

**1985 ANNUAL REPORT OF THE BOARD OF TRUSTEES  
OF THE FEDERAL HOSPITAL INSURANCE TRUST  
FUND**

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**COMMUNICATION 0940**

**FROM**

**THE BOARD OF TRUSTEES, FEDERAL  
HOSPITAL INSURANCE TRUST FUND**

**TRANSMITTING**

**THE 1985 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE  
FEDERAL HOSPITAL INSURANCE TRUST FUND, PURSUANT TO  
SSA, SECS. 201(c)(2), 1817(b)(2), AND 1841(b)(2)**



**APRIL 1, 1985.—Referred to the Committee on Ways and Means and  
ordered to be printed**

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TRUSTEES OF THE FEDERAL HOSPITAL  
INSURANCE TRUST FUND

COMMUNICATION

From

THE BOARD OF TRUSTEES, FEDERAL  
HOSPITAL INSURANCE TRUST FUND

Transmitting

THE 1985 ANNUAL REPORT OF THE BOARD, PURSUANT TO  
SECTION 1817(b) OF THE SOCIAL SECURITY ACT  
AS AMENDED



LETTER OF TRANSMITTAL

Board of Trustees of the  
Federal Hospital Insurance Trust Fund  
Washington, D.C., March 28, 1985

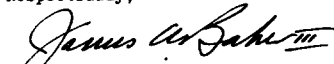
HONORABLE THOMAS P. O'NEILL, JR.  
Speaker of the House of Representatives  
Washington, D.C.

HONORABLE GEORGE BUSH  
President of the Senate  
Washington, D.C.

GENTLEMEN:

We have the honor of transmitting to you the 1985 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the 20th such report), in compliance with the provisions of section 1817(b) of the Social Security Act.

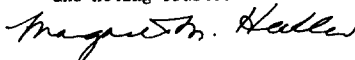
Respectfully,



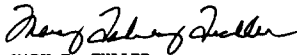
JAMES A. BAKER III,  
Secretary of the Treasury, and  
Managing Trustee of the Trust Fund



FORD B. FORD,  
Under Secretary of Labor,  
and Acting Trustee



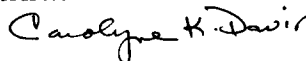
MARGARET M. HECKLER,  
Secretary of Health and  
Human Services, and Trustee



MARY F. FULLER,  
Trustee



SUZANNE D. JAFFE,  
Trustee



CAROLYNE K. DAVIS, Ph.D.,  
Administrator of the Health Care Financing  
Administration, and Secretary,  
Board of Trustees



C O N T E N T S

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|                                                                                                                                                                       | Page |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| The Board of Trustees.....                                                                                                                                            | 1    |
| Highlights.....                                                                                                                                                       | 2    |
| Social Security Amendments Since the 1984 Trustees Report.....                                                                                                        | 5    |
| Nature of the Trust Fund.....                                                                                                                                         | 8    |
| Summary of the Operations of the Trust Fund, Fiscal Year 1984.....                                                                                                    | 18   |
| Expected Operations and Status of the Trust Fund During the<br>Period October 1, 1984, to December 31, 1987.....                                                      | 27   |
| Actuarial Status of the Trust Fund.....                                                                                                                               | 33   |
| Conclusion.....                                                                                                                                                       | 46   |
| Appendices:                                                                                                                                                           |      |
| A. Actuarial Methodology and Principal Assumptions<br>for the Hospital Insurance Cost Estimates.....                                                                  | 48   |
| B. Determination and Announcement of the Inpatient<br>Hospital Deductible for 1985.....                                                                               | 66   |
| C. Determination and Announcement of the Hospital<br>Insurance Monthly Premium Rate for the Uninsured Aged,<br>for the 12-Month Period Beginning January 1, 1985..... | 70   |
| D. Statement of Actuarial Opinion.....                                                                                                                                | 73   |

1985 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 has five members. Three serve in an ex officio capacity. These members are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health and Human Services. Two public members are provided for by the Social Security Amendments of 1983 (Public Law 98-21, enacted into law on April 20, 1983). The two public members were nominated by the President for a term of four years, and were confirmed by the Senate.

By law, the Secretary of the Treasury is designated as the Managing Trustee and the Administrator of the Health Care Financing Administration is designated as Secretary of the Board. The Board of Trustees reports to the Congress each year on the operation and status of the trust fund, in compliance with section 1817(b)(2) of the Social Security Act. This is the 1985 annual report, the twentieth such report.



## HIGHLIGHTS

- (a) Disbursements of the hospital insurance trust fund in fiscal year 1984 were \$42.1 billion, an increase of 9.0 percent over fiscal year 1983. 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 greater than comparable increases in the general economy.
- (b) Income to the trust fund amounted to \$45.6 billion, representing an increase of 3.7 percent in fiscal year 1984 over 1983. The majority of this increase was due to an increase in the maximum amount of taxable earnings and the higher level of earnings in covered employment.
- (c) The trust fund increased from \$13.7 billion to \$17.2 billion at the end of fiscal year 1984. The effective annual rate of interest earned by the assets of the hospital insurance trust fund for the year ending June 30, 1984, was 12.0 percent.
- (d) The analysis of the change in the 25 year actuarial balance of the Hospital Insurance Trust Fund from the 1984 Trustees report under the alternative II-B projection shows that the HI Trust Fund is expected to remain solvent through calendar year 1998. This represents a significant change from the prior year's projection of solvency through calendar year 1991. The major reasons for this change are:

1. Lower Increases In Prospective Payment Rates: As a result of 1984 changes in law, the 1985 report projects rates to increase annually beginning in 1985 based on the hospital market basket plus 1/4%, rather than the market basket plus 1% projected in the 1984 report. The effect of this change is a positive .29%. Currently, the Administration proposes freezing the 1986 rates at 1985 levels. This produces an additional positive .14% change to the actuarial balance of the HI Trust Fund projected in the 1985 report.
2. New Forecast Base: Because of favorable program experience in 1984, the Trust Fund balance at the beginning of 1985 is \$2.6 billion higher than was forecast in the 1984 report. The net effect of this change is a positive 0.25% on the actuarial balance.
3. Economic and demographic assumptions: Changes in economic and demographic assumptions described in Appendix A of the HI Report result in a positive 0.12% effect on the actuarial balance of the HI Trust Fund.
4. Change in Valuation Period: Deletion of 1984 and the addition of 2009 to the 25-year projection period substitutes a relatively bad year for a good year with respect to operations of the HI Trust Fund. The net effect on the actuarial balance of the HI Trust Fund from this change is a negative 0.11%.

The combined effects of these changes on the actuarial balance of the Trust Fund in the 1985 report is a positive 0.69%. This reduces the negative 1.37% actuarial balance forecast in the 1984 report to a negative 0.68% in the 1985 report.

- (e) The Secretary of Health and Human Services promulgated an inpatient deductible of \$400 for calendar year 1985 and a monthly premium of \$174 for noninsured enrollees also for calendar year 1985.
- (f) Approximately 26.9 million persons aged 65 and over were protected by the hospital insurance program in July 1984. An additional 2.9 million disabled and end-stage renal disease beneficiaries had protection in the same month.
- (g) Utilization of medical services by the elderly is subject to changes caused by the increasing aging of the American population, improvements in medical technology and different incentives for health care providers. These changes add to the difficulty in forecasting HI Trust Fund outlays and, accordingly, to the uncertainty surrounding these forecasts.

## SOCIAL SECURITY AMENDMENTS SINCE THE 1984 TRUSTEES REPORT

Public Law 98-369, the "Deficit Reduction Act of 1984," which was enacted July 18, 1984, contained several provisions having an impact on the Federal Hospital Insurance Trust Fund. They include:

- (1) The Medicare secondary payor provision for workers and their spouses aged 65 to 69 who are covered by an employer's group health insurance is extended to cases where the employee has not reached age 65 and has a spouse age 65 through 69. Effective January 1, 1985.
- (2) The increase for hospital payments in fiscal year 1985 is equal to the increase in the hospital input price index (the cost of the mix of goods and services used to provide inpatient hospital services), plus one quarter of one percent. However, budget neutrality continues to apply in fiscal year 1985. In fiscal year 1986, the rate of increase cannot exceed the increase in the hospital input price index plus one quarter of one percent.
- (3) Reimbursement for capital upon the change of ownership of a hospital or skilled nursing facility (SNF) is restricted to the lesser of the cost under Medicare to the owner of record (on July 18, 1984) or the purchase price. The costs of legal fees, negotiations, or settlement of the sale are no longer reimbursable. The recapture of depreciation up to the full value of the initial asset under Medicare is required.

- (4) For cost reporting periods beginning on or after October 1, 1982 and before July 1, 1984, the method used for calculating reimbursement limits of hospital-based and freestanding skilled nursing facilities that was in effect prior to the enactment of P.L. 97-248 (TEFRA) is reinstated. For cost reporting periods beginning on or after July 1, 1984, separate limits will continue to be established for freestanding facilities in urban and rural areas at 112 percent of the mean operating costs of urban and rural freestanding facilities, respectively. Limits for urban or rural hospital-based facilities will be set at the appropriate freestanding facility limit plus 50 percent of the difference between the freestanding facility limit and 112 percent of mean operating costs for hospital-based facilities.
- (5) Durable medical equipment provided by home health agencies as part of a covered home health service will no longer be reimbursed at 100 percent of cost. Reimbursement will be at no more than 80 percent of reasonable cost and the beneficiary will be responsible for a 20 percent coinsurance payment. Effective upon enactment.
- (6) The former practice (prior to the Social Security Amendments of 1983) of transferring funds during the month into the Hospital Insurance Trust Fund from the Treasury, rather than making all transfers on the first of the month, is reestablished. Effective the first day of the month following the month of enactment.

