 3.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, FISCAL YEAR 1976

[Dollar amounts in millions]

		Comparison of actual experience with estimates for fiscal year 1976 published in—			
		1976 report		1975 report	
Item	Actual amount	Estimated amount	Actual as percentage of estimate	Estimated amount	Actual as percentage of estimate
Net contributions	$12,031	$12,096	99	$11,803	102
Benefit payments	12,267	12,184	101	11,729	105

TABLE 4.—ASSETS OF THE HOSPITAL INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1975 AND 1976

	June 30, 1975		June 30, 1976	
	Par value	Book value[1]	Par value	Book value[1]
Investments in public-debt obligations sold only to this fund (special issues):				
Notes:				
5¾ percent, 1979	$537,999,000	$537,999,000.00	$537,999,000	$537,999,000.00
6⅛ percent, 1978	931,182,000	931,182,000.00	706,134,000	706,134,000.00
6⅝ percent, 1980	2,159,064,000	2,159,064,000.00	2,159,064,000	2,159,064,000.00
7⅝ percent, 1977	368,194,000	368,194,000.00		
Bonds:				
7⅜ percent, 1981	165,760,000	165,760,000.00	165,760,000	165,760,000.00
7⅜ percent, 1982	165,760,000	165,760,000.00	165,760,000	165,760,000.00
7⅜ percent, 1983	165,760,000	165,760,000.00	165,760,000	165,760,000.00
7⅜ percent, 1984	165,760,000	165,760,000.00	165,760,000	165,760,000.00
7⅜ percent, 1985	165,759,000	165,759,000.00	165,759,000	165,759,000.00
7⅜ percent, 1986	165,759,000	165,759,000.00	165,759,000	165,759,000.00
7⅜ percent, 1987	165,759,000	165,759,000.00	165,759,000	165,759,000.00
7⅜ percent, 1988	165,760,000	165,760,000.00	165,760,000	165,760,000.00
7⅜ percent, 1989	165,760,000	165,760,000.00	165,760,000	165,760,000.00
7⅜ percent, 1990	571,444,000	571,444,000.00	571,444,000	571,444,000.00
7½ percent, 1981			109,372,000	109,372,000.00
7½ percent, 1982			109,372,000	109,372,000.00
7½ percent, 1983			109,372,000	109,372,000.00
7½ percent, 1984			109,372,000	109,372,000.00
7½ percent, 1985			109,373,000	109,373,000.00
7½ percent, 1986			109,373,000	109,373,000.00
7½ percent, 1987			109,373,000	109,373,000.00
7½ percent, 1988			109,372,000	109,372,000.00
7½ percent, 1989			109,372,000	109,372,000.00
7½ percent, 1990			109,372,000	109,372,000.00
7½ percent, 1991			680,816,000	680,816,000.00
7⅝ percent, 1981	405,685,000	405,685,000.00	405,685,000	405,685,000.00
7⅝ percent, 1982	405,685,000	405,685,000.00	405,685,000	405,685,000.00
7⅝ percent, 1983	405,685,000	405,685,000.00	405,685,000	405,685,000.00
7⅝ percent, 1984	405,685,000	405,685,000.00	405,685,000	405,685,000.00
7⅝ percent, 1985	405,685,000	405,685,000.00	405,685,000	405,685,000.00
7⅝ percent, 1986	405,685,000	405,685,000.00	405,685,000	405,685,000.00
7⅝ percent, 1987	405,685,000	405,685,000.00	405,685,000	405,685,000.00
7⅝ percent, 1988	405,684,000	405,684,000.00	405,684,000	405,684,000.00
7⅝ percent, 1989	405,684,000	405,684,000.00	405,684,000	405,684,000.00
Total public-debt obligations sold only to this fund (special issues)	9,710,883,000	9,710,938,000.00	10,892,180,000	10,892,180,000.00
Investments in federally-sponsored agency obligations: Participation certificates: Federal Assets Liquidation Trust—Government National Mortgage Association: 5.20 percent, 1982	50,000,000	50,000,000.00	50,000,000	50,000,000.00
Total investments	9,760,883,000	9,760,883,000.00	10,942,180,000	10,942,180,000.00
Undisbursed balance		109,155,746.55		[2]—106,465,551.01
Total assets		9,870,038,746.55		10,835,714,448.99

[1] Par value, plus unamortized premium, less discount outstanding.
[2] A minus figure represents an overdraft which is covered by the redemption of securities on the first working day of the following month.

