Click for Table of Contents

1987 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND

COMMUNICATION

From

THE BOARD OF TRUSTEES, FEDERAL SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND

Transmitting

THE 1987 ANNUAL REPORT OF THE BOARD, PURSUANT TO SECTION 1841(b) OF THE SOCIAL SECURITY ACT AS AMENDED

Prepared by

THE OFFICE OF THE ACTUARY
HEALTH CARE FINANCING ADMINISTRATION

LETTER OF TRANSMITTAL

Board of Trustees of the
Federal Supplementary Medical Insurance Trust Fund
Washington, D.C., March 30, 1987

HONORABLE JAMES C. WRIGHT, 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 1987 Annual Report of the Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund (the 22nd such report), in compliance with the provisions of section 1841(b) of the Social Security Act.

Respectfully,

James A. Baker III

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

William E. Brock

WILLIAM E. BROCK,
Secretary of Labor,
and Trustee

Otis R. Bowen, M.D.

OTIS R. BOWEN, M.D.,
Secretary of Health and
Human Services, and Trustee

Mary Falvey Fuller

MARY FALVEY FULLER,
Trustee

Suzanne Denbo Jaffe

SUZANNE DENBO JAFFE,
Trustee

William L. Roper

WILLIAM L. ROPER, M.D.,
Administrator of the Health Care Financing
Administration, and Secretary,
Board of Trustees

Click on a Topic Below

CONTENTS

1987 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

The Federal Supplementary Medical Insurance Trust Fund, established on July 30, 1965, is held by the Board of Trustees under the authority of section 1841(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, Mary Falvey Fuller and Suzanne Denbo Jaffe, 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 1841(b)(2) of the Social Security Act. This is the 1987 annual report, the twenty-second such report.

EXECUTIVE SUMMARY

The supplementary medical insurance (SMI) program pays for physicians' services, outpatient hospital services, and other medical expenses for both those aged 65 and over and for those long term disabled. In calendar year 1986, 30.5 million people were covered under SMI. General revenue contributions during 1986 amounted to $17.8 billion, accounting for 72.2 percent of all SMI income. About 23.2 percent of all income resulted from the premiums paid by the participants, with interest payments to the SMI fund accounting for the remaining 4.6 percent. Of the $27.3 billion in SMI disbursements, $26.2 billion was for benefit payments while the remaining $1.1 billion was spent for administrative expenses. SMI administrative expenses were 3.9 percent of total disbursements.

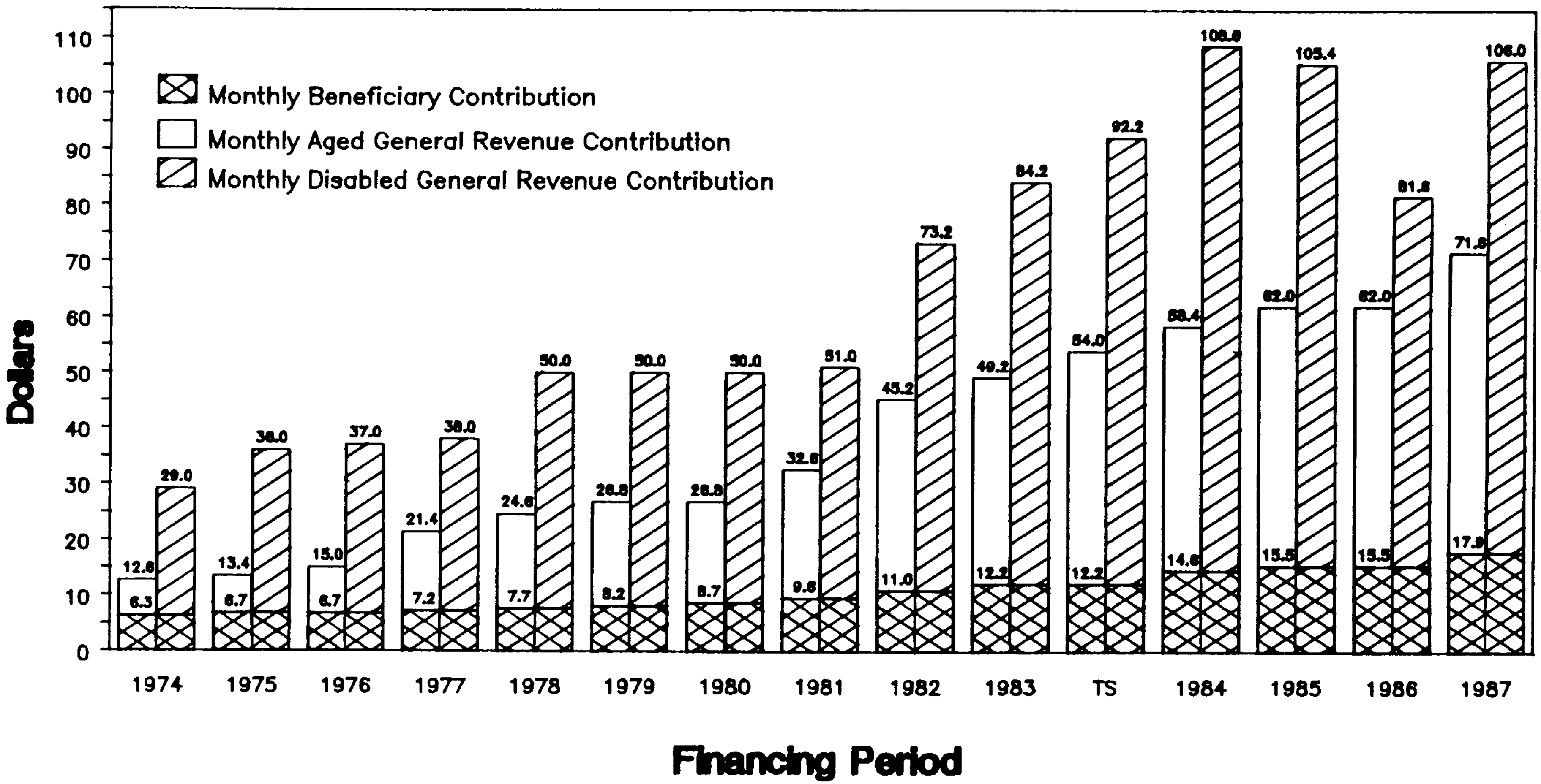
The SMI program is financed on an accrual basis with a contingency margin. This means that the SMI trust fund should always be somewhat greater than the claims that have been incurred by enrollees but not yet paid by the program. The trust fund holds all of the income not currently needed to pay benefits and related expenses. The assets of the fund may not be used for any other purpose; however, they are invested in certain interest-bearing obligations of the U.S. Government.

