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1984 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

COMMUNICATION

FROM

THE BOARD OF TRUSTEES, FEDERAL HOSPITAL INSURANCE TRUST FUND

TRANSMITTING

THE 1984 ANNUAL REPORT OF THE BOARD, PURSUANT TO SSA, SEC. 1817(b)(2)

APRIL 5, 1984.—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 5, 1984

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

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

GENTLEMEN: We have the honor of transmitting to you the 1984 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the 19th such report), in compliance with the provisions of section 1817(b) of the Social Security Act.

Respectfully,

DONALD T. REGAN
Secretary of the Treasury, and
Managing Trustee of the Trust Fund

RAYMOND J. DONOVAN
Secretary of Labor,
and Trustee

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

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

Click on a Topic Below

C O N T E N T S

1984 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. Currently, the Board has three members who 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. The Social Security Amendments of 1983 (Public Law 98-21, enacted into law on April 20, 1983) provide for the addition of two public members to the Board of Trustees. The two new members are to be nominated by the President for a term of four years, and are subject to confirmation by the Senate.

By law, the Secretary of the Treasury is designated as the Managing Trustee and the Administrator of the Health Care Financing Administration is designated as Secretary of the Board. The Board of Trustees reports to the Congress each year on the operation and status of the trust fund, in compliance with section 1817(b)(2) of the Social Security Act. This is the 1984 annual report, the nineteenth such report.

HIGHLIGHTS

(a) Disbursements of the hospital insurance trust fund in fiscal year 1983 were $38.6 billion, an increase of 10.8 percent over fiscal year 1982. Most of this increase was due to a substantial rise in the cost of hospital services. Increases in both payroll and nonpayroll expenses in hospitals were greater than comparable increases in the general economy.

(b) Income to the trust fund amounted to $43.9 billion, representing an increase of 16.8 percent in fiscal year 1983 over 1982. The majority of this increase was due to an increase in the maximum amount of taxable earnings and the higher level of earnings in covered employment.

(c) The trust fund decreased from $20.8 billion to $13.7 billion at the end of fiscal year 1983. The effective annual rate of interest earned by the assets of the hospital insurance trust fund for the year ending June 30, 1983, was 11.2 percent.

(d) During December 1982, $12.4 billion was loaned to the Federal Old Age and Survivor Insurance Trust Fund under the interfund borrowing provisions of Public Law 97-123. The reduction in the trust fund from $20.8 billion to $13.7 billion at the end of fiscal year 1983 reflects the impact of this loan.

(e) The Secretary of Health and Human Services promulgated an inpatient deductible of $356 for calendar year 1984 and a monthly premium of $155 for noninsured enrollees also for calendar year 1984.

(f) Approximately 26.3 million persons aged 65 and over were protected by the hospital insurance program in July 1983. An additional 2.9 million disabled and end-stage renal disease beneficiaries had protection in the same month.

SOCIAL SECURITY AMENDMENTS SINCE THE 1983 TRUSTEES REPORT

Public Law 98-90, a "Social Security Act amendment," which was enacted on August 29, 1983, amended the hospice provision of the Tax Equity and Fiscal Responsibility Act, P.L. 97-248, by setting the limit for average hospice payments per beneficiary at $6,500 for the first year. For accounting years after October 1, 1984, this base amount is to be adjusted by the medical care expenditure category of the consumer price index (CPI). Effective upon enactment.

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NATURE OF THE TRUST FUND

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

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

All employees, and their employers, in employment covered by the program are required to pay contributions with respect to the wages of individual workers. Cash tips, covered as wages beginning in 1966 under the 1965 amendments, are an exception. Employees pay contributions with respect to cash tips but, prior to 1978, employers did not. Since 1978, under the 1977 amendments, employers have been required to pay contributions on that part of the tip income deemed to be wages under the Federal minimum wage law. All covered self-employed persons are required to pay contributions with respect to their self-employment income.

In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount, with the contributions being determined first on the wages and then on any self-employment income up to the maximum annual amount.

The hospital insurance contribution rates applicable to taxable earnings in each of the calendar years 1966 and later are shown in table 1. For 1985 and later, the contribution rates shown are the rates scheduled in the provisions of present law. The maximum amount of annual earnings taxable in each year 1966-84 are also shown. For 1975-78, the contribution and benefit bases were determined under the automatic increase provisions in section 230 of the Social Security Act. In 1979, 1980, and 1981, the bases increased to the specified amounts as provided under the 1977 amendments. After 1981, the automatic increase provisions are again applicable.

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

Prior to May 1983, the internal revenue collections were transferred to the trust funds immediately upon receipt. In May 1983 and later, estimated total collections for each month are credited to the trust funds on the first day of the month. As the actual collections are received during the month, they are deposited in the general fund of the Treasury and remain there. The trust funds may pay interest to the general fund to reimburse it for the interest lost because of this provision.

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

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

The income and expenditures of the trust fund are also affected by the provisions of the Railroad Retirement Act which provide for a system of coordination and financial interchange between the railroad retirement program and the hospital insurance program.

Sections 217(g) and 229(b) of the Social Security Act authorize annual reimbursements from the general fund of the Treasury to the hospital insurance trust fund for any costs arising from the granting of noncontributory wage credits for military service, according to periodic determinations made by the Secretary of Health and Human Services. These sections, as modified by the Social Security Amendments of 1983, provided for a lump sum amount in 1983 for costs arising from such wage credits. In addition, the lump sum amount included credits for the combined employer-employee HI taxes for the noncontributory wage credits for service after 1965 and before 1984. After 1983, HI taxes on military wage credits will be credited to the fund on July 1 of each year.