Expected Operations and Status of the Trust Fund During the Period July 1, 1976 to December 31, 1979

The expected operations of the trust fund during fiscal years 1977–79 (on the new October through September basis) are shown in table 5, together with the past experience of the program. The projection shown in table 5—and the entirety of this statement of expected operations and status of the trust fund through December 31, 1979—is based on the intermediate set of projection assumptions labeled alternative II, which is presented in detail in appendix A.

The estimates of income from hospital insurance contributions are at a considerably higher level during the period projected than during the earlier years of the program, primarily as a result of the increased hospital insurance tax rates beginning January 1, 1973, and the further increase scheduled in the law to be effective beginning January 1, 1978. Income during successive years of the projection is estimated by projecting increases in (1) the earnings base, in accordance with the automatic adjustment provisions, (2) the number of persons working in covered employment, and (3) the average earnings for workers in covered employment.

Income received through the financial interchange between the railroad retirement account and the trust fund under the provisions of the Railroad Retirement Act is estimated on the same basis as income from hospital insurance contributions. Estimates of the corresponding outgo are included in the disbursement items.

Estimated income to the trust fund which is appropriated from general revenues to reimburse the program for the cost of coverage of noninsured persons is the same as the estimates of disbursements for such persons, net of corrections for differences between costs and amounts transferred for previous years. Premium income and disbursements for other noninsured persons over age 65 who may enroll in the hospital insurance program on a voluntary basis are based on an estimated enrollment of 18,000 in fiscal year 1977.

Reimbursement from general revenues for military wage credits is projected at $141 million in each year. This is based on the determination made by the Secretary of Health, Education, and Welfare in 1975 of the level annual appropriations necessary to amortize the additional costs arising from these wage credits. Reimbursement from general revenues for costs arising from the granting of noncontributory wage credits to persons of Japanese ancestry who were interned during World War II is projected at $2 million in fiscal year 1978, based on a determination made by the Secretary of Health, Education, and Welfare in 1976.

The investment of new assets received during fiscal years 1977–79 is assumed to be in the form of special public-debt obligations bearing interest rates of 6⅞ percent, payable semiannually. The average effective annual rate of interest on the assets held by the hospital insurance trust fund on September 30, 1976, was 7.3 percent.

Disbursements for benefits are projected to increase sharply in fiscal years 1977–79, primarily as a result of the high rate of increase in hospital costs reimbursable under the program. The expenditures for benefit payments shown in table 5 differ slightly from those shown in the Federal budget for fiscal year 1978. These estimates are based on a more recent demographic projection, including the effects of eliminating the dependency requirement for entitlement to widower's and husband's benefits (based on recent decisions by the Supreme Court), and they do not reflect the implementation of certain proposed changes in regulations which were included in the budget.

The actual operation of the hospital insurance program is organized, in general, on a calendar year basis. Earnings subject to taxation and the applicable tax rates are established by calendar year, as are the the inpatient deductible and other cost sharing amounts. The projected operations of the trust fund on a calendar year basis are shown in table 6, according to the same basis as used in table 5. The following discussion of the financing of the program is on a calendar year basis.

The ratios of assets in the trust fund at the beginning of each calendar year to total disbursements during that year are shown in table 7 for past years and as projected through 1979. The ratio of assets to disbursements grew gradually until it reached approximately the level of one half of a year's expenditures as of the beginning of 1971. After dropping slightly during both of the following 2 years, it increased to 69 percent in 1974 and 79 percent in 1975. The ratio decreased slightly in 1976 to 77 percent, and it is projected to decline rather sharply during the next 3 years to 56 percent at the beginning of 1979.

