A MESSAGE TO THE PUBLIC:

We are pleased to present this summary of the 1991 Annual Reports of the Boards of Trustees of the Social Security and Medicare trust funds. The reports include extensive information about and careful analysis of these important social programs and, we believe, fully and fairly present their financial condition. We encourage current and future beneficiaries to understand what the reports say. Based on the Trustees' best estimates, the projections in the reports show:

- *All of the Social Security and Medicare trust funds will be able to pay all benefits on time in the short term.*

- *The Federal Old-Age and Survivors Insurance Trust Fund, which pays retirement benefits, will be able to pay benefits for about 50 years. Congress will eventually need to take action to assure the long-range financing of the program.*

- *The Federal Disability Insurance Trust Fund, which pays disability benefits, is not adequately financed, but will be able to pay benefits for about 20 years. The Board recommends taking action to strengthen the financial condition of this trust fund.*

- *The Federal Hospital Insurance Trust Fund, which pays inpatient hospital expenses, is projected to run out of funds in 2005 and is severely out of financial balance. The Board believes that corrective action is needed very soon in order to avoid more precipitous changes later.*

- *The Federal Supplementary Medical Insurance Trust Fund, which pays doctor hills and other outpatient expenses, is financed on a year-by-year basis and, on this limited basis, is adequately financed. The Board recommends that efforts to restrain the rapid growth in program costs continue.*

Stanford G. Ross
Trustee

David M. Walker
Trustee

STATUS OF THE SOCIAL SECURITY

AND MEDICARE PROGRAMS

A SUMMARY OF THE 1991 ANNUAL REPORTS

What Are the Trust Funds? Four trust funds have been established by law to, finance the Social Security and Medicare programs. For Social Security, the Federal Old-Age and Survivors Insurance (OASI) Trust Fund pays retirement and survivors benefits; and the Federal Disability Insurance (DI) Trust Fund pays benefits after a worker becomes disabled. When both OASI and DI are considered together, they are called the OASDI program.

For Medicare, the Federal Hospital Insurance (HI) Trust Fund pays for hospital and related care (often called "Part A") for people over 65 and workers who are disabled. The Federal Supplementary Medical Insurance (SMI) Trust Fund pays for physician and outpatient services (often called "Part B") for people over 65 and workers who are disabled. Unlike Social Security, these two trust funds are not usually considered together, because they are funded differently.

What Are the Boards of Trustees? Five people serve on the Social Security and Medicare Boards of Trustees: the Secretary of the Treasury, the Secretary of Labor, the Secretary of Health and Human Services, and two members appointed by the President to represent the public.

Why Do the Boards Issue Annual Reports? One of the major responsibilities of the Boards is to report to the Congress each year on the operation of the trust funds durin4 the preceding year and the projected financial status for future years.

How Are the Annual Reports of the Trust Funds Prepared? The Boards of Trustees, with the help of their staffs, prepare the annual reports. The Board considers and takes into account the views of other professionals within and outside the Government.

How Are the Trust Funds Financed? Most OASDI and HI revenue consists of taxes on earnings that are paid by employees, their employers, and the self-employed. The tax rates are set by law and apply to earnings that do not exceed a certain annual amount. This amount, called the earnings base, rises as average wages increase. In 1991, the earnings base for OASDI is $53,400 and for HI it is $125,000. The rates employees and employers each are scheduled to pay under current law are:

Year	OASI	DI	OASDI	HI	Total
1990-99	5.60	0.60	6.20	1.45	7.65
2000 and later	5.49	0.71	6.20	1.45	7.65

People who are self-employed are charged the equivalent of the employer and the employee shares but only on 92.35 percent of net earnings and may deduct one-half of the combined tax from income subject to federal income tax.

The OASI and DI Trust Funds also receive revenue from the partial taxation of Social Security benefits. All the trust funds receive income from interest earnings on trust fund assets and from miscellaneous sources.

