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1990 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 1990 ANNUAL REPORT OF THE BOARD, PURSUANT TO SECTION 1817(b) OF THE SOCIAL SECURITY ACT, AS AMENDED

LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL HOSPITAL INSURANCE TRUST FUND
Washington, D.C., April 18, 1990

HONORABLE THOMAS S. FOLEY
Speaker of the House of Representatives
Washington, D.C.

HONORABLE DAN QUAYLE
President of the Senate
Washington, D.C.

GENTLEMEN:

We have the honor of transmitting to you the 1990 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the 25th such report), pursuant to the provisions of section 1817(b) of the Social Security Act.

Respectfully,

NICHOLAS F. BRADY,
Secretary of the Treasury, and
Managing Trustee of the Trust Fund

ELIZABETH DOLE,
Secretary of Labor, and Trustee

LOUIS W. SULLIVAN, M.D.,
Secretary of Health and
Human Services, and Trustee

PUBLIC TRUSTEE,
Vacant

PUBLIC TRUSTEE,
Vacant

GAIL R. WILENSKY, Ph.D.,
Administrator of the Health Care
Financing Administration,
and Secretary, Board of Trustees

Click on a Topic Below

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1990 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

EXECUTIVE SUMMARY

The hospital insurance (HI) program pays for inpatient hospital care and other related care for those age 65 and over, and for the long-term disabled. In calendar year 1989, HI covered 30 million aged and 3 million disabled enrollees at a cost of $60.8 billion. Of this amount, $60.0 billion was for benefit payments and $0.8 billion, only 1.3 percent of total disbursements, was for administrative expenses.

The payroll taxes of 136 million workers primarily financed the HI program in calendar year 1989. Payroll taxes amounting to $68.4 billion, or 89.1 percent of total income, were collected during the year. Interest payments to the HI trust fund amounted to 9.5 percent of total income. The remaining 1.4 percent of calendar year 1989 income consisted mostly of a transfer from the railroad retirement program, transfers from the general fund of the Treasury, and premiums paid by voluntary enrollees.

As mentioned above, the HI program is primarily financed by payroll taxes, with the taxes paid by current workers used mainly to pay benefits for current beneficiaries. Income not currently needed to pay benefits and related expenses is held in the HI trust fund. The assets of the fund may not be used for any other purpose. While in the fund, the assets are invested in certain interest-bearing obligations of the U.S. Government.

The HI contribution rates applicable to taxable earnings in each of the calendar years 1986 and later are shown in Table I. The maximum taxable amounts of annual earnings are shown for 1986 through 1990. After 1990, the automatic increase provisions in section 230 of the Social Security Act determine the maximum taxable amount.

TABLE I.--**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
1986	$42,000	1.45	2.90
1987	43,800	1.45	2.90
1988	45,000	1.45	2.90
1989	48,000	1.45	2.90
1990	51,300	1.45	2.90
Changes scheduled in present law:			
1991 & later	Subject to automatic increase	1.45	2.90

Actuarial Status of the Trust Fund

The Board of Trustees recommends that it is advisable to maintain a balance in the trust fund equal to a minimum of one-half year's disbursements, as a reserve against fluctuations in program experience and to provide time for any needed legislation to remedy unexpected imbalances. At the beginning of 1990, the trust fund was above the minimum desired level.

Projections were made under four alternative sets of assumptions: optimistic, two intermediate sets (alternatives II-A and II-B), and pessimistic. Under both sets of intermediate assumptions, the trust fund ratio, defined as the ratio of assets at the beginning of the year to disbursements during the year, is projected to increase until 1994 and then decline steadily until the fund is completely exhausted shortly after the turn of the century. Under the more optimistic set of assumptions (alternative I), the trust fund is projected to remain solvent throughout the first 25-year projection period, with trust fund exhaustion occurring in 2018. Under the more pessimistic set of assumptions (alternative III), the trust fund ratio is projected to increase to a level of about 146 percent in 1992 and then decrease rapidly until the fund is exhausted in 1999.

Table 11 in this report summarizes the estimated operations of the HI trust fund under the four alternative sets of assumptions. Figure 1 shows historical trust fund ratios for recent years and projected ratios under the four sets of assumptions.