Financing for the supplementary medical insurance program is established annually on the basis of standard monthly premium rates (paid by or on behalf of all participants) and monthly actuarial rates determined separately for aged and disabled beneficiaries (on which general revenue contributions are based). Prior to the 6-month transition period (July 1, 1983 through December 31, 1983), these rates were applicable in the 12-month periods ending June 30. Beginning January 1, 1984, the period for which rates were applicable was changed to calendar years. Monthly actuarial rates are equal to one-half the monthly amounts necessary to finance the SMI program. These rates determine the amount to be contributed from general revenues on behalf of each enrollee. Based on the formula in the law, the Government contribution effectively makes up the difference between twice the monthly actuarial rates and the standard monthly premium rate. Figure 1 presents these values for financing periods since 1974. This figure clearly indicates the extent to which general revenue financing is the major source of income for the program.

Operations of the SMI Program

Historical and projected operations of the fund through 1989 are shown in tables 5 and 6 in this report. As can be seen, income has exceeded disbursements for most of the historical years. However, at the time that financing was being established for calendar year 1987, assets appeared to be more than sufficient to cover the incurred costs and an appropriate contingency. Therefore, the financing was established to reduce the assets to the level necessary to maintain the actuarial soundness of the program. As a result, in calendar year 1987 disbursements are projected to exceed income, and the trust fund balance is projected to decrease through calendar year 1987. The financial status of the program depends on both the total net assets and liabilities. It is, therefore, necessary to examine the incurred experience of the program, since it is this experience which is used to determine the actuarial rates discussed above and which forms the basis of the concept of actuarial soundness as it relates to the SMI program.

Figure 1
SMI Monthly Per Capita Income



Financing Period:

For periods 1983 and earlier, the financing period is July 1 through June 30.

Transitional semester (TS), the financing period is July 1, 1983 through December 31, 1983.

Actuarial Soundness of the SMI Program

The concept of actuarial soundness, as it applies to the supplementary medical insurance program, is closely related to the concept as it applies to private group insurance. The supplementary medical insurance program is essentially yearly renewable term insurance financed from premium income paid by the enrollees, from income contributed from general revenue in proportion to premium payments, and from interest payments on the trust fund assets.

In testing the actuarial soundness of the supplementary medical insurance program, it is not appropriate to look beyond the period for which the enrollee premium rate and level of general revenue financing have been established. The primary tests of actuarial soundness, then, are that: (1) assets for years for which financing has been established be sufficient to meet the projected benefits and associated administrative expenses incurred for that period and (2) assets be sufficient to cover projected liabilities that will have been incurred by the end of that time but will not have been paid yet. Even if these tests of actuarial soundness are not met, the program can continue to operate if the trust fund remains at a level adequate to permit the payment of claims as presented. However, to protect against the possibility that cost increases under the program will be higher than assumed, assets should be sufficient to cover the impact of a moderate degree of projection error.

The primary tests for actuarial soundness and trust fund adequacy can be viewed by direct examination of absolute dollar levels. In providing an appropriate contingency or margin for error, however, there must also be some relative measure. The relative measure or ratio used for this purpose is the ratio of the assets less liabilities to the following year's incurred expenditures. Figure 2 shows this ratio for historical years and for projected years under the intermediate assumptions (alternative II-B), as well as high (pessimistic) and low (optimistic) cost sensitivity scenarios.