The SMI or Part B program is similar to a yearly renewable, term insurance. Participants pay premiums each year which cover about one-fourth of the cost; the rest is paid for by the Federal government from general revenues. The 1991 monthly premium is $29.90.

In all trust funds, assets that are not needed to pay current benefits or administrative expenses (the only purposes for which trust funds may be used) are invested in special issue

U.S. Government securities guaranteed as to both principal and interest.

What Were the Administrative Expenses in 1990? In fiscal year 1990, the cost of administrative expenses, shown as a percentage of benefit payments from each trust fund, was:

	OASI	DI	OASDI	HI	SM
Administrative Expenses (1990):	0.7	2.9	0.9	1.2	3.

What Were the Trust Fund Results in 1990? All trust fund showed an increase in assets during calendar year 1990. At the end of the year, 39.8 million people were receiving OASDI benefits and about 33 million people were covered under Medicare. Trust fund operations, in billions, were:

	OASDI	HI	SMI
Assets (end of 1989)	$163.0	$85.6	$13.6
Income during 1990	315.4	80.4	45.9
Outgo during 1990	253.1	67.0	44.0
Net Increase	62.3	13.4	1.9
Assets (end of 1990)	225.3	98.9	15.5

How Are Future Estimates of Trust Fund Balances Made? Short-range (10 year) estimates are reported for all funds, and, for the OASI, DI, and HI Trust Funds, long-range (75 year) estimates are reported. Because the future cannot be predicted with certainty, three alternative sets of econom and demographic assumptions are used to show a range of possibilities. Assumptions are made about economic growth inflation, unemployment, fertility, immigration, and mortalit) as well as specific factors relating to disability, hospital, and medical services costs.

Alternative II, the intermediate assumptions, reflects the trustees' best estimate of what the future experience will be. Alternative I is more optimistic; alternative III is more pessimistic; they show how the trust funds would operate if economic and demographic conditions are better or worse than anticipated.

What Concepts Are Used to Describe the Trust Funds? The measures used to evaluate the financial status of the trust funds are based on several concepts. Some of the important concepts are:

- Percentage of taxable payroll is used to measure income rates and cost rates for the OASDI and HI programs. Taxable payroll is that portion of total wages and self-employment income that is covered and taxed under the OASDI and HI programs. Comparing the funds by describing what portion of taxable earnings they represent is often easier and more meaningful than using very large dollar figures.

- The annual income rate is the income -to the trust fund (excluding interest), expressed as a percentage of taxable payroll.

- The annual cost rate is the outgo from the trust fund, also expressed as a percentage of taxable payroll.

- The annual balance is the difference between the income rate and the cost rate. If the balance is negative, the trust fund has a deficit.

- Annual balances are summarized for 75 years and adjusted to include the beginning fund balance and the cost of ending the projection period with a contingency fund ratio of 100 percent; the resulting figure is then called the actuarial balance; if the balance is negative, the fund has an actuarial deficit.

  The contingency fund ratio is the amount in the trust fund at the beginning of a year divided by the projected outgo for the year. It shows what percentage of the year's expenditures the trust fund has on hand. A contingency fund ratio of 50 percent would be six months' worth of expenditures.

- The year of exhaustion is the first year a trust fund is projected to run out of funds and be unable to timely and fully pay benefits.

What Tests Are Used to Evaluate the Financial Status of the Trust Funds? A number of tests are used to review the financial status of the trust funds. Three of them are:

- The short-range test, which is met if, throughout the next 10 years, the contingency fund ratio is at least 100 percent. Or, if the contingency fund ratio is initially less, but reaches 100 percent within the first five years and stays at or above 100 percent, and there is enough income to pay benefits on time every month during the 10 years, the short-range test is met.