Public Law 98-460, the "Social Security Disability Benefits Reform Act of 1984", which was enacted October 9, 1984, reauthorizes until June 1988 (permanently for SSI disability recipients) an expired provision permitting individuals notified of termination to elect to have disability benefits and Medicare coverage continued through the Administrative Law Judge level of appeal. If the judgment is upheld, however, disability benefit payments are subject to recovery. Recoupment cannot be made for Medicare benefits. Effective upon enactment.

Public Law 98-617, which was enacted November 8, 1984, restores the payment rate for hospice routine home care to the Notice of Proposed Rulemaking level of \$53.17 for 12 months with annual review of all rates and adjustments thereafter to be made on the basis of costs. The increased routine home care rate is retroactive to October 1, 1984.

## 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. All the financial operations of the hospital insurance program are handled through this fund.

The major sources of receipts of the trust 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, those covered under the railroad retirement program, and Federal employees.

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. Employees pay contributions with respect to cash tips but, prior to 1978, employers did not. Since 1978, under the 1977 amendments, employers have been required to pay contributions on that part of the tip income deemed to be wages under the Federal minimum wage law. 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 up to the maximum annual amount.

The hospital insurance contribution rates applicable to taxable earnings in each of the calendar years 1966 and later are shown in table 1. For 1986 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 1966-85 are also shown. For 1975-78, the contribution and benefit bases were determined under the automatic increase provisions in section 230 of the Social Security Act. In 1979, 1980, and 1981, the bases increased to the specified amounts as provided under the 1977 amendments. After 1981, the automatic increase provisions are again applicable.

Except for amounts received 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. The contributions received are automatically appropriated to the trust fund, on an estimated basis. 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.

Prior to May 1983 and after June 1984, the internal revenue collections were transferred to the trust funds immediately upon receipt. For May 1983 through June 1984, estimated total collections for each month were credited to the trust funds on the first day of the month. As the actual collections were received during the month, they were deposited in the general fund of the Treasury and remained there. The trust funds paid interest to the general fund to reimburse it for the interest lost because of this provision.

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 deemed wage credits for military service, according to periodic determinations made by the Secretary of Health and Human Services. These sections, as modified by the Social Security Amendments of 1963, provided for a lump sum amount in 1963 for costs arising from such wage credits. In addition, the lump sum amount included credits for the combined employer-employee HI taxes for the noncontributory wage credits for service after 1965 and before 1984. After 1983, HI taxes on military wage credits will be credited to the fund on July 1 of each year.

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 deemed 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 from the trust fund. All expenses incurred by the Department of Health and Human Services 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 and Human Services certifies benefit payments to the Managing Trustee, who makes the payments from the trust fund in accordance therewith.

Prior to fiscal year 1984, hospitals, at their option, were 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 elected this billing procedure, payments were made initially from the hospital insurance trust fund. The reimbursements so made were on a provisional basis and are subject to adjustment, with appropriate interest allowance, as the actual experience develops and is analyzed.

The Social Security Amendments of 1972 provide that hospital admissions under all Federal Health Insurance programs be reviewed by Professional Standards Review Organizations. Under section 1168 of the Social Security Act, payments for the costs of such reviews are made initially from the hospital insurance trust fund, with reimbursement from the general fund of the Treasury for the costs of reviews of admissions covered under Federal programs other than the hospital insurance program. This provision was repealed effective October 1, 1981.

The Social Security Amendments of 1967 and 1972 authorize the Secretary of Health and Human Services 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. A sizable portion of the costs of such experiments and demonstration projects is paid from the hospital insurance and supplementary medical insurance trust funds.

Congress has authorized expenditures from the trust funds for construction, rental, and lease or purchase contracts of office buildings and related facilities for use in connection with the administration of the hospital insurance program. Both the capital costs of construction financed directly through 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 were 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 statement of the assets 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 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 month.

The Social Security Act authorizes borrowing among the OASI, DI, and HI trust funds when necessary "to best meet the need for financing the benefit payments" from the three funds. The timing and amounts of the loans are largely at the discretion of the Managing Trustee, although no loans can be made after 1987. Loans may not be made from a trust fund if its assets (excluding any amounts borrowed) represent less than 10 percent of its current annual rate of expenditures. The law also specifies that interest on borrowed amounts will be paid monthly at a rate "equal to the rate which the lending trust fund would earn on the amount involved if the loan were an investment."

In this report, the assets of a trust fund include any amounts owed to other trust funds. The assets of a trust fund to which amounts are owed do not include such amounts. This procedure is followed because borrowed amounts are available for the payment of benefits or other obligations of the borrowing fund, while such amounts are not readily available to the lending fund.

At the end of each year through 1988, if the combined assets of the OASI and DI trust funds exceed 15 percent of the estimated outgo in the next year, such excess over 15 percent must be used to repay any amounts owed to the HI trust fund. The same rule applies to loans from the OASI and DI trust funds to the HI trust fund, although no such loans are anticipated. In any case, all interfund loans must be completely repaid before 1990.

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

| <u>Calendar<br/>Years</u>         | <u>Maximum taxable<br/>amount of<br/>annual earnings</u> | <u>Contribution rate</u><br><u>(Percent of taxable earnings)</u> |                           |
|-----------------------------------|----------------------------------------------------------|------------------------------------------------------------------|---------------------------|
|                                   |                                                          | <u>Employees and<br/>employers, each</u>                         | <u>Self-<br/>employed</u> |
| Past experience:                  |                                                          |                                                                  |                           |
| 1966                              | \$ 6,600                                                 | 0.35                                                             | 0.35                      |
| 1967                              | 6,600                                                    | 0.50                                                             | 0.50                      |
| 1968-71                           | 7,800                                                    | 0.60                                                             | 0.60                      |
| 1972                              | 9,000                                                    | 0.60                                                             | 0.60                      |
| 1973                              | 10,800                                                   | 1.00                                                             | 1.00                      |
| 1974                              | 13,200                                                   | 0.90                                                             | 0.90                      |
| 1975                              | 14,100                                                   | 0.90                                                             | 0.90                      |
| 1976                              | 15,300                                                   | 0.90                                                             | 0.90                      |
| 1977                              | 16,500                                                   | 0.90                                                             | 0.90                      |
| 1978                              | 17,700                                                   | 1.00                                                             | 1.00                      |
| 1979                              | 22,900                                                   | 1.05                                                             | 1.05                      |
| 1980                              | 25,900                                                   | 1.05                                                             | 1.05                      |
| 1981                              | 29,700                                                   | 1.30                                                             | 1.30                      |
| 1982                              | 32,400                                                   | 1.30                                                             | 1.30                      |
| 1983                              | 35,700                                                   | 1.30                                                             | 1.30                      |
| 1984                              | 37,800                                                   | 1.30                                                             | 2.60                      |
| 1985                              | 39,600                                                   | 1.35                                                             | 2.70                      |
| Changes scheduled in present law: |                                                          |                                                                  |                           |
| 1986 & later                      | Subject to<br>automatic<br>increase                      | 1.45                                                             | 2.90                      |



## SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1984

A statement of the incomes and disbursements of the Federal Hospital Insurance Trust Fund in fiscal year 1984, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2.

The total assets of the trust fund amounted to \$13,719 million on September 30, 1983. During fiscal year 1984, total receipts amounted to \$45,563 million, and total disbursements were \$42,108 million. The assets of the trust fund thus increased \$3,455 million during the year to a total of \$17,174 million on September 30, 1984.

Included in total receipts during fiscal year 1984 were \$37,341 million representing contributions appropriated to the trust fund and \$4,103 million representing amounts received in accordance with State agreements for coverage of state and local government employees and deposited in the trust fund. As an offset, \$81 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 \$41,364 million, representing an increase of 13.4 percent over the amount of \$36,387 million for the preceding 12-month period. This growth in contribution income resulted primarily from (1) the

higher level of earnings in covered employment; and (2) the two increases in the maximum annual amount of earnings taxable from \$32,400 to \$35,700 and from \$35,700 to \$37,800 that became effective on January 1, 1983, and January 1, 1984, respectively.

The section entitled "Nature of the Trust Fund" referred 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 1984 amounted to about \$35.1 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 and Human Services determined that a transfer of \$308 million from the railroad retirement account to the hospital insurance trust fund would place this fund in the same position, as of September 30, 1983, in which it would have been if railroad employment had always been covered under the Social Security Act. This amount, together with interest to the date of transfer amounting to \$42.6 million, was transferred to the trust fund in June 1984.

In accordance with provisions for annual reimbursement from the general fund of the Treasury for the cost of granting deemed wage credits for military service, the Secretary of Health and Human Services determined in 1980 the level annual appropriation necessary to amortize the estimated

total additional costs for military service prior to 1957. This cost is amortized over a 34-year period, which began in fiscal year 1982, with an allowance for the appropriations which were made for fiscal years 1966-82. The annual amount resulting from this determination was \$207 million. The Social Security Amendments of 1983 provided for the trust fund to be credited an additional sum of \$3,456 million for such future costs and for the combined employer-employee HI taxes on gratuitous military wage credits for service after 1965 and before 1984, which was transferred during fiscal year 1983. On July 1, 1984, the trust fund was credited with \$79 million for deemed military wage credits for calendar year 1984. An additional \$171 million was credited to the trust fund during fiscal year 1984 as an interim adjustment to the lump sum transfer made in fiscal year 1983.

