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1971 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

LETTER

FROM

BOARD OF TRUSTEES
FEDERAL HOSPITAL INSURANCE
TRUST FUND

TRANSMITTING

THE 1971 ANNUAL REPORT OF THE BOARD (SIXTH REPORT), PURSUANT TO THE PROVISIONS OF SECTION 1817(b) OF THE SOCIAL SECURITY ACT, AS AMENDED

APRIL 15, 1971.—Referred to the Committee on Ways and Means, and ordered to be printed

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL HOSPITAL INSURANCE TRUST FUND,
Washington, D.C., April 15, 1971.

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

SIR: We have the honor to transmit to you the 1971 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the sixth such report), in compliance with the provisions of section 1817(b) of the Social Security Act, as amended.

Respectfully,

JOHN B. CONNALLY,
Secretary of the Treasury, and Managing Trustee of the Trust Funds.

JAMES D. HODGSON,
Secretary of Labor.

ELLIOT L. RICHARDSON,
Secretary of Health, Education, and Welfare.

ROBERT M. BALL,
Commissioner of Social Security and Secretary, Board of Trustees.

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1971 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

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

FISCAL YEAR HIGHLIGHTS

The fiscal year 1970 was the fourth full year of operation of the hospital insurance program insofar as benefit payments are concerned (benefits were first available on July 1, 1966). Contributions had been collected during the latter half of the preceding fiscal year (i.e., on and after January 1, 1966).

For the first time since the inception of the program the benefit payout in fiscal year 1970 was less than predicted. The utilization of extended care facilities by the beneficiaries was substantially less than the prior year. This is largely due to the administrative efforts to provide effective utilization review of the ECF benefits. Also, the utilization of inpatient hospital services was slightly lower than projected. The lower utilization rates resulted in a $200–250 million reduction from the estimated benefit payout.

Contributions in fiscal year 1970 amounted to $4,785 million from persons directly covered by the hospital insurance program, plus an additional $64 million with respect to railroad workers that was transferred from the railroad retirement account under the financial interchange provisions.

Total receipts of the trust fund amounted to $5,614 million in fiscal year 1970. In addition to contributions, receipts consisted of $137 million in interest on investments, and $628 million reimbursed from the general fund of the Treasury ($11 million for the long-range costs of benefits based on noncontributory credits for military service before 1957 and $617 million for the costs of benefits and the related administrative expenses for uninsured persons).

Total disbursements from the trust fund in fiscal year 1970 amounted to $4,953 million. Of this amount, $4,804 million was paid out for benefits (this amount is based on Treasury statements). The remaining $149 million was for administrative expenses, which represented 3.1 percent of benefit disbursements.

The excess of total income over total outgo, amounting to $661 million, increased the total assets of the trust fund from $2,017 million on June 30, 1969 to $2,677 million on June 30, 1970.

Estimates for the three fiscal years, 1971–73, show that both contribution receipts and disbursements will increase steadily. However, the disbursements will rise more rapidly than receipts. In 1971, the receipts will be approximately equal to disbursements. After 1971, the disbursements will exceed the receipts, and it is estimated that the trust fund would be exhausted in fiscal year 1974, unless additional financing is provided.

The level cost of benefit payments and administrative expenses combined, estimated over a future period of 25 years based on a set of intermediate assumptions, is 2.20 percent of taxable payroll (under the assumption that the maximum taxable earning base of $9,000 for 1972 is kept up to date with rising earnings thereafter). The level equivalent of the graded schedule for contributions under present law is estimated to be 1.58 percent of taxable payroll. Thus, the long-range cost estimates for the hospital insurance program under the present financing provision indicate that the program has an actuarial balance of −0.62 percent of taxable payroll.

Several alternative methods of providing additional financing so as to restore the actuarial balance of the program are possible. This can be done by increasing the maximum taxable earnings base and contribution rates or by increasing the contribution schedule only.

In the 91st Congress the President proposed additional financing for the hospital insurance program and the House adopted the proposal in H.R. 17550. In the bill, the maximum taxable earnings base was raised to $9,000 starting January 1, 1971, and the combined contribution rate was increased to a level of 2 percent.

In the Senate-passed version of H.R. 17550, the maximum taxable earnings base was also raised to $9,000 and a graded contribution schedule was proposed starting with a combined rate of 1.6 percent and increased ultimately to 2.2 percent.

