

1980 ANNUAL REPORT
FEDERAL HOSPITAL INSURANCE TRUST FUND

COMMUNICATION

FROM

THE BOARD OF TRUSTEES, FEDERAL
HOSPITAL INSURANCE TRUST FUND

TRANSMITTING

THE 1980 ANNUAL REPORT OF THE BOARD, PURSUANT TO
SECTION 1817(c) OF THE SOCIAL SECURITY ACT, AS
AMENDED



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LETTER OF TRANSMITTAL

**BOARD OF TRUSTEES OF THE
FEDERAL HOSPITAL INSURANCE TRUST FUND,**
Washington, D.C., June 17, 1980.

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

SIR: We have the honor to transmit to you the 1980 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (the 15th such report), in compliance with the provisions of Section 1817(b) of the Social Security Act.

Respectfully,

G. WILLIAM MILLER,
*Secretary of the Treasury,
and Managing Trustee of the Trust Fund.*

RAY MARSHALL,
Secretary of Labor.

PATRICIA ROBERTS HARRIS,
Secretary of Health and Human Services.

EARL M. COLLIER, Jr.,
*Acting Administrator of the Health Care
Financing Administration, and Secretary, Board of Trustees.*

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1980 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

The Federal Hospital Insurance Trust Fund, established on July 30, 1965, is held by the Board of Trustees under the authority of section 1817(b) of the Social Security Act, as amended. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health and Human Services (formerly Health, Education, and Welfare). The Secretary of the Treasury is designated by law as the Managing Trustee. The Administrator of the Health Care Financing Administration is Secretary of the Board. The Board of Trustees reports to the Congress once each year in compliance with section 1817(b)(2) of the Social Security Act. This is the 1980 annual report, the 15th such report.

ADVISORY COUNCIL ON SOCIAL SECURITY

On December 7, 1979, the Advisory Council on Social Security submitted its report. The Council recommended that the hospital insurance program should be financed entirely from earmarked portions of personal and corporate income taxes, rather than from payroll taxes. Beginning in 1980, the Council proposed diverting part of the hospital insurance payroll tax to the old-age, survivors, and disability insurance program, and repealing the balance of the hospital insurance payroll tax. If these recommendations are not enacted by the Congress, the Advisory Council suggested replacing the 1981 increase in payroll tax rates for hospital insurance by general revenue funding.

The Advisory Council also recommended that a new council be established to review the Medicare and Medicaid programs.

HIGHLIGHTS

(a) Disbursements of the hospital insurance trust fund in fiscal year 1979 were \$20.3 billion, an increase of 13.9 percent over fiscal year 1978. 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 significantly greater than comparable increases in the general economy.

(b) Income to the trust fund amounted to \$21.9 billion, representing an increase of 18.2 percent in fiscal year 1979 over 1978. The majority of this increase was due to higher average earnings for persons in covered employment and increases in the maximum taxable amount of annual earnings and in the tax rate.

(c) The trust fund increased from \$11.8 billion to \$13.4 billion at the end of fiscal year 1979. The effective annual rate of interest earned by the assets of the hospital insurance trust fund during fiscal year 1979 was 7.7 percent.

(d) The Secretary of Health, Education, and Welfare promulgated an inpatient deductible of \$180 for calendar year 1980 and a monthly premium of \$78 for noninsured enrollees for the 12-month period beginning July 1980.

(e) Approximately 24.1 million persons aged 65 and over were protected by the hospital insurance program in July 1979. This represents about 95 percent of the aged population. An additional 2.9 million disabled beneficiaries had protection in the same month.

SOCIAL SECURITY AMENDMENTS SINCE THE 1979 TRUSTEES REPORT

Public Law 96-265, which was enacted on June 9, 1980, amends the Medicare law to permit an individual who becomes reentitled to cash disability benefits within a 5-year period (7 years for adult disabled children, widows, and widowers) to have previous months of disability benefit entitlement counted toward his or her 24-month Medicare waiting period. Another provision would extend the trial work period for 12 months and Medicare entitlement for 24 months (for a total of an additional 36 months over present law) for those individuals who have not medically recovered. Both provisions become effective 6 months after enactment.