Again, the section entitled "Nature of the Trust Fund" referred 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 1984 amounted to \$752 million, consisting of \$733 million for benefit payments, \$11 million for administrative expenses, and \$8 million for interest on adjustments to costs in prior fiscal years.

The remaining \$2,812 million of receipts consisted almost entirely of interest on the investments of the trust fund and interest on interfund borrowing.

Of the \$42,108 million in total disbursements, \$41,476 million represented benefits paid directly from the trust fund for health services covered under title XVIII of the Social Security Act. Benefit payments increased 8.9 percent in fiscal year 1984 over the corresponding amount of \$38,102 million paid during the preceding 12 months.

The remaining \$633 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. Similarly, the expenses of administering other programs of the Health Care Financing Administration are also allocated and charged directly to the general fund of the Treasury on a provisional basis. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are affected by interfund transfers, including transfers between the hospital insurance and supplementary medical insurance trust funds and the program management general fund account, with appropriate interest allowances.

Table 3 compares the actual experience in fiscal year 1984 with the estimates presented in the 1983 and 1984 annual reports. The section entitled "Nature of the Trust Fund" referred 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 1984 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1984 does not reflect adjustments to contributions for fiscal year 1984 that were to be made after September 30, 1984. Table 3 indicates that actual benefit payments in fiscal year 1984 were lower than estimated. The primary reason for this is that a lower admission incidence was experienced during fiscal year 1984 than was anticipated in the prior two reports.

The assets of the hospital insurance trust fund at the end of fiscal year 1983 totaled \$13,719 million, consisting of \$13,433 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations and an undisbursed balance of \$286 million. The assets of the hospital insurance trust fund at the end of fiscal year 1984 totaled \$17,174 million, consisting of \$16,919 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations and an undisbursed balance of \$255 million. Table 4 shows the total assets of the fund and their distribution at the end of fiscal years 1983 and 1984.

The net increase in the par value of the investments held by the fund during fiscal year 1984 amounted to \$3,468 million. New securities at a total par value of \$53,903 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 \$50,435 million.

The effective annual rate of interest earned by the assets of the hospital insurance trust fund during the 12 months ending on June 30, 1984, was 12.0 percent. (This period is used because interest on special issues is paid semiannually on June 30 and December 31.) The interest rate on public-debt obligations issued for purchase by the trust fund in June 1984 was 13.75 percent, payable semiannually.

TABLE 2.--STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND  
DURING FISCAL YEAR 1984  
(In thousands of dollars)

|                                                     |                     |
|-----------------------------------------------------|---------------------|
| Total assets of the trust fund, beginning of period | \$13,719,000        |
| Receipts:                                           |                     |
| Appropriation of employment taxes                   | \$37,341,148        |
| Refunds of employment taxes                         | (80,600)            |
| Deposits arising from State agreements              | 4,103,027           |
| Interest on investments:                            |                     |
| Collected                                           | 1,644,620           |
| Paid to general fund-normalized tax crediting       | (186,595)           |
| Amortization of premium and discount net            | 18,267              |
| Other                                               |                     |
| Interest on interfund borrowing                     | 1,337,007           |
| Premiums collected from voluntary participants      | 35,074              |
| Transfer from railroad retirement account           | 308,000             |
| Transitional uninsured coverage                     | 752,000             |
| Military service credits                            | 250,000             |
| Interest on reimbursements, SSA 1/                  | (1,765)             |
| Interest on reimbursements, HCFA 1/                 | 674                 |
| Interest on reimbursements, railroad                | 42,630              |
| Total receipts                                      | <u>\$45,563,486</u> |
| Expenditures:                                       |                     |
| Benefit payments                                    | 41,475,712          |
| Administrative expenses:                            |                     |
| Treasury administrative expenses                    | 18,555              |
| Salaries and expenses, SSA                          | 285,512             |
| Salaries and expenses, HCFA 2/                      | 297,237             |
| Salaries and expenses, Office of Secretary          | 4,564               |
| Construction                                        | 12,178 2/           |
| Cost of experiments and demonstration projects      | 652                 |
| Professional Standard Review Organization           | 14,109              |
| Reimbursement of SSA expenses 4/                    | 0                   |
| Reimbursement of HCFA expenses 4/                   | (2,339)             |
| Payment Assessment Committee                        | 1,275               |
| Public Health Service                               | 893                 |
| Other                                               | (34)                |
| Total expenditures                                  | <u>42,108,313</u>   |
| Total assets of the trust fund, end of period       | \$17,174,173        |

1/ A positive figure represents a transfer of interest to the hospital insurance trust fund from the other trust funds. A negative figure represents a transfer of interest from the hospital insurance trust fund to the other trust funds.

2/ Includes administrative expenses of the intermediaries.

3/ Includes \$9,515 thousand for data processing purchases.

4/ A positive figure represents a transfer from the hospital insurance trust fund to the other trust funds. A negative figure represents a transfer to the hospital insurance trust fund from the other trust funds.

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

TABLE 3.--COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE  
HOSPITAL INSURANCE TRUST FUND, FISCAL YEAR 1984  
(Dollar amounts in millions)

| Item              | Comparison of actual experience with estimates<br>for fiscal year 1984 published in-- |                     |                                        |                     |                                        |
|-------------------|---------------------------------------------------------------------------------------|---------------------|----------------------------------------|---------------------|----------------------------------------|
|                   | Actual<br>Amount                                                                      | 1984 Report         |                                        | 1983 Report         |                                        |
|                   |                                                                                       | Estimated<br>Amount | Actual as<br>percentage<br>of estimate | Estimated<br>Amount | Actual as<br>percentage<br>of estimate |
| Net contributions | \$41,364                                                                              | \$41,407            | 100                                    | \$40,828            | 101                                    |
| Benefit payments  | \$41,476                                                                              | \$43,828            | 95                                     | \$44,137            | 94                                     |



TABLE 4.--ASSETS OF THE HOSPITAL INSURANCE TRUST FUND BY TYPE  
AT THE END OF FISCAL YEARS 1983 and 1984 1/

|                                                                                      | September 30, 1983         | September 30, 1984         |
|--------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Investments in public-debt obligations<br>sold only to this fund (special issues):   |                            |                            |
| Certificates of indebtedness:                                                        |                            |                            |
| 11 7/8-percent, 1983 .....                                                           | \$965,737,000.00           | -----                      |
| 12 3/4-percent, 1985 .....                                                           | -----                      | \$ 1,516,618,000.00        |
| Bonds:                                                                               |                            |                            |
| 8 1/4-percent, 1993 .....                                                            | 622,286,000.00             | 622,286,000.00             |
| 8 3/4-percent, 1993 .....                                                            | 123,297,000.00             | 123,297,000.00             |
| 8 3/4-percent, 1994 .....                                                            | 849,460,000.00             | 849,460,000.00             |
| 9 3/4-percent, 1993 .....                                                            | 130,210,000.00             | 130,210,000.00             |
| 9 3/4-percent, 1994 .....                                                            | 130,210,000.00             | 130,210,000.00             |
| 9 3/4-percent, 1995 .....                                                            | 979,670,000.00             | 979,670,000.00             |
| 10 3/4-percent, 1985 .....                                                           | 239,417,000.00             | -----                      |
| 10 3/4-percent, 1986 .....                                                           | 588,410,000.00             | 271,006,000.00             |
| 10 3/4-percent, 1987 .....                                                           | 588,410,000.00             | 588,410,000.00             |
| 10 3/4-percent, 1988 .....                                                           | 588,410,000.00             | 588,410,000.00             |
| 10 3/4-percent, 1989 .....                                                           | 588,410,000.00             | 588,410,000.00             |
| 10 3/4-percent, 1990 .....                                                           | 588,410,000.00             | 588,410,000.00             |
| 10 3/4-percent, 1991 .....                                                           | 588,410,000.00             | 588,410,000.00             |
| 10 3/4-percent, 1992 .....                                                           | 588,410,000.00             | 588,410,000.00             |
| 10 3/4-percent, 1998 .....                                                           | 588,410,000.00             | 588,410,000.00             |
| 13 -percent, 1993 .....                                                              | 197,606,000.00             | 197,606,000.00             |
| 13 -percent, 1994 .....                                                              | 197,606,000.00             | 197,606,000.00             |
| 13 -percent, 1995 .....                                                              | 197,606,000.00             | 197,606,000.00             |
| 13 -percent, 1996 .....                                                              | 1,177,276,000.00           | 1,177,276,000.00           |
| 13 1/4-percent, 1993 .....                                                           | 272,853,000.00             | 272,853,000.00             |
| 13 1/4-percent, 1994 .....                                                           | 272,853,000.00             | 272,853,000.00             |
| 13 1/4-percent, 1995 .....                                                           | 272,853,000.00             | 272,853,000.00             |
| 13 1/4-percent, 1996 .....                                                           | 272,853,000.00             | 272,853,000.00             |
| 13 1/4-percent, 1997 .....                                                           | 1,450,129,000.00           | 1,450,129,000.00           |
| 13 3/4-percent, 1985 .....                                                           | -----                      | 208,505,000.00             |
| 13 3/4-percent, 1986 .....                                                           | -----                      | 579,539,000.00             |
| 13 3/4-percent, 1987 .....                                                           | -----                      | 262,135,000.00             |
| 13 3/4-percent, 1988 .....                                                           | -----                      | 262,135,000.00             |
| 13 3/4-percent, 1989 .....                                                           | -----                      | 262,135,000.00             |
| 13 3/4-percent, 1990 .....                                                           | -----                      | 262,135,000.00             |
| 13 3/4-percent, 1991 .....                                                           | -----                      | 262,134,000.00             |
| 13 3/4-percent, 1992 .....                                                           | -----                      | 262,134,000.00             |
| 13 3/4-percent, 1998 .....                                                           | -----                      | 262,134,000.00             |
| 13 3/4-percent, 1999 .....                                                           | -----                      | 850,544,000.00             |
| <b>Total public-debt obligations<br/>sold only to this fund<br/>(special issues)</b> | <b>\$13,059,202,000.00</b> | <b>\$16,526,792,000.00</b> |
| Investments in federally-sponsored<br>agency obligations:                            |                            |                            |
| Participation certificates:                                                          |                            |                            |
| Federal Assets Liquidation Trust-                                                    |                            |                            |
| Government National Mortgage                                                         |                            |                            |
| Association:                                                                         |                            |                            |
| 5.10-percent, 1987.....                                                              | 50,000,000.00              | 50,000,000.00              |
| 6.40-percent, 1987.....                                                              | 75,000,000.00              | 75,000,000.00              |
| 6.05-percent, 1988.....                                                              | 65,000,000.00              | 65,000,000.00              |
| 6.45-percent, 1988.....                                                              | 35,000,000.00              | 35,000,000.00              |
| 6.20-percent, 1988.....                                                              | 230,000,000.00             | 230,000,000.00             |
| Unamortised Premium & Discount Net                                                   | (81,280,713.30)            | (63,013,527.90)            |
| <b>Total Investments</b>                                                             | <b>\$13,432,921,286.70</b> | <b>\$16,918,778,472.10</b> |
| <b>Undebursed Balance</b>                                                            | <b>286,078,894.58</b>      | <b>255,394,489.68</b>      |
| <b>Total Assets</b>                                                                  | <b>\$13,719,000,181.28</b> | <b>\$17,174,172,961.78</b> |