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

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

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

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

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

Prior to fiscal year 1984, hospitals, at their option, were permitted to combine their billing for both hospital and physician components of radiology and pathology services rendered hospital inpatients by hospital-based physicians. Where hospitals elected this billing procedure, payments were made initially from the hospital insurance trust fund. The reimbursements so made were on a provisional basis and are subject to adjustment, with appropriate interest allowance, as the actual experience develops and is analyzed.

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

The Social Security Amendments of 1967 and 1972 authorize the Secretary of Health and Human Services to develop and conduct a broad range of experiments and demonstration projects designed to determine various methods of increasing efficiency and economy in providing health care services, while maintaining the quality of such services, under the hospital insurance and supplementary medical insurance programs. A sizable portion of the costs of such experiments and demonstration projects is paid from the hospital insurance and supplementary medical insurance trust funds.

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

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

The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust fund. The law requires that such special public-debt obligations shall bear interest at a rate based on the average market yield (computed on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such month.

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

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

SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1983

A statement of the incomes and disbursements of the Federal Hospital Insurance Trust Fund in fiscal year 1983, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2. Corresponding amounts for fiscal year 1982 are also shown in the table.

The total assets of the trust fund amounted to $20,840 million on September 30, 1982. During fiscal year 1983, total receipts amounted to $43,940 million, and total disbursements and transfer amounts were $51,061[1/] million. The assets of the trust fund thus decreased $7,121 million during the year to a total of $13,719 million on September 30, 1983.

Included in total receipts during fiscal year 1983 were $32,907 million representing contributions appropriated to the trust fund and $3,563 million representing amounts received in accordance with State agreements for coverage of state and local government employees and deposited in the trust fund. As an offset, $83 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 $36,387 million, representing an increase of 5.8 percent over the amount of $34,390 million for the preceding 12-month period. This growth in contribution income resulted primarily from (1) the

1/ Includes a loan amount of $12,437 million to the Federal Old-Age and Survivors Insurance Trust Fund.

higher level of earnings in covered employment; and (2) the two increases in the maximum annual amount of earnings taxable from $29,700 to $32,400 and from $32,400 to $35,700--that became effective on January 1, 1982, and January 1, 1983, respectively.

The section entitled "Nature of the Trust Fund" referred to provisions of the Social Security Act under which certain persons aged 65 and over but not otherwise eligible for hospital insurance protection may obtain such protection by enrolling in the program and paying a monthly premium. Premiums collected from such voluntary participants in fiscal year 1983 amounted to about $25.8 million.

In accordance with the provisions of the Railroad Retirement Act which coordinate the railroad retirement and the hospital insurance programs and which govern the financial interchange arising from the allocation of costs between the two systems, the Railroad Retirement Board and the Secretary of Health and Human Services determined that a transfer of $308,600,000 from the railroad retirement account to the hospital insurance trust fund would place this fund in the same position, as of September 30, 1982, in which it would have been if railroad employment had always been covered under the Social Security Act. This amount, together with interest to the date of transfer amounting to $49,091,000, was transferred to the trust fund in June 1983.

In accordance with provisions for annual reimbursement from the general fund of the Treasury for the cost of granting noncontributory wage credits for military service, the Secretary of Health and Human

Services determined in 1980 the level annual appropriation necessary to amortize the estimated total additional costs for military service prior to 1957. This cost is amortized over a 34-year period, which began in fiscal year 1982, with an allowance for the appropriations which were made for fiscal years 1966-82. The annual amount resulting from this determination was $207 million. The Social Security Amendments of 1983 provided for the trust fund to be credited an additional sum of $3,456 million for such future costs and for the combined employer-employee HI taxes on gratuitous military wage credits for service after 1965 and before 1984.

Again, the section entitled "Nature of the Trust Fund" referred to provisions under which the hospital insurance trust fund is to be reimbursed from the general fund of the Treasury for costs of paying benefits under this program on behalf of certain uninsured persons. The reimbursement in fiscal year 1983 amounted to $878 million, consisting of $843 million for benefit payments, $14 million for administrative expenses, and $21 million for interest on adjustments to costs in prior fiscal years.

The remaining $2,629 million of receipts consisted almost entirely of interest on the investments of the trust fund and interest on interfund borrowing.

Of the $38,624 million in total disbursements, $38,102 million represented benefits paid directly from the trust fund for health services covered under title XVIII of the Social Security Act. Included in benefit payments are transfers amounting to $6 million per year that were made from the supplementary medical insurance trust fund to adjust for the loss of interest caused by the delay in transferring payments for the costs of radiology and pathology services that were paid initially from the hospital insurance trust fund but that were liabilities of the supplementary medical insurance trust fund. Benefit payments increased 10.9 percent in fiscal year 1983 over the corresponding amount of $34,343 million paid during the preceding 12 months.

The remaining $522 million of disbursements was for net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds--old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance--on the basis of provisional estimates. Similarly, the expenses of administering other programs of the Health Care Financing Adminstration are also allocated and charged directly to the general fund of the Treasury on a provisional basis. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are affected by interfund transfers, including transfers between the hospital insurance and supplementary medical insurance trust funds and the program management general fund account, with appropriate interest allowances.

Table 3 compares the actual experience in fiscal year 1983 with the estimates presented in the 1982 and 1983 annual reports. The section entitled "Nature of the Trust Fund" referred to the appropriation of contributions to the trust funds on an estimated basis, with subsequent periodic adjustments to account for differences from the amounts of contributions actually payable on the basis of reported earnings. In interpreting the figures in table 3, it should be noted that the "actual" amount of contributions in fiscal year 1983 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1983 does not reflect adjustments to contributions for fiscal year 1983 that were to be made after September 30, 1983.