A third provision of the law is intended to help resolve the problem of abuses in the sale of private insurance to supplement Medicare—"Medigap" policies. This provision would: (1) establish, by July 1, 1982, a voluntary program whereby the Department of Health and Human Services would certify Medicare supplemental health insurance policies which meet certain minimum standards; (2) require the Secretary to make information available to persons entitled to Medicare to help them evaluate such policies; (3) provide increased penalties for insurers and their agents for misrepresentation; and (4) require the Secretary to study Medigap issues.

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 system are handled through this fund.

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

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. Beginning in 1978, under the 1977 amendments, employers are 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 annual maximum 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 1981 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 1966-80 and the base scheduled in the provisions of present law for 1981 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 and 1980, the bases increased to the values shown in table 1. For 1981, the base is scheduled to increase to the specified amount as provided under the 1977 amendments. After 1981, the automatic increase provisions will again be 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 immediately and 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.

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.

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 out of 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.

Hospitals, at their option, are permitted to combine their billing for both hospital and physician components of radiology and pathology services rendered hospital inpatients by hospital-based physicians. Where hospitals elect this billing procedure, payments are made initially from the hospital insurance trust fund, with reimbursement from the supplementary medical insurance trust fund. The reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest 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 Standard 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.

The Social Security Amendments of 1967 and 1972 authorize the Secretary of Health, Education, and Welfare 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 are paid out of 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.

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	.50	.50
1968-71.....	7,800	.60	.60
1972.....	9,000	.60	.60
1973.....	10,800	1.00	1.00
1974.....	13,200	.90	.90
1975.....	14,100	.90	.90
1976.....	15,300	.90	.90
1977.....	16,500	.90	.90
1978.....	17,700	1.00	1.00
1979.....	22,900	1.05	1.05
1980.....	25,900	1.05	1.05
Changes scheduled in present law:			
1981.....	29,700	1.30	1.30
1982-84.....	(¹)	1.30	1.30
1985.....	(¹)	1.35	1.35
1986 and later.....	(¹)	1.45	1.45

¹ Subject to automatic increase.

SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1979

A statement of the income and disbursements of the Federal Hospital Insurance Trust Fund in fiscal year 1979, 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 1978 are also shown in the table.

The total assets of the trust fund amounted to \$11,796 million on September 30, 1978. During fiscal year 1979, total receipts amounted to \$21,910 million, and total disbursements were \$20,343 million. The assets of the trust fund thus increased \$1,567 million during the year to a total of \$13,363 million on September 30, 1979.

Included in total receipts during fiscal year 1979 were \$18,042 million representing contributions appropriated to the trust fund and \$1,990 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, \$105 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 \$19,927 million, representing an increase of 19.5 percent over the amount of \$16,677 million for the preceding 12-month period. This growth in contribution income resulted primarily from (1) the higher level of earnings in covered employment; (2) the two increases in the maximum annual amount of earnings taxable—from \$16,500 to \$17,700 and from \$17,700 to \$22,900—that became effective on January 1, 1978, and January 1, 1979, respectively and (3) the two increases in the combined tax rate from 1.8 percent to 2.0 percent and from 2.0 percent to 2.1 percent—that became effective on January 1, 1978, and January 1, 1979, 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 1979 amounted to about \$16.5 million.

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, Education, and Welfare determined in 1975 the level annual appropriation necessary to amortize the estimated total additional costs for military service prior to 1957. This cost is amortized over a 39-year period, which began in fiscal year 1977, with an allowance for the appropriations which were made for fiscal years 1966-76. The annual amount resulting from this determination was \$141 million. 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 was \$2 million in fiscal year 1978, based on a determination made by the Secretary of Health, Education, and Welfare in 1976. Thus, a reimbursement amounting to \$143 million was received by the trust fund in December 1977, and a reimbursement amounting to \$141 million was received by the trust fund in December 1978.

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 1979 amounted to \$734 million, consisting of \$708 million for benefit payments, \$12 million for administrative expenses, and \$14 million due the trust fund for interest on adjustments to costs in prior fiscal years.

The remaining \$868 million of receipts consisted almost entirely of interest on the investments of the trust fund.