1/ The assets are carried at par value, which is the same as book value.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING  
THE PERIOD OCTOBER 1, 1984 TO DECEMBER 31, 1987

The expected operations of the trust fund during fiscal years 1985-87 are shown in table 5, together with the past experience of the program. The projection shown in table 5--and the entirety of this section--is based on two intermediate sets of projection assumptions labeled alternative II-A and alternative II-B, which are presented in detail in Appendix A. The economic assumptions underlying these two alternative sets of assumptions are described in detail in the 1985 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Disability Insurance Trust Funds.

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 22,000 in fiscal year 1985.

Payments from general revenues for military wage credits were \$250 million in fiscal year 1984 and is projected to be \$83 million in fiscal year 1985. This was based on provisions of the Social Security Amendments of 1983, as described in the "Nature of the Trust Fund" and "Summary of the Operations of the Trust Fund, Fiscal Year 1984" sections.

The investment of new assets received during fiscal years 1985-87 is assumed to be in the form of special public-debt obligations bearing interest rates ranging from 10  $\frac{3}{4}$  percent, payable semiannually in 1985, to 10 percent in 1987. The average effective annual rate of interest on the assets held by the hospital insurance trust fund on September 30, 1984, was 12.0 percent.

Disbursements for benefits are projected to increase in fiscal years 1985-87, primarily as a result of the increase in hospital payment rates and hospital admissions under the program. The expenditures for benefit payments shown in table 5 differ from those shown in the 1986 Federal Budget. These estimates are based on more recent demographic and economic projections, and they do not reflect the implementation of proposed changes in regulations which were included in the budget. However, the expenditures for benefit payments shown in this section anticipate that the Secretary of Health and Human Services will exercise her discretionary authority to hold the prospective payment rates to participating hospitals in fiscal year 1986 at the same level as in fiscal year 1985, thereby limiting the rate of increase in hospital payments under the program.

The interfund loan to the old age and survivors insurance trust fund from the hospital insurance trust fund as provided for by the interfund borrowing provisions of Public Law 97-123 is shown in table 5. A loan would technically still be considered an asset of the hospital insurance trust fund. However, since these assets would not be immediately available for payment of hospital insurance benefits, they are subtracted from the fund at end of year column. A negative amount is a loan to the old age and survivors insurance trust fund. A positive amount is a repayment of principal to the hospital insurance trust fund. Interest payments on the outstanding loan balance are payable monthly and are included in the interest on investments and other income column.

The actual operations of the hospital insurance program are 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 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 assumptions as used in table 5. 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 1987.

TABLE 5.—OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1967-87  
(In millions)

| Fiscal Year 1/   | Income        |                                            |                                     |                                   |                                    | Disbursements                               |              |          |                            | Trust Fund          |                                  |              |                     |        |
|------------------|---------------|--------------------------------------------|-------------------------------------|-----------------------------------|------------------------------------|---------------------------------------------|--------------|----------|----------------------------|---------------------|----------------------------------|--------------|---------------------|--------|
|                  | Payroll taxes | Transfers from railroad retirement account | Reimbursement for uninsured persons | Payments from voluntary enrollees | Payments for military wage credits | Interest on investments and other income 2/ | Total income | Benefits | Administrative expenses 3/ | Total disbursements | Interfund borrowing transfers 4/ | Net increase | Fund at end of year |        |
| Historical Data: |               |                                            |                                     |                                   |                                    |                                             |              |          |                            |                     |                                  |              |                     |        |
| 1967             | \$ 2,689      | \$ 16                                      | \$327                               |                                   | \$ 11                              | \$ 46                                       | \$ 3,089     | \$ 2,506 | \$ 89                      | \$ 2,597            |                                  | \$ 492       | \$ 1,343            |        |
| 1968             | 3,514         | 44                                         | 273                                 |                                   | 11                                 | 61                                          | 3,902        | 3,736    | 79                         | 3,815               |                                  | 86           | 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         | 2,899               |        |
| 1973             | 7,663         | 63                                         | 361                                 |                                   | 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                                          | 12,568       | 10,353   | 259                        | 10,612              |                                  | 1,956        | 9,870               |        |
| 1976             | 12,031        | 138                                        | 610                                 |                                   | 8                                  | 709                                         | 13,544       | 12,267   | 312                        | 12,579              |                                  | 966          | 10,836              |        |
| 1977             | 3,366         | 143                                        | 0 5/                                |                                   | 2                                  | 5                                           | 3,516        | 3,315    | 89                         | 3,404               |                                  | 112          | 10,948              |        |
| 1978             | 16,677        | 214 1/2                                    | 803 1/2                             |                                   | 11                                 | 141                                         | 15,374       | 14,906   | 301                        | 15,207              |                                  | 167          | 11,115              |        |
| 1979             | 19,927        | 191                                        | 688                                 |                                   | 12                                 | 143 7/                                      | 18,543       | 17,411   | 451                        | 17,862              |                                  | 681          | 11,796              |        |
| 1980             | 23,244        | 244                                        | 734                                 |                                   | 17                                 | 141                                         | 21,910       | 19,891   | 452                        | 20,343              |                                  | 1,567        | 13,363              |        |
| 1981             | 30,425        | 276                                        | 697                                 |                                   | 21                                 | 141                                         | 31,072       | 29,415   | 497                        | 29,912              |                                  | 1,127        | 14,430              |        |
| 1982             | 34,390        | 351                                        | 659                                 |                                   | 21                                 | 141                                         | 34,863       | 32,863   | 353                        | 33,216              |                                  | 3,603        | 18,033              |        |
| 1983             | 36,387        | 358                                        | 808                                 |                                   | 25                                 | 207                                         | 37,611       | 34,343   | 521                        | 34,864              |                                  | 2,747        | 20,840              |        |
| 1983             | 36,387        | 358                                        | 878                                 |                                   | 26                                 | 3,663 8/                                    | 2,629        | 43,940   | 38,102                     | 522                 | 38,624                           | \$-12,437    | -7,121              | 13,719 |
| 1984             | 41,364        | 351                                        | 752                                 |                                   | 35                                 | 250                                         | 45,563       | 41,476   | 633                        | 42,108              |                                  | 3,455        | 17,174              |        |
| Alternative II-A |               |                                            |                                     |                                   |                                    |                                             |              |          |                            |                     |                                  |              |                     |        |
| 1985             | 46,557        | 368                                        | 766                                 |                                   | 44                                 | 83                                          | 3,310        | 51,128   | 48,030                     | 838                 | 48,868                           | 1,824        | 4,084               | 21,298 |
| 1986             | 53,274        | 375                                        | 566                                 |                                   | 53                                 | 91                                          | 3,656        | 57,996   | 48,729                     | 867                 | 49,616                           | 6,000        | 14,580              | 35,858 |
| 1987             | 58,395        | 413                                        | 387                                 |                                   | 61                                 | 92                                          | 4,590        | 64,138   | 53,028                     | 954                 | 53,982                           | 4,413        | 14,569              | 50,407 |
| Alternative II-B |               |                                            |                                     |                                   |                                    |                                             |              |          |                            |                     |                                  |              |                     |        |
| 1985             | 46,424        | 368                                        | 766                                 |                                   | 44                                 | 83                                          | 3,306        | 50,991   | 48,030                     | 838                 | 48,868                           | 1,824        | 3,947               | 21,121 |
| 1986             | 52,767        | 374                                        | 566                                 |                                   | 53                                 | 91                                          | 3,656        | 57,507   | 48,753                     | 867                 | 49,640                           | 5,000        | 12,867              | 33,988 |
| 1987             | 58,002        | 409                                        | 591                                 |                                   | 61                                 | 92                                          | 4,528        | 63,683   | 53,300                     | 959                 | 54,339                           | 5,613        | 14,957              | 48,946 |

1/ For 1967 through 1976, fiscal years cover the interval from July 1 through June 30; the three-month interval from July 1, 1976, through September 30, 1976, is labeled "3 Q." the transition quarter; fiscal years 1977-84 cover the interval from October 1 through September 30.