Under both the House and Senate versions of H.R. 17550, the additional financing of the hospital insurance program would have been fully adequate for at least the next 10 years and would have brought the program in a much closer actuarial balance over the 25-year period for which the estimates were made.

Section 1813 of the Social Security Act, as amended, established that the Secretary of Health, Education, and Welfare shall determine and promulgate each year the inpatient hospital deductible amount. An amount of $60 was promulgated for the calendar year 1971 as compared to the $52 in 1970. Such promulgation for 1971 is shown in appendix V.

The statutory Advisory Council on Social Security, appointed by the Secretary of Health, Education, and Welfare in May of 1969, submitted its reports to the Secretary on March 31, 1971, who in accordance with the law thereupon transmitted the report to the Board of Trustees. Many important changes in the financing of the program were recommended by the Advisory Council. The Board has not yet had an opportunity to study the reports thoroughly and therefore defers comment on the Advisory Council recommendations.

LEGISLATION IN 1970

In calendar year 1970, Congress considered various amendments of the Social Security Act. However, with a minor exception, it did not enact any proposed amendments into law.

In March 1971, Congress enacted Public Law 92–5, amending both the Social Security Act and the Internal Revenue Code. Public Law 92–5 made no change in the hospital insurance program other than raising the maximum taxable earnings base to $9,000, beginning with 1972.

NATURE OF THE TRUST FUND

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

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

All employees in covered employment are required to pay contributions with respect to their wages, and their employers are also required to pay contributions with respect to their wages (cash tips, covered as wages beginning in 1966 under the 1965 amendments, are an exception to this; employees pay contributions with respect to cash tips, but employers do not). All covered self-employed persons are required to pay contributions with respect to their self-employment income. In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount with the contributions being determined first on the wages and then on any self-employment income necessary to make up the annual maximum amount. The maximum amount of annual earnings to which the contribution rates are applied was $6,600 in calendar years 1966 and 1967. Beginning with calendar year 1968, the maximum amount is $7,800. In March 1971, Congress raised the maximum to $9,000 beginning on January 1, 1972.

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

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Calendar years	Percent of taxable earnings	
	Employees and employers, each [1]	Self-employed
1969–72	0.60	0.60
1973–75	.65	.65
1976–79	.70	.70
1980–86	.80	.80
1987 and after	.90	.90

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

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

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

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

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

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

Section 1833 of the Social Security Act provides that pathology and radiology services rendered by physicians after March 1968 to hospital inpatients are not subject to the deductible and coinsurance provisions of the supplementary medical insurance program. Hospitals, at their option, are permitted to combine their billing for both hospital and physician components of radiology and pathology services rendered hospital inpatients by hospital-based physicians. Where hospitals elect this billing procedure, payments are made initially from the hospital insurance trust fund, with reimbursement from the supplementary medical insurance trust fund. The reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest allowances, as the actual experience develops and is analyzed.

Section 103 of the Social Security Amendments of 1965 provides hospital insurance benefits to certain uninsured persons aged 65 and over. Such payments are made initially from the hospital insurance trust fund, with later reimbursement, with interest, 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. A description of the legislative provisions governing the allocation of costs between the trust fund and the general fund of the Treasury appears in appendix III.

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

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

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

Congress has authorized expenditures from the trust fund for construction of office buildings and related facilities for the Social

Security Administration. The costs of such construction are included as part of the administrative expenses in the financial statements of operations of the trust fund as set forth in subsequent sections of this report. The net worth of the resulting facilities—just as the net worth of all other capital assets—is not carried as an asset in such statements.

That portion of the trust fund which, in the judgment of the managing trustee, is not required to meet current expenditures for benefits and administration is invested, on a daily basis, in interest-bearing obligations of the U.S. Government, in obligations guaranteed as to both principal and interest by the United States, or in certain federally sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. Obligations of these types may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

In addition, the Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust fund. The law requires that such special public-debt obligations shall have maturities fixed with due regard for the needs of the trust fund and shall bear interest at a rate based on the average market yield (computed by the managing trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such calendar month. Where such average market yield is a multiple of one-eighth of 1 percent, this is taken as the rate of interest on such special obligations; otherwise such rate is the multiple of one-eighth of 1 percent nearest such market yield.