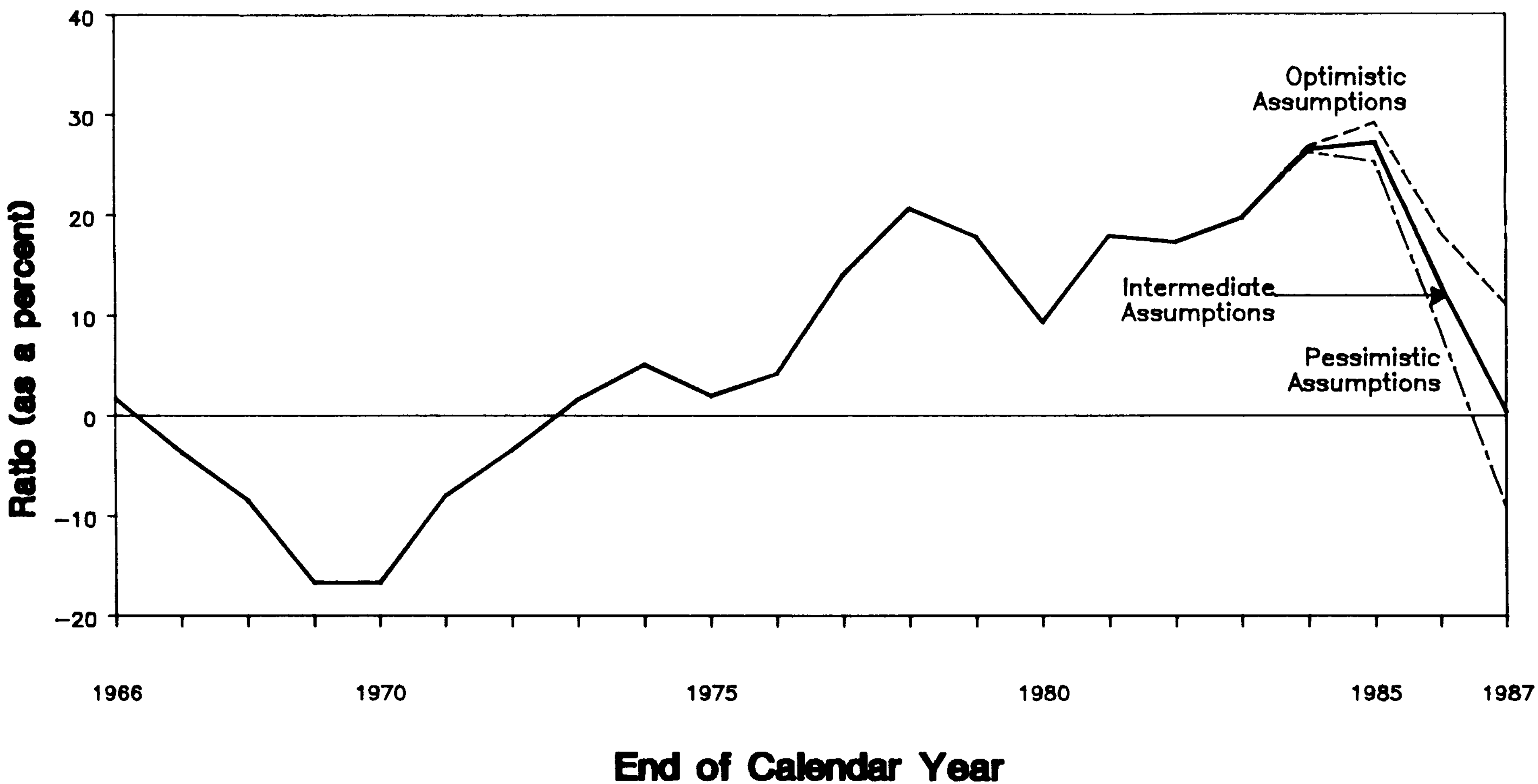
Financing for calendar year 1987 was established to reduce the excess of assets over liabilities to the appropriate level to maintain the actuarial soundness of the trust fund. As a result, the excess of assets over liabilities is expected to decrease by December 31, 1987.

Conclusion of the Board of Trustees

The financing established through December 1987 is sufficient to cover projected benefits and administrative costs incurred through that time period, and to maintain a level of trust fund assets which is adequate to cover the impact of a small degree of projection error. The SMI program can thus be said to be actuarially sound.

Although the supplementary medical insurance program is financially sound, the Board notes with concern the rapid growth in the cost of the program. Growth rates have been so rapid that outlays of the program have doubled every five to six years, and this growth rate shows no sign of abating despite recent efforts to control the cost of the program. The Board recommends that Congress continue to work to curtail the rapid growth in the supplementary medical insurance program.

Figure 2
Actuarial Status of the SMI Trust Fund



Note: The actuarial status of the SMI trust fund is measured by the ratio of the end of year assets less liabilities to the following year incurred expenditures.

SOCIAL SECURITY AMENDMENTS SINCE THE 1986 TRUSTEES REPORT

Public Law 99-272, the "Consolidated Omnibus Budget Reconciliation Act of 1985", was enacted April 7, 1986 and contained several provisions that have an impact on the Federal Supplementary Medical Insurance Trust Fund. The major changes include:

(1) The physician payment methodology is revised as follows:

— the freeze on customary and prevailing charges and nonparticipating physicians' actual charges is extended through April 30, 1986.

— the updates for the period May 1 through December 31, 1986 are as follows:

Participating physicians receive full customary and prevailing charge updates that would have been provided October 1, 1985. One percent is added to the Medicare Economic Index (MEI), for this period only.

Nonparticipating physicians have the freeze on customary and prevailing charges continued through this period. The freeze on actual charges at the April - June 1984 base period levels is also extended.

Drop-out physicians receive customary charge update only. The actual charges are frozen at the April - June 1984 level.

-- For calendar years beginning 1987, participating physicians will receive customary charge and prevailing charge updates on January 1.

-- Nonparticipating physicians will receive customary charge updates on January 1, but will be subject to prevailing charge level applied to participating physicians in the previous year. There is a permanent one year lag.

-- The freeze on actual charges expires on December 31, 1986.

These changes became effective May 1, 1986.

(2) Medicare is made secondary payor for all workers age 65 and over and their spouses who elect to be covered by employment-based health insurance through an employer with 20 or more employees. This change became effective May 1, 1986.

(3) The portion of Part B costs which are financed by enrollee premium must equal 25 percent of program costs of aged beneficiaries through calendar year 1988. This extension became effective for Part B premiums for calendar year 1988.

(4) The Chief Actuary of the Health Care Financing Administration is permitted to comment on the economic assumptions underlying the Annual Report of the Board of Trustees. This change is effective upon enactment.

(5) Other provisions which revised Title XVIII but which did not have a major financial impact on the program include determinations of inherent reasonableness of charges and customary charges for certain physicians; limitation on payment for post-cataract surgery; and payment for assistants at surgery for certain operations.