2/ Other income includes recoveries of amounts reimbursed from the trust fund which are not obligations of the trust fund and other miscellaneous income.

3/ Includes costs of experiments, demonstration projects, and Peer Review Organizations.

4/ A loan to the OASI trust fund would still be an asset of the HI trust fund. However, since these assets are not immediately available for payment of HI benefits, they are subtracted out of the HI fund at end of year. A negative amount is a loan to the OASI trust fund. A positive amount is a repayment of principal to the HI trust fund.

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

6/ The 1978 transfer is for contributions during the five-quarter period covering the transition quarter and fiscal year 1977.

7/ Includes \$2 million in reimbursement from general revenues for costs arising from the granting of decess wage credits to persons of Japanese ancestry who were interned during World War II.

8/ Includes the lump sum general revenue transfer of \$3,456 million as provided for by Section 151 of P.L. 98-21.

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

TABLE 6.--OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1966-87  
(In millions)

| Calendar Year    | Income        |                                            |                                     |                                   |                                    |                                             | Disbursements |                   |                            | Trust Fund          |                                  |                      |                     |
|------------------|---------------|--------------------------------------------|-------------------------------------|-----------------------------------|------------------------------------|---------------------------------------------|---------------|-------------------|----------------------------|---------------------|----------------------------------|----------------------|---------------------|
|                  | Payroll taxes | Transfers from railroad retirement account | Reimbursement for uninsured persons | Premiums from voluntary enrollees | Payments for military wage credits | Interest on investments and other income 1/ | Total income  | Benefits payments | Administrative expenses 2/ | Total disbursements | Interfund borrowing transfers 3/ | Net increase of fund | Fund at end of year |
| Historical Data: |               |                                            |                                     |                                   |                                    |                                             |               |                   |                            |                     |                                  |                      |                     |
| 1966             | \$ 1,058      | \$ 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                                          | 5,267         | 4,179             | 99                         | 4,277               |                                  | 1,010                | 2,063               |
| 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                                 | 133                                         | 5,732         | 5,751             | 150                        | 5,900               |                                  | -166                 | 3,034               |
| 1972             | 5,731         | 63                                         | 381                                 |                                   | 48                                 | 183                                         | 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               |                                  | 2,652                | 9,119               |
| 1975             | 11,502        | 138                                        | 621                                 | 7                                 | 48                                 | 664                                         | 12,960        | 11,315            | 266                        | 11,581              |                                  | 1,399                | 10,517              |
| 1976             | 12,727        | 143                                        | 0 4/                                | 9                                 | 141                                | 746                                         | 13,766        | 13,340            | 339                        | 13,679              |                                  | 88                   | 10,605              |
| 1977             | 14,114        | 0 5/                                       | 803 4/                              | 12                                | 143 6/                             | 784                                         | 15,056        | 15,737            | 263                        | 16,019              |                                  | -165                 | 10,442              |
| 1978             | 17,324        | 214 5/                                     | 688                                 | 13                                | 141                                | 834                                         | 19,213        | 17,682            | 496                        | 18,178              |                                  | 1,035                | 11,477              |
| 1979             | 20,768        | 191                                        | 734                                 | 16                                | 141                                | 975                                         | 22,825        | 20,623            | 450                        | 21,073              |                                  | 1,751                | 13,228              |
| 1980             | 23,848        | 244                                        | 697                                 | 18                                | 141                                | 1,149                                       | 26,097        | 25,064            | 512                        | 25,577              |                                  | 521                  | 13,749              |
| 1981             | 32,959        | 276                                        | 659                                 | 22                                | 207                                | 1,403                                       | 35,725        | 30,342            | 384                        | 30,726              |                                  | 4,999                | 18,748              |
| 1982             | 34,586        | 351                                        | 808                                 | 24                                | 207                                | 2,022                                       | 37,998        | 35,631            | 513                        | 36,144              | \$-12,437                        | -10,588              | 8,164               |
| 1983             | 37,259        | 358                                        | 878                                 | 27                                | 3,456 7/                           | 2,593                                       | 44,570        | 39,337            | 540                        | 39,877              |                                  | 4,693                | 12,898              |
| 1984             | 42,288        | 351                                        | 752                                 | 33                                | 250                                | 3,046                                       | 46,720        | 43,257            | 629                        | 43,887              |                                  | 2,834                | 15,691              |
| Projection:      |               |                                            |                                     |                                   |                                    |                                             |               |                   |                            |                     |                                  |                      |                     |
| Alternative II-A |               |                                            |                                     |                                   |                                    |                                             |               |                   |                            |                     |                                  |                      |                     |
| 1985             | 47,617        | 368                                        | 766                                 | 46                                | 83                                 | 3,390                                       | 52,270        | 47,918            | 847                        | 48,765              | 1,824                            | 5,329                | 21,020              |
| 1986             | 55,117        | 375                                        | 566                                 | 55                                | 91                                 | 4,028                                       | 60,232        | 49,594            | 901                        | 50,495              | 6,200                            | 15,937               | 36,958              |
| 1987             | 59,404        | 413                                        | 587                                 | 63                                | 92                                 | 5,016                                       | 65,575        | 54,315            | 973                        | 55,288              | 4,413                            | 14,700               | 51,658              |
| Alternative II-B |               |                                            |                                     |                                   |                                    |                                             |               |                   |                            |                     |                                  |                      |                     |
| 1985             | 47,351        | 368                                        | 766                                 | 46                                | 83                                 | 3,381                                       | 51,995        | 47,922            | 847                        | 48,769              | 1,824                            | 5,050                | 20,741              |
| 1986             | 54,639        | 374                                        | 566                                 | 55                                | 91                                 | 4,005                                       | 59,730        | 49,677            | 901                        | 50,578              | 5,000                            | 14,152               | 34,893              |
| 1987             | 59,041        | 409                                        | 591                                 | 63                                | 92                                 | 4,975                                       | 65,171        | 54,776            | 979                        | 55,755              | 5,613                            | 15,029               | 49,921              |

1/ Other income includes recoveries of amounts reimbursed from the trust fund which are not obligations of the trust fund and other miscellaneous income.

2/ Includes costs of experiments, demonstration projects, and Peer Review Organizations.

3/ A loan to the OASD trust fund would still be an asset of the HI trust fund. However, since these assets are not immediately available for payment of HI benefits, they are subtracted out of the HI fund at end of year. A negative amount is a loan to the OASD trust fund. A positive amount is a repayment of principal to the HI trust fund.

4/ 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.

5/ No transfer is made in 1977 because of the change in transfer dates from August to June. The 1978 transfer is for contributions during the five-quarter period covering the transition quarter and fiscal year 1977.

6/ Includes \$2 million in reimbursement from general revenues for costs arising from the granting of deemed wage credits to persons of Japanese ancestry who were interned during World War II.

7/ Includes the lump sum general revenue transfer of \$3,456 million as provided for by Section 151 of P.L. 98-21.

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

TABLE 7.--RATIO OF ASSETS IN THE FUND AT THE BEGINNING OF  
THE YEAR TO DISBURSEMENTS DURING THE YEAR FOR  
THE HOSPITAL INSURANCE TRUST FUND  
(In percent)

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| <u>Calendar Year</u> | <u>Ratio</u> |
|----------------------|--------------|
| Historical Data:     |              |
| 1967                 | 28%          |
| 1968                 | 25           |
| 1969                 | 43           |
| 1970                 | 47           |
| 1971                 | 54           |
| 1972                 | 47           |
| 1973                 | 40           |
| 1974                 | 69           |
| 1975                 | 79           |
| 1976                 | 77           |
| 1977                 | 66           |
| 1978                 | 57           |
| 1979                 | 54           |
| 1980                 | 52           |
| 1981                 | 45           |
| 1982                 | 52           |
| 1983                 | 21           |
| 1984                 | 29           |
| Projection:          |              |
| Alternative II-A     |              |
| 1985                 | 32           |
| 1986                 | 42           |
| 1987                 | 67           |
| Alternative II-B     |              |
| 1985                 | 32           |
| 1986                 | 41           |
| 1987                 | 63           |

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## ACTUARIAL STATUS OF THE TRUST FUND

The Board of Trustees has adopted the general financing principle that annual income to the hospital insurance program should be at least equal to annual outlays of the program plus an amount to maintain a balance in the trust fund equal to a minimum of one-half year's expenditures. This principle reflects the view that a small fund is needed for the contingency that future income and outgo may differ substantially from projected levels. In addition, the fund should begin to build a reserve to prepare for the shift in the demographic makeup of the population which occurs before the middle of the next century.

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 0.94 percent in 1967 to 2.55 percent in 1984, 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 end-stage renal disease. Further increases in this ratio to 2.66 percent in 1985, and 3.82 percent by the year 2005 under alternative II-A, and 2.67 percent in 1985 and 4.09 percent by the year 2005 under alternative II-B, result from the assumption that the cost of the hospital insurance program will continue to increase at a higher rate than taxable earnings. (See appendix A for a description of the methodology and assumptions used in these projections.)