The adequacy of the financing of the HI program on a long-range basis is measured by comparing on a year-by-year basis the actual tax rates specified by law with the corresponding costs of the program, expressed as percentages of taxable payroll. However, the financial status of the program is often summarized, over a specific projection period, by the actuarial balance. The actuarial balance is defined to be the excess of the average tax rate for the valuation period over the average cost of the program expressed as a percentage of taxable payroll 1/. Until this year, the average costs (expressed as a percentage of taxable payroll), average tax rates, and actuarial balances were computed on an average-cost basis. Beginning this year, however, these items are computed on a level-financing basis, for consistency with the OASDI report, which has used the level-financing method since 1988. The "Actuarial Status of the Trust Fund" section in this report contains descriptions of these two methods and their differences. Table II compares the actuarial balance under each of the four sets of assumptions for the 75-year projection period 1990-2064 2/. Figure 2 shows the year-by-year costs as a percent of taxable payroll for each of the four sets of assumptions, as well as the scheduled tax rates. As indicated in footnote 1, the cost figures in Figure 2 do not include amounts for maintaining the trust fund at the level of at least a half-year's disbursements.

1/ In previous reports, the actuarial balance was defined to be the excess of the average tax rate for the valuation period over the average cost of the program, expressed as a percentage of taxable payroll, for the same period, where cost included (1) program expenditures and (2) a small amount to maintain the trust fund at the level of at least a half-year's outgo after accounting for the offsetting effect of interest earnings. Beginning with the 1988 report, the actuarial balance is defined to be the excess of the average tax rate for the valuation period over the average cost of the program, expressed as a percentage of taxable payroll, for the same period, where cost represents program expenditures only. This approach is the same as the reporting methods of the OASDI report.

2/ Multi-year actuarial balances in this report are computed on the level-financing basis, as described in the "Actuarial Status of the Trust Fund" section, unless otherwise indicated.

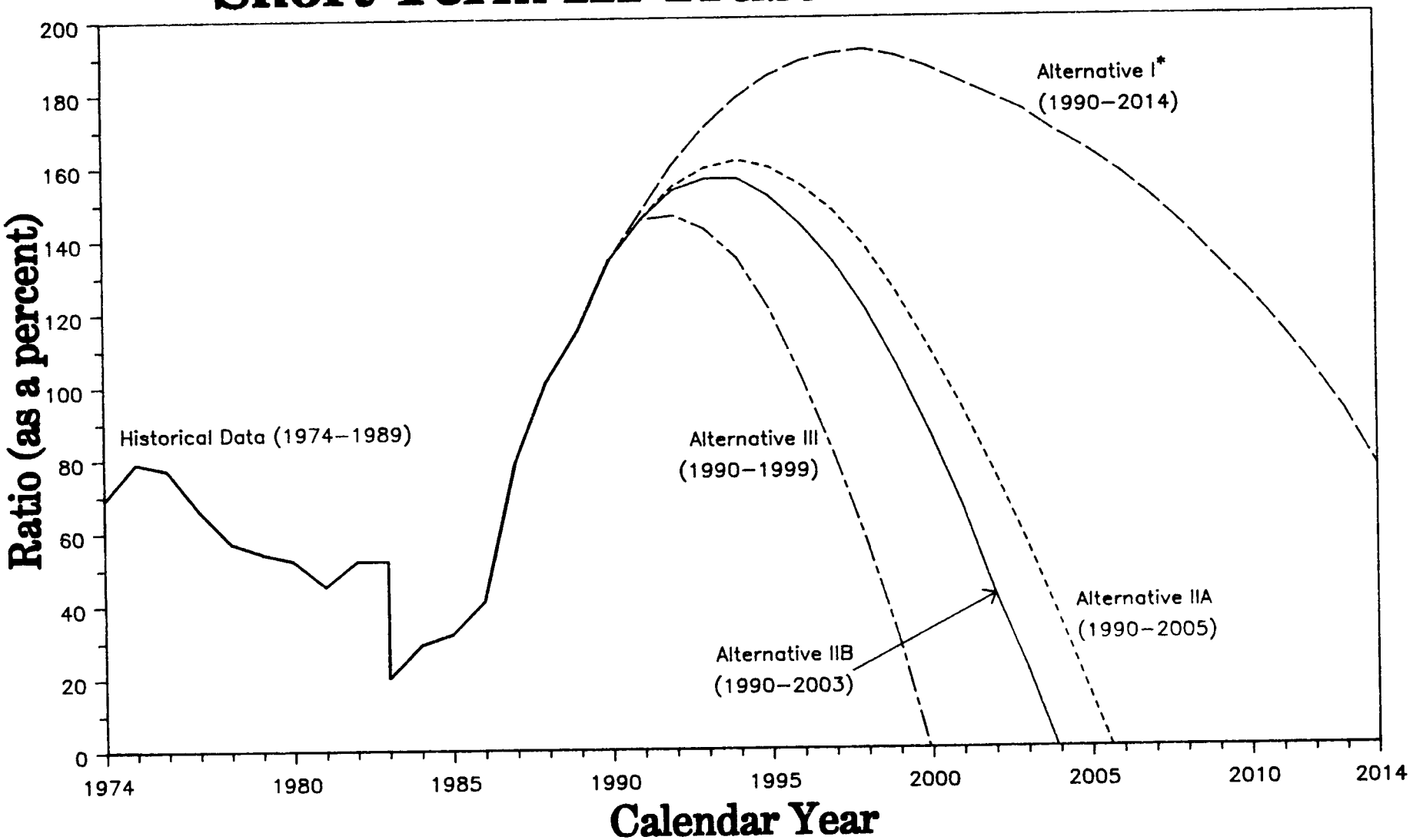
Figure 2 emphasizes the inadequacy of the financing of the HI program by illustrating the divergence of the program costs and scheduled tax rates under each set of assumptions.