Public Law 99-509, the "Omnibus Budget Reconciliation Act of 1986", was enacted October 21, 1986 and contained several provisions having an impact on the Federal Supplementary Medical Insurance Trust Fund. The major changes include:

(1) The economic index for participating physicians will increase by 3.2 percent, and the economic index for nonparticipating physicians will be 96 percent of the index for participating physicians. This will be effective January 1, 1987. In future years, the percent increase in the Medicare Economic Index (MEI) will be applied to the prevailing charges in effect on December 31 of the previous year. The differential in the prevailing charges between participating and nonparticipating physicians is now permanent.

There is a limit on actual charges for nonparticipating physicians, the "maximum allowable actual charge" (MAAC). If the weighted average actual charge was equal to or greater than 115 percent of the current year's prevailing charge, the MAAC is increased by one percent. If the weighted average actual charge was less than 115 percent of the current year's prevailing charge, the MAAC is increased by a fraction of the difference between 115 percent of the current year prevailing charge and the previous year MAAC.

These changes became effective January 1, 1987.

(2) The maximum allowable prevailing charges for cataract surgery will be reduced by 10 percent in 1987 and an additional 2 percent in 1988. The reduced amount may not be lower than 75 percent of the weighted national average prevailing charge amounts. Nonparticipating physicians are limited to 125 percent of the reduced prevailing charges plus, in 1987, one half of the differences between the limit and the physician's actual charge in the previous year. This change became effective January 1, 1987.

(3) The base rates for dialysis treatment are reduced by $2.00 for the period October 1, 1986 to October 1, 1987. Outpatient immunosuppressive drugs furnished to transplant patients are covered for one year after the transplant. The payment provision is effective upon enactment. The payment for immunosuppressive drugs became effective January 1, 1987.

(4) Vision care services performed by an optometrist are now covered if the services are already covered by Medicare and if the optometrist is legally authorized to perform as a doctor of optometry in the State in which the services are performed. Coverage became effective April 1, 1987.

(5) Prompt payment provisions require carriers to pay at least 95 percent of all "clean" claims by a given number of calendar days after receipt. Prompt payment requirements became effective November 1, 1986.

(6) Occupational therapy services are now covered if performed in a skilled nursing facility (when Part A coverage has been exhausted), clinic, rehabilitation agency or public health agency. Reimbursement is based on reasonable costs. These services are also covered if furnished by an independently practicing therapist; however, reimbursement is 80 percent of reasonable charges, with no more than $500 in incurred expenses eligible for a calendar year. Coverage became effective July 1, 1987.

(7) Medicare is now secondary payor for all disabled Medicare beneficiaries who elect to be covered by employment-based health insurance as a current employee (or family member of such employee) of a large employer (at least 100 employees). Coverage is effective from January 1, 1987 through December 31, 1991.

(8) A Cost of Living Adjustment (COLA) will be provided for old age, survivors, and disability insurance benefits in any year that there is an increase in the Consumer Price Index (CPI) during the specified base period. This provision affects the level of the Part B premium. This change is effective with enactment.

(9) Other provisions which revised Title XVIII but which did not have a major financial impact on the program include the repeal of the 2 for 1 conversion requirement for certain Health Maintenance Organizations (HMOs); limitation of payment for home health services; standards for organ procurement agencies; payment for nurse anesthetists; payment for clinical diagnnostic lab tests; payment rate for parenteral and enteral nutrition supplies and equipment; coverage of a physician assistant services; and payment rates for ambulatory surgery.

NATURE OF THE TRUST FUND

The Federal Supplementary Medical Insurance Trust Fund was established on July 30, 1965, as a separate account in the United States Treasury. All the financial operations of the supplementary medical insurance program are handled through this fund.

The major sources of receipts of the trust fund are: (1) contributions of the Federal Government that are authorized to be appropriated and transferred from the general fund of the Treasury and (2) premiums paid by eligible persons who are voluntarily enrolled in the program. Eligible persons aged 65 and over have been able to enroll in the program since its inception in July 1966. Since July 1973, disabled persons under age 65, who have met certain eligibility requirements, have also been able to enroll in the program.

The premiums paid by participants are based on the standard monthly premium rate, which is the same for participants aged 65 and over and for disabled participants under age 65. Premiums paid for fiscal years 1967 through 1973 were matched by an equal amount of Government contributions. Beginning July 1973, the amount of Government contributions corresponding to premiums paid by each of the two groups of participants is determined by applying a ratio (known as the matching rate), prescribed in the law for each group, to the amount of premiums received from that group of participants. The ratio is equal to: (1) twice the amount of the monthly actuarial rate applicable to the particular group of participants, minus the amount of the standard monthly premium rate, divided by (2) the amount of the standard monthly premium rate.

Standard monthly premium rates and actuarial rates are promulgated each year by the Secretary of Health and Human Services. The standard monthly premium rates in effect from the beginning of the program, July 1966 through June 1983, the rate for July 1983 through December 1983, and the rates for calendar years 1984 through 1987 are shown in table 1. Actuarial rates and the corresponding matching rates in effect from July 1973 through June 1983, the rates applicable for July 1983 through December 1983, and the rates for calendar years 1984 through 1987 are also shown. For a detailed discussion of the determination of the actuarial and premium rates, see Appendix B.

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.

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 for any activity financed through the fund.

Expenditures for benefit payments and administrative expenses under the program are paid out of the trust fund. All expenses incurred by the Department of Health and Human Services and by the Department of the Treasury in carrying out the supplementary medical insurance provisions of title XVIII of the Social Security Act 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.