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

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

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

Summary of the Operations of the Trust Fund, Fiscal Year 1970

A statement of the income and disbursements of the Federal hospital insurance trust fund during fiscal year 1970 and of the assets of the fund at the beginning and the end of the fiscal year is presented in table 1.

TABLE 1.—*Statement of operations of the hospital insurance trust fund during the fiscal year 1970*

	Amount
Total assets of the trust fund, June 30, 1969	$2,016,521,382.53
Receipts, fiscal year 1970:	
Contributions:	
Appropriations	4,389,125,227.96
Deposits arising from State agreements	444,864,029.27
Gross contributions	4,833,989,257.23
Less payment into the Treasury for contributions subject to refund	49,200,000.00
Net contributions	4,784,789,257.23
Transfers from railroad retirement account	63,537,000.00
Reimbursements from general fund of the Treasury for costs of—	
Noncontributory credits for military service	11,000,000.00
Benefits for uninsured persons:	
Benefit payments	596,211,000.00
Administrative expenses	12,974,000.00
Interest	8,077,000.00
Total, reimbursement for benefits for uninsured persons	617,262,000.00
Interest:	
Interest on investments	133,441,011.91
Interest on amount of transfer from supplementary medical insurance trust fund for reimbursement of benefits paid initially from hospital insurance trust fund [1]	4,511,000.00
Gross interest	137,952,011.91
Less interest on amounts of interfund transfers for reimbursement of administrative expenses and construction costs	758,686.00
Net interest	137,193,325.91
Total receipts	5,613,781,583.14
Disbursements, fiscal year 1970:	
Gross benefit payments	4,966,942,482.90
Less transfer from supplementary medical insurance trust fund for reimbursement of benefits paid initially from the hospital insurance trust fund [1]	162,700,000.00
Net benefit payments	4,804,242,482.90
Administrative expenses:	
Department of Health, Education, and Welfare [2]	125,729,230.00
Treasury Department	6,219,936.56
Construction of facilities for Social Security Administration	615,876.15
Reimbursement to old-age and survivors insurance trust fund for costs of construction for fiscal year 1969	853,000.00
Reimbursement to old-age and survivors insurance and supplementary medical insurance trust funds for administrative expenses [3]	15,250,789.00
Gross administrative expenses	148,668,831.71

See footnotes at end of table, p. 8.

TABLE 1.—*Statement of operations of the hospital insurance trust fund during the fiscal year 1970*—Con.

	Amount
Disbursements, fiscal year 1970—Con.	
Administrative expenses—Con.	
Less receipts from sale of surplus supplies, materials etc	8, 864. 88
Net administrative expenses	148, 659, 966. 83
Total, disbursements	4, 952, 902, 449. 73
Net addition to the trust fund	660, 879, 133. 41
Total, assets of the trust fund, June 30, 1970	2, 677, 400, 515. 94

[1] For explanation, see text.
[2] Includes administrative expenses of the intermediaries.
[3] Amount represents the sum of (a) $3,555,000 to the old-age and survivors insurance trust fund for expenses of the Public Health Service which were charged initially to the old-age and survivors insurance trust fund and (b) $10,448,936 to the old-age and survivors insurance trust fund and $1,246,853 to the supplementary medical insurance trust fund due to adjustment in allocation of administrative expenses for fiscal year 1969.

The total assets of the trust fund amounted to $2,017 million on June 30, 1969. By the end of fiscal year 1970 the assets amounted to $2,677 million, an increase of $661 million.

Net receipts of the trust fund amounted to $5,614 million. Of this total, $4,389 million represented tax collections appropriated to the trust fund and $445 million represented amounts received by the Secretary of the Treasury in accordance with State coverage agreements and deposited in the trust fund. As an offset, $49 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 $4,785 million, representing an increase of 8 percent over the amount for the preceding fiscal year. This growth in contribution income resulted primarily from the higher level of employment and taxable earnings.

Reference has been made in an earlier section to 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. In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of $63,038,000 from the railroad retirement account to the hospital insurance trust fund would place this fund in the same position, as of June 30, 1969, as it would have been if railroad employment had always been covered under the Social Security Act. This amount was transferred to the trust fund in August 1969, together with interest to the date of transfer amounting to $499,000.