TABLE 5.—OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1967–79

[In millions of dollars]

Fiscal year [1]	Income: Payroll taxes	Income: Transfers from railroad retirement account	Income: Reimbursement for uninsured persons	Income: Premiums from voluntary enrollees	Income: Reimbursement for military wage credits	Income: Interest on investments	Income: Total income	Disbursements: Benefit payments	Disbursements: Administrative expenses [2]	Disbursements: Total disbursements	Trust fund: Net increase in fund	Trust fund: Fund at end of year
Historical data:												
1967	$2,689	$16	$327	------------	$11	$46	$3,089	$2,508	$89	$2,597	$492	$1,343
1968	3,514	44	273	------------	11	61	3,902	3,736	79	3,815	88	1,431
1969	4,423	54	749	------------	22	96	5,344	4,654	104	4,758	586	2,017
1970	4,785	64	617	------------	11	137	5,614	4,804	149	4,953	661	2,677
1971	4,898	66	863	------------	11	180	6,018	5,442	150	5,592	426	3,103
1972	5,226	66	503	------------	48	188	6,031	6,108	167	6,276	−245	2,859
1973	7,663	63	381	------------	48	196	8,352	6,648	194	6,842	1,510	4,369
1974	10,602	99	451	$4	48	405	11,610	7,806	259	8,065	3,545	7,914
1975	11,291	132	481	6	48	609	12,568	10,353	259	10,612	1,956	9,870
1976	12,031	138	610	8	48	709	13,544	12,267	312	12,579	966	10,836
TQ	3,366	143	[3] 0	2	0	5	3,516	3,315	89	3,404	112	10,948
Projection:												
1977	13,896	[4] 0	[3] 803	11	141	797	15,648	15,165	329	15,494	154	11,102
1978	17,933	[4] 200	688	14	[5] 143	842	19,820	17,925	367	18,292	1,528	12,630
1979	20,952	187	757	17	141	948	23,002	20,987	381	21,368	1,634	14,264

[1] For 1967 through 1976, fiscal years cover the interval from July 1 through June 30; the 3-month interval from July 1, 1976, through Sept. 30, 1976, is labeled "TQ", the transition quarter; fiscal years 1977–79 cover the interval from Oct. 1 through Sept. 30.

[2] Includes costs of experiments and demonstration projects.

[3] The 1977 transfer is for benefits and administrative expenses during the 5-quarter period covering the transition quarter and fiscal year 1977.

[4] The 1978 transfer is for contributions during the 5-quarter period covering the transition quarter and fiscal year 1977.

[5] Includes $2,000,000 in reimbursement from general revenues for costs arising from the granting of noncontributory wage credits to persons of Japanese ancestry who were interned during World War II.

TABLE 6.—OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1966–79

[In millions of dollars]

Calendar year	Income							Disbursements			Trust fund	
	Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Reimbursement for military wage credits	Interest on investments	Total income	Benefit payments	Administrative expenses [1]	Total disbursements	Net increase in fund	Fund at end of year
Historical data:												
1966	$1,858	$16	$26	----------	$11	$32	$1,943	$891	$108	$999	$944	$944
1967	3,152	44	301	----------	11	51	3,559	3,353	77	3,430	129	1,073
1968	4,116	54	1,022	----------	22	74	5,287	4,179	99	4,277	1,010	2,083
1969	4,473	64	617	----------	11	113	5,279	4,739	118	4,857	422	2,505
1970	4,881	66	863	----------	11	158	5,979	5,124	157	5,281	698	3,202
1971	4,921	66	503	----------	48	193	5,732	5,751	150	5,900	-168	3,034
1972	5,731	63	381	----------	48	180	6,403	6,318	185	6,503	-99	2,935
1973	9,944	99	451	$2	48	278	10,821	7,057	232	7,289	3,532	6,467
1974	10,844	132	471	5	48	523	12,024	9,099	272	9,372	2,552	9,119
1975	11,502	138	621	7	48	664	12,980	11,315	266	11,581	1,399	10,517
1976	12,727	143	[2] 0	9	141	746	13,766	13,340	339	13,679	88	10,605
Projection:												
1977	14,145	[3] 200	[2] 803	11	[4] 143	761	16,063	15,830	336	16,166	-103	10,502
1978	19,034	187	688	14	141	819	20,883	18,653	367	19,020	1,863	12,365
1979	21,355	223	757	17	141	924	23,417	21,804	386	22,190	1,227	13,592