The total cost of the program is the sum of expenditures under the program and an allowance for trust fund building and maintenance. The allowance necessary to build the trust fund to the level of a half year's disbursements and to maintain it at that level, after accounting for the offsetting effect of interest earnings, is also shown in table 8. At the beginning of 1985, the HI fund was well below the desired level. Thus, an additional cost is associated with building the trust fund to a level of a half year's disbursements. For purposes of display in table 8, the allowance for trust fund building is spread over an 8-year period and after that, the allowance is solely for maintaining the trust fund at the 50 percent level.

The adequacy of the financing of the hospital insurance program under current law is measured by comparing on a year-by-year basis the actual tax rates specified by law with the corresponding total costs of the program, expressed as percentages of taxable payroll. If these two items are exactly equal in each year of the 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, and maintain it at the level of one-half year's expenditures. In practice, however, tax rate schedules generally are designed with rate changes occurring only at intervals of several years, rather than with continual yearly 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 under alternatives II-A and II-B, 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 1985-2009. The total cost of the program, including both expenditures and trust fund building and maintenance, exceeds the tax rate in every year after 1990 and 1989 for alternatives II-A and II-B, respectively. Furthermore, expenditures for benefits and administrative expenses alone exceed the corresponding tax rates in every year beginning one year later in each projection. The trust fund, as a percent of a year's disbursements under alternative II-A is projected to build to a level of about 98 percent by 1991 and then decline steadily until it is completely exhausted in 2000. Under alternative II-B, the trust fund builds to a level of about 88 percent by 1990, then declines steadily until it is completely exhausted in 1998.

The actuarial balance of the hospital insurance program is defined to be the difference between the average tax rate for the valuation period and 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 1985-2009 is 2.89 percent. The average cost to the program under alternative II-A is 3.41 percent of taxable payroll, composed of 3.37 percent for program expenditures and .04 percent for building and maintenance of the trust fund. The average cost of the program under alternative II-B is 3.57 percent of taxable payroll, composed of 3.52 percent for program expenditures and .05 percent for building and maintenance of the trust fund. The resulting actuarial balances for the 25-year period 1985-2009, as shown in table 9, are a deficit of 0.52 percent and 0.68 percent of taxable payroll for alternatives II-A and II-B, respectively.

Since future economic, demographic, and health care usage and cost experience may differ considerably from either set of intermediate assumptions on which the cost estimates were based, projections also have been prepared on the basis of two additional alternative sets of assumptions. The estimated operations of the hospital insurance trust fund during calendar years 1984-2000 are summarized in table 10 for all four alternatives, and table 11 compares the actuarial balance for the 25 year period 1985-2009 under each of the four alternatives. The assumptions underlying alternatives II-A and II-B, the intermediate projections, are presented in substantial detail in appendix A. The assumptions used in preparing alternative projections I and III are also summarized in appendix A. The projections shown in the statement of expected operations and status of the trust fund through December 31, 1987, contained earlier in this report, are based on the assumptions contained in alternatives II-A and II-B.

The four 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 both alternative II assumptions, resulting in a lower average cost over the projection period and a stronger trust fund development. The alternative III assumptions are somewhat more pessimistic than both alternative II assumptions, resulting in a higher average cost over the projection period and a weaker trust fund development. In addition, alternative III assumes that recessions occur in 1985-86 and in 1988 which are similar to the three recessions which have occurred in the last twelve years. Alternative III thus reflects the possible impact, in the near future, of conditions which are significantly more adverse than those assumed under either of the intermediate alternatives. Alternatives I

and III provide for a fairly wide range of possible experience. Actual experience reasonably may be expected to fall within the range, but 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 either alternative II-A or alternative II-B.

Under both alternatives II-A and II-B, the trust fund as a percent of a year's disbursements is projected to increase until about 1990 and then decline steadily until it is completely exhausted in the late 1990's. Under alternative I, the trust fund is projected to grow steadily throughout the first 25-year projection period. Under alternative III, the trust fund as a percent of a year's disbursements is projected to increase to a level of about 43 percent in 1989 and then decrease rapidly until the fund is exhausted in 1992. These projections do not reflect any reduction in disbursements due to proposed changes in regulations which were included in the 1986 Federal Budget but which have not been implemented. However, the projections under each alternative, except alternative III, anticipate that the hospital prospective payment rates for fiscal year 1986 will be set at the same level as the fiscal year 1985 rates, as mentioned earlier in this report. Alternative III assumes that the hospital prospective payment rates for fiscal year 1986 will exceed the fiscal year 1985 rates by one quarter of one percent plus the increase in the hospital input price index.

The divergence in outcomes among the four 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 magnitude of the differences on a year-by-year basis, and (2) persistent over the duration of the 25-year period. During the first 25-year projection period, under both sets of intermediate assumptions, program costs are projected to grow at a rate which gradually declines to a level of one percent to 1.5 percent more than taxable payroll by 2005. Under alternative I, program costs are projected to grow at a somewhat lower rate which gradually declines to a level slightly lower than the rate for taxable payroll. Similarly, alternative III follows a pattern whereby program costs initially increase at a somewhat higher rate, gradually declining to a difference of about 3.3 percent by 2005. Recent experience has indicated that economic conditions producing results as adverse as those under alternative III can occur. In view of this and because of the wide range of possible experience, it is important that a balance be maintained in the hospital insurance trust fund as a reserve for contingencies.

A valuation period of 25 years fails to present fully the future contingencies that reasonably may be expected, such as the impact of the large shift in the demographic composition of the population which occurs after the turn of the century. Thus, 75-year projections are presented in Tables 12 and 13 to give a general indication of the magnitude of the cost of financing the HI program under each set of alternative assumptions during the next 75 years.

Table 12 shows the expenditures and tax rates of the hospital insurance program, expressed as a percent of taxable payroll, under each alternative for the 75-year projection period. Table 13 shows the actuarial balance for the 75-year projection period under each alternative.

As Table 12 indicates, estimated expenditures under the program, expressed as a percent of taxable payroll, increase rapidly during the second 25-years of the projection period. This rapid increase in costs occurs because the relatively large number of persons born during the period between the end of World War II and the early 1960's will reach retirement age and begin to receive benefits, while the relatively small number of persons born during later years will comprise the labor force. During the last 25 years of the projection period, the projected expenditures under the program stabilize.

Costs beyond the initial 25-year projection period for alternative II-A and II-B are based upon the assumption that costs per unit of service will increase at the same rate as earnings increase. Thus, changes in the outyears primarily reflect the impact of the changing demographic composition of the population. Costs beyond the initial 25-year projection period for alternatives I and III begin by assuming that program cost increases, relative to taxable payroll increases, are approximately 2 percent less rapid and 2 percent more rapid, respectively, than the results under both sets of intermediate assumptions. The 2 percent differential gradually decreases until the year 2034 when program cost increases, relative to taxable payroll, are approximately the same as under both sets of intermediate assumptions.

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

| Calendar Year              | Expenditures under the program 1/ | Trust fund building and maintenance 2/ | Total cost of the program 3/ | Tax rate scheduled in the law 4/ | Difference |
|----------------------------|-----------------------------------|----------------------------------------|------------------------------|----------------------------------|------------|
| <b>Historical Data:</b>    |                                   |                                        |                              |                                  |            |
| 1967                       | 0.94%                             |                                        |                              |                                  |            |
| 1968                       | 1.04                              |                                        |                              |                                  |            |
| 1969                       | 1.12                              |                                        |                              |                                  |            |
| 1970                       | 1.20                              |                                        |                              |                                  |            |
| 1971                       | 1.32                              |                                        |                              |                                  |            |
| 1972                       | 1.30                              |                                        |                              |                                  |            |
| 1973                       | 1.33                              |                                        |                              |                                  |            |
| 1974                       | 1.42                              |                                        |                              |                                  |            |
| 1975                       | 1.69                              |                                        |                              |                                  |            |
| 1976                       | 1.83                              |                                        |                              |                                  |            |
| 1977                       | 1.95                              |                                        |                              |                                  |            |
| 1978                       | 2.00                              |                                        |                              |                                  |            |
| 1979                       | 1.99                              |                                        |                              |                                  |            |
| 1980                       | 2.18                              |                                        |                              |                                  |            |
| 1981                       | 2.38                              |                                        |                              |                                  |            |
| 1982                       | 2.68                              |                                        |                              |                                  |            |
| 1983                       | 2.68 <sup>6/</sup>                |                                        |                              |                                  |            |
| 1984                       | 2.55                              |                                        |                              |                                  |            |
| <b>Projection:</b>         |                                   |                                        |                              |                                  |            |
| <b>Alternative II-A 7/</b> |                                   |                                        |                              |                                  |            |
| 1985                       | 2.66%                             | 0.01                                   | 2.66                         | 2.70                             | 0.04       |
| 1990                       | 2.90                              | 0.09                                   | 2.99                         | 2.90                             | -0.09      |
| 1995                       | 3.33                              | 0.04                                   | 3.37                         | 2.90                             | -0.47      |
| 2000                       | 3.60                              | 0.03                                   | 3.62                         | 2.90                             | -0.72      |
| 2005                       | 3.82                              | 0.02                                   | 3.84                         | 2.90                             | -0.94      |
| Average <sup>5/</sup>      | 3.37                              | 0.04                                   | 3.41                         | 2.89                             | -0.52      |
| <b>Alternative II-B 7/</b> |                                   |                                        |                              |                                  |            |
| 1985                       | 2.67                              | 0.01                                   | 2.68                         | 2.70                             | 0.02       |
| 1990                       | 2.97                              | 0.09                                   | 3.05                         | 2.90                             | -0.15      |
| 1995                       | 3.44                              | 0.04                                   | 3.48                         | 2.90                             | -0.58      |
| 2000                       | 3.79                              | 0.04                                   | 3.83                         | 2.90                             | -0.93      |
| 2005                       | 4.09                              | 0.03                                   | 4.11                         | 2.90                             | -1.21      |
| Average <sup>5/</sup>      | 3.52                              | 0.05                                   | 3.57                         | 2.89                             | -0.68      |

- 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. Gratuitous credits for military service after 1956 are included in taxable payroll.
- 2/ Allowance for building and maintaining the trust fund balance at the level of a half year's outgo after accounting for the offsetting effect of interest earnings.
- 3/ Totals do not necessarily equal the sum of rounded components.
- 4/ Rates for employees and employers combined.
- 5/ Average for the 25-year period 1985-2009.
- 6/ Deemed credits for military service before 1984 were attributed to the year in which such service had occurred. If all such credits had been attributed to 1983, expenditures under the program in 1983 would have been lower by .19 percent of taxable payroll.
- 7/ Totals do not necessarily equal the sum of rounded components

**NOTE:** Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income before 1984, on tips, and on multiple-employer "excess wages," as compared with the combined employer-employee rate.