Reference has also been made earlier to provisions under which the hospital insurance trust fund is to be reimbursed annually from the general fund of the Treasury for the costs of granting noncontributory credits for military service performed before 1957. In accordance with these provisions, the Secretary of Health, Education, and Welfare determined in September 1965, that the annual amount due this trust fund was $14.2 million. An annual reimbursement amounting to $11 million was received in December 1969.

Again, reference has been made earlier to provisions under which the hospital insurance trust fund is to be reimbursed from the general fund of the Treasury for costs of paying benefits under this program to certain uninsured persons. The reimbursement in fiscal year 1970 amounted to $617 million, of which $596 million was for benefit payments, $13 million was for administrative expenses, and $8 million was for interest.

The remaining $137 million of receipts consisted of interest on the investments of the trust fund, adjusted for interest on amounts of interfund transfers between this trust fund and the old-age and survivors insurance and supplementary medical insurance trust funds.

Disbursements from the trust fund during fiscal year 1970 totaled $4,953 million. Of this total, $4,967 million represented gross benefit payments from the trust fund. As an offset, $163 million was transferred from the supplementary medical insurance trust fund with respect to certain costs for radiology and pathology services that were paid from the hospital insurance trust fund but that are liabilities of the supplementary medical insurance trust fund. Net benefit payments from the trust fund in fiscal year 1970, therefore, amounted to $4,804 million. The remaining $149 million of disbursements was for net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds on the basis of provisional estimates. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses for prior periods are effected by interfund transfers, with appropriate interest allowances.

Table 2 compares the actual experience in fiscal year 1970 with the estimates presented in the 1970 annual report of the Board of Trustees. Reference was made in an earlier section to the appropriation of contributions to the trust funds on an estimated basis, with subsequent periodic adjustments to account for differences from the amounts of contributions actually payable on the basis of reported earnings. In interpreting the figures in table 2, it should be noted that the "actual" amount of contributions in fiscal year 1970 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1970 does not reflect adjustments to contributions for fiscal year 1970 that were to be made after June 30, 1970. The estimated contributions were very close to the actual experience. Actual benefit payments were 7 percent lower than estimated. The actual assets at the end of the fiscal year were 18 percent higher than the estimated assets, largely because of the difference between estimated and actual benefit payments.

TABLE 2.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, FISCAL YEAR 1970

[Dollar amounts in millions]

	Actual amount	Estimated amount published in 1970 report	Actual as percentage of estimated
Net contributions	$4,785	$4,758	101
Benefit payments	4,804	5,175	93
Assets, end of year	2,677	2,275	118

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

The assets of the trust fund at the end of fiscal year 1970 totaled $2,677 million, consisting of $2,583 million in the form of obligations of the U.S. Government, $70 million in securities of federally sponsored agencies, and $24 million in undisbursed balances. Table 3 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1969 and 1970.

The net increase in the par value of the investments held by the fund during fiscal year 1970 amounted to $652 million. New securities at a total par value of $6,650 million were acquired during the fiscal year, through the investment of receipts and the reinvestment of funds made available from the maturity of securities. The par value of securities redeemed during the fiscal year was $5,998 million. A summary of transactions for the fiscal year, by type of security, is presented in Table 3a.

TABLE 3.—ASSETS OF THE HOSPITAL INSURANCE TRUST FUND, BY TYPE, AT END OF FISCAL YEARS 1969 AND 1970

	June 30, 1969		June 30, 1970	
	Par value	Book value [1]	Par value	Book value [1]
Investments in public-debt obligations sold only to this fund (special issues):				
Notes:				
4¾ percent, 1972	$46,131,000	$46,131,000.00		
4¾ percent, 1973	46,131,000	46,131,000.00	$24,056,000	$24,056,000.00
4¾ percent, 1974	415,179,000	415,179,000.00	415,179,000	415,179,000.00
4⅞ percent, 1971	157,770,000	157,770,000.00		
5⅝ percent, 1975	495,529,000	495,529,000.00	495,529,000	495,529,000.00
6½ percent, 1976	729,200,000	729,200,000.00	729,200,000	729,200,000.00
7⅝ percent, 1977			919,358,000	919,358,000.00
Total public-debt obligations sold only to this fund (special issues)	1,889,940,000	1,889,940,000.00	2,583,322,000	2,583,322,000.00
Investments in federally sponsored agency obligations:				
Agency securities: Federal National Mortgage Association debentures: 6 percent, 1969	41,500,000	41,503,602.31		
Participation certificates:				
Federal Assets Liquidation Trust-Government National Mortgage Association: 5.20 percent, 1982	50,000,000	50,000,000.00	50,000,000	50,000,000.00
Federal Assets Financing Trust-Government National Mortgage Association: 6.30 percent, 1971	20,000,000	20,000,000.00	20,000,000	20,000,000.00
Total investments in federally sponsored agency obligations	111,500,000	111,503,602.31	70,000,000	70,000,000.00
Total investments	2,001,440,000	2,001,443,602.31	2,653,322,000	2,653,322,000.00
Undisbursed balances		15,077,780.22		24,078,515.94
Total assets		2,016,521,382.53		2,677,400,515.94