Of the \$20,343 million in total disbursements, \$19,897 million represented benefits paid directly from the trust fund for health services covered under title XVIII of the Social Security Act. As offsets to benefit payments, transfers were made from the supplementary medical insurance trust fund amounting to \$6 million 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. Net benefit payments from the trust fund in fiscal year 1979, therefore, amounted to \$19,891 million, an increase of 14.2 percent over the corresponding amount of \$17,411 million paid during the preceding 12 months. An additional \$8 million in disbursements constituted payment for costs of experiments and demonstration projects in providing health care services.

The remaining \$445 million of disbursements was for net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds—old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance—on the basis of provisional estimates. Similarly, the expenses of administering other programs of the Health Care Financing Administration are also allocated and charged directly to

the general fund of the Treasury on a provisional basis. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are effected 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 1979 with the estimates presented in the 1978 and 1979 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 1979 reflects the aforementioned type of adjustments to contributions for prior fiscal years. On the other hand, the "actual" amount of contributions in fiscal year 1979 does not reflect adjustments to contributions for fiscal year 1979 that were to be made after September 30, 1979. Actual contributions for fiscal year 1979 differ from the 1978 estimates by a negligible amount, and from the 1979 estimates by one percent. Actual benefit payments were 4 percent lower than estimated in the 1978 report and 2 percent lower than estimated in the 1979 report.

The assets of the hospital insurance trust fund at the end of fiscal year 1978 totaled \$11,796 million, consisting of \$11,757 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations and an undisbursed balance of \$39 million. The assets of the hospital insurance trust fund at the end of fiscal year 1979 totaled \$13,363 million, consisting of \$13,164 million in the form of obligations of the U.S. Government or of federally-sponsored agency obligations and an undisbursed balance of \$199 million. Table 4 shows the total assets of the fund and their distribution at the end of fiscal years 1978 and 1979.

The net increase in the par value of the investments held by the fund during fiscal year 1978 amounted to \$784 million. New securities at a total par value of \$19,951 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 \$19,167 million. Included in these amounts are \$17,798 million in certificates of indebtedness that were acquired and \$17,567 million in certificates of indebtedness that were redeemed during the fiscal year.

The net increase in the par value of the investments held by the fund during fiscal year 1979 amounted to \$1,406 million. New securities at a total par value of \$24,193 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 \$22,787 million. Included in these amounts are \$21,693 million in certificates of indebtedness that were acquired and \$21,257 million in certificates of indebtedness that were redeemed within the fiscal year.

The effective annual rate of interest earned by the assets of the hospital insurance trust fund during the 12 months ending on June 30, 1979, was 7.7 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 1979 was 8¼ percent, payable semiannually.

TABLE 2.—STATEMENT OF OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1978 AND 1979

[In thousands of dollars]

	Fiscal year—	
	1978	1979
Total assets of the trust fund, beginning of period.....	\$11, 114, 685	\$11, 796, 031
Receipts:		
Contributions:		
Appropriations.....	14, 913, 356	18, 042, 375
Deposits arising from State agreements.....	1, 843, 511	1, 989, 592
Gross contributions.....	16, 756, 867	20, 031, 967
Less payment into the Treasury for contributions subject to refund.....	79, 600	105, 390
Net contributions.....	16, 677, 267	19, 926, 577
Premiums collected from voluntary participants.....	12, 094	16, 507
Transfer from railroad retirement account.....	213, 745	191, 149
Reimbursement from general fund of Treasury for costs of—		
Noncontributory credits for military service.....	141, 000	141, 000
Noncontributory credits for United States citizens of Japanese ancestry interned during World War II.....	1, 997	
Benefits for uninsured persons:		
Benefit payments.....	657, 048	707, 877
Administrative expenses.....	12, 800	12, 100
Interest on adjustments to costs in prior fiscal years.....	18, 093	13, 872
Total reimbursement for costs for benefits for uninsured persons.....	687, 941	733, 849
Review of medicaid, and maternal and child health hospital admissions.....	29, 000	33, 000
Interest:		
Interest on investments.....	780, 058	868, 493
Interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs ¹	—88	—884
Total interest.....	779, 970	867, 609
Total receipts.....	18, 543, 015	21, 909, 691
Disbursements:		
Benefit payments:		
Paid directly from the trust fund for the costs of health services.....	17, 416, 782	19, 896, 562
Less transfers from the supplementary medical insurance trust fund for reimbursement of interest loss related to transfer payments made in conjunction with the costs of radiology and pathology services ²	6, 000	6, 000
Net benefit payments.....	17, 410, 782	19, 890, 562
Costs of experiments and demonstration projects ²	4, 350	7, 897
Administrative expenses:		
Department of Health, Education, and Welfare ³	425, 506	421, 392
Treasury Department.....	13, 996	17, 354
Construction of facilities.....	2, 473	232
Gross administrative expenses.....	441, 975	438, 979
Interfund transfers due to adjustment in allocation of:		
Administrative expenses.....	4, 469	5, 518
Costs of construction ⁴	100	75
Less receipts from sale of supplies, materials, etc.....	8	8
Net administrative expenses.....	446, 537	444, 565
Total disbursements.....	17, 861, 668	20, 343, 023
Net addition to the trust fund.....	681, 346	1, 566, 668
Total assets of the trust fund, end of period.....	11, 796, 031	13, 362, 700