- The long-range test for OASI, DI, and HI, which is met if a fund has an actuarial deficit of no more than five percent of the cost rate over the 75 years, and the actuarial deficit for any period of the first 11 years or longer is less than a graduated amount of five percent. If the long-range test is met, the trust fund is in close actuarial balance.

- SMI actuarial soundness, which is met if the trust fund assets and income are enough to cover the projected outgo and there are enough assets to cover costs incurred but not paid during that time. The adequacy of the SMI Trust Fund is measured only for years for which both the beneficiary premiums and the general revenue contributions have been set.

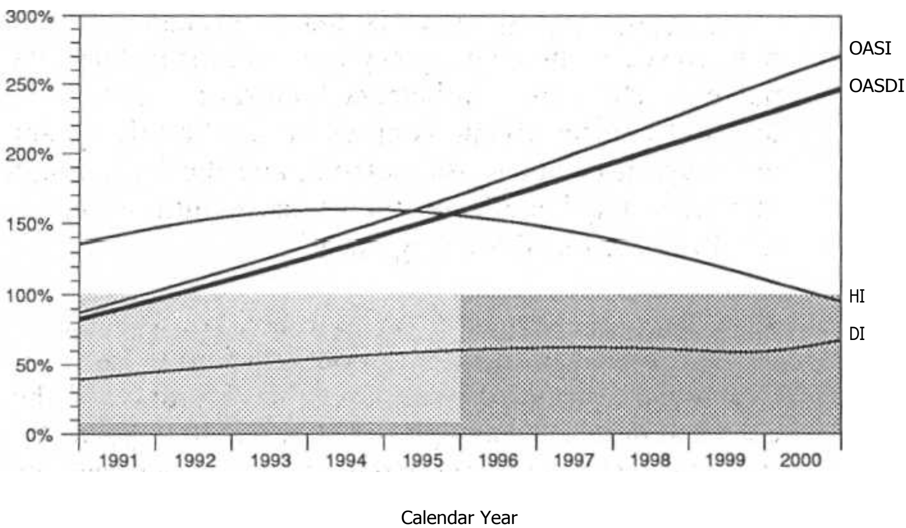
What Is the Future Outlook for the Trust Funds? The status of the OASI, DI, and HI Trust Funds is shown together on charts because they are financed the same way. SMI is financed differently, so its status is described separately.

Both the short-range and the long-range outlook for the trust funds are evaluated every year.

o THE SHORT-RANGE OUTLOOK (1991-2000)

Chart A shows the projected contingency fund ratio under the alternative II assumptions for OASI, DI, and HI separately. It also shows what the contingency fund ratio is for the combined OASDI program.

Chart A.-Contingency Fund Ratio and Short-Range Test of Financial Adequacy



The OASI and the HI lines reach or are over the 100 percent mark in the first five years and are over that mark in the year 2000. Therefore, both of these trust funds meet the short-range test for financial adequacy.

However, the line for DI does not reach the 100 percent mark for the contingency fund ratio at any time in this period; it does not meet the short-range test. The projected year of exhaustion for the DI Trust Fund is 2015 under the intermediate, alternative II assumptions. But, if economic or other conditions in the future turn out to be more pessimistic, as under alternative III, the DI Trust Fund year of exhaustion could be as soon as 1997.

The line for OASDI also reaches the 100 percent mark in tl first five years and stays over that mark through the year 2000.