Table III presents a comparison of the projected experience in the 1988 and 1990 reports 3/. As Table III indicates, the projections in the 1990 report show that the fund will be depleted a few years earlier than in the 1988 report under the intermediate assumptions, with a larger change in the year of depletion occurring under the optimistic assumptions and no change at all under the pessimistic scenario. Table IV shows the major reasons for the change in the 75-year actuarial balance of the HI program from that in the 1988 report 3/. The section of the report entitled "Actuarial Status of the Trust Fund" discusses more completely the reasons for the change in the actuarial balance.

3/ A presentation of the long-range actuarial status of the trust fund did not appear in the 1989 report, for reasons given therein. Therefore, the projections in this report are compared to those in the 1988 report.

Figure 1

Short Term HI Trust Fund Ratios



*The trust fund is depleted in 2018 under alternative I.

Note: The trust fund ratio is defined as the ratio of assets at the beginning of the year to disbursements during the year.

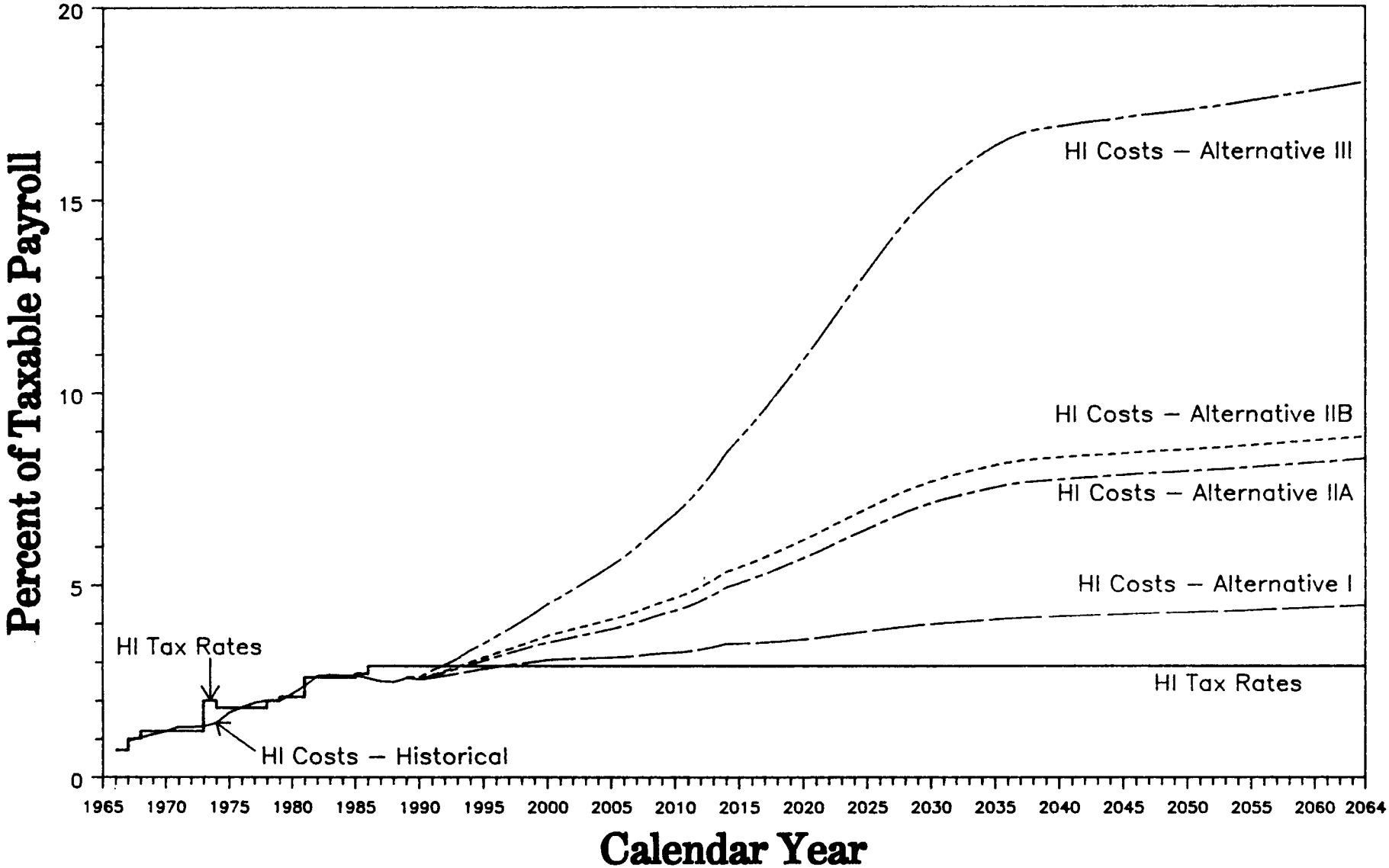
TABLE II.--SEVENTY-FIVE YEAR ACTUARIAL BALANCE OF THE HOSPITAL INSURANCE PROGRAM, UNDER ALTERNATIVE SETS OF ASSUMPTIONS 1/

	Alternative			
	I	II-A	II-B	III
Average contribution rate 2/	2.90%	2.90%	2.90%	2.90%
Average-cost basis:				
Average program expenditures 3/ 4/	3.74	6.09	6.52	12.01
Actuarial balance 5/	-0.84	-3.19	-3.62	-9.11
Trust fund building and maintenance 3/ 6/	-0.02	-0.02	-0.02	+0.02