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

² For explanation, see text.

³ Includes administrative expenses of the intermediaries.

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

TABLE 3.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND,
FISCAL YEAR 1979

[Dollar amounts in millions]

Item	Comparison of actual experience with estimates for fiscal year 1979 published in—					
	Actual amount	1979 report			1978 report	
		Estimated amount	Actual as percentage of estimate	Estimated amount	Estimated amount	Actual as percentage of estimate
Net contributions	\$19,927	\$20,155	99	\$19,951	100	
Benefit payments	19,891	20,264	98	20,658	96	

TABLE 4.—ASSETS OF THE HOSPITAL INSURANCE TRUST FUND, BY TYPE AT THE END OF FISCAL YEARS 1978 AND 1979¹

	Sept. 30, 1978	Sept. 30, 1979
Investments in public-debt obligations sold only to this fund (special issues):		
Certificates of indebtedness:		
8¼ percent, 1979	\$737,003,000.00	
9 percent, 1980		\$1,173,357,000.00
Notes: 6½ percent, 1980	1,530,179,000.00	
Bonds:		
7¼ percent, 1992	524,479,000.00	524,479,000.00
7½ percent, 1981	165,760,000.00	165,760,000.00
7½ percent, 1982	165,760,000.00	165,760,000.00
7½ percent, 1983	165,760,000.00	165,760,000.00
7½ percent, 1984	165,760,000.00	165,760,000.00
7½ percent, 1985	165,759,000.00	165,759,000.00
7½ percent, 1986	165,759,000.00	165,759,000.00
7½ percent, 1987	165,759,000.00	165,759,000.00
7½ percent, 1988	165,760,000.00	165,760,000.00
7½ percent, 1989	165,760,000.00	165,760,000.00
7½ percent, 1990	571,444,000.00	571,444,000.00
7½ percent, 1981	109,372,000.00	109,372,000.00
7½ percent, 1982	109,372,000.00	109,372,000.00
7½ percent, 1983	109,372,000.00	109,372,000.00
7½ percent, 1984	109,372,000.00	109,372,000.00
7½ percent, 1985	109,373,000.00	109,373,000.00
7½ percent, 1986	109,373,000.00	109,373,000.00
7½ percent, 1987	109,373,000.00	109,373,000.00
7½ percent, 1988	109,372,000.00	109,372,000.00
7½ percent, 1989	109,372,000.00	109,372,000.00
7½ percent, 1990	109,372,000.00	109,372,000.00
7½ percent, 1991	680,816,000.00	680,816,000.00
7½ percent, 1981	405,685,000.00	405,685,000.00
7½ percent, 1982	405,685,000.00	405,685,000.00
7½ percent, 1983	405,685,000.00	405,685,000.00
7½ percent, 1984	405,685,000.00	405,685,000.00
7½ percent, 1985	405,685,000.00	405,685,000.00
7½ percent, 1986	405,685,000.00	405,685,000.00
7½ percent, 1987	405,685,000.00	405,685,000.00
7½ percent, 1988	405,684,000.00	405,684,000.00
7½ percent, 1989	405,684,000.00	405,684,000.00
8¼ percent, 1981	45,347,000.00	45,347,000.00
8¼ percent, 1982	45,347,000.00	45,347,000.00
8¼ percent, 1983	45,347,000.00	45,347,000.00
8¼ percent, 1984	45,347,000.00	45,347,000.00
8¼ percent, 1985	45,347,000.00	45,347,000.00
8¼ percent, 1986	45,346,000.00	45,346,000.00
8¼ percent, 1987	45,346,000.00	45,346,000.00
8¼ percent, 1988	45,347,000.00	45,347,000.00
8¼ percent, 1989	45,347,000.00	45,347,000.00
8¼ percent, 1990	45,347,000.00	45,347,000.00
8¼ percent, 1991	201,684,000.00	201,684,000.00
8¼ percent, 1992	726,163,000.00	726,163,000.00
8¼ percent, 1993		47,739,000.00
8¼ percent, 1980		123,296,000.00
8¼ percent, 1981		123,296,000.00
8¼ percent, 1982		123,297,000.00
8¼ percent, 1983		123,297,000.00
8¼ percent, 1984		123,297,000.00
8¼ percent, 1985		123,297,000.00
8¼ percent, 1986		123,297,000.00
8¼ percent, 1987		123,297,000.00
8¼ percent, 1988		123,297,000.00
8¼ percent, 1989		123,297,000.00
8¼ percent, 1990		123,297,000.00
8¼ percent, 1991		123,297,000.00
8¼ percent, 1992		123,297,000.00
8¼ percent, 1993		123,297,000.00
8¼ percent, 1994		849,460,000.00
Total public-debt obligations sold only to this fund (special issues)	11,707,306,000.00	13,113,539,000.00
Investments in federally sponsored agency obligations: Participations certificates: Federal assets liquidation trust—Government National Mortgage Association: 5.20 percent, 1982	50,000,000.00	50,000,000.00
Total, investments	11,757,306,000.00	13,163,539,000.00
Undisbursed balance	38,725,498.62	199,160,799.73
Total, assets	11,796,031,498.62	13,362,699,799.73