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

TABLE 3A.—STATEMENT OF TRANSACTIONS IN PUBLIC DEBT AND IN FEDERALLY SPONSORED AGENCY SECURITIES FOR THE HOSPITAL INSURANCE TRUST FUND DURING THE FISCAL YEAR 1970

[All amounts represent par values]

	Acquisitions	Dispositions
Public-debt obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
6⅝-percent, 1970	$844,210,000	$844,210,000
6¾-percent, 1970	531,350,000	531,350,000
7-percent, 1970	1,294,194,000	1,294,194,000
7¼-percent, 1970	1,043,742,000	1,043,742,000
7⅝-percent, 1970	1,314,892,000	1,314,892,000
7¾-percent, 1970	298,240,000	298,240,000
7⅞-percent, 1970	404,210,000	404,210,000
Notes:		
4¾-percent, 1972		46,131,000
4¾-percent, 1973		22,075,000
4⅞-percent, 1971		157,770,000
7⅝-percent, 1977	919,358,000	
Total public-debt obligations sold only to this fund (special issues)	6,650,196,000	5,956,814,000
Federally sponsored agency obligations:		
Federal National Mortgage Association Debentures: 6-percent, 1969 (total)		41,500,000
Total transactions	6,650,196,000	5,998,314,000

Expected Operations and Status of the Trust Fund During the Period July 1, 1970, to June 30, 1973

In the following statement of the expected operations and status of the hospital insurance trust fund during the period July 1, 1970, to June 30, 1973, it is assumed that present statutory provisions affecting the hospital insurance program remain unchanged throughout the period. The income and disbursements of the program, however, are affected by general economic conditions, hospital utilization rates, and hospitalization costs. Because it is difficult to forecast these factors, the assumptions and the resulting cost estimates presented here are subject to some uncertainty. This statement of the expected operations of the trust fund should therefore be read with full recognition of the difficulties involved in making the estimates.

Estimates are presented in table 4 to show the expected operations of the trust fund in fiscal years 1971–73. They are based on the assumption that economic activity will expand throughout the period, with employment and earnings increasing through 1973. Under this assumption, the estimated number of persons with taxable earnings under the hospital insurance program is expected to increase from 93 million during calendar year 1970 to 100 million during calendar year 1973; their taxable earnings are estimated to be $421 billion. The increase in estimated income from contributions in fiscal years 1971–73 reflects the assumed upward trend in the levels of employment and earnings. Benefit disbursements increase from fiscal year 1971 to 1973 because of the long-range upward trend in the number of beneficiaries under the program and the assumed increase in hospitalization costs per unit of service, as well as the assumed long-term trend in hospital utilization rates.

TABLE 4.—ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, ON CASH BASIS FISCAL YEARS 1967-73

[In millions]

Item	Actual				Estimated		
	1967	1968	1969	1970	1971	1972	1973
Income:							
Contributions [1]	$2,689	$3,514	$4,423	$4,785	$4,954	$5,368	$6,328
Interest on investments [2]	46	61	96	137	172	158	108
Transfers from railroad retirement account	16	44	54	64	65	69	74
Reimbursement for uninsured persons [3]	327	273	749	617	863	503	658
Reimbursement for military service wage credits	11	11	22	11	11	48	48
Total income	3,089	3,903	5,344	5,614	6,065	6,146	7,216
Disbursements:							
Benefit payments	2,508	3,736	4,654	4,804	5,600	6,690	7,900
Administrative expenses [4]	89	79	104	149	150	163	172
Total disbursements	2,597	3,815	4,758	4,953	5,750	6,853	8,072
Net increase in fund	492	88	586	661	315	−707	−856
Fund at end of year	1,343	1,431	2,017	2,677	2,992	2,285	1,429

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

Income of the trust fund is expected to exceed outgo in fiscal year 1971; then, the outgo will exceed the income. During fiscal years 1972–73, there is an estimated net decrease in the trust fund of $1.6 billion.