The assets of the hospital insurance trust fund at the end of fiscal year 1982 totaled $20,840 million, consisting of $20,800 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations and an undisbursed balance of $40 million. The assets of the hospital insurance trust fund at the end of fiscal year 1983 totaled $13,719 million, consisting of $13,433 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations and an undisbursed balance of $286 million. Table 4 shows the total assets of the fund and their distribution at the end of fiscal years 1982 and 1983.

The net increase in the par value of the investments held by the fund during fiscal year 1982 amounted to $2,608 million. New securities at a total par value of $42,229 million were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was $39,621 million.

The net decrease in the par value of the investments held by the fund during fiscal year 1983 amounted to $7,285 million. New securities at a total par value of $49,759 million were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the fiscal year was $57,045 million.

The effective annual rate of interest earned by the assets of the hospital insurance trust fund during the 12 months ending on June 30, 1983, was 11.2 percent. (This period is used because interest on special issues is paid semiannually on June 30 and December 31.) The interest rate on public-debt obligations issued for purchase by the trust fund in June 1983 was 10.75 percent, payable semiannually.

TABLE 2.—STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1982 AND 1983
(In thousands of dollars)

	Fiscal Year 1982	Fiscal Year 1983
Total assets of the trust fund, beginning of period	$18,092,929	$20,839,552
Receipts:		
Appropriation of employment taxes	$31,016,681	$32,906,678
Less: refunds of employment taxes	70,230	83,200
Deposits arising from State agreements	3,443,728	3,563,137
Interest on investments:		
Collected	1,818,505	1,597,831
Paid to general fund-normalized tax crediting	-0-	(27,112)
Amortization of premium and discount net	-0-	18,267
Other	20	2,994
Interest on interfund borrowing	-0-	1,028,148
Premiums collected from voluntary participants	24,814	25,835
Transfer from railroad retirement account	308,100	308,600
Transitional uninsured coverage	808,000	878,000
Military service credits	207,000	3,663,000
Interest on reimbursements, SSA 1/	(366)	(160)
Interest on reimbursements, HCFA 1/	11,110	9,360
Interest on reimbursements, railroad	43,292	49,091
Total receipts	$37,610,654	$43,940,470
Expenditures:		
Benefit payments	34,343,378	38,101,524
Administrative expenses:		
Treasury administrative expenses	19,783	11,873
Salaries and expenses, SSA	221,812	241,829
Salaries and expenses, HCFA 2/	303,462	278,325
Salaries and expenses, Office of Secretary	4,383	4,564
Construction	7,663	13,235
Cost of experiments and demonstration projects	273	414
Professional Standard Review Organization	27,746	24,424
Reimbursement of SSA expenses 3/	764	736
Reimbursement of HCFA expenses 3/	(65,233)	(53,172)
Total expenditures	34,864,031	38,623,752
Transfer from FHI 3/	-0-	12,437,270
Total assets of the trust fund, end of period	$20,839,552	$13,719,000

1/ A positive figure represents a transfer of interest to the hospital insurance trust fund from the other trust funds. A negative figure represents a transfer of interest from the hospital insurance trust fund to the other trust funds.
2/ Includes administrative expenses of the intermediaries.
3/ A positive figure represents a transfer from the hospital insurance trust fund to the other trust funds. A negative figure represents a transfer to the hospital insurance trust fund from the other trust funds.

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

TABLE 3.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND, FISCAL YEAR 1983
(Dollar amounts in millions)

Item	Actual Amount	Comparison of actual experience with estimates for fiscal year 1983 published in--			
		1983 Report		1982 Report	
		Estimated Amount	Actual as percentage of estimate	Estimated Amount	Actual as percentage of estimate
Net contributions	$36,387	$36,644	99	$37,590	97
Benefit payments	$38,102	$38,547	99	$39,445	97