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

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING THE PERIOD OCTOBER 1, 1979 TO DECEMBER 31, 1982

The expected operations of the trust fund during fiscal years 1980-82 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 the intermediate set of projection assumptions labeled alternative II, which is presented in detail in appendix A.

The estimates of income from hospital insurance contributions are at a considerably higher level during the period projected than during the past. This occurs primarily as a result of the increases in the hospital insurance tax rate which took place on January 1, 1978, and on January 1, 1979, and the higher tax rates and earnings bases scheduled in the law.

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 1980.

Reimbursement from general revenues for military wage credits is projected at \$141 million in each year. This is based on the determination made by the Secretary of Health, Education, and Welfare in 1975 of the level annual appropriations necessary to amortize the additional costs arising from these wage credits.

Estimated reimbursement from general revenues for the cost, paid initially from the hospital insurance trust fund, of Professional Standard Review Organization (PSRO) review of hospital admissions under Federal programs other than the hospital insurance program is based on estimates of the payments for such reviews, net of corrections for differences between payments and amounts transferred in previous years.

The investment of new assets received during fiscal years 1980-82 is assumed to be in the form of special public-debt obligations bearing interest rates ranging from 11 percent, payable semiannually, in 1980 to 9¾ percent in 1982. The average effective annual rate of interest on the assets held by the hospital insurance trust fund on September 30, 1979, was 7.9 percent.

Disbursements for benefits are projected to increase sharply in fiscal years 1980-82, 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 1981 Federal budget. These estimates are based on more recent demographic and economic projections, and they do not reflect the implementation of certain proposed changes in regulations which were included in the budget.

The actual operation of the hospital insurance program is 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 following discussion of the financing of the program is on a calendar year basis.

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 1982. The ratio of assets to disbursements grew gradually until it reached approximately the level of one-half of a year's expenditures as of the beginning of 1971. After dropping slightly during both of the following 2 years, it increased sharply to 69 percent in 1974 and 79 percent in 1975. The ratio decreased slightly in 1976 to 77 percent and decreased sharply in 1977 and 1978 to 66 percent and 57 percent, respectively. The ratio decreased slightly to 54 percent in 1979. It is projected to increase during the next 3 years to 65 percent at the beginning of 1982.