[1] Includes costs of experiments and demonstration projects.

[2] No transfer is made in 1976 because of the change in transfer dates from December to March. The 1977 transfer is for benefits and administrative expenses during the 15-month period beginning July 1976 and ending September 1977.

[3] The 1977 transfer is for contributions during the 15-month period beginning July 1976 and ending September 1977.

[4] Includes $2,000,000 in reimbursement from general revenues for costs arising from the granting of noncontributory wage credits to persons of Japanese ancestry who were interned during World War II.

TABLE 7.—*Ratio of assets in the fund at the beginning of the year to disbursements during the year for the hospital insurance trust funds*

Calendar year	*Percent*
Historical data:	
1967	28
1968	25
1969	43
1970	47
1971	54
1972	47
1973	40
1974	69
1975	79
1976	77
Projection:	
1977	66
1978	55
1979	56

ACTUARIAL STATUS OF THE TRUST FUND

Consistent with the recommendation of the 1971 Advisory Council, the hospital insurance program has been operated on the general financing principle that annual income to the program should be approximately equal to annual outlays of the program plus an amount to maintain a balance in the trust fund equal to 1 year's expenditures. This principle reflects the view that a sizable fund is needed for the contingency that future income and outgo may differ substantially from projected levels, but that it is unnecessary and impractical to fund fully the future benefits of workers as they accrue the right to those future benefits.

The projected expenditures under the program, expressed as percentages of taxable payroll, are summarized for selected years over the next 25-year period in table 8. The ratio of expenditures to taxable payroll has increased from 0.95 percent in 1967 to an estimated 1.87 percent in 1976, reflecting both the higher rate of increase in hospital costs than in earnings subject to hospital insurance taxes and the extension of hospital insurance benefits to disabled beneficiaries and persons suffering from chronic renal disease. Further increases in this ratio to 2.35 percent in 1980, 3.19 percent in 1985, and 5.64 percent by the year 2000 result from the assumption that the cost of institutional health care will continue to increase at a higher rate than taxable earnings (see appendix A for a description of the methodology and assumptions used in this projection).

The allowances necessary to build the trust fund to the level of a year's disbursements and to maintain it at that level, expressed as percentages of taxable payroll, are shown also in table 8. Since the level of the trust fund at the beginning of calendar year 1977 is 66 percent of the projected disbursements during 1977, a cost is associated with increasing it to the 100 percent level. This building of the trust fund to the level of a year's disbursements could be accomplished in a single year, in a period of several years, or over the entire 25-year projection period. Because of the many patterns of growth possible, the portion of the allowance necessary to build the trust fund to the level of 1 year's outgo has been spread evenly over the entire 25-year period, for purposes of display in table 8. The remaining portion of the allowance is the amount necessary to maintain the trust fund at that level from year to year, after accounting for the offsetting effect of interest earnings. This latter portion of the allowance will be at a relatively high level in the short run, as a result of the high rate of increase in disbursements projected for the next few years. In the long run, the magnitude of the trust fund maintenance factor is somewhat smaller.