TABLE 4.—ASSETS OF THE HOSPITAL INSURANCE TRUST FUND BY TYPE AT THE END OF FISCAL YEARS 1982 and 1983 1/

	September 30, 1982	September 30, 1983
Investments in public-debt obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
11 7/8-percent, 1983	—	$ 965,737,000.00
12 1/4-percent, 1983	550,263,000.00	
Bonds:		
7 1/8-percent, 1992	524,479,000.00	—
7 3/8-percent, 1984	113,226,000.00	—
7 3/8-percent, 1985	165,759,000.00	—
7 3/8-percent, 1986	165,759,000.00	—
7 3/8-percent, 1987	165,759,000.00	—
7 3/8-percent, 1988	165,760,000.00	—
7 3/8-percent, 1989	165,760,000.00	—
7 3/8-percent, 1990	571,444,000.00	—
7 1/2-percent, 1984	109,372,000.00	—
7 1/2-perenet, 1985	109,373,000.00	—
7 1/2-percent, 1986	109,373,000.00	—
7 1/2-percent, 1987	109,373,000.00	—
7 1/2-percent, 1988	109,372,000.00	—
7 1/2-percent, 1989	109,372,000.00	—
7 1/2-percent, 1990	109,372,000.00	—
7 1/2-percent, 1991	680,816,000.00	—
7 5/8-percent, 1984	405,685,000.00	—
7 5/8-percent, 1985	405,685,000.00	—
7 5/8-percent, 1986	405,685,000.00	—
7 5/8-percent, 1987	405,685,000.00	—
7 5/8-percent, 1988	405,684,000.00	—
7 5/8-percent, 1989	405,684,000.00	—
8 1/4-percent, 1984	45,347,000.00	—
8 1/4-percent, 1985	45,347,000.00	—
8 1/4-percent, 1986	45,346,000.00	—
8 1/4-percent, 1987	45,346,000.00	—
8 1/4-percent, 1988	45,347,000.00	—
8 1/4-percent, 1989	45,347,000.00	—
8 1/4-percent, 1990	45,347,000.00	—
8 1/4-percent, 1991	45,347,000.00	—
8 1/4-percent, 1992	201,684,000.00	—
8 1/4-percent, 1993	726,163,000.00	622,280,000.00
8 3/4-percent, 1984	123,297,000.00	—
8 3/4-percent, 1985	123,297,000.00	—
8 3/4-percent, 1986	123,297,000.00	—
8 3/4-percent, 1987	123,297,000.00	—
8 3/4-percent, 1988	123,297,000.00	—
8 3/4-percent, 1989	123,297,000.00	—
8 3/4-percent, 1990	123,297,000.00	—
8 3/4-percent, 1991	123,297,000.00	—
8 3/4-percent, 1992	123,297,000.00	—
8 3/4-percent, 1993	123,297,000.00	123,297,000.00
8 3/4-percent, 1994	849,460,000.00	849,460,000.00
9 3/4-percent, 1984	130,209,000.00	—
9 3/4-percent, 1985	130,209,000.00	—
9 3/4-percent, 1986	130,210,000.00	—
9 3/4-percent, 1987	130,210,000.00	—
9 3/4-percent, 1988	130,210,000.00	—
9 3/4-percent, 1989	130,210,000.00	—
9 3/4-percent, 1990	130,210,000.00	—
9 3/4-percent, 1991	130,210,000.00	—
9 3/4-percent, 1992	130,210,000.00	—
9 3/4-percent, 1993	130,210,000.00	130,210,000.00
9 3/4-percent, 1994	130,210,000.00	130,210,000.00
9 3/4-percent, 1995	979,670,000.00	979,670,000.00
10 3/4-percent, 1985	—	239,417,000.00
10 3/4-percent, 1986	—	588,410,000.00
10 3/4-percent, 1987	—	588,410,000.00
10 3/4-percent, 1988	—	588,410,000.00
10 3/4-percent, 1989	—	588,410,000.00
10 3/4-percent, 1990	—	588,410,000.00
10 3/4-percent, 1991	—	588,410,000.00
10 3/4-percent, 1992	—	588,410,000.00
10 3/4-percent, 1998	—	588,410,000.00
13 -percent, 1984	197,607,000.00	—
13 -percent, 1985	197,607,000.00	—
13 -percent, 1986	197,606,000.00	—
13 -percent, 1987	197,606,000.00	—
13 -percent, 1988	197,606,000.00	—
13 -percent, 1989	197,606,000.00	—
13 -percent, 1990	197,606,000.00	—
13 -percent, 1991	197,606,000.00	—
13 -percent, 1992	197,606,000.00	—
13 -percent, 1993	197,606,000.00	197,606,000.00
13 -percent, 1994	197,606,000.00	197,606,000.00
13 -percent, 1995	197,606,000.00	197,606,000.00
13 -percent, 1996	1,177,276,000.00	1,177,276,000.00
13 1/4-percent, 1984	272,853,000.00	—
13 1/4-percent, 1985	272,853,000.00	—
13 1/4-percent, 1986	272,854,000.00	—
13 1/4-percent, 1987	272,854,000.00	—
13 1/4-percent, 1988	272,854,000.00	—
13 1/4-percent, 1989	272,854,000.00	—
13 1/4-percent, 1990	272,853,000.00	—
13 1/4-percent, 1991	272,853,000.00	—
13 1/4-percent, 1992	272,853,000.00	—
13 1/4-percent, 1993	272,853,000.00	272,853,000.00
13 1/4-percent, 1994	272,853,000.00	272,853,000.00
13 1/4-percent, 1995	272,853,000.00	272,853,000.00
13 1/4-percent, 1996	272,853,000.00	272,853,000.00
13 1/4-percent, 1997	1,450,129,000.00	1,450,129,000.00
Total public-debt obligations sold only to this fund (special issues)	$20,799,541,000.00	$13,059,202,000.00
Investments in federally-sponsored agency obligations:		
Participations certificates:		
Federal Assets Liquidation Trust-Government National Mortgage Association:		
5.10-percent, 1987	—	50,000,000.00
6.40-percent, 1987	—	75,000,000.00
6.05-percent, 1988	—	65,000,000.00
6.45-percent, 1988	—	35,000,000.00
6.20-percent, 1988	—	230,000,000.00
Unamortized Premium & Discount-Net	—	(81,380,713.30)
Total investments	$20,799,541,000.00	$13,432,821,286.70
Undisbursed balance	-40,011,307.67 2/	286,178,894.58
Total assets	$20,839,552,307.67	$13,719,000,181.28

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 redemption of securities on the first day of the following month.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE PERIOD OCTOBER 1, 1983 TO DECEMBER 31, 1986

The expected operations of the trust fund during fiscal years 1984-86 are shown in table 5, together with the past experience of the program. The projection shown in table 5--and the entirety of this section--is based on two intermediate sets of projection assumptions labeled alternative II-A and alternative II-B, which are presented in detail in Appendix A. The economic assumptions underlying these two alternative sets of assumptions are described in detail in the 1984 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Disability Insurance Trust Funds.

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

Estimated income to the trust fund which is appropriated from general revenues to reimburse the program for the cost of coverage of noninsured persons is the same as the estimates of disbursements for such persons, net of corrections for differences between costs and amounts transferred for previous years. Premium income and disbursements for other noninsured persons over age 65 who may enroll in the hospital insurance program on a voluntary basis are based on an estimated enrollment of 21,000 in fiscal year 1984.

Reimbursement from general revenues for military wage credits was $3,663 million in fiscal year 1983 and $80 million in fiscal year 1984. This was based on provisions of the Social Security Amendments of 1983, as described in the "Nature of the Trust Fund" section.