TABLE 9.--TWENTY-FIVE YEAR ACTUARIAL BALANCE OF THE HOSPITAL  
INSURANCE PROGRAM, EXPRESSED AS A PERCENT OF TAXABLE PAYROLL

|                                                                                                  | Alternative<br>II-A | Alternative<br>II-B |
|--------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Average contribution rate,<br>scheduled under present law <u>1/</u> .....                        | 2.89%               | 2.89%               |
| Average cost of the program: <u>1/</u>                                                           |                     |                     |
| Expenditures, for benefit payments<br>and administrative costs for insured<br>beneficiaries..... | 3.37                | 3.52                |
| Building and maintaining the trust fund,<br>at the level of one-half year's expenditures.....    | .04                 | .05                 |
| Total cost of the program <u>2/</u> .....                                                        | 3.41                | 3.57                |
| Actuarial balance.....                                                                           | -0.52%              | -0.68%              |

1/ Average for the 25-year period 1985-2009.

2/ Totals do not necessarily equal sum of rounded components.

NOTE: Taxable payroll is adjusted to take into account the lower contribution rates on tips and on multiple-employer "excess wages," as compared with the combined employer-employee rate.



TABLE 10.--ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND  
DURING CALENDAR YEARS 1984-2000, UNDER ALTERNATIVE SETS OF ASSUMPTIONS  
(Dollar amounts in billions)

| Calendar Year    | Total Income | Total disbursements | Interfund borrowing transfers 1/ | Net increase in fund | Fund at end of year | Ratio of assets to disbursements 2/ (percent) |
|------------------|--------------|---------------------|----------------------------------|----------------------|---------------------|-----------------------------------------------|
| ALTERNATIVE I    |              |                     |                                  |                      |                     |                                               |
| 1984 3/          | \$46.7       | \$ 43.9             |                                  | \$ 2.8               | \$ 15.7             | 29%                                           |
| 1985             | 52.4         | 48.8                | \$ 1.8                           | 5.4                  | 21.1                | 32                                            |
| 1986             | 59.7         | 50.3                | 6.4                              | 17.7                 | 38.9                | 42                                            |
| 1987             | 65.3         | 54.6                | 2.2                              | 13.0                 | 51.8                | 71                                            |
| 1988             | 70.5         | 59.4                |                                  | 11.1                 | 62.9                | 87                                            |
| 1989             | 76.0         | 64.1                |                                  | 11.9                 | 74.8                | 98                                            |
| 1990             | 81.2         | 69.0                |                                  | 12.2                 | 87.0                | 108                                           |
| 1991             | 84.9         | 73.7                |                                  | 11.2                 | 98.3                | 118                                           |
| 1992             | 89.9         | 78.5                |                                  | 11.4                 | 109.7               | 125                                           |
| 1993             | 93.8         | 83.3                |                                  | 10.6                 | 120.2               | 132                                           |
| 1994             | 99.2         | 88.6                |                                  | 10.7                 | 130.9               | 136                                           |
| 1995             | 104.9        | 94.2                |                                  | 10.7                 | 141.5               | 139                                           |
| 1996             | 110.9        | 100.1               |                                  | 10.8                 | 152.3               | 141                                           |
| 1997             | 117.3        | 106.1               |                                  | 11.1                 | 163.4               | 144                                           |
| 1998             | 124.0        | 112.5               |                                  | 11.5                 | 174.9               | 145                                           |
| 1999             | 131.2        | 119.3               |                                  | 11.9                 | 186.9               | 147                                           |
| 2000             | 138.7        | 126.1               |                                  | 12.6                 | 199.5               | 148                                           |
| ALTERNATIVE II-A |              |                     |                                  |                      |                     |                                               |
| 1984 3/          | 46.7         | 43.9                |                                  | 2.8                  | 15.7                | 29                                            |
| 1985             | 52.3         | 48.8                | 1.8                              | 5.3                  | 21.0                | 32                                            |
| 1986             | 60.2         | 50.5                | 6.2                              | 15.9                 | 37.0                | 42                                            |
| 1987             | 65.6         | 55.3                | 4.4                              | 14.7                 | 51.7                | 67                                            |
| 1988             | 70.7         | 60.9                |                                  | 9.8                  | 61.4                | 85                                            |
| 1989             | 76.0         | 66.8                |                                  | 9.3                  | 70.7                | 92                                            |
| 1990             | 81.0         | 73.1                |                                  | 7.9                  | 78.6                | 97                                            |
| 1991             | 85.3         | 79.9                |                                  | 5.4                  | 84.0                | 96                                            |
| 1992             | 89.8         | 86.6                |                                  | 3.2                  | 87.2                | 97                                            |
| 1993             | 94.2         | 94.0                |                                  | -.2                  | 87.4                | 93                                            |
| 1994             | 99.1         | 101.8               |                                  | -2.7                 | 84.7                | 86                                            |
| 1995             | 104.3        | 110.2               |                                  | -5.9                 | 78.8                | 77                                            |
| 1996             | 109.7        | 119.0               |                                  | -9.4                 | 69.5                | 66                                            |
| 1997             | 115.2        | 128.3               |                                  | -13.1                | 56.4                | 54                                            |
| 1998             | 120.9        | 138.2               |                                  | -17.3                | 39.1                | 41                                            |
| 1999             | 126.8        | 148.9               |                                  | -22.1                | 17.0                | 26                                            |
| 2000             | 132.8        | 160.1               |                                  | -27.3                | 4/                  | 11                                            |
| ALTERNATIVE II-B |              |                     |                                  |                      |                     |                                               |
| 1984 3/          | 46.7         | 43.9                |                                  | 2.8                  | 15.7                | 29                                            |
| 1985             | 52.0         | 48.8                | 1.8                              | 5.0                  | 20.7                | 32                                            |
| 1986             | 59.7         | 50.6                | 5.0                              | 14.2                 | 34.9                | 41                                            |
| 1987             | 65.2         | 55.8                | 5.6                              | 15.0                 | 49.9                | 63                                            |
| 1988             | 70.5         | 61.9                |                                  | 8.6                  | 58.5                | 81                                            |
| 1989             | 76.2         | 68.4                |                                  | 7.9                  | 66.4                | 86                                            |
| 1990             | 81.7         | 75.5                |                                  | 6.2                  | 72.6                | 88                                            |
| 1991             | 86.4         | 83.2                |                                  | 3.2                  | 75.8                | 87                                            |
| 1992             | 91.4         | 90.9                |                                  | -.5                  | 76.3                | 83                                            |
| 1993             | 96.3         | 99.5                |                                  | -3.2                 | 73.2                | 77                                            |
| 1994             | 101.8        | 108.7               |                                  | -6.9                 | 66.3                | 67                                            |
| 1995             | 107.2        | 118.5               |                                  | -11.2                | 55.1                | 56                                            |
| 1996             | 112.8        | 128.9               |                                  | -16.1                | 38.9                | 43                                            |
| 1997             | 118.5        | 139.9               |                                  | -21.5                | 17.5                | 28                                            |
| 1998             | 124.2        | 151.8               |                                  | -27.6                | 5/                  | 12                                            |
| ALTERNATIVE III  |              |                     |                                  |                      |                     |                                               |
| 1984 3/          | 46.7         | 43.9                |                                  | 2.8                  | 15.7                | 29                                            |
| 1985             | 51.1         | 49.1                | 1.8                              | 3.8                  | 19.5                | 32                                            |
| 1986             | 57.0         | 52.8                | 0.3                              | 4.6                  | 24.1                | 37                                            |
| 1987             | 62.2         | 59.2                |                                  | 3.0                  | 27.1                | 41                                            |
| 1988             | 66.3         | 65.5                | 4.6                              | 4.4                  | 31.5                | 41                                            |
| 1989             | 69.1         | 73.5                | 5.7                              | 1.3                  | 32.8                | 43                                            |
| 1990             | 73.4         | 82.9                |                                  | -9.5                 | 23.3                | 40                                            |
| 1991             | 77.3         | 93.9                |                                  | -16.6                | 6.7                 | 25                                            |
| 1992             | 81.4         | 105.6               |                                  | -24.2                | 6/                  | 6                                             |

1/ A loan to the OASI trust fund would still be an asset of the HI trust fund. However, since these assets are not immediately available for payment of HI benefits, they are subtracted from the HI fund balance. A negative amount is a loan to the OASI trust fund; a positive amount is a repayment of principal to the HI trust fund.