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

Section 217(g) of the Social Security Act, as amended by the 1965 amendments, provides that the trust fund shall be reimbursed from general revenues for expenditures resulting from the provisions that granted noncontributory $160 monthly wage credits to persons who served in the Armed Forces at some time during the period September 16, 1940, through December 31, 1956, and from the provisions enacted in 1946 that granted survivor protection to certain World War II veterans for a period of 3 years after leaving service. A description of the legislative history of provisions relating to credit for military service is contained in appendix II.

In accordance with section 217(g), the Secretary of Health, Education, and Welfare made a determination in 1970 of the level annual appropriations to the trust fund necessary to amortize over a 44-year period, beginning in fiscal year 1972, the estimated total additional costs arising from payments that have been made since July 1966 and that will be made in future years, after taking into account the amounts of annual appropriations in fiscal years 1966–71 that have been deposited in to the trust funds. The annual amount of this determination for the hospital insurance trust fund was $48 million. The estimates shown in table 4 reflect the effect of past and expected future reimbursements under section 217(g).

Actuarial Status of the Trust Fund

When the hospital insurance program was being enacted in 1965, a certain procedure for developing the cost estimates and determining the actuarial balance of the program was established by the Congress after considering possible approaches recommended by actuaries. This procedure has continued to be followed and used to prepare the actuarial cost estimates for the various annual reports of the Board of Trustees.

The long-term actuarial cost estimates for the HI program are made over a future period of 25 years. It is believed that a 25-year projection period for this program is as far ahead as should be considered, because of the uncertainty as to future institutional care practices and possible changes in the costs of these institutional services. On the other hand, the program is a long-term social insurance program; thus, it is necessary to look ahead for a period in the future to have some idea as to the rising costs that are possible, even with the uncertainties stated above.

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

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

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

On the other hand, the actuarial cost estimate for the hospital insurance program assumes that hospitalization costs will have a rising trend. The major factor underlying the trend is that wages are expected to increase indefinitely into the future, and about 60 percent of the hospital costs are due to wages. Since the trend of increasing wages is reflected in the benefit cost, then it is only realistic to take into account the additional income from the increase in earnings in covered employment.

The actuarial cost estimates were prepared based on the assumption that the earnings base will be increased in the future proportionately with changes in the level of general earnings (as has been the actual experience during the last two decades). If the Congress continues to increase the earnings base in the future when earning levels rise as it has done in the past, then such increase in the maximum taxable earnings base would generate additional contribution income, but no additional benefit liability (unlike the situation for the cash-benefit program). Because it is assumed in the cost estimates for the hospital insurance program that earnings will rise in the future, then it is reasonable to assume that the earnings base will similarly rise. This is so, not necessarily for reasons relating to this program, but rather because if the base were to remain level under conditions of rising earnings, then there would over the long run be a serious deterioration of the benefit protection provided by the cash-benefits program (as more and more people had earnings above the base, and thus did not have their full earnings utilized for benefit-computation purposes).

Table 5 shows the estimated progress of the hospital insurance trust fund on an incurred basis, according to the intermediate-cost estimate, for various future calendar years up through 1995 under present law, assuming that the earnings base is kept up to date with changes in the general earnings level in the future. These estimates were completed in February 1971, using the latest actual experience from the hospital insurance program. The cash figures on a fiscal-year basis as shown in table 4 are prepared on the same basis as the figures in table 5, except that the latter is on an incurred basis.