The investment of new assets received during fiscal years 1984-86 is assumed to be in the form of special public-debt obligations bearing interest rates ranging from 11 1/8 percent, payable semiannually in 1984, to 9 7/8 percent in 1986. The average effective annual rate of interest on the assets held by the hospital insurance trust fund on September 30, 1983, was 11.4 percent.

Disbursements for benefits are projected to increase sharply in fiscal years 1984-86, primarily as a result of the high rate of increase in hospital costs reimbursable under the program. The expenditures for benefit payments shown in table 5 differ slightly from those shown in the 1985 Federal Budget. These estimates are based on more recent demographic and economic projections, and they do not reflect the implementation of proposed changes in regulations which were included in the budget.

The interfund loan to the old age and survivors insurance trust fund from the hospital insurance trust fund as provided for by the interfund borrowing provisions of Public Law 97-123 is shown in table 5. A loan would technically still be considered an asset of the hospital insurance trust fund. However, since these assets would not be immediately available for payment of hospital insurance benefits, they are subtracted out of the

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fund at end of year column. A negative amount is a loan to the old age and survivors insurance trust fund. A positive amount is a repayment of principal to the hospital insurance trust fund. Interest payments on the outstanding loan are payable monthly and are included in the interest on investments and other income column.

The actual operations of the hospital insurance program are organized, in general, on a calendar year basis. Earnings subject to taxation and the applicable tax rates are established by calendar year, as are the inpatient deductible and other cost-sharing amounts. The projected operations of the trust fund on a calendar year basis are shown in table 6, according to the same assumptions as used in table 5. The ratios of assets in the trust fund at the beginning of each calendar year to total disbursements during that year are shown in table 7 for past years and as projected through 1986.

TABLE 5.--OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1967-86
(In millions)

	Income							Disbursements				Trust Fund	
Fiscal Year 1/	Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Reimbursement for military wage credits	Interest on investments and other income 2/	Total income	Benefits payments	Administrative expenses 3/	Total disbursements	Interfund borrowing transfers 4/	Net increase fund	Fund at end of year
Historical Data:													
1967	$ 2,689	$ 16	$327		$ 11	$ 46	$ 3,089	$ 2,508	$ 89	$ 2,597		$ 492	$ 1,343
1968	3,514	44	273		11	61	3,902	3,736	79	3,815		88	1,431
1969	4,423	54	749		22	96	5,344	4,654	104	4,758		586	2,017
1970	4,785	64	617		11	137	5,614	4,804	149	4,953		661	2,677
1971	4,898	66	863		11	180	6,018	5,442	150	5,592		426	3,103
1972	5,226	66	503		48	188	6,031	6,108	167	6,276		-245	2,859
1973	7,663	63	381		48	196	8,352	6,648	194	6,842		1,510	4,369
1974	10,602	99	451	$ 4	48	405	11,610	7,806	259	8,065		3,545	7,914
1975	11,291	132	481	6	48	609	12,568	10,353	259	10,612		1,956	9,870
1976	12,031	138	610	8	48	709	13,544	12,267	312	12,579		966	10,836
T.Q.	3,366	143	0 5/	2	0	5	3,516	3,315	89	3,404		112	10,948
1977	13,649	0 6/	803 5/	11	141	770	15,374	14,906	301	15,207		167	11,115
1978	16,677	214 6/	688	12	143 7/	809	18,543	17,411	451	17,862		681	11,796
1979	19,927	191	734	17	141	901	21,910	19,891	452	20,343		1,567	13,363
1980	23,244	244	697	17	141	1,072	25,415	23,790	497	24,288		1,127	14,490
1981	30,425	276	659	21	141	1,341	32,863	28,907	353	29,260		3,603	18,093
1982	34,390	351	808	25	207	1,829	37,611	34,343	521	34,864		2,747	20,840
1983	36,387	358	878	26	3,663 8/	2,629	43,940	38,102	522	38,624	$-12,437	-7,121	13,719
Alternative II-A													
1984	41,462	354	753	36	80	2,807	45,492	43,828	685	44,513		979	14,698
1985	47,256	359	740	44	85	2,910	51,394	51,118	868	51,986		-592	14,106
1986	54,149	370	719	50	94	2,731	58,113	55,726	931	56,657	7,000	8,456	22,562
Alternative II-B													
1984	41,407	354	753	36	80	2,805	45,435	43,828	685	44,513		922	14,641
1985	47,183	359	740	44	85	2,898	51,309	51,126	870	51,996		-687	13,954
1986	54,296	369	722	50	94	2,772	58,303	56,034	937	56,971	5,500	6,832	20,786

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

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

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

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

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

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

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

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

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

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TABLE 6.—OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1966-86
(In millions)