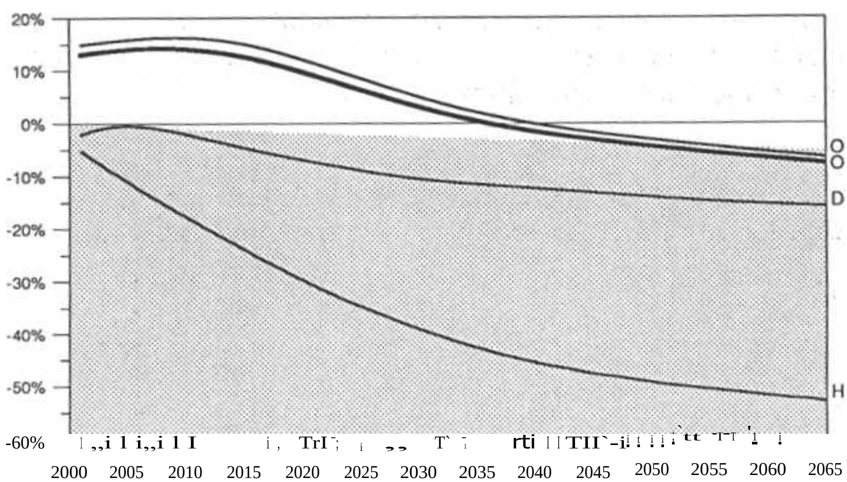
The HI program also meets the short-range test this year. However, under alternative II assumptions, the projected ye of exhaustion is 2005; under more adverse economic conditions, as in alternative III, it could be as soon as 2001.

The financing for the SMI Trust Fund has been set through 1991, and the projected operations of the trust fund meet th test of SMI actuarial soundness.

o THE LONG-RANGE OUTLOOK (1991-2065)

Chart B shows the actuarial balance for OASI, DI, and HI separately under the alternative II assumptions. It also shoN the actuarial balance for the combined OASDI program.

Chart B.-Actuarial Balance as a Percentage of Summarized Cost Rate and Long-Range Test of Close Actuarial Balance



Ending Year of Valuation Period

For a trust fund to meet the long-range test of financial adequacy, the line. for that trust fund must stay above the shaded area throughout the long-range period. The triangle above the shaded area but below the 0 percent line shows tl maximum allowable deficit a fund can have and still be in close actuarial balance.

None of the three trust funds is in close actuarial balance over the next 75 years. However, the chart shows that the actuarial balance for OASI, and for OASDI, stays above the shaded area for many years to come.

The line for DI starts near the top of the shaded area and begins to decline gradually in 2009. In addition, the line for HI starts near the top of the shaded area and declines, sharply.

The year of exhaustion for the OASI Trust Fund under intermediate assumptions does not occur until 2045. For OASDI, the year of exhaustion would be, 2041.

o CONCLUSIONS

The status of the Social Security and Medicare programs can be summarized by looking at the results of the tests of financial adequacy and the expected year of exhaustion under the intermediate assumptions:

	Is the Test of Financial Adequacy Met:		Year of
Trust Fund	Short-Range	Long-Range	Exhaustion
OASI	Yes	No	2045
DI	No	No	2015
OASDI	Yes	No	2041
HI	Yes	No	2005
SMI	Yes		

* Not Applicable

Based on the Trustees best estimates (alternative II), the Social Security and Medicare trust funds are sufficiently financed to pay all benefits on time in the short-range period.

The OASI Trust Fund will be able to pay benefits for about the next 50 years. Because the fund is not in close actuarial balance for the 75-year long-range period, the Board recommends continued study of possible ways of addressing the deficits for distant future years.

The DI Trust Fund is not adequately financed, but it will be able to continue paying benefits for about 20 years under thf intermediate projections. The Board recommends taking action to strengthen the financial status of the DI Trust Fund The OASI and DI Trust Funds combined are estimated to continue growing for many years into the future and would not be exhausted until 2041. Thus, the DI Trust Fund could be strengthened by reallocating the scheduled tax rates to increase its revenues without raising the total tax rate. This would require legislation, since the tax allocations are set by law.

The HI Trust Fund is projected to run out of funds in 2005 and is severely out of actuarial balance over the next 75 years. The Board believes that corrective action is needed very soon in order to avoid more precipitous changes later.

The SMI program has almost doubled in cost in the last five years and grew 37 percent faster than the economy as a whole. Because this growth shows little sign of abating, the Board recommends that Congress continue to work to curtai the rapid growth in the cost of the program.