The adequacy of the financing of the hospital insurance program under current law is measured by comparing on a year-to-year basis the actual tax rates specified by law with the corresponding total costs of the program, expressed as percentages of taxable payroll. If these two items are exactly equal in each year of the 25-year projection period and all projection assumptions are realized, tax revenues along with interest income will be sufficient to provide for benefits and administrative expenses for insured persons and to build the trust fund gradually to the level of a year's outgo by the end of the period. In practice, however, tax rate schedules generally are designed with rate changes occurring only at intervals of several years, rather than with continual year-by-year increases to match exactly with projected cost increases. To the extent that small differences between the yearly costs of the program and the corresponding tax rates occur for short periods of time and are offset by subsequent differences in the reverse direction, the substance of the financing objectives will have been met.

The projected total costs of the program, expressed as percentages of taxable payroll, and the tax rates scheduled under current law are shown in table 8 for selected years over the 25-year period 1977–2001. The total cost of the program, including expenditures plus trust fund building and maintenance, exceeds the tax rate in nearly every year of the projection. Furthermore, expenditures for benefits and administrative expenses alone exceed the corresponding tax rates for all future years beginning in the mid-1980's. The trust fund as a percent of a year's disbursements is projected to remain relatively level in the range of 50–55 percent into the early 1980's and to decline rapidly thereafter until the trust fund is completely exhausted by the late 1980's.

The actuarial balance of the hospital insurance program is defined to be the excess of the average tax rate for the 25-year valuation period over the average cost of the program, expressed as a percent of taxable payroll, for the same period. The average tax rate for the 25-year period 1977–2001 is 2.80 percent; the average cost of the program is 3.96 percent of taxable payroll, composed of 3.85 percent for program expenditures and 0.11 percent for the building and maintenance of the trust fund. The resulting actuarial balance, as shown in table 9, is a deficit of 1.16 percent of taxable payroll.

Long range cost estimates for the hospital insurance program have been made, since the beginning of the program, for the 25-year period beginning with the year of the report. A relatively long valuation period, such as 25 years, is necessary in order to depict the pattern of rising costs which will ensue if trends over the past two decades continue into the future. Even a valuation period as long as 25 years fails to present fully the future contingencies that reasonably may be expected, such as the impact of the demographic shift after the turn of the century which is discussed in the old-age, survivors, and disability insurance report. On the other hand, the degree of uncertainty concerning future hospital costs, relative to the remainder of the economy, is sufficiently great as to limit the usefulness of projections beyond 25 years. A precise prediction of the future is not possible, even in the short range; however, both short and long range estimates can be made, based on reasonable assumptions, which will indicate the trend and general range of future costs.

Since future economic, demographic, and health care usage and cost experience may differ considerably from any single set of assumptions on which costs estimates are based, projections also have been prepared on the basis of two alternative sets of assumptions. The estimated operations of the hospital insurance trust fund during calendar years 1976–85 are summarized in table 10 for all three alternatives, and table 11 compares the actuarial balance among the three. The assumptions underlying alternative II, the intermediate projection, are presented in substantial detail in appendix A. The assumptions used in preparing alternative projections I and III also are summarized in appendix A. The projections shown in the statement of expected operations and status of the trust fund through December 31, 1979, contained earlier in this report, are based on the assumptions contained in alternative II.

The three alternative sets of assumptions were selected in order to indicate the general range in which the cost of the program reasonably might be expected to fall. The alternative I assumptions are somewhat more optimistic than those of alternative II, resulting in a lower average cost over the 25-year period and a stronger trust fund development. Conversely, alternative III assumptions are somewhat less optimistic and result in a higher average cost and a weaker trust fund development. Alternatives I and III provide for a fairly wide range of possible experience, and actual experience reasonably may be expected to fall within the range. However, no guarantee can be made that this will be the case, particularly in light of the wide variations in experience that have occurred since the beginning of the program. The projected trust fund development under alternative III also provides a measure of the strength of the financing of the program. An adequate financing schedule ought to be sufficiently strong to withstand, for a period of several consecutive years, conditions in the general economy and in the hospital sector which are substantially more adverse than anticipated under alternative II.