Calendar Year	Income							Disbursements			Interfund borrowing transfers 3/	Trust Fund	
	Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Reimbursement for military wage credits	Interest on investments and other income 1/	Total income	Benefits payments	Administrative expenses 2/	Total disbursements		Net increase fund	Fund at end of year
Historical Data:													
1966	$ 1,858	$ 16	$ 26		$ 11	$ 32	$ 1,943	$ 891	$108	$ 999		$ 944	$ 944
1967	3,152	44	301		11	51	3,559	3,353	77	3,430		129	1,073
1968	4,116	54	1,022		22	74	5,287	4,179	99	4,277		1,010	2,083
1969	4,473	64	617		11	113	5,279	4,739	118	4,857		422	2,505
1970	4,881	66	863		11	158	5,979	5,124	157	5,281		698	3,202
1971	4,921	66	503		48	193	5,732	5,751	150	5,900		-168	3,034
1972	5,731	63	381		48	180	6,403	6,318	185	6,503		-99	2,935
1973	9,944	99	451	$ 2	48	278	10,821	7,057	232	7,289		3,532	6,467
1974	10,844	132	471	5	48	523	12,024	9,099	272	9,372		2,652	9,119
1975	11,502	138	621	7	48	664	12,980	11,315	266	11,581		1,399	10,517
1976	12,727	143	0 4/	9	141	746	13,766	13,340	339	13,679		88	10,605
1977	14,114	0 5/	803 4/	12	143 6/	784	15,856	15,737	283	16,019		-163	10,442
1978	17,324	214 5/	688	13	141	834	19,213	17,682	496	18,178		1,035	11,477
1979	20,768	191	734	16	141	975	22,825	20,623	450	21,073		1,751	13,228
1980	23,848	244	697	18	141	1,149	26,097	25,064	512	25,577		521	13,749
1981	32,959	276	659	22	207	1,603	35,725	30,342	384	30,726		4,999	18,748
1982	34,586	351	808	24	207	2,058	38,034	35,631	513	36,144	$-12,437	-10,548	8,200
1983	37,259	358	878	27	3,456 7/	2,557	44,535	39,337	540	39,877		4,658	12,858
Projection:													
Alternative II-A													
1984	42,404	354	753	39	80	2,780	46,410	45,347	748	46,095		315	13,173
1985	48,483	359	740	45	85	2,802	52,514	51,765	883	52,648		-134	13,039
1986	56,040	370	719	51	94	2,813	60,087	57,281	947	58,228	7,000	8,859	21,898
Alternative II-B													
1984	42,327	354	753	39	80	2,776	46,329	45,347	748	46,095		234	13,092
1985	48,440	359	740	45	85	2,790	52,459	51,776	885	52,661		-202	12,890
1986	56,225	369	722	51	94	2,848	60,309	57,708	954	58,662	5,500	7,147	20,037

1/ Other income includes recoveries of amounts reimbursed from the trust fund which are not obligations of the trust fund and other miscellaneous income.
2/ Includes costs of experiments, demonstration projects, and Peer Review Organizations.
3/ A loan to the OASI trust fund would still be an asset of the HI trust fund. However, since these assets are not immediately available for payment of HI benefits, they are subtracted out of the HI fund at end of year. A negative amount is a loan to the OASI trust fund. A positive amount is a repayment of principal to the HI trust fund.
4/ No transfer is made in 1976 because of the change in transfer dates from December to March. The 1977 transfer is for benefits and administrative expenses during the 15-month period beginning July 1976 and ending September 1977.
5/ No transfer is made in 1977 because of the change in transfer dates from August to June. The 1978 transfer is for contributions during the five-quarter period covering the transition quarter and fiscal year 1977.
6/ Includes $2 million in reimbursement form general revenues for costs arising from the granting of noncontributory wage credits to persons of Japanese ancestry who were interned during World War II.
7/ Includes the lump sum general revenue transfer of $3,456 million as provided for by Section 151 of P.L. 98-21.

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

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

Calendar Year	Ratio
Historical Data:	
1967	28%
1968	25
1969	43
1970	47
1971	54
1972	47
1973	40
1974	69
1975	79
1976	77
1977	66
1978	57
1979	54
1980	52
1981	45
1982	52
1983	21
Projection:	
Alternative II-A	
1984	28
1985	25
1986	22
Alternative II-B	
1984	28
1985	25
1986	22

ACTUARIAL STATUS OF THE TRUST FUND

The Board of Trustees has adopted the general financing principle that annual income to the hospital insurance program should be approximately equal to annual outlays of the program plus an amount to maintain a balance in the trust fund equal to one-half year's expenditures. This principle reflects the view that a small fund is needed for the contingency that future income and outgo may differ substantially from projected levels, but that it is unnecessary and impractical to fund fully the future benefits of workers as they accrue the right to those future benefits.

The projected expenditures under the program, expressed as percentages of taxable payroll, are summarized for selected years over the next 25-year period in table 8. The ratio of expenditures to taxable payroll has increased from 0.94 percent in 1967 to 2.72 percent in 1983, reflecting both the higher rate of increase in hospital costs than in earnings subject to hospital insurance taxes and the extension of hospital insurance benefits to disabled beneficiaries and persons suffering from end-stage renal disease. Further increases in this ratio to 2.83 percent in 1985, and 4.94 percent by the year 2005 under alternative II-A, and 2.83 percent in 1985 and 5.18 percent by the year 2005 under alternative II-B, result from the assumption that the cost of institutional health care will continue to increase at a higher rate than taxable earnings. (See appendix A for a description of the methodology and assumptions used in these projections.)

The allowances necessary to build the trust fund to the level of a half year's disbursements and to maintain it at that level, after accounting for the offsetting effect of interest earnings, are also shown in table 8. At the beginning of 1984, the HI fund was well below the desired level. Additional financing would be required immediately to begin building the trust fund to the level of a half year's disbursements. For purposes of display in table 8, the allowance for trust fund building is spread over a 10-year period and after that, the allowance is solely for maintaining the trust fund at the 50 percent level.

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

The projected total costs of the program under alternatives II-A and II-B, expressed as percentages of taxable payroll, and the tax rates scheduled under current law are shown in table 8 for selected years over the 25-year period 1984-2008. The total cost of the program including expenditures, and trust fund building and maintenance, exceeds the tax rate in every year in both projections. Furthermore, expenditures for benefits and administrative expenses alone exceed the corresponding tax rates for all years. The trust fund, as a percent of a year's disbursements under both alternatives II-A and II-B, is projected to remain at a level between 20 and 40 percent through the remainder of this decade, reaching its peak in 1988 and then declining rapidly until it is completely exhausted in 1991.