Table 1.--STANDARD MONTHLY PREMIUM RATES, ACTUARIAL RATES, AND MATCHING RATES

	Standard monthly premium rate	Monthly actuarial rate		Matching rate	
		Participants aged 65 and over	Disabled participants under age 65	Participants aged 65 and over	Disabled participants under age 65
July 1966 - March 1968	$ 3.00	------	------	------	------
April 1968 - June 1970	4.00	------	------	------	------
12-month period ending June 30 of --					
1971	5.30	--	--	------	------
1972	5.60	--	--	------	------
1973	5.80	--	--	------	------
1974*	6.30	$ 6.30	$14.50	1.0000	3.6032
1975	6.70	6.70	18.00	1.0000	4.3731
1976	6.70	7.50	18.50	1.2388	4.5224
1977	7.20	10.70	19.00	1.9722	4.2778
1978	7.70	12.30	25.00	2.1948	5.4935
1979	8.20	13.40	25.00	2.2683	5.0976
1980	8.70	13.40	25.00	2.0805	4.7471
1981	9.60	16.30	25.50	2.3958	4.3125
1982	11.00	22.60	36.60	3.1091	5.6545
1983	12.20	24.60	42.10	3.0328	5.9016
July 1983 - December 1983	12.20	27.00	46.10	3.4262	6.5574
Calendar year					
1984	$14.60	$29.20	$54.30	3.0000	6.4384
1985	15.50	31.00	52.70	3.0000	5.8000
1986	15.50	31.00	40.80	3.0000	4.2645
1987	17.90	35.80	53.00	3.0000	4.9218

* In accordance with limitations on the costs of health care imposed under Phase III of the Economic Stabilization program, the standard premium rate for July and August 1973 was set at $5.80 and $6.10, respectively. Effective September 1973, the rate increased to $6.30.

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 sizeable portion of such costs of such experiments and demonstration projects are paid out of the hospital insurance and supplementary medical insurance trust funds, with the remainder funded through general revenues.

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 supplementary medical insurance program. Both the capital costs of construction financed directly from the trust fund and the rental and 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 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. Obligations of these types 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 calendar month.

SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1986

A statement of the income and disbursements of the Federal Supplementary Medical Insurance Trust Fund in fiscal year 1986 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 $10,646 million on September 30, 1985. During fiscal year 1986, total receipts amounted to $25,004 million, and total disbursements were $26,217 million. Total assets thus decreased $1,214 million during the year to a total of $9,432 million on September 30, 1986.

Of the total receipts, $5,200 million represented premium payments by (or on behalf of) participants aged 65 and over, and $500 million represented premium payments by (or on behalf of) disabled participants under age 65. Total premium payments amounted to $5,699 million, an increase of 3.2 percent over the amount of $5,524 million for the preceding year. This increase in premiums from participants resulted primarily from: (1) the growth of the number of persons enrolled in the supplementary medical insurance program and (2) the increase from $14.60 to $15.50 per month in the standard premium rate that became effective on January 1, 1985.

Contributions received from the general fund of the treasury amounted to $18,076 million, which accounted for 72 percent of total receipts. This amount consisted of $15,696 million representing contributions relating to premiums paid by participants aged 65 and over, and $2,381 million representing contributions relating to the premiums paid by disabled participants under age 65.

Table 2.--STATEMENT OF OPERATIONS OF THE SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND DURING FISCAL YEAR 1986
(In thousands)

Total assets of the trust fund, beginning of period		$10,645,667
Receipts:		
Premiums from participants:		
Participants aged 65 and over	$5,199,503	
Disabled participants under age 65	499,901	
Total premiums		5,699,404
Transfers from general fund of the Treasury:		
Government contributions:		
Supplementary premiums of participants aged 65 and over	15,695,562	
Supplementary premiums of disabled participants under age 65	2,380,622	
Total Government contributions		18,076,184
Other		19
Interest:		
Interest on investments		1,229,374
Interest on amounts of interfund transfers 1/		-1,411
Total receipts		25,003,570
Disbursements:		
Benefit payments		25,168,954
Administrative expenses:		
Treasury administrative expenses	6,151	
Salaries and expenses - SSA	196,032	
Salaries and expenses - HCFA	811,485	
Salaries and expenses Office of Secretary	13,229	
Construction	5,808	
Professional Standard Review Organization	-1	
Public Health Service	157	
Reimbursement of SSA expenses 2/	0	
Reimbursement of HCFA expenses 2/	15,139	
Pay Assessment Commission	415	
Office of Personnel Management expenses	104	
Total administrative expenses		1,048,519
Total disbursements		26,217,473
Net addition to the trust fund		-1,213,903
Total assets of the trust fund, end of period		9,431,764

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

2/ A positive figure represents a transfer from the supplementary medical insurance trust fund to the other trust funds. A negative figure represents a transfer to the supplementary medical insurance trust fund from the other trust funds.

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

The remaining $1,228 million of receipts consisted almost entirely of interest on the investments of the trust fund.

Of the $26,217 million in total disbursements, $25,169 million represented: (1) benefits paid directly from the trust fund for health services covered under Title XVIII of the Social Security Act and (2) costs of experiments and demonstration projects in providing health care services.

The remaining $1,049 million of disbursements was for 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, the allocations of administrative expenses and costs of construction for prior periods are adjusted by interfund transfers. This adjustment includes transfers between the hospital insurance and supplementary medical insurance trust funds and the program management general fund account, with appropriate interest allowances.

In table 3, the experience with respect to actual amounts of participants' premiums, Government contributions, and benefit payments in fiscal year 1986 is compared with the estimates for fiscal year 1986 which appeared in the 1985 and 1986 annual reports.

Table 4 shows a comparison of the total assets of the fund and their distribution at the end of fiscal year 1985 and at the end of fiscal year 1986. The assets of the trust fund at the end of fiscal year 1985 totaled $10,646 million, consisting of $10,736 million in the form of obligations of the U.S. Government, offset by an extension of credit of $91 million against securities to be redeemed. The assets of the trust fund at the end of fiscal year 1986 totaled $9,432 million, consisting of $9,424 million in the form of obligations of the U.S. Government and an undisbursed balance of $7 million. A comparison of assets of the trust fund with liabilities for incurred but unpaid benefits (and related administrative expenses) is shown in a later section.