TABLE 5.—OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING FISCAL YEARS 1967-82

[In millions]

Fiscal year ¹	Income							Disbursements			Trust fund		
	Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Reimbursement for military wage credits	Reimbursement for PSRO review	Interest on investments	Total income	Benefit payments	Administrative expenses ²	Total disbursements	Net increase in 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	128	610	8	48		709	13,544	12,267	312	12,579	966	10,836
Transition quarter	3,366	143	30	2	0		5	3,516	3,315	89	3,404	112	10,948
1977	13,649	40	803	11	141		770	15,374	14,906	301	15,207	167	11,115
1978	16,677	214	688	12	143	\$29	780	18,543	17,411	451	17,862	681	11,796
1979	19,927	191	734	17	141	\$33	868	21,910	19,891	452	20,343	1,567	13,363
Projection:													
1980	23,414	244	697	18	141	33	1,083	25,630	23,399	476	23,875	1,755	15,118
1981	30,019	274	659	21	141	52	1,392	32,558	26,862	500	27,362	5,196	20,314
1982	35,871	351	738	25	141	57	1,983	39,166	31,208	588	31,796	7,370	27,684

¹ For 1967 through 1976, fiscal years cover the interval from July 1 through June 30; the 3-mo interval from July 1, 1976, through Sept. 30, 1976, is labeled "T.Q.", the transition quarter; fiscal years 1977-82 cover the interval from Oct. 1 through Sept. 30.

² Includes costs of experiments and demonstration projects.

³ The 1977 transfer is for benefits and administrative expenses during the 5-quarter period covering the transition quarter and fiscal year 1977.

⁴ The 1978 transfer is for contributions during the 5-quarter period covering the transition quarter and fiscal year 1977.

⁵ Includes \$2,000,000 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.

TABLE 6.—OPERATIONS OF THE HOSPITAL INSURANCE TRUST FUND DURING CALENDAR YEARS 1966-82

[In millions]

Calendar year	Income						Disbursements			Trust fund			
	Payroll taxes	Transfers from railroad retirement account	Reimbursement for uninsured persons	Premiums from voluntary enrollees	Reimbursement for military wage credits	Reimbursement for PSRO review	Interest on investments	Total income	Benefit payments	Administrative expenses ¹	Total disbursements	Net increase in 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	² 0	9	141		746	13,766	13,340	339	13,679	88	10,605
1977.....	14,114	³ 0	² 803	12	⁴ 143		784	15,856	15,737	283	16,019	-163	10,442
1978.....	17,324	³ 214	688	13	141	\$29	805	19,213	17,682	496	18,178	1,035	11,477
1979.....	20,768	191	734	16	141	33	942	22,825	20,623	450	21,073	1,751	13,228
Projection:													
1980.....	24,103	244	697	19	141	33	1,158	26,395	24,306	484	24,790	1,605	14,833
1981.....	32,286	274	659	22	141	52	1,583	35,017	27,847	539	28,386	6,631	21,464
1982.....	36,893	351	738	26	141	57	2,290	40,496	32,383	604	32,987	7,509	28,973

¹ Includes costs of experiments and demonstration projects.

² 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-mo period beginning July 1976 and ending September 1977.

³ 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 5-quarter period covering the transition quarter and fiscal year 1977.

⁴ Includes \$2,000,000 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.

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:	
Historical data:	Ratio
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
Projection:	
1980	53
1981	52
1982	65

ACTUARIAL STATUS OF THE TRUST FUND

The 1971 Advisory Council recommended that the hospital insurance program be operated on the general financing principle that annual income to the 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 year's expenditures. This principle reflects the view that a sizable 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 0.95 percent in 1967 to an estimated 2.11 percent in 1980, 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 2.56 percent in 1985, and 4.72 percent by the year 2000 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 this projection.)

The allowances necessary to build the trust fund to the level of a 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. Since the level of the trust fund at the beginning of calendar year 1980 is 53 percent of the projected disbursements during 1980, a cost is associated with increasing it to the 100 percent level. Building the trust fund to the level of a year's disbursements could be accomplished in a single year, in a period of several years, or over the entire 25-year projection period. Because of the many patterns of trust fund growth possible, the allowance for trust fund building and maintenance has, for purposes of display in table 8, been developed to provide for uni-