TABLE 5.—PROGRESS OF HOSPITAL INSURANCE TRUST FUND, UNDER ASSUMPTION THAT EARNINGS BASE IS KEPT UP TO DATE WITH INCREASES IN EARNINGS, INCURRED BASIS, INTERMEDIATE-COST ESTIMATE [1]

[In millions of dollars]

Calendar year	Contributions [2]	Payments from general fund [1]	Benefit payments	Administrative expenses	Interest on fund	Fund balance at end of year
1966	$2,115	$232	$1,397	[3] 107	$45	$888
1967	3,330	495	3,367	77	56	1,325
1968	4,315	553	4,102	99	80	2,072
1969	4,618	593	4,873	117	120	2,413
1970	4,972	591	5,475	129	150	2,522
1971	5,240	625	6,419	155	135	1,948
1972	5,889	658	7,593	166	83	819
1973	6,696	676	8,902	177	(4)	(4)
1974	7,417	681	10,149	189	(4)	(4)
1975	7,759	682	11,499	200	(4)	(4)
1980	13,233	525	17,696	273	(4)	(4)
1985	17,163	309	24,221	370	(4)	(4)
1990	26,194	132	32,752	502	(4)	(4)
1995	34,290	37	43,744	660	(4)	(4)

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

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

[3] Including administrative expenses incurred in 1965.

[4] Fund exhausted in 1973.

The benefits with respect to the uninsured group, and the accompanying administrative expenses, are paid from the hospital insurance trust fund, with the intention being that there will be current reimbursement therefor from the general fund of the Treasury. These benefit payments will decrease slowly in the future because the effect of mortality on this closed group more than offsets the rising trend of hospitalization costs and the increasing hospital utilization per capita for this group, as the average age becomes higher. The estimated benefit payments and administrative expenses for this category for 1971 and the following 5 calendar years are as follows (in millions):

Calendar year:	Outgo
1971	$606
1972	644
1973	672
1974	680
1975	682
1976	682

The estimated level-cost of the benefits and administrative expenses under the hospital insurance program is 2.20 percent of taxable payroll under the assumption that the earnings base will be kept up to date in the future with rises in earnings. The level-equivalent of the contribution schedule is estimated at 1.58 percent of taxable payroll. Therefore, the new actuarial cost estimate indicates that the program has an actuarial deficit of 0.62 percent of taxable payroll on a level-cost basis.

As shown in table 5, in 1971, the disbursements will exceed the income, and the trust fund would decrease thereafter and would be exhausted at the end of 1973.

The long-range actuarial cost estimates presented here were developed in late 1970 and early 1971. The estimates were based on the law enacted by Congress in March 1971 which raised the maximum taxable earnings base to $9,000 in 1972. The HI cost estimates assume that the earnings base will be kept up to date thereafter with the rate of increase in covered wages.

The level-cost of the hospital insurance program based on the 1971 estimates is slightly higher than the ones prepared in 1970 (2.20 and 2.09 percent of the taxable payroll, respectively). There are numerous reasons for this slight increase, including changing the assumptions as to the rate of increase in prices and using the more recent experience from the hospital insurance program. The discussion of the assumptions under which those new cost estimates have been made appear in appendix I.

Conclusion

New long-range actuarial cost estimates for the hospital insurance program were completed in February 1971. These estimates indicate that the hospital insurance program has an unfavorable actuarial balance of 0.62 percent of taxable payroll. The estimates were prepared according to a set of intermediate assumptions on the level-cost basis computed over the next 25 years. It was assumed that the maximum taxable earnings base will be kept up to date in the future with the increase in the general earnings level.

The President recommended additional financing for the hospital insurance program by increasing the contribution rate for employer and employee from 0.6 to 1 percent each, beginning in 1971 and remaining level thereafter. For the early years under the recommendation, the contribution rate for the old-age, survivors, and disability program is correspondingly reduced by that amount, thus leaving the total contribution rate for OASDHI program the same as the current law.

The 1 percent level-contribution rate for the hospital insurance program will be sufficient, at least, to fully finance the benefits and related administrative expenses for the next 10 years, although it would leave an unfavorable actuarial balance of 0.2 percent based on a level-cost basis computed over the next 25 years.

If contribution rates sufficient to cover the entire cost of the program as estimated over the whole 25-year period were to be established now, it would require a level rate of 1.1 percent each rather than 1 percent. Alternatively, a graded schedule could be used such as 0.8 percent in 1972–73, 0.9 percent in 1974–75, 1 percent in 1976–79, 1.1 percent in 1980–84, and 1.2 percent in 1985 and thereafter.