The net decrease in the par value of the investments held by the fund during fiscal year 1986 amounted to $1,312 million. New securities at a total par value of $29,681 million were acquired during the fiscal year through the investment of receipts and reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the year was $30,993 million. Included in these amounts is $28,372 million in certificates of indebtedness that were acquired, and $28,604 million in certificates of indebtedness that were redeemed, within the fiscal year.

Table 3.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND, FISCAL YEAR 1986
(Dollar amounts in millions)

		Comparison of actual experience with estimates for fiscal year 1986 published in—			
		1986 report		1985 report	
Item	Actual amount	Estimated amount	Actual as percentage of estimate	Estimated amount	Actual as percentage of estimate
Premiums from participants	$ 5,699	$ 5,658	101	$5,821	98
Government contributions	18,076	17,973	101	18,513	98
Benefit payments	25,169	25,754	98	25,537	99

TABLE 4.—ASSETS OF THE SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND, AT THE END OF FISCAL YEARS 1985 AND 1986 1/

	September 30, 1985	September 30, 1986
Investments in public-debt obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
10 5/8-percent, 1986	$231,460,000.00	
Bonds:		
7 1/8-percent, 1987	56,245,000.00	
7 1/8-percent, 1988	56,245,000.00	
7 1/8-percent, 1989	56,245,000.00	56,245,000.00
7 1/8-percent, 1990	56,246,000.00	56,246,000.00
7 1/8-percent, 1991	56,246,000.00	56,246,000.00
7 1/8-percent, 1992	137,816,000.00	137,816,000.00
7 3/8-percent, 1987	11,547,000.00	
7 3/8-percent, 1988	11,547,000.00	
7 3/8-percent, 1989	11,547,000.00	11,547,000.00
7 3/8-percent, 1990	73,510,000.00	73,510,000.00
7 1/2-percent, 1987	8,061,000.00	
7 1/2-percent, 1988	8,061,000.00	
7 1/2-percent, 1989	8,061,000.00	8,061,000.00
7 1/2-percent, 1990	8,060,000.00	8,060,000.00
7 1/2-percent, 1991	81,570,000.00	81,570,000.00
7 5/8-percent, 1987	61,963,000.00	
7 5/8-percent, 1988	61,963,000.00	
7 5/8-percent, 1989	61,963,000.00	61,963,000.00
8 1/4-percent, 1987	115,978,000.00	
8 1/4-percent, 1988	115,978,000.00	
8 1/4-percent, 1989	115,978,000.00	115,978,000.00
8 1/4 percent, 1990	115,978,000.00	115,978,000.00
8 1/4 percent, 1991	115,978,000.00	115,978,000.00
8 1/4 percent, 1992	115,978,000.00	115,978,000.00
8 1/4 percent, 1993	253,794,000.00	253,794,000.00
8 3/8 percent, 2001		444,270,000.00
8 3/4 percent, 1987	72,934,000.00	
8 3/4 percent, 1988	72,934,000.00	
8 3/4 percent, 1989	72,934,000.00	72,934,000.00
8 3/4 percent, 1990	72,934,000.00	72,934,000.00
8 3/4 percent, 1991	72,934,000.00	72,934,000.00
8 3/4 percent, 1992	72,934,000.00	72,934,000.00
8 3/4 percent, 1993	72,934,000.00	72,934,000.00
8 3/4-percent, 1994	326,728,000.00	326,728,000.00
9 3/4-percent, 1995	115,003,000.00	115,003,000.00
10 3/8-percent, 1987	166,084,000.00	
10 3/8-percent, 1988	166,084,000.00	
10 3/8-percent, 1989	166,084,000.00	166,084,000.00
10 3/8-percent, 1990	166,084,000.00	166,084,000.00
10 3/8-percent, 1991	166,084,000.00	166,084,000.00
10 3/8-percent, 1992	166,084,000.00	166,084,000.00
10 3/8-percent, 1993	166,084,000.00	166,084,000.00
10 3/8-percent, 1994	166,083,000.00	166,083,000.00
10 3/8-percent, 1995	166,083,000.00	166,083,000.00
10 3/8-percent, 1996	166,083,000.00	166,083,000.00
10 3/8-percent, 1997	166,083,000.00	166,083,000.00
10 3/8-percent, 1998	166,084,000.00	166,084,000.00
10 3/8-percent, 1999	166,084,000.00	166,084,000.00
10 3/8-percent, 2000	733,187,000.00	733,187,000.00
10 3/4-percent, 1986	88,061,000.00	
10 3/4-percent, 1987	88,061,000.00	
10 3/4-percent, 1988	88,061,000.00	29,562,000.00
10 3/4-percent, 1989	88,060,000.00	88,060,000.00
10 3/4-percent, 1990	88,060,000.00	88,060,000.00
10 3/4-percent, 1991	88,060,000.00	88,060,000.00
10 3/4-percent, 1992	88,060,000.00	88,060,000.00
10 3/4-percent, 1993	88,060,000.00	88,060,000.00
10 3/4-percent, 1994	88,060,000.00	88,060,000.00
10 3/4-percent, 1995	88,060,000.00	88,060,000.00
10 3/4-percent, 1996	88,061,000.00	88,061,000.00
10 3/4-percent, 1997	88,061,000.00	88,061,000.00
10 3/4-percent, 1998	456,989,000.00	456,989,000.00
13 1/4-percent, 1986	42,201,000.00	
13 1/4-percent, 1987	42,201,000.00	
13 1/4-percent, 1988	42,201,000.00	42,201,000.00
13 1/4-percent, 1989	42,201,000.00	42,201,000.00
13 1/4-percent, 1990	42,201,000.00	42,201,000.00
13 1/4-percent, 1991	42,201,000.00	42,201,000.00
13 1/4-percent, 1992	42,201,000.00	42,201,000.00
13 1/4-percent, 1993	42,201,000.00	42,201,000.00
13 1/4-percent, 1994	42,201,000.00	42,201,000.00
13 1/4-percent, 1995	253,926,000.00	253,926,000.00
13 1/4-percent, 1996	368,928,000.00	368,928,000.00
13 1/4-percent, 1997	368,928,000.00	368,928,000.00
13 3/4-percent, 1985		
13 3/4-percent, 1986	110,114,000.00	
13 3/4-percent, 1987	110,114,000.00	
13 3/4-percent, 1988	110,114,000.00	110,114.000.00
13 3/4-percent, 1989	110,115,000.00	110,115,000.00
13 3/4-percent, 1990	110,115,000.00	110,115,000.00
13 3/4-percent, 1991	110,115,000.00	110,115,000.00
13 3/4-percent, 1992	110,115,000.00	110,115,000.00
13 3/4-percent, 1993	110,115,000.00	110,115,000.00
13 3/4-percent, 1994	110,115,000.00	110,115,000.00
13 3/4-percent, 1995	110,115,000.00	110,115,000.00
13 3/4-percent, 1996	110,115,000.00	110,115,000.00
13 3/4-percent, 1997	110,115,000.00	110,115,000.00
13 3/4-percent, 1998	110,114,000.00	110,114,000.00
13 3/4-percent, 1999	567,103,000.00	567,103,000.00
Total investments in public-debt obligations	10,736,461,000.00	9,424,396,000.00
Undisbursed balance	-90,794,287.45 2/	7,368,140.25
Total assets	10,645,666,712.55	9,431,764,140.25