The actuarial balance of the hospital insurance program is defined to be the excess of the average tax rate for the 25-year valuation period over the average cost of the program, expressed as a percent of taxable payroll, for the same period. The average tax rate for the 25-year period 1984-2008 is 2.88 percent. The average cost to the program under alternative II-A is 4.12 percent of taxable payroll, composed of 4.05 percent for program expenditures and .07 percent for building and maintenance of the trust fund. The average cost of the program under alternative II-B is 4.25 percent of taxable payroll, composed of 4.18 percent for program expenditures and .08 percent for building and maintenance of the trust fund. The resulting actuarial balances, as shown in table 9, are a deficit of 1.24 percent and 1.37 percent of taxable payroll for alternatives II-A and II-B, respectively.

Long-range cost estimates for the hospital insurance program have been made, since the beginning of the program, for the 25-year period beginning with the year of the report. A relatively long valuation period, such as 25 years, is necessary in order to depict the pattern of rising costs which will ensue. Even a valuation period as long as 25 years fails to present fully the future contingencies that reasonably may be expected, such as the impact of the demographic shift after the turn of the century which is discussed in the old-age, survivors, and disability insurance report. Appendix B shows 75-year projections for HI. Appendix F of the OASDI report shows 75-year projections for the combined OASDHI system. Although a precise prediction of the future is not possible, even in the short range, both short- and long-range estimates, based on reasonable assumptions, can indicate the trend and general range of future costs.

Since future economic, demographic, and health care usage and cost experience may differ considerably from either set of intermediate assumptions on which the cost estimates were based, projections also have been prepared on the basis of two alternative sets of assumptions. The estimated operations of the hospital insurance trust fund during calendar years 1983-95 are summarized in table 10 for all four alternatives, and table 11 compares the actuarial balance under each of the four. The assumptions underlying alternatives II-A and II-B, the intermediate projections, are presented in substantial detail in appendix A. The assumptions used in preparing alternative projections I and III are also summarized in appendix A. The projections shown in the statement of expected operations and status of the trust fund through December 31, 1986, contained earlier in this report, are based on the assumptions contained in alternatives II-A and II-B.

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

Under both alternatives II-A and II-B, the trust fund as a percent of a year's disbursements is projected to remain between 20 and 40 percent through the late 1980s and then decline rapidly until it is completely exhausted in 1991. Under alternative I, the trust fund is projected to grow until about 1988, then to decline steadily until the fund is completely exhausted in 1995. Under alternative III, the trust fund as a percent of a year's disbursements is projected to decrease, with complete exhaustion of the fund by 1989. These projections do not reflect any reduction in disbursements due to proposed changes in regulations which were included in the 1985 Federal Budget but which have not been implemented.

The divergence in outcomes among the four alternatives is reflected both in the estimated operations of the trust fund and in the 25-year average costs. The variations in the underlying assumptions, as shown in appendix A, can be characterized as (1) moderate in terms of magnitude of the differences on a year-by-year basis, and (2) persistent over the duration of the 25-year period. Under both sets of intermediate assumptions, program costs are projected to grow at a rate which gradually declines to an ultimate level of approximately 2 percent more than taxable payroll. Under alternative I, program costs are projected to grow at a somewhat lower rate which gradually declines to a level about the same as for taxable payroll. Similarly, alternative III follows a pattern whereby program costs initially increase at a somewhat higher rate, gradually declining to an ultimate difference of about 4 percent. Recent experience has indicated that economic conditions producing results as adverse as those under alternative III can occur. In view of this and because of the wide range of possible experience, it is important that a substantial balance be maintained in the hospital insurance trust fund as a reserve for contingencies.

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

Calendar Year	Expenditures under the program 1/	Trust fund building and maintenance 2/	Total cost of the program 3/	Tax rate scheduled in the law 4/	Difference
Historical Data:					
1967	0.94%				
1968	1.04				
1969	1.12				
1970	1.20				
1971	1.32				
1972	1.30				
1973	1.33				
1974	1.42				
1975	1.69				
1976	1.83				
1977	1.95				
1978	2.02				
1979	1.99				
1980	2.18				
1981	2.40				
1982	2.70				
1983	2.72 6/				
Projection:					
Alternative II-A					
1984	2.71%	0.07%	2.78%	2.60%	-0.18%
1985	2.83	0.08	2.91	2.70	-0.21
1990	3.40	0.12	3.53	2.90	-0.63
1995	4.03	0.06	4.09	2.90	-1.19
2000	4.52	0.05	4.58	2.90	-1.68
2005	4.94	0.04	4.98	2.90	-2.08
Average 5/	4.05	0.07	4.12	2.88	-1.24
Alternative II-B					
1984	2.71	0.07	2.79	2.60	-0.19
1985	2.83	0.09	2.92	2.70	-0.22
1990	3.45	0.12	3.57	2.90	-0.67
1995	4.13	0.07	4.20	2.90	-1.30
2000	4.70	0.06	4.75	2.90	-1.85
2005	5.18	0.05	5.23	2.90	-2.33
Average 5/	4.18	0.08	4.25	2.88	-1.37

1/ Costs attributable to insured beneficiaries only. Benefits and administrative costs for noninsured persons are financed through general revenue transfers and premium payments, rather than through payroll taxes. Gratuitous credits for military service after 1956 are included in taxable payroll.
2/ Allowance for building and maintaining the trust fund balance at the level of a half year's outgo after accounting for the offsetting effect of interest earnings.
3/ Totals do not necessarily equal the sum of rounded components.
4/ Rates for employees and employers combined.
5/ Average for the 25-year period 1984-2008.
6/ Gratuitous credits for military service before 1984 were attributed to the year in which such service had occurred. If all such credits had been attributed to 1983, expenditures under the program in 1983 would have been lower by .19 percent of taxable payroll.