2/ Ratio of assets in the trust fund at the beginning of the year to disbursements during the year.

3/ Figures for 1984 represent actual experience.

4/ Trust fund depleted in calendar year 2000.

5/ Trust fund depleted in calendar year 1998.

6/ Trust fund depleted in calendar year 1992.

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

TABLE 11.--TWENTY-FIVE YEAR ACTUARIAL BALANCE OF THE HOSPITAL  
INSURANCE PROGRAM, UNDER ALTERNATIVE SETS OF ASSUMPTIONS

|                                                                                                           | Alternative |             |             |            |
|-----------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|------------|
|                                                                                                           | <u>I</u>    | <u>II-A</u> | <u>II-B</u> | <u>III</u> |
| Average contribution rate, scheduled<br>under present law <u>1/</u>                                       | 2.89%       | 2.89%       | 2.89%       | 2.89%      |
| Average cost of the program, for<br>expenditures and for trust fund<br>building and maintenance <u>2/</u> | 2.85        | 3.41        | 3.57        | 4.86       |
| Actuarial balance                                                                                         | +0.04       | -0.52       | -0.68       | -1.97      |

1/ Average for the 25-year period 1985-2009.

2/ Average for the 25-year period 1985-2009, expressed as a percent of taxable payroll.

**NOTE:** Taxable payroll is adjusted to take into account the lower contribution rates on tips and on multiple-employer "excess wages," as compared with the combined employer-employee rate.

TABLE 12.--SEVENTY-FIVE YEAR EXPENDITURES AND TAX RATES OF THE HOSPITAL INSURANCE PROGRAM, EXPRESSED AS A PERCENT OF TAXABLE PAYROLL

| Calendar Year | Expenditures Under the Program for Alternative 1/ |      |      |       | Tax Rate Scheduled in the Law 2/ | Difference Under Alternative |       |       |        |
|---------------|---------------------------------------------------|------|------|-------|----------------------------------|------------------------------|-------|-------|--------|
|               | I                                                 | II-A | II-B | III   |                                  | I                            | II-A  | II-B  | III    |
| 1985          | 2.66                                              | 2.66 | 2.67 | 2.74  | 2.70%                            | +0.04                        | +0.04 | +0.03 | -0.04  |
| 1990          | 2.74                                              | 2.90 | 2.97 | 3.46  | 2.90                             | +0.16                        | 0.00  | -0.07 | -0.56  |
| 1995          | 2.91                                              | 3.33 | 3.44 | 4.36  | 2.90                             | -0.01                        | -0.43 | -0.54 | -1.46  |
| 2000          | 2.92                                              | 3.60 | 3.79 | 5.25  | 2.90                             | -0.02                        | -0.70 | -0.89 | -2.35  |
| 2005          | 2.87                                              | 3.82 | 4.09 | 6.19  | 2.90                             | +0.03                        | -0.92 | -1.19 | -3.29  |
| 2010          | 2.83                                              | 4.10 | 4.42 | 7.36  | 2.90                             | +0.07                        | -1.20 | -1.52 | -4.46  |
| 2015          | 2.87                                              | 4.55 | 4.90 | 8.90  | 2.90                             | +0.03                        | -1.65 | -2.00 | -6.00  |
| 2020          | 3.03                                              | 5.13 | 5.53 | 10.72 | 2.90                             | -0.13                        | -2.23 | -2.63 | -7.82  |
| 2025          | 3.28                                              | 5.82 | 6.27 | 12.74 | 2.90                             | -0.38                        | -2.92 | -3.37 | -9.84  |
| 2030          | 3.54                                              | 6.44 | 6.94 | 14.46 | 2.90                             | -0.64                        | -3.54 | -4.04 | -11.55 |
| 2035          | 3.73                                              | 6.82 | 7.36 | 15.40 | 2.90                             | -0.83                        | -3.92 | -4.46 | -12.50 |
| 2040          | 3.83                                              | 7.00 | 7.55 | 15.82 | 2.90                             | -0.93                        | -4.10 | -4.65 | -12.92 |
| 2045          | 3.86                                              | 7.05 | 7.61 | 15.94 | 2.90                             | -0.96                        | -4.15 | -4.71 | -13.04 |
| 2050          | 3.86                                              | 7.06 | 7.62 | 15.96 | 2.90                             | -0.96                        | -4.16 | -4.72 | -13.06 |
| 2055          | 3.85                                              | 7.04 | 7.59 | 15.90 | 2.90                             | -0.95                        | -4.14 | -4.69 | -13.00 |

1/ Costs attributable to insured beneficiaries only. Benefits and administrative expenses for noninsured persons are financed through general revenue transfers and premium payments rather than through payroll taxes. These estimates do not include amounts for trust fund building and maintenance.

2/ Rates for employers and employees combined.

TABLE 13.--SEVENTY-FIVE YEAR ACTUARIAL BALANCE OF THE  
HOSPITAL INSURANCE PROGRAM UNDER ALTERNATIVE  
SETS OF ASSUMPTIONS

|                                       | Alternative |             |             |            |
|---------------------------------------|-------------|-------------|-------------|------------|
|                                       | <u>I</u>    | <u>II-A</u> | <u>II-B</u> | <u>III</u> |
| 1985-2009                             |             |             |             |            |
| Average contribution rate <u>1/</u>   | 2.89%       | 2.89%       | 2.89%       | 2.89%      |
| Average cost of the program <u>2/</u> | 2.85        | 3.41        | 3.57        | 4.86       |
| Actuarial balance                     | +0.04       | -0.52       | -0.68       | -1.97      |
| 2010-2034:                            |             |             |             |            |
| Average contribution rate <u>1/</u>   | 2.90        | 2.90        | 2.90        | 2.90       |
| Average cost of the program <u>2/</u> | 3.17        | 5.45        | 5.89        | 11.66      |
| Actuarial balance                     | -0.28       | -2.55       | -2.99       | -8.76      |
| 2035-2059:                            |             |             |             |            |
| Average contribution rate <u>1/</u>   | 2.90        | 2.90        | 2.90        | 2.90       |
| Average cost of the program <u>2/</u> | 3.83        | 7.05        | 7.62        | 16.10      |
| Actuarial balance                     | -0.93       | -4.15       | -4.72       | -13.20     |
| 1985-2059:                            |             |             |             |            |
| Average contribution rate <u>1/</u>   | 2.90        | 2.90        | 2.90        | 2.90       |
| Average cost of the program <u>2/</u> | 3.28        | 5.30        | 5.69        | 10.87      |
| Actuarial balance                     | -0.38       | -2.40       | -2.79       | -7.97      |

1/ As scheduled under present law.

2/ Expressed as a percent of taxable payroll. Includes amounts for trust fund building and maintenance.

**NOTE:** Taxable payroll is adjusted to take into account the lower contribution rates on tips and on multiple-employer "excess wages," as compared with the combined employer-employee rate.

## CONCLUSION

The balance in the Federal Hospital Insurance Trust Fund at the beginning of 1985 was at the level of 32 percent of estimated outgo for calendar year 1985. This is far below the 50 percent level recommended by the Board of Trustees. However, two actions favorably affecting the financial status of the Hospital Insurance Trust Fund have occurred since the publication of the 1984 report. First, the Secretary of Health and Human Services has tentatively decided to set the fiscal year 1986 hospital payment rates at the same level as the fiscal year 1985 rates. Second, legislation has been enacted reducing the annual increase in the rates which can be granted without specific justification from one percent plus the increase in the hospital input price index to one quarter of one percent plus the increase in the hospital input price index.

The tax rates specified in the law (including the scheduled increase in 1986) are sufficient, along with interest earnings, assets in the fund, and the anticipated loan repayments from the Federal Old Age and Survivors Insurance Trust Fund, to support program expenditures and to build and maintain the trust fund at a level of at least 50 percent of one year's outgo only over the next ten to twelve years. Even though the trust fund is expected to be able to pay benefits and administrative expenses as they become due until the late 1990's under the intermediate assumptions, any significant adverse deviation from these projections could result in the inability of the fund to meet its obligations much sooner than projected. In order to bring the hospital insurance program into close actuarial balance even for the first 25-year projection period under alternative II-B assumptions, either outlays will have to be reduced by 19 percent or income increased by 24 percent.

Over the 75-year projection period, the average tax rate necessary to provide for benefits and administrative expenses plus build the fund to a level of a half year's disbursements exceeds the average tax rate scheduled in the law, producing an average deficit of 2.79 percent of taxable payroll under alternative II-B and 2.40 percent under alternative II-A. For the first 25-year projection period, the average deficit is 0.52 and 0.68 percent of taxable payroll for alternative II-A and alternative II-B, respectively. The average deficit grows to 2.55 and 2.99 percent of taxable payroll, respectively, during the second 25-year projection period, and to 4.15 and 4.72 percent of taxable payroll, respectively, during the third 25-year projection period.

There are currently over four covered workers supporting each HI enrollee. By the middle of the next century, there will be only slightly more than two covered workers supporting each enrollee. Thus, it will be necessary to build a reserve to finance the program when current workers retire during the first half of the next century. Not only does the projected rate of growth in the program during the next several decades not allow for the building of the necessary reserve, but it results in the depletion of the fund during the late 1990s. Thus, current workers who retire in the next century will not only have to compensate for the shortfall due to high current outlays, but will also derive significantly fewer benefits from their contributions because of the shift in the demographic makeup of the population.

The Board recommends that Congress take further action to curtail the rate of growth in the hospital insurance program in order to increase equity among different generations of beneficiaries and covered workers.