1/ The assets are carried at par value, which is the same as book value.
2/ The negative figure represented an extension of credit which was covered by the redemption of securities on the first day of the following month.

The effective annual rate of interest earned by the assets of the supplementary medical insurance trust fund for the 12 months ending on June 30, 1986, was 10.5 percent; this period is used because interest on special issues is paid semiannually on June 30 and December 31. The interest rate on special issues purchased by the trust fund in June 1986 was 8 3/8 percent, payable semiannually.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE PERIOD OCTOBER 1, 1986 TO DECEMBER 31, 1989

Financing for the supplementary medical insurance program is established annually on the basis of standard monthly premium rates (paid by or on behalf of the participants) and actuarial rates (on which general revenue contributions are based). Prior to June 30, 1983, these rates were applicable to 12-month periods ending June 30. Beginning January 1, 1984, Public Law 98-21 changed the annual basis to the 12-month periods ending December 31. For the 6-month period July 1, 1983 through December 31, 1983 (hereafter also called the transition semester), the standard monthly premium rate was frozen at the June 1983 rate, and the actuarial rates were set at the rates promulgated in December 1982 for the 12-month period ending June 30, 1984.

Although standard premium rates and actuarial rates have been set only for periods through December 31, 1987, projections are presented through December 31, 1989 to conform with the requirements of section 1841(b) of the Social Security Act. It has been assumed in this report that financing after that time will be established to cover the incurred expenses of the program as provided by the provisions described in the "Nature of the Trust Fund" section.

The projections shown in the following tables are based on two sets of economic assumptions labeled alternative A and alternative B. These alternatives reflect two different levels of expectation of future performance of the economy. Appendix A presents an explanation of the effects of alternative A and alternative B on the projections in this report. As the projections indicate, the performance of the economy does not significantly affect the operations of the supplementary medical insurance program.

Prior to the passage of Public Law 98-369, allowable fee limits for physician services were updated July 1 of every year. However, for the 15-month period from July 1, 1984 through September 30, 1985, Public Law 98-369 froze all fees for physician services at the same levels as in effect during the second quarter of 1984. Additionally, Public Law 98-369 changed the date for updating these allowable fee limits from July 1 to October 1 of each year, beginning on October 1, 1985.

Public Law 99-272 extended the freeze on physician services from October 1, 1985 to April 30, 1986. During this extended period, physician services were reimbursed at the same levels as in effect during the second quarter of 1984. Public Law 99-272 also changed the date for updating the allowable fee limits from October 1 to January 1 of each year, beginning on January 1, 1987.

Under both sets of projections, it is assumed that allowable fees for physician services will increase an average of 6.1 percent for the 12-month period ending September 30, 1987, and will increase an average of 3.9 percent for the 12-month period ending September 30, 1988. The costs per enrollee for institutional and other services under the SMI program are projected to increase an average of 17.7 percent for the 12-month period ending September 30, 1987, and 18.1 percent for the 12-month period ending September 30, 1988.

Table 5 shows the projected operations of the trust fund on a fiscal year basis through fiscal year 1989. Table 6 shows the corresponding development on a calendar year basis. The trust fund balance was $9.4 billion at the end of fiscal year 1986. The actuarial rates for calendar years 1986 and 1987 were promulgated with specific margins to reduce assets to the appropriate levels to maintain the actuarial soundness of the trust fund. Based on these actuarial rates and the above economic assumptions, the fund is projected to decrease to $6.5 billion under both alternatives by the end of fiscal year 1987, and then decrease to $5.5 billion by the end of fiscal year 1988.