Program cost including trust fund building and maintenance 3/ 7/	3.72	6.07	6.50	12.03
Augmented balance 8/	-0.82	-3.17	-3.60	-9.13
Level-financing basis:				
Average program expenditures 3/ 9/	3.65	5.73	6.16	11.26
Actuarial balance 10/	-0.75	-2.83	-3.26	-8.36

1/ For the 75-year period 1990-2064.
2/ As scheduled under present law.
3/ Expressed as a percentage of taxable payroll.
4/ Expenditures for benefit payments and administrative costs for insured beneficiaries, on an incurred basis, computed on the average-cost basis.
5/ Difference between the average contribution rate (tax rate scheduled in the law) and program expenditures (computed on the average-cost basis).
6/ Allowance for building and maintaining the trust fund balance at the level of at least a half-year's outgo after accounting for the offsetting effect of interest earnings.
7/ Sum of program expenditures and trust fund building and maintenance.
8/ The augmented balance is the difference between the average contribution rate and the average cost of the program, including trust fund building and maintenance.
9/ Expenditures for benefit payments and administrative costs for insured beneficiaries, on an incurred basis, computed on the level-financing basis.
10/ Difference between the average contribution rate and program expenditures (computed on the level-financing basis).

Figure 2

Estimated HI Costs and Tax Rates



Note: HI projected costs shown are expenditures attributable to insured beneficiaries only, on an incurred basis, without an allowance for building and maintaining the trust fund balance at the level of at least a half–year's outgo.