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

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

	Alternative II-A	Alternative II-B
Average contribution rate, scheduled under present law 1/	2.88%	2.88%
Average cost of the program: 1/		
Expenditures, for benefit payments and administrative costs for insured beneficiaries	4.05	4.18
Building and maintaining the trust fund, at the level of one-half year's expenditures	.07	.08
Total cost of the program 2/	4.12	4.25
Actuarial balance	-1.24%	-1.37%

1/ Average for the 25-year period 1984-2008.
2/ Totals do not necessarily equal sum of rounded components.

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

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TABLE 10.--ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1983-95, UNDER ALTERNATIVE SETS OF ASSUMPTIONS
(Dollar amounts in billions)

Calendar Year	Total Income	Total disbursements	Interfund borrowing transfers 1/	Net increase in fund	Fund at end of year	Ratio of assets to disbursements 2/ (percent)
			ALTERNATIVE I			
1983 3/	$44.5	$ 39.9		$ 4.7	$12.9	21%
1984	46.5	46.1		0.4	13.3	28
1985	52.8	51.8	$ 0.4	1.3	14.6	26
1986	60.4	56.5	11.3	15.2	29.8	26
1987	65.2	61.7	0.7	4.2	34.1	48
1988	69.8	67.4		2.4	36.5	51
1989	74.2	73.2		1.0	37.4	50
1990	77.7	78.5		-0.8	36.6	48
1991	81.7	85.0		-3.2	33.4	43
1992	85.0	90.3		-5.3	28.1	37
1993	89.3	97.2		-7.9	20.2	29
1994	92.8	104.3		-11.5	8.8	19
1995	97.4	111.5		-14.1	4/	8
			ALTERNATIVE II-A			
1983 3/	44.5	39.9		4.7	12.9	21
1984	46.4	46.1		0.3	13.2	28
1985	52.5	52.6		-0.1	13.0	25
1986	60.1	58.2	7.0	8.9	21.9	22
1987	64.6	64.5	5.4	5.6	27.5	34
1988	68.9	71.6		-2.6	24.8	38
1989	72.9	79.1		-6.2	18.6	31
1990	76.9	87.4		-10.5	8.1	21
1991	80.2	96.1		-15.9	5/	8
			ALTERNATIVE II-B			
1983 3/	44.5	39.9		4.7	12.9	21
1984	46.3	46.1		0.2	13.1	28
1985	52.5	52.7		-0.2	12.9	25
1986	60.3	58.7	5.5	7.1	20.0	22
1987	65.1	65.5	6.9	6.6	26.6	31
1988	69.6	73.1		-3.5	23.1	36
1989	73.7	81.1		-7.4	15.7	28
1990	77.6	89.8		-12.2	3.5	17
1991	81.2	99.4		-18.2	5/	4
			ALTERNATIVE III			
1983 3/	44.5	39.9		4.7	12.9	21
1984	45.9	46.1		-0.2	12.7	28
1985	50.8	52.4		-1.7	11.0	24
1986	57.8	59.0		-1.2	9.8	19
1987	62.0	66.9		-5.0	4.8	15
1988	65.6	76.1	12.4	2.0	6.9	6
1989	69.0	86.2		-17.3	6/	8

1/ A loan to the OASI trust fund would still be an asset of the HI trust fund. However, since these assets are not immediately available for payment of HI benefits, they are subtracted from the HI fund balance. A negative amount is a loan to the OASI trust fund; a positive amount is a repayment of principal to the HI trust fund.
2/ Ratio of assets in the trust fund at the beginning of the year to disbursements during the year.
3/ Figures for 1983 represent actual experience.
4/ Trust fund depleted in calendar year 1995.
5/ Trust fund depleted in calendar year 1991.
6/ Trust fund depleted in calendar year 1989.

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

CONCLUSION

The balance in the Federal Hospital Insurance Trust Fund at the beginning of 1984 was at the level of 28 percent of estimated outgo for calendar year 1984. This is far below the 50 percent level recommended by the Board of Trustees. The tax rates specified in the law (including the scheduled increases in 1985 and 1986) are sufficient, along with interest earnings, assets in the fund, and anticipated loan repayments from the Federal Old Age and Survivors Insurance Trust Fund, to support program expenditures only over the next six to seven years. However, inadequate reserve levels make the hospital insurance trust fund vulnerable to even temporary deviations in actual experience from the projections. Thus, even though the trust fund is expected to be able to pay benefits and administrative expenses as they become due until 1991 under the intermediate assumptions, any significant adverse deviation from these projections could result in the inability of the fund to meet its obligations much sooner than projected.

Despite the short-term uncertainties regarding the ability of the trust fund to meet its obligations, the prospective payment system has made the outlays of the hospital insurance program potentially less vulnerable to excessive rates of growth in the hospital industry by providing the Secretary of Health and Human Services with some discretion over the level of payments to hospitals. It is difficult to anticipate the level of discretion which the Secretary of Health and Human Services will exercise over the 25-year projection period in determining payments to hospitals. However, the projections in this report indicate that, even assuming reasonable use of this discretionary authority, the present financing schedule for the hospital insurance trust fund is inadequate to provide for the expenditures anticipated over the entire 25-year valuation period if the assumptions underlying the estimates are realized. The average tax rate necessary to provide for benefits and administrative expenses plus build the fund to a level of a half year's disbursements exceeds the average tax rate scheduled in the law, producing an average deficit of 1.37 percent of taxable payroll under alternative II-B and 1.24 percent under alternative II-A over the entire 25-year projection period. In order to bring the hospital insurance program into close actuarial balance for the 25-year projection period under alternative II-B assumptions, either outlays will have to be reduced by 32 percent or income increased by 48 percent.

The Board recommends that Congress consider further action to curtail the rapid growth in the cost of the hospital insurance program which has occurred in recent years and which is anticipated in the future.