Table 5.—ESTIMATED PROGRESS OF SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND (CASH BASIS) FISCAL YEARS 1987-1989 AND ACTUAL DATA FOR 1967-1986 (In millions)

	Income				Disbursements			
Fiscal year 1/	Premiums from participants	Government contributions 2/	Interest and other income 3/	Total income	Benefit payments	Administrative expenses	Total disbursements	Balance in fund at end of year 4/
Historical:								
1967	$ 647	$ 623	$ 15	$1,285	$ 664	$ 135 5/	$ 799	$ 486
1968	698	634	21	1,353	1,390	142	1,532	307
1969	903	984	24	1,911	1,645	195	1,840	378
1970	936	928	12	1,876	1,979	217	2,196	57
1971	1,253	1,245	18	2,516	2,035	248	2,283	290
1972	1,340	1,365	29	2,734	2,255	289	2,544	481
1973	1,427	1,430	45	2,902	2,391	246	2,637	746
1974	1,704	2,029	76	3,809	2,874	409	3,283	1,272
1975	1,887	2,330	105	4,322	3,765	405	4,170	1,424
1976	1,951	2,939	104	4,994	4,672	528	5,200	1,219
T.Q.	539	878	4	1,421	1,269	132	1,401	1,239
1977	2,193	5,053	137	7,383	5,867	475	6,342	2,279
1978	2,431	6,386	228	9,045	6,852	504	7,356	3,968
1979	2,635	6,841	363	9,839	8,259	555	8,814	4,994
1980	2,928	6,932	415	10,275	10,144	593	10,737	4,532
1981	3,320	8,747	372	12,439	12,345	883	13,228	3,743
1982	3,831	13,323	473	17,627	14,806	754	15,560	5,810
1983	4,227	14,238	682	19,147	17,487	824	18,311	6,646
1984	4,907	16,811	807	22,525	19,473	899	20,372	8,799
1985	5,524	17,898	1,155	24,577	21,808	922	22,730	10,646
1986	5,699	18,076	1,228	25,004	25,169	1,049	26,217	9,432
Projected:								
Alternative A:								
1987	6,418	20,251	940	27,609	29,487	1,060	30,547	6,494
1988	8,536	25,152	540	34,226	34,079	1,112	35,191	5,531
1989	9,522	32,665	551	42,738	39,029	1,170	40,199	8,070
Alternative B:								
1987	6,418	20,251	940	27,609	29,488	1,055	30,543	6,498
1988	8,536	25,152	540	34,228	34,089	1,104	35,193	5,533
1989	9,551	32,697	556	42,804	39,091	1,159	40,250	8,087

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 labled "T.Q.," the transition quarter; fiscal years 1977-89 cover the interval from October 1 through September 30.

2/ The payments shown as being from the general fund of the Treasury include certain interest-adjustment items.

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

4/ The financial status of the program depends on both the total net assets and the liabilities of the program. (See Table 8)

5/ Administrative expenses shown include those paid in fiscal years 1966 and 1967.

Table 6.—ESTIMATED PROGRESS OF SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND (CASH BASIS) CALENDAR YEARS 1987-1989 AND ACTUAL DATA FOR 1966-1986
(In millions)

Calendar year	Income: Premiums from participants	Income: Government contributions 1/	Income: Interest and other income 2/	Income: Total income	Disbursements: Benefit payments	Disbursements: Administrative expenses	Disbursements: Total disbursements	Balance in fund at end of year 3/
Historical:								
1966	$ 322	$ 0	$ 2	$ 324	$ 128	$ 75	$ 203	$ 122
1967	640	933	24	1,597	1,197	110	1,307	412
1968	832	858	21	1,711	1,518	184	1,702	421
1969	914	907	18	1,839	1,865	196	2,061	199
1970	1,096	1,093	12	2,201	1,975	237	2,212	188
1971	1,302	1,313	24	2,639	2,117	260	2,377	450
1972	1,382	1,389	37	2,808	2,325	289	2,614	643
1973	1,550	1,705	57	3,312	2,526	318	2,844	1,111
1974	1,804	2,225	95	4,124	3,318	410	3,728	1,506
1975	1,918	2,648	107	4,673	4,273	462	4,735	1,444
1976	2,060	3,810	107	5,977	5,080	542	5,622	1,799
1977	2,247	5,386	172	7,805	6,038	467	6,505	3,099
1978	2,470	6,287	299	9,056	7,252	503	7,755	4,400
1979	2,719	6,645	404	9,768	8,708	557	9,265	4,902
1980	3,011	7,455	408	10,874	10,635	610	11,245	4,530
1981	3,722 4/	11,291 4/	361	15,374	13,113	915	14,028	5,877
1982	3,697 4/	12,284 4/	599	16,580	15,455	772	16,227	6,230
1983	4,236	14,861	727	19,824	18,106	878	18,984	7,070
1984	5,167	17,054	959	23,180	19,661	891	20,552	9,698
1985	5,613	18,250	1,243	25,106	22,947	933	23,880	10,924
1986	5,722	17,802	1,141	24,665	26,239	1,060	27,299	8,291
Projected:								
Alternative A:								
1987	6,668	21,122	686	28,476	30,605	1,072	31,677	5,090
1988	9,159	28,043	495	37,697	35,312	1,125	36,437	6,350
1989	9,643	32,658	637	42,938	40,276	1,184	41,460	7,828
Alternative B:								
1987	6,668	21,122	686	28,476	30,607	1,065	31,672	5,095
1988	9,159	28,045	496	37,700	35,332	1,117	36,449	6,346
1989	9,682	32,697	650	43,029	40,364	1,173	41,537	7,838

1/ The payments shown as being from the general fund of the Treasury include certain interest-adjustment items.

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/ The financial status of the program depends on both the total net assets and the liabilities of the program. (See Table 8)

4/ Section 708 of Title VII of the Social Security Act modified the provisions for the delivery of Social Security benefit checks when the regularly designated delivery day falls on a Saturday, Sunday or legal public holiday. Delivery of benefit checks normally due January, 1982 occurred on December 31, 1981. Consequently, the SMI premiums withheld from the checks ($264 million) and the general revenue matching contributions ($883 million) were added to the SMI Trust Fund on December 31, 1981. These amounts are excluded from the premium income and general revenue income for calendar year 1982.