TABLE III.--STATUS OF THE HOSPITAL INSURANCE TRUST FUND

Alternative assumptions	Year in which the trust fund is exhausted as published in the		75-year actuarial balance 1/ of the HI program as published in the	
	1988 report	1990 report	1988 report	1990 report
I (optimistic)	2044	2018	-0.15%	-0.75%
II-A (intermediate)	2008	2005	-2.11	-2.83
II-B (intermediate)	2005	2003	-2.35	-3.26
III (pessimistic)	1999	1999	-6.63	-8.35

1/ The actuarial balance in the 1988 report was computed on an average-cost basis. In this report, for 1990, it is computed on a level-financing basis. See text for details.

Table IV.--CHANGE IN THE 75-YEAR ACTUARIAL BALANCE SINCE THE 1988 REPORT

1. Actuarial balance, alternative II-B, 1988 report 1/	-2.35%
2. Changes:	
a. Valuation period	-0.17
b. Legislation since the 1988 report	-0.81
c. Economic and demographic assumptions	-0.24
d. Hospital assumptions and base estimate	-0.05
e. Net effect, above changes	-1.27
3. Actuarial balance, alternative II-B, 1990 report 1/	-3.62
4. Change due to shift to level-financing method 2/	+0.36
5. Actuarial balance, alternative II-B, 1990 report 3/	-3.26

1/ As defined in the 1988 report (average-cost method); see text for details.
2/ Includes +0.05 for recognition of the beginning trust fund balance and interest earnings on the projected trust fund balances.
3/ As defined in this report (level-financing method); see text for details.

Conclusion of the Board of Trustees

The present financing schedule for the HI program is sufficient to ensure the payment of benefits over the next 13 to 15 years if the intermediate assumptions underlying the estimates are realized, with trust fund exhaustion occurring in 2005 and 2003 under alternatives II-A and II-B, respectively. Under the more pessimistic alternative III, the fund is exhausted in 1999. Under the more optimistic alternative I, the trust fund is exhausted in 2018.

There are currently over four covered workers supporting each HI enrollee. This ratio will begin to decline rapidly early in the next century. By the middle of that century, there will be only about two covered workers supporting each enrollee. Not only are the anticipated reserves and financing of the HI program inadequate to offset this demographic change, but under all but the most optimistic assumptions, the trust fund is projected to become exhausted even before the major demographic shift begins to occur. Exhaustion of the fund is projected to occur shortly after the turn of the century under the intermediate assumptions, and could occur as early as 1999 if the pessimistic assumptions are realized.

The Board notes that promising steps have already been taken to begin reducing the rate of growth in payments to hospitals, including the implementation of prospective payment and diagnosis-related groups. Initial experience under the prospective payment system for hospitals suggests that this payment mechanism is an effective means of constraining the growth in hospital payments and improving the efficiency of the hospital industry. Efforts focused on improving the efficiency and reducing the costs of the health

care delivery system need to be continued, in close combination with mechanisms that will assure that the quality of health care is not adversely affected.

Because of the magnitude of the projected actuarial deficit in the HI program and the probability that the HI trust fund will be exhausted shortly after the end of this century, the Board believes that early corrective action is essential in order to avoid the need for later, potentially precipitous changes. The Board, therefore, urges that the Congress take early remedial measures to bring future HI program costs and financing into balance, and to maintain an adequate trust fund against contingencies.

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 currently has three members. They 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 Board also includes positions for two members of the public as Trustees. The last two Public Trustees served under recess appointments which expired when the Congress adjourned on November 22, 1989.

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 annual report, for 1990, is the 25th such report.

SOCIAL SECURITY AMENDMENTS SINCE THE 1989 REPORT

Since the 1989 Annual Report was transmitted to Congress, two laws affecting the HI program (also known as Medicare Part A) have been enacted. The more important legislative changes, from an actuarial standpoint, are described below.