Under alternative II, the trust fund as a percent of a year's disbursements is projected to remain relatively level in the range of 50–55 percent into the early 1980's and to decline rapidly thereafter until it is completely exhausted in the late 1980's. Under alternative I, the trust fund is projected to grow moderately in the early and mid-1980's to a maximum level of about 85 percent of a year's disbursements, then to decline gradually until the fund is completely exhausted in the late 1990's. Under alternative III, the trust fund as a percent of a year's disbursements is projected to decrease steadily, with complete exhaustion of the fund by 1985.

The divergence in outcomes among the three alternatives is reflected both in the estimated operations of the trust fund and in the 25-year average costs. The variations in the underlying assumptions, as shown in appendix A, can be characterized as (1) moderate in terms of the magnitude of the differences on a year-by-year basis and (2) persistent over the duration of the 25-year period. Under alternative II, program costs are projected to grow 5½ to 6 percent more rapidly than taxable payroll in the short range, gradually declining to an ultimate level of 3 percent more rapidly in the long run. Under alternative I, program costs are projected to grow 3½ to 4 percent more rapidly than taxable payroll in the short run, gradually declining to an ultimate difference of 1 percent. Similarly, alternative III follows a pattern whereby program costs increase 7½ to 8 percent more rapidly than taxable payroll in the early years, gradually declining to an ultimate difference of about 5 percent. Recent experience has indicated that assumptions producing results as adverse as those under alternative III are not unrealistic. In view of this and because of the wide range of possible experience, it is important that a substantial balance be maintained in the hospital insurance trust fund as a reserve for contingencies.

TABLE 8.—COST AND TAX RATES OF THE HOSPITAL INSURANCE PROGRAM, EXPRESSED AS A PERCENT OF TAXABLE PAYROLL

[In percent]

Calendar year	Expenditures under the program [1]	Trust fund building and maintenance [2]	Total cost of the program	Tax rate scheduled in the law [3]
Historical data:				
1967	0.95			
1968	1.05			
1969	1.13			
1970	1.21			
1971	1.33			
1972	1.31			
1973	1.34			
1974	1.46			
1975	1.73			
1976	1.87			
Projection:				
1977	1.99	0.15	2.14	1.80
1978	2.11	.15	2.26	2.20
1979	2.23	.15	2.38	2.20
1980	2.35	.14	2.49	2.20
1985	3.19	.11	3.30	2.70
1990	4.02	.10	4.12	3.00
1995	4.84	.09	4.93	3.00
2000	5.64	.09	5.73	3.00
Average [4]	3.85	.11	3.96	2.80

[1] Costs attributable to insured beneficiaries only. Benefits and administrative costs for noninsured persons are financed through general revenue transfers and premium payments rather than through payroll taxes.
[2] Allowance for building the trust fund balance to the level of a year's outgo and maintaining it at that level, after accounting for the offsetting of interest earnings.
[3] Rates for employees and employers combined. Increases to 2.20 percent in 1978, 2.70 percent in 1981, and 3 percent in 1986 presently are scheduled in the law.
[4] Average for the 25-year period 1977–2001.

TABLE 9.—*Actuarial balance of the hospital insurance program, expressed as a percent of taxable payroll*

	Percent
Average contribution rate, scheduled under present law [1]	2.80
Average cost of the program: [1]	
Expenditures, for benefit payments and administrative costs for insured beneficiaries	3.85
Building and maintaining the trust fund, at the level of one year's expenditures	.11
Total cost of the program	3.96
Actuarial balance	−1.16

[1] Average for the 25-year period 1977–2001.

TABLE 10.—ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1976-85, UNDER ALTERNATIVE SETS OF ASSUMPTIONS

[Dollar amounts in billions]