The Medicare Catastrophic Coverage Repeal Act of 1989 (the Repeal Act, Public Law 101-234) was enacted on December 13, 1989; this legislation repealed the major Medicare Part A coverage expansions which had been enacted under the Medicare Catastrophic Coverage Act of 1988 (the Catastrophic Act, Public Law 100-360). In addition, because Part A catastrophic benefits were in effect in 1989, the Repeal Act included several transition provisions that apply to beneficiaries who were receiving covered inpatient hospital or skilled nursing facility (SNF) services both at the end of 1989 and the beginning of 1990. Specifically, the Repeal Act contained the following changes (effective January 1, 1990, unless otherwise noted):

(1) The benefit period (spell of illness) concept for hospital and SNF services is restored. One deductible is imposed for the first 60 days of inpatient hospital care, days 61 through 90 are subject to daily coinsurance charges equal to 1/4 of the deductible amount, and lifetime reserve days are again applicable according to the rules in place for 1988. The SNF coverage provisions that were in effect prior to 1989 are also reinstated; thus, coverage is provided for up to 100 days in a benefit period, with days 21 through 100 subject to daily coinsurance charges equal to the lesser of 1/8 of the inpatient hospital deductible amount or the actual total SNF charge per day, and a prior

hospitalization of at least three consecutive covered days is again required (except as provided for by the transition provisions of the Repeal Act). Detailed information regarding these changes, including the transition provisions, can be found in appendix E.

(2) The provision in the Catastrophic Act that care by home health agencies may be provided for up to 38 consecutive days is repealed, returning to a limit of 21 consecutive days. However, the change in the definition of intermittent services, from no more than four days per week to less than seven days per week, remains in place by virtue of a Federal court ruling.

(3) The 210-day lifetime limit on hospice care is restored.

(4) The methodology for determining the Part A premium, for individuals who do not automatically qualify for Medicare, is unchanged; that is, the change made by the Catastrophic Act to the manner in which the premium is determined (as described in this section of last year's report and in appendix D of this report) was not repealed.

(5) The supplemental catastrophic coverage premium provision of the Catastrophic Act, as described in this section of last year's report, is cancelled, retroactive to January 1, 1989. It is anticipated that supplemental catastrophic coverage premiums that were collected and appropriated to the HI reserve fund (also described in last year's report) will be refunded.

The Omnibus Budget Reconciliation Act of 1989 (Public Law 101-239) was enacted December 19, 1989, and contained the following changes:

(1) Payments for services provided from October 17, 1989, through the end of fiscal year 1990 had been reduced by 2.092 percent as a result of a presidential sequester, required by the Balanced Budget and Emergency Deficit Control Act of 1985 (the Gramm-Rudman-Hollings Act). Public Law 101-239 limited the sequester payments for services provided from October 17 to December 31, 1989, and eliminated the sequester for services provided during the rest of the fiscal year.

(2) For payments for discharges occurring on or after January 1, 1990, the hospital update factors are the market basket percentage increase plus 4.22 percentage points for prospective payment system (PPS) hospitals located in rural areas, the market basket increase plus 0.12 percentage points for PPS hospitals located in large urban areas, and the market basket increase minus 0.53 percentage points for PPS hospitals located in other urban areas. (The update factor for PPS-exempt hospitals is the market basket increase.) These update factors are applied to payment rates prior to sequester effects.

(3) For discharges in fiscal year 1990, the diagnosis-related group (DRG) weighting factors are reduced by 1.22 percent, effectively reducing payments for discharges in fiscal year 1990 by this percentage. Future adjustments (beginning with fiscal year 1991) to the weighting factors are to be made in a manner that assures that aggregate payments are not greater or less than those that would have been made for discharges in the year without such adjustment.

(4) Payments for capital-related costs will be reduced by 15 percent during the period January 1, 1990 through September 30, 1990.

(5) The disproportionate share adjustment percentages, used for increasing payments to hospitals serving disproportionate shares of low-income patients (according to criteria and payment formulae that vary by type of hospital), are revised, effective for discharges occurring on or after April 1, 1990.

(6) New sole community hospital (SCH) payment provisions are effective for cost reporting periods beginning on or after April 1, 1990. The SCH will receive the target amount or the Federal PPS rate, whichever results in greater payment.

(7) Effective October 1, 1989, the payment for hospice care for fiscal year 1990 is raised to 120 percent of the fiscal year 1989 rates. For subsequent fiscal years the payment rates will be those of the preceding fiscal year increased by the market basket percentage increase applicable to discharges occurring in the fiscal year.

(8) Cancer hospitals are exempt from the PPS system, effective in general for cost reporting periods beginning on or after October 1, 1989.

Detailed information regarding these changes and other less significant changes can be found in documents prepared by and for the Congress.

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 HI program are handled through this fund.