Calendar year	Total income	Total disbursements	Net increase in fund	Fund at end of year	Ratio of assets to disbursements [1] (percent)
Alternative I:					
1976 [2]	$13.8	$13.7	$0.1	$10.6	77
1977	16.1	16.2	—.1	10.5	66
1978	20.9	18.9	2.0	12.5	56
1979	23.5	21.8	1.7	14.2	57
1980	25.7	24.8	.9	15.0	57
1981	33.5	28.0	5.5	20.5	54
1982	36.4	31.0	5.5	26.0	66
1983	39.0	24.7	4.3	30.3	75
1984	41.5	38.3	3.2	33.5	79
1985	44.0	42.2	1.9	35.4	80
Alternative II:					
1976 [2]	13.8	13.7	.1	10.6	77
1977	16.1	16.2	—.1	10.5	66
1978	20.9	19.0	1.9	12.4	55
1979	23.4	22.2	1.2	13.6	56
1980	25.6	25.7	—.1	13.5	53
1981	33.2	29.7	3.6	17.0	45
1982	36.2	33.9	2.3	19.3	50
1983	38.6	38.5	.1	19.4	50
1984	41.0	43.7	—2.6	16.7	44
1985	43.3	49.1	—5.9	10.9	34
Alternative III:					
1976 [2]	13.8	13.7	.1	10.6	77
1977	16.1	16.2	—.1	10.5	66
1978	20.9	19.1	1.8	12.3	55
1979	23.1	22.5	.6	12.9	55
1980	25.1	26.4	—1.3	11.6	49
1981	32.8	31.0	1.8	13.5	38
1982	36.0	36.1	—.1	13.3	37
1983	38.8	41.9	—3.1	10.2	32
1984	41.3	48.3	—7.0	3.2	21
1985	43.6	55.6	—12.0	(3)	6

[1] Ratio of assets in the trust fund at the beginning of the year to disbursements during the year.
[2] Figures for 1976 represent actual experience.
[3] Trust fund is exhausted.

TABLE 11.—ACTUARIAL BALANCE OF THE HOSPITAL INSURANCE PROGRAM, UNDER ALTERNATIVE SETS OF ASSUMPTIONS

[In percent]

	Alternative I	Alternative II	Alternative III
Average contribution rate, scheduled under present law [1]	2.80	2.80	2.80
Average cost of the program, for expenditures and for trust fund building and maintenance [2]	3.03	3.96	5.00
Actuarial balance	−0.23	−1.16	−2.20

[1] Average for the 25-year period 1977–2001.
[2] Average for the 25-year period 1977–2001, expressed as a percent of taxable payroll.

Conclusion

The present financing schedule for the hospital insurance program is not adequate to provide for the expenditures anticipated over the entire 25-year valuation period, if the assumptions underlying the estimates prove to be realistic. Tax rates currently specified in the law (including the scheduled increases in 1978 and 1981) are sufficient, along with interest earnings, to support program expenditures over the next 5 years. However, they are not sufficient, under current assumptions, to provide for any growth in the trust fund—relative to annual disbursements—toward the level of a full year's disbursements recommended by the 1971 Advisory Council. The financing for the remainder of the 25-year valuation period is not sufficient even to provide for projected benefits and administrative expenses, producing an average deficit over the entire 25-year period of 1.16 percent of taxable payroll. Even under the more optimistic alternative I assumptions, the present financing schedule is not sufficient to support the system.

The trust fund balance at the beginning of 1977 was 66 percent of the projected disbursements for 1977, somewhat below the level of a full year's disbursements. The ratio of fund to disbursements is projected to drop to a level of 55 percent by the beginning of 1978 and to remain relatively level in the range of 50–55 percent into the early 1980's. The trust fund is projected to decline rapidly thereafter, until it is completely exhausted by the late 1980's. Under the less optimistic alternative III assumptions, the decline of the trust fund is accelerated, with complete exhaustion of the fund by 1985.

The hospital insurance trust fund is not in imminent danger of being unable to provide benefits which become payable. However, the present financing schedule does not provide for any growth in the trust fund (relative to annual disbursements); and, after about 5 years, disbursements exceed income, leading to complete exhaustion of the fund by the late 1980's. The Board recommends that action be taken in the near future to strengthen the financing of the hospital insurance system. The Board also recommends that a realistic, long-term approach be developed to curtail the rapid growth in the cost of the hospital insurance program which has occurred during recent years and which is anticipated in the future.