The primary source of income to the trust fund is amounts appropriated to it under permanent authority on the basis of contributions paid by workers, their employers, and individuals with self-employment income, in work covered by the HI program. Beginning January 1, 1987, these appropriated amounts include contributions paid by, or on behalf of, workers employed by State and local governments and their employers, with respect to work covered by the program through State agreements. (Prior to 1987, such contributions were deposited directly into the trust fund.) The coverage of the HI program includes workers covered under the old-age, survivors, and disability insurance (OASDI) 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, including cash tips. (Prior to 1978, employees paid contributions with respect to cash tips but employers did not. From 1978 to 1987, employers paid 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 HI contribution rates applicable to taxable earnings in each of the calendar years 1966 and later are shown in table 1. For 1991 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 1966-90 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.

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, on an estimated basis, to the trust fund. The exact amount of contributions received is not known initially since HI contributions, OASDI contributions, and individual income taxes are not separately identified in collection reports received by the Treasury Department. Periodic adjustments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

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

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

Another substantial source of trust fund income 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 HI program.

Sections 217(g) and 229(b) of the Social Security Act, prior to modification by the Social Security Amendments of 1983, authorized annual reimbursement from the general fund of the Treasury to the HI trust fund for costs arising from the granting of deemed wage credits for military service prior to 1957, according to quinquennial 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 transfer in 1983 for costs arising from such wage credits. In addition, the lump sum transfer included combined employer-employee HI taxes on the noncontributory wage credits for military service after 1965 and before 1984. After 1983, HI taxes on military wage credits are credited to the fund on July 1 of each year. The Social Security Amendments of 1983 also provided for (1) quinquennial adjustments to the lump sum amount transferred in 1983 for costs arising from pre-1957 deemed wage credits and (2) adjustments as deemed necessary to any previously transferred amounts representing HI taxes on noncontributory wage credits.

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

Under section 103 of the Social Security Amendments of 1965, HI benefits are provided to certain uninsured persons aged 65 and over. Such payments are made initially from the HI 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 HI 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 HI 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 HI 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 to hospital inpatients by hospital-based physicians. Where hospitals elected this billing procedure, payments were made initially from the HI trust fund. The reimbursements so made were on a provisional basis and are subject to adjustment, with appropriate interest allowance.

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 HI and supplementary medical insurance (SMI) programs. A sizable portion of the costs of such experiments and demonstration projects is paid from the HI and SMI 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 HI program. Both the capital costs of construction financed directly through the trust funds and the rental and lease, or purchase contract costs of acquiring facilities are included in trust fund expenditures. In 1972-75, construction of several large facilities was authorized under purchase contract authority, wherein initial capital costs were borne by the private sector. Under this method of facilities acquisition, trust fund expenditures for use and ultimate Government ownership of a facility are made over periods of from 10 to 30 years. Whatever the manner of acquisition, the net worth of facilities and other fixed capital assets is not carried in the statement of the assets of the trust fund presented in this report. This is because the value of fixed capital assets does not represent funds available for benefit or administrative expenditures and, therefore, is not viewed as being a consideration in assessing the actuarial status of the funds.

That portion of the trust fund which, in the judgment of the Managing Trustee, is not required to meet current expenditures for benefits and administration, is invested, 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. These special issue securities are always redeemable at par value, and so are not subject to the uncertainty of price fluctuations as interest rates change.

From December 29, 1981, until January 1, 1988, the Social Security Act authorized borrowing among the OASI, DI, and HI trust funds when necessary "to best meet the need for financing the benefit payments" from the three funds. Interfund loans under the borrowing authority were made to the OASI trust fund from the DI and HI trust funds in

1982, and were fully repaid by May 1986. In this report, the assets of the HI trust fund at the end of 1982 through 1985, inclusive, do not include the amounts owed to the trust fund. This procedure is followed because the borrowed amounts were available to the borrowing fund for the payment of benefits or other obligations, while such amounts were not readily available to the lending fund.

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
1985	39,600	1.35	2.70
1986	42,000	1.45	2.90
1987	43,800	1.45	2.90
1988	45,000	1.45	2.90
1989	48,000	1.45	2.90
1990	51,300	1.45	2.90
Changes scheduled in present law:			
1991 & later	Subject to automatic increase	